

**RESOLUTION NUMBER 3054**

**A RESOLUTION OF THE MAYOR AND CITY COUNCIL OF THE CITY OF COTTONWOOD, ARIZONA, ADOPTING A PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM PENSION FUNDING POLICY.**

**WHEREAS, new reporting requirements issued by the Governmental Accounting Standards Board (GASB) necessitate the creation and adoption by the City of Cottonwood a Public Safety Personnel Retirement System Pension Funding Policy ("Policy"); and**

**WHEREAS, the Government Finance Officers Association ("GFOA") and the League of Arizona Cities and Towns recommend the adoption of such a policy as a best practice; and**

**WHEREAS, HB 2097 requires all governing bodies participating in the Public Safety Personnel Retirement System to adopt such a policy; and**

**WHEREAS, bond rating agencies encourage pension funding policies to improve the management of pension plans; and**

**WHEREAS, the adoption of such a policy will contribute to the improvement of fund management and the reduction of City contribution volatility; and**

**WHEREAS, the adoption of such a policy will contribute to intergenerational equity through the allocation of costs across generations of taxpayers.**

**NOW, THEREFORE, BE IT RESOLVED BY THE MAYOR AND CITY COUNCIL OF THE CITY OF COTTONWOOD, YAVAPAI COUNTY, ARIZONA:**

**THAT, the city's Public Safety Personnel Retirement System Pension Funding Policy is hereby adopted and attached hereto as Exhibit A.**

**PASSED AND ADOPTED BY THE CITY COUNCIL AND APPROVED BY THE MAYOR OF THE CITY OF COTTONWOOD, YAVAPAI COUNTY, ARIZONA, THIS 16TH DAY OF JUNE 2020.**

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\_\_\_\_\_  
Tim Elinski, Mayor

APPROVED AS TO FORM:

  
\_\_\_\_\_  
Steve Horton, Esq., City Attorney

ATTEST:

  
\_\_\_\_\_  
Marianne Jiménez, City Clerk

Exhibit A to Resolution Number 3054

**City of Cottonwood  
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 City and to comply with new 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.

The City's police and fire 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 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 Cottonwood has two trust funds, one for police employees and one for fire employees.

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

| <b>Trust Fund</b>         | <b>Assets</b> | <b>Accrued Liability</b> | <b>Unfunded Actuarial Accrued Liability</b> | <b>Funded Ratio</b> |
|---------------------------|---------------|--------------------------|---|---------------------|
| Cottonwood Police         | 8,413,050     | 19,496,199               | 11,083,149                                  | 43.2%               |
| Cottonwood Fire           | 7,914,449     | 10,589,364               | 2,674,915                                   | 74.7%               |
| City of Cottonwood Totals | 16,327,499    | 30,085,563               | 13,758,064                                  | 54.2%               |

**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.

**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 City of Cottonwood's liability
- The fluctuating cost of an UAAL causes strain on the City's budget, affecting our ability to provide services
- 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. The estimated combined ARC for FY 2021 is \$2,146,460 and will be able to be paid from operating funds without diminishing City services.
- Additional payments above the ARC
  - Annually, as part of the budget process evaluate current year 0.5% sales tax increase to see if budgeted 10% compares to actuals. Make an excess payment in the following fiscal year if funds are available and payment is approved by Council as part of the budget

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, 2017 Actuarial Valuation.