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|  <p style="text-align: center;">CITY COUNCIL POLICY</p> | <p>CP _-_- [ASSIGNED BY CMO]</p> <p>Category: <i>Finance</i></p> |
| | <p>Department: <i>Finance and Budget</i></p> |
| <p>TITLE: <i>Public Safety Personnel Retirement System Pension Funding Policy</i></p> | <p>Approved: <i>[6/11/2024]</i></p> |

A. Purpose

The purpose 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 new statutory requirements of Laws 2018, Chapter 112 codified at A.R.S. § 38-863.01.

B. Definitions

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).

C. 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 Peoria 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 |
|-----------------------|---------------|-------------------|--------------------------------------|--------------|
| Peoria Police | \$145,647,723 | \$182,056,123 | \$36,408,400 | 80.0% |
| Peoria Fire | 125,464,291 | 152,332,501 | 26,868,210 | 82.4% |
| City of Peoria Totals | \$271,112,014 | \$334,388,624 | \$63,276,610 | 81.1% |

D. 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 to achieve a 100% ratio (fully funded) by June 30, 2036. Council established this goal for the following reasons:

1. The PSPRS trust funds represent only the City of Peoria's liability.
2. The fluctuating cost of an UAAL causes strain on the City's budget, affecting our ability to provide services.

3. 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:

1. Maintain the FY2024 ARC payment level from operating revenues – Council is committed to maintaining the 2024 ARC payment (normal cost and UAAL amortization) from operating funds despite anticipated reductions due to additional payments. This will reduce the UAAL by an amount greater than the minimum ARC.
2. Additional payments above the ARC - Council will consider additional one-time contributions and/or additional annual contributions above the ARC to meet its funding goal.
 - i. In September 2021, Council authorized an additional \$30 million payment to reduce the UAAL in both plans. \$15 million was contributed in October and the second \$15 million was contributed in December 2021.
 - ii. In June 2022, Council authorized an additional \$5 million payment to reduce the UAAL in both plans.
 - iii. In June 2023, Council authorized an additional \$6 million payment to reduce the UAAL in both plans.
 - iv. Council will consider additional payments in June of each fiscal year to offset any anticipated shortcomings (e.g. lower investment returns) and/or to accelerate this schedule.

Based upon these actions, the Council plans to achieve its funding ratio goal set forth in this policy.

APPROVED:

Jason Beck, Mayor

APPROVED AS TO FORM:

Emily Jurmu, City Attorney

Adopted: ___ / ___ / ___, CC # _____ [Completed by CMO]