

City of Bisbee

Public Safety Personnel Retirement System

Pension Funding Policy – FY24/25

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 and to comply with statutory requirements of Laws 2018, Chapter 112.

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 City's police and fire 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 agencies' 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 Bisbee 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, 2023 actuarial valuation, which are detailed below.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Bisbee Police	11,043,439	10,789,411	(254,028)	102.4%
Bisbee Fire	11,976,582	12,006,271	29,689	99.8%
City of Bisbee Totals	23,020,021	22,795,682	(224,339)	101.0%

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.

The Council's PSPRS funding ratio goal is 100% (fully funded by) June 30, 2023, and 100% going forward.

Council established this goal for the following reasons:

- The fluctuating cost of an UAAL causes strain on the City's budget, affecting the City's ability to provide services.
- A fully funded pension is the best way to achieve taxpayer and member intergenerational equity.
- The council passed resolution F-17-07 on June 6th of 2017 increasing the UAAL amortization period from 20 years to 30 years beginning June 30th, 2017. This extended period comes with higher interest payments over the long term.

Council has taken the following actions to achieve this goal:

- Issued \$21,650,000 in pension obligation debt on 6/2/2022 of which \$20,750,000 was deposited into the PSPRS plan towards the current unfunded obligation.
- Paid off the remaining unfunded liability balance of \$556,998 on March 30, 2023

Council will take the following steps going forward:

- Establish a contingency reserve fund in the amount of \$1.5 million to assist with future unfunded pension obligations should the unfunded obligation grow due to variance from actuarial estimates. Four-hundred thousand of this \$1.5 million was transferred to this fund in FY23-24. An additional \$400,000 was budgeted towards this fund in the FY24-25 budget. This will be funded by the General Fund's share of the 1% sales tax until the \$1.5 million goal is reached.
- Pay off any unfunded balance that has accrued during the fiscal year.
- Maintain the ARC payment from operating revenues – Council is committed to maintaining the full ARC payment from operating funds going forward.