

Spokane Employees' Retirement System (SERS)
Board Meeting, 12:00 p.m. August 28, 2019
City Hall – Council Briefing Center

AGENDA

- 1) Hyas Group Quarterly Investment Review
 - a) 2019 2nd Quarter Investment Performance Report
 - Information
- 2) Active Risk Primer
 - Information
- 3) Large Cap Growth Search
 - Motion
- 4) Minutes of the July 31, 2019 Meeting
 - Motion
- 5) Director's Report
 - a) Retirements
 - Motion
 - b) Withdrawals
 - Motion
 - c) Deaths
 - Information
 - d) Expenditure Summary Report – July 2019
 - Motion
 - e) Schedule of Investments – July 2019
 - Information
 - f) Cash Reconciliation – July 2019
 - Information
 - g) Other Business
- 6) Multiple Employer Plan Amendments
 - Motion
- 7) Other Business
- 8) Next Meeting – **Wednesday, September 25th at 12:00 p.m.**

ACTIVE RISK PRIMER

August 28, 2019



Basis of Active Risk

- 1) Have to generate returns that differ from the market to overcome additional fees charged and meet return target
- 2) The greater the fee and/or return target, the greater the strategy will have to differ from the index

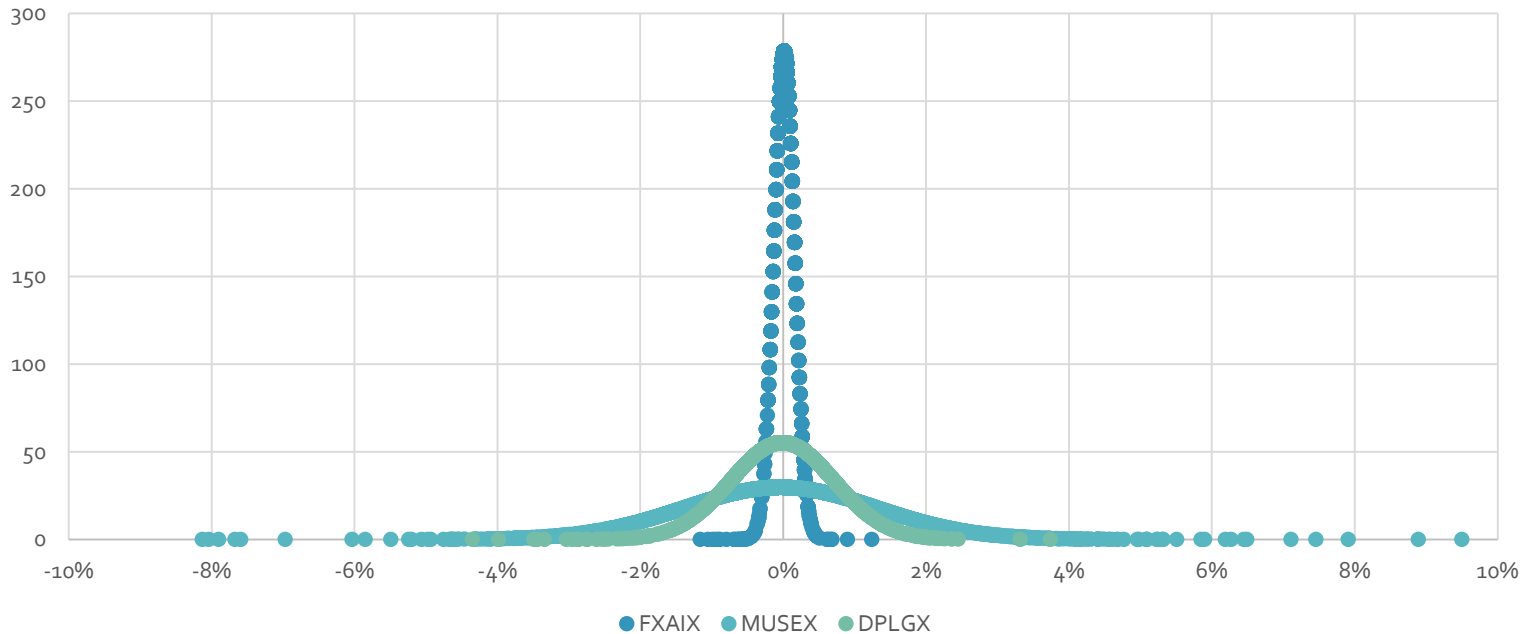
50bp Fees

+100bp Return Target

150bp Active Risk

Dispersion of Outcomes

Daily Variance vs. S&P 500



	Fidelity Index FXAIX	MFS Core Blend MUSEX	Jackson Square DPLGX
Mean	0.0170%	(0.0563%)	(0.0133%)
Std Dev	0.1433%	1.3447%	0.8230%

Sources of Active Risk

Factor	(Under)/ Overweight	Return	Index Return	Relative Performance	Attribution
Ford	1.00%	13.00%	5.00%	8.00%	0.08%
GM	-1.00%	8.00%	5.00%	3.00%	-0.03%
Financial	-1.00%	3.00%	5.00%	-2.00%	0.02%
Retail	1.00%	-5.00%	5.00%	-10.00%	-0.10%
Cash	2.00%	2.00%	5.00%	-3.00%	-0.06%
Stock Selection	2.00%			11.00%	0.05%
Industry	2.00%			-12.00%	-0.08%
Off Index	2.00%			-3.00%	-0.06%
Total	6.00%	9.00%	5.00%	-4.00%	-0.09%

Evaluating Risk vs. Return

$$\text{Sharpe Ratio} = \frac{\text{Portfolio Return} - \text{Risk Free Return}}{\text{Standard Deviation of Returns}}$$

$$\text{Treynor Ratio} = \frac{\text{Portfolio Return} - \text{Risk Free Return}}{\text{Beta of Returns}}$$

$$\text{Information Ratio} = \frac{\text{Average Return Difference}}{\text{Standard Deviation vs. Index}}$$

FXAIX

$$\frac{0.0170\%}{0.1433\%} = 0.12$$

MUSEX

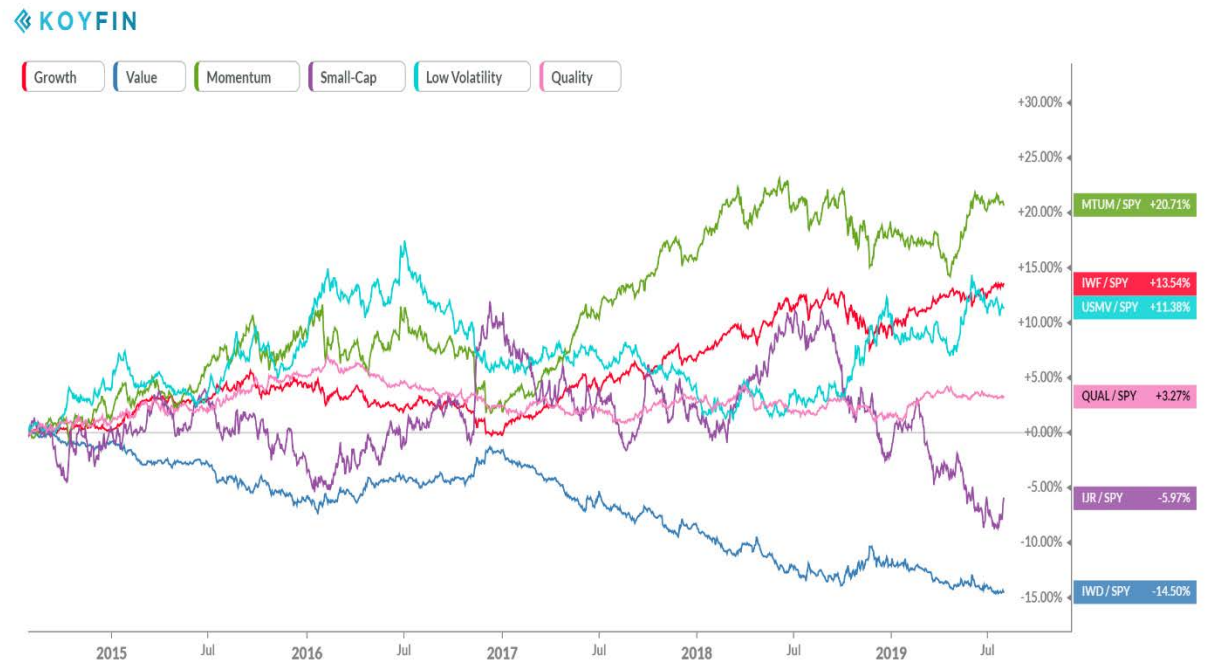
$$\frac{-0.0563\%}{1.2203\%} = (0.05)$$

DPLGX

$$\frac{-0.0133\%}{0.8230\%} = (0.02)$$

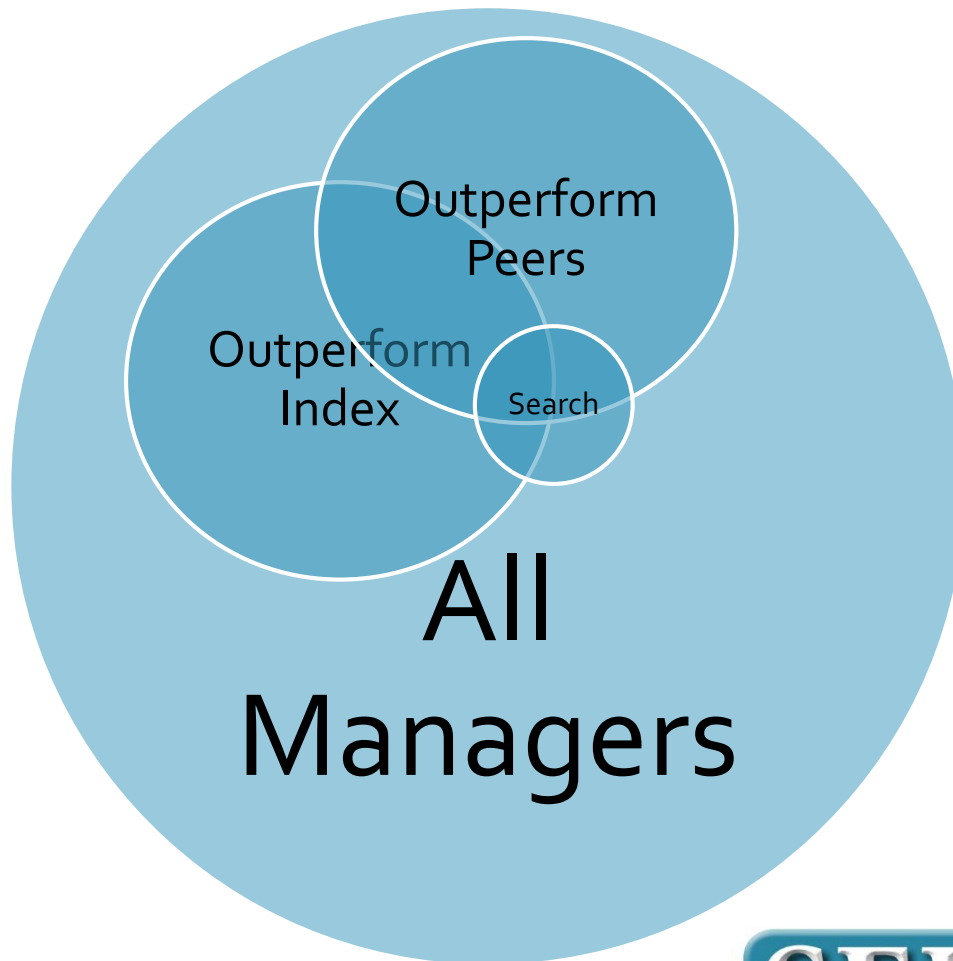
Are you measuring the right risk?

- Replicate with known market factors (e.g. Alternative Beta)
 - Size
 - Value
 - Profitability
 - Investment
 - Momentum
 - Low Volatility
 - Quality
 - Etc.



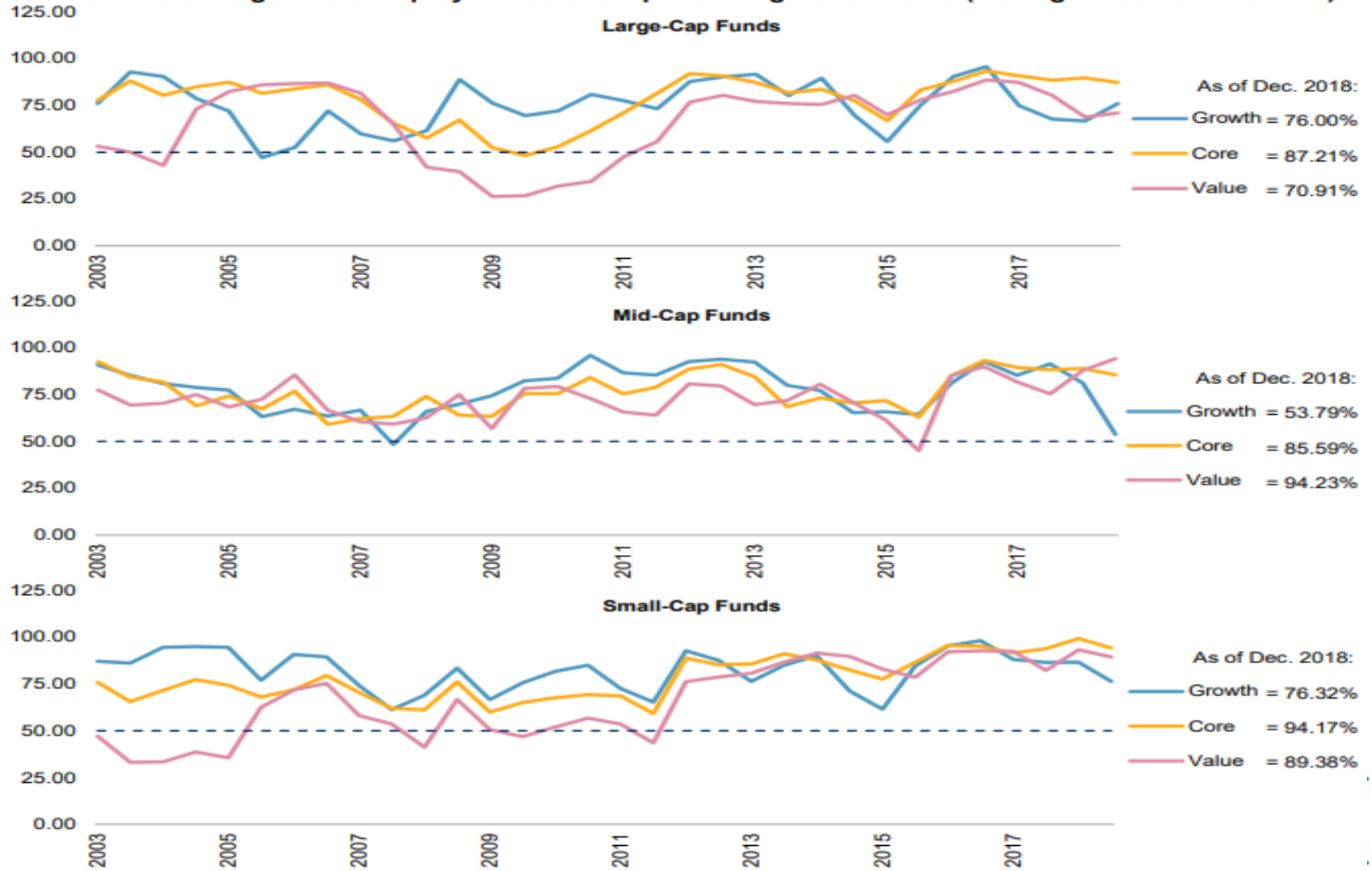
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Luck vs. Skill...can you find it?



Luck vs. Skill...can you find it?

Exhibit 4: Percentage of U.S. Equity Funds Underperforming Benchmarks (Rolling Three-Year Returns)



Luck vs. Skill...can you find it?

Exhibit 1: Performance persistence rose over the three-year period ending March 2019

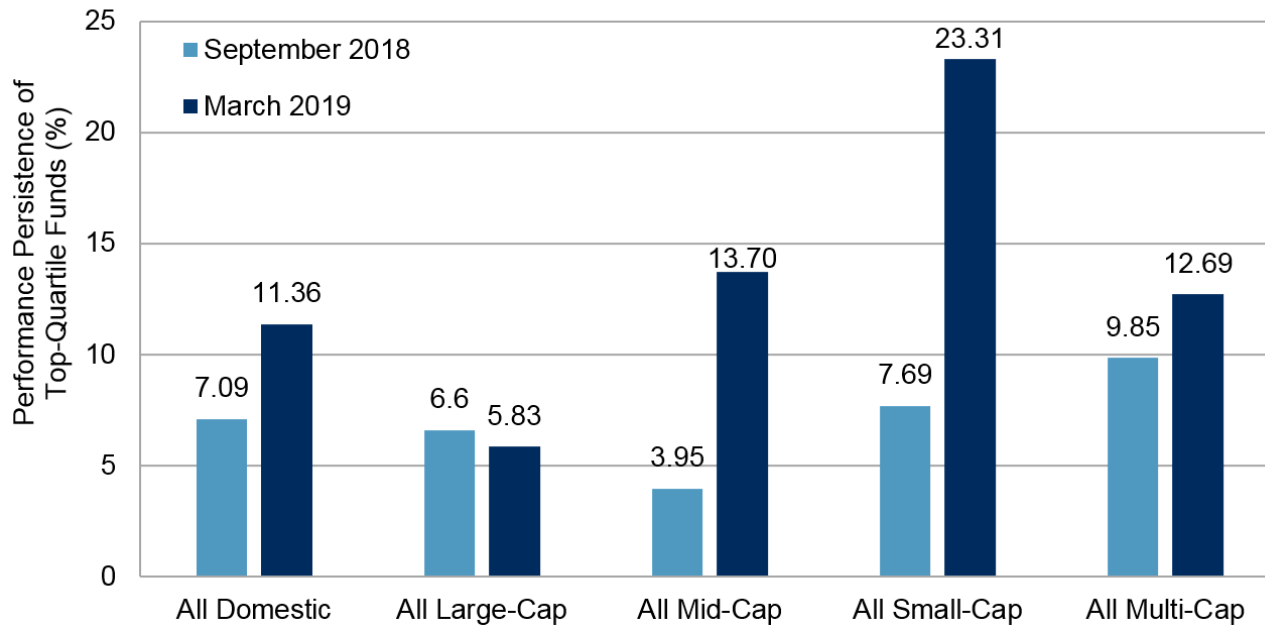


Exhibit 2: Five-Year Transition Matrix – Performance over Two Non-Overlapping Five-Year Periods

ALL DOMESTIC FUNDS	FUND COUNT AT START (MARCH 2014)	FIVE-YEAR PERCENTAGES AT END					MERGED/ LIQUIDATED (%)	STYLE CHANGED (%)
		1ST QUARTILE (%)	2ND QUARTILE (%)	3TH QUARTILE (%)	4TH QUARTILE (%)			
1st Quartile	498	16.06	17.47	22.89	31.53	11.24	0.80	
2nd Quartile	498	21.29	21.49	20.28	22.29	14.26	0.40	
3rd Quartile	497	26.36	22.94	18.51	9.86	20.72	1.61	
4th Quartile	498	15.26	16.87	17.27	15.06	26.51	9.04	

Source: S&P Dow Jones Indices LLC, CRSP. Data as of March 29, 2019. Table is provided for illustrative purposes. Past performance is no guarantee of future results.

Luck vs. Skill...can you find it?

- Selecting a Large Cap manager in March 2016:
Probability remains top quartile = 5.8%
X
Probability outperforms index = 96.0%
Joint probability to outperform = 5.6%
- Selecting a Large Cap manager in March 2016:
Probability remains top half = 55.6%
X
Probability outperforms index = 48.0%
Joint probability to outperform = 26.7%

Summary

- Active management has a cost: more fees, more risk
- The average active manager's returns did not overcome the cost
- There is little persistence among top performing managers
- Due diligence improves the likelihood of selecting a manager that will outperform, but how much of an improvement is unclear

**Spokane Employees' Retirement System (SERS)
Board Meeting Minutes
July 31, 2019**

The regular monthly meeting was called to order at 12:06 p.m. in the Council Briefing Center at City Hall.

Present: Mike Coster, Mike Cavanaugh, Candace Mumm, and Dean Kiefer

Absent: Jim Tieken, J. D. Morescheck, and Brian Brill

Staff: Phill Tencick, Christine Shisler, Donald Brown, and Tim Szambelan

Guests: Joe Cavanaugh, Richard Czernik, and John Bjork

Minutes of the June 26, 2019 Meeting

Candace Mumm moved and Mike Cavanaugh seconded the motion to approve the minutes of the June 26, 2019 meeting as presented. The motion passed unanimously.

Director's Report

Service Retirements

<i>Name</i>	<i>Age</i>	<i>Retirement Date</i>	<i>Years of Service</i>	<i>Option</i>
Melora Sharts	63	07/27/2019	20.1	ST
Douglas E. Nelson	65	08/02/2019	18.4	ST
Melinda J. Kelleher	65	08/03/2019	17.8	ST
Lillian S. Tang	69	08/03/2019	27.7	ST
Ronald C. Moore	52	08/05/2019	10.6	D
Kenneth C. Gimpel	62	09/01/2019	5.3	E
Dennis P. Flynn	50	09/01/2019	5.7	E
Mary T. Badeaux	69	09/07/2019	21.1	ST
Lesley J. Williams	50	09/21/2019	22.4	ST

Mike Cavanaugh moved and Candace Mumm seconded the motion to approve the service retirements as presented on the July Retirement Transaction Report. The motion passed unanimously.

Withdrawals for July 2019

<i>Name</i>	<i>Years of Service</i>	<i>Termination Date</i>
Adam N. Miles	3.6	04/03/2019
Timofey V. Solodyankin	2.3	06/07/2019
Bryce J. Leming	1.4	07/01/2019

Dean Kiefer moved and Mike Cavanaugh seconded the motion to approve the requests for withdrawal as presented on the July Retirement Transaction Report. The motion passed unanimously.

Deaths

<i>Name</i>	<i>Date Retired</i>	<i>Age</i>	<i>Date of Death</i>	<i>Information</i>
James W. Davis, Jr.	10/05/1996	83	06/10/2019	E Option Continues
Paul T. Jewett	11/04/1993	76	06/23/2019	E Option Continues
Patricia A. Minnihan	08/04/2009	69	06/19/2019	No Further Benefits
Kathleen J. Kuntz	09/08/2009	70	07/04/2019	No Further Benefits
Sara J. B. Green	02/12/2005	76	07/07/2019	No Further Benefits
Elizabeth L. Humphreys	02/14/2014	89	07/03/2019	No Further Benefits

Death information provided to the Board for review.

Expenditure Summary Report – June 2019

The Expenditure Summary Report was presented to the Board and discussed.

Mike Cavanaugh moved and Dean Kiefer seconded the motion to approve the June 2019 Expenditure Summary Report. The motion passed unanimously.

Schedule of Investments – June 2019

The monthly investment report was presented to the Board for review. The estimated market value of the SERS portfolio on June 30, 2019 was \$307.9 million with an estimated rate of return of 2.2% for the month.

Monthly Cash Reconciliation

The monthly cash reconciliation report was presented to provide the Board with additional insight into the ongoing transactions, liquidity, and cash position of the plan.

Other Business

Mr. Tencick updated the Board on the discussion of the exempt confidential members opting out of SERS. The Board will wait to respond until an official request has been made of the Board for further information.

Mr. Tencick also updated the Board regarding SREC and the contribution payments they are to make. Ms. Shisler has been working with SREC and SERS should receive the contribution payment soon.

Active Risk Primer

The discussion on the Active Risk primer was deferred until the next meeting.

Other Business

There being no other business, the meeting adjourned at 12:22 p.m.

Phillip Tencick, Retirement Director

DRAFT

SERS Retirement Transaction Report

August 2019

Retirements

	Name	Age	Retirement Date	Years of Service	Department	Option
1	Cindy J. Kinzer	54	08/16/2019	10.6	Engineering Services	E
2	Karen L. Gaines	62	09/07/2019	17.4	Municipal Court	E
3	Grant Wencel (vested)	50	11/01/2019	5.1	Planning Services	E
	Retirements YTD	54				
	2018 Total Retirements	71				

Withdrawals

	Name	Years of Service	Department	Termination Date
1	Amelia K. Alberts	0.3	Combined Communications Center	12/11/2018
2	Micah D. Carter	0.9	Solid Waste Disposal	06/05/2019

Deaths

	Name	Date Retired	Age	Date of Death	Information
1	Patricia J. Oakshott	06/06/2001	88	08/12/2019	No Further Benefits

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2019 EXPENDITURE SUMMARY REPORT
 JULY 31, 2019

	2018 ACTUAL	2019 BUDGET	JULY ACTUAL EXPENDITURES	2019 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
OPERATING EXPENDITURES						
Departmental Salaries	279,090.86	297,357.00	21,920.01	152,034.33	145,322.67	51.1%
Departmental Benefits	83,448.34	88,446.00	6,568.50	45,993.04	42,452.96	52.0%
Reserve for Budget Adjustment	-	10,000.00	-	-	10,000.00	0.0%
Administrative Income	(19,374.47)	(10,000.00)	-	(10,990.13)		
Postage/Supplies/Other	1,970.14	5,950.00	36.74	878.44	5,071.56	14.8%
State Audit Charges	12,444.28	15,000.00	1,166.61	2,821.75	12,178.25	18.8%
Contractual Services	132,743.15	175,000.00	10,479.66	102,201.67	72,798.33	58.4%
Travel	7,873.31	15,000.00	-	2,405.51	12,594.49	16.0%
Registration/Schooling	8,575.00	16,000.00	525.00	810.00	15,190.00	5.1%
Other Dues/Subscriptions/Membership	1,709.60	2,500.00	-	486.40	2,013.60	19.5%
Other Miscellaneous Charges	1,383.13	3,800.00	59.48	1,944.76	1,855.24	51.2%
Amortization	17,649.00	-	-	-	-	
TOTAL OPERATING EXPENDITURES	527,512.34	619,053.00	40,756.00	298,585.77	319,477.10	48.2%
INTERFUND EXPENDITURES						
Interfund - Office Performance Mgmt Services	-	800.00	-	-	800.00	0.0%
Interfund - Centralized Purchasing	506.33	1,241.00	310.25	930.75	310.25	75.0%
Interfund - Centralized Accounting	1,958.16	2,080.00	520.00	1,560.00	520.00	75.0%
Interfund - Risk Management	790.00	584.00	-	292.00	292.00	50.0%
Interfund - Worker's Compensation	109.00	122.00	-	61.00	61.00	50.0%
Interfund - Reprographics	6,719.51	5,000.00	-	3,685.26	1,314.74	73.7%
Interfund - IT	15,824.72	13,108.00	1,096.69	6,579.93	6,528.07	50.2%
Interfund - IT Replacement	2,066.04	1,965.00	163.75	982.50	982.50	50.0%
Interfund - My Spokane	476.90	643.00	-	309.16	333.84	48.1%
TOTAL INTERFUND EXPENDITURES	28,450.66	25,543.00	2,090.69	14,400.60	11,142.40	56.4%
TOTAL ADMINISTRATIVE EXPENDITURES	555,963.00	644,596.00	42,846.69	312,986.37	330,619.50	48.6%

SPOKANE EMPLOYEES' RETIREMENT SYSTEM - 6100
 2019 EXPENDITURE SUMMARY REPORT
JULY 31, 2019

	2018 ACTUAL	2019 BUDGET	JULY ACTUAL EXPENDITURES	2019 ACTUAL YTD EXPENDITURES	VARIANCE	PERCENTAGE USED
PENSIONS						
Pensions-Annuity Benefit Payments	26,202,801.23	28,000,000.00	2,332,711.79	15,997,801.11	12,002,198.89	57.1%
Pensions-Disability Payments	125,328.48	140,000.00	10,444.04	73,108.28	66,891.72	52.2%
Pensions-Survivor Annuity Benefits Payments	1,981,214.54	2,100,000.00	170,159.97	1,266,594.27	833,405.73	60.3%
TOTAL PENSIONS	<u>28,309,344.25</u>	<u>30,240,000.00</u>	<u>2,513,315.80</u>	<u>17,337,503.66</u>	<u>12,902,496.34</u>	57.3%
Refunds	554,422.11	1,000,000.00	46,321.63	355,289.47	644,710.53	35.5%
TOTAL EXPENSES	<u><u>29,419,729.36</u></u>	<u><u>31,884,596.00</u></u>	<u><u>2,602,484.12</u></u>	<u><u>18,005,779.50</u></u>	<u><u>13,877,826.37</u></u>	56.5%
INVESTMENT EXPENSE*						
Advisory Technical Service	436,405.71	500,000.00	46,788.21	197,715.67	302,284.33	39.5%

* investment expenses are netted against investment income in the statement of changes of plan net assets to arrive at a net investment income amount.

SERS Schedule of Cash and Investments

July 31, 2019

8/22/2019

	Type		Allocation		
			Target	Current	Diff.
Cash Held by Treasurer	Cash	\$ 127,699			
US Bank	Short-term Inv	90,469			
Total Cash		218,168	0.0%	0.1%	0.1%
Sterling Capital	Total Return	25,924,821			
Total Total Return		25,924,821	10.0%	8.4%	-1.6%
Hotchkis & Wiley	High Yield - Mutual Fund	13,415,492			
Total High Yield		13,415,492	5.0%	4.4%	-0.6%
Polar	LLC	7,329,034			
Castine Capital II	Ltd Partnership	7,919,295			
Post Limited Term High Yield	Ltd Partnership	6,373,047			
Rimrock Low Volatility	Ltd Partnership	10,060,328			
Total Absolute Return		31,681,704	8.0%	10.3%	2.3%
Total Capital Preservation		71,240,185	23.0%	23.2%	0.2%
Hotchkis & Wiley	LC Value - Mutual Fund	16,413,946			
Jackson Square	LC Growth - Mutual Fund	17,573,635			
MFS Heritage	LC Core	-			
Fidelity S&P 500 Index	LC Core - Mutual Fund	28,638,430			
Total US Large Cap		62,626,011	21.0%	20.4%	-0.6%
Sterling	MC Value	4,787,198			
Vanguard MC Growth	MC Growth - Mutual Fund	4,501,142			
Fidelity MC Index	MC Core - Mutual Fund	4,352,165			
Champlain	SC Core	6,617,886			
Phocas	SC Value - Mutual Fund	3,884,999			
Bridge City	SC Growth	5,781,885			
Fidelity SC Index	SC Core - Mutual Fund	903,979			
Total US Small/Mid Cap		30,829,254	11.0%	10.0%	-1.0%
Total US Equities		93,455,265	32.0%	30.4%	-1.6%
Artisan	SMID Value - Mutual Fund	21,347,741			
Euro Pacific	LC Blend - Mutual Fund	21,655,580			
Fidelity International	LC Index - Mutual Fund	-			
Total International Large Cap		43,003,321	15.0%	14.0%	-1.0%
Trivalent	SC Value - Mutual Fund	11,681,906			
Total International Small/Mid		11,681,906	4.0%	3.8%	-0.2%
Vanguard EM Index	EM - Mutual Fund	1,181,007			
ABS Emerging Markets	Ltd Partnership	8,425,862			
Berens	Ltd Partnership	-			
Total Emerging Markets		9,606,869	3.0%	3.1%	0.1%
Total International Equities		64,292,096	22.0%	20.9%	-1.1%
Weatherlow Offshore	Ltd Partnership	16,385,225			
Royalty Opportunities I	Ltd Partnership	2,400,914			
Royalty Opportunities II	Ltd Partnership	2,647,714			
Total Long Biased		21,433,853	7.0%	7.0%	0.0%
Metropolitan Real Estate Partners	Ltd Partnership	170,164			
Morrison Street Fund V	LLC	2,231,413			
Morrison Street Debt Opportunties	LP	4,122,673			
Morgan Stanley Prime	LLC	7,404,576			
Principal (REITs)	REITs	11,852,251			
Total Real Estate		25,781,077	9.0%	8.4%	-0.6%
Contrarian Capital Fund I	Ltd Partnership	9,831,574			
Beach Point	Ltd Partnership	11,109,691			
Total Opportunistic Credit		20,941,265	7.0%	6.8%	-0.2%
Contrarian EM Credit	LLC	6,179,039			
OrbiMed II	Ltd Partnership	4,164,754			
Total Special Opportunities		10,343,793	0.0%	3.4%	3.4%
Total Cash and Investments		\$ 307,487,534	100.0%	100.0%	0.0%
	Monthly Contributions	1,512,346			
	Monthly Pension	\$ (2,559,637)			
	As of June 30, 2019	\$ 307,916,254			
	Estimated Rate of Return	0.2%			
Abs. Return and Total Return FI	Thesis 2017.1	57,606,525	18.0%	18.7%	0.7%
Equity and Special Situations	Thesis 2017.3	168,091,154	54.0%	54.7%	0.7%

Cash Recon - Aug

Date	Transactions	Sources	Uses	Balance
7/25/2019	Beginning Balance			2,670,432.34
7/26/2019	Trust Custody Fees		(23,804.38)	2,646,627.96
7/31/2019	July Pension Payments		(2,559,637.43)	86,990.53
8/1/2019	Recalled Payments	862.12		87,852.65
8/1/2019	Interest	3,478.47		91,331.12
8/5/2019	Payroll Contributions	750,723.86		842,054.98
8/19/2019	Payroll Contributions	745,563.48		1,587,618.46
8/21/2019	Ending Balance	1,500,627.93	(2,583,441.81)	1,587,618.46
	<u>Upcoming</u>			
8/29/2019	Pension Funding	1,050,000.00		
8/30/2019	August Pension Payments		(2,600,000.00)	

[Changes to SMC provisions to permit participation by SREC Members *and SPFD Members* – changes shown in red.]

3.05.020 Definitions

- A. “Accumulated contributions” means the sum of all normal contributions deducted from the compensation of a member, and in-lieu payments of employees’ contributions by the City, standing to the credit of the member’s individual account, together with contribution interest as established pursuant to SMC 4.14.070(D) (1) compounded monthly.
- B. “Annuity” means payments derived from contributions made by a member as provided in SMC 3.05.190.
- C. “Beneficiary” means any person in receipt of a pension, annuity, retirement allowance, disability allowance, or any other benefit provided in this chapter and chapter 4.14 SMC.
- D. “Board” means “board of administration” as provided in chapter 4.14 SMC.
- E. “City” means the City of Spokane.
- F. “City service” means service by an employee rendered to the City for compensation and, for the purpose of this chapter and chapter 4.14 SMC, a member shall be considered as being in City service only while the member is receiving compensation for such service. **City service also includes: (i) service by an employee of SREC for the limited period of time during which the employee also qualifies as a SREC Member; and (ii) service by an employee of SPFD for the limited period of time during which the employee also qualifies as a SPFD Member.**
- G. “Compensation” means the compensation including base pay, shift differential, overtime, holiday pay, hazardous duty pay and out-of-classification pay, payable in cash, plus the monetary value, as determined by the board, of any allowance in lieu thereof. It shall not be reduced by salary reduction contributions to the City’s cafeteria plan or Section 457 plan, or effective January 1, 2001, any qualified transportation fringe benefit plan under Internal Revenue Code section 132(f)(4). Compensation in excess of the limitations set forth in Internal Revenue Code section 401(a)(17) shall not be included in determining benefits, but this restriction does not apply to any individual who was a member prior to January 1, 1996.
- H. “Contribution interest,” unless changed by the board as provided in SMC 4.14.070, means the interest rate on member contributions, which shall be set equal to the average daily interest rate for the 5-year US Treasury Note from July 1 of the previous year to June 30 of the current year, rounded to the nearest 0.25%. The new interest rate will be effective as of July 1 of the current year, beginning in 2016.
- I. “Creditable service” means such City service as is evidenced by the record of normal contributions received from the employee plus prior City service if credit for same is still intact or not lost through withdrawal of accumulated contributions as provided in SMC 3.05.120. The maximum creditable service will be based on the benefit formula eligibility in SMC 3.05.025.

Creditable service includes service rendered by: (i) a SREC employee during the period of time that the SREC employee also is a SREC Member; and (ii) a SPFD employee during the period of time that the SPFD employee also is a SPFD Member.

J. "Employee" means any regularly appointed employee or elected official of the City or of the Spokane public library. Employee also includes: (i) regularly appointed employees of SREC for the limited period of time during which such employees also qualify as SREC Members; and (ii) regularly appointed employees of SPFD for the limited period of time during which such employees also qualify as SPFD Members.

K. "Final compensation" has different meanings that depend on whether the member's benefit is calculated using Tier 1, Tier 2, Tier 3 or Tier 4. For benefits calculated under Tier 1 and Tier 2, "final compensation" means the annual average of the member's compensation during the highest consecutive two-year period of service for which service credit is allowed for purposes of determining retirement benefits for members described in SMC 3.05.025(A) or (B). For benefits calculated under Tier 3, "final compensation" means the annual average of the member's compensation during the highest consecutive three-year period of service for which service credit is allowed. For benefits calculated under Tier 4, "final compensation" means the annual average of the member's compensation during the highest consecutive three-year period of service for which service credit is allowed; for this purpose, the portion of a member's compensation for any year shall not include overtime in excess of twenty percent (20%) of the member's base salary for that year. Final compensation shall not be reduced to reflect salary reduction contributions to the City's cafeteria plan or Section 457 plan, or effective January 1, 2001, any qualified transportation fringe benefit plan under Internal Revenue Code section 132(f)(4). Compensation in excess of the limitations set forth in Internal Revenue Code section 401(a)(17) shall not be included as final compensation when determining benefits, but this restriction does not apply to any individual who was a member prior to January 1, 1996.

L. "Fiscal year" means any year commencing with January 1st and ending with December 31st next following.

M. "Member" means any person included in the membership of the retirement system as provided in SMC 3.05.030.

N. "Normal contributions" means the contributions at the rate provided for in SMC 3.05.040(A) and (B).

O. "Participation date" means the date on which an employee initially joined the retirement system from which the employee had uninterrupted deposit of contributions. If an employee who joins the system terminates and their accumulated contributions are withdrawn is subsequently rehired as a City employee, then that employee's participation date shall be their rehire date and not the date on which the employee was originally hired, whether or not that employee redeposits their contributions as permitted under SMC 3.05.120(C). If an employee becomes subject to SMC 3.05.260 and is rehired following retirement, then any additional retirement allowance earned by that employee shall be determined as if the member's participation date is based on the rehire date.

P. "Pension" means payments derived from contributions made by the City (and by SREC and SPFD, as applicable) as provided for in SMC 3.05.190.

Q. "Regular interest," unless changed by the board as provided in SMC 4.14.070, means the actuarial assumption rate of interest which compounded annually shall place the retirement fund on a sound actuarial basis.

R. "Retirement allowance" means any payments made to a member or successor upon retirement for service or disability.

S. "Retirement fund" means "employees' retirement fund" as created and established in SMC 3.05.070 and SMC 7.08.601. "Retirement system" means "Spokane Employees' Retirement System" (SERS), provided for in this chapter.

T. "SPFD" means Spokane Public Facilities District.

U. "SPFD Member" means any actively employed City employee whose employment was directly transferred to SPFD and who, at the time of such transfer, was an active member of SERS.

V. "SREC" means Spokane Regional Emergency Communications.

W. "SREC Member" means any actively employed City employee whose employment was directly transferred to SREC and who, at the time of such transfer, was an active member of SERS.

X. "Tier 1" means the benefit formula in SMC 3.05.160.

Y. "Tier 2" means the benefit formula in SMC 3.05.165.

Z. "Tier 3" means the benefit formula in SMC 3.05.166.

AA. "Tier 4" means the benefit formula in SMC 3.05.167.

3.05.030 Membership

A. Any new employee of the City must become a member of the retirement system and make contributions required by SMC 3.05.040 on the date of hire, except:

1. temporary, seasonal, or new hire provisionals, as defined by the City Charter and the City civil service commission;

2. members of the police and fire departments who are entitled to benefits under state-enacted retirement programs;

3. participating employees hired under the Comprehensive Employment and Training Act (CETA) and United States Department of Labor (DOL). This proscription does not apply to permanent nonparticipant staff members of the City and Spokane City-County employment and training consortium or its successor; or

4. other non-City-funded employees in temporary employment programs as determined by the board.

B. Any other employee who is an elected official may, at any time prior to the completion of five (5) years of continuous service, elect to deposit with the retirement system an amount equal to what would be or would have been the elected official's normal contributions if a member of the retirement system during this period of service, with regular interest as determined by the board. The City matches said funds and deposits the same in the retirement fund in a manner similar to that provided for the matching of the normal contributions under the provisions of this chapter, provided that no such elected official shall obtain any benefits of the provisions of the retirement system except contribution interest accruing at the rate provided for interest on employees' normal contributions. The return of any such funds so deposited shall be governed by the provisions as to the return of normal contributions. If and when any such elected official becomes a member the sums so deposited by this member shall be transferred to the credit of such member. Any elected official entering the retirement system under this provision shall have a participation date as of the date of such election to join the system and shall not be considered a member until the date of such election.

C. An employee of SREC who is a SREC Member will continue to be treated as a SREC Member for so long as that individual remains continuously employed with SREC. A SREC Member will cease to be treated as continuously employed with SREC on the date on which he or she terminates active employment with SREC. Once an individual who qualifies as a SREC Member terminates employment as a SREC employee, that individual will not again be treated as a SREC Member if he or she is subsequently rehired by SREC (or SPFD) and can again become a benefit accruing member under SERS if and only if he or she is subsequently rehired as an employee of the City. With respect to an individual employed by SREC as a SREC Member, the term "City" as used in this chapter of the SMC shall be construed to include SREC, where appropriate and applicable.

D. An employee of SPFD who is a SPFD Member will continue to be treated as a SPFD Member for so long as that individual remains continuously employed with SPFD. A SPFD Member will cease to be treated as continuously employed with SPFD on the date on which he or she terminates active employment with SPFD. Once an individual who qualifies as a SPFD Member terminates employment as a SPFD employee, that individual will not again be treated as a SPFD Member if he or she is subsequently rehired by SPFD (or SREC) and can again become a benefit accruing member under SERS if and only if he or she is subsequently rehired as an employee of the City. With respect to an individual employed by SPFD as a SPFD Member, the term "City" as used in this chapter of the SMC shall be construed to include SPFD, where appropriate and applicable.

Section 03.05.040 Contributions

A. The normal rates of contributions of members are those adopted by the board, subject to the approval of the City Council. The rates so adopted remain in full force and effect until revised or changed by the board in the manner provided in chapter 4.14 SMC.

1. Contributions by Members.

Prior to January 1, 2009, each member shall contribute six and seventy-two one-hundredths percent (6.72%) of the member's compensation. Effective January 1, 2009, the rate of contribution was prospectively increased to seven and seventy-five hundredths percent (7.75%). Effective September 1, 2014, the rate of contribution is prospectively increased to eight and twenty-five hundredths percent (8.25%). Effective December 17, 2017, the rate of contribution is prospectively increased to nine percent (9.00%). Although designated as employee contributions that reduce the member's salary, the City government (and, where applicable, SREC and SPFD), as the employer, shall pay such contributions to the retirement fund pursuant to Internal Revenue Code section 414(h). The member will not have an option of choosing to receive the contributed amounts directly instead of having them paid by the City government (and, where applicable, by SREC and SPFD) to the retirement fund. The picked-up contributions will be included as Social Security wages up to the Social Security wage base, and will also be included in calculating the member's final compensation. It is contemplated that the aggregate normal contributions made by the City (and SREC and SPFD) into the retirement fund will be enough to properly fund the retirement benefits payable hereunder.

2. Contribution by the City Government.

The City government will make contributions in an amount that matches the members' (other than SREC Members' and SPFD Members') in-lieu contributions. SREC will make contributions in an amount that matches the SREC Members' in-lieu contributions. SPFD will make contributions in an amount that matches the SPFD Members' in-lieu contributions.

3. Contribution Rate Review

In the event that an official actuarial report for a given fiscal year, prepared at the direction of the board, indicates that the Actuarially Determined Employer Contribution Rate (within the meaning of GASB) is greater than the City's (and SREC's and SPFD's) contributions, the City shall, subject to approval by the board and City Council, prospectively increase both the employee contribution rate and the City's (and SREC's and SPFD's) matched contribution rate by up to 1.00% of the member's compensation without further bargaining unit negotiation. Increases are limited to once per fiscal year. In the event that an official actuarial report for a given fiscal year, prepared at the direction of the Board, indicates that the retirement system is fully funded (within the meaning of GASB), the City may, subject to approval by the board and City Council, prospectively decrease both the employee contribution rate and the City's (and SREC's and SPFD's) matched contribution rate by up to 1.00% of the member's compensation without further bargaining unit negotiation. Decreases are limited to once per fiscal year.

B. Subject to the provisions of this chapter and chapter 4.14 SMC, the board certifies to the head of each office or department the normal rate of contribution for each member provided for in subsection (A) of this section. The head of the department applies such rate of contribution to the

compensation of each and every payroll; and each of said in-lieu amounts are paid by the director of accounting into the retirement fund, hereinafter provided for, and are credited by the board, together with contribution interest, to an individual account of the member for whom the contribution was made. Contribution interest is credited to each individual account at such periods as the board may determine. Any in-lieu payments contributed by the City (and SREC) are fully and immediately vested for the benefit of the employee immediately upon payment into the retirement fund.

C. The director of accounting transfers to the retirement fund an amount equal to the aggregate normal contributions as soon as administratively practicable following each payroll period.

Section 03.05.070 Employees' Retirement Fund

A. The City treasurer shall be the custodian of the retirement fund as provided in SMC 7.08.601. The retirement fund created hereby shall be a trust fund held for the exclusive benefit of the members of the retirement system and their beneficiaries. Except as provided under 3.05.240(B), no part of the corpus or income of the retirement fund shall be used for, or diverted to, purposes other than for the exclusive benefit of the members or their beneficiaries and the payment of fees and expenses of maintaining and administering the retirement system. All benefit formulas under SMC 3.05.160, SMC 3.05.165 SMC 3.05.166 and SMC 03.05.167 are encompassed within the retirement fund without separate accounting.

B. This section shall be interpreted to allow the following:

1. A return of the contribution to the City (or to SREC and SPFD, as applicable) or its application as a credit on future contributions after the board determines that the City (or SREC and SPFD, as applicable) has paid or overpaid the contribution under a mistake of fact.
2. The making of refunds required by law; and
3. Termination of the retirement system and distribution of its assets to the City (or to SREC and SPFD, as applicable) after all liabilities with respect to the members and their beneficiaries have been satisfied.

Section 03.05.080 City's Contribution

There shall be paid into the retirement fund by contributions of the City the amounts necessary to pay all pensions and other benefits allowable under this chapter to members on account of prior service and minimum allowances provided for in SMC 3.05.160, SMC 3.05.165 SMC 3.05.166, and SMC 3.05.167. SREC shall contribute to the retirement fund the amounts necessary to pay its share of the pensions and other benefits allowable under this chapter with respect to benefits accrued by SREC employees while SREC Members. SPFD shall contribute to the retirement fund the amounts necessary to pay its share of the pensions and other benefits allowable under this chapter with respect to benefits accrued by SPFD employees while SPFD Members. There shall also be paid into the retirement fund by contributions of the City (and SREC and SPFD, as applicable) the amounts necessary to pay its share of disability pensions allowable under this

chapter. Until the amount accumulated in the retirement fund becomes at least as large as the present value of all amounts thereafter payable from said fund, the amount annually due to the said fund under this section shall be the amount payable from said fund in the ensuing fiscal year on account of prior service, disability, and minimum allowances above referred to.

Section 03.05.090 Released Matching Funds

Contributions by the City shall match contributions made by the employee or in-lieu payments. Similarly, contributions (i) by SREC shall match contributions made by SREC employees or in lieu payments by those during periods of time those employees are SREC Members and (ii) by SPFD shall match contributions made by SPFD employees or in lieu payments by those during periods of time those employees are SPFD Members. The City (and SREC and SPFD, as applicable) is not entitled to a repayment of the matching contributions made when an employee ceases to be employed by the City (or by SREC and SPFD, as applicable). All such contributions are identified as released matching funds to provide for future retirements. The City's (and SREC's and SPFD's) liability for prior service credits, disability pensions, minimum pensions, and military service is offset by the released matching funds.

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