



HIGHLANDS FIRE DISTRICT
3350 OLD MUNDS HWY, FLAGSTAFF, AZ 86005
(928) 525-1717

RESOLUTION NUMBER: 2021-07-20 (9)(D)

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE HIGHLANDS FIRE DISTRICT, FLAGSTAFF, AZ, ADOPTING THE PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM PENSION FUNDING POLICY AND ACCEPTING THE DISTRICT'S SHARE OF ASSETS AND LIABILITIES UNDER THE PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM ACTUARIAL VALUATION REPORT.

WHEREAS, Arizona Revised Statute § 38-38-863.01 requires the governing body all Public Safety Personnel Retirement System (PSPRS) employers to adopt a pension funding policy and formally accept their share of the assets and liabilities based on the PSPRS actuarial valuation report by July 1, 2019 and annually thereafter;

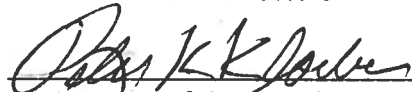
WHEREAS, the Board of Directors desires to adopt a PSPRS pension funding policy to clearly communicate the District's pension funding objectives and its commitment to District employees and sound financial management of the District and to comply with the statutory requirements; and

NOW, THEREFORE, BE IT RESOLVED by the Highlands Fire District Board of Directors as follows:


Section 1. The Board of Directors hereby adopts the PSPRS Pension Funding Policy attached hereto as Fiscal Policy 133 - PSPRS Pension Funding Policy and incorporated herein by this reference.

Section 2. The Board of Directors hereby accepts, as set forth in the Policy, the District's share of assets and liabilities based on the PSPRS actuarial valuation report.

APPROVED AND ADOPTED on this 20 day of July, 2021, by the Highlands Fire District Board of Directors.



Chairperson of the Board

ATTEST:


Clerk of the Board



Board Member



Board Member

Board Member

HIGHLANDS FIRE DISTRICT

FISCAL POLICY GUIDELINES

TITLE:	FY 2022 PSPRS Pension Funding Policy	ORIGINATED BY:	Legal Counsel
NUMBER:	133	BOARD APPROVED:	07/20/2021

I. PURPOSE

The intent of this policy is to clearly communicate the Board's pension funding objectives and its commitment to our employees and the financial management of the Public Safety Personnel Retirement System (PSPRS) and to comply with the statutory requirements of ARS 38-863.01.

II. SCOPE

This policy applies to District financial management personnel that manage pension funding for PSPRS personnel.

III. DEFINITIONS.

- A. **Unfunded Actuarial Accrued Liability (UAAL)** - Is the difference between a pension fund's assets and projected pension benefit payments promised to employees.
- B. **Annual Required Contribution (ARC)** - Is the annual amount an employer is required to contribute into a pension fund, 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 estimated cost to cover the unfunded portion of pension benefits earned by employees in the past. Payments towards reducing the UAAL are collected over a period of time referred to as the amortization period. The ARC is often expressed as a percentage of the current payroll.
- C. **Funded Ratio** - Is the ratio of fund assets to actuarial accrued liability, which is the net present value of future projected benefits minus the net present value of future projected Normal Cost. A pension that is fully funded has 100% funded ratio.
- D. **Intergenerational Equity** – Ensures that no generation is burdened by substantially more or less pension costs than past or future generations.
- E. **Contingency Reserve Fund (CRF)** – Is a reserve fund dedicated to managing the District's pension liabilities and maintaining as near to a 100% funded ratio as possible despite adverse market and/or actuarial events.

IV. POLICY GUIDELINES

- A. Full-time fire operations employees participate in 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 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.

- B. Under an agent multiple-employer plan each agency participating the Tiers 1 & 2 plan have 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.
- C. The District maintains trust funds for Tier 1 & 2, and Tier 3 fire operations employees. Pursuant to A.R.S. 38-863.01, the Board must formally accept the assets, liabilities, and current funding ratio of the District's PSPRS trust funds from the **June 30, 2020** actuarial valuation, which are detailed below:

Trust Fund	AVA (Assets)	AAL (Liability)	UAAL (Unfunded)	Funded Ratio
Tiers 1 & 2	\$8,352,492	\$8,352,492	\$6,116,377	57.7%
Tier 3	\$23,570,444	\$23,239,599	(\$330,845)	101.4%

Actuarial Value of Assets (AVA)

Actuarial Accrued Liability (AAL)

Unfunded Actuarial Accrued Liability (UAAL)

Funded Ratio – (AVA / AAL)

D. PENSION FUNDING ACCOMPLISHMENTS AND GOALS

- 1) The Board took action to sell Certificates of Participation (COPs) and refinance the District's UAAL at a lower interest rate. On July 15, 2021, the District paid \$7,251,008 from the proceeds with the intention of bringing the Tier 1 & 2 Trust UAAL to 100% Funded Ratio. Fully funded pension plans are the best way to achieve taxpayer and member intergenerational equity.
- 2) The Board intends to continue making full ARC payments from its operating funds to cover normal pension costs as determine by PSPRS annual actuarial reports.
- 3) The Board intends to utilize a CRF to maintain, to the greatest extent possible, a 100% Funded Ratio for the trust.