



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

RESOLUTION NUMBER: 2022-06-21 (10)(B)

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 21 day of June, 2022, by the Highlands Fire District Board of Directors.



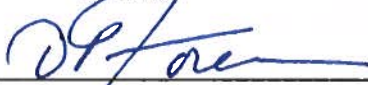
Chairperson of the Board

ATTEST: 


Clerk of the Board



Board Member



Board Member



Board Member



HIGHLANDS FIRE DISTRICT
FISCAL POLICY GUIDELINES

TITLE: **PSPRS Pension Funding Policy for FY 2023** ORIGINATED BY: **Legal Counsel**
NUMBER: **133** BOARD APPROVED: **06/21/2022**

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 sound financial management of the Highlands Fire District (District) and to comply with the statutory requirements of ARS 38-863.01.

The Highlands Fire District is a member of the Public Safety Personnel Retirement System (PSPRS) for full-time firefighters. Firefighter contributions that are used to help pay for the pension plan are managed by PSPRS.

This policy will demonstrate how the District will meet its financial obligation for funding firefighter pension plans, explain how and when funding requirements for the plan will be met, and define the funded ratio targets and timelines for reaching the ratio for the plans.

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. 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 of the benefit of all members under its administration; and 2) serve as the statewide uniform administrator for the distribution of benefits. PSPRS provides annual actuarial reports to determine the status of each year. The Actuarial Valuation Report for Highlands Fire District (199) is available on the PSPRS website.
- B. 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 Highlands Fire District has one trust fund for fire operations employees. The Board formally accepts the assets, liabilities, and current funding ratio of the District's PSPRS trust funds from the June 30, 2021 actuarial valuation, which are detailed below.
- 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, 2021** actuarial valuation, which are detailed below:

Trust Fund	AVA	AAL	UAAL	Funded Ratio
Tiers 1 & 2 Members	\$9,244,674	\$15,095,820	\$5,851,146	61.2%
Tier 3 Members (Employer Risk Pool)	\$45,863,401	\$42,733,537	(3,129,864)	107.3%

Actuarial Value of Assets (AVA)
Actuarial Accrued Liability (AAL)

Unfunded Actuarial Accrued Liability (UAAL)
Funded Ratio – (AVA / AAL)

On July 15, 2021, the District completed the financing of Pension Certificates of Participation transaction. The District issued \$8,510,000 million in obligations to fund our public safety pension unfunded liability and set up a \$1 million contingency reserve fund to manage future impacts. Average annual debt service is approximately \$492,437 through June 2046. The District paid \$7,251,008 to PSPRS, which was applied to the UAAL and future obligations.

Updated estimate on July 15, 2021:

Trust Fund	~ Assets	~ Liabilities	~ Unfunded Liability	~Funded Ratio
Tiers 1 & 2 Members	16,495,682	\$15,095,820	(\$1,399,862)	109.3%

D. PENSION FUNDING ACCOMPLISHMENTS AND GOALS

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.

At a minimum, the District intends to maintain minimum Annual Required Contribution (ARC) for its PSPRS members. The District is committed to maintaining the full ARC payment (normal cost and UAAL) from ongoing operating revenues.

On July 15, 2021, the District's PSPRS plan was fully funded 100% based on the financing activities that took place at the beginning of fiscal year 2021-22. Future goals will be in place to best assure the pension plan remain 100% funded or above. The following goals are adopted to address potential impacts and position the District financially for such impacts:

- The District will make regular contributions in per actuarial valuation requirements. The Annual Required Contribution (ARC) for Employer Normal Costs in FY 2022-23 is 14.15% of firefighter payroll.
- The District will utilize the PSPRS Contingency Reserve Fund (CRF) as a means to maintain, to the greatest extent possible, Funded Ratio of 100%.

Based on the Board's decisions regarding this pension funding policy, the District's PSPRS plan is expected to maintain a goal of 100% funded.

Adopted by Resolution on June 21, 2022.