

City of Flagstaff Public Safety Personnel Retirement System Pension Funding Policy As of July 1, 2021

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 Flagstaff (City) and to comply with Arizona Revised Statutes Section 38-863.01.

The City of Flagstaff 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 Flagstaff'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 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 Flagstaff 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.

June 30, 2020 Original Report:

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Flagstaff Police	\$ 36,911,538	\$ 88,817,272	\$ 51,905,734	41.6%
Flagstaff Fire	\$ 38,561,674	\$ 96,788,614	\$ 58,226,940	39.8%
City of Flagstaff Totals	\$ 75,473,212	\$ 185,605,886	\$ 110,132,674	40.7%

On July 23, 2020, the City completed the financing of Pension Certificates of Participation transaction. The City issued \$133 million in obligations to fund our public safety pensions and set up a contingency reserve fund to manage future impacts. Average annual debt service is approximately \$8.7 million through May 2040. The Public Safety Personnel Retirement System's actuarial company provided the City with an interim report that demonstrates changes in our plans based on the additional contributions. Below is the updated information.

June 30, 2020 Updated Interim Report:

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Flagstaff Police	\$ 91,527,398	\$ 88,817,272	(\$ 2,710,126)	103.1%
Flagstaff Fire	\$ 100,259,324	\$ 96,788,614	(\$ 3,470,710)	103.6%
City of Flagstaff Totals	\$ 191,786,722	\$ 185,605,886	(\$ 6,180,836)	103.3%

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.

At a minimum, the Council will maintain minimum Annual Required Contribution (ARC) for PSPRS for both Flagstaff Police and Flagstaff Fire. Council is committed to maintaining the full ARC payment (normal cost and UAAL amortization) from ongoing operating revenues.

The City's PSPRS plans are currently funded at 103% based on financing activities in Fiscal Year 2020-21. Future goals will be in place to best assure the plans remain above 100% funded. The following goals are adopted to address potential future impacts and position the City financially for such impacts.

The estimated ARC for FY 2021-22 per actuarial valuation and fully funded goal:

- PSPRS-Police = \$845,766 (Normal Cost only), June 30, 2021
- PSPRS-Fire = \$867,126 (Normal Cost only), June 30, 2021

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

- The City will make an annual payment for the City's share of PSPRS contributions in July of each fiscal year. The payment will be based on the Adopted Budget for the City for both plans. During the fiscal year, if the ARC exceeds the prepayment amount, the City will pay additional ARC as required. If at June 30 the prepayment exceeds the actual minimum ARC, the City will leave the overpayment with the pension plan, thus providing excess contributions.
- For public safety employees which are in the Deferred Retirement Option Plan (DROP), the City will budget for and pay the City's share of pension contributions. While the City is not required to make these contributions, this would be a contribution in excess of the ARC.
- The City will calculate the annual contributions based on Normal Cost rate provided in the annual actuarial report.
- The City will maintain these measures until plans reach 105% funding status.

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

- No action required as the plans are 103% funded

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

- The Council has adopted a Contingency Reserve Fund policy of the public safety plan. Staff will utilize this plan to provide additional contributions when the plans fall below 100% funding.

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 1, 2021