

SAHUARITA RESOLUTION NO. 2020-0619

A RESOLUTION OF THE TOWN OF SAHUARITA, ARIZONA, AUTHORIZING THE TOWN TO ADOPT A PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM (PSPRS) PENSION FUNDING POLICY.

WHEREAS, the Town of Sahuarita is a participant in the State of Arizona's Public Safety Personnel Retirement System ("PSPRS"), a multiple-employer pension plan; and

WHEREAS, under the multiple-employer plan, the Town has an individual trust fund reflecting the Town's assets and liabilities. Under this plan, all contributions are deposited to and distributions are made from the fund's assets. The Town has one trust fund for police employees; and

WHEREAS, the Town Council desires to adopt a PSPRS Pension Funding Policy, in order to clearly communicate the pension funding objectives of the Town's PSPRS individual plan; and

WHEREAS, A.R.S. § 38-863.01 requires that by July 1, 2019, each participating agency in PSPRS shall adopt a pension funding policy for employees who were hired before July 1, 2017 reflecting the pension funding objectives of the participating agency's PSPRS individual plan; and

WHEREAS, the Town Council has determined that adoption of the PSPRS Pension Funding Policy is in the best interests of the Town and its residents.

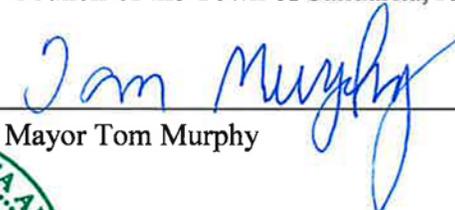
NOW, THEREFORE, BE IT RESOLVED by the Mayor and Council of the Town of Sahuarita, Arizona, as follows:

- Section 1.** The Town of Sahuarita, Arizona hereby adopts the PSPRS Pension Funding Policy attached hereto as Exhibit "A" and incorporated herein by this reference.
- Section 2.** The effective date of the PSPRS Pension Funding Policy attached hereto shall be January 27, 2020.
- Section 3.** The Town staff is authorized to take all the steps necessary to implement the PSPRS Pension Funding Policy and give it effect.

Section 4. All ordinances, resolutions, or motions and parts of ordinances, resolutions or motions of the council in conflict with the provisions of this resolution are hereby repealed, effective as of the effective date of this resolution. All internal references within the Town Code to any affected provision are hereby updated.

Section 5. If any section, subsection, sentence, clause, phrase or portion of this resolution 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.

PASSED AND ADOPTED by the Mayor and Council of the Town of Sahuarita, Arizona, this 27th day of January, 2020.



Mayor Tom Murphy

ATTEST:



Lisa Cole, MMC
Town Clerk



APPROVED AS TO FORM:



Daniel J. Hochuli
Town Attorney

EXHIBIT "A"

***Public Safety Personnel Retirement System
(PSPRS) Pension Funding Policy***

Town of Sahuarita 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 Town and to comply with Arizona Revised Statutes §38-863.01.

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 Town's police 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 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 agency'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 Town of Sahuarita has one trust fund for police employees.

Council formally accepts the assets, liabilities, and current funding ratio of the Town's PSPRS trust funds from the June 30, 2019 actuarial valuation, which are detailed below.

| Trust Fund | Assets | Accrued Liability | Unfunded Actuarial Accrued Liability | Funded Ratio |
|-------------------------------------|---------------|--------------------------|---|---------------------|
| Sahuarita Police-Tier 1 & 2 Pension | \$12,833,611 | \$15,401,380 | \$2,567,769 | 83.3% |

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 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, 2036.

Council established this goal for the following reasons:

- The PSPRS trust funds represent only the Town of Sahuarita's liability
- A fully funded pension is the best way to achieve taxpayer and member intergenerational equity

Council has taken 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 fiscal year 2021 is \$668,172 and will be able to be paid from operating funds without diminishing Town services.

Based on these actions the Council plans to achieve its goal of 100% funding by June 30, 2036, in accordance with the amortization timeline set forth by the PSPRS June 30, 2019 Actuarial Valuation.