

RESOLUTION NO. 2022-1214

A RESOLUTION OF THE MAYOR AND COMMON COUNCIL OF THE TOWN OF CHINO VALLEY, ARIZONA, ADOPTING A PENSION FUNDING POLICY.

WHEREAS, the Fifty-Third Legislature, during the 2018 Second Regular Session, adopted House Bill 2097, which requires the Town of Chino Valley (the “Town”) to annually adopt a pension funding policy for public safety employees participating in the Public Safety Personnel Retirement System (“PSPRS”) who were hired before July 1, 2017; and

WHEREAS, the Mayor and Council of the Town of Chino Valley (the “Town Council”) desires to adopt the required annual policy (the “Pension Funding Policy”) and to determine the amount to be contributed for Fiscal Year 2021-2022 beyond the Town’s annual required contribution to continually reduce the amount of the Town’s unfunded liability until the funding ratio of 100% is achieved; and

WHEREAS, at its regular meeting on June 28, 2022, the Town Council authorized using \$400,000 from the Town’s General Fund Contingency Account for FY 2021-2022 to reduce the PSPRS unfunded liability amount consistent with the Pension Funding Policy.

NOW, THEREFORE, BE IT RESOLVED by the Mayor and Common Council of the Town of Chino Valley, Arizona, as follows:

SECTION 1. The recitals above are hereby incorporated as if fully set forth herein.

SECTION 2. The FY 2021-2022 Pension Funding Policy is hereby adopted in substantially the form attached hereto as Exhibit A and incorporated herein by reference.

SECTION 3. Prior to the end of each fiscal year following adoption of this Resolution, the Town Manager and the Town Finance Director shall prepare a recommendation for action by the Town Council to (i) approve the amount of the unfunded liability contribution for that year; and (ii) update and re-adopt the Pension Funding Policy to account for the additional annual contribution.

SECTION 4. The Mayor, the Town Manager, the Town Clerk, and the Town Attorney are hereby authorized and directed to take all steps necessary to carry out the purpose and intent of this Resolution.

[SIGNATURES ON FOLLOWING PAGE]

PASSED AND ADOPTED by the Mayor and Common Council of the Town of Chino Valley, Arizona this 28th day of June, 2022.

Jack W. Miller, Mayor

ATTEST:



Erin N. Deskins

Erin N. Deskins, Town Clerk

APPROVED AS TO FORM:

Andrew J. McGuire, Town Attorney
Gust Rosenfeld, PLC

I hereby certify the above foregoing Resolution No. 2022-1214 was duly passed by the Council of the Town of Chino Valley, Arizona, at a special meeting held on June 28, 2022, and that quorum was present thereat and that the vote thereon was 7 ayes and 0 nays and 0 abstentions. 0 Council members were absent or excused.

Erin N. Deskins

Erin N. Deskins, Town Clerk

EXHIBIT A
TO
RESOLUTION NO. 2022-1214

[FY 2021-2022 Pension Funding Policy]

See following pages.

**Town Of Chino Valley
Public Safety Personnel Retirement System
Pension Funding Policy
Fiscal Year 2021-2022**

The intent of this policy is to clearly communicate the Council's pension funding objectives, its commitment to our employees, and the sound financial management of the Town, and to comply with statutory requirements of ARIZ. REV. STAT. § 38-863.01, as amended.

Several terms are used throughout this policy:

Unfunded Actuarial Accrued Liability (UAAL) – Is the difference between trust assets and the estimated future cost of pensions earned by employees. This UAAL results from actual results (interest earnings, member mortality, disability rates, etc.) being different from the assumptions used in previous actuarial valuations.

Annual Required Contribution (ARC) – Is the annual amount required to pay into the pension funds, 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 cost needed to cover the unfunded portion of pensions earned by employees in previous years. The UAAL is collected over a period of time referred to as the amortization period. The ARC is a percentage of the current payroll.

Funded Ratio – Is a ratio of fund assets to actuarial accrued liability. The higher the ratio, the better funded the pension is, with 100% being fully funded.

Intergenerational equity – Ensures that no generation is burdened by substantially more or less pension costs than past or future generations.

The Town's police employees who are regularly assigned hazardous duty participate in the Public Safety Personnel Retirement System (PSPRS).

Public Safety Personnel Retirement System (PSPRS)

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 for the benefit of all members under its administration; and 2) serve as the statewide uniform administrator for the distribution of benefits.

Under an agent multiple-employer plan, each agency participating in the plan has an individual trust fund reflecting that agency's 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 Town of Chino Valley has one trust fund for police employees.

Council formally accepts the FY 2021-2022 assets, liabilities, and current funding ratio of the Town's PSPRS trust funds from the June 30, 2021, actuarial valuation, which are detailed below.

Trust Fund	Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio
Chino Valley Police	\$7,705,982	\$10,866,908	\$3,160,928	70.90%
Town of Chino Valley Totals	\$7,705,982	\$10,866,908	\$3,160,928	70.90%

PSPRS Funding Goal

Pensions that are less than fully funded place the cost of service provided in earlier periods (amortization of UAAL) on current taxpayers. Fully funded pension plans are the best way to achieve taxpayer and member intergenerational equity. Most funds in PSPRS are significantly underfunded and falling well short of the goal of intergenerational equity.

The Council’s PSPRS funding ratio goal is 100% (fully funded) by June 30, 2036. Council established this goal for the following reasons:

- The PSPRS trust funds represent only the Town of Chino Valley’s liability
- A fully funded pension is the best way to achieve taxpayer and member intergenerational equity

Council plans to take the following actions to achieve this goal:

- Maintain ARC payment from operating revenues – Council is committed to maintaining the full ARC payment (normal cost and UAAL amortization) from operating funds. The estimated combined ARC for FY22 is \$492,520 and will be able to be paid from operating funds without diminishing Town services.
- Additional payments above the ARC
 - Annually evaluate unexpended contingency funds in the general fund at the end of each fiscal year and make an additional payment above the ARC with a portion of the unexpended contingency funds. Based on these actions, the Council plans to achieve its goal of 100% funding by June 30, 2036, in accordance with the amortization timeline set forth by the PSPRS June 30, 2021, Actuarial Valuation.