

1 agreed to Manager's Proposal 2, which provided that once CERS's funded ratio
2 fell below the 82.3% required by Manager's Proposal 1, the City would have five
3 years to increase its CERS contributions to reach a GASB-accepted funding rate.
4 Manager's Proposal 2 thus effectively allowed the City an additional five years to
5 underfund its annual CERS contribution.

6 **2. The City Used Surplus Earnings For Non-Pension Purposes**

7 18. For the purpose of the annual actuarial calculations, the CERS actuary
8 assumed a projected 8% rate of return. Any actual earnings above 8% were
9 considered to be surplus earnings to be used in years in which the earnings fell
10 below the assumed return rate.

11 19. Since the early 1980s, the City used CERS's surplus earnings to fund
12 an ever-increasing amount of additional non-pension benefits for CERS members
13 including, but not limited to, paying retiree health care benefits and funding certain
14 portions of the employee pension contributions.

15 20. In total, the City used surplus earnings of \$150 million as of the end
16 of fiscal year 2001 and an additional \$25 million as of the end of fiscal year 2002
17 primarily to fund non-pension benefits for CERS members. From fiscal years
18 1997 through 2003, this use by the City of surplus earnings accounted for 17% of
19 the increase in the City's unfunded liability to CERS.

20 **B. The City's 2002 and 2003 Municipal Securities Offerings**

21 21. In 2002 and 2003, the City conducted five municipal securities
22 offerings totaling \$261,850,000 in par value. These offerings were entitled:

- 23 • \$25,070,000 Public Facilities Financing Authority of the City of San
24 Diego Lease Revenue Bonds, Series 2002B (Fire and Safety Project)
25 (June 2002);
- 26 • \$93,200,000 City of San Diego, 2002-03 Tax Anticipation Notes
27 Series A (July 2002);
- 28 • \$15,255,000 City of San Diego/Metropolitan Transit Development