

City of Bisbee

Public Safety Personnel Retirement System

Pension Funding Policy – FY22/23

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 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.

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, 2021 actuarial valuation, which are detailed below.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Bisbee Police	1,104,335	11,198,285	10,093,950	9.9%
Bisbee Fire	541,175	11,944,717	11,403,542	4.5%
City of Bisbee Totals	1,645,510	23,143,002	21,497,492	7.1%

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 97% funded by June 30, 2022, 100% (fully funded) by June 30, 2024 and to remain fully funded going forward.

Council established this goal for the following reasons:

- The PSPRS trust funds represent only the City of Bisbee's liability
- 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 requesting an increase to the amortization period from 20 years to 30 years beginning June 30th, 2017. This request for an extended amortization period was approved by the PSPRS Board. This request was made because the minimum annual payments became too much of a strain on the City's budget, but the extended period comes with a higher interest payment 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.

Council will take the following steps going forward:

- Make additional payments towards the remaining approximately \$750,000 unfunded obligation over FY22 – FY24. This will be funded with surplus revenue over expenditures expected at the end of fiscal years 2022 and 2023 along with an additional sales tax. The City currently has a 1% sales tax allocated to the Streets Fund that sunsets March 2023. An extension of the 1% city sales tax will go to the voters in November 2022. Pending voter approval this 1% tax will be split 50/50 between the Streets Fund and General Fund with the General Fund share going towards the remaining unfunded liability if needed.
- Establish a contingency reserve fund to assist with future unfunded pension obligations should the unfunded obligation grow due to variance from actuarial estimates. This will be funded by the General Fund's share of the 1% sales tax.
- Maintain ARC payment from operating revenues – Council is committed to maintaining the full ARC payment from operating funds going forward.