

City of Douglas

Public Safety Personnel Retirement System

Pension Funding Policy

The intent of this policy is to clearly communicate the Council's pension funding objectives and its commitment to our employees and the sound financial management of the City and to comply with Arizona Revised Statutes Section 38-863.01.

The City of Douglas is a member of the Public Safety Personnel Retirement System (PSPRS). The City has two PSPRS pension plans, one for police employees and one for fire employees. Each pension plan has its own funding to pay for current and future pension obligations. The plans represent only the City of Douglas' liability. Employee contributions that are used to help pay for the pension plans are managed by PSPRS.

This policy will demonstrate how the City will meet its financial obligations for funding the police and fire pension plans, explain how and when funding requirements for the plans will be met, and define the funded ratio targets and timelines for reaching the ratio for the plans.

Several terms are used throughout this policy:

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 – Ensures that no generation is burdened by substantially more or less pension costs than past or future generations.

The City's police and fire employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS).

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 City of Douglas has two trust funds, one for police employees and one for fire employees.

Council formally accepts the assets, liabilities, and current funding ratio of the City's PSPRS trust funds from the June 30, 2020 actuarial valuation, which are detailed below.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Douglas Police	\$8,779,735	\$27,540,190	\$18,760,455	31.9%
Douglas Fire	\$5,891,835	\$18,363,686	\$12,471,851	32.1%
City of Douglas Totals	\$14,671,570	\$45,903,876	\$31,232,306	31.2%

PSPRS 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. Most funds in PSPRS are significantly underfunded and falling well short of the goal of intergenerational equity.

The Council's PSPRS funding ratio goal is 100% (fully funded) by June 30, 2021.

Council established this goal for the following reasons:

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

Council plans to take the following actions to achieve this goal:

- 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 FY21 is \$533,968 and will be able to be paid from operating funds without diminishing City services.

- In June 2021, Council authorized to issue Taxable Pledged Revenue Obligations (PROs) for \$38.885 million in order to fund its Police and Fire PSPRS plans at or close to 100%.
- Council established a Contingency Reserve Fund (CRF) with an initial amount of \$4.07 million. Staff will utilize this fund in accordance to Policy 2.05 "Public Safety Personnel Retirement System (PSPRS) Contingency Reserve Fund Policy" to provide additional contributions when the plans fall below 100% funding. The goal of the CRF is to mitigate the impact of 1) investment return volatility and 2) changes in select actuarial assumptions made within the PSPRS plans.

Based on these actions, Council expects the PSPRS June 30, 2021 Actuarial Valuation reports to show at or near 100% funding for the plans.

Adopted by Resolution on October 13, 2021