

**CITY OF CASA GRANDE  
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM  
POLICE AND FIRE DEPARTMENT PLANS  
CONTINGENCY RESERVE POLICY**

**1. PURPOSE**

The purpose of this policy is to set forth the rules for effectively managing the Contingency Reserve Fund (“CRF”) established to cover potential unfunded actuarial liability in the City’s Public Safety Personnel Retirement System (PSPRS) Police and Fire Department Plans, that may accrue in years following the issuance of Excise Tax Revenue Obligations Issue 2021, during the life of the issued debt. The goal is to mitigate the impact of 1) investment return volatility and 2) changes in select actuarial assumptions (as defined herein) made within the Plans.

**2. DEFINITIONS**

- A. Unfunded Actuarial Liability (UAL) – Is the difference between trust assets and the estimated future cost of pensions earned by employees.
- B. 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 UAL - 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.
- C. Funded Ratio – Is a ratio of fund assets to actuarial accrued liability.
- D. Plans – Legacy Tier 1 and Tier 2 Public Safety Personnel Retirement System (PSPRS) Police and Fire.

**3. ESTABLISHMENT OF CONTINGENCY RESERVE FUND**

- A. The City is establishing two CRFs for the purposes of managing the Plans.
- B. The initial deposit for the CRFs will be funded with existing City cash balances. Sizing of the CRFs is discussed further below in this policy.

Consistent with the PSPRS Actuarial Funding Policy, the City Council’s PSPRS funding policy is to maintain to the greatest extent possible the goal of 100% (fully funded).

#### 4. SIZING OF CONTINGENCY RESERVE FUNDS

- A. **Target Size. \$5,286,881.** Sized to manage “worst case” scenario of all permitted draw events (market volatility and actuarial changes) occurring in one valuation for both Plans.
- i. **Fire CRF: \$2,104,410**
1. *Market.* **\$973,850.** Sized up to cover up to three years of new Unfunded Actuarial Liability (“UAL”) payments that would be created if PSPRS experienced 20% loss compared to the average earnings rate in year 1 of issuing pension bonds.
  2. *Actuarial.* **\$1,130,560.** Sized to manage up to three years of new UAAL payments that would be created if the assumed earnings rate was revised to 7.00%, payroll growth increased and/or PSPRS adopted a new mortality table.
- ii. **Police CRF: \$3,182,470**
1. *Market.* **\$1,137,238.** Sized up to cover up to three years of new Unfunded Actuarial Liability (“UAL”) payments that would be created if PSPRS experienced 20% loss compared to the average earnings rate in year 1 of issuing pension bonds.
  2. *Actuarial.* **\$2,045,232.** Sized to manage up to three years of new UAL payments that would be created if the assumed earnings rate was revised to 7.00%, payroll growth increased and/or PSPRS adopted a new mortality table.
- B. The City will review the CRF funding levels periodically but at least every five years to ensure adequate reserves.

#### 5. RULES FOR INVESTMENTS

- A. The City will be managing and investing the CRFs. Investments made by the City must comply with the requirements found in Arizona Revised Statutes Section 35-323 and the City’s Investment Policy.
- B. Investments shall be principal protected so that the City does not lose value in the deposited amounts.
- C. Gross funded by principal deposits; shall not include expected investment earnings.
- D. Investments shall be invested in no more than one-year increments to allow for liquidity in the 1<sup>st</sup> quarter of each calendar year.
- E. Proceeds should only be invested in liquid and/or short-term products to

ensure prompt availability of funds.

- F. Staff will determine the appropriate the investment of these funds, either with LGIP, a local bank or any other financial institution.
- G. The CRF dollars will be ear-marked in a separate account to ensure the monies are protected for the specified uses.
- H. The City may have the opportunity to utilize a pension stabilization trust to manage investment of CRF proceeds. These are irrevocable trusts created under Internal Revenue Service Section 115.

## 6. RULES FOR CONTINGENCY RESERVE FUND DRAWS

- A. The City will establish a minimum fund balance threshold based on the initial deposit into the CRFs.
- B. Draws will first be made from investment income only, while the principal balance remains untouched.
- C. Establish a funded ratio threshold, where if the CRF balance rises 5% above the minimum fund balance and the Plans are fully funded, the City may draw all or a portion of the 5% to supplement the City's annual required employer contribution for the Plans.
- D. **Market Draw:** The City may draw from a CRF when investment return for the Plans for the prior fiscal year is below the actuarial rate of return by a defined percentage.
- E. **Actuarial Draw:** The City may draw from a CRF when the annual reports 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 Liability for the Plans in excess of a defined threshold.

## 7. RULES FOR REPLENISHMENT OF CONTINGENCY RESERVE FUNDS

- A. Should the CRFs fall below minimum fund requirements in a given fiscal year, the City may choose to replenish the funds using savings derived from the issuance of the Bonds, from existing unrestricted General Fund balance, or from other sources as may be available.

- B. The City will review unspent budget appropriations for PSPRS pension expenditures annually and may consider adding to the CRFs with those funds or other funds as may be determined by the City.
- C. Should the CRF balances fall below the minimum fund balance, the City will prioritize making replenishments over no more five years.

#### **8. RULES TO DISSOLVE CONTINGENCY RESERVE FUND**

- A. Upon the repayment of the final debt service payment for the Bonds, staff will seek City Council direction to dissolve or continue the CRFs. The City could dissolve the CRFs and apply the remaining balance of funds to annual required PSPRS contributions or to the City General Fund.

**APPROVED AND ADOPTED THIS 19<sup>th</sup> DAY OF JULY, 2021, BY THE MAYOR AND COUNCIL OF THE CITY OF CASA GRANDE.**

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**Craig McFarland, Mayor**