



**PIMA COUNTY BOARD OF SUPERVISORS
DISTRICT 1**

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ALLY MILLER
SUPERVISOR

MEMORANDUM

To: Robin Brigode

Date: April 8, 2015

Re: **Addendum item for April 14, 2015**
Board of Supervisors Meeting

From: Ally Miller, District 1, Supervisor
Pima County Board of Supervisors

A handwritten signature in blue ink, appearing to be "AM", is written over the "From:" line.

Please place the following item on the **April 14, 2015**, Board of Supervisors Meeting Agenda
Addendum:

Discussion regarding Pension Fund Liability planning and requirements for
the short and long term.



Board of Supervisors Memorandum

March 17, 2015

Public Safety Retirement Plans

Background

My February 20, 2015 memorandum to the Board of Supervisors entitled *Adverse Impact to the County Budget* (Attachment 1) included an attached analysis of the Public Safety Retirement System (PSPRS) Contribution Rates and Costs for Fiscal Year (FY) 2015/16.

Attachment 2 to this memorandum represents additional information associated with the two largest public safety plans within the system – the Sheriff's Officers and Corrections Officers. This history covers contributions to the two plans from FY 2004/05 through the FY 2015/16 requested budget. During this time period, total contributions to the two plans increased from \$4.1 million to \$20.7 million, an increase of \$16.6 million. Contributions to the two plans grew at a rate that is over four times the rate of inflation over the same time period. Given the current funding status of the plans, it is likely the County's contribution costs will continue to increase in future fiscal years.

In 2011, the Arizona Legislature instituted several pension reform changes impacting all four public safety plans to control costs. Parts of these reforms were challenged in the courts. A decision in *Fields vs. EORP* reversed a new mechanism put in place for determining permanent benefit increases for those participants who were retired prior to the changes becoming law. The decision resulted in adverse impacts to the individual retirement plans and significantly increased the contribution rates paid by the jurisdictions. These rate increases are summarized in Attachment 1.

The Board of Trustees sought to mitigate the impact of these changes on the individual jurisdictions by providing the option to either start paying the full increase or phasing-in the increase over a period of three years. These options are summarized in Attachment 1. If the phase-in option is followed, the County's total FY 2015/16 cost increase for all four plans would be \$1,266,750. If the County absorbs the full cost of the decision, the employer cost increase would total \$5,176,351. At first glance, it would appear the phase-in contributions are more advantageous to the County. However, as explained in the previous memorandum, by paying the lower phase-in rate in FY 2015/16, the County will actually likely pay significantly more in the long run than we would by accepting and paying the full contribution rate in FY 2015/16.

The plan administrators have asked jurisdictions to review the two payment options for each plan and determine which rates will be used for the employer contributions in FY 2015/16. A decision must be transmitted to the plan administrators by March 31, 2015. If no decision is received by the plan administrators by that date, the full employer contribution rates for the County plans will be implemented.

The Honorable Chair and Members, Pima County Board of Supervisors
Re: **Public Safety Retirement Plans**
March 17, 2015
Page 2

Recommendation

I recommend the contribution rates for the four public safety plans that recognizes the full impact of the *Fields* decision be approved by the Board of Supervisors and that the County notify the appropriate plan administrators of the Board's decision by March 31, 2015.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'C.H. Huckelberry', with a long, sweeping underline that extends to the right.

C.H. Huckelberry
County Administrator

CHH/mjk – March 11, 2015

Attachments

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

Board of Supervisors Agenda Item Summary

Requested Board Meeting Date: March 17, 2015

Item Summary, Justification and or Special Considerations:

As the result of recent court decisions, plan contribution rates for the Public Safety Retirement-Sheriff's Officers, Corrections Officer Retirement, Administrative Office of the Courts-Probation Officers and AZ Public Safety Retirement-County Attorney Investigator Plans will increase significantly in FY 2015/16.

The plan administrators have given Pima County the option to phase-in the impact of these changes over a three year period or absorb the full impact in FY 2015/16.

Staff Recommendations:

Staff recommends that the Board adopt the following full-rate impact employer contribution rates for the Public Safety Personnel Retirement Plans:

Employer	Full Rate		
	FY 2014/15 Rate	FY 2015/16 Rate	Increase
Plan			
Sheriff Deputies, etc. Hired Before 1/1/15	41.92%	53.69%	11.77%
Sheriff Deputies, etc. Hired After 1/1/15	N/A	50.04%	8.12%
Corrections Officers	17.76%	22.97%	5.21%
County Attorney Investigators Hired Before 1/1/15	50.59%	69.61%	19.02%
County Attorney Investigators Hired After 1/1/15	N/A	65.96%	15.37%
Admin Office of Courts - Probation Officers	16.12%	19.95%	3.83%

It is also recommended that the Board direct County Staff to advise the appropriate Public Safety Retirement Plan administrators of the Board's decision regarding FY 2015/16 contribution rates

Pima County Cost: FY 2015/16 total contribution increase is \$5,176,351. Total Public Safety Retirement Costs for FY 2015/16 will be \$23,649,058.

Advertised Public Hearing: No

Supervisory District: All

Impact:

If Approved:

If approved, Pima County will pay the full actuarial contribution rates calculated by the plan administrators for the Public Safety Retirement-Sheriff's Officers, Corrections Officer Retirement, Administrative Office of the Courts-Probation Officers and AZ Public Safety Retirement-County Attorney Investigator Plans in FY 2015/16.

If Denied:

If the Board takes no action, the higher contribution rates representing the full-rate contributions will be implemented by the plan administrators by default.

If the Board of Supervisors decides to adopt the lower FY 2015/16 phase-in retirement contribution rates for FY 2015/16, the overall retirement contribution for the fiscal year will only increase by \$1,266,750. The remaining impact of the phase-in will be fully phased-in by FY 2017/18. The fully phased-in rates will likely be significantly higher than if the County had begun paying the full-rates in FY 2015/16. In the long run, Pima County will likely pay more in contributions to all four plans.

Attachment 1



MEMORANDUM

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 dark ink, appearing to be "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

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

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

Employer

Plan	FY 2014/15 Rate	Full Rate		Phase-In Rate	
		FY 2015/16 Rate	Increase	FY 2015/16 Rate	Increase
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%

Employee

Plan	FY 2014/15 Rate	Full Rate		Phase-In	
		FY 2015/16 Rate	Increase	FY 2015/16 Rate	Increase
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
Public Safety Retirement - Sheriff's Officers					
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
Total	\$12,352,110	\$13,117,539	\$765,429	\$15,724,137	\$3,372,027
Corrections Officer Retirement					
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
Total	\$3,757,822	\$4,062,097	\$304,275	\$4,963,105	\$1,205,283
Admin Office of the Courts - Probation Officers Retirement					
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
Total	\$2,238,860	\$2,395,232	\$156,372	\$2,789,591	\$550,731
AZ Public Safety Retirement-County Attorney Investigators					
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
Total	\$123,915	\$164,589	\$40,674	\$172,225	\$48,310
Totals					
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
Total	\$18,472,707	\$19,739,457	\$1,266,750	\$23,649,058	\$5,176,351

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

Attachment 2

FY 2004/05 Actual to FY 2015/16 Requested History of Public Safety-Sheriff and Corrections Officers Retirement Plans

	<u>FY 2015/16 Requested</u>	<u>FY 2014/15 Adopted</u>	<u>FY 2013/14 Actual</u>	<u>FY 2012/13 Actual</u>	<u>FY 2011/12 Actual</u>	<u>FY 2010/11 Actual</u>
Expenditures (in current dollars)						
Public Safety Retirement-Sheriff's Officers	\$15,724,137	\$12,352,110	\$12,419,000	\$10,494,000	\$9,083,000	\$8,927,000
Corrections Officer Retirement	\$4,963,105	\$3,757,822	\$3,802,000	\$2,986,000	\$2,364,000	\$2,106,000
Total	\$20,687,242	\$16,109,932	\$16,221,000	\$13,480,000	\$11,447,000	\$11,033,000

	<u>FY 2009/10 Actual</u>	<u>FY 2008/09 Actual</u>	<u>FY 2007/08 Actual</u>	<u>FY 2006/07 Actual</u>	<u>FY 2005/06 Actual</u>	<u>FY 2004/05 Actual</u>
Expenditures (in current dollars)						
Public Safety Retirement-Sheriff's Officers	\$9,352,000	\$8,895,000	\$7,488,000	\$5,422,000	\$4,720,000	\$3,325,000
Corrections Officer Retirement	\$2,175,000	\$2,398,000	\$1,760,000	\$1,224,000	\$1,088,000	\$782,000
Total	\$11,527,000	\$11,293,000	\$9,248,000	\$6,646,000	\$5,808,000	\$4,107,000

	<u>FY 2015/16 Requested</u>	<u>FY 2004/05 Actual</u>	<u>Increase/ (Decrease)</u>
Number of Active Members	491	457	34
Public Safety Retirement-Sheriff's Officers	461	379	82
Corrections Officer Retirement	952	836	116
Total			

Total Increase in Current Dollars (FY 2004/05 Actual thru FY 2015/16 Requested):

Public Safety Retirement-Sheriff's Officers	\$12,399,137
Corrections Officer Retirement	\$4,181,105
Total	\$16,580,242

Average Annual Increase in Current Dollars (FY 2004/05 Actual thru FY 2015/16 Requested):

Public Safety Retirement-Sheriff's Officers	\$1,127,194
Corrections Officer Retirement	\$380,100
Total	\$1,507,295

	<u>Number of Times Expected CPI Increase*</u>	
Actual Increase in Expenditures versus Inflation		
Public Safety Retirement-Sheriff's Officers	3.80	
Corrections Officer Retirement	5.10	
Total	4.05	*Adjusted for inflation.

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

Employer

Plan	FY 2014/15 Rate	Full Rate		Phase-In Rate	
		FY 2015/16 Rate	Increase	FY 2015/16 Rate	Increase
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County Attorney Investigators Hired After 1/1/15	N/A	65.96%	15.37%	51.69%	1.10%
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Employee

Plan	FY 2014/15 Rate	Full Rate		Phase-In	
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