

<b>City of Yuma Policy - Finance</b>  <b>Public Safety Personnel Retirement System (PSPRS) Contingency Reserve Funds</b>	<b>Policy Number:</b> [____]	<b>Page</b>
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## 1. PURPOSE

The purpose of this policy is to set forth procedures for managing Contingency Reserve Funds ("CRFs") effectively. The goal of the CRFs is to create a resource that will help the City effectively manage the innate risks of public pension funding, particularly market return risk and actuarial risk, and help the City maintain well-funded Plans.

## 2. DEFINITIONS

- A. Unfunded Actuarial Accrued Liability (UAAL) - Is the difference between a pension fund's assets and projected pension benefit payments promised to employees.
- B. Annual Required Contribution (ARC) - Is the annual amount an employer is required to contribute into a pension fund, 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 estimated cost to cover the unfunded portion of pension benefits earned by employees in the past. Payments towards reducing the UAAL are collected over a period of time referred to as the amortization period. The ARC is often expressed as a percentage of the current payroll.
- C. Funded Ratio - Is the ratio of fund assets to actuarial accrued liability, which is the net present value of projected pension benefits promised to employees.
- D. Police Plan – Is the City's Public Safety Personnel Retirement System (PSPRS) Police Employee Retirement Plan for Participants in Tiers 1 & 2
- E. Fire Plan – Is the City's Public Safety Personnel Retirement System (PSPRS) Fire Employee Retirement Plan for Participants in Tiers 1 & 2
- F. Plans – Are the Police Plan and Fire Plan, collectively.
- G. Contingency Reserve Fund – Is a reserve fund dedicated to helping the City manage its pension liabilities and maintain as near to a 100% PSPRS pension funded ratio as possible despite adverse market and/or actuarial events.
- H. CRFs – Are the Police Plan CRF and the Fire Plan CRF, collectively.

## 3. ESTABLISHMENT OF CRFs

- A. The City establishes the Police Plan CRF in the initial amount of \$6,770,544 to manage ongoing liabilities of the Police Plan. Assets of the Police Plan CRF shall be used to benefit the Police Plan.

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- B. The City establishes the Fire Plan CRF in the initial amount of \$5,229,456 to manage ongoing liabilities of the Fire Plan. Assets of the Fire Plan CRF shall be used to benefit the Fire Plan.
- C. The City intends to contribute a total of \$300,000 to the CRFs in each of FY2022, FY2023, FY2024, FY2025, and FY2026. The City intends to divide such contributions between its Police and Fire Plan CRFs proportionally based on to the Actuarial Accrued Liability of the Plans.
- D. The City intends to utilize the CRFs as a means to maintain, to the greatest extent possible, a 100% funded ratio for each of the Plans.

#### **4. PROCEDURES FOR CRF INVESTMENTS**

- A. The City will manage the CRFs and investments therein. Investments made by the City must comply with (i) the requirements of Arizona Revised Statutes Section 35-323 and any other applicable existing or future state statutes, and (ii) the City's Investment Policy.
- B. Investments in the CRFs shall be principal protected so that the City does not lose value in the deposited amounts.
- C. Assets of the CRFs shall be invested in no more than one-year increments to allow for liquidity in the 1<sup>st</sup> quarter of each calendar year.
- D. Assets of the CRFs shall be invested in liquid and/or short-term products to ensure prompt availability of funds.
- E. None of the above procedures shall limit the City's ability to participate in an irrevocable trust created under Internal Revenue Service Section 115) or any other applicable regulation), nor shall they limit the City's ability to transfer the assets of the CRFs to such an irrevocable trust for the benefit of the Plans and delegate the investment responsibility for assets of the CRFs.

#### **5. PROCEDURES FOR CRF DRAWS**

- A. The City intends to maintain a minimum Police Plan CRF balance of \$6,770,544, and a minimum Fire Plan CRF balance of \$5,229,456. Such amounts may be reevaluated by the City in conjunction with the annual budget, and changed from time to time pursuant to the City's prevailing needs.
- B. The City may draw from a CRF when the investment return for a Plan for the prior fiscal year is below the actuarial rate of return.

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- C. The City may draw from a CRF when there is a revision of the actuarial rate of return, payroll growth assumption, and/or mortality assumptions that serves to increase the liabilities of a Plan.
- D. If a CRF balance rises 20% above the minimum balance and the related plan is fully funded, the City may draw up to 5% of that CRF balance to supplement the City's ARC for the related plan, provided that minimum balance requirements are maintained after any draw pursuant to this section.

## **6. PROCEDURES FOR CRF REPLENISHMENT**

- A. The City will review unspent budget appropriations for PSPRS pension expenditures annually and may consider adding such amounts to one or both CRFs.
- B. If the balance of a CRF falls below the minimum balance, the City will, to the best of its ability, prioritize making replenishments over a five year period to restore the minimum balance.

## **7. SIZING OF CRF**

- A. The City will evaluate its CRFs at least every five years to determine whether the size of the reserve is adequate and whether additional policies should be considered to ensure usefulness of the CRFs.

## **8. PROCEDURES TO DISSOLVE CRF**

- A. Upon the repayment of the final debt service payment for the Obligations (including any related refinancing obligations), staff will seek City Council direction to dissolve or maintain the CRF. At such time, the City may dissolve the CRF and apply the remaining balance of funds to other retiree benefits, other post-employment benefits (OPEB), annual required contributions or the General Fund.
- B. If the City transfers the assets of the CRFs to a Section 115 trust or other irrevocable trust for the benefit of the Plans and with similar goals of these policies, reducing assets of the CRFs to zero and rendering the CRFs obsolete, the CRFs may be dissolved.

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**SIGNATURE:**

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Douglas J. Nicholls  
Mayor

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Date