

# **MONTHLY FINANCIAL UPDATE NO. 6 APRIL 2021**



**FY2021/22  
Revenue Estimates  
Personnel Cost Factors**

**FY2020/21  
PSPRS UAAL**

**April 8<sup>th</sup>, 2021**

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# REVENUE



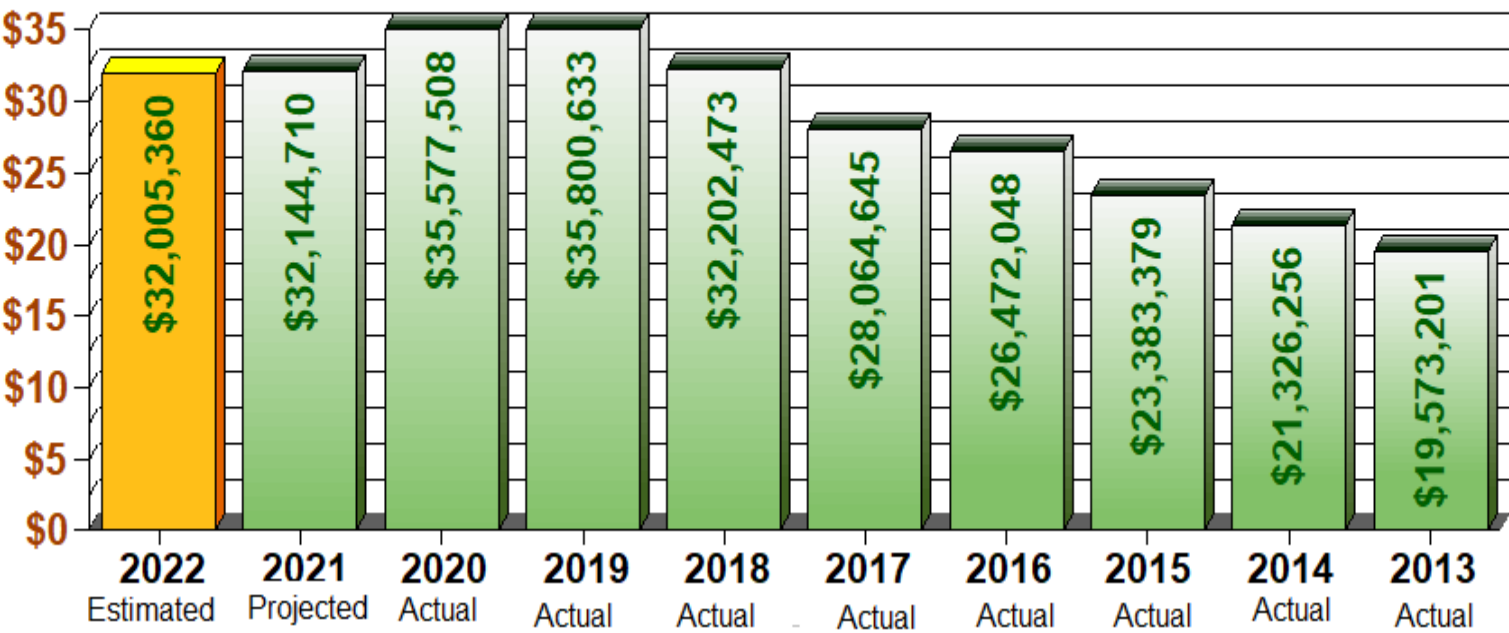
## Key Question:

**#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?**

Total All Operating Fund Revenues

OPERATING FUND REVENUES

(in millions)



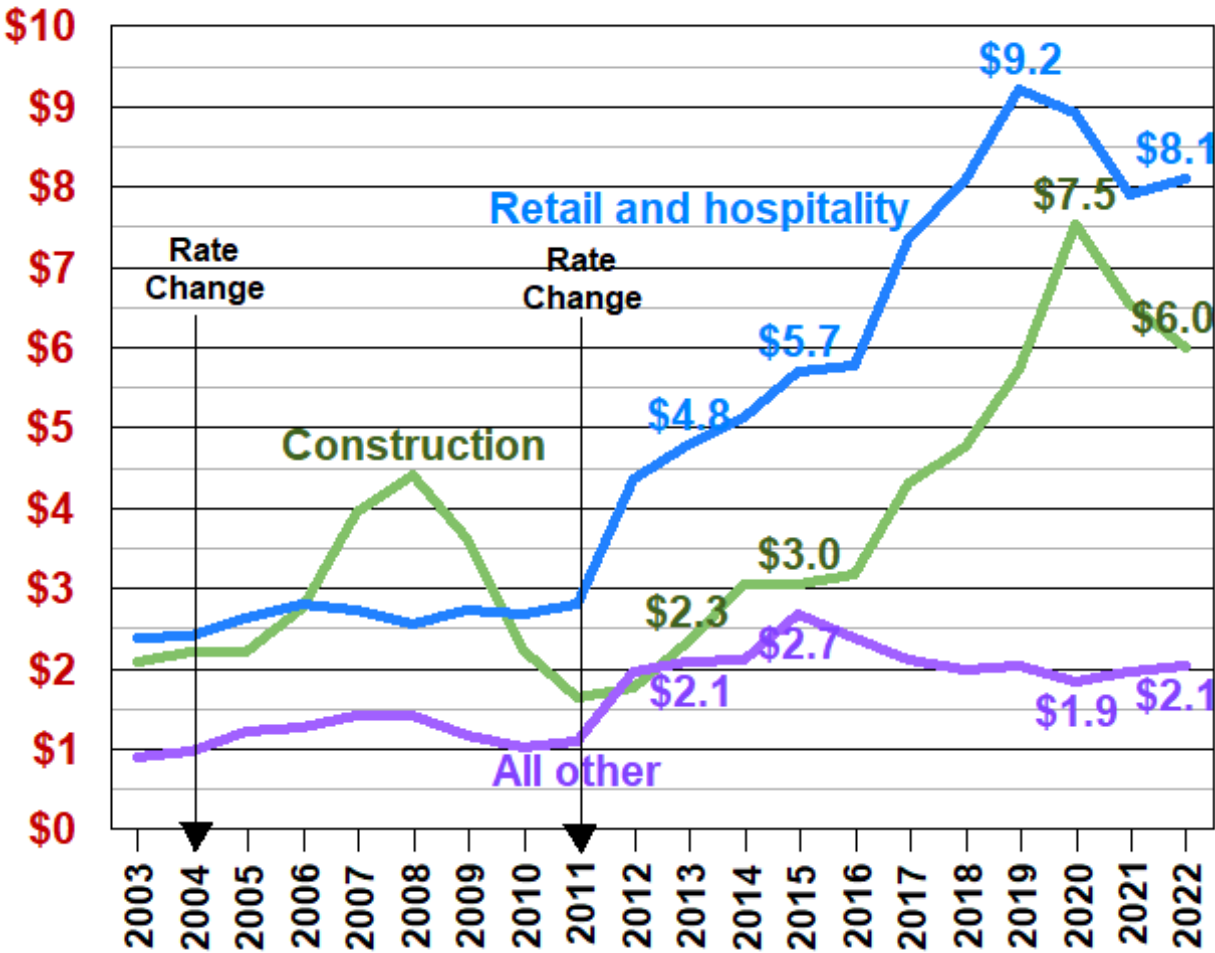
The Mayor, Vice Mayor, Council, Town Management and staff have:

- ▶ 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.

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

Transaction Privilege (“Sales”) Tax



(All amounts are in Millions)

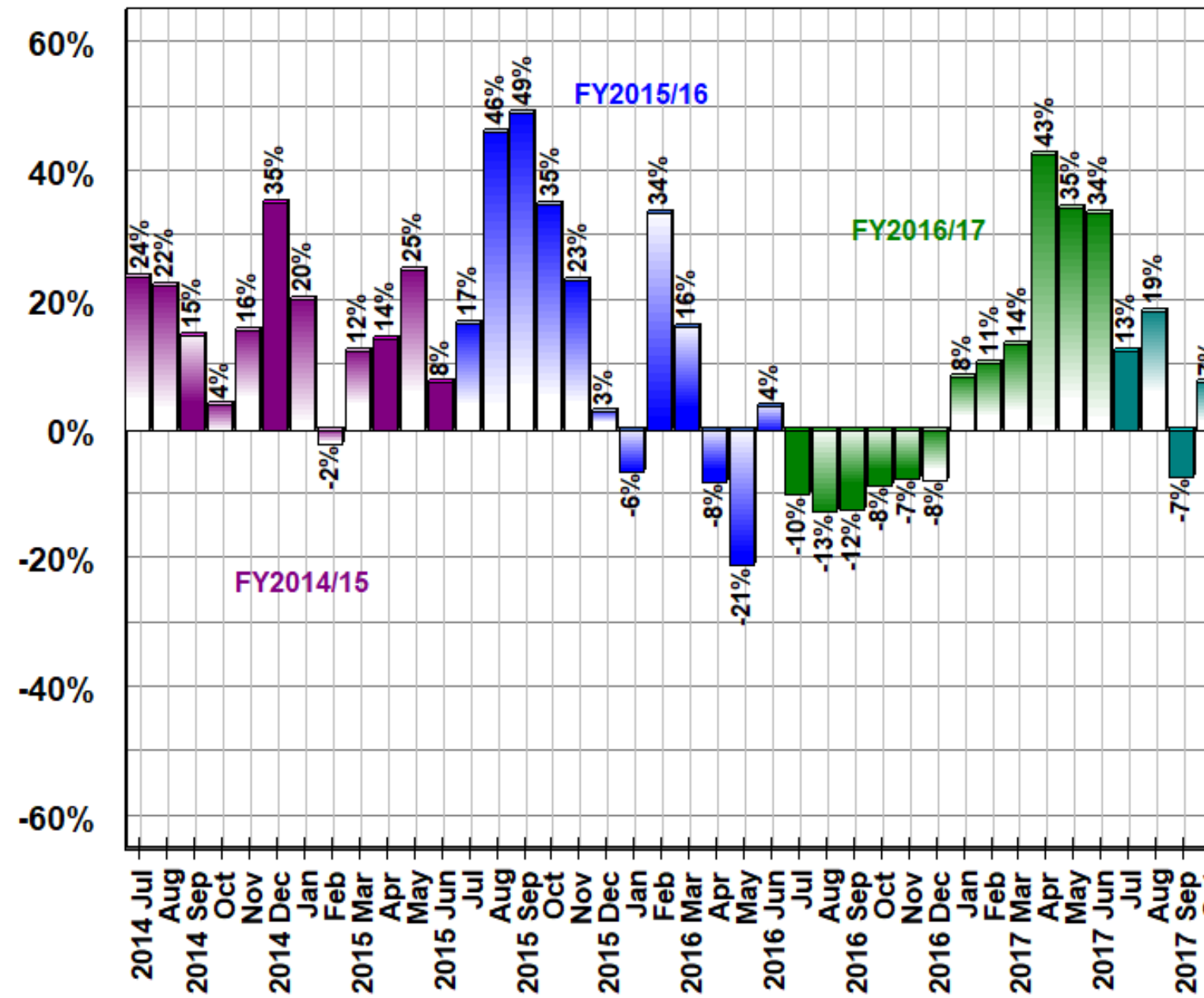
The next 3-6 months will be a leading indicator for economic optimism for the FY2021/22 and revenues will continue to be monitored closely. The recommended FY2021/22 budget is estimating base revenues at a 2018 level, but is also prepared to mitigate a crisis as necessary.

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.



# Revenues

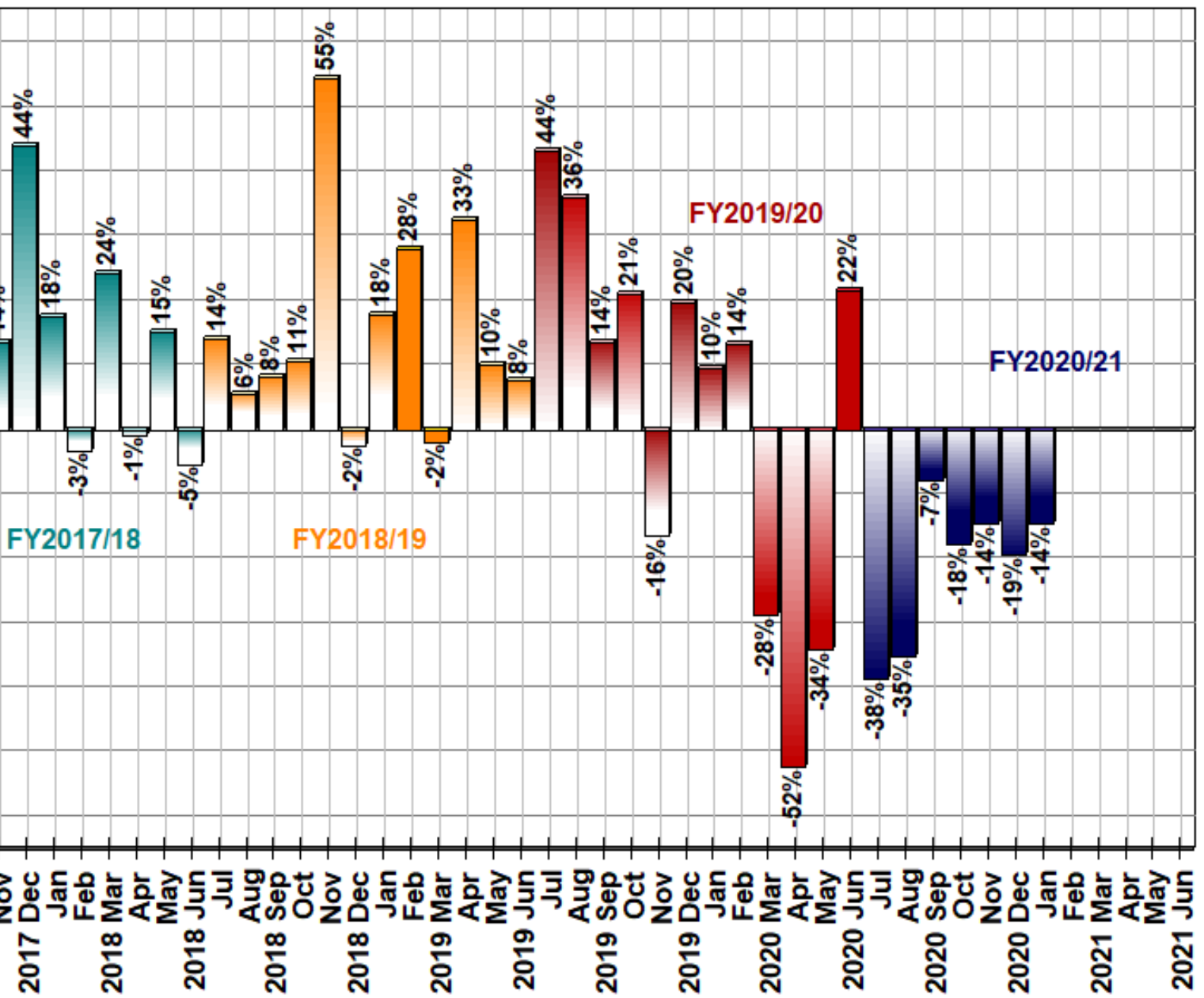
Change in Monthly Collections



(All amounts are in Millions)

# Operating Fund Revenues

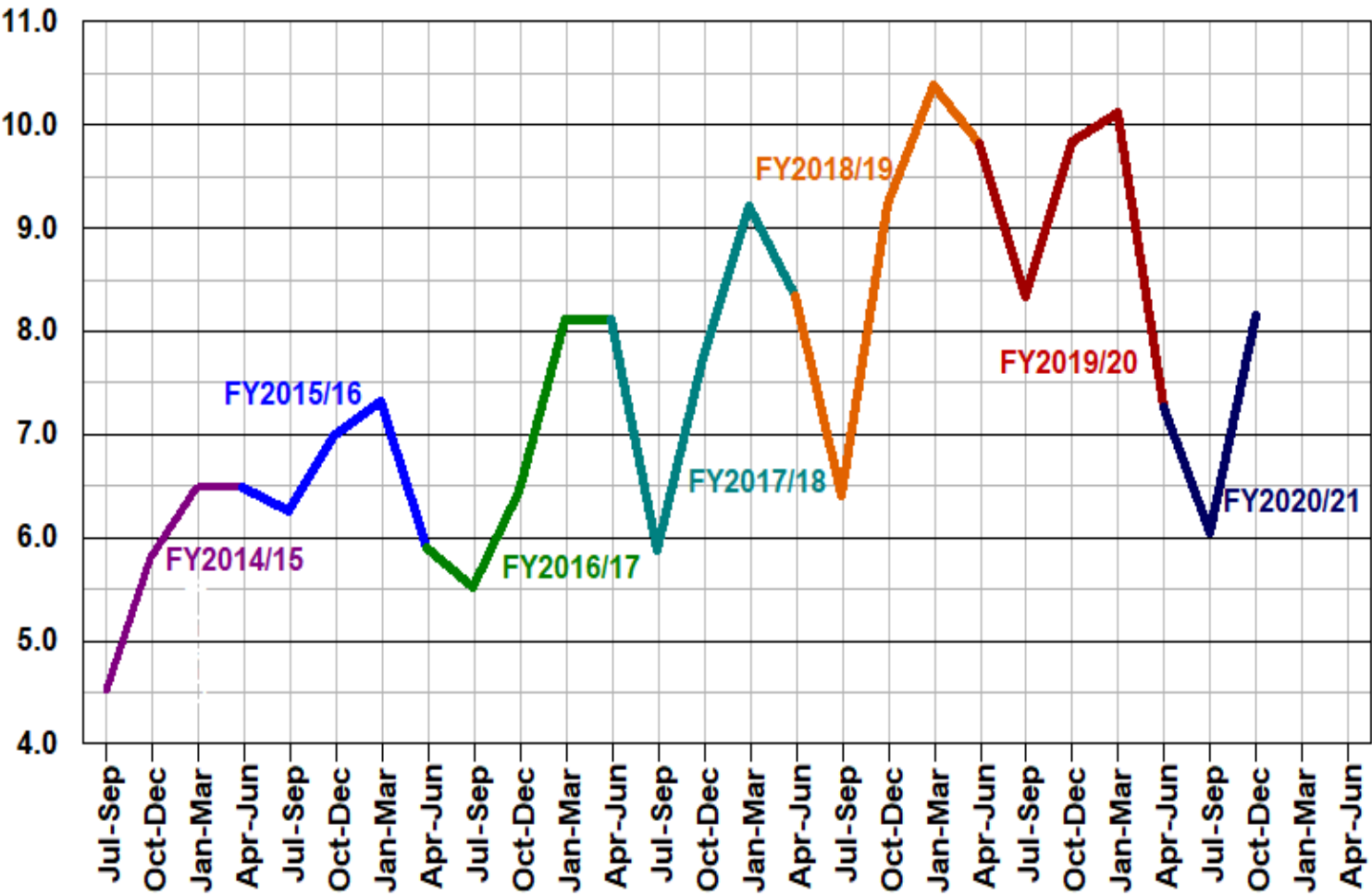
Year-to-Year Change from Previous Year



(All amounts are in Millions)

# Revenues

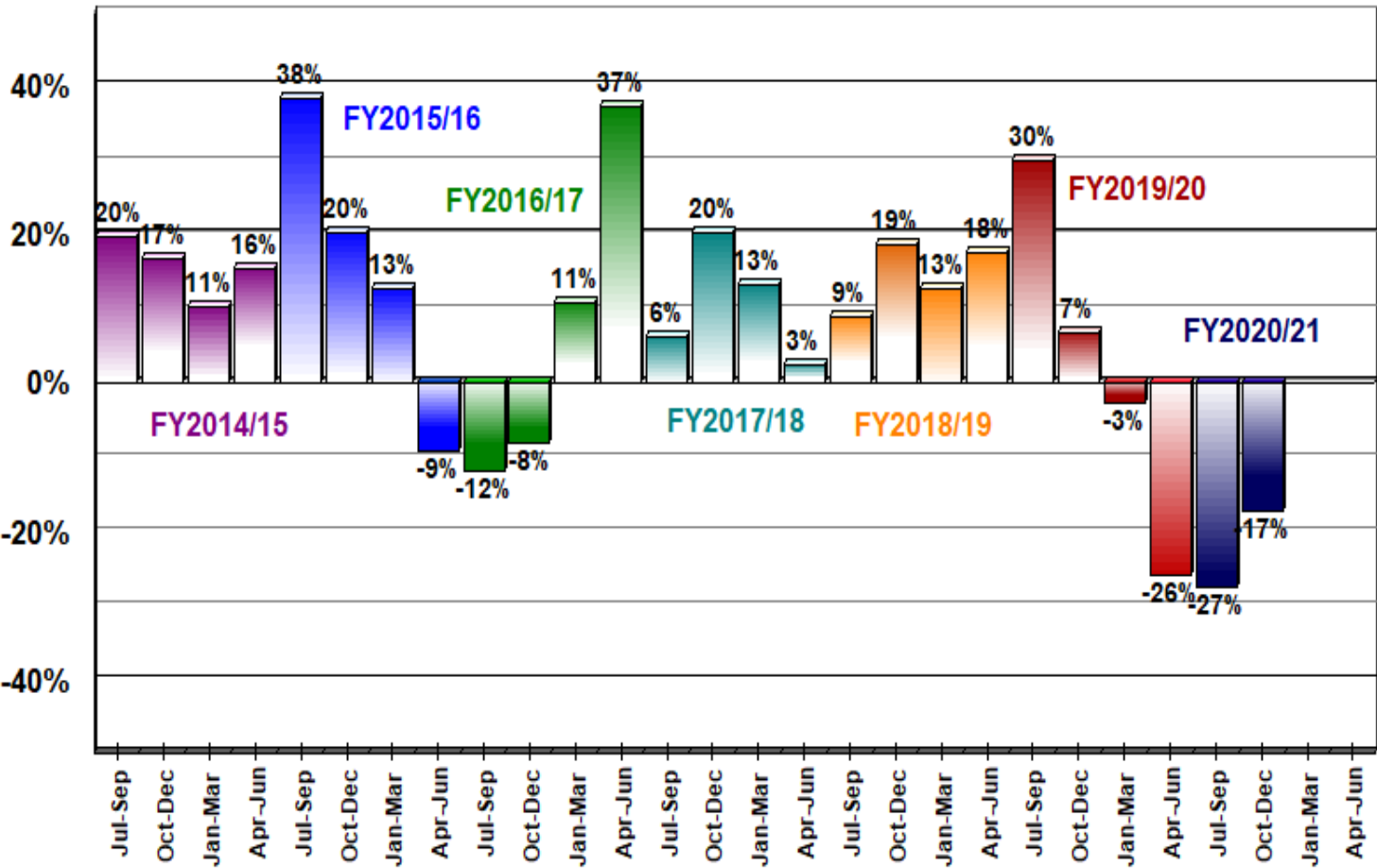
Actual Quarterly Collections



(All amounts are in Millions)

# Operating Fund Revenues

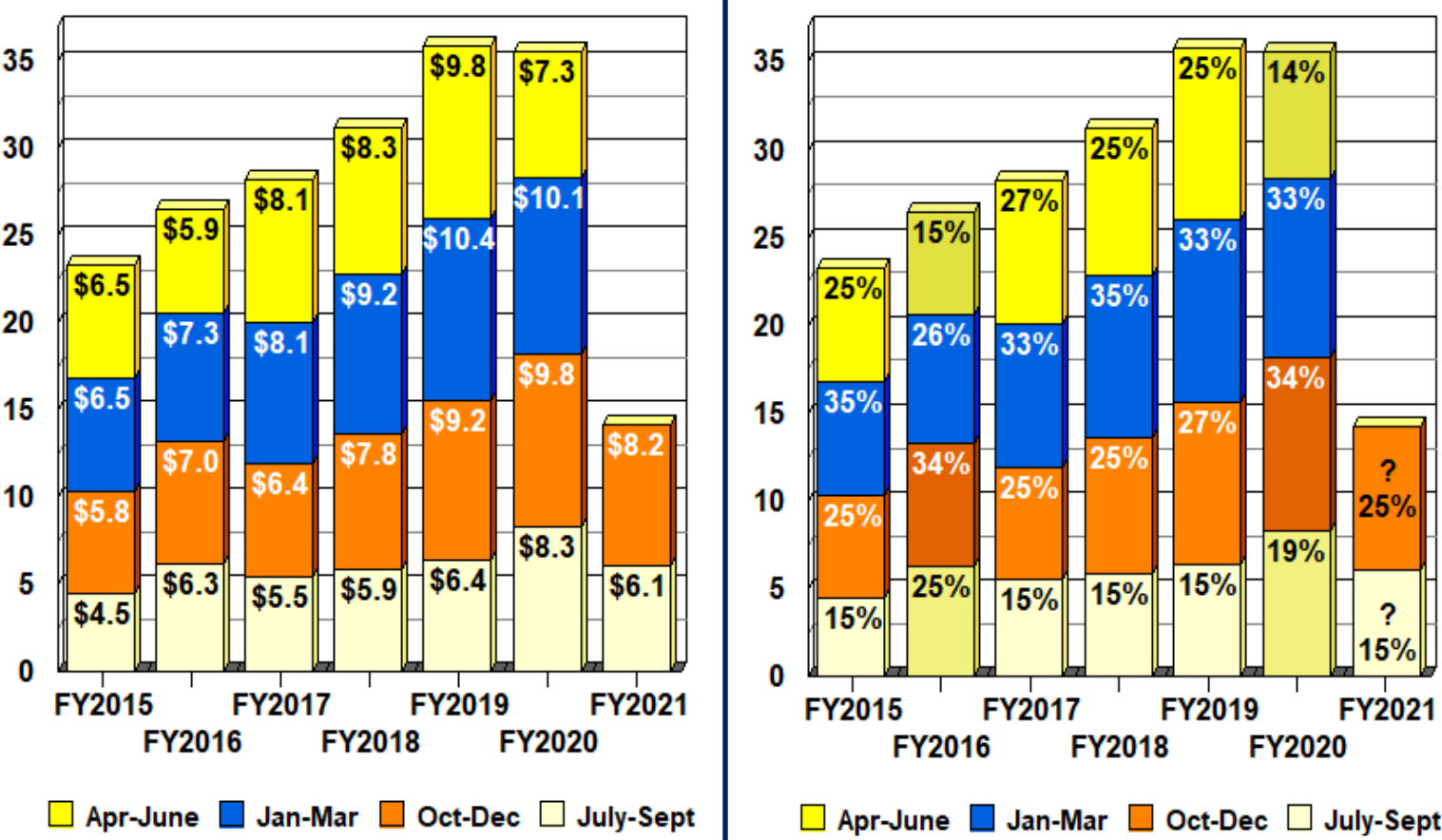
Year-to-Year Change in Collections



(All amounts are in Millions)

# Revenues

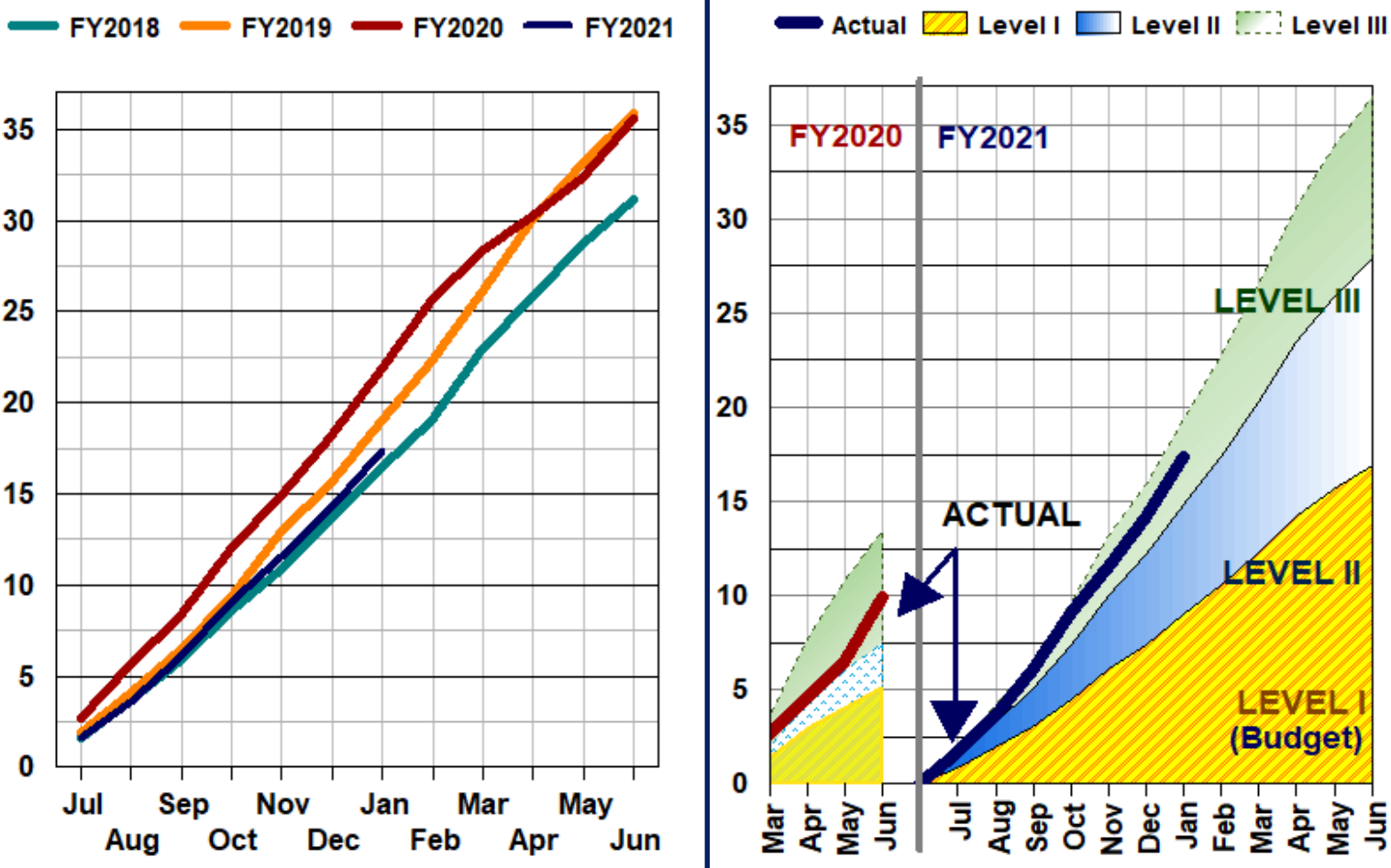
Total Collections by Quarter



(All amounts are in Millions)

# Operating Fund Revenues

Year-to-Year Change in Collections



(All amounts are in Millions)

# Revenues (CHART “STATE FORMS”)

REVENUE SOURCE		Estimated 2020/21			BUDGET	PROJECTED
		LEVEL I	LEVEL II	LEVEL III	2021/22	2020/21
1	Post office commission on sales	\$ 28,500	\$ 41,250	\$ 55,000	\$ 41,250	\$ 26,600
2	Post office sales	200,000	300,000	400,000	300,000	288,340
3	CHARGES FOR SERVICES	228,500	341,250	455,000	341,250	314,940
4	Contingency				113,750	
5	Town occupancy TLT	2,000,000	3,500,000	5,000,000	3,000,000	2,382,000
6	Retail and hospitality TPT	4,400,000	6,800,000	9,200,000	8,100,000	7,912,000
7	Construction & Contracting TPT	3,300,000	5,200,000	6,800,000	6,360,000	6,555,000
8	All Other TPT	1,620,000	1,890,000	2,110,000	2,050,000	1,980,000
9	Unclassified / audit TPT	-	-	-	1,800	1,800
10	LOCAL TAXES	11,320,000	17,390,000	23,110,000	19,511,800	18,830,800
11	Contingency				3,598,200	
12	APS Franchise fee	520,000	580,000	635,000	580,000	580,000
13	Internet franchise fee	-	-	-	-	-
14	Cox communications license fee	225,000	255,000	300,000	255,000	255,000
15	Southwest gase franchise fee	143,000	176,000	220,000	176,000	176,000
16	New path license agreement	122,000	158,000	180,000	180,000	180,000
17	FRANCHISES	1,010,000	1,169,000	1,335,000	1,191,000	1,191,000
18	Contingency				144,000	

# Operating Fund Revenues

ACTUAL 2019/20	ACTUAL 2018/19	ACTUAL 2017/18	ACTUAL 2016/17	ACTUAL 2015/16	ACTUAL 2014/15	ACTUAL 2013/14	ACTUAL 2012/13
\$ 38,020	\$ 55,402	\$ 36,231	\$ -	\$ -	\$ -	\$ -	\$ -
294,300	406,865	309,900	-	-	-	-	-
332,320	462,267	346,131	-	-	-	-	-
4,003,739	4,847,777	4,443,281	3,701,739	3,207,626	3,117,450	2,835,515	2,727,892
8,928,163	9,213,158	8,088,233	7,370,408	5,788,061	5,705,829	5,096,253	4,789,448
7,525,320	5,718,854	4,762,342	4,327,640	3,181,485	3,049,241	3,048,855	2,340,480
1,852,542	2,032,371	1,982,947	2,120,270	2,209,736	2,223,817	1,999,236	1,917,982
40,778	-	-	-	166,620	468,563	156,467	187,733
22,350,542	21,812,160	19,276,803	17,520,057	14,553,528	14,564,900	13,136,326	11,963,535
578,422	618,800	635,070	592,752	629,739	655,689	672,323	662,580
5	132	336	506	242	42	-	-
299,663	288,155	279,748	241,488	245,137	246,353	244,743	237,125
217,262	212,351	223,098	221,801	271,024	148,874	142,552	134,819
157,331	154,535	150,108	147,569	146,343	146,097	143,246	140,487
1,252,683	1,273,973	1,288,359	1,204,117	1,292,485	1,197,054	1,202,864	1,175,011

Continued



# Revenues (CHART “STATE FORMS”)

REVENUE SOURCE		Estimated 2020/21			BUDGET	PROJECTED
		LEVEL I	LEVEL II	LEVEL III	2021/22	2020/21
19	Business license	3,000	4,000	5,000	4,000	3,900
20	Building permit	550,000	800,000	920,000	880,000	883,000
21	Right-of-way permit	50,000	90,000	100,000	90,000	83,000
22	Electrical permit	3,000	4,000	5,000	4,500	5,600
23	Banner permit	400	700	1,000	500	470
24	Engineering permit	200	400	600	500	570
25	Mechanical permit	-	-	-	-	-
26	Plubing permit	8,000	12,000	15,000	13,500	17,680
27	Special use permit	10,000	35,000	75,000	35,000	18,600
28	Roadway abandonments	-	-	-	-	-
29	Subdivision permit	22,500	40,500	45,000	25,000	17,300
30	Hillside application fee	48,500	80,000	125,000	95,500	164,100
31	Variance application fee	6,000	10,800	12,000	10,800	21,220
32	Rezoning application fee	2,000	8,000	12,000	4,000	3,960
33	Reinspection fee	-	-	-	-	-
34	Fire Marshall services	40,000	75,000	110,000	91,000	91,260
35	Solicitation permit	-	-	-	-	-
36	Demolition permits	15,000	25,000	30,000	27,000	52,100
37	Third party review and inspection	105,000	168,000	210,000	210,000	146,000
38	Engineering plan check	3,500	6,300	8,000	7,600	10,100
39	Special event permit	1,000	3,000	5,000	3,000	2,250
40	In-house plan review	445,000	650,000	800,000	700,000	807,600
41	Grading permits	60,000	120,000	200,000	150,000	148,000
42	Haul and excavation permit	60,000	102,000	130,000	125,000	125,030
43	Change of address fee	400	650	1,000	700	710
44	Credit Card Service Fee	20,000	20,000	20,000	20,000	
45	Town management project fee	100,000	300,000	500,000	100,000	118,680
46	Montelucia agreement	108,000	108,000	108,000	108,000	108,000
47	Mountain shadows agreement	200,000	240,000	290,000	285,000	282,000
48	LICENSE AND PERMITS	1,861,500	2,903,350	3,727,600	2,990,600	3,111,130
49	Contingency				737,000	

# Operating Fund Revenues

ACTUAL 2019/20	ACTUAL 2018/19	ACTUAL 2017/18	ACTUAL 2016/17	ACTUAL 2015/16	ACTUAL 2014/15	ACTUAL 2013/14	ACTUAL 2012/13
3,350	4,700	6,775	4,125	3,750	4,075	3,675	3,350
960,274	919,388	893,751	876,434	969,090	613,269	612,329	516,827
132,226	87,117	101,552	50,869	71,991	25,477	13,930	9,264
5,460	5,460	9,360	3,739	3,387	2,426	2,781	1,883
770	1,120	1,225	695	825	1,370	1,440	275
48	-	(134)	-	345	460	115	1,015
-	22	-	130	38	42	108	107
12,545	12,906	18,200	4,116	3,711	2,576	5,250	2,671
40,695	73,751	68,200	36,480	11,710	30,520	15,871	69,158
3,170	-	-	-	-	2,195	-	3,250
43,180	49,785	32,679	40,923	44,494	29,125	18,085	11,565
110,680	94,090	183,533	55,125	42,920	33,700	35,060	29,880
7,060	14,120	13,908	10,645	17,525	14,290	9,535	12,915
23,875	-	-	10,365	7,855	-	6,320	134
150	200	75	210	-	55	165	50
120,670	109,162	58,799	71,787	77,434	34,353	36,099	27,237
225	25	25	-	-	-	112	25
30,498	31,070	30,000	22,755	25,360	22,100	28,355	15,156
200,908	169,880	174,733	-	-	-	-	-
7,426	7,693	6,287	5,895	7,115	5,265	3,110	2,515
1,575	3,000	7,075	8,520	3,175	1,017	2,200	1,875
675,530	667,894	744,124	627,194	596,726	496,208	437,432	327,820
201,132	116,483	98,174	253,188	80,440	39,395	24,650	123,895
134,326	124,642	95,652	93,183	103,460	68,186	64,775	41,683
975	195	1,950	690	495	655	655	820
29,970	10,339	11,369	1	-	-	-	-
114,144	65,886	-	-	-	-	-	-
108,000	108,000	108,000	108,000	108,000	108,000	108,000	108,000
263,370	146,127	47,599	-	-	-	-	-
3,232,232	2,823,054	2,712,910	2,285,069	2,179,846	1,534,759	1,430,053	1,311,370

Continued

# Revenues (CHART “STATE FORMS”)

REVENUE SOURCE		Estimated 2020/21			BUDGET	PROJECTED
		LEVEL I	LEVEL II	LEVEL III	2021/22	2020/21
50	INCOME TAX	1,909,800	1,909,770	1,909,770	1,909,770	2,353,300
51	STATE SALES TAX	1,200,000	1,500,000	1,700,000	1,718,600	1,654,600
52	AUTO LIEU TAX	507,000	620,000	700,000	678,000	683,730
53	HIGHWAY USER REVENUES	626,000	780,000	1,100,000	973,000	982,020
54	FIRE SERVICE LICENSE FEE	20,000	20,000	20,000	20,000	20,000
55	BULLETPROOF VEST GRANT	5,000	15,000	25,000	25,000	25,000
56	GOHS-DUI GRANT	5,000	15,000	25,000	25,000	25,000
57	GOHS-STEP GRANT	5,000	15,000	25,000	25,000	25,000
58	\$4 CITING AGENCY-SB1398	34,000	42,000	50,000	42,000	30,390
59	INTERGOVERNMENTAL	4,311,800	4,916,770	5,554,770	5,416,370	5,799,040
60	Contingency				138,400	
61						
62	RENTAL INC - WIRELESS FACILITY	65,000	70,000	85,000	81,640	80,600
63	COURTS LAND LEASE	-	-	-	-	-
64	Rents and royalties	65,000	70,000	85,000	81,640	80,600
65	Contingency				3,360	
66	Court fines	820,000	1,300,000	2,000,000	1,300,000	1,380,000
67	Court PD technology fee	400,000	550,000	850,000	610,000	614,110
68	False alarm fee	20,000	40,000	50,000	40,000	40,800
69	Public safety fee	70,000	90,000	120,000	85,000	85,670
70	Jail fee reimbursement	4,000	8,000	12,000	8,000	8,080
71	Indigent legal fee reimbursement	500	1,000	2,000	1,000	900
72	Court process service fees	25,000	75,000	120,000	75,000	109,180
73	Police impound vehicle fee	6,000	25,000	38,000	6,000	6,310
74	School zone fines	-	-	-	-	-
75	Fines and forfeitures	1,345,500	2,089,000	3,192,000	2,125,000	2,245,050
76	Contingency				1,067,000	
77	LGIP interest	3,000	125,000	380,000	3,000	13,220
78	Treasuries - interest	50,000	400,000	900,000	300,000	537,180
79	WF Investment interest	2,000	75,000	140,000	2,000	2,590
80	Miscellaneous interest	20,000	30,000	50,000	30,000	33,410
81	LGIP recovery - write off	-	-	-	-	-
82	Y/E unrealized market gain (loss)	-	-	-	-	(148,250)
83	Allocated interest	(11,700)	(25,500)	(39,000)	(11,700)	
84	TOTAL INTEREST INCOME	63,300	604,500	1,431,000	323,300	438,150
85	Contingency				1,107,700	

# Operating Fund Revenues

ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL	ACTUAL
2019/20	2018/19	2017/18	2016/17	2015/16	2014/15	2013/14	2012/13
1,875,319	1,730,881	1,778,003	1,703,256	1,543,526	1,551,940	1,428,952	1,309,535
1,499,081	1,439,438	1,378,388	1,277,675	1,217,296	1,171,604	1,115,888	1,049,341
617,312	616,863	595,778	548,523	530,413	490,206	457,878	429,075
1,146,134	976,327	933,034	897,142	828,858	793,772	723,714	701,728
20,000	20,000	20,000	-	-	-	-	-
3,933	2,847	-	-	-	-	-	-
6,299	9,063	-	-	-	-	-	-
7,948	5,769	-	-	-	-	-	-
25,058	49,540	42,574	32,064	50,783	26,572	18,259	15,242
5,201,085	4,850,728	4,747,777	4,458,660	4,170,877	4,034,095	3,744,691	3,504,921
77,496	76,924	70,125	73,210	72,360	71,410	67,170	65,500
-	25,000	25,000	-	-	-	-	-
77,496	101,924	95,125	73,210	72,360	71,410	67,170	65,500
962,516	1,810,443	1,528,206	1,318,793	1,990,163	1,118,688	931,039	820,355
401,068	859,445	735,995	598,132	874,787	405,027	-	-
53,970	19,212	812	460	15	3,802	-	585
60,869	124,626	107,948	90,711	184,781	114,246	85,204	72,075
11,175	4,929	11,828	10,984	10,068	9,257	-	-
1,874	3,848	-	220	1,353	2,382	-	-
51,801	123,680	52,326	7,642	45,764	42,077	22,517	39,275
9,150	36,230	38,670	32,700	12,000	-	-	-
19,475	-	-	-	-	-	-	-
1,571,899	2,982,413	2,475,787	2,059,642	3,118,931	1,695,479	1,038,760	932,290
145,398	384,428	90,656	36,964	29,748	16,729	7,196	3,122
627,889	928,204	69,215	70,832	206,358	2,306	47,769	105,645
147,276	2,088	-	-	-	-	-	-
36,804	43,403	52,729	72,509	28,754	68,516	62,812	26,836
178	1,608	-	2,378	971	2,480	5,437	59,749
362,939	-	-	-	-	-	-	-
(26,684)	(76,501)	-	-	-	-	-	-
1,293,801	1,283,229	212,601	182,682	265,831	90,032	123,214	195,352

Continued

# Revenues (CHART “STATE FORMS”)

REVENUE SOURCE	Estimated 2020/21			BUDGET	PROJECTED
	LEVEL I	LEVEL II	LEVEL III	2021/22	2020/21
86 Photocopy income	300	700	1,100	300	560
87 Cash over (short)	-	-	-	-	-
88 Police evidence income	3,000	4,000	5,000	3,000	1,780
89 Unclaimed property	1,000	4,000	7,500	1,000	-
90 Sale of Town assets	-	-	-	-	-
91 Restitution	-	-	-	-	-
92 NSF check fee	100	500	1,000	100	100
93 Miscellaneous income	10,000	20,000	30,000	20,000	29,250
94 Policy premium rebate	-	-	-	-	102,310
95 Capital contribution	-	-	-	-	-
96 Third party payment	-	-	-	-	-
97 MISCELLANEOUS INCOME	14,400	29,200	44,600	24,400	134,000
98 Contingency				20,200	
99 TOTAL OPERATING FUND REVENUES	\$ 20,220,000	\$ 29,513,070	\$ 38,934,970	\$ 32,005,360 \$ 6,929,610	\$ 32,144,710

In FY2020-21, AZCares funds were accounted for in a “special revenue fund” and are not classified as an “operating / recurring revenue”.

Like FY2021, setting a contingency account to receive any federal funding will be recommended for adoption on the “State forms”.

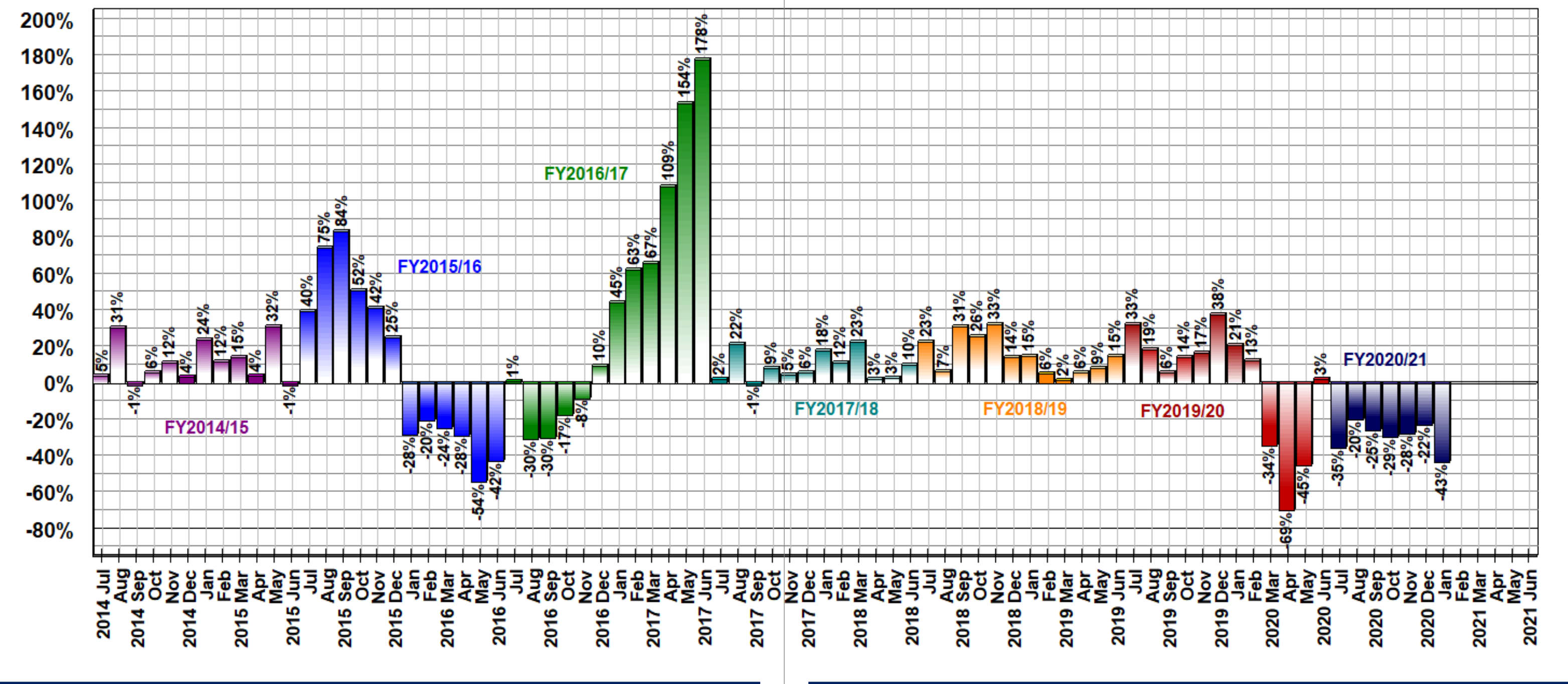
# Operating Fund Revenues

ACTUAL 2019/20	ACTUAL 2018/19	ACTUAL 2017/18	ACTUAL 2016/17	ACTUAL 2015/16	ACTUAL 2014/15	ACTUAL 2013/14	ACTUAL 2012/13
1,322	330	768	1,960	1,064	1,330	1,107	673
(2)	32	(36)	(5)	(4)	(0)	(81)	1
3,152	4,620	3,832	4,291	5,260	3,042	3,161	3,059
3,789	7,583	-	-	-	-	-	-
22,000	48,514	27,978	-	495,444	-	11,574	33,294
19	767	-	-	-	-	-	-
50	1,026	1,518	110	200	450	300	421
17,322	31,831	12,920	274,851	316,227	190,830	567,118	387,775
207,860	116,180	-	-	-	-	-	-
-	-	1,000,000	-	-	-	-	-
9,938	-	-	-	-	-	-	-
265,451	210,884	1,046,980	281,207	818,190	195,651	583,178	425,223
\$ 35,577,508	\$ 35,800,633	\$ 32,202,473	\$ 28,064,645	\$ 26,472,048	\$ 23,383,379	\$ 21,326,256	\$ 19,573,201

Concluded



Change in Year-to-Year Monthly Collections



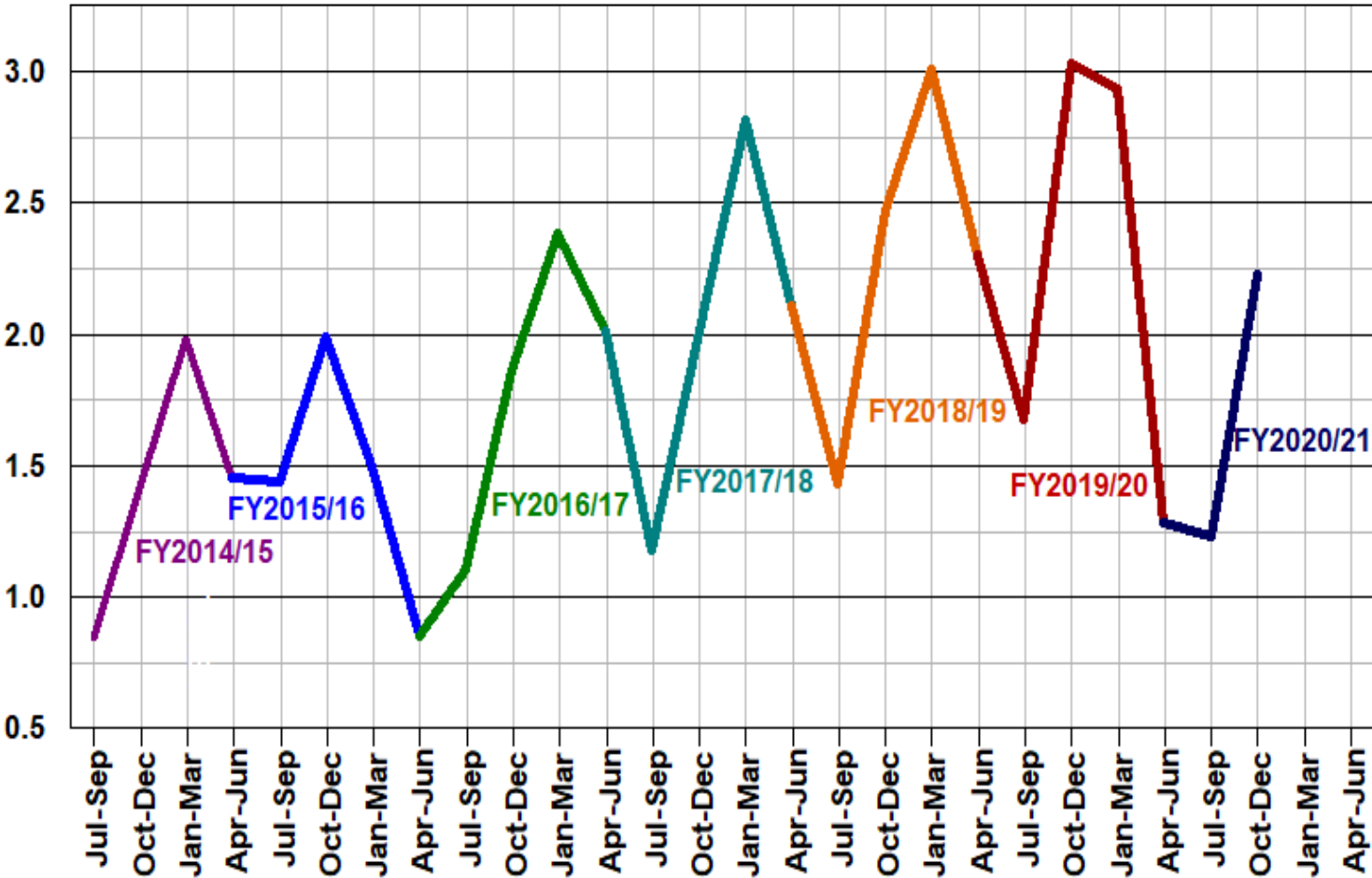
(All amounts are in Millions)

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# Revenues

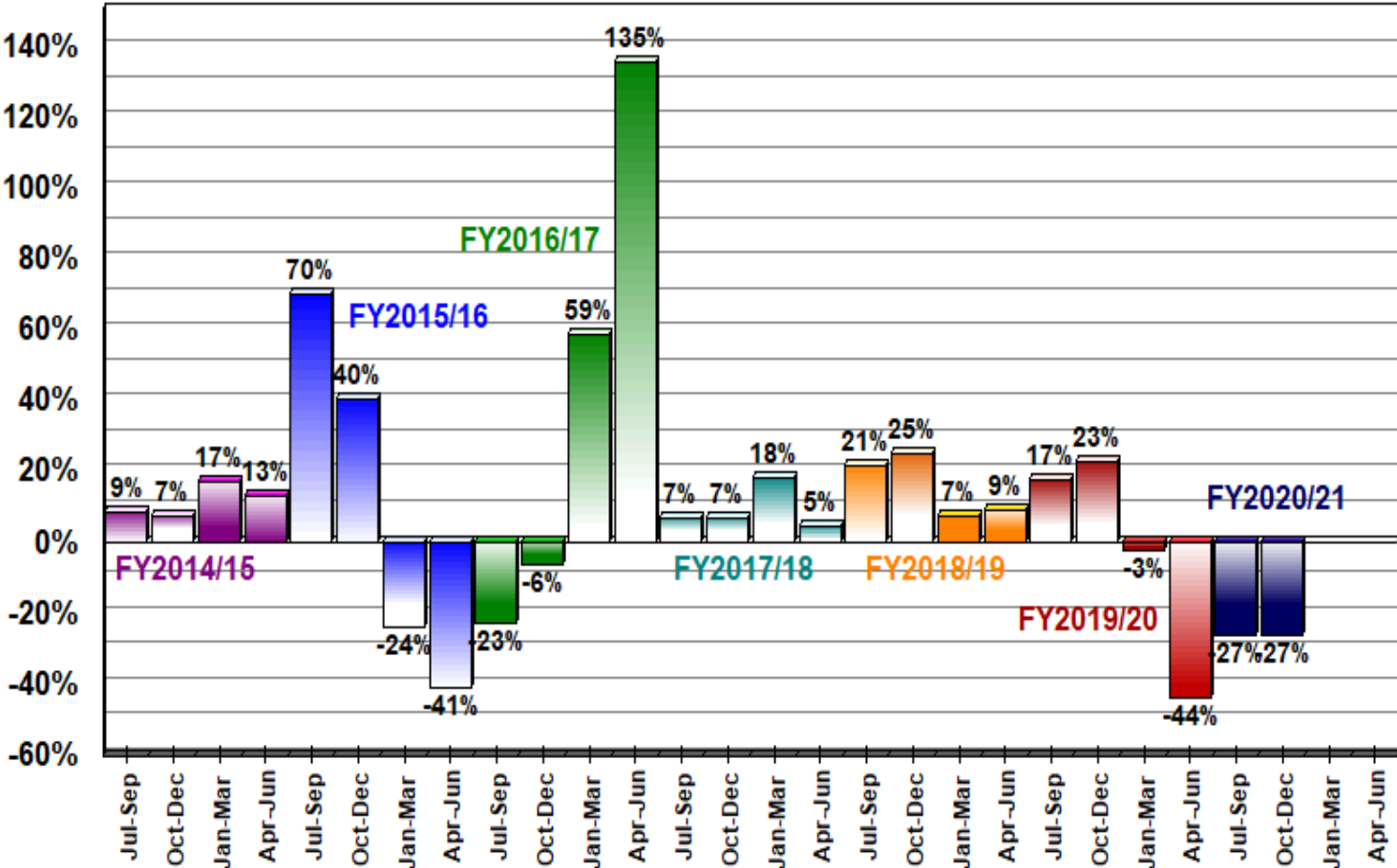
Actual Quarterly Collections



(All amounts are in Millions)

# Retail & Hospitality “Sales” Tax (TPT)

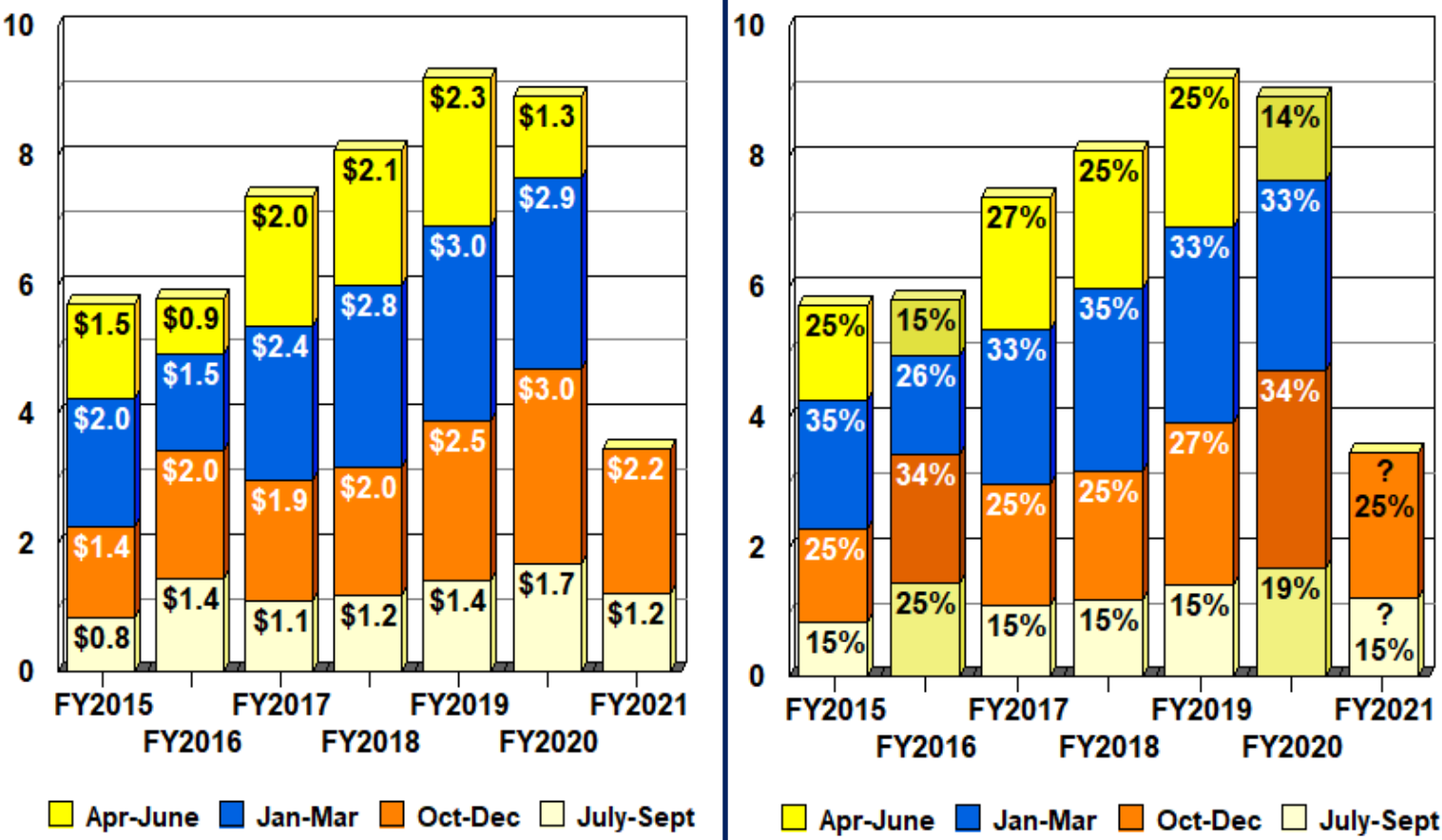
Year-to-Year Change in Collections



(All amounts are in Millions)

# Revenues

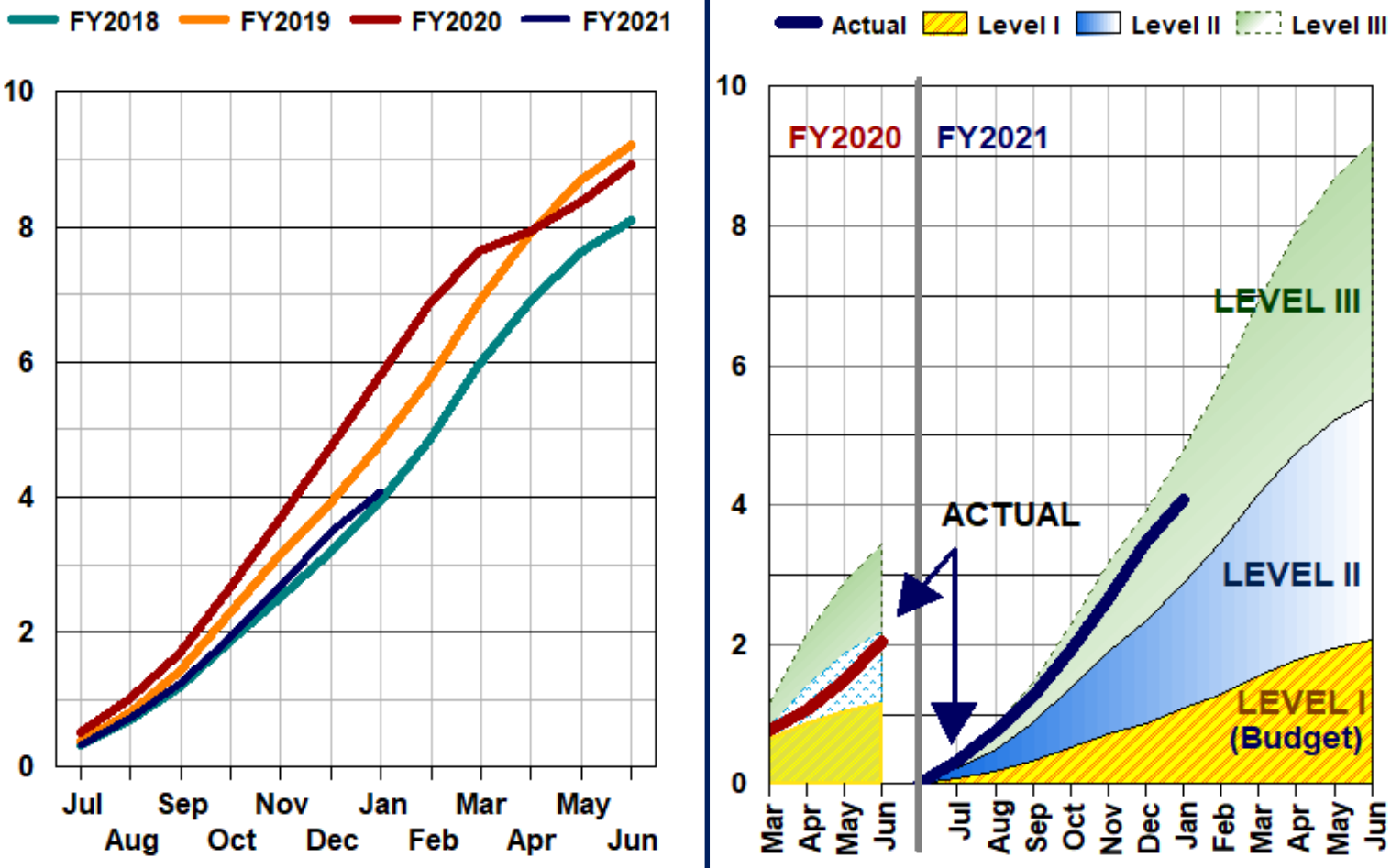
Total Collections by Quarter



(All amounts are in Millions)

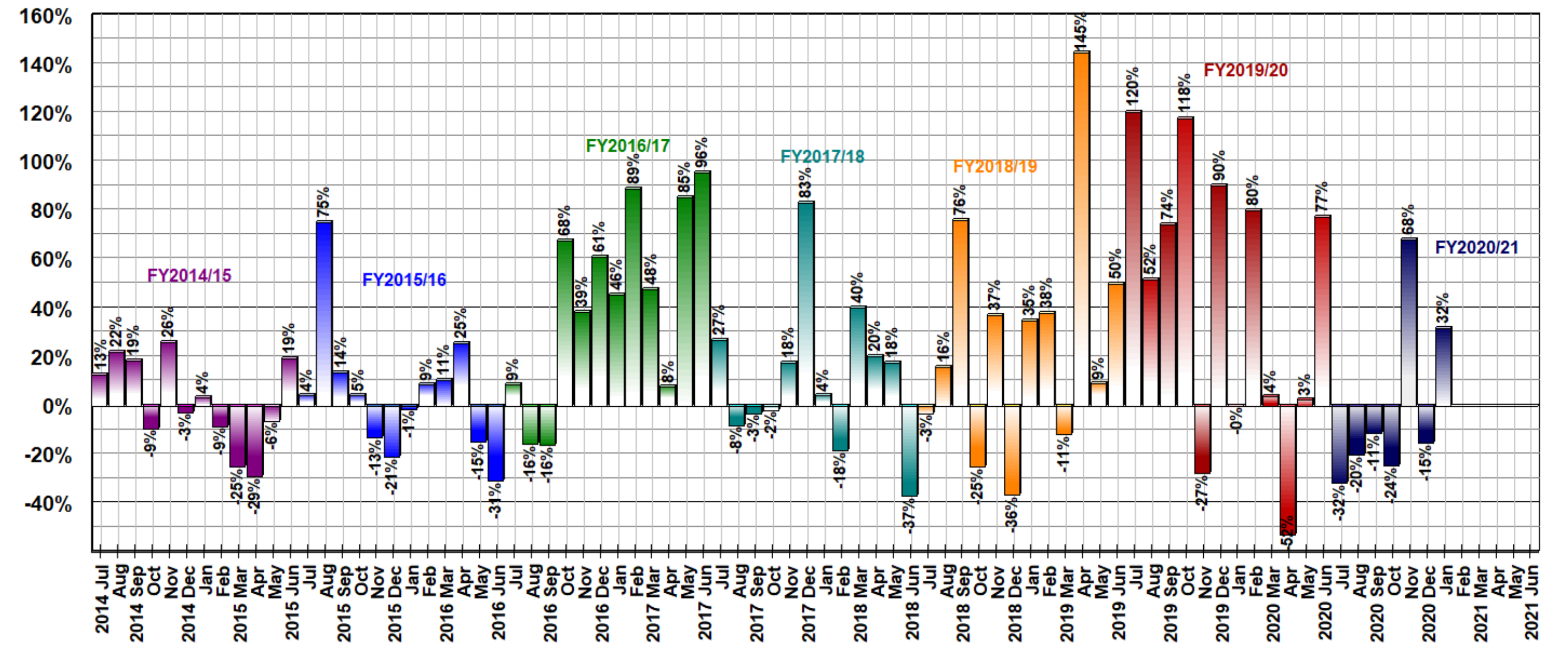
# Retail & Hospitality “Sales” Tax (TPT)

Year-to-Year Change in Collections



(All amounts are in Millions)

Change in Year-to-Year Monthly Collections

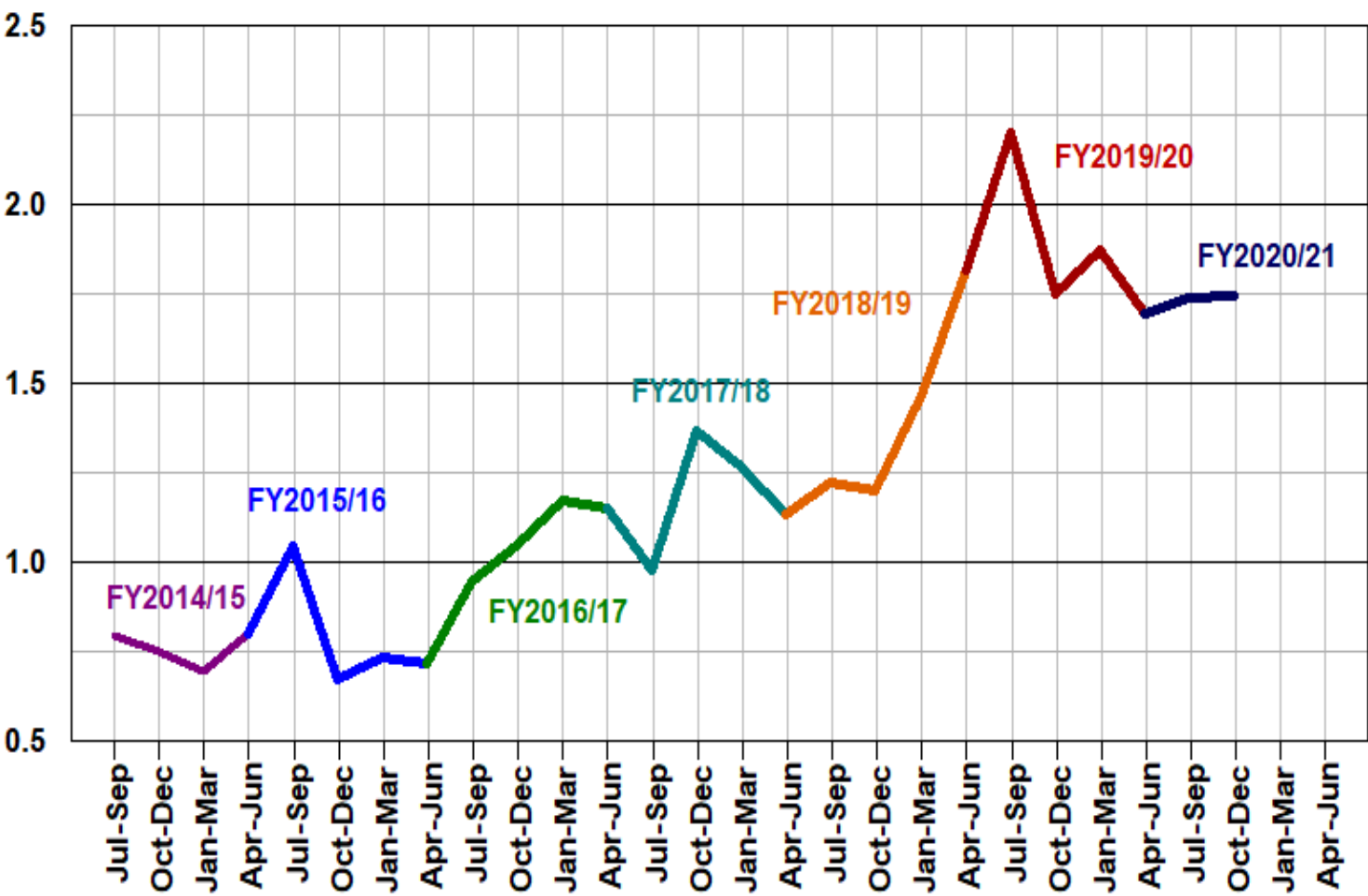


(All amounts are in Millions)

(All amounts are in Millions)

# Revenues

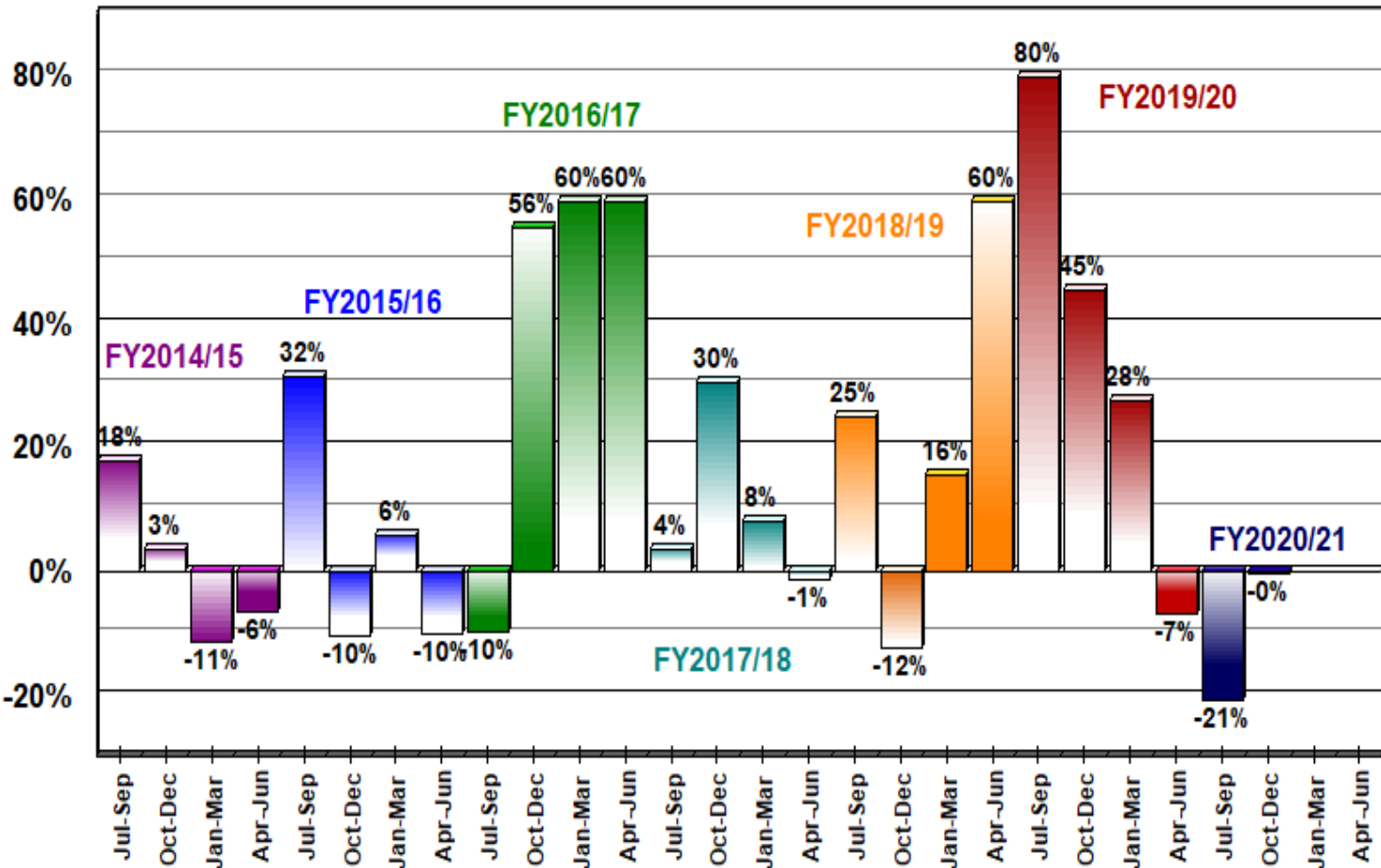
Actual Quarterly Collections



(All amounts are in Millions)

# Construction TPT

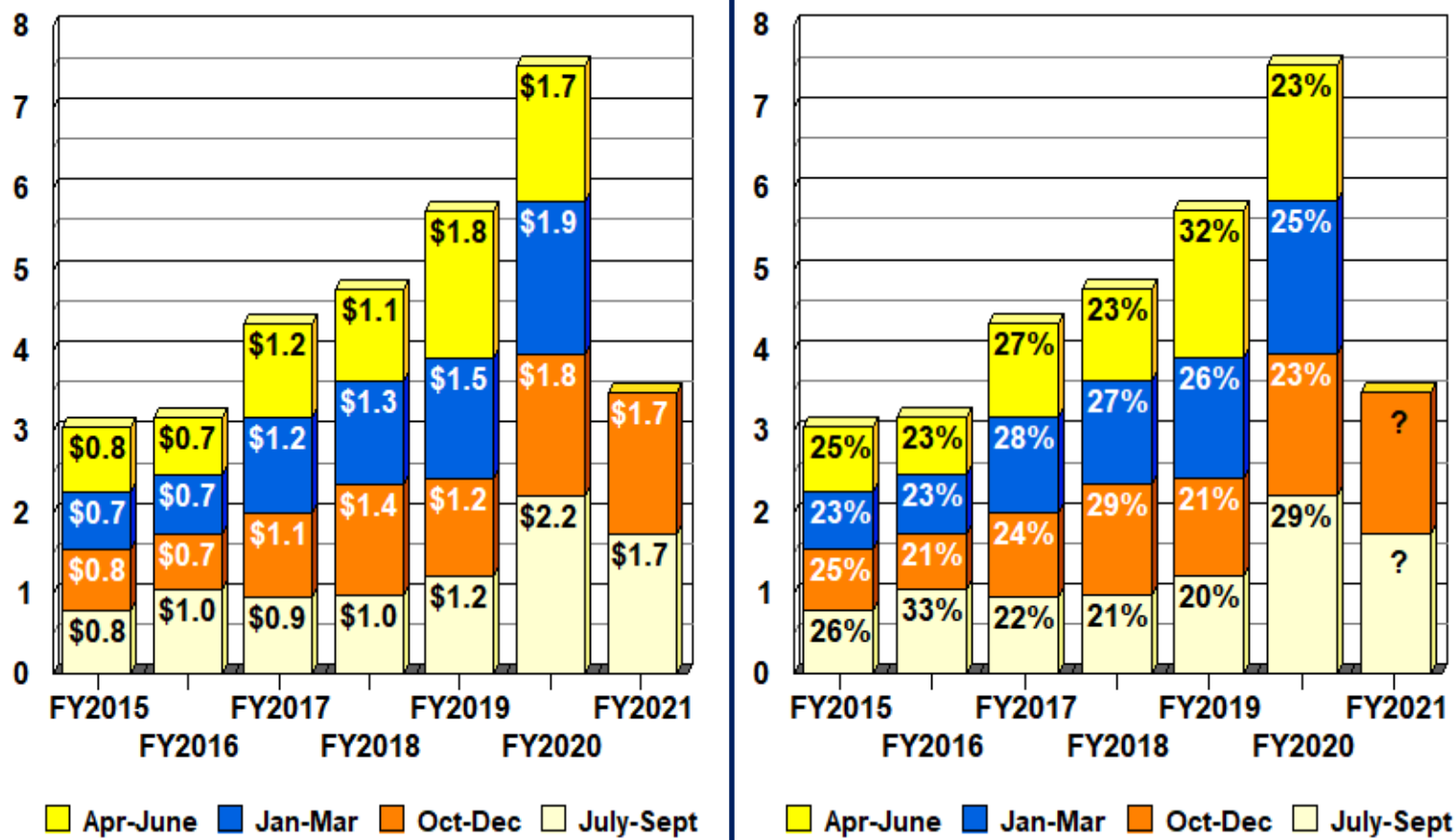
Year-to-Year Change in Collections



(All amounts are in Millions)

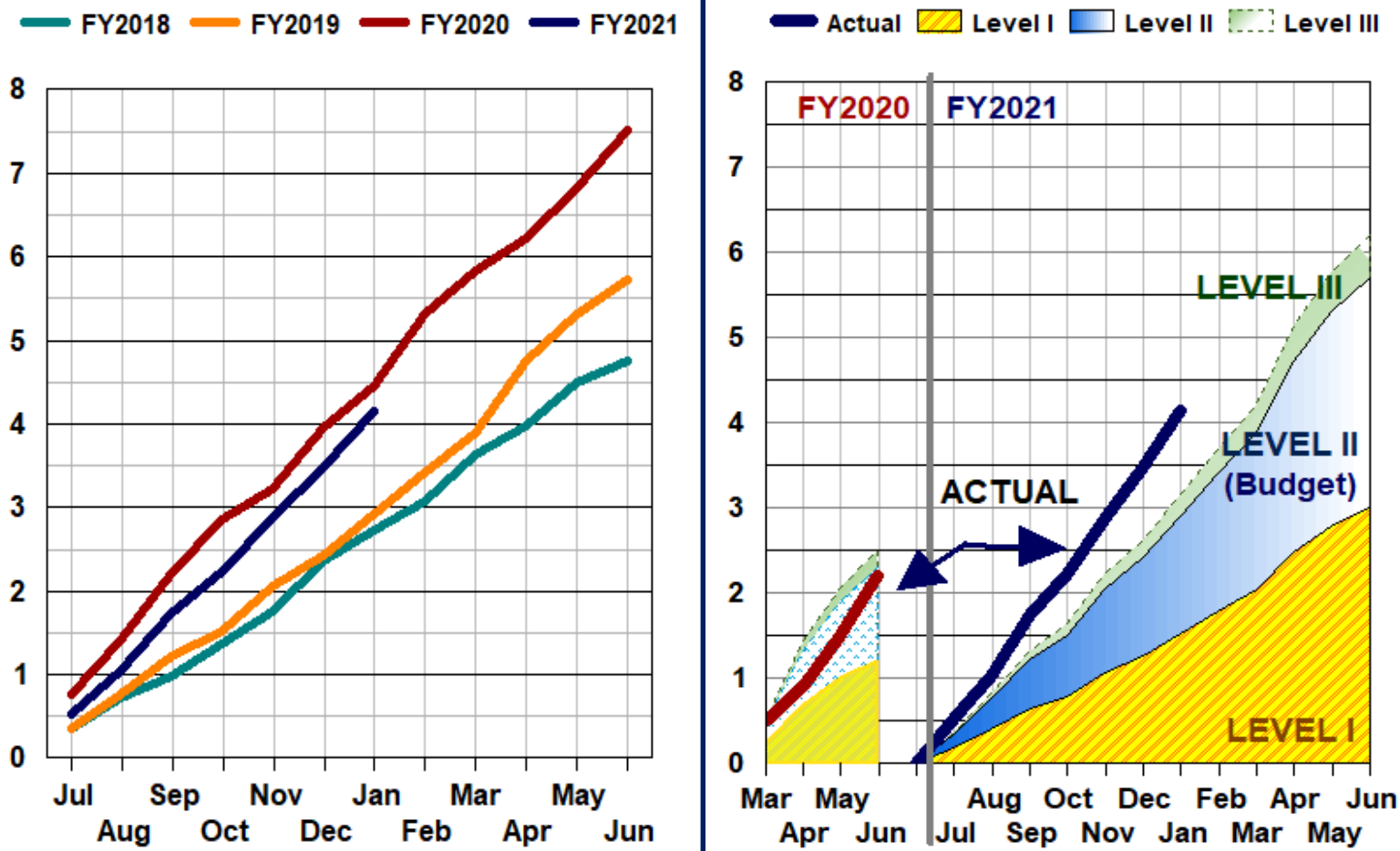


Total Collections by Quarter



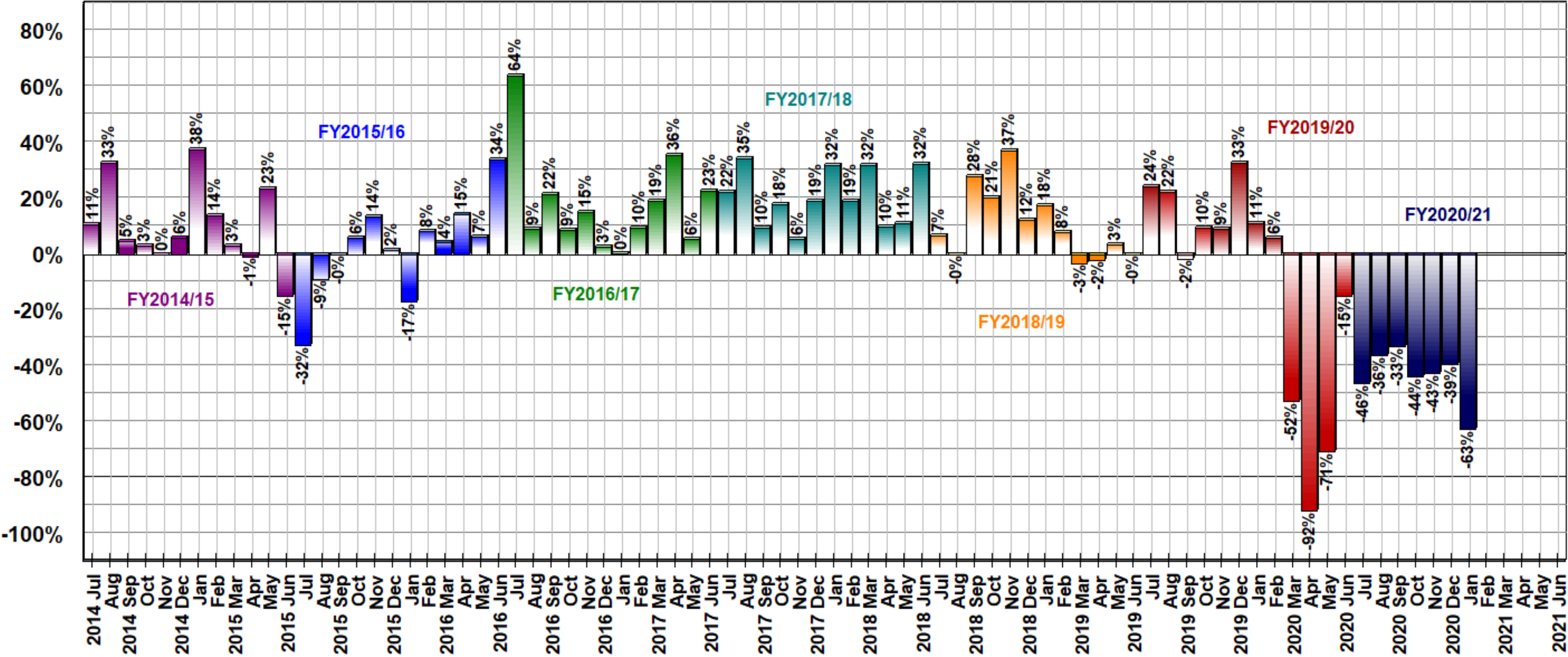
(All amounts are in Millions)

Year-to-Year Change in Collections



(All amounts are in Millions)

Change in Year-to-Year Monthly Collections

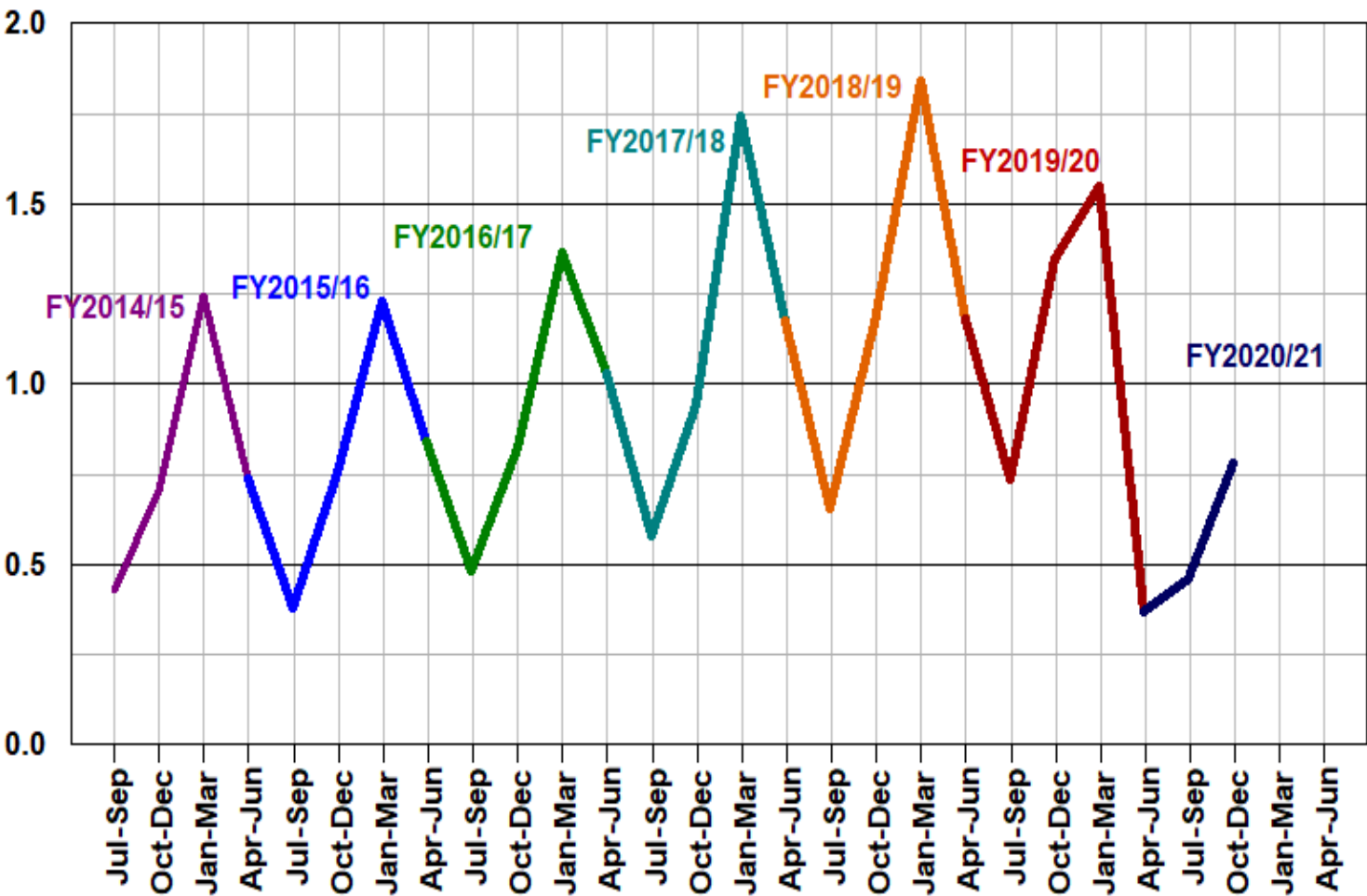


(All amounts are in Millions)

(All amounts are in Millions)

# Revenues

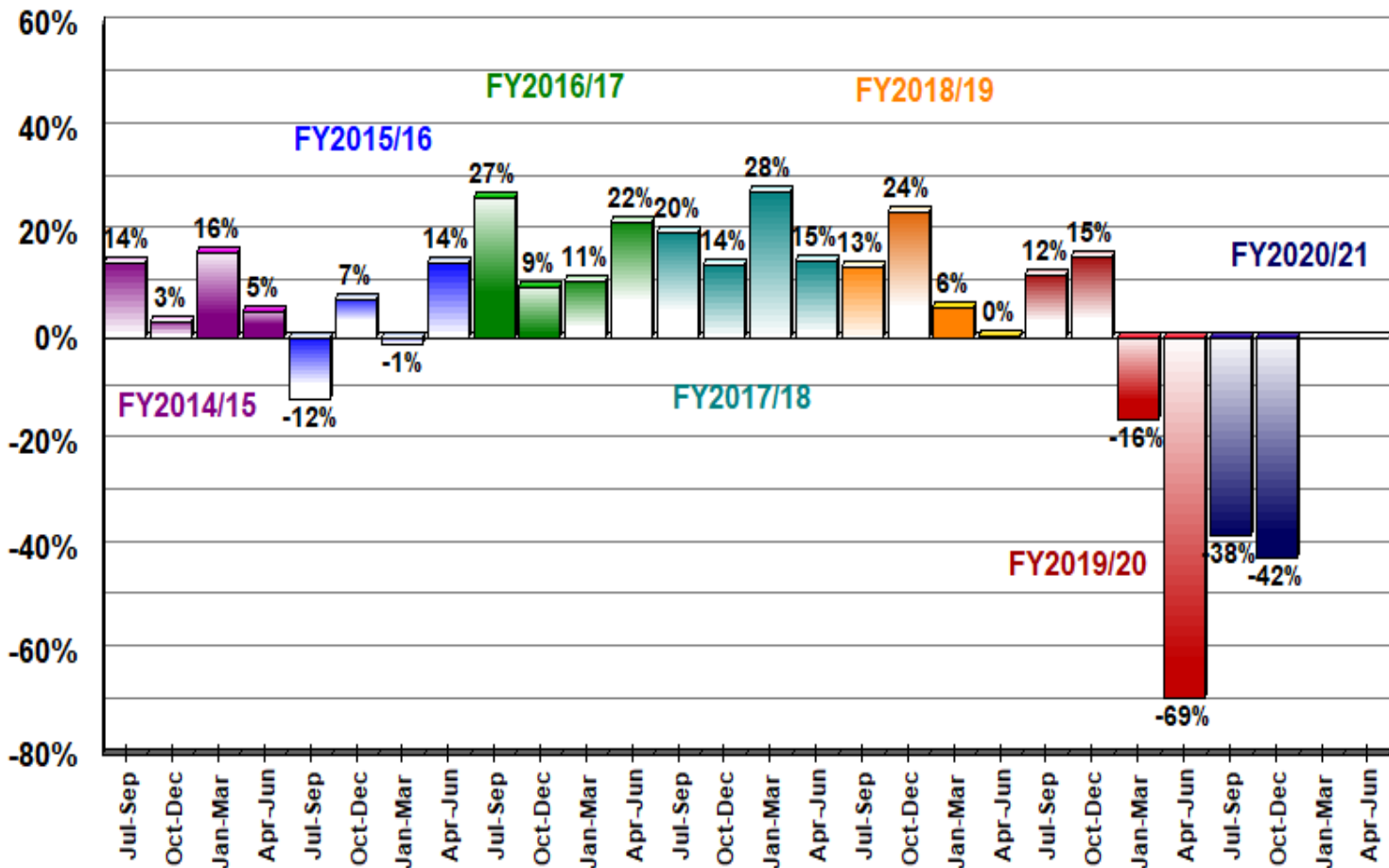
Actual Quarterly Collections



(All amounts are in Millions)

# Transient Lodging (“Occupancy”) Tax

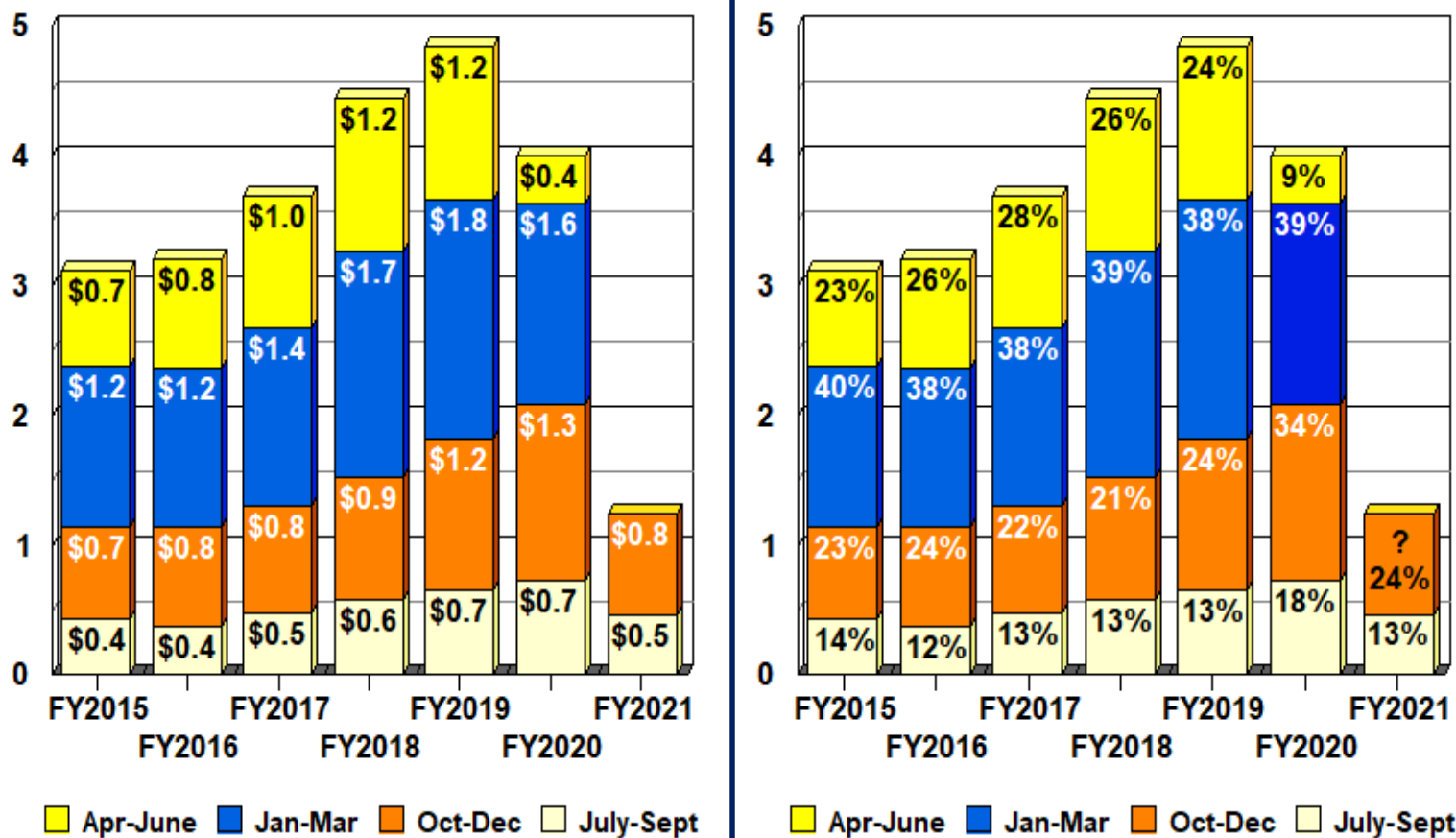
Year-to-Year Change in Collections



(All amounts are in Millions)

# Revenues

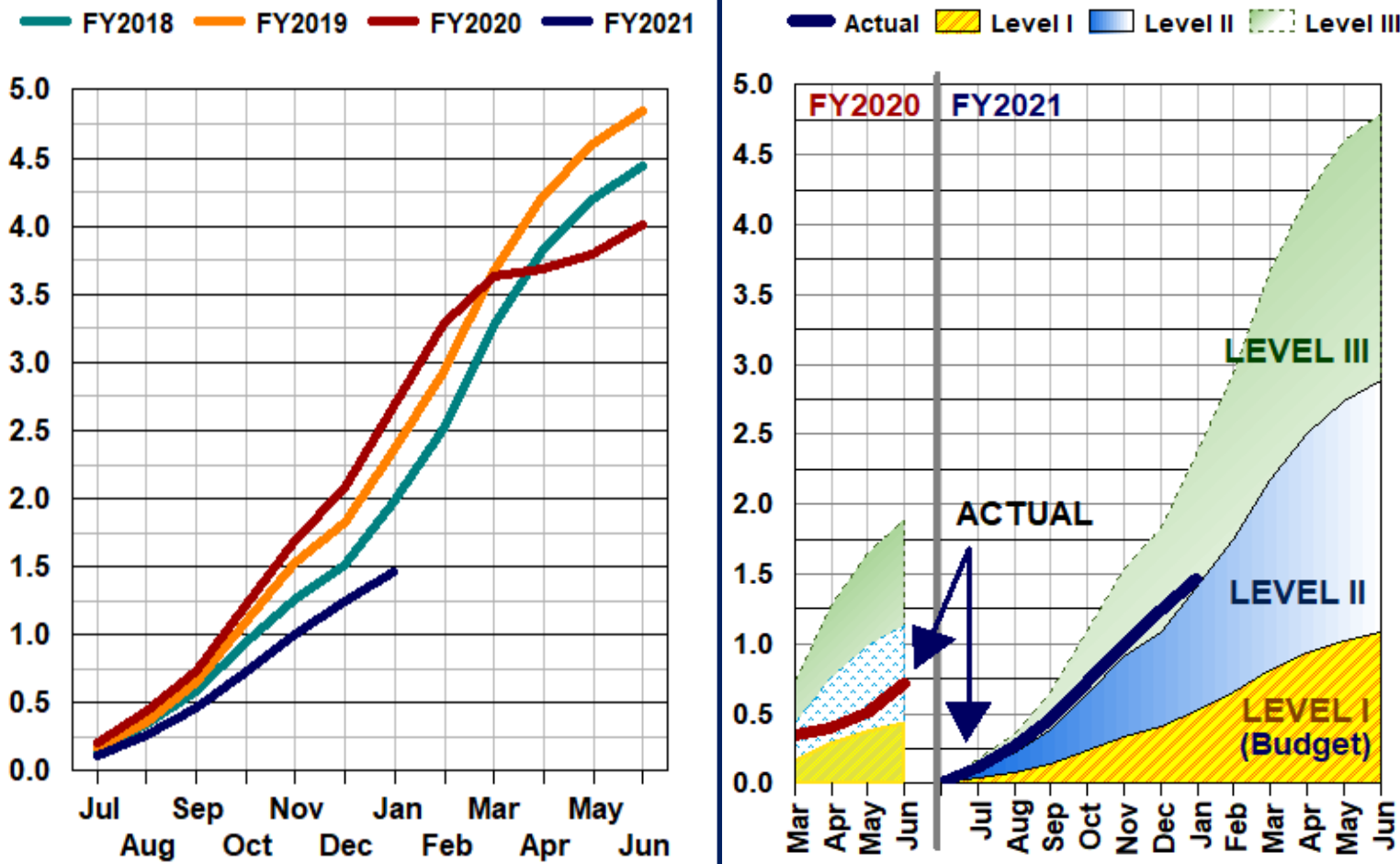
Total Collections by Quarter



(All amounts are in Millions)

# Transient Lodging (“Occupancy”) Tax

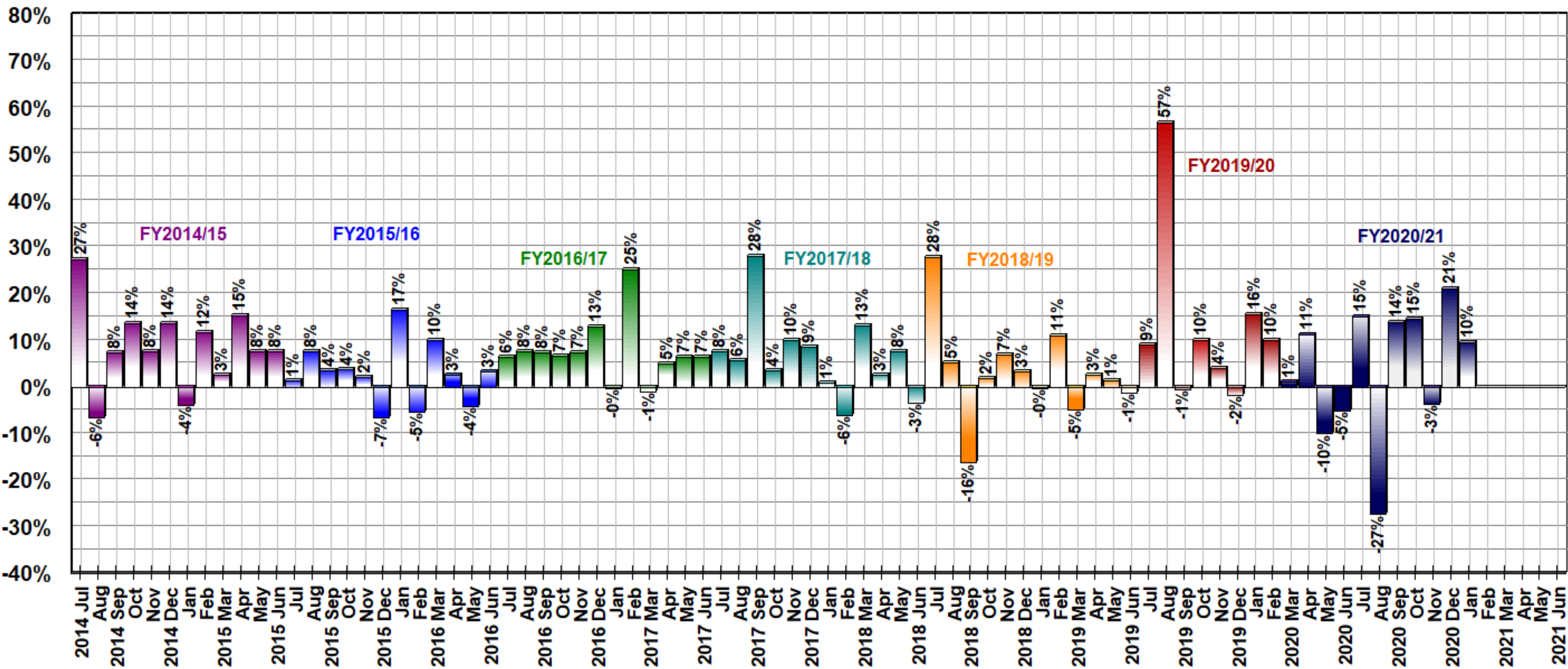
Year-to-Year Change in Collections



(All amounts are in Millions)



Change in Year-to-Year Monthly Collections

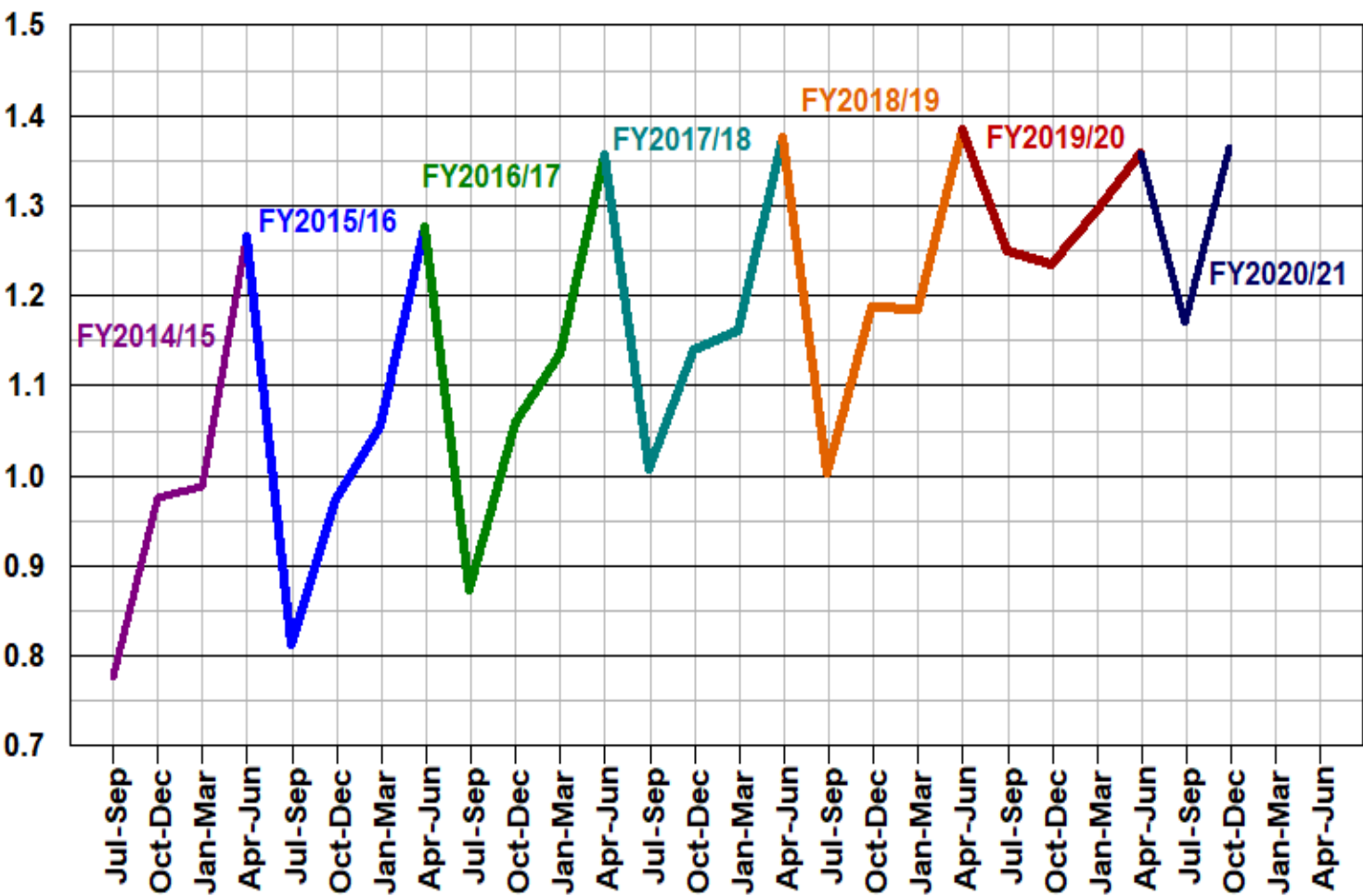


(All amounts are in Millions)

(All amounts are in Millions)

# Revenues

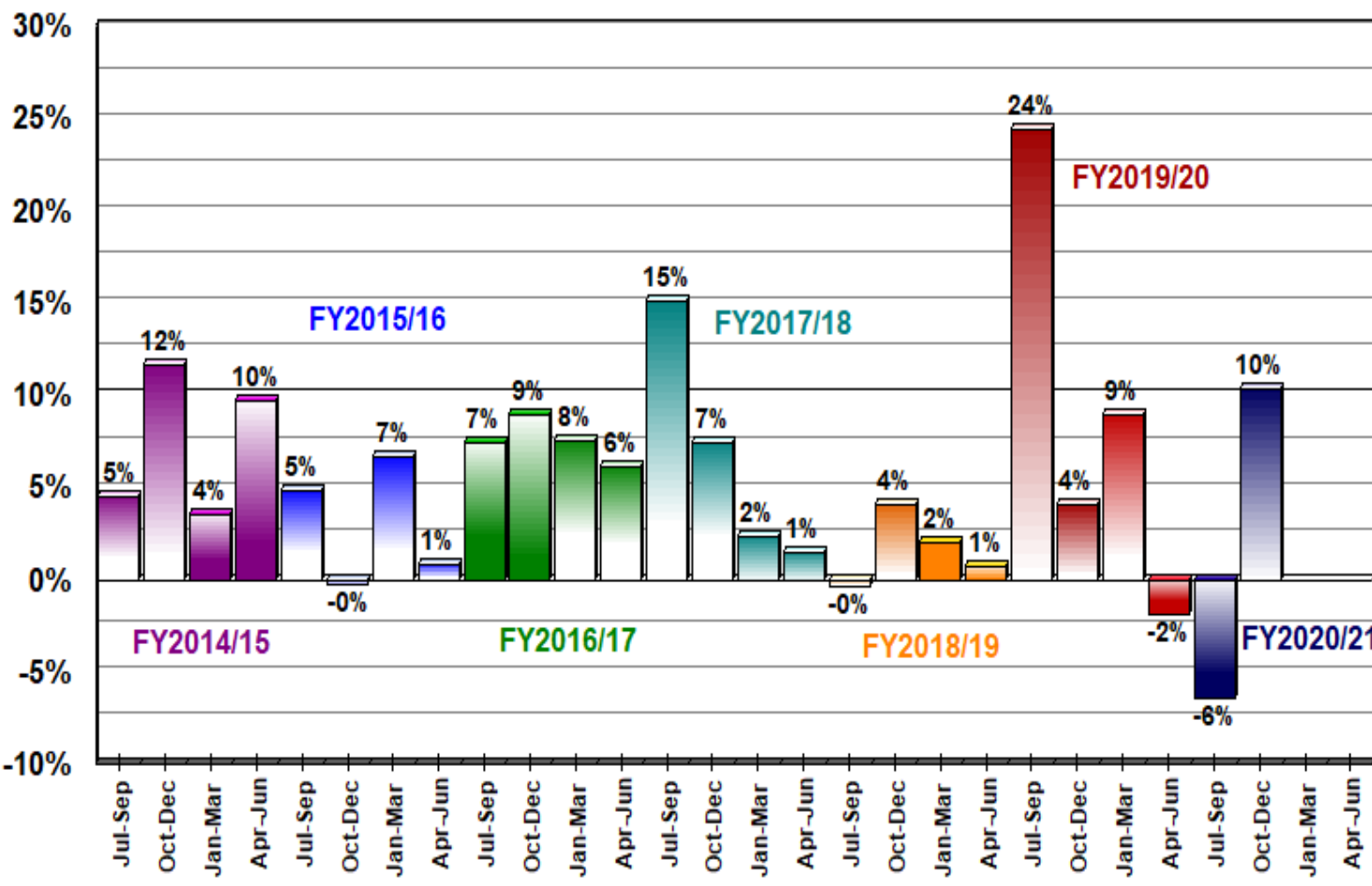
Actual Quarterly Collections



(All amounts are in Millions)

# State Shared Revenues

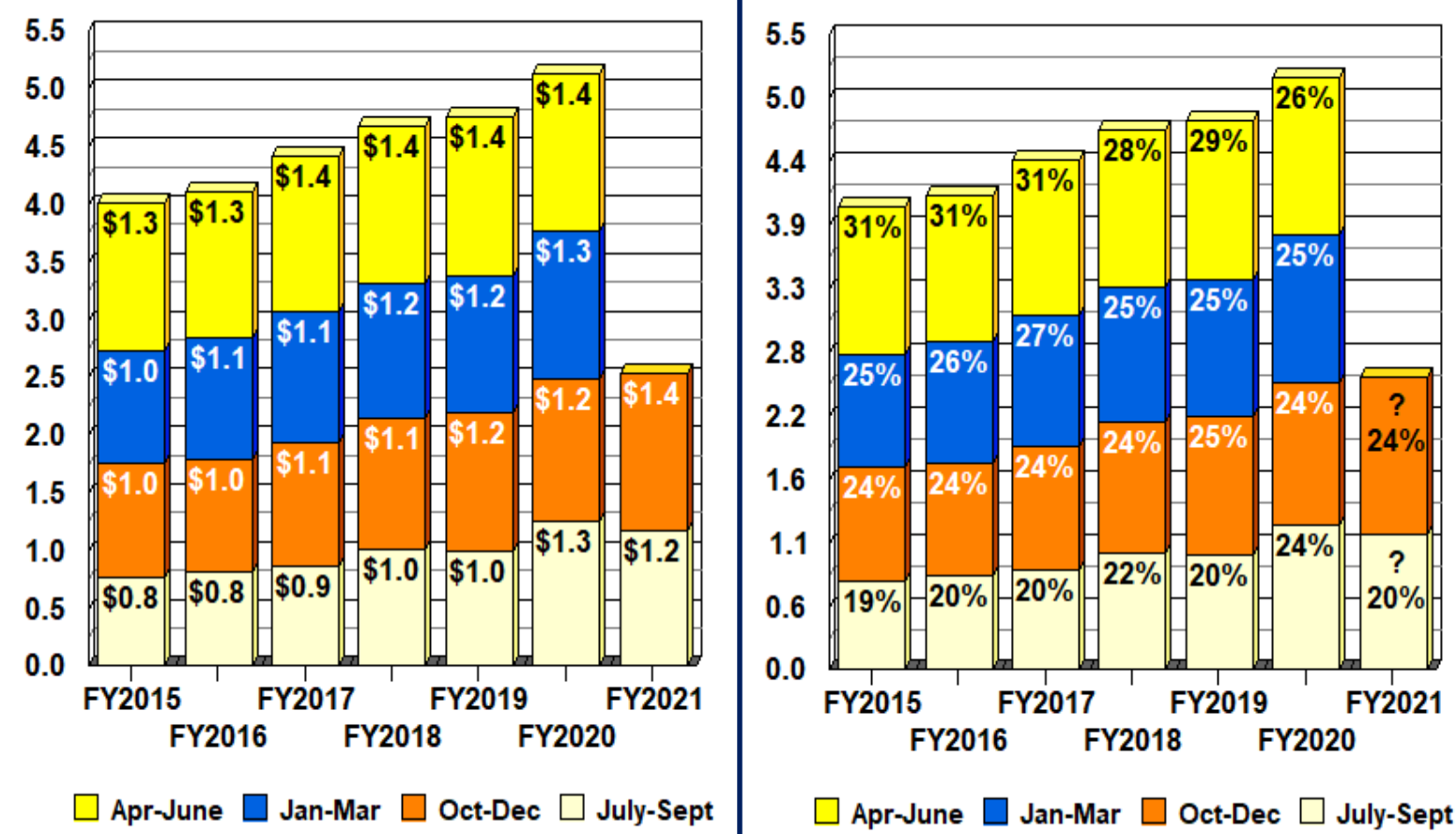
Year-to-Year Change in Collections



(All amounts are in Millions)

# Revenues

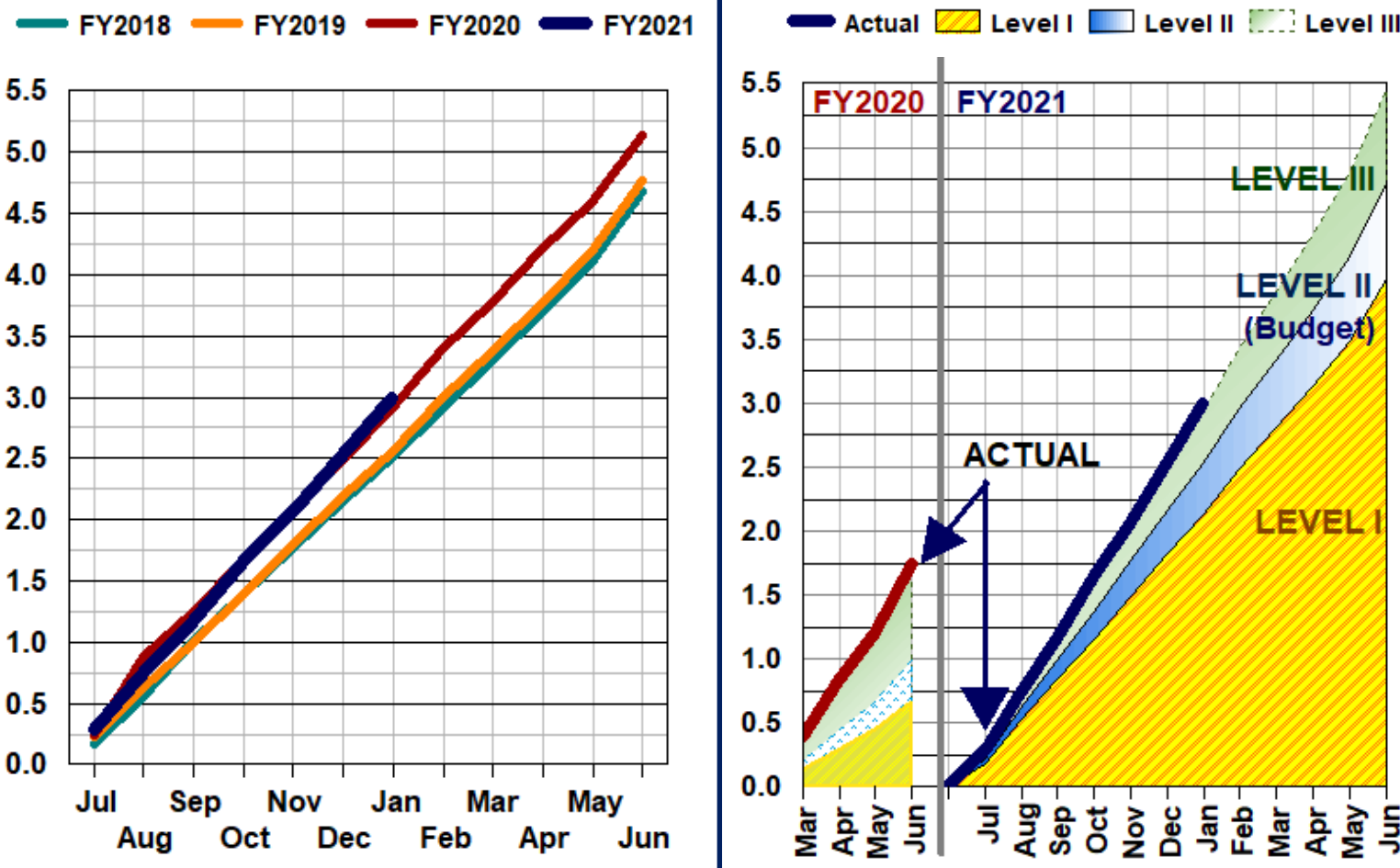
Total Collections by Quarter



(All amounts are in Millions)

# State Shared Revenues

Year-to-Year Change in Collections



(All amounts are in Millions)

# REVENUE



## 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?**



# PERSONNEL



## Key Questions:

Knowing that the FY2022 Recommended budget is steered by Town Financial Policies, priorities and directives from Council, and that :

- Estimated operating expenditures will not exceed estimated operating revenues; and
- Contingencies plans are ready to mitigate another economic crisis

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

---

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

Insurance and Non Retirement Benefits

- ▶ Dental and Life insurance are not estimated to increase in FY2020
- ▶ Liability and property insurance are estimated to increase by 5%
- ▶ Medical insurance EPO, PPO and HDHP plans are increasing by 10%
  - ▶ Recommendation is to maintain the cost-sharing ratio that has been consist since migrating to AzMt
  - ▶ The estimated 10% increase to the Town is \$95,755; which is a 0.7% increase to total personnel costs
  - ▶ No change is recommended in the HSA / 457 contributions. Per the Trust, the maximum the Town can contribute to HSA accounts is ½ of the annual deductible for only the high-deductible plan.
- ▶ 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 discussion April 22<sup>nd</sup> and *recommended* to start FY2022 in the department budgets.
  - ▶ “Staffing” does not include new positions that will be discussed April 22<sup>nd</sup> and *recommended* to be designated as “Priority 3”; not in the department budgets until certain service demands and criteria are realized.

HSA Contributions

Employee must be on a High-deductible plan for the Town to contribute	2022*	2021	2020	2019	2018	2017	2016
Town H S A Contribution	1,450	1,450	1,350	1,300	1,300	2,600	2,600
457 deferred comp	1,050	1,050	1,150	1,200	1,200	-	-
Total employee only	2,500	2,500	2,500	2,500	2,500	2,600	2,600
Town H S A Contribution	2,900	2,900	2,700	2,600	2,600	4,420	4,420
457 deferred comp	1,420	1,420	1,620	1,720	1,720	-	-
Total employee and dependent(s)	4,320	4,320	4,320	4,320	4,320	4,420	4,420

\* FY2022 is recommended for Council's consideration

Medical Insurance at Current Staffing

Change in Medical Insurance	Medical	H S A	457	Total
Status quo structure	\$ 966,652	\$ 136,300	\$ 101,260	\$ 1,204,212
Medical insurance increase	96,665	-	-	96,665
Recommended FY2022	\$ 1,063,317	\$ 136,300	\$ 101,260	\$ 1,300,877
Percentage change	10%	0%	0%	8%

Year-to-Year Change in Collections

Medical plan	Total Premium		Change		Premium Paid by		% Paid
	FY2021/22	FY2020/21	Amount	%	Employee	Town	by Town
AzMt HDHP (without HSA)							
Employee only	\$ 6,232	\$ 5,666	\$ 567	10%	\$ -	\$ 6,232	100%
Employee + children	10,017	9,103	914	10%	1,262	10,017	89%
Employee + spouse	10,752	9,771	982	10%	1,507	10,752	88%
Employee + family	14,059	12,772	1,287	10%	2,609	14,059	84%
AzMt HDHP (WITH HSA)							
Employee only	\$ 7,682	\$ 7,116	\$ 567	8%	\$ -	\$ 7,682	100%
Employee + children	12,917	12,003	914	8%	1,262	12,917	91%
Employee + spouse	13,652	12,671	982	8%	1,507	13,652	90%
Employee + family	16,959	15,672	1,287	8%	2,609	16,959	87%
PPO Plan							
Employee only	\$ 6,801	\$ 6,208	\$ 593	10%	\$ -	\$ 6,801	100%
Employee + children	11,080	10,075	1,005	10%	1,426	11,080	89%
Employee + spouse	11,888	10,808	1,080	10%	1,696	11,888	88%
Employee + family	15,521	14,105	1,415	10%	2,907	15,521	84%
PPO Buy-up Plan							
Employee only	\$ 6,953	\$ 6,346	\$ 607	10%	\$ -	\$ 6,953	100%
Employee + children	11,337	10,308	1,029	10%	1,461	11,337	89%
Employee + spouse	12,146	11,043	1,104	10%	1,731	12,146	88%
Employee + family	15,904	14,453	1,451	10%	2,984	15,904	84%
EPO Plan							
Employee only	\$ 7,124	\$ 6,501	\$ 623	10%	\$ -	\$ 7,124	100%
Employee + children	11,624	10,569	1,056	10%	1,500	11,624	89%
Employee + spouse	12,481	11,346	1,135	10%	1,786	12,481	87%
Employee + family	16,333	14,843	1,490	10%	3,070	16,333	84%



Factors, Assertions and Compensation

- ▶ Standard personnel hours for the fiscal year are 2,088
- ▶ PSPRS Tier 1 and Tier 2 rate went down from 38.90% to 30.81%
  - ▶ The Town does not have any employees on Tier 3
- ▶ ASRS rate was up from 12.22% to 12.41%
- ▶ Merit increase analysis of last year’s data, shows an average of 4.4%
  - ▶ Recommend to fund merit increases effective July 1
  - ▶ Estimated amount is \$480,000 which is 3.4% of total personnel costs
- ▶ Recommended HR Studies focused to “recruit and retain high performers” include:
  - ▶ Carried forward from FY2020:
    - Salary grid (pay grades and ranges)
    - Positions’ placement on the salary grid
  - ▶ Carried forward from FY2021:
    - Employee handbook review (by Gust Rosenfield)
    - Comparative benefits payouts when leaving employment

Merit Award and Grid Adjustments

Fiscal year	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Merit Award	4.4%	4.2%	4.4%	4.0%	3.5%	3.5%	3.5%	3.0%	3.0%	0.0%
Salary grid	0.0%	0.0%	2.0%	4.0%	3.5%	3.6%	0.0%	5.5%	0.0%	0.0%

Personnel Costs - Recommended

PERSONNEL COSTS CATEGORIES	Salaries and Wages	WC, FICA and Retirement	Benefits and Allowances	Total	Percentage of Total
Status quo structure	\$ 9,348,360	\$ 2,732,657	\$ 1,423,588	\$13,504,605	95.9%
Recommended merit	373,514	106,486	-	480,000	3.4%
Recommended benefits	-	-	96,665	96,665	0.7%
Recommended personnel	\$ 9,721,874	\$ 2,839,143	\$ 1,520,253	\$14,081,270	
Percentage change status quo	4.0%	3.9%	6.8%	4.3%	

FUNDED BY	Operating Fund	Court Grants	Enterprise Funds	Total	Percentage of Total
Status quo structure	\$12,803,432	\$ 257,678	\$ 443,495	\$13,504,605	95.9%
Recommended merit	456,299	8,074	15,627	480,000	3.4%
Recommended benefits	91,462	1,768	3,435	96,665	0.7%
Recommended personnel	\$13,351,193	\$ 267,520	\$ 462,557	\$14,081,270	
Percentage change status quo	4.3%	3.8%	4.3%	4.3%	

Analysis by Request

Amounts for FY2020/21 and FY2021/22, and provided by department can be available with or after “Department Budgets”

TOTAL GOVERNMENTAL OPERATIONS					Does not include Enterprises	
Expenditure Category	Actual and Audited Fiscal Years Ending June 30					
	2019/20	2018/19	2017/18 *	2016/17	2015/16	2014/15
Total governmental revenues	\$35,893,693	\$36,542,652	\$32,858,741	\$28,550,577	\$27,137,632	\$24,219,715
Total governmental expenditures	28,470,124	34,630,896	26,827,111	29,890,062	23,761,305	26,646,386
Total governmental personnel costs	12,967,351	12,086,195	11,272,087	17,042,534	12,048,490	10,351,959
Cash payments for PSPRS UAAL	3,000,000	9,000,000	1,001,164	5,000,000	-	-
Personnel to revenue %	36.1%	33.1%	34.3%	59.7%	44.4%	42.7%
Personnel to total expenditures %	45.5%	34.9%	42.0%	57.0%	50.7%	38.8%
Change in personnel costs	7.3%	7.2%	-33.9%	41.4%	16.4%	9.0%
Information is from the Town's general ledger system      * 2017/18 Personnel costs included a 21% reduction in medical and 7% Increase in salaries						

# PERSONNEL



## Key Questions:

Knowing that the FY2022 Recommended budget is steered by Town Financial Policies, priorities and directives from Council, and that :

- Estimated operating expenditures will not exceed estimated operating revenues; and
- Contingencies plans are ready to mitigate another economic crisis

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

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



# **PUBLIC SAFETY RETIREMENT SYSTEM (“PSPRS”) AND THE UNFUNDED ACTUARIAL ACCRUED LIABILITY (“UAAL”)**



## **Key Questions:**

### **#4 Prefunding:**

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

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### **#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?

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### **#6 Amount of Unfunded Liability Payment for FY2021:**

Council has tremendously improved the PSPRS funded ratio from 25% in FY2014 to 85% 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?

---

### **#7 Additional Information:**

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

PSPRS

Town police employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (“PSPRS”). The PSPRS administers an agent multiple-employer defined benefit pension plan and an agent multiple-employer defined benefit health insurance premium benefit plan. A nine-member board known as the board of trustees and the participating local boards govern the PSPRS according to the provisions of A.R.S. Title 38, Chapter 5, Article 4.

Currently, all Paradise Valley PSPRS participants are under Tiers 1 & 2.

The PSPRS issue publicly available financial reports that include their financial statements available on the PSPRS website at [www.psprs.com](http://www.psprs.com).

CFO’s NOTE

There are areas the Town can control; and areas the Town can not control. Recommendations for Council’s considerations solely focus on where the Town has control while mitigating risks of potential factors.

Pension systems are an extremely complex concept that relies heavily on experts of the industry. When communicating these concepts, there is a fine line between explaining in less complicated terms and over simplifying the situation.

This presentation is intend to error on the side of finding more understanding with the information we have available.

Key Terms & Definitions

**ACTUARIAL LIABILITY:** The actuarial liability (pension liability) is determined by an actuarial valuation at the end of fiscal years ending June 30 and recognizes the current total obligation with the PSPRS. The most recent valuation was for June 30, 2020 and includes tier 1 & 2 assumptions such as:

- ▶ Discount rate 7.30%(2018=7.4%;2017=7.5%;2016=7.85%;prior=8.0%)
- ▶ *Expected earnings* 7.30%(2018=7.4%;2017=7.5%;2016=7.85%;prior=8.0%)
- ▶ Wage inflation 3.50%;
- ▶ Price inflation 2.50%;
- ▶ Cost-of-living adj. 1.75%;
- ▶ Indices for: Mortality, withdrawals, discharges, and disability; and
- ▶ Litigation and changes in legislation.

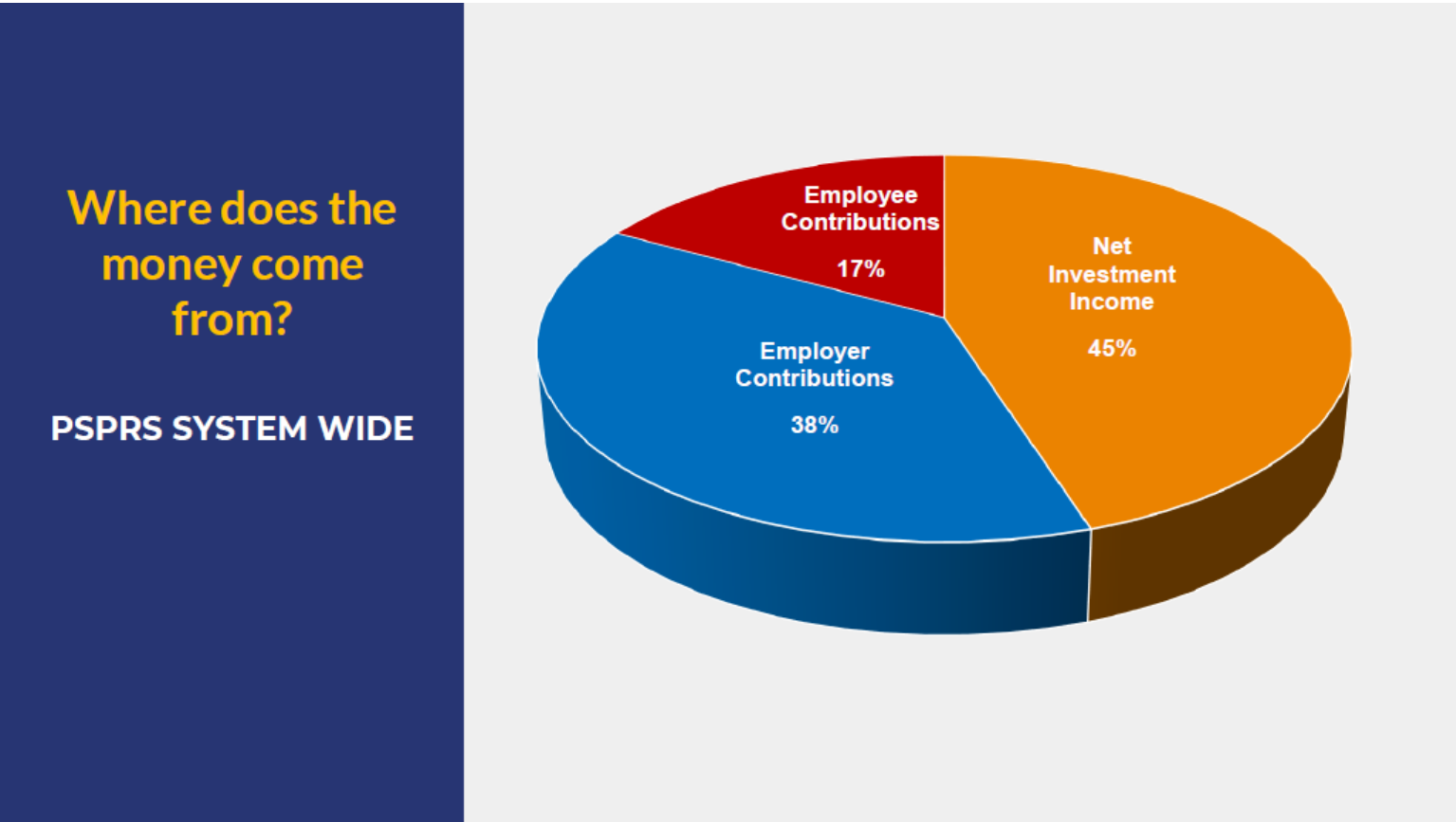
**UNFUNDED LIABILITY:** The amount by which the actuarial accrued pension liability benefits exceeds the actuarial value of plan assets.

**PLAN ASSETS:** The current assets the Town has invested in the plan either through the state set contribution rates recognized each payroll or by other direct cash contributions.

**CONTRIBUTIONS TEIRS 1 & 2:** State statutes establish the pension contribution requirements for active PSPRS employees. Annual actuarial valuations determine employer contribution requirements for PSPRS benefits. The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any *unfunded liability*.

**DISCOUNT RATE:** The *long-term expected rate of return* on pension plan investments that is applied to all periods of projected benefit payments to *determine the total pension liability*. Single rate to estimate future obligations.

**MEARSUREMENT DATE:** The date that at which actuarial is valued at; generally, one year in arrears on the Town’s financial statements.



Message from the PSPRS conference was better functioning operations ahead, but investment earnings alone will not cover the UAAL gap. Debt Financing is becoming a trend. With others in the docket.

The Town has discussed this. Since the UAAL has been reduced from 75% to 15% and the Town has cash on hand and budgeted, issuing debt does not appear advantageous.

Gaining traction is a concept PV Town Council has discussed previously and the Banking & Investment Summer Workgroup of 2020 advised on:

Using a pension reserve accounts to diversify investments and maintain some control rather than placing funds all in PSPRS at once.

Equation

**C + I = B + E**

Contributions      Investment Income      Benefits      Expenses

- Investment returns will not solve large unfunded liabilities
- Additional contributions leverage investment opportunities
- Over a 17 year amortization cycle, \$1 million will save taxpayers an estimated \$1.8 million, and the original \$1 million will still be in the fund
- Continued diligence (investment & actuarial risk)

Pension Debt Financing Examples

EMPLOYER	FINANCING	AMOUNT	TERM	RATE	EST. PV SAVINGS
Flagstaff	COPs	\$130.0m	20-YR	2.7%	\$76.3m
Gila Co.	POBs	\$16.9m	19-YR	2.98%	\$7.5m
Pinal Co.	POBs	\$89.1m	17-YR	2.61%	\$49.9m
Yuma Co.	POBs	\$35.1m	15-YR	2.38%	\$19.6m
Yuma (City)	POBs	\$159.5m	18-YR	2.38%	\$72.8m



ACTUARIAL VALUATION  
AS OF JUNE 30, 2020

CONTRIBUTIONS APPLICABLE TO THE  
PLAN/FISCAL YEAR ENDING JUNE 30, 2022



**FOSTER & FOSTER**  
ACTUARIES AND CONSULTANTS

GASB STATEMENT NO. 68

EMPLOYER REPORTING ACCOUNTING SCHEDULES  
MEASUREMENT DATE JUNE 30, 2019

GASB STATEMENT NO. 75

EMPLOYER REPORTING ACCOUNTING SCHEDULES  
MEASUREMENT DATE JUNE 30, 2019



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ACTUARIES AND CONSULTANTS



Actuarial

**Actuarial Accrued Liability (AAL):** The difference between (i) the actuarial present value of future plan benefits, and (ii) the actuarial present value of future normal cost. Sometimes referred to as “accrued liability” or “past service liability”.

**Unfunded Actuarial Accrued Liability (UAAL):** The positive difference, if any, between the actuarial accrued liability and valuation of assets. Sometimes referred to as the “unfunded liability”.

**Funding Value of Assets:** The value of current plan assets recognized for valuation purposes. Generally based on a phased-in recognition of all or a portion of market related investment return. Sometimes referred to as Actuarial Value of Assets.

**Valuation Assets:** The valuation assets are the assets used in determining the unfunded liability of the plan. For purposes of GASB Statements Nos. 67 and 68, the valuation assets are equal to the market value of assets.

**Actuarial Value of Assets:** The value of pension plan investments and other property used by the actuary for the purpose of an actuarial valuation (sometimes referred to as valuation assets). Actuaries often select an asset valuation method that smooths the effects of short-term volatility in market value of assets

**Normal Cost (NC):** The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as “current service cost”. Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.

**Market Value of Assets:** The fair value of plan assets as reported in the plan’s audited financial statements.

Accounting Schedules

**Total Pension Liability (TPL):** The TPL is the portion of the actuarial present value of projected benefit payments that is attributed to past periods of member services.

**Net Pension Liability (NPL):** The NPL is the liability of employers and non-employer contribution entities to plan members for benefits provided through a defined benefit pension plan.

**Fiduciary Net Position:** The fiduciary net position is the market value of the assets of the trust dedicated to the defined benefit provisions.

**Valuation Assets:** The valuation assets are the assets used in determining the unfunded liability of the plan. For purposes of GASB Statements Nos. 67 and 68, the valuation assets are equal to the market value of assets.

**Service Costs:** The service cost is the portion of the actuarial present value of projected benefit payments that is attributed to a valuation year.

Actuarial

Liabilities and Funded Ratios by Benefit - Tiers 1 & 2

	June 30, 2020	June 30, 2019
<b>Pension</b>		
Actuarial Present Value of Benefits		
Retirees and Beneficiaries	\$ 27,029,542	\$ 27,033,424
DROP Members	2,635,337	2,527,083
Vested Members	220,758	27,331
Active Members	15,879,355	14,099,528
Total Actuarial Present Value of Benefits	45,764,992	43,687,366
Actuarial Accrued Liability (AAL)		
All Inactive Members	29,885,637	29,587,838
Active Members	10,373,189	8,576,493
Total Actuarial Accrued Liability	40,258,826	38,164,331
Actuarial Value of Assets (AVA)	34,417,938	29,762,486
Unfunded Actuarial Accrued Liability		
Gross Unfunded Actuarial Accrued Liability	5,840,888	8,401,845
Stabilization Reserve	0	0
Net Unfunded Actuarial Accrued Liability	5,840,888	8,401,845
Funded Ratio (AVA / AAL)	85.5%	78.0%

“Actuarial Value of Assets” equivalent to “Plan Fiduciary Net Position”

“Net Unfunded Actuarial Accrued Liability” equivalent to “Net Pension Liability”.

Different methods to determine values for both above, BUT:

“Total Actual Accrued Liability” **ALWAYS EQUALS** Total Pension Liability

Accounting Schedules

NOTE 7 PENSIONS (Continued)

Changes in the Net Pension Liability

PSPRS - Police	Pension Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2019	\$ 36,342,797	\$ 18,606,745	\$ 17,736,052
Adjustments to beginning of year	-	(13,309)	13,309
Changes for the year:			
Service cost	671,680	-	671,680
Interest on the total liability	2,659,136	-	2,659,136
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the liability	(677,490)	-	(677,490)
Changes of assumptions or other inputs	1,328,614	-	1,328,614
Contributions - employer	-	10,736,527	(10,736,527)
Contributions - employee	-	237,748	(237,748)
Net investment income	-	1,341,038	(1,341,038)
Benefit payments, including refunds of employee contributions	(2,160,406)	(2,160,406)	-
Administrative expense	-	(24,283)	24,283
Other changes	-	50,956	(50,956)
Net changes	1,821,534	10,181,580	(8,360,046)
Balances at June 30, 2020	\$ 38,164,331	\$ 28,775,016	\$ 9,389,315

Question: How is the “Interest on the total liability” or “Interest on the Unfunded Liability” calculated?

TOWN OF PARADISE VALLEY, ARIZONA  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CHANGES IN THE TOWN'S NET PENSION LIABILITY AND RELATED RATIOS AGENT PENSION PLAN  
 Year Ended June 30, 2020

CAFR Page 78

Town of Paradise Valley Public Safety Personnel Retirement System	Reporting Fiscal Year (Measurement Date)						2014-2011
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)	
Total pension liability							Information not available*
Service cost	\$ 671,680	\$ 653,388	\$ 625,699	\$ 503,757	\$ 413,268	\$ 359,518	
Interest on the total pension liability	2,659,136	2,526,602	2,325,975	2,201,463	2,160,197	1,795,059	
Changes on benefit terms	-	-	388,150	745,131	-	710,651	
Differences between expected and actual experience in the measurement of the pension liability	(677,490)	477,835	572,004	692,654	24,766	514,325	
Changes of assumptions or other inputs	1,328,614	-	1,461,598	1,116,822	-	3,303,865	
Benefit payments, including refunds of employee contributions	(2,160,406)	(2,263,213)	(2,250,789)	(2,453,037)	(1,782,549)	(2,335,144)	
Net change in total pension liability	1,821,534	1,394,612	3,122,637	2,806,790	815,682	4,348,274	
Total pension liability - beginning	36,342,797	34,948,185	31,825,548	29,018,758	28,203,076	23,854,802	
Total pension liability - ending (a)	\$ 38,164,331	\$ 36,342,797	\$ 34,948,185	\$ 31,825,548	\$ 29,018,758	\$ 28,203,076	
Plan fiduciary net position							
Contributions - employer	\$ 10,736,527	\$ 2,971,262	\$ 8,029,673	\$ 3,056,411	\$ 1,708,529	\$ 1,045,144	
Contributions - employee	237,748	237,556	320,063	312,821	411,948	303,349	
Net investment income	1,341,038	1,121,032	1,380,854	57,574	307,573	917,883	
Benefit payments, including refunds of employee contributions	(2,160,406)	(2,263,213)	(2,250,789)	(2,453,037)	(1,782,549)	(2,335,144)	
Hall/Parker Settlement	-	-	-	-	-	-	
Administrative expense	(24,283)	(17,762)	(12,618)	(8,686)	(7,885)	(7,393)	
Other changes	50,956	(442,067)	182,874	679,608	(5,169)	34,308	
Net change in plan fiduciary net position	10,181,580	1,606,808	7,650,057	1,644,691	632,447	(41,853)	
Plan fiduciary net position - beginning	18,606,745	16,999,937	9,349,880	7,705,189	7,072,742	7,114,595	
Adjustments to beginning of year	(13,309)	-	-	-	-	-	
Plan fiduciary net position - ending (b)	28,775,016	18,606,745	16,999,937	9,349,880	7,705,189	7,072,742	
Town's net pension liability - ending (a) - (b)	\$ 9,389,315	\$ 17,736,052	\$ 17,948,248	\$ 22,475,668	\$ 21,313,569	\$ 21,130,334	
Plan fiduciary net position as a percentage of the total pension liability	75.40%	51.20%	48.64%	29.38%	26.55%	53.55%	
Covered payroll	\$ 2,929,989	\$ 2,862,125	\$ 2,757,599	\$ 2,706,916	\$ 2,290,190	\$ 2,200,151	
Town's net pension liability as a percentage of payroll	320.46%	619.68%	650.87%	830.31%	930.65%	215.93%	

\* Additional years' information will be displayed as it becomes available

Town of Paradise Valley  
Public Safety Personnel Retirement System

	Reporting Fiscal Year (Measurement Date)					
	2020 (2019)	2019 (2018)	2018 (2017)	2017 (2016)	2016 (2015)	2015 (2014)
Total pension liability						
Service cost	\$ 671,680	\$ 653,388	\$ 625,699	\$ 503,757	\$ 413,268	\$ 359,518
Interest on the total pension liability	2,659,136	2,526,602	2,325,975	2,014,463	2,160,197	1,795,059
Changes on benefit terms	-	-	388,150	1,131	-	710,651
Differences between expected and actual experience in the measurement of the pension liability	(677,490)	477,835	572,004	692,631	24,766	514,325
Changes of assumptions or other inputs	1,328,614	-	1,461,598	1,116,822	-	3,303,865
Benefit payments, including refunds of employee contributions	(2,160,406)	(2,263,213)	(2,250,789)	(2,453,037)	(1,782,549)	(2,335,144)
Net change in total pension liability	1,821,534	1,394,612	3,122,637	2,806,790	815,682	4,348,274
Total pension liability - beginning	36,342,797	34,948,185	31,825,548	29,018,758	28,203,076	23,854,802
Total pension liability - ending (a)	\$ 38,164,331	\$ 36,342,797	\$ 34,948,185	\$ 31,825,548	\$ 29,018,758	\$ 28,203,076

PSPRS FY 2017: Interest on the Total Pension Liability	
Beginning balance of Total Pension Liability	\$ 31,825,548
Plus 50% of Service costs of \$625,699	312,850
Less 50% of Benefit payments of (\$2,250,789)	(1,125,395)
Subtotal	31,013,003
Multiply times the discount / earnings rate	7.50%
<b>Interest on the Total Pension Liability</b>	<b>\$ 2,325,975</b>



2020

Actuarial

Derivation of Experience (Gain)/Loss

	Tiers 1 & 2	
	Pension	Health
(1) Unfunded Actuarial Accrued Liability as of June 30, 2019	8,401,845	54,150
(2) Normal Cost Developed in Last Valuation	456,709	12,906
(3) Actual Contributions	4,645,860	20,898
(4) Expected Interest On (1), (2), and (3)	480,087	4,146
(5) Expected Unfunded Actuarial Accrued Liability as of June 30, 2020 (1)+(2)-(3)+(4)	4,692,781	50,304
(6) Changes to UAAL Due to Assumptions, Methods and Benefits	0	0
(7) Change to UAAL Due to Actuarial (Gain)/Loss	1,148,107	(2,406)
(8) Unfunded Actuarial Accrued Liability as of June 30, 2020	5,840,888	47,898

Smoothing rates over time: The [Actuarial Report](#) assumes that the discount and expected earnings rates are the same; and nets the interest to grow the pension with investment earnings to a single line shown on line (4) above.

Actual PSPRS earnings vary year-to-year, but smoothed over time: (Next Slides)

Position at measurement date: The [Accounting schedules](#) use the discount rate to calculate the growth of the total pension liability, and uses the actual investment earnings with PSPRS.

The Actuarial keeps the focus on the long-term and establishes contribution rates to amortize the UAAL over decades in a simple format.

The CAFR shows that many factors outside of the Town’ will fluctuation year to year. By knowing the Town’s pension position, the Town can maintain a reasonably funding ratio with a designated account.

Accounting Schedules

2019

NOTE 7 PENSIONS (Continued)

Changes in the Net Pension Liability

PSPRS - Police	Pension Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at June 30, 2019	\$ 36,342,797	\$ 18,606,745	\$ 17,736,052
Adjustments to beginning of year	-	(13,309)	13,309
Changes for the year:			
Service cost	671,680	-	671,680
Interest on the total liability	2,659,136	-	2,659,136
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the liability	(677,490)	-	(677,490)
Changes of assumptions or other inputs	1,328,614	-	1,328,614
Contributions - employer	-	10,736,527	(10,736,527)
Contributions - employee	-	237,748	(237,748)
Net investment income	-	1,341,038	(1,341,038)
Benefit payments, including refunds of employee contributions	(2,160,406)	(2,160,406)	-
Administrative expense	-	(24,283)	24,283
Other changes	-	50,956	(50,956)
Net changes	1,821,534	10,181,580	(8,360,046)
Balances at June 30, 2020	\$ 38,164,331	\$ 28,775,016	\$ 9,389,315

PSPRS - Police	1% Decrease	Current	1% increase
	(6.30%)	Discount Rate (7.30%)	(8.30%)
Net pension liability	\$ 14,305,237	\$ 9,389,315	\$ 5,342,207

Fiscal Year	PSPRS Funding	PSPRS Return	Retained Internally	Internal Return
2000	\$ 10,000,000	12.31%	\$ 10,000,000	4.15%
2001	\$ 11,231,000	-16.83%	\$ 10,415,055	3.68%
2002	\$ 9,340,823	-14.91%	\$ 10,798,135	3.37%
2003	\$ 7,948,106	6.70%	\$ 11,161,782	2.67%
2004	\$ 8,480,629	14.97%	\$ 11,460,086	2.89%
2005	\$ 9,750,179	9.11%	\$ 11,791,112	2.85%
2006	\$ 10,638,421	8.28%	\$ 12,127,722	3.10%
2007	\$ 11,519,282	17.04%	\$ 12,503,406	3.21%
2008	\$ 13,482,168	-7.25%	\$ 12,905,073	2.79%
2009	\$ 12,504,710	-17.77%	\$ 13,265,644	2.23%
2010	\$ 10,282,623	13.46%	\$ 13,561,087	2.40%
2011	\$ 11,666,664	17.37%	\$ 13,885,990	2.08%
2012	\$ 13,693,164	-0.79%	\$ 14,174,631	1.40%
2013	\$ 13,584,988	10.98%	\$ 14,373,609	1.70%
2014	\$ 15,076,620	13.22%	\$ 14,618,063	1.83%
2015	\$ 17,069,749	3.68%	\$ 14,885,419	1.50%
2016	\$ 17,697,916	0.61%	\$ 15,109,445	1.36%
2017	\$ 17,805,873	11.85%	\$ 15,315,427	0.61%
2018	\$ 19,915,869	7.07%	\$ 15,409,490	1.39%
2019	\$ 21,323,921	5.45%	\$ 15,622,911	2.35%
2020	\$ 22,486,074	0.91%	\$ 15,990,700	1.60%

**Example of Increased Funding & Investment Impact**

**Excess PSPRS Return:**  
\$6,495,374

**PSPRS 20 Year Ave. Return:** 6.24%

**Excess PSPRS Return:** 3.25%

Internal Return is LGIP & Similar Investment Rate

Includes 2 most significant investment downturns in history:

- Dot com bubble
- Great Recession

Also includes Pension Benefit Increase (PBI) impact, which has now been eliminated with pension reform

Fiscal Year	PSPRS Funding	PSPRS Return	Retained Internally	Internal Return
2011	\$ 10,000,000	17.37%	\$ 10,000,000	2.08%
2012	\$ 11,737,000	-0.79%	\$ 10,207,865	1.40%
2013	\$ 11,644,278	10.98%	\$ 10,351,159	1.70%
2014	\$ 12,922,819	13.22%	\$ 10,527,203	1.83%
2015	\$ 14,631,216	3.68%	\$ 10,719,740	1.50%
2016	\$ 15,169,645	0.61%	\$ 10,881,071	1.36%
2017	\$ 15,262,180	11.85%	\$ 11,029,410	0.61%
2018	\$ 17,070,748	7.07%	\$ 11,097,149	1.39%
2019	\$ 18,277,650	5.45%	\$ 11,250,844	2.35%
2020	\$ 19,273,782	0.91%	\$ 11,515,708	1.60%
Excess PSPRS Return			\$ 7,758,074	
PSPRS 10 Year Average Annual Rate of Return				9.27%
<b>Note:</b> Internal Return is LGIP from FY17 thru FY20				
Weighted LGIP / 10 Year US Treasuries from FY00 thru FY16				

**Example of Increased Funding & Investment Impact**

**Excess PSPRS Return:**  
\$7,758,074

**PSPRS 10 Year Ave. Return:** 9.27%

**Excess PSPRS Return:** 7.76%

Internal Return is LGIP & Similar Investment Rate

Includes COVID investment downturn

Also includes Pension Benefit Increase (PBI) impact, which has now been eliminated with pension reform

# Investment Management Annual Update

**Harry Papp**, Chairman, Investment Committee

**Mark Steed**, Chief Investment Officer



These slides show the impact of investing today. Like 401k plans, investments will grow over time and cash contributions are need to get to the amount needed for a fully funded retirement.

Closing message in the Update was to pay down the unfunded liability, but also allow investment earnings to assist; limited advantage in overfunding.

Conference is available on:  
[https://www.youtube.com/watch?v=7yphgqLjseA&list=PLfa1DZbT\\_Ok030kkpEMKGTwGkNymYqPf5&index=3](https://www.youtube.com/watch?v=7yphgqLjseA&list=PLfa1DZbT_Ok030kkpEMKGTwGkNymYqPf5&index=3)

Fiscal Year	PSPRS Funding	PSPRS Return	Retained Internally	Internal Return
2016	\$ 10,000,000	0.61%	\$ 10,000,000	1.36%
2017	\$ 10,061,000	11.85%	\$ 10,061,417	0.61%
2018	\$ 11,253,229	7.07%	\$ 10,200,767	1.39%
2019	\$ 12,048,832	5.45%	\$ 10,440,910	2.35%
2020	\$ 12,705,493	0.91%	\$ 10,607,878	1.60%
Excess PSPRS Return			\$ 2,097,615	
PSPRS 5 Year Average Annual Rate of Return				5.41%
<b>Note:</b> Internal Return is LGIP from FY17 thru FY20				
Weighted LGIP / 10 Year US Treasuries For FY16				

**Example of Increased Funding & Investment Impact**

**Excess PSPRS Return:**  
\$2,097,615

**PSPRS 5 Year Ave. Return:** 5.41%

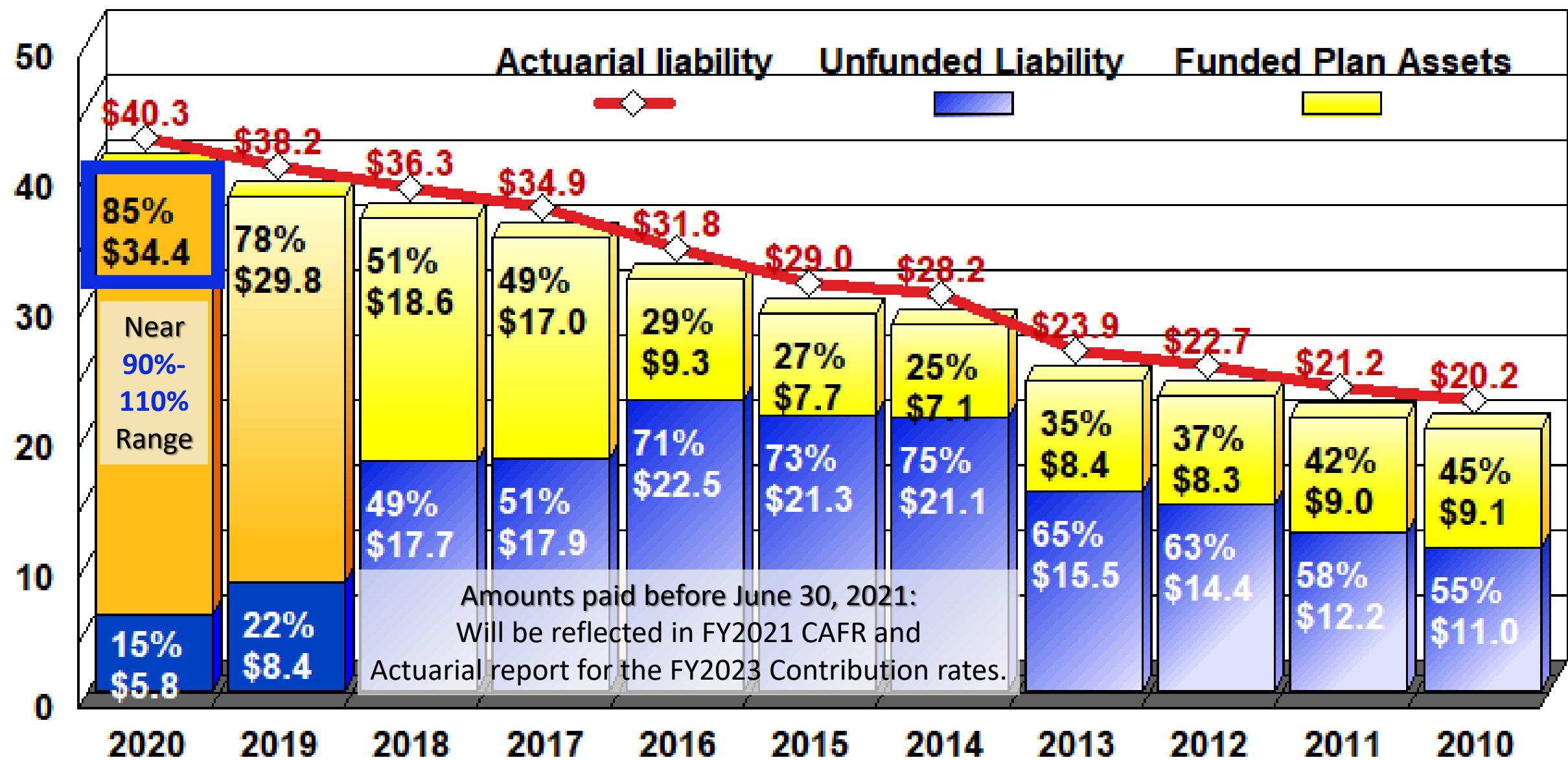
**Excess PSPRS Return:** 4.20%

Internal Return is LGIP & Similar Investment Rate

Includes COVID investment downturn

Also includes some Pension Benefit Increase (PBI) impact, which has now been eliminated with pension reform

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%

Arizona Public Safety Personnel Retirement System  
Actuarial Valuation Report as of June 30, 2020 – Paradise Valley Police Dept. (076)

Impact of Additional Contributions

	Additional Contribution (000s)										
	\$0	\$100	\$200	\$300	\$400	\$500	\$600	\$700	\$800	\$900	\$1,000
Impact On											
Funded Status 06/30/2020	85.5%	85.7%	86.0%	86.2%	86.5%	86.7%	87.0%	87.2%	87.5%	87.7%	88.0%
FYE 2022 Contribution Rate	30.81%	30.49%	30.16%	29.84%	29.52%	29.19%	28.87%	28.55%	28.23%	27.90%	27.58%

Table shows the hypothetical change in the funded status and contribution rate from the June 30, 2020 actuarial valuation results for Tiers 1 & 2 if an additional contribution of the amount shown had been made to the Fund on June 30, 2020. This illustration can help estimate the impact of contributing additional monies to the fund in the future.

Lower Unfunded Liability only impacts the Town’s rate; employee rates for Tiers 1 and 2 are not effected and set at 7.65%.  
  
Tier 3 are set by the Board.



By lowering the mandatory “unfunded liability contribution rates” the Town to realize over \$2,800,000 in budgetary savings over the last 4 fiscal years. This was extremely important 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

Savings from each year’s lump sum payments are shown horizontally (rows).  
Savings realized in each fiscal year are shown vertically (columns).

Calculation used actual staffing costs for each budget cycle.

Prefunding Bi-weekly Contributions

Town prepays the estimated amount for the entire fiscal year’s contributions July 1 and is placed in a separate prefunding account. This prefunding account participates in the PSPRS investment pool when received and as long as it is there. With each bi-weekly payroll, the amounts for employer and employee contributions are moved from the prefunding account to the PSPRS contribution accounts.

The Town only transmits additional cash for contributions to PSPRS if the estimated prefunding amount was not sufficient to cover actual payroll contributions. New in FY2020: At year end the Town has the option to roll the prefunding to the to the next fiscal year or apply it to the UAAL in the current fiscal year.

Recommendation – Continue in the prefunding program and rolling the balance forward to the next fiscal year.

Other Considerations

Funding for the PSPRS UAAL has been authorized by Council for FY2021 and funded by carry-forward cash from FY2020 and easing back into priorities in FY2021. However, other considerations before expending large amounts of cash than can’t be pulled back, include but not limited to:

- 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

Funding Ratio and Payment Amounts

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				

Recommendation – Bring the funded ratio at level no less than 90%; and prior discussions with Council and advised from the 2020 B&I SWG:

- Assign cash for PSPRS reserve in the FY2021 CAFR and review annually; recommend 5% of Total Liability (\$2.0mm)
- Develop reserve-funding policy with a funding ratio of 90%-110%
- Hear from Town’s investment managers on options for the reserve
- Council can unassign the reserve as policies develop, funding ratio increases over 110%, or in an emergency

Timing of UAAL Payments

Participation in the PSPRS investment pool starts when payment is received; any time during the year.

Payments received physically by June 30, 2021 (FY2021); will lower the minimum contribution rates starting July 1, 2022 (FY2023).

Recommendation – Wire in 3<sup>rd</sup> or 4<sup>th</sup> week in June after April’s revenue numbers are available and reviewed.

# **PUBLIC SAFETY RETIREMENT SYSTEM (“PSPRS”) AND THE UNFUNDED ACTUARIAL ACCRUED LIABILITY (“UAAL”)**



Key Question:

#4 Prefunding:

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

Management Recommendations:

#4 Prefunding:

Recommendation – Continue in the prefunding program and rolling the balance forward to the next fiscal year.



# **PUBLIC SAFETY RETIREMENT SYSTEM (“PSPRS”) AND THE UNFUNDED ACTUARIAL ACCRUED LIABILITY (“UAAL”)**



## **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?

## **Management Recommendations:**

### **#5 Timing of Payment:**

Recommendation – Pay the amount determined in Key Question #6 in the June, after April’s revenue numbers are available, reviewed and Management does not see a revenue trend or risk indicator that signals a materially adverse impact to the Town’s financial condition warranting Council action.

# **PUBLIC SAFETY RETIREMENT SYSTEM (“PSPRS”) AND THE UNFUNDED ACTUARIAL ACCRUED LIABILITY (“UAAL”)**



## **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?

## **Management Recommendations:**

### **#6 Amount of Unfunded Liability Payment for FY2021:**

Recommendation – Bring the funded ratio at level no less than 90% (\$1,800,000 payment in FY2021)

Allow earnings to bring the funded ratio over 100% over time with:

- The current balance in PSPRS investment pool (90% ratio)
- Continue the prefunding program(s) – even when over 100%
- Pay the amortized minimum contribution rates

Prior discussions with Council and advised from the 2020 B&I SWG:

- Assign cash for PSPRS reserve in the FY2021 CAFR and review annually; recommend 5% of Total Liability (\$2.0mm)
- Develop reserve-funding policy with a funding ratio of 90%-110%
- Hear from Town’s investment managers on options for the reserve
- Council can unassign the reserve as policies develop, funding ratio increases over 110%, or in an emergency

Regardless of the funded ratio, once cash is in the PSPRS, it’s in.



# **PUBLIC SAFETY RETIREMENT SYSTEM (“PSPRS”) AND THE UNFUNDED ACTUARIAL ACCRUED LIABILITY (“UAAL”)**



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?



# **FINANCIAL UPDATE**

## **Budget 2021/22**



**April 8<sup>th</sup>, 2021**