

Town of Oro Valley Public Safety Personnel Retirement System (PSPRS) Pension Funding Policy

The intent of this policy is to clearly communicate the Town Council's pension funding objectives, its commitment to employees and the sound financial management of the Town of Oro Valley, and maintain compliance with new statutory requirements of A.R.S. 38-863.01. The Council shall annually assess the status of the Town's PSPRS trust fund annually, and take formal action to update this policy in concert with the final annual budget approval. This policy shall also apply to the Town's participation in the Correction Officer Retirement Plan (CORP).

Several terms are used throughout this policy and are defined as follows:

Unfunded Actuarial Accrued Liability (UAAL) – Is the difference between trust assets and the estimated future cost of pensions earned by employees. This UAAL results from actual results (interest earnings, member mortality, disability rates, etc.) being different from the assumptions used in previous actuarial valuations.

Annual Required Contribution (ARC) – Is the annual amount required to pay into the pension funds, as determined through annual actuarial valuations. It is comprised of two primary components: normal pension cost – which is the estimated cost of pension benefits earned by employees in the current year; and, amortization of UAAL – which is the cost needed to cover the unfunded portion of pensions earned by employees in previous years. The UAAL is collected over a period of time referred to as the amortization period. The ARC is a percentage of the current payroll.

Funded Ratio – Is a ratio of fund assets to actuarial accrued liability. The higher the ratio the better funded the pension is with 100% being fully funded.

Intergenerational equity – Is a concept used to describe the policy expectation that no generation is burdened by substantially more or less pension costs than past or future generations.

The Town's sworn police employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). Selected individuals who serve as dispatchers in the Oro Valley Police Department participate in the CORP plan, which is also administered by the Public Safety Personnel Retirement System.

Public Safety Personnel Retirement System (PSPRS)

PSPRS is administered as an agent multiple-employer pension plan. An agent multiple-employer plan has two main functions: 1) to comingle assets of all plans under its administration, thus achieving economy of scale for more cost efficient investments, and invest those assets for the benefit of all members under its administration and 2) serve as the statewide uniform administrator for the distribution of benefits.

Under an agent multiple-employer plan, each agency participating in the plan has an individual trust fund reflecting that agencies' assets and liabilities. Under this plan all contributions are deposited to and distributions are made from that fund's assets, each fund has its own funded ratio and contribution rate, and each fund has a unique annual actuarial valuation. The Town of Oro Valley has one trust fund for police employees. The Town also contributes to the Correction Officer Retirement Plan (CORP), administered by the Public Safety Personnel Retirement System, on behalf of selected individuals who serve as dispatchers in the Oro Valley Police Department. CORP maintains one trust fund for dispatchers.

Council formally accepts the assets, liabilities, and current funding ratio of the Town's PSPRS and CORP trust funds from the June 30, 2018 actuarial valuations specified below.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Oro Valley Police	\$34,172,618	\$57,022,056	\$22,849,438	59.9%
Oro Valley Dispatchers	\$ 1,337,558	\$ 2,945,307	\$ 1,607,749	45.4%

PSPRS and CORP Funding Goal

Pensions that are less than fully funded place the cost of service provided in earlier periods (amortization of UAAL) on the current taxpayers. Fully funded pension plans are the best way to achieve taxpayer and member intergenerational equity.

The Council's PSPRS and CORP funding ratio goal is 100% (fully funded) by June 30, 2036. Council establishes this goal for the following reasons:

- The PSPRS and CORP trust funds represent only the Town of Oro Valley's liability
- The fluctuating cost of an UAAL causes strain on the Town's budget, affecting the Town's ability to provide services
- A fully funded pension is the best way to achieve taxpayer and member intergenerational equity

Council has determined that in order to achieve the 100% funding ratio goal, the following actions will be taken:

- Maintain ARC payment from operating revenues – Council is committed to maintaining the full ARC payment (normal cost and UAAL amortization) from operating funds. The estimated combined ARC for FY19/20 is estimated at \$3.0 million for PSPRS and at \$119,000 for CORP and shall be paid from operating funds.
- Retain 20-year amortization of unfunded liability rather than extend to 30 years as allowed by statute.
- Review Local board practices annually.
- Apply adopted financial policies dedicating surplus funds at year-end toward reducing the unfunded liability.

- Budget an additional payment toward the unfunded liability debt as part of the annual budget process, on top of the employer contribution, based on funding availability. For FY19/20, this shall include a lump sum of \$500,000 for PSPRS.

It is hereby the Town Council's intent to achieve its goal of 100% funding by June 30, 2036, in accordance with the amortization timeline set forth by the PSPRS and CORP June 30, 2018 Actuarial Valuation.