

Fort Mojave Mesa Fire District Public Safety Personnel Retirement System Pension Funding Policy

The intent of this policy is to clearly communicate the Council's pension funding objectives and its commitment to our employees and the sound financial management of the Fort Mojave Mesa Fire District and to comply with new 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 Fort Mojave Mesa Fire District's Career suppression/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.

Exhibit A

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 Fort Mojave Mesa Fire District has one trust fund for fire employees.

Fort Mojave Mesa Fire District Board of Directors formally accepts the assets, liabilities, and current funding ratio of the Fort Mojave Mesa Fire District'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
Fort Mojave Mesa Fire District	14,618,861	24,147,854	9,528,993	60.5%
Fort Mojave Mesa Fire District				Assets ÷ Accrued Liability
Totals	14,618,861	24,147,854	9,528,993	60.5%

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.

The Fort Mojave Mesa Fire District Board of Directors PSPRS funding ratio goal is 100% (fully funded) annually. Fort Mojave Mesa Fire District Board of Directors established this goal for the following reasons:

- The PSPRS trust funds represent only the Fort Mojave Mesa Fire District's liability
- The fluctuating cost of a UAAL causes strain on the Fort Mojave Mesa 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

Fort Mojave Mesa Fire District Board of Directors have taken the following actions to achieve this goal:

- The board on January 18, 2022, approved a resolution (2022-001) for the sale and execution and delivery of Certificates of Participation (COPS) in a Lease-Purchase agreement to provide the necessary financing to achieve 100% funded status of

Exhibit A

Pension liability. The COP funds are not to exceed \$8,900,000 to achieve 100% funded status.

- The board on February 15, 2022, approved a resolution for the participation in Arizona Employers' Pension Prefunding Plan (AEPPP) and the adoption of the Public Agencies Post-Employment benefits trust administered by public Agency Retirement Services (PARS).

Establishment of Trust Account and Initial Contributions

- The district is establishing the Trust account through Arizona Employers Pension Prefunding Plan (AEPPP). AEPPP is a locally controlled IRC Section 115 trust program, operated separate and apart from PSPRS, and dedicated solely for prefunding PSPRS costs. This new trust tool enables the district to mitigate and stabilize contribution costs, manage its pension liabilities, and diversify investments to achieve a greater long-term return that is possible in a pension contingency reserve fund.
- In June 2021, PSPRS awarded Public Agency Retirement Services (PARS) as Trust Administrator with U.S. Bank as trustee/custodian to provide trust services to local governments that approve the program. U.S. Bank and Vanguard can serve as investment managers to the district.
- The district has chosen Vanguard Advisers, Inc to serve as its investment managers.
- The district's trust would operate separate to PSPRS and provides the district with local control and flexibility over their contributions, disbursements, assets, and investments.
- The district will manage trust, set up subaccounts as appropriate, and contributions and disbursements from the trust account will be managed based on each Plan's changes. Each Plan's changes are summarized by PSPRS actuaries on an annual basis at the end of the fiscal year, and the district receives a copy of the annual report.
- As authorized by the Board on 2-15-2022, the trust will be initially funded with \$100,000 from the general fund to reflect a portion of the estimated savings from the issuance and use of COPS funds to achieve 100% funded status of the districts pension liability. The Board intends to deposit annual savings generated by the prefunding of the District's unfunded liability with PSPRS, and any additional general fund monies approved by the District Board for potential future unfunded liabilities.

Trust Investments

- The district will be managing and investing the trust in conjunction with Vanguard. Investments made must comply with the requirements found in Arizona Revised Statutes, the Trust agreement, Vanguard Discretionary Investment Management Agreement, and the district's Trust Investment Policy.

Trust Distributions

- The district may establish a minimum trust account balance threshold based on the initial contribution.
- Disbursements will first be made from investment income only, while the principal balance remains untouched.
- Establish a funded ratio threshold, where if the trust earnings rise to certain level

Exhibit A

and the pension plan is fully funded, the district may disburse all or a portion of the earnings to supplement the district's annual required employer contribution for the Plans.

- The district may disburse funds from the Trust when investment return for the Plans for the prior fiscal year is below the actuarial rate of return with the goal of maintaining a 100% funding status.
- The district may draw from the Trust when the PSPRS annual report for the Plans show a revision of the assumed earnings rate assumption, changes to payroll growth assumption, and/or revisions to mortality assumption occur and cause an impact on Unfunded Actuarial Accrued Liability for the Plans in excess of a defined threshold.
- Maintain ARC payment from operating revenues or the authorized and designated section 115 trust – Fort Mojave Mesa Fire District Board of Directors are committed to maintaining the full ARC payment (normal cost and UAAL amortization) from operating funds or its Section 115 trust to maintain 100% funding annually.

Based on these actions the Fort Mojave Mesa Fire District Board of Directors plan to achieve its goal of 100% funding by June 30, 2022.

Chairperson

Date

Clerk of the Board

Date

Board Member

Date

Board Member

Date

Board Member

Date