

# City of Casa Grande Public Safety Personnel Retirement System Pension Funding Policy As of July 1, 2023

## 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 from the June 30, 2022 actuarial valuation, which are detailed below.

June 30, 2022 Report:

<b>Trust Fund</b>	<b>Assets</b>	<b>Accrued Liability</b>	<b>Unfunded Actuarial Accrued Liability</b>	<b>Funded Ratio</b>
Casa Grande Police	\$ 68,479,037	\$ 68,311,918	\$ (167,119)	100.2%
Casa Grande Fire	\$ 49,434,865	\$ 48,514,743	\$ (920,122)	101.9%
City Totals	\$117,913,902	\$116,826,661	\$(1,087,241)	101.89%

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.

### **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 PSPRS plans are currently funded at more than 100% based on the Fund Actuarial Reports as of June 30, 2022. The following goals are adopted to address potential future impacts and to position the City financially for such impacts.

The ARC for FY 2023-24 per the PSPRS actuarial reports and fully funded goal:

- PSPRS-Police = 9.74% (Net Normal Cost total only), effective July 1, 2023
- PSPRS-Fire = 12.45% (Net Normal Cost total only), effective July 1, 2023

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

- The City will make biweekly payments for the City's share of PSPRS contributions. The payments will be based on the calculated employer liability for both plans.
- The City will calculate the biweekly contributions based on the Normal Cost rate provided in the annual actuarial reports.
- The City will maintain these measures to maintain 100% funding status in each Plan.

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. Staff will utilize these funds to provide additional contributions if the plans fall below 100% funding. Based on the data reflected in the most current actuarial valuation reports, no additional funds need to be added to the balance in the contingency reserve fund.

Based on these pension funding policy decisions by the Council, the City PSPRS plans are expected to maintain the goal of 100% funding.

Adopted by Resolution on June 19, 2023.