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# MEMORANDUM

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Date: February 20, 2015

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

From: C.H. Huckelberry  
County Administrator

A handwritten signature in black ink, appearing to read "CHH", is written over the printed name "C.H. Huckelberry".

Re: **Additional Adverse Impact to the County Budget**

Attached is information from our Budget Manager regarding charges that will be assessed against Pima County for the Public Safety Personnel Retirement System (PSPRS) in Fiscal Year (FY) 2015/16.

In 2011, the State Legislature enacted laws that modified certain compensation formulas for retired members of the PSPRS. In response to these changes, system beneficiaries sued. The Court determined these reductions were not legally enacted and that plan participants would now be required to fully contribute past payments that were due to retired members of the system. The amounts varied by jurisdiction. For FY 2015/16, Pima County will be required to make an additional contribution of \$5,176,351.

This additional and unanticipated cost to the County will primarily impact the General Fund, on top of the nearly \$10 million additional County budget transfer to the State to balance their budget.

As you can see, this single budget payment increase to the PSPRS for primarily law enforcement and correction personnel is basically the same cost as the entire County employee compensation increase of last year to the General Fund.

CHH/anc

Attachment

c: Tom Burke, Director, Finance and Risk Management  
Robert Johnson, Budget Manager, Finance and Risk Management



DEPARTMENT OF FINANCE AND RISK MANAGEMENT

**Date:** February 9, 2015

**To:** C. H. Huckelberry  
County Administrator

**From:** Robert W Johnson  
Budget Manager

**RE: FY 2015/16 Public Safety Personnel Retirement System Contribution Rates & Costs**

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The Public Safety Personnel Retirement System (PSPRS) administers four public safety retirement plans on behalf of Pima County:

- Pima County Sheriff's Department
- Pima County Corrections Officers
- Administrative Office of the Courts Probation Officers
- Pima County Attorney Investigators

Each year, the plan administrators complete individual actuarial valuations for each of the plans and provide the County with the employer and employee contribution rates for the following fiscal year. The rates for FY 2015/16 are shown in Attachment 1.

In 2011, the legislature instituted several pension reform changes to control costs as promulgated in SB 1609. A later court decision in *Fields vs. EORP* reversed some of these changes. Specifically, it reversed the new mechanism put in place for determining permanent benefit increases (PBI) for those participants retired prior to SB 1609 becoming law. Because of this reversal, the plan administrators were required to reinstate the old PBI formulas for those who were retired as of July 1, 2011. This decision resulted in an adverse impact to the individual retirement plans and resulted in significant increases in the average contribution rates paid by jurisdictions.

The Board of Trustees in anticipation of the impact this decision would have on employer contribution rates adopted a policy to allow jurisdictions to phase-in the increases over a three year period. This policy allowed employers the choice of the rate that reflects the full effect of the reversal in FY 2015/16 or to choose a rate that phases-in the effects over three years. These two different sets of rates are included in Attachment 1.

Attachment 2 shows the estimated cost impact to the individual public safety retirement plans for both the phase-in rates and the full rates based on the budget in development as of mid-January and is subject to change. If the phase-in rate is followed, the total FY 2015/16 employer cost increase to the County would be \$1,266,750 of which \$1,138,579 would impact the General Fund with the remainder of the increase being paid by various special revenue funds and grants. If the County were to absorb the full cost impact of the decision in FY 2015/16, the

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Thomas E. Burke, Director

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employer cost increase would total \$5,176,351 of which \$4,804,843 would be the net increase to the General Fund.

The plan administrators recommend that all employers contribute at the full rate before phase-in. If the phase-in rate is chosen, the negative impacts in the long run would include:

- A temporary loss of contribution dollars into the plan
- A reduction in plan earnings
- A decrease in funded status as of June 30, 2016
- Possible higher required employer contributions in FY 2017/18 and beyond

The plan administrators have asked the individual jurisdictions to review these options and determine which rates will be used for the employer contributions in FY 2015/16. A decision needs to be transmitted to the plan administrators by March 31, 2015. If no option is received by that date, the full employer contribution rate will be implemented.

**Recommendation:** At first glance, the full rate options resulting in \$5,176,351 of additional employer costs in FY 2015/16 seems like the less palatable option. However, choosing the phase-in option will most likely result in significantly higher future costs when the plan completes actuarial valuations for FY 2017/18 and beyond. **I recommend that the County notify and pay the rates that recognize the full impact of the Fields decision in FY 2015/16 as likely the least damaging option to the budget in the longer term.**

By choosing the full rate option, Pima County will make \$23,649,058 of employer contributions to the four PSPRS retirement plans in FY 2015/16.

Cc: Tom Burke, Director, Finance and Risk Management

**FY 2015/16 Public Safety Personnel Retirement System Plan Retirement Rates  
Employer and Employee Rates  
Full Rates versus Phase -In Rates**

<b>Employer</b>	<b>Full Rate</b>			<b>Phase-In Rate</b>	
	<b>FY 2014/15 Rate</b>	<b>FY 2015/16 Rate</b>	<b>Increase</b>	<b>FY 2015/16 Rate</b>	<b>Increase</b>
Sheriff Deputies, etc. Hired Before 1/1/15	41.92%	53.69%	11.77%	44.82%	2.90%
Sheriff Deputies, etc. Hired After 1/1/15	N/A	50.04%	8.12%	41.17%	-0.75%
Corrections Officers	17.76%	22.97%	5.21%	18.80%	1.04%
County Attorney Investigators Hired Before 1/1/15	50.59%	69.61%	19.02%	55.34%	4.75%
County Attorney Investigators Hired After 1/1/15	N/A	65.96%	15.37%	51.69%	1.10%
Admin Office of Courts - Probation Officers	16.12%	19.95%	3.83%	17.14%	1.02%

<b>Employee</b>	<b>Full Rate</b>			<b>Phase-In</b>	
	<b>FY 2014/15 Rate</b>	<b>FY 2015/16 Rate</b>	<b>Increase</b>	<b>FY 2015/16 Rate</b>	<b>Increase</b>
Deputies, etc. Hired Before 1/1/15	7.40%	8.00%	0.60%	8.00%	0.60%
Deputies, etc. Hired After 1/1/15	N/A	11.65%	4.25%	11.65%	4.25%
Corrections Officers	8.41%	8.41%	0.00%	8.41%	0.00%
County Attorney Investigators Hired Before 1/1/15	7.40%	8.00%	0.60%	8.00%	0.60%
County Attorney Investigators Hired After 1/1/15	N/A	11.65%	4.25%	11.65%	4.25%
Admin Office of Courts - Probation Officers	8.41%	8.41%	0.00%	8.41%	0.00%

**Cost Impact of the Reversal of 2011 Pension Reform Changes for  
 Sheriff Public Safety, Correction Officer, Admin Office of Courts-Probation Officers and  
 Public Safety-County Attorney Investigators Retirement Plans  
 Phase-In of Impact versus Full Effect of Impact**

	FY 2014/15 Adopted	FY 2015/16 Phase-In Rate	Increase/ (Decrease) from Adopted	FY 2015/16 Full Rate	Increase/ (Decrease) from Adopted
<b>Public Safety Retirement - Sheriff's Officers</b>					
General Fund	\$12,086,195	\$12,881,339	\$795,144	\$15,443,025	\$3,356,830
Non-General Fund	\$265,915	\$236,200	(\$29,715)	\$281,112	\$15,197
<b>Total</b>	<b>\$12,352,110</b>	<b>\$13,117,539</b>	<b>\$765,429</b>	<b>\$15,724,137</b>	<b>\$3,372,027</b>
<b>Corrections Officer Retirement</b>					
General Fund	\$3,738,127	\$4,045,740	\$307,613	\$4,943,120	\$1,204,993
Non-General Fund	\$19,695	\$16,357	(\$3,338)	\$19,985	\$290
<b>Total</b>	<b>\$3,757,822</b>	<b>\$4,062,097</b>	<b>\$304,275</b>	<b>\$4,963,105</b>	<b>\$1,205,283</b>
<b>Admin Office of the Courts - Probation Officers Retirement</b>					
General Fund	\$1,092,895	\$1,119,840	\$26,945	\$1,305,110	\$212,215
Non-General Fund	\$1,145,965	\$1,275,392	\$129,427	\$1,484,481	\$338,516
<b>Total</b>	<b>\$2,238,860</b>	<b>\$2,395,232</b>	<b>\$156,372</b>	<b>\$2,789,591</b>	<b>\$550,731</b>
<b>AZ Public Safety Retirement-County Attorney Investigators</b>					
General Fund	\$76,161	\$85,038	\$8,877	\$106,966	\$30,805
Non-General Fund	\$47,754	\$79,551	\$31,797	\$65,259	\$17,505
<b>Total</b>	<b>\$123,915</b>	<b>\$164,589</b>	<b>\$40,674</b>	<b>\$172,225</b>	<b>\$48,310</b>
<b>Totals</b>					
General Fund	\$16,993,378	\$18,131,957	\$1,138,579	\$21,798,221	\$4,804,843
Non-General Fund	\$1,479,329	\$1,607,500	\$128,171	\$1,850,837	\$371,508
<b>Total</b>	<b>\$18,472,707</b>	<b>\$19,739,457</b>	<b>\$1,266,750</b>	<b>\$23,649,058</b>	<b>\$5,176,351</b>

Note: Cost impacts are subject to change during budget development.