MEMORANDUM

Date: May 16, 2022

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

From: Jan Lesher
County Administrator

Re: **Public Safety Personnel Retirement System and Corrections Officer Retirement Plan Pension Funding Policy**

On the May 17, 2022 Board Meeting, Finance and Risk Management has placed the Pension Funding Policy on the Board agenda to comply with A.R.S. §38-863.01. As you will recall, Pima County had a significant unfunded actuarial accrued liability for our Public Safety Personnel Retirement System (PSPRS) and Correction Officer Retirement Plan (CORP). The County issued $300 million in Pledged Revenue Obligation debt in May 2021 at an interest rate of 1.99%.

The Obligations were issued to pay off a portion of the County's unfunded actuarial accrued liability amount of pension debt the County had in its PSPRS Plans. Prior to the debt issuance, the pension liability was being paid off through annual contributions made by the County through fiscal year 2037/38. Those annual contributions as determined by PSPRS and its actuaries are amortized at a 7.30% rate (much higher than the County's rate of 1.99% on the Obligations) for all employer plans in PSPRS, including the County's plans. As a result of the County's issuance of its Obligations, the savings to the County is currently estimated to be over $180 million for the period through fiscal year 2037/38.

In May 2021, the County increased its contributions to the PSPRS/CORP plans by making a $30 million payment using debt proceeds due to available budget capacity. This additional payment is reflected in the fiscal year 2020/21 Annual Comprehensive Financial Report. The remaining $270 million was paid in July 2021. After the $270 million payment, the County requested an updated Actuarial Report from PSPRS to use during the fiscal year 2022/23 budget process. This resulted in lower employer contribution rates and a decrease in PSPRS/CORP retirement costs for fiscal year 2022/23.

Below is the unfunded liability and funding ratio by plan after the $300 million payment per the updated June 30, 2021 Actuarial Report.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Public Safety Personnel	$ 419,866,291	$ 450,461,750	$ 30,595,459	93%
Corrections Officers	151,908,819	157,803,352	5,894,433	96%
County Attorney Investigators*	2,764,112	4,340,112	1,576,000	64%
Total	$ 574,539,222	$ 612,605,214	$ 38,065,892	94%

*This is a plan administered by PSPRS; however, this plan was not included in the $300 million in Pledged Revenue Obligation Debt.

A question was asked regarding the impact of inflation on the savings the County expects to realize through the Obligation issuance as the savings occur because of the difference in borrowing costs. That said, by issuing the Obligations, the County was able to eliminate the forecasted increase in annual payments it was making to pay off the pension debt with predetermined annual payments on the Obligations that do not change over time. Specifically, prior to the issuance of the Obligations, the PSPRS actuaries forecast the County's annual payments to pay off the unfunded pension debt liability to increase incrementally each year from approximately $28.5 million in fiscal year 2021/22 to approximately $45.7 million in fiscal year 2035/36. Instead, the County will now be making annual payments in the $30 million to $35 million range each year. This level of budget stability was another important benefit the County realized through the issuance of the Obligations.

Lastly, in undertaking the issuance of the Obligations paying interest at 1.99% to pay off a significant portion of the County's unfunded pension debt liability amortizing at a 7.3% rate, the County consulted with outside financing experts and legal counsel, staff and consultants at PSPRS, and many other large public employers who also pursued this financing approach. The County's financing plans were also reviewed by two of the four independent rating agencies who both found the County's financing approach to be sound and highly rated the Obligations at a "AA" rating level. Additionally, many political subdivisions in Arizona and nationally have undertaken similar financings in the last two years given the historically low borrowing rates available in the municipal debt markets.

c: Carmine DeBonis, Jr., Deputy County Administrator for Public Works
Francisco García, MD, MPH, Deputy County Administrator & Chief Medical Officer, Health and Community Services
Michelle Campagne, Director, Finance and Risk Management
Andy Welch, Deputy Director, Finance and Risk Management
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