



CITY OF ATLANTA, GEORGIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2001

SHIRLEY FRANKLIN
MAYOR

RICHARD J. ANDERSON, INTERIM CHIEF FINANCIAL OFFICER

**CITY OF ATLANTA, GEORGIA
PENSION TRUST FUNDS**

**COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS
YEAR ENDED DECEMBER 31, 2001
WITH COMPARATIVE TOTALS FOR 2000
(IN THOUSANDS)**

	<u>2001</u>	<u>2000</u>
Additions:		
Employer contributions	\$ 46,258	\$ 50,638
Employee contributions	19,378	17,719
Refunds and other	406	132
Investment income:		
Net depreciation in fair value of investments	(83,346)	(98,165)
Investment income	69,893	150,981
Securities lending income	842	739
Less: Investment expenses	(4,942)	(4,640)
Securities lending expenses	(276)	(233)
Net investment income (loss)	<u>(17,829)</u>	<u>48,682</u>
Total additions	<u>48,213</u>	<u>117,171</u>
Deductions:		
Benefit payments	89,983	87,265
Refunds	2,703	3,969
Other	1,717	2,543
Total deductions	<u>94,403</u>	<u>93,777</u>
Net (decrease) increase in net assets held in trust for pension benefits	(46,190)	23,394
Net assets held in trust for pension benefits:		
Beginning of year	<u>1,425,479</u>	<u>1,402,085</u>
End of year	<u>\$ 1,379,289</u>	<u>\$ 1,425,479</u>

See notes to general purpose financial statements.

CITY OF ATLANTA, GEORGIA

Notes to General Purpose Financial Statements

Defeased Debt

In current and prior years, the City has defeased various bond issues by creating separate irrevocable trust funds. New debt was issued and the proceeds were used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and, therefore, removed as a liability from the City's General Long-Term Obligations Account Group and Enterprise Funds. At December 31, 2001, the City has \$236,240,000 in defeased Various Purpose General Obligation Bonds, \$55,430,000 in defeased Certificates of Participation, \$56,465,000 in defeased Airport Extension and Improvement Bonds, and \$532,825,000 in defeased Water and Sewerage Revenue Bonds.

K. Pension Plans And Other Employee Benefits

Pension Plans

The City maintains one agent multiple-employer defined benefit pension plan, entitled the General Employees' Pension Plan, two single-employer defined benefit pension plans, entitled the Firefighters' Pension Plan and the Police Officers' Pension Plan, and one single-employer defined contribution pension plan, entitled the General Employees' Defined Contribution Plan. The funding methods and determination of benefits payable were established by the legislative acts creating such plans, as amended, and in general, provide that the pension funds are to be accumulated from employee contributions, City contributions, and income from the investment of accumulated funds. The plans are administered by boards of trustees which include an appointee of the Mayor, the Chief Financial Officer, a member of City Council, and members elected from active and retired employees.

Prior to July 1, 2001, all permanent employees of the City, excluding sworn personnel of the Police and Fire Departments and including employees of the Board of Education who are not covered under the Teachers Retirement System of Georgia, were eligible to participate in the General Employees' Pension Plan. In addition, certain Atlanta Board of Education (the "Board") employees, employed prior to July 1, 1979, also participate in the City's General Employees' Pension Plan (the "Plan"). The City has no obligation to pay any costs related to retirement benefits of employees of the Board. The financial information herein relates only to City obligations for City employees. Effective July 1, 2001, all new, permanent employees of the City, excluding sworn personnel of the Police and Fire Departments, are only eligible to participate in the newly created Defined Contribution Plan. As of year end, employees previously participating in the General Employees' Defined Benefit Plan did not have the option of transferring the new Defined Contribution Plan. Sworn personnel of the Police and Fire Departments are eligible to participate in the Police Officers' and Firefighters' plans, respectively.

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CITY OF ATLANTA, GEORGIA

Notes to General Purpose Financial Statements

Complete financial statements for all Plans, except the newly created General Employees' Defined Contribution Plan, can be obtained at the following address:

City of Atlanta
68 Mitchell Street, S.W.
Suite 1600
Atlanta, Georgia 30335

Defined Benefit Plans

The City's defined benefit plans provide retirement benefits that, initially, are 2% for each year of service times the final average three-year earnings. Normal retirement, after 15 years of service, is available at age 60 for City employees and at age 55 for Police and Fire employees. Cost-of-living increases are awarded annually, up to a 3% maximum increase. Partial vesting percentages based on years of creditable service and provisions for early retirement are included in the plans. Benefits also may be payable at termination, death, or disability.

All modifications to the pension plans must be supported by actuarial analysis and receive the recommendations of the City Attorney, the Chief Financial Officer, and the boards of trustees of each plan. Each pension law modification must be adopted by at least two-thirds vote of City Council and approved by the Mayor.

In addition, the City has been given special constitutional authority by the State to supplement benefits for retired employees as long as such adjustments are funded by the City.

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CITY OF ATLANTA, GEORGIA

Notes to General Purpose Financial Statements

The City's practice is to have actuarial valuations of its defined benefit pension plans performed every two years by an enrolled actuary. The membership at the latest actuarial valuation date of January 1, 2000, in the three defined benefit plans and related current year payrolls are as follows (dollars in thousands):

	<u>General employees</u>	<u>Firefighters</u>	<u>Police Officers</u>	<u>Total</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	3,231	758	1,013	5,002
Current active employees:				
- fully vested	1,156	420	479	2,055
- partially vested	1,665	296	619	2,580
- nonvested	<u>1,665</u>	<u>104</u>	<u>355</u>	<u>2,124</u>
Total membership	<u>7,717</u>	<u>1,578</u>	<u>2,466</u>	<u>11,761</u>

The payroll and covered payroll for the year ended December 31, 2001 are as follows:

Total current year payroll	\$ <u>183,719</u>	<u>40,099</u>	<u>69,589</u>	<u>293,407</u>
Total current year covered payroll	\$ <u>177,754</u>	<u>38,797</u>	<u>67,330</u>	<u>283,881</u>

The City's funding policy for its defined benefit plans is to contribute a percentage of each plan's covered employee payroll as developed in the actuarial valuation for the individual plan. Active participants are required to contribute 7% of base pay (or 8% if participant has a covered beneficiary). The City's contribution percentage is the actuarially determined amount necessary to fund plan benefits after consideration of employee contributions. The City makes an additional contribution of 1% of payroll, which effectively decreases the employees' required contribution percentage to 6% (or 7% if participant has a covered beneficiary), but has no effect on the overall required contribution. The City is not obligated to continue the 1% supplemental contribution for any specified period of time.

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CITY OF ATLANTA, GEORGIA

Notes to General Purpose Financial Statements

The actuarially determined contribution amount is the sum of the annual normal cost (determined under the entry age normal actuarial cost method) and the amortization of the unfunded actuarial accrued liability as a level percentage of future payrolls (over 40 years from January 1, 1979). The significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the actuarial accrued liability. The required contribution percentages, developed in the most recent actuarial valuations for the plans, to cover pension liabilities and the actual 2001 contribution amounts are (dollars in thousands):

	<u>General Employees</u>	<u>Firefighters</u>	<u>Police Officers</u>
Normal cost	13.9%	17.8%	16.0%
Amortization of the unfunded actuarial accrued liability	<u>10.4</u>	<u>5.5</u>	<u>3.5</u>
Total required contributions as a percentage of payroll	<u>24.3%</u>	<u>23.3%</u>	<u>19.5%</u>
2001 actual employee contributions:			
Dollar amount	\$ 12,054	\$ 2,679	\$ 4,550
Percent of covered payroll	6.8%	6.9%	6.8%
2001 actual City contributions:			
Dollar amount	\$ 22,460	\$ 9,438	\$ 14,200
Percent of covered payroll	12.6%	24.3%	21.1%

With respect to the General Employees' Pension Plan, which is a multiple-employer plan, the City's actuarially determined contribution required above is only that of the City's portion.

The actual City contributions shown above include amounts used to fund retiree supplemental cost of living increases and other minimum benefits. These amounts are components of the City's contributions for purposes of meeting its actuarially determined funding requirements.

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CITY OF ATLANTA, GEORGIA

Notes to General Purpose Financial Statements

Annual Pension Cost and Net Pension Obligation: The City's annual pension cost and net pension obligation for the current year and each of the two preceding years were as follows (dollars in thousands).

<u>Year</u>	<u>Annual Pension Cost</u>	<u>% of APC Contributed</u>	<u>Net Pension Obligation</u>
General employees:			
1999	\$ 25,019	100.0	\$ 0
2000	26,206	100.0	0
2001	31,107	72.2	8,647
Firefighters:			
1999	9,066	100.0	0
2000	10,616	100.0	0
2001	9,438	100.0	0
Police Officers:			
1999	11,966	100.0	0
2000	13,816	100.0	0
2001	14,200	100.0	0

The City uses the results of its bi-annual actuarial valuations of its pension plans to determine the two succeeding years' contributions requirements. The actuarial cost method used for funding purposes and to calculate the actuarial accrued liability is the Entry Age Normal Cost Method. This method is one of the approved methods for such plans in Georgia, and provides for contributions estimated to be a level percentage of future payroll. The unfunded actuarial accrued liability for funding purposes is amortized over a closed period of 40 years from January 1, 1979 as a level percentage of estimated future payroll, in accordance with State of Georgia guidelines. The net pension obligation could not be distributed to the various proprietary funds and is thus all recorded in the General Long-Term Obligations Account Group. Other actuarial assumptions used to perform the most recent calculations for funding purposes are:

Rate of return on investments	8% per year
Projected salary increases for:	
Inflation	5% per year
Merit or seniority and productivity	0.7 - 5.5% per year
Postretirement benefit increases	3% per year

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CITY OF ATLANTA, GEORGIA

Notes to General Purpose Financial Statements

The following schedule (derived from the most recent actuarial valuation reports) reflects accounting policies, liabilities, and funding provisions for the City's three plans as of December 31, 2001:

	<u>General employees</u>	<u>Firefighters</u>	<u>Police officers</u>
Basis of accounting	Accrual	Accrual	Accrual
Asset valuation: Reporting Actuarial valuation	Market Market	Market Smoothed 5 Year Average	Market Smoothed 5 Year Average
Internal loans	None	None	None
Nongovernment individual investment in excess of 5% of net assets	None	None	None

Schedule of Funding Progress

(dollars in thousands)

(Unaudited)

<u>Valuation date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded ratio</u>	<u>Unfunded actuarial accrued liability</u>	<u>Current Year Annual covered payroll</u>	<u>Unfunded AAL as a percentage of covered payroll</u>
General employees:						
01/01/96	\$ 481,349	\$ 726,824	66.2 %	\$ 245,475	\$ 139,438	176.0 %
01/01/98	590,739	808,374	73.1	217,635	155,605	139.9
01/01/00	703,381	920,409	76.4	217,028	177,754	122.1
Firefighters:						
01/01/96	183,213	268,056	68.3	84,843	31,605	268.4
01/01/98	223,575	297,349	75.2	73,774	34,679	212.7
01/01/00	289,054	322,370	89.7	33,316	38,797	85.9
Police officers:						
01/01/96	234,657	325,170	72.2	90,513	50,681	178.9
01/01/98	296,516	384,074	77.2	87,558	57,878	151.3
01/01/00	384,083	419,439	91.6	35,356	67,330	52.5

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CITY OF ATLANTA, GEORGIA

Notes to General Purpose Financial Statements

Defined Contribution Plan

The City's General Employees' Defined Contribution Plan provides funds at retirement for employees of the City and, in the event of death, to provide funds for their beneficiaries, through an arrangement by which contributions are made to the Plan by employees and the City. The current mandatory contribution requirement of the City is 6% of employee payroll. Employees also make a pre-tax contribution of 6% plus have the option to contribute amounts up to the amount legally limited for retirement contributions. All modifications to the pension plans, including contribution requirements, must receive the recommendations of the City Attorney, the Chief Financial Officer, and the board of trustees of the plan. Each pension law modification must be adopted by at least two-thirds vote of the City Council and approved by the Mayor.

All new employees, hired after July 1, 2001, who previously would have been enrolled in the General Employees' Defined Benefit Plan, were enrolled in the General Employees' Defined Contribution Plan. No existing employees as of July 1, 2001 have yet been given the option to transfer to the Defined Contribution Plan. As of December 31, 2001 there were 221 participants in the Defined Contribution Plan.

Employee contributions for the year ended December 31, 2001 were \$95,000 and employer contributions were \$160,000.

The Defined Contribution Plan uses the accrual basis of accounting. Investments are valued at market value, based on quoted market prices and no nongovernmental individual investment exceeded 5% of the net assets of the Plan.

Postretirement Benefits

In accordance with a City ordinance, the City provides certain health/dental care for retired employees, their dependents, and their beneficiaries. The City also provides life insurance for retired employees and their dependents. These benefits are funded on a pay-as-you-go basis. Substantially all employees may become eligible for these benefits if they reach retirement age, as defined, or are totally disabled while working for the City. Currently, 4,125 retirees meet the eligibility requirements. The City contributes 75% of the premium cost for the least expensive health care provider coverage and contributes \$4.10 per thousand of the premium cost for a retiree's life insurance coverage in amounts ranging from \$1,000 to \$10,000. The City does not contribute to the cost of dependent life insurance. The cost of retiree health/dental care and life insurance benefits is recognized as premiums are paid to the private insurers and such costs totaled \$23,225,000 in 2001.

CITY OF ATLANTA, GEORGIA

Notes to General Purpose Financial Statements

Deferred Compensation Plan

The City has adopted a deferred compensation plan in accordance with the 1997 revisions of Section 457 of the Internal Revenue Code. The plan, available to all City employees, allows an employee to voluntarily defer up to 25% of his/her gross compensation, not to exceed certain limits per year. Each participant selects one of three providers to administer the investment of the deferred funds. All administrative costs of the plan are deducted from the participants' accounts. The plan assets are held in custodial accounts for the exclusive benefit of the plan participants and their beneficiaries, and are therefore not included in the City's financial statements.

Self-insurance

The City is self-insured for workers' compensation and general claims liabilities. The City pays for such claims as they become due. These claims liabilities are accounted for in the General Fund and the applicable Enterprise Funds. Claims generated by a governmental fund expected to be paid subsequent to one year are recorded in the General Long-Term Obligations Account Group. The City's workers' compensation liability is calculated by an outside actuary. Liabilities are reported when it is probable a loss has occurred and the amount can be reasonably estimated including amounts for claims incurred but not yet reported.

The calculation of the present value of future workers' compensation liabilities is based on a discount rate of 5.5% and 6% for 2001 and 2000, respectively. Changes in the balances of claims liabilities for workers' compensation and general claims liabilities during 2000 and 2001 were as follows (in thousands):

	<u>Beginning of year</u>	<u>Current year claims and changes in estimates</u>	<u>Claim Payments</u>	<u>End of year</u>
Workers' compensation:				
2000	\$ 27,299	\$ 9,871	\$ (9,871)	\$ 27,299
2001	27,299	14,785	(8,891)	33,193
General claims liability:				
2000	7,465	6,208	(6,400)	7,273
2001	7,273	21,677	(7,125)	21,825

The City participates in the State Subsequent Injury Trust Fund, a public entity managed by the State of Georgia. The pool is designed to provide the insurance coverage for employees who are hired with previous medical conditions. Historically, premiums have not been significant.