



MEMORANDUM

Date: November 10, 2015

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: C.H. Huckelberry
County Administrator

Handwritten signature of C.H. Huckelberry in black ink.

Re: Pension Liability Reporting

Attached is a memorandum from the Finance Director and Deputy County Administrator for Administration. It discusses reporting our long-term pension liability in our Comprehensive Annual Financial Report (CAFR). This is the first time local governments have been required to report same.

The County's aggregate liability for all four major pension plans in which our employees participate is approximately \$697 million. By reporting this as a liability, our net financial position will be reduced. It has been approximately \$2.3 billion; now, our net financial position will be reduced primarily by this reporting to an estimated \$1.8 billion.

The table below identifies a number of factors associated with each pension plan.

Overview of Pima County Pension Plans.

Plan Name	Participating Employees at 11/4/2015	Pima County Contribution Percentage ⁵	Employee Contribution Percentage ⁵	Pima County Liability (Millions)	Liability per Participating Employee	Percent Plan is Funded
ASRS ¹	4,895	11.35	11.35	\$379	\$77,000	76
CORP ²	828	22.97	8.41	80	96,000	57
EORP ³	75	23.50	13.00	51	683,000	39
PSPRS ⁴	516	53.69	8.00	187	363,000	49

¹Arizona State Retirement System.

²Corrections Officer Retirement System (includes the Administrative Office of the Courts).

³Elected Officials Retirement System.

⁴Public Safety Personnel Retirement System.

⁵Contribution percentages shown are for the majority of participants. Contributions for some employees may differ slightly.

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As you can see, the employee liability per plan varies widely. While this total liability does not have to be paid in any given year, the most important action is to address the percentage of the plan that is funded (or unfunded) and develop appropriate strategies to close the gap over the next few years. Contributions to the various plans are calculated annually by the State, which then transmits these requirements to the County. These annual funding requirements are set by the State fund managers and the Arizona Legislature. The County simply reacts to the State's annual contribution requirement and funds same.

Every budget year, I have identified for the Board's information the amount of benefits paid by Pima County for our employees. Clearly, the largest contribution is for employee pensions, followed by health insurance costs. It is likely these costs will continue to be substantial and perhaps grow, particularly for those plans with a large unfunded status, i.e., the Elected Officials Retirement System and the Public Safety Personnel Retirement System.

CHH/lab

Attachment

c: Tom Burke, Deputy County Administrator for Administration
Allyn Bulzomi, Director, Human Resources



Department of Finance and Risk Management

To: CH Huckelberry
County Administrator

From: Keith Dommer
Finance Director

Thru: Tom Burke
Deputy County Administrator

Date: 5 November 2015

Pima County's June 30, 2015 Pension Liability

BACKGROUND

Substantially all full-time Pima County employees are required to participate in one of four major pension plans: the Arizona State Retirement System (ASRS), the Public Safety Personnel Retirement System (PSPRS), the Corrections Officers Retirement System (CORP), or the Elected Officials Retirement System (EORP).¹ These pension plans are administered by separate state retirement boards. Pima County by statute is required to participate in the plans, but has no control of the benefits provided or the amounts required to be contributed. The plans provide a defined pension to qualifying employees after they retire. The amount of the pension is determined by applicable state laws and is based on an employee's salary and years of service. To pay for these pension benefits, while the employee works, both the County and the employee are required to contribute to these pension plans at rates determined by the pension plans. The amounts contributed by both the employee and the County before retirement, together with investment earnings, should be sufficient to pay for the employee's pension after the employee retires.

Before 2015, governmental accounting standards only required governments to report a pension liability on their financial statements if the government did not make the government's required contribution to a pension plan. Since most governments made their required contributions, most governments did not report pension-related liabilities. This worked reasonably well if employees and governments were required to contribute amounts that would fully pay for an employee's pension by the time they retired. However, many pension plans have not been requiring this, and as a result, contributions have often not been sufficient to pay for the employee's pension before they retired. At

¹ A small number of Pima County Employees participate in a separate components of PSPRS for County Attorneys or in a separate component of CORP for Administrative Court Officers. For this discussion, these separate components are not discussed separately; rather, they are included within PSPRS and CORP, respectively.

June 30, 2014, the most current period available, ASRS, the state's best funded plan, only had enough assets to pay for 76% of the pension benefits that were expected to be paid to the employees in its system. Similar percentages for CORP, PSPRS, and EORP were 57%, 49% and 39% respectively.

The Governmental Accounting Standards Board (GASB) issued Statement No. 68 requiring governments to begin reporting unfunded pension liability beginning in Fiscal Year 2014-15. In order to comply with this requirement, Pima County and other jurisdictions covered by these four plans needed the state retirement plans to provide information regarding the pension liabilities. To do so, the state retirement plans decided to use audited amounts as of June 30, 2014 for reporting in the June 30, 2015 financial statements.

Because governmental accounting standards now require governments to report a pension liability on their financial statements when their pension plans don't have enough assets to pay for the pension benefits earned by their employees, you will see significant liabilities reported in Pima County's financial statements. Pension liabilities will be reported on the financial statements prepared for the County as a whole in the Comprehensive Annual Financial Report and on financial statements prepared for individual funds that are managed and accounted for like a business, such as Pima County's Regional Wastewater Reclamation Department. Although the County will show the total liability in the government-wide section of the CAFR, the GASB does not call for the pension liabilities to be shown by individual funds or departments within the County's General Fund or any of its special revenue funds. Nevertheless, in order to assess the impact of pension liabilities on the various County activities, an allocation by fund is shown below.

PIMA COUNTY'S PENSION LIABILITY

On its June 30, 2015 financial statements, Pima County will report pension liabilities totaling nearly \$697 million. The amounts for each pension plan are: ASRS - \$379 million, PSPRS - \$187 million, CORP - \$80 million, and EORP - \$51 million. Previously, Pima County has not been required to report these pension liabilities. Since 2011, the net financial position of the County has been around \$2.3 billion. Reporting these pension liabilities for the first time (together with the financial results of the current fiscal year) reduced the County's June 30, 2015 net financial position to an estimated \$1.8 billion.

ANALYSIS BY FUND

Governmental Funds

\$644 million of Pima County's pension liability relates to the County's governmental funds, specifically its General Fund (which includes departments such as the Sheriff,

County Attorney, Courts, and County Administration) and its special revenue funds like the Transportation Fund, Health Fund, and Library District Fund. Shown below are the pension liabilities associated with these funds.

Pima County, Arizona
Estimated Governmental Fund Pension Liability
June 30, 2015
(not reported on the fund financial statements)

	6/30/2015 Pension Liability
Governmental Funds:	
General Fund	545,133,764
Transportation	21,624,182
Public Health	17,737,112
Regional Flood Control District	6,641,992
Other Special Revenue	11,736,695
Grants	14,631,245
School Reserve Fund	1,754,115
Environmental Quality	2,717,174
Library District	18,454,145
Stadium District	1,924,665
Capital Projects	792,509
OEM Radio System	1,245,371
Total Governmental Funds	<u>644,582,949</u>

The pension liability is large enough in the General, Transportation, Public Health, and Library District Funds to cause a negative fund balance if the pension liability were required to be reported on a fund by fund basis.

Enterprise and Internal Services Funds

\$44 million of Pima County's pension liability relates to the County's enterprise or business-type funds, specifically the Regional Wastewater Reclamation, Development Services, and Parking Garages funds. \$9 million of Pima County's pension liability relates to its internal services funds. Shown below are the pension liabilities associated with these funds. The pension liability is large enough in the Development Services and Print Shop Funds to cause a negative net financial position in the fund.

Pima County, Arizona
Enterprise and Internal Service Fund Pension Liability
June 30, 2015

	6/30/2015 Pension Liability
Business-type funds:	
Development Services	5,849,473
Regional Wastewater Reclamation	38,040,446
Parking Garages	264,170
Total business-type funds	<u>44,154,090</u>
Internal service funds	
Teledata	1,565,019
Wireless	301,908
Print Shop	490,601
Self Insurance Trust Fund	1,773,711
Health Benefits Trust Fund	943,463
Fleet Services	3,509,684
Total internal service funds	<u>8,604,387</u>

ANALYSIS BY INDIVIDUAL EMPLOYEE

ASRS is the best funded of Pima County's pension plans. ASRS has assets to pay for 76% of its pension liability. ASRS also has the most employees at the county. As a result, Pima County's pension liability is \$77,000 for each employee participating in ASRS. Conversely, EORP is the worst funded of Pima County's pension plans and it has the fewest participants. As a result, Pima County's pension liability is \$683,000 for each elected official participating in EORP. For its PSPRS employees, Pima County's pension liability is \$363,000 per employee, and for CORP the liability is \$96,000 per employee.

PAYING FOR THE PENSION LIABILITIES

Because contribution rates are set by the state retirement boards and not by Pima County, and most of our pension liabilities are pooled with other governments, we don't have a direct method to reduce most of our pension liabilities. Generally, the pension plans have funding policies that include the goal of reducing the pension liabilities of their participating governments. These policies include setting contribution rates that will help pay for 100 percent of the estimated pension costs in as short a period as possible. Over time, Pima County's pension liabilities should be reduced or eliminated as the County and its employees make their required contributions into the pension plans.