

**RESOLUTION # 2019-49**

**A RESOLUTION OF THE MAYOR AND COUNCIL OF THE CITY OF SURPRISE, ARIZONA ADOPTING THE PUBLIC SAFETY PENSION FUNDING POLICY FOR FISCAL YEAR 2020.**

**WHEREAS**, the addition of Arizona Revised Statute § 38-863.01 requires that each governing body adopt a Public Safety Retirement System (PSPRS) pension funding policy establishing the objectives to maintain financial stability, achieve funding requirements, defining the timeline for reaching the targeted funded ratio, and formally accepting the assets and liabilities as detailed in the most recently available annual actuarial report;

**WHEREAS**, the City of Surprise affirms that establishing sound financial policies contributes to the prudent management of the City's financial affairs and wishes to comply with the requirements of Arizona Revised Statute § 38-863.01;

**NOW, THEREFORE, BE IT RESOLVED** by the Mayor and Council of the City of Surprise, Arizona, as follows.


**Section 1.** The Fiscal Year 2020 Public Safety Pension Funding Policy set forth in *Exhibit A* attached hereto and incorporated by reference herein is adopted.

**Section 2.** The Finance Director is hereby authorized and directed to take the appropriate steps to incorporate the Public Safety Pension Funding Policy of the City of Surprise and disseminate the policy as necessary.


**APPROVED AND ADOPTED** this 4<sup>th</sup> day of June, 2019.

  
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Skip Hall, Mayor


Attest:

  
\_\_\_\_\_  
Sherry Aguilar, City Clerk

Approved as to form:

  
\_\_\_\_\_  
Robert Wingo, City Attorney

## EXHIBIT A

 <p><b>SURPRISE</b> ARIZONA</p>		<p><b>Standard Operating Procedure</b></p> <p><b>PUBLIC SAFETY PENSION FUNDING</b></p>	
<b>PROCESS: Funding Ratio Goals for the City's Public Safety Pension Funds</b>			
<b>POLICY REFERENCE:</b> <a href="#">Arizona Revised Statutes (A.R.S.) § 38-863.01</a>			
<b>ISSUE DATE:</b> June 4, 2019	<b>LAST AMENDED DATE:</b> N/A	<b>EFFECTIVE DATE:</b> July 1, 2019	
<b>FINANCE DIRECTOR APPROVAL:</b>			

**GENERALLY**

Qualifying City of Surprise police and fire-medical employees participate in the Public Safety Personnel Retirement System (PSPRS). PSPRS is administered as an agent multiple-employer pension plan and health insurance premium benefit known as an OPEB. 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 Surprise has two trust funds, one for police employees and one for fire-medical employees.

**PURPOSE**

The intent of this document is to demonstrate the Surprise City Council's commitment to clearly communicate pension funding objectives, prudently manage the City's financial resources, and comply with new statutory requirements of Laws 2018, Chapter 112. This document will be reviewed and approved by City Council on an annual basis.

**DEFINITIONS**

*Unfunded Actuarial Accrued Liability (UAAL)* – 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)* – 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* – 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.

**POLICY**

1. City Council formally accepts by Resolution 2019-49 the assets, liabilities, and current funding ratio of the City's PSPRS trust funds from the June 30, 2018 actuarial valuation, which are detailed below.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Surprise Police	\$40,576,043	\$65,680,544	\$25,104,501	61.8%
Surprise Fire	\$44,040,428	\$55,772,934	\$11,732,506	79.0%
<u>City of Surprise Totals</u>	<u>\$84,616,471</u>	<u>\$121,453,478</u>	<u>\$36,837,007</u>	<u>69.7%</u>

2. PSPRS Funding Goal

- A. The City Council's PSPRS funding ratio goal is 100% (fully funded) by June 30, 2036. City Council has established this goal for the following reasons:
  - i. The PSPRS trust funds represent only the City of Surprise's liability.
  - ii. A fully funded pension is the best way to achieve taxpayer and member intergenerational equity.

**PROCEDURES**

1. City Council plans to take the following actions to achieve this goal:
  - A. Maintain full Annual Required Contribution (ARC) payment (normal cost and Unfunded Actuarial Accrued Liability (UAAL) amortization) from operating funds. The estimated combined ARC for FY2020 is \$6,226,353.
  - B. Fund the fiscal year annual pension cost at the beginning of each fiscal year with the budgeted contribution amounts as estimated based on actuarial reports.
    - i. The budgeted contribution amount will be based on the highest potential cost assuming that each qualifying position participating in PSPRS is fully staffed.

- ii. If, during the course of the year, the required contribution amount exceeds the original budgeted amount, the City will contribute the additional funds on a per pay period basis to meet its funding obligations.
- C. The City Council plans to achieve its goal of 100% funding by June 30, 2036, in accordance with the amortization timeline set forth by the PSPRS June 30, 2018 Actuarial Valuation.
- D. Finance Department staff will provide an annual update on the financial position of the PSPRS trust funds to City Council.