

	<b>TOWN OF FLORENCE COUNCIL ACTION FORM</b>	<b><u>AGENDA ITEM</u></b> <b>7a.</b>
<b>MEETING DATE:</b> February 4, 2019  <b>DEPARTMENT:</b> Finance  <b>STAFF PRESENTER:</b> Joe Jarvis, Finance Director  <b>SUBJECT:</b> Public Safety Personnel Retirement System- Pension Funding Policy		<input checked="" type="checkbox"/> <b>Action</b> <input type="checkbox"/> <b>Information Only</b> <input type="checkbox"/> <b>Public Hearing</b> <input type="checkbox"/> <b>Resolution</b> <input type="checkbox"/> <b>Ordinance</b> <input type="checkbox"/> <b>Regulatory</b> <input type="checkbox"/> <b>1<sup>st</sup> Reading</b> <input type="checkbox"/> <b>2<sup>nd</sup> Reading</b> <input type="checkbox"/> <b>Other</b>
<b>STRATEGIC PLAN REFERENCE:</b> <input type="checkbox"/> Community Vitality <input type="checkbox"/> Economic Prosperity <input type="checkbox"/> Leadership and Governance <input type="checkbox"/> Partnership and Relationships <input type="checkbox"/> Transportation and Infrastructure <input checked="" type="checkbox"/> Statutory <input type="checkbox"/> None		

**RECOMMENDED MOTION/ACTION:**

Move to accept and approve the Public Safety Personnel Retirement System- Pension Funding Policy and to accept the assets, liabilities, and current funding ratio of the Town's Public Safety Personnel Retirement System trust funds from the June 30, 2017 actuarial valuation.

**BACKGROUND/DISCUSSION:**

With assistance from the Arizona League of Cities and Towns, Town staff drafted the Pension Funding Policy to clearly communicate the Town Council's funding objectives, its commitment to the employees, and the sound financial management of the Town to be in compliance with new A.R.S. § 38-863.01.

This policy impacts each police and fire department employee who is enrolled in or a beneficiary of the Town's Public Safety Personnel Retirement Systems (PSPRS).

The Town Council is responsible for communicating its funding objectives annually to comply with statutory requirements.

**A VOTE OF NO WOULD MEAN:**

Staff would seek direction from the Town Council as to how they would like to proceed.

**A VOTE OF YES WOULD MEAN:**

The Pension Funding Policy will be adopted, Town staff will implement the funding objectives, and will post the policy on the Town's website.

**FINANCIAL IMPACT:**

The financial impact is based upon the current actuarial reports produced by PSPRS.

**ATTACHMENTS:**

House Bill 2097

Town of Florence Public Safety Personnel Retirement System- Pension Funding Policy

State of Arizona  
House of Representatives  
Fifty-third Legislature  
Second Regular Session  
2018

**CHAPTER 112**  
**HOUSE BILL 2097**

AN ACT

AMENDING TITLE 38, CHAPTER 5, ARTICLE 4, ARIZONA REVISED STATUTES, BY  
ADDING SECTION 38-863.01; RELATING TO THE PUBLIC SAFETY PERSONNEL  
RETIREMENT SYSTEM.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Title 38, chapter 5, article 4, Arizona Revised  
3 Statutes, is amended by adding section 38-863.01, to read:

4 38-863.01. Pension funding policies; employers

5 A. BEGINNING ON OR BEFORE JULY 1, 2019, EACH GOVERNING BODY OF AN  
6 EMPLOYER SHALL ANNUALLY:

7 1. ADOPT A PENSION FUNDING POLICY FOR THE SYSTEM FOR EMPLOYEES WHO  
8 WERE HIRED BEFORE JULY 1, 2017. THE PENSION FUNDING POLICY SHALL INCLUDE  
9 FUNDING OBJECTIVES THAT ADDRESS AT LEAST THE FOLLOWING:

10 (a) HOW TO MAINTAIN STABILITY OF THE GOVERNING BODY'S CONTRIBUTIONS  
11 TO THE SYSTEM.

12 (b) HOW AND WHEN THE GOVERNING BODY'S FUNDING REQUIREMENTS OF THE  
13 SYSTEM WILL BE MET.

14 (c) DEFINING THE GOVERNING BODY'S FUNDED RATIO TARGET UNDER THE  
15 SYSTEM AND THE TIMELINE FOR REACHING THE TARGETED FUNDED RATIO.

16 2. FORMALLY ACCEPT THE EMPLOYER'S SHARE OF THE ASSETS AND  
17 LIABILITIES UNDER THE SYSTEM BASED ON THE SYSTEM'S ACTUARIAL VALUATION  
18 REPORT.

19 B. THE GOVERNING BODY SHALL POST THE PENSION FUNDING POLICY ON THE  
20 GOVERNING BODY'S PUBLIC WEBSITE.

APPROVED BY THE GOVERNOR APRIL 3, 2018.

FILED IN THE OFFICE OF THE SECRETARY OF STATE APRIL 3, 2018.

# Town of Florence

<b>POLICY TITLE:</b> Public Safety Personnel Retirement System- Pension Funding Policy	<b>EFFECTIVE DATE:</b>
<b>RESPONSIBLE DEPARTMENT:</b> FINANCE/HUMAN RESOURCES	<b>AP / RESOLUTION No.:</b>
<b>APPROVAL:</b> TOWN MANAGER                      SIGNATURE: _____ TOWN COUNCIL                      DATE APPROVED:	<b>REFERENCES:</b>

## 1.0 Purpose

To clearly communicate the Town Council’s pension funding objectives and its commitment to our employees and the sound financial management of the Town, and to comply with new A.R.S. 38-863.01.

## 2.0 Scope

This policy impacts each police and fire department employee who is enrolled in or a beneficiary of the Town’s Public Safety Personnel Retirement Systems (PSPRS).

## 3.0 Responsibilities

The Town Council is responsible for communicating its funding objectives to comply with statutory requirements. Town staff will implement the funding objectives.

## 4.0 Policy

The Town Council funding ratio goal is 100% (fully funded) by June 30, 2036, in accordance with the amortization timeline set forth by the PSPRS June 30, 2017 Actuarial Valuation. The Council established this goal for the following reasons:

- The PSPRS trust funds represent only the Town of Florence’s liability
- The fluctuating cost of an UAAL causes strain on the Town’s budget, affecting our ability to provide services
- A fully funded pension is the best way to achieve taxpayer and member intergenerational equity

## 5.0 Procedures

The Town Council will meet this policy by maintaining ARC payment from operating revenues – Council is committed to maintaining the full ARC payment (normal cost and UAAL amortization) from operating funds.

## 6.0 Definitions

**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.

## 7.0 Supplements

Not applicable