

TOWN *Of* **PARADISE VALLEY**



STAFF REPORT

TO: Mayor Bien-Willner and Town Council Members

FROM: Jill Keimach, Town Manager
Douglas Allen, CFO

DATE: April 8, 2021

AGENDA TITLE:

Discussion and Possible Direction Regarding Information in the Monthly Financial Update No. 6 for April 2021, Including Revenue Estimates and Personnel Cost Factors for FY2021/22; and the Public Safety Personnel Retirement System ("PSPRS") and the Unfunded Actuarial Accrued Liability ("UAAL") for FY2020/21.

SUMMARY STATEMENT:

Included in the Monthly Financial Update for April 2021 are three topics.

In preparation for the FY2021/22 Budget:

- 1) Review of the initial revenue estimates based on actual revenues through January 2021
- 2) Review of personnel cost factors including salaries and benefits

For the current year FY2020/21:

- 3) Discussion on financing the Unfunded Actuarial Accrued Liability ("UAAL") in the Public Safety Personnel Retirement System ("PSPRS").

The Mayor, Vice Mayor and Town Council will be asked for direction in each of these topics.

1) REVENUE ESTIMATES FY2021/22

The Mayor, Vice Mayor, Council, Town Management and staff have:

- ▶ Been actively involved and monitoring revenues with monthly updates throughout the course of the year
- ▶ Remained flexible, adaptive, patient and ready to transition budget priorities as necessitated by revenue and economic conditions
- ▶ Been cautious not to over extend the Town and risk the need to pull back on programs or service commitments, unless warranted to mitigate an unforeseen economic crisis.

Over the course of fiscal year 2020/21, the Town prioritized expenditures and eased into programs as service demands warranted and revenues sufficiently rebounded. The Town's current revenue rebound trend is nearing FY2018 levels, contingent on another economic down turn.

Though revenues received through January are lower than last fiscal year, they are trending at a level the Town had planned and has been prepared for. There is compelling data to recommend any mitigating actions at this time.

Looking forward 15 months to June 30, 2022 continues to be less routine and much more of a challenge than recent years prior to this pandemic.

The next 3-6 months will be a leading indicator for economic optimism for the FY2021/22 and revenues will continue to be monitored closely. The recommended FY2021/22 budget is estimating base revenues at a 2018 level but is also prepared to mitigate a crisis as necessary.

Management will continue to update Council on revenues and provide notice if any revenue trend or risk indicator signals a materially adverse impact to the Town's financial condition.

Key Question #1:

Does Council have any reservations or feedback for Management about continuing revenue outlook at near FY2018 levels for formulating the FY2022 Budget; that includes contingencies if revenues rebound or retract?

2) PERSONNEL COSTS FACTORS FY2021/22

One of the primary factors in developing a budget are solid personnel costs. This section will include reviewing changes in:

- Insurance and Non-retirement benefits
 - Dental and life insurance
 - Liability insurance
 - Medical insurance
- Factors, Assertions and Compensation
 - Standard work hours in the fiscal year
 - Retirement plan rates
 - Merit increases
 - HR studies (carried forward from prior years)

Cost estimates and analysis are provided with the following assertions:

- Data for this analysis is based on the “status quo structure” for staffing to be included in the FY2022 recommended budget.
- It is not budget-to-budget as open enrollment and turnover shifts plan participation counts during the year
- “Staffing” includes new positions that will be discussed April 22nd and *recommended* to start FY2022 in the department budgets.
- “Staffing” does not include new positions that will be discussed April 22nd and *recommended* to be designated as “Priority 3”; not in the department budgets until certain service demands and criteria are realized.

Key Question #2:

Is Council inclined for Management to continue moving budget preparations forward using the personnel recommendations as presented?

Key Question #3:

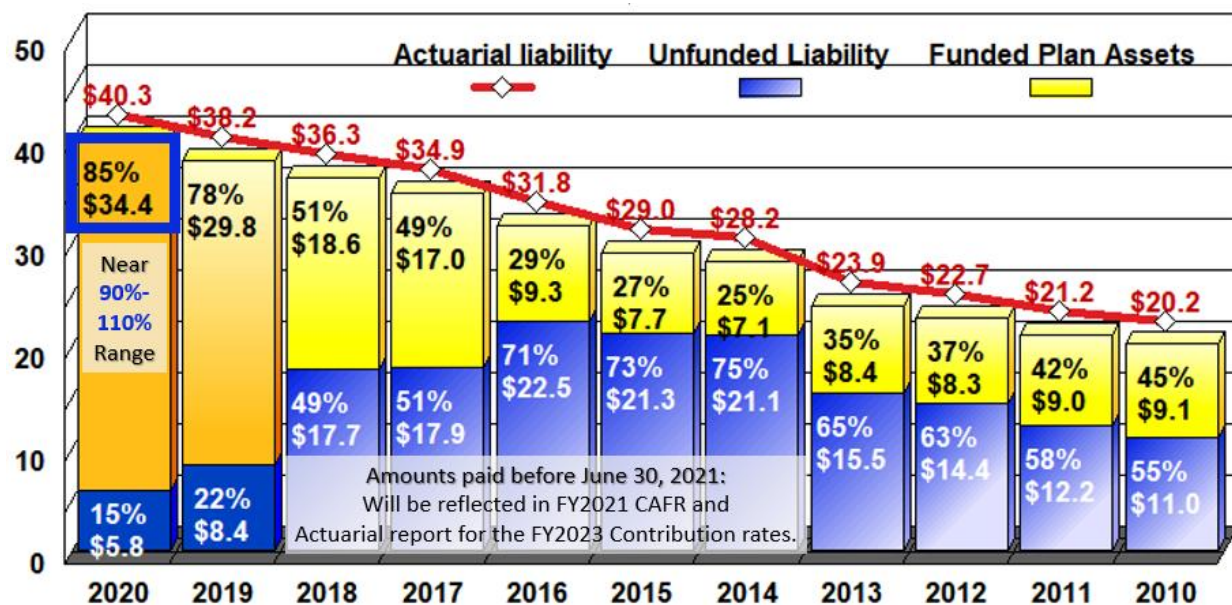
Are there any other data points or analysis that Council would like to see in upcoming budget sessions regarding personnel?

3) Public Safety Personnel Retirement System - Unfunded Liability FY2020/21

One of the Mayor and Council's goals has been to pay down the Public Safety Personnel Retirement System ("PSPRS") unfunded liability as quickly as possible. With the sudden drop in revenue in March of 2020, all Town expenditures were paused and prioritized based on core services to the Town and availability of revenue. As the Town's revenues rebounded, the Town has eased back into programs including continuing payments toward the PSPRS unfunded liability.

Funding for the PSPRS unfunded liability has been authorized by Council for FY2021 and funded by carry-forward cash from FY2020 and easing back into priorities in FY2021.

Town Council has tremendously improved the PSPRS funded ratio from 25% in FY2014 to 85% in FY2020. This was primarily accomplished by strategically timing \$18,000,000 lump sum cash payments over the last 4 years.



Lowering of the unfunded liability has brought the mandatory "*unfunded liability contribution rate*" down from 60.1% to 14.8% of payroll. The Town has no control over the "*normal base rate*".

PSPRS Actuarial Year	Actual	Town Fiscal Year Date 20xx (PSPRS Actuarial Measurement Date 20xx)								
Is two years arrears	22(20)	21(19)	20(18)	19(17)	18(16)	17(15)	16(14)	15(13)	14(12)	13(11)
Normal base rate	16.0%	17.5%	15.1%	14.7%	15.0%	11.0%	11.7%	11.9%	12.4%	13.2%
Unfunded liability rate	14.8%	21.4%	42.9%	44.5%	52.2%	59.2%	60.1%	48.5%	37.8%	35.8%
Total contribution rate	30.8%	38.9%	58.0%	59.2%	67.2%	70.2%	71.8%	60.4%	50.2%	49.0%

By lowering the mandatory “*unfunded liability contribution rates*” the Town has realized over \$2,800,000 in budgetary savings over the last 4 fiscal years. This was extremely beneficial in navigating costs and balancing the FY2021 budget through the pandemic.

Lump Sum Payment		PSPRS UAAL Rate		Estimated PAYROLL Savings from Lower UAAL Rate by Fiscal Year				
Made in	Amount of	Impacted	Rate	FY2021/22	FY2020/21	FY2019/20	FY2018/19	Total
FY2016/17	\$ 5,000,000	FY2018/19	44.5%	\$ 261,031	\$ 260,957	\$ 249,045	\$ 220,991	\$ 992,024
FY2017/18	1,000,000	FY2019/20	42.9%	67,800	67,239	64,691	-	199,730
FY2018/19	9,000,000	FY2020/21	21.4%	715,293	709,373	-	-	1,424,666
FY2019/20	3,000,000	FY2021/22	14.8%	223,741	-	-	-	223,741
Total	\$ 18,000,000	FY2017/18	52.2%	\$1,267,865	\$1,037,569	\$ 313,736	\$ 220,991	\$2,840,161

The current “*funded ratio*” in the PSPRS is 85.5%. The chart below shows the impacts on the Town’s PSPRS funded ratio after various cash payments. *This presumes that all actuarial factors have and will remain constant.*

Impacts of Cash Payment for the Unfunded Liability *				
Payment Amount	Total Liability	Funded Liability	Unfunded Liability	Funded Ratio
\$ -	\$ 40,258,826	\$ 34,417,938	\$ 5,840,888	85.5%
1,800,000	40,258,826	36,217,938	4,040,888	90.0%
2,840,000	40,258,826	37,257,938	3,000,888	92.5%
3,840,000	40,258,826	38,257,938	2,000,888	95.0%
5,840,000	40,258,826	40,257,938	888	100.0%
* Presumes all actuarial factors remain constant				

Factors for consideration:

- Economic outlook
- 5-star reimbursements (hedged with private placement proceeds)
- Funding ratios < 100% allows investments to grow to 100% over time
- Prefunding contributes to additional investment earnings
- Summer work group included funding level policy and investment options
- Previous Council discussion of maintaining a 90-110%
- Minimum contribution rate amortizes UAAL through 2036
- Regardless of funded ratio, there is no mechanism to pull back paid to PSPRS
- Timing of payments

Key Question #4 Prefunding

Does Council have any reservations with staff continuing to use the PSPRS contribution pre-funding program(s)?

Key Question #5 Timing of Payment

Would Council like to make payments in FY2021 or defer to FY2022?

If in FY2021, when would Council like payments made?

Key Question #6 Amount of Unfunded Liability Payment for FY2021

Council has tremendously improved the PSPRS funded ratio from 25% in FY2014 to 85% in FY2020; and in light of the data revisited today and new direction of PSPRS:

What PSPRS funded ratio would Council like to meet in FY2021 with a possibly contributing a lump sum cash payment before the end of the fiscal year?

Key Question #7 Additional Information:

Is there any further information Council would like to see with the upcoming budget sessions or in the fall of 2021?

The attached Presentation includes more detail and staff recommendations to these PSPRS questions on slides 43-45.

ATTACHMENT(S):

Presentation