MEMORANDUM

Date: January 5, 2021

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

From: C.H. Huckelberry
County Administrator

Re: **Issuance of Pension Obligation Bonds to Address the Growing Public Safety Personnel Retirement System Payments of the County**

The County has a significant unfunded actuarial accrued liability for our Public Safety Personnel Retirement System (PSPRS) and Correction Officer Retirement Plan (CORP). Per the PSPRS and CORP Actuarial Valuation Reports as of June 30, 2020, Pima County's liability was $259,986,600 for PSPRS and $83,230,103 for CORP for a total of unfunded actuarial accrued liability of $343,216,703.

Our contributions for both of these plans have increased substantially over the last five years, as shown in Table 1 below.

Table 1: PSPRS and CORP Contributions by Fiscal Year

	2016	2017	2018	2019	2020
PSPRS	$15,119,000	$16,861,000	$18,771,000	$18,766,000	$21,439,000
CORP	4,618,000	4,872,000	5,155,000	6,515,000	7,261,000
Total	$19,737,000	$21,733,000	$23,926,000	$25,281,000	$28,700,000

Source: Pima County Comprehensive Annual Financial Report (CAFR), rounded to the nearest thousand.

If the unfunded actuarial accrued liability for both plans is not paid, total contributions, which includes the normal pension costs plus the unfunded actuarial accrued liability, for the next fifteen years are estimated as shown in Table 2 below.

Table 2: Pima County Total Estimated Contributions for PSPRS and CORP by Fiscal Year

Year	Normal Pension Costs	Unfunded Actuarial Accrued Liability	Total
2021	$ 4,373,744	$ 24,777,748	$ 29,151,492
2022	4,104,337	26,386,887	30,491,224
2023	3,922,504	28,108,439	32,030,943
2024	3,713,298	29,258,545	32,971,843
2025	3,481,395	30,611,627	34,093,022
2026	3,172,788	31,580,173	34,752,961
2027	2,862,815	33,025,653	35,888,468
2028	2,538,050	34,698,923	37,236,973
2029	2,235,146	36,234,682	38,469,828
2030	2,029,251	38,916,654	40,945,905
2031	1,789,625	40,984,132	42,773,757
2032	1,523,035	42,785,297	44,308,332
2033	1,353,406	46,277,743	47,631,149
2034	1,238,142	50,681,977	51,920,119
2035	1,129,435	56,785,677	57,915,112
2036	1,066,625	66,764,160	67,830,785

Source: RBC Capital Markets Pima County PSPRS & CORP Analysis as of September 30, 2020, using the PSPRS and CORP June 30, 2019 Actuarial Valuation Reports

The rapidly rising cost associated with Tier 1 and Tier 2 Public Safety and Correction Personnel create budget instability and uncertainty. Funding options to address the legacy unfunded liability are somewhat limited but, in light of favorable market conditions, a fixed interest rate of Pension Obligation Bonds as a viable funding option is attractive. As I recently pointed out, because of our credit rating when we issued debt for Street and Highway Revenue Bonds, Certificates of Participation and Sewer Obligations the average interest rate on all of these issues was 1.0329 percent.

PSPRS currently uses an assumed interest earning rate of 7.3 percent for assets held in the plan for all political subdivisions in the State, including the County. As a result, the County's unfunded liability is amortized over the remaining roughly 16-year period at that assumed rate. If we issued 15-year Bonds to fund a significant portion of the County's unfunded liability, the current expectation is that those Bonds could be issued at a taxable rate of interest in the 2.5 percent range. The higher the investment return earned on the Bond proceeds by PSPRS over the life of the Bond issue, the greater the savings are that the County can realize.

I have asked our Finance and Risk Management Department to work with our Financial Advisors and Bond Counsel to examine what actions would need to be taken by the County and the Board if we were to use this mechanism to reduce our long term liability associated with these retirement plans.

Finance has obtained preliminary information from the County's financial advisor regarding the concept of pension bond financing and the many variables that can impact its success. Although interest rates represent only one of these variables, the low rates currently available in the market could benefit the County. We will be obtaining additional financial analysis on this matter and will forward it when received.

If this unfunded liability is significantly reduced, we can anticipate relatively level payments into the plans in the future. It should be remembered that this accrued liability occurred with what has been called Tier 1 and Tier 2 law enforcement as well as correction personnel. The State Legislature implemented much needed reform, which included the creation of an additional Tier, hence new employees are placed in the newest Tier. This action would be to reduce the legacy costs associated with Tier 1 and Tier 2 Personnel.

CHH/anc

c: Jan Lesher, Chief Deputy County Administrator
Michelle Campagne, Director, Finance and Risk Management