

RESOLUTION NO. 2022-15

A RESOLUTION OF THE MAYOR AND COUNCIL OF THE TOWN OF PARADISE VALLEY, ARIZONA, ADOPTING THE REQUIRED ANNUAL PENSION FUNDING POLICY.

WHEREAS, the provisions of Title 38, Chapter 863.01, Article 4, Arizona Revised Statutes (A.R.S.), require all local agencies (counties, cities, towns and special districts) that participate in the Public Safety Personnel Retirement System (“PSPRS”) to annually, beginning on or before July 1, 2019, adopt and post a pension funding policy for public safety employees participating in the Public Safety Personnel Retirement System (“PSPRS”) who were hired before July 1, 2017; and

WHEREAS, the PSPRS administers an agent multiple-employer pension plan where each local agency participating in the plan has an individual trust fund to account for that local agency’s assets and liabilities that each local agency is responsible for, including paying any Unfunded Actuarial Accrued Liability (“UAAL”); and

WHEREAS, the UAAL is the difference between trust assets and the estimated future costs of pensions earned by employees resulting from actual results (including interest earnings, member mortality, disability rates, etc.) being different from the assumptions used in previous actuarial valuations; and

WHEREAS, the Mayor and Council of the Town of Paradise Valley (the “Town Council”) adopted Resolution 2016-19 established paying the Town’s PSPRS unfunded liability as a priority and implemented an aggressive schedule to pay it as quickly as reasonably possible as part of the Town’s financial planning and annual budget process; and

WHEREAS, the Town Council has expedited the payment of the unfunded liability by bringing and holding the PSPRS funded ratio to no less than 90% and no more than 110%; and

WHEREAS, the Town Council desires to adopt the required annual policy (the “Pension Funding Policy”) in the form attached hereto as Exhibit A and to affirm the direction set forth in Resolution 2016-19 by expediting the payment of the unfunded liability by bringing and holding the PSPRS funded ratio to no less than 90% and no more than 110%.

NOW, THEREFORE, BE IT RESOLVED by the Mayor and Common Council of the Town of Paradise Valley, Arizona, as follows:

SECTION 1. The recitals above are hereby incorporated as if fully set forth herein.

SECTION 2. The FY 2022-2023 Pension Funding Policy is hereby adopted in substantially the form attached hereto as Exhibit A and incorporated herein by reference.

SECTION 3. The Mayor, the Town Manager, the Chief Financial Officer, the Town Clerk and the Town Attorney are hereby authorized and directed to take all steps necessary to carry out the purpose and intent of this Resolution.

PASSED AND ADOPTED by the Mayor and Council of the Town of Paradise Valley, Arizona this 9th day of June, 2022.

Jerry Bien-Willner, Mayor

ATTEST:

Duncan Miller, Town Clerk

APPROVED AS TO FORM:

Andrew J. McGuire, Town Attorney

EXHIBIT A
TO
RESOLUTION NO. 2022-15

[FY 2022-2023 Pension Funding Policy]

See following pages.

Town of Paradise Valley Public Safety Personnel Retirement System Pension Funding Policy

The intent of this policy is to clearly communicate the Council's pension funding objectives and its commitment to our employees and the sound financial management of the Town and to comply with statutory requirements of Title 38, Chapter 863.01, Article 4, Arizona Revised Statutes (A.R.S.).

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) – The annual amount the Town is required to pay into the pension funds, as determined through annual actuarial valuations. This value 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 – Ratio of fund assets to actuarial accrued liability, expressed as a percentage. A funded ratio of 100% represents a fully funded plan.

Intergenerational equity – Ensures no generation of taxpayer is burdened by substantially more or less pension costs than past or future generations.

The Town's police employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS).

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 economies of scale for more cost-efficient investments, and to invest those assets for the benefit of all members under its administration and 2) to 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 Town of Paradise Valley has one trust fund for police employees.

Council formally accepts the assets, liabilities, and current funding ratio of the Town's PSPRS trust funds from the June 30, 2021, actuarial valuation, which are detailed below.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Paradise Valley Police	\$38,272,772	\$41,776,197	\$3,503,425	91.7%

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 and future taxpayers. Fully funded pension plans are the best way to achieve taxpayer and member intergenerational equity.

The Council's PSPRS funding ratio goal is 100% (fully funded) by June 30, 2036. Council established this goal for the following reasons:

- the PSPRS trust funds represent only the Town of Paradise Valley's liability,
- the cost of a fluctuating UAAL causes strain on the budget, affecting the Town's ability to provide services; and
- a fully funded pension is the best way to achieve taxpayer and member intergenerational equity.

Council has taken the following actions to achieve this goal:

- Maintain 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 Town services.
- Council Resolution 2016-19 declared the expedient resolution of the PSPRS unfunded liability a priority
- The Town Council has achieved a funded ratio of 90% and intends to maintain a funded ratio of no less than 90% and not to exceed 110%.

Based on these actions the 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, 2019, Actuarial Valuation.