



HIGHLANDS FIRE DISTRICT
3350 OLD MUNDS HWY, FLAGSTAFF, AZ 86005
(928) 525-1717

RESOLUTION NUMBER: 2025-06-17 (10)(B)

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE HIGHLANDS FIRE DISTRICT, FLAGSTAFF, AZ, ADOPTING THE PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM PENSION FUNDING POLICY AND ACCEPTING THE DISTRICT'S SHARE OF ASSETS AND LIABILITIES UNDER THE PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM ACTUARIAL VALUATION REPORT.

WHEREAS, Arizona Revised Statute § 38-38-863.01 requires the governing body all Public Safety Personnel Retirement System (PSPRS) employers to adopt a pension funding policy and formally accept their share of the assets and liabilities based on the PSPRS actuarial valuation report by July 1, 2019 and annually thereafter;

WHEREAS, the Board of Directors desires to adopt a PSPRS pension funding policy to clearly communicate the District's pension funding objectives and its commitment to District employees and sound financial management of the District and to comply with the statutory requirements; and

NOW, THEREFORE, BE IT RESOLVED by the Highlands Fire District Board of Directors as follows:


Section 1. The Board of Directors hereby adopts the PSPRS Pension Funding Policy attached hereto as Fiscal Policy 133 - PSPRS Pension Funding Policy and incorporated herein by this reference.

Section 2. The Board of Directors hereby accepts, as set forth in the Policy, the District's share of assets and liabilities based on the PSPRS actuarial valuation report.

APPROVED AND ADOPTED on this 17 day of June, 2025, by the Highlands Fire District Board of Directors.



Chairperson of the Board

ATTEST:


Clerk of the Board



Board Member

Board Member

Board Member

Highlands Fire District Public Safety Personnel Retirement System Pension Funding Policy

The intent of this policy is to clearly communicate the Fire Board's pension funding objectives and its commitment to our employees and the sound financial management of the Highlands Fire District's and to comply with statutory requirements of Laws 2018, Chapter 112.

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 Highlands Fire District's fire 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 commingle 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 agencies' 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 Highlands Fire District's has one trust fund for fire employees.

The Fire Board formally accepts the assets, liabilities, and current funding ratio of the Highlands Fire District's PSPRS trust funds from the June 30, 2024 actuarial valuation, which are detailed below.

Liabilities and Funded Ratios – Tiers 1 & 2

	June 30, 2024	June 30, 2023
Pension		
Actuarial Present Value of Benefits (PVB)		
Retirees and Beneficiaries	\$ 8,739,889	\$ 8,508,660
DROP Members	0	132,836
Vested Members	126,857	130,478
Active Members	<u>12,266,651</u>	<u>10,608,708</u>
Total Actuarial Present Value of Benefits	21,133,397	19,380,682
Actuarial Accrued Liability (AAL)		
All Inactive Members	8,866,746	8,771,974
Active Members	<u>9,665,730</u>	<u>8,039,523</u>
Total Actuarial Accrued Liability	18,532,476	16,811,497
Actuarial Value of Assets (AVA)	18,890,541	17,898,686
Unfunded Actuarial Accrued Liability	(358,065)	(1,087,189)
PVB Funded Ratio (AVA / PVB)	89.4%	92.4%
AAL Funded Ratio (AVA / AAL)	101.9%	106.5%

Liabilities and Funded Ratios – Tiers 3

	June 30, 2024	June 30, 2023
Pension		
Actuarial Present Value of Benefits (PVB)		
Retirees and Beneficiaries	\$ 7,268,826	\$ 2,783,769
Vested Members	9,523,410	6,565,608
Active Members	<u>710,626,649</u>	<u>558,509,014</u>
Total Actuarial Present Value of Benefits	727,418,885	567,858,391
Actuarial Accrued Liability (AAL)		
All Inactive Members	16,792,236	9,349,377
Active Members	<u>148,879,454</u>	<u>101,611,814</u>
Total Actuarial Accrued Liability	165,671,690	110,961,191
Actuarial Value of Assets (AVA)	178,758,433	119,101,476
Unfunded Actuarial Accrued Liability	(13,086,743)	(8,140,285)
PVB Funded Ratio (AVA / PVB)	24.6%	21.0%
AAL Funded Ratio (AVA / AAL)	107.9%	107.3%

PSPRS Funding Goal

Pensions that are less than fully funded place the cost of service provided in earlier periods (amortization of UAAL) on the 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.

Proposition 207

In 2020, AZ voters approved Prop 207 the "Smart and Safe Arizona Act." As part of this initiative a "Smart and Safe, Arizona Fund" was established to receive revenue from a 16% excise tax and licensing and registration fees. As a fire department with individuals enrolled in PSPRS, the Fire District is eligible to receive this revenue based on the number of PSPRS individuals and taxes and fees collected. The Arizona State Treasurer will distribute these funds biannually, June 30 and December 31.

Senate Bill 1298/Certificates of Participation

In 2021, Senate Bill 1298 was passed with an emergency clause to immediately allow fire districts to utilize its current ability to lease purchase and/or issue "Certificates of Participation" (COP's) for the purpose of paying a district's accumulated UAAL. In July 2021, the District sold the COP's and refinanced their unfunded pension debt to PSPRS.

The Fire Board's PSPRS funding ratio goal is 100% (fully funded).

Fire Board established this goal for the following reasons:

- The PSPRS trust funds represent only the Highlands Fire District's liability
- The fluctuating cost of an UAAL causes strain on the Highlands Fire District's budget, affecting our ability to provide services
- A fully funded pension is the best way to achieve taxpayer and member intergenerational equity

Fire Board has taken the following actions to achieve this goal:

- Maintain ARC and COP payments from operating revenues – Fire Board is committed to maintaining the full ARC and COP payments (normal cost and UAAL amortization) from operating funds.
- On July 15, 2021 the district issued COP's for the purpose of refinancing the District's PSPRS UAAL at a lower financing rate than the PSPRS "assumed earnings/discount rate" over a level "year over year" payment schedule.
- Annually evaluate prior year's budget compared to actual expenditures may permit excess payments.
- It is the policy of the Fire District Board to use the money received from the Smart and Safe Arizona Fund to pay the districts PSPRS related liabilities.

Based on these actions the Fire Board plans to maintain its goal of 100% funding, in accordance with the amortization timeline set forth by the PSPRS June 30, 2024 Actuarial Valuation.

HIGHLANDS FIRE DISTRICT

FISCAL POLICY GUIDELINES

TITLE: **PSPRS Contingency Reserve Fund**
 NUMBER: **132**

ORIGINATED BY: **Legal Counsel**
 BOARD APPROVED: **06/15/2021**

I. PURPOSE

The purpose of this policy is to set forth procedures for managing the Contingency Reserve Fund (CRF) effectively. The goal of the CRF is to create a resource that will help the District effectively manage the innate risks of public pension funding, particularly market return risk and actuarial risk, and help the District maintain a well-funded Plan.

II. SCOPE

This policy applies to District financial management personnel.

III. POLICY

- A. The District establishes the CRF in the initial amount of **\$1,000,000** (the CRF Initial Balance) to manage ongoing liabilities of the Plan. Assets of the CRF shall be used to benefit the Plan and the District, as provided in this policy.
- B. The Initial Balance will be funded with issue proceeds.
- C. The District intends to utilize the CRF as a means to maintain, to the greatest extent possible, a 100% Funded Ratio for the Plan.

IV. DEFINITIONS

- A. **Unfunded Actuarial Accrued Liability (UAAL)** - Is the difference between a pension fund's assets and projected pension benefit payments promised to employees.
- B. **Annual Required Contribution (ARC)** - Is the annual amount an employer is required to contribute into a pension fund, 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 estimated cost to cover the unfunded portion of pension benefits earned by employees in the past. Payments towards reducing the UAAL are collected over a period of time referred to as the amortization period. The ARC is often expressed as a percentage of the current payroll.
- C. **Funded Ratio** - Is the ratio of fund assets to actuarial accrued liability, which is the net present value of future projected benefits minus the net present value of future projected Normal Cost.
- D. **Contingency Reserve Fund (CRF)** – Is a reserve fund dedicated to managing the District's pension liabilities and maintaining as near to a 100% funded ratio as possible despite adverse market and/or actuarial events.

- E. Plan – is the District’s Public Safety Personnel Retirement System (PSPRS) pension plan for employees in Tiers 1 & 2.
- F. CRF Initial Balance – Is the size of the initial deposit to the CRF

V. GUIDELINES

A. PROCEDURES FOR CRF INVESTMENTS

1. The District will manage the CRF and investments therein. Investments made by the District must comply with (i) the requirements of Arizona Revised Statutes Section 35-323 and any other applicable existing or future state statutes, and (ii) the District’s Investment Policy.
2. Investments in the CRF shall be principal protected.
3. Assets of the CRF shall be invested in no more than one-year increments to provide adequate liquidity.
4. Assets of the CRF shall be invested in liquid and/or short-term products to ensure prompt availability of funds.
5. None of the above procedures shall limit the District’s ability to participate in a trust created under Internal Revenue Code Section 115 (Internal Revenue Code section or regulation), nor shall they limit the District’s ability to transfer the assets of the CRF to such a trust for the benefit of the Plan and delegate the investment responsibility for assets of the trust.

B. PROCEDURES FOR CRF DRAWS

1. The District may draw from the CRF to pay all or any part of any UAL amortization payment when the investment return for the Plan during the prior fiscal year is at least 5% below the actuarially assumed investment rate of return for such fiscal year. The District may also draw from the CRF to pay all or part of any UAL amortization payment created by investment returns at least 5% below the then prevailing actuarially assumed investment rate of return during any prior fiscal year.
2. The District may draw from the CRF when there is a change to the assumed investment rate of return assumption, payroll growth assumption, and/or mortality assumptions of the associated Plan that causes a material, adverse impact on the Actuarial Accrued Liability of the Plan. The District may also draw from the CRF to pay all or part of any UAL amortization payment created by any of the above mentioned assumption changes that caused a material, adverse impact on the Actuarial Accrued Liability during any prior fiscal year.
3. If the CRF balance rises at least 15% above the CRF Initial Balance and the Plan is at least 90% funded, the District may draw all or a portion of the balance exceeding 115% of the CRF Initial Balance to supplement the District’s ARC for the associated Plan or to supplement the District’s payment of debt service on any then outstanding Obligations issued for the purpose of, or for the purpose of refinancing prior Obligations issued for the purpose of, funding the District’s PSPRS liabilities.

C. PROCEDURES FOR CRF REPLENISHMENT

1. If, at the end of a District Fiscal Year, the balance of the CRF is below the CRF Initial Balance, the District will, to the best of its ability, prioritize making replenishments over a **five-year period** to return the CRF balance to at least the CRF Initial Balance.
2. The District will review unspent budget appropriations annually and may consider adding all or a portion of such amounts to the CRF.

D. SIZING OF CRF

1. The District will evaluate the CRF at least **every five years** to determine whether the size of the reserve is adequate and whether additional policies should be considered to ensure usefulness of the CRF.

E. PROCEDURES TO DISSOLVE CRF

1. On or after January 1, 2031, staff may seek direction from the Fire Board to maintain or dissolve the CRF. At such time, the District may dissolve the CRF and apply the remaining balance of funds to the District's ARC and/or UAAL for the Plan, or to supplement the District's payment of debt service on any then outstanding Obligations issued for the purpose of, or for the purpose of refinancing prior Obligations issued for the purpose of, funding the District's PSPRS liabilities.
2. If the District transfers the assets of the CRF to a Section 115 trust or other irrevocable trust for the benefit of the Plan and with similar goals of these policies, reducing assets of the CRF to zero and rendering the CRF obsolete, the CRF may be dissolved.