

RESOLUTION NO. R2022.95

**A RESOLUTION OF THE CITY COUNCIL
OF THE CITY OF TEMPE, ARIZONA,
ADOPTING THE CITY OF TEMPE'S
PENSION FUNDING POLICY FOR FISCAL
YEAR 2022-23.**

WHEREAS, Arizona Revised Statute 38-863.01 requires each governing body of an employer/member of the Arizona Public Safety Personnel Retirement System to formally adopt a pension funding policy annually;

WHEREAS, the City of Tempe maintains statutorily-mandated accounts for its sworn Police and Fire Medical Rescue employees in the Arizona Public Safety Personnel Retirement System;

WHEREAS, the City of Tempe has chosen to include all statutorily-mandated pension system accounts in its annual pension funding policy; and

WHEREAS, the City of Tempe's annual pension funding policy satisfies the statutory requirements for the Public Safety Personnel Retirement System Pension Funding Policy.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF TEMPE, ARIZONA, as follows:

That the pension funding policy presented as Attachment A is hereby adopted for Fiscal Year 2022-23.

PASSED AND ADOPTED BY THE CITY COUNCIL OF THE CITY OF TEMPE, ARIZONA, this 23rd day of June, 2022.



Corey D. Woods, Mayor

ATTEST:



Carla R. Reece, City Clerk

APPROVED AS TO FORM:



Sonia M. Blain, City Attorney

City of Tempe 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 of Tempe (City) and to comply with Arizona Revised Statutes, section 38-863.01.

Introduction

The City is a participating employer in the Public Safety Personnel Retirement System (PSPRS). In accordance with state statutes, annual actuarial valuations determine employer contribution requirements for pension and health insurance premium benefits through PSPRS.

The City's police and fire employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS). The pension contribution requirements for active PSPRS employees are established by State statutes.

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.

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.

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 agencies' assets and liabilities. Under this plan, all contributions are deposited into 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 Tempe 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 initial June 30, 2021 actuarial valuation, which are detailed below.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Tempe Police	\$172,703,441	\$388,443,880	\$215,740,439	44.5%
Tempe Fire	100,924,693	222,813,549	121,888,856	45.3%
City of Tempe Totals	\$273,628,134	\$611,257,429	\$337,629,295	44.8%

In July 2021, the City completed a \$343 million financing transaction that resulted in the issuance of Certificates of Participation (COP) obligations to pay a significant portion of the City's unfunded accrued liability in the City's Police and Fire PSPRS plans. The annual debt service on the COPs is approximately \$25.8 million through July of 2037. The payment of a significant portion of the unfunded actuarial accrued liability allows for investment of the COPS proceeds into the Police and Fire pension plans that should result in an earnings rate that exceeds the borrowing rate of the COPS and thus results in a savings to the City.

On December 17, 2021, the PSPRS issued an updated June 30, 2021, actuarial valuation report to reflect the additional funding made to significantly reduce the unfunded liability in the City's Police and Fire PSPRS plan. Listed below are the updated valuation results:

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability (Asset)	Funded Ratio
Tempe Police	\$389,964,770	\$388,443,880	(\$1,520,890)	100.4%
Tempe Fire	223,420,520	222,813,549	(606,971)	100.3%
City of Tempe Totals	\$612,864,400	\$611,257,429	(\$2,127,861)	100.3%

* A negative Unfunded Actuarial Accrued Liability results in additional Assets.

PSPRS Funding Objectives

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.

This Pension Funding Policy provides for the following PSPRS funding objectives:

1. **Maintain Stability of City's Contributions to PSPRS**
 - As part of the COPs issuance, the City agreed to assign \$14 million by June 30, 2022, and an additional \$11 million by June 30, 2023, of the City's General Fund unassigned fund balance for payments toward any UAAL, if any, identified in future PSPRS annual actuarial reports.
 - The PSPRS reserve amount may be increased or decreased annually, as part of the fiscal year end process, to ensure sufficient reserves are available to meet future anticipated UAAL.

2. **Meeting Funding Requirements**
 - As part of the City's annual operating budget, the City will budget the minimum Annual Required Contribution (ARC) for the City's Police and Fire PSPRS plans. These amounts will be paid from the City's operating funds without diminishing City services.
 - Additional payments above the ARC will be made to PSPRS to cover the UAAL identified in the annual PSPRS actuarial report for the Police and Fire plans. The source of funds for these payments will be the PSPRS assigned funds in the City's General Fund.
 - Estimated City contributions to PRPRS for the Police and Fire plans are included in the City's multi-year forecast models. Estimating PSPRS pension liabilities will ensure that sufficient resources are available to meet the current and future year obligations as part of the City's long-term planning efforts.

3. **Funding Ratio Target and Timeline**
 - The City's funding ratio target for the PSPRS Police and Fire plans is 100%.
 - Based on the updated June 30, 2021, actuarial reports from PSPRS, the City's PSPRS Police plan is funded at 100.4% and the Fire plan is funded at 100.3%. The combined Police and Fire plans are funded at 100.3%. As such, the City has met its funding ratio target.

Based on these actions the Council, the City's PSPRS Police and Fire plans are expected to maintain the goal of 100% funding.