



MEMORANDUM

Date: April 10, 2024

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

From: Jan Leshner 
County Administrator

Re: **Use of Public Safety Personnel Retirement System and Corrections Officer Retirement Plan Reserve Funding**

As you will recall, Pima County had a significant unfunded actuarial accrued liability for our Public Safety Personnel Retirement System (PSPRS) and Correction Officer Retirement Plan (CORP). Specifically, as of June 30, 2020, the actuarially assumed unfunded liability for PSPRS was \$260.0 million, and for CORP, it was \$83.2 million. At these levels, the County only had enough funding in the pension plans to cover 41.1% of its PSPRS pensions and 46.5% of its CORP pensions. To address this, County staff worked extensively with the County's Financial Advisor (RBC Capital Markets) and legal bond counsel (Squire Patton Boggs) to develop a financing plan, which was approved at the February 16, 2021, Board of Supervisors (BOS) meeting. The financing plan resulted in the issuance of \$300 million in Pledged Revenue Obligation debt in May 2021 at an interest rate of 1.99%.

The Obligations were issued to pay off a portion of the County's unfunded actuarial accrued liability in the PSPRS and CORP plans, reducing the unfunded liability to \$30.6 million and \$5.9 million, respectively, resulting in the plans being funded at the low to mid 90% range. Prior to the debt issuance, the pension liability was being paid off through annual contributions made by the County through fiscal year 2037/38. Those annual contributions, as determined by PSPRS and its actuaries, were amortized at a 7.30% rate (much higher than the County's borrowing rate of 1.99% on the Obligations) for all employer plans in PSPRS, including the County's plans.

During fiscal years 2020/21 and 2021/22, a total of \$300 million in contributions to the County's unfunded pension liability were made using the debt proceeds, which resulted in substantially lower employer contribution rates, decreased PSPRS/CORP retirement costs, and a significant increase in the funded ratio for these plans.

In addition to making these payments, the County also updated BOS Policy – [D 22.11 – Public Safety Personnel Retirement System and Corrections Officer Retirement Plan Pension Funding](#) and established a \$25 million Pension Fund Reserve that was funded from a portion of the projected savings achieved from the financing. The purpose of this Reserve is to provide a source of funds from which the County can make additional contributions to the County's pension funds in an effort to keep the funded levels sufficiently high in future years. This update to BOS Policy D 22.11 also included the requirement that any budgetary savings

The Honorable Chair and Members, Pima County Board of Supervisors
**Re: Use of Public Safety Personnel Retirement System and Corrections Officer Retirement
 Plan Reserve Funding**

April 10, 2024

Page 2

realized from the Sheriff's Department General Fund be used to offset increases in the unfunded liabilities.

Subsequent to the implementation of these measures, the County has seen steady increases in both the PSPRS and CORP unfunded liabilities attributed to a number of factors, including but not limited to fluctuations in investment performance by PSPRS, changes in actuarial assumptions made by PSPRS, and salary increases to active members of the plans. The table below shows the amounts of unfunded actuarial accrued liabilities from June 30, 2020, through the latest actuarial valuation as of June 30, 2023.

Unfunded Actuarial Accrued Liability						
Retirement Plan	As of June 30, 2020 - Prior to use of Obligations proceeds		As of June 30, 2021 - After use of Obligations proceeds		As of June 30, 2023 - Latest Actuarial Valuation	
	Amount	Funded %	Amount	Funded %	Amount	Funded %
PSPRS	\$259,986,600	41.1%	\$30,595,459	93.2%	\$81,571,661	83.80%
CORP	\$83,230,103	46.5%	\$5,894,433	96.3%	\$17,737,856	89.70%
Total	\$343,216,703		\$36,489,892		\$99,309,517	

The combined total of unfunded liabilities for both plans has risen from \$36.5 million to \$99.3 million since using the debt proceeds to reduce the liabilities. Throughout the last two fiscal years, no budgetary savings have been realized from the Sheriff's Department General Fund. Consequently, no funds have been available to offset the increase in unfunded liabilities. As a result of this growth in unfunded liabilities, employer contribution rates are also on the rise. At this time, the resources available to stem these increases in the liabilities and contribution rates are limited to the Pension Fund Reserve.

Recommendation

To mitigate the increasing unfunded liabilities in the PSPRS and CORP, maintain lower employer contribution rates and increase the funded ratio of these retirement plans, I recommend the use of \$10 million from the \$25 million Pension Fund Reserve this fiscal year. Given that the CORP plan is currently funded at approximately the 90% level, the proposed \$10 million would be deposited in the PSPRS plan, increasing the funding level to approximately the 86% level. Using \$10 million of the Pension Fund Reserve at this time will strengthen the funded levels of the PSPRS, while retaining significant amounts in the Reserve for future use as and if needed.

Links to previous memorandums on this topic:

[June 8, 2020 - Adoption of Pension Funding Policy \(civicplus.com\)](#)

[January 5, 2021 - Issuance of Pension Obligation Bonds to Address the Growing Public Safety Personnel Retirement System Payments of the County \(civicplus.com\)](#)

The Honorable Chair and Members, Pima County Board of Supervisors

Re: **Use of Public Safety Personnel Retirement System and Corrections Officer Retirement Plan Reserve Funding**

April 10, 2024

Page 3

[February 4, 2021 - Issuance of Debt to Address the Growing Pension System Payments of the County \(civicplus.com\)](#)

[March 15, 2021 - Financing of Unfunded Pension Liability for the Public Safety Personnel Retirement System and the Corrections Officers Retirement Plan \(civicplus.com\)](#)

[May 16, 2022 - Public Safety Personnel Retirement System and Corrections Officer Retirement Plan Pension Funding Policy \(civicplus.com\)](#)

[May 22, 2023 - Public Safety Personnel Retirement System and Corrections Officer Retirement Plan Pension Funding Policy \(civicplus.com\)](#)

JKL/anc

c: The Honorable Chris Nanos, Pima County Sheriff
Carmine DeBonis, Jr., Deputy County Administrator
Francisco García, MD, MPH, Deputy County Administrator & Chief Medical Officer
Steve Holmes, Deputy County Administrator
Ellen Moulton, Director, Finance and Risk Management
Andy Welch, Deputy Director, Finance and Risk Management
Xavier Rendon, Budget Division Manager, Finance and Risk Management