

City of Casa Grande Public Safety Personnel Retirement System Pension Funding Policy As of July 1, 2025

Section 1: Introduction

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 of Casa Grande (City) and to comply with Arizona Revised Statutes Section 38-863.01.

The City of Casa Grande 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 Casa Grande's liability. Employee contributions that are used to help pay for the pension plans are managed by the 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 referred to as the amortization period. The ARC is a percentage of the current payroll.

Normal Cost – That portion of the actuarial present value of benefits for the base costs in the current plan year.

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).

Section 2: 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. PSPRS provides annual actuarial reports to determine the current status of each plan. These are available on the PSPRS website.

Under an agent-multiple-employer plan each agency participating in the plan has an individual trust fund reflecting each individual plan's 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 Casa Grande has two trust funds, one for police employees and one for fire employees.

The Casa Grande City Council formally accepts the assets, liabilities, and current funding ratio of the City's PSPRS trust funds for Tier 1 & 2 members from the June 30, 2024 actuarial valuation, which are detailed below.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Casa Grande Police	\$ 71,389,135	\$ 76,637,541	\$5,248,406	93.2%
Casa Grande Fire	\$ 54,153,909	\$ 58,346,440	\$4,192,531	92.8%
City Totals	\$125,543,044	\$134,983,981	\$9,440,937	93.00%

On September 1, 2021, the City completed the issuance of Excise Tax Revenue Obligations in a total amount of \$63,260,000 to fully fund our public safety pensions. In addition, a contingency reserve fund to manage future impacts was established using City funds. The annual debt service varies from year-to-year through April 2036. With the issuance of these Obligations in 2021, the City fully extinguished the unfunded liabilities of each Plan at that time. The various factors that are applied to the annual actuarial calculations of the liabilities for each Plan (and most particularly annual employee compensation increases awarded) result in increased unfunded liability which must be managed in future years according to the Funding Goal plans herein stated.

Section 3: 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 employee intergenerational equity.

The Casa Grande City Council will maintain minimum Annual Required Contribution (ARC) for PSPRS for both Casa Grande Police and Casa Grande Fire Plans. Council is committed to maintaining the full ARC payment (normal cost and UAAL amortization, if any) from ongoing operating revenues.

The City's Police and Fire PSPRS plans are currently funded at 93.2% and 93.0% respectively, based on the Fund Actuarial Reports as of June 30, 2024. In evaluating the actuarial reports for both plans, it is clear that the unfavorable plan experience was driven by salary increases that were higher than expected. The return on invested assets, however, nearly met the assumed earnings rate for the Tier 1 and 2 portions of the plans. With these factors in mind, the following goals are adopted to address current realities and potential future impacts, and to position the City financially for such impacts.

The ARC for FY 2025-26 per the PSPRS actuarial reports:

- PSPRS-Police = 17.05% (Net Normal Cost total only), effective July 1, 2025
- PSPRS-Fire = 18.22% (Net Normal Cost total only), effective July 1, 2025

Council will continue to take fiscal measures to attain 100% funded pension plans:

- The City will pay the full estimated employer contribution at the beginning of the Fiscal Year versus paying the actual amount through biweekly payrolls, allowing PSPRS to invest at a higher rate thereby increasing the amount of interest applied towards the City's UAAL for the City's share of PSRPS contributions. The payments will be based on the calculated employer liability for both plans.
- The City will include in the full estimated employer contribution payment for all eligible positions, whether filled or not.
- The City will maintain these measures to reach and maintain 100% funding status in each Plan.

Council will consider additional payment above the ARC to lower the UAAL:

- Staff will continue to evaluate all of the applicable factors to potential address the UAAL, and will advise Council if additional payment amount(s) from City unrestricted fund balance should be considered.

Council will consider additional resources to assist in maintaining the 100% funding status:

- The Council has adopted a Contingency Reserve Fund policy for the public safety plans. This Fund is primarily available to pay bond debt service if and when necessary, but is potentially also available to manage "worst case" scenarios involving market volatility and actuarial changes through transfer into either or both plans. Based on the data reflected in the most current actuarial valuation reports, no funds will be transferred from the contingency reserve fund in FY2026.

Based on these pension funding policy decisions by the Council, the City PSPRS plans are expected to (re)attain the goal of 100% funding well before the statutory deadline of 6/30/2036.

Adopted by Resolution on June 16, 2025.