

RESOLUTION NO. (R)20-29

A RESOLUTION OF THE MAYOR AND COUNCIL OF THE TOWN OF ORO VALLEY, ARIZONA, ADOPTING THE PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM (PSPRS) PENSION FUNDING POLICY AND ACCEPTING THE TOWN'S SHARE OF ASSETS AND LIABILITIES UNDER THE PSPRS ACTUARIAL VALUATION REPORT; AND DIRECTING THE TOWN MANAGER, TOWN CLERK, TOWN LEGAL SERVICES DIRECTOR, TOWN CHIEF FINANCIAL OFFICER, OR THEIR DULY AUTHORIZED OFFICERS AND AGENTS TO TAKE ALL STEPS NECESSARY TO CARRY OUT THE PURPOSES AND INTENT OF THIS RESOLUTION

WHEREAS, A.R.S. Title 38, Chapter 5, Article 4 and related statutes establish a Public Safety Personnel Retirement System; and

WHEREAS, on April 3, 2018, House Bill 2097 was passed into law, requiring the Town Council to adopt a pension funding policy for the Public Safety Personnel Retirement System (PSPRS) before July 1, 2020 and annually each year after; and

WHEREAS, pursuant to A.R.S. §38-863.01, the Town is required to adopt a pension funding policy to communicate how the Town will maintain the stability of the Town's required contributions, how and when the Town's funding requirements will be met, and defining the Town's funded ratio target under PSPRS and how it will be met ; and

WHEREAS, the Town's sworn police officers are members of the PSPRS plan, PSPRS also administers the Correction Officers Retirement Plan (CORP) and three (3) Town police dispatch personnel are currently active members of the CORP plan; and

WHEREAS, annually, PSPRS and CORP provide the Town with an actuarial report that includes the Town's assets, liabilities, unfunded actuarial liability, funding ratio, and the projected minimum contributions required for the upcoming fiscal year; and

WHEREAS, it is in the best interest of the Town to adopt the Public Safety Personnel Retirement System (PSPRS) Pension Funding Policy, attached hereto as Exhibit "A" and incorporated herein by reference, and accept the Town's share of assets and liabilities under the PSPRS actuarial valuation report.

NOW THEREFORE, BE IT RESOLVED by the Mayor and Council of the Town of Oro Valley, that:

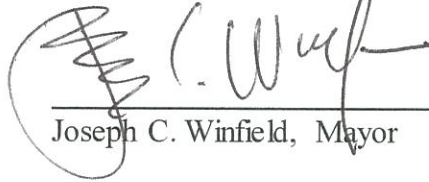
SECTION 1. The Mayor and Council hereby adopt the Public Safety Personnel Retirement System Pension Funding Policy, attached hereto as Exhibit

“A” and accept the Town’s share of assets and liabilities under the PSPRS actuarial valuation report.

SECTION 2. The Town Manager, Town Clerk, Town Legal Services Director, Town Chief Financial Officer, or their duly authorized officers and agents are hereby authorized and directed to take all steps necessary to carry out the purposes and intent of this resolution.


PASSED, AND ADOPTED by the Mayor and Council of the Town of Oro Valley Arizona, this 17th day of June, 2020.

TOWN OF ORO VALLEY



Joseph C. Winfield, Mayor


ATTEST:



Michael Standish, Town Clerk

Date: 6/19/2020

APPROVED AS TO FORM:



Tobin Sidles, Legal Services Director

Date: 6/19/2020

EXHIBIT "A"

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 commingle 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, 2019 actuarial valuations specified below.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Oro Valley Police	\$37,842,906	\$62,278,853	\$24,435,947	60.8%
Oro Valley Dispatchers	\$ 1,424,947	\$ 3,240,399	\$ 1,815,452	44.0%

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 \$2.9 million for PSPRS and at \$153,000 for CORP and shall be paid from operating funds.
- At such time the ARC is projected to be reduced, the Town should endeavor to continue paying the ARC at the higher rate, to help accelerate the reduction of the UAAL, based on funding availability.
- Retain 20-year amortization of unfunded liability rather.
- Review Local board practices annually.

- Budget an additional payment of at least \$500,000 toward the Unfunded Actuarial Accrued Liability as part of the FY 20/21 annual budget process, based on funding availability. The Town will strive to designate an ongoing revenue source for this payment annually.

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, 2019 Actuarial Valuation. In that vein, the Town should strive to achieve the following funding ratio targets:

- 2024 – 70% funding
- 2028 – 80% funding
- 2032 – 90% funding

The attached appendix shows the historical performance of the unfunded actuarial accrued liability.

Appendix A

Year	Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
2014	Oro Valley Police	23,241,057	36,122,643	(12,881,586)	64%
2014	Oro Valley Dispatchers	1,216,956	2,269,744	(1,052,788)	54%
2015	Oro Valley Police	25,601,957	40,452,911	(14,850,954)	63%
2015	Oro Valley Dispatchers	1,205,067	2,362,604	(1,157,537)	51%
2016	Oro Valley Police	27,010,103	48,414,270	(21,404,167)	56%
2016	Oro Valley Dispatchers	1,163,258	2,524,360	(1,361,102)	46%
2017	Oro Valley Police	30,883,680	53,037,566	(22,153,886)	58%
2017	Oro Valley Dispatchers	1,260,798	3,077,649	(1,816,851)	41%
2018	Oro Valley Police	34,172,618	57,022,056	(22,849,438)	60%
2018	Oro Valley Dispatchers	1,337,558	2,945,307	(1,607,749)	45%

Information comes from Note 17 in Town Comprehensive Annual Financial Report for June 30, 2019.