

City of R2024-028 - 2. POLICY PSPRS Funding Policy 2025

Public Safety Personnel Retirement System

Funding Policy FY 2025

The intent of this policy is to clearly communicate the City Council's pension funding objectives, City Council's commitment to Public Safety employees, and the sound financial management of the City in compliance with the 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.

Public Safety Personnel Retirement System (PSPRS)

The City's police and fire employees who are regularly assigned hazardous duty participate in the 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 R2024-028 - 2. POLICY PSPRS Funding Policy 2025 has two trust funds, one for police employees and one for fire employees.

City 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 (Asset) | Funded Ratio |
|---|---------------|--------------------------|---|---------------------|
| R2024-028 - 2. POLICY PSPRS Funding Policy 2025 | | | | |
| Police | \$141,280,040 | \$145,950,767 | \$4,670,727 | 96.8% |
| Yuma Fire | \$114,959,633 | \$119,902,368 | \$4,942,735 | 95.9% |

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.

FUNDING RATIO GOAL IS FULLY FUNDED (100%) IN ADVANCE OF JUNE 30, 2036

City Council established this goal for the following reasons:

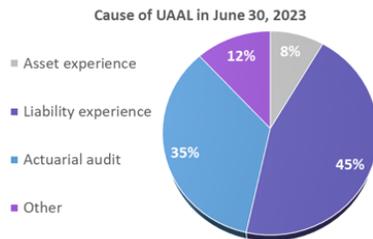
- The PSPRS trust funds represent only the City of R2024-028 - 2. POLICY PSPRS Funding Policy 2025's liability
- The fluctuating cost of an UAAL causes strain on the City's budget, affecting the City's ability to provide services
- A fully funded pension is the best way to achieve taxpayer and member intergenerational equity

The Yuma City Council has taken the following actions to achieve this goal:

- Maintain the Annual Required Contribution (ARC) payment from operating revenues – Council is committed to maintaining the full ARC payment (normal cost and UAAL amortization) from operating funds annually without diminishing City services.
- Additional payments above the ARC:
 - The Mayor and City Council declared resolution of the PSPRS unfunded liability a priority.
 - On February 19, 2021, the City issued \$159,475,000 in taxable pledged revenue bonds to pay the balance of the PSPRS unfunded liability and establish a reserve account designated to maintain a fully funded PSPRS.
 - In July 2021 (FY 2022), the City fully (100%) paid the estimated PSPRS UAAL.

CHANGE IN CONDITIONS

Due to a change in several actuarial conditions in the Actuarial Valuation year ended June 30, 2023, the City's funded ratio has eroded below 100%. The graph below shows that categories causing the lower ratios and the chart provides a historical perspective of the City's funded ratios.



| Actuarial Valuation as of, | Funded Ratio | | UAAL (Asset) |
|-------------------------------|--------------|--------|-----------------|
| | Police | Fire | |
| June 30 , 2023 | 96.8% | 95.9% | \$ 9,613,462 |
| June 30 , 2022 | 100.1% | 100.1% | (261,321) |
| June 30 , 2021 | 60.1% | 58.5% | 96,963,018 |
| June 30 , 2020 | 43.6% | 41.2% | 132,247,364 |
| June 30 , 2019 | 44.2% | 41.4% | 123,241,689 |

CONTINUED COMMITMENT

City Management will provide options for City Council consideration when the June 30, 2024, Actuarial Valuation is available in Q3/Q4 FY 2025. Budget authority to pay the UAAL is in FY 2025 and can be executed if that is City Council's chosen course of action. The funding source will most likely need to be exempt from the expenditure limitation unless sufficient expenditure limitation capacity is available in Q3/Q4 FY 2025.