

City of R2025-071 - 2. POLICY PSPRS Funding Policy 2026

Public Safety Personnel Retirement System

Funding Policy FY 2026

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 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 R2025-071 - 2. POLICY PSPRS Funding Policy 2026 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, 2024 actuarial valuation, which are detailed below.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Liability (Asset)	Accrued AAL Funded Ratio
R2025-071 - 2. POLICY PSPRS Funding Policy 2026				
Police	\$144,718,258	\$152,883,613	\$8,165,355	94.7%
Yuma Fire	\$119,181,465	\$123,924,997	\$4,743,532	96.2%

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:

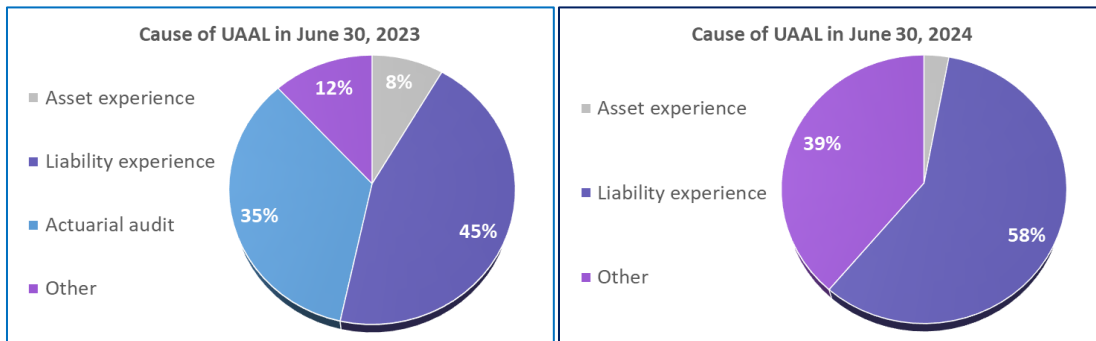
- The PSPRS trust funds represent only the City of Yuma's liability
- The fluctuating cost of an UAAL causes strain on the City's budget, affecting the City's ability to provide services
- A fully funded pension is the best way to achieve taxpayer and member intergenerational equity

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 FY 2023 and FY 2024, the City's funded ratio has eroded below 100%. The graphs shows the causes of the unfavorable changes.



Excerpts from the PSPRS Actuarial report:

Asset experience: On a smoothed basis, “returns nearly met the assumed earnings rate”.

Liability experience: “overall was unfavorable, driven by salary increases that were higher than expected”. Assumption change, “the Board continued the decrease in payroll growth assumption from 2.0% to 1.5%.”

Actuarial audit: “independent actuarial audit was performed” audits results were implemented in the 2023 valuation.

Other: “combination of all other factors that could impact liabilities year-over-year, with the primary sources being changes in benefits.”

Looking forward: volatility in returns is dampened by smoothing; if based on market value, the funded ratio would be 95.0% instead of 96.8%.

Conclusion: “improve if assumptions are met **and** contributions at least equal to the rates” in City’s report.

The chart below provides a historical perspective of the City’s funded ratios and balance in the cash reserve at fiscal year-end.

ANNUAL ACTUARIAL VALUATION REPORTS				CASH RESERVE FOR THE UAAL INVESTED IN LGIP			
Actuarial Valuation as	Funded Ratio		UAAL (Asset)	LGIP Balance at	Amount in LGIP		Total
	Police	Fire			Police	Fire	
June 30 , 2024	95%	96%	\$12,908,887	June 30 , 2024	\$7,990,868	\$6,172,380	\$14,163,248
June 30 , 2023	97%	96%	9,613,462	June 30 , 2023	7,405,219	5,719,902	13,125,121
June 30 , 2022	100%	100%	(261,321)	June 30 , 2022	6,957,810	5,374,210	12,332,020
June 30 , 2021	60%	59%	96,963,018				
June 30 , 2020	44%	41%	132,247,364				
June 30 , 2019	44%	41%	123,241,689				

CONTINUED COMMITMENT

City Management will provide options for City Council consideration when the June 30, 2025, Actuarial Valuation is available in Q3/Q4 FY 2026. Budget authority to pay down the UAAL is in FY 2026 and reduce FY 2027 payroll contributions. Funding source(s) to pay the UAAL will need to be excluded from the expenditure limitation.