

RESOLUTION NO. (R)23-20

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, 2019 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 two (2) 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.

SECTION 3. If any section, subsection, sentence, clause, phrase, or portion of this resolution or any part of the PSPRS Pension Funding Policy, attached hereto as Exhibit “A”, is for any reason held to be invalid or unconstitutional by the decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions thereof.

SECTION 4. All Oro Valley resolutions, or motions and parts of resolutions or motions of the Council in conflict with the provisions of this Resolution are hereby repealed.

PASSED, AND ADOPTED by the Mayor and Council of the Town of Oro Valley Arizona, this 7th day of June, 2023.

TOWN OF ORO VALLEY

Joseph C. Winfield, Mayor

ATTEST:

APPROVED AS TO FORM:

Michael Standish, Town Clerk

Tobin Sidles, Legal Services Director

Date: _____

Date: _____

EXHIBIT “A”

Town of Oro Valley

Public Safety Personnel Retirement System (PSPRS & CORP)

Pension Funding Policy – FY23/24

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 statutory requirements of A.R.S. 38-863.01. The Council shall annually assess the status of the Town's PSPRS trust fund 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 based on current actuarial valuations.

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.

Oro Valley Town Council formally accepts the assets, liabilities, and current funding ratio of the Town's PSPRS and CORP trust funds from the June 30, 2022 actuarial valuations specified below.

| Trust Fund | Assets | Accrued Liability | Unfunded Actuarial Accrued Asset/(Liability) | Funded Ratio |
|-------------------------------|---------------|--------------------------|-----------------------------------------------------|---------------------|
| Oro Valley Police (PSPRS) | \$77,967,201 | \$76,438,334 | \$1,528,867 | 102.0% |
| Oro Valley Dispatchers (CORP) | \$ 1,710,819 | \$ 3,721,151 | (\$2,010,332) | 46.0% |

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 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) through June 30, 2036 and beyond. 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 FY23/24 is estimated at \$3.7 million for PSPRS and at \$75,000 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 as defined as the normal cost rate plus an additional contribution of \$2.5 million, to maintain the funding ratio goal of 100%. This is due to historically poor investment performance in the Plan and should assist in mitigating that risk should it continue.
- Retain 20-year amortization of unfunded liability

- Review Local board practices annually
- Periodically engage consultants to review actual results and recommend possible adjustments or corrections as necessary

Payments to PSPRS will be as follows:

- In FY23, the Town will make approximately \$2.01M in additional payments to CORP to fund its unfunded actuarial liability.
- In FY24 and subsequent years, the Town will continue maintaining a 100% funding ratio by making contributions of \$2.5 million per year, above and beyond the normal cost rate payment. If the funding ratio grows to over 110%, the Town Manager through the budget process, may recommend applying funding to other Town priorities. If the funding ratio falls below 100%, future additional payments will be made to restore the funding ratio back to 100%.

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, 2022 Actuarial Valuation

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

Appendix A

| Year | Trust Fund | Assets | Accrued Liability | Unfunded | |
|------|------------------------|------------|-------------------|-----------------------------|--------------|
| | | | | Actuarial Asset/(Liability) | Funded Ratio |
| 2014 | Oro Valley Police | 23,567,852 | 36,122,643 | (12,554,791) | 65% |
| 2014 | Oro Valley Dispatchers | 1,216,956 | 2,269,744 | (1,052,788) | 54% |
| 2015 | Oro Valley Police | 26,200,389 | 40,452,911 | (14,252,522) | 65% |
| 2015 | Oro Valley Dispatchers | 1,205,067 | 2,362,604 | (1,157,537) | 51% |
| 2016 | Oro Valley Police | 29,296,195 | 48,414,270 | (19,118,075) | 61% |
| 2016 | Oro Valley Dispatchers | 1,163,258 | 2,524,360 | (1,361,102) | 46% |
| 2017 | Oro Valley Police | 31,882,797 | 53,037,566 | (21,154,769) | 60% |
| 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% |
| 2019 | Oro Valley Police | 37,842,906 | 62,278,853 | (24,435,947) | 61% |
| 2019 | Oro Valley Dispatchers | 1,424,947 | 3,240,399 | (1,815,452) | 44% |
| 2020 | Oro Valley Police | 41,498,361 | 67,240,526 | (25,742,165) | 62% |
| 2020 | Oro Valley Dispatchers | 1,504,732 | 3,374,933 | (1,870,201) | 45% |
| 2021 | Oro Valley Police | 46,773,089 | 70,792,554 | (24,019,465) | 66% |
| 2021 | Oro Valley Dispatchers | 1,649,829 | 3,551,295 | (1,901,466) | 46% |
| 2022 | Oro Valley Police | 77,967,201 | 76,438,334 | 1,528,867 | 102% |
| 2022 | Oro Valley Dispatchers | 1,710,819 | 3,721,151 | (2,010,332) | 46% |

Source: Town Comprehensive Annual Financial Report for June 30, 2022 – Note 15.