PROCEEDINGS OF THE COCHISE COUNTY BOARD OF SUPERVISORS
WORK SESSION HELD ON
TUESDAY, JULY 27, 2021

A work session of the Cochise County Board of Supervisors was held on Tuesday, July 27, 2021, at 1:30 p.m. in the Board of Supervisors' Executive Conference Room, 1415 Melody Lane, Building G, Bisbee, Arizona.

Present:	Ann English, Chairman; Peggy Judd, Vice-Chairman
Absent:	Tom Crosby, Supervisor
Staff Present:	Richard G. Karwaczka, County Administrator Sharon Gilman, Associate County Administrator Christine Roberts, Chief Civil Deputy County Attorney Kim Lemons, Clerk of the Board Camila Rochin, Public Information Officer
Attendees:	Daniel Duchon, Budget Manager Mark Reader, Managing Director, Stifel, Nicolaus Company Omar Daghestani, Managing Director, Stifel, Nicolaus Company Mark Steed, CEO, PSPRS Michael Townsend, Administrator, PSPRS

Chairman English called the meeting to order at 1:30 p.m.

ANY ITEM ON THIS AGENDA IS OPEN FOR DISCUSSION AND POSSIBLE ACTION

THE ORDER OR DELETION OF ANY ITEM ON THIS AGENDA IS SUBJECT TO MODIFICATION AT THE MEETING

ITEMS FOR DISCUSSION

Board of Supervisors

1. Discussion and possible direction regarding the Public Safety Personnel Retirement System (PSPRS) Unfunded Liabilities and possible solutions for the future:
    - Bond Initiative Presentation by Mr. Mark Reader, Stifel, Nicolaus Company, Inc.;
    - Investment Plan Presentation by Mr. Mark Steed, Chief Investment Officer, PSPRS;
    - Summary Presentation of current status and possible solutions by Mr. Richard Karwaczka, County Administrator and Mr. Dan Duchon, Budget Manager.

    Mr. Karwaczka said the reason for today's work session is to explore several options as possible solutions for the PSPRS unfunded liability. He introduced the presenters: Mr. Mark Reader and Mr. Omar Daghestani, Stifel, speaking on possible bond initiatives; and Mr. Mark Steed and Mr. Townsend, PSPRS, on investment strategies. Both entities used PowerPoint presentations.

    Mr. Reader gave an overview of how some Arizona entities have addressed the unfunded liability specifically tiers one and two. He noted the benefits of COVID-19 and low interest rates, and the County's unfunded liability annual accrual rate of 7.3%. Stifel recommended refinancing the pension liability using other debt obligations to achieve 100% funding levels; allow the pension funds to improve investment efficiency for paying benefits; lower borrowing rate on $49.8 million unfunded liability from 7.3% to approximately 3.3% (depending on market conditions) and generate budgetary stability and projected savings.

Mr. Daghestani stated the importance of the Board decision and explained the specifics of the County's current and projected payments in detail based on several scenarios with charts and graphs. He outlined 3 options: 1) Do nothing – Continue to pay accelerating payments to PSPRS resulting in possible tax increase in the future, need to cut expenses, or potentially a combination of both; 2) Amend current PSPRS policy and budget more dollars towards the Unfunded Liability – Separate tax policy or other revenue increase, and/or cuts to essential services; 3) Refinance debt to PSPRS accruing at 7.3% with taxable obligations yielding approximately 3.3% – Address the legacy trajectory by "chopping down the future mountain" with fixed debt service payments and consider implementing a Contingency Reserve Fund to help manage future liability.

The Board, administration and presenters discussed the risks associated with issuing pension obligations versus the status quo. The presenters answered questions regarding different types of credit; costs for the County (approximately $750,000); and the contingency reserve fund usage.

Mr. Steed and Mr. Townsend presented next and outlined their investment strategies for maximizing returns while keeping risks in check through diversified allocation of funds – a mix of stocks and bonds. Also, how inflation with growth works but not stagnation. They gave examples of other counties in Arizona's approach to this issue and possible challenges.

The Board reiterated the importance of how to best use the taxpayer's funds.

Last, Mr. Karwaczka and Mr. Duchon presented potential payments for fiscal year 2022: $2,850,653 – Annual Minimal Payment; $532,159 – 2% primary property tax increase dedicated to PSPRS; $1,291,491 – extra payment from excess sales tax revenues in fiscal year 2021; and 1 million dollars potentially from the Coronavirus Aid, Relief, and Economic Security (CARES) funds. However, all those options could not be done in one year due to the state-imposed expenditure limit. Mr. Duchon also outlined the PSPRS unfunded liability models.

Mr. Karwaczka stated the County is in a good position because of money saved and the options presented today give the Board a broad spectrum of possibilities to choose from.

Chairman English discussed the challenges the County faces in solving this issue because of constraints from the state on usage of certain funds, expenditure limitation, mandated services, and the unpopularity of raising taxes while still meeting the taxpayer's needs.

The Board thanked all the participants.

Chairman English adjourned the meeting at 3:39 p.m.

APPROVED:

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Ann English, Chairman

ATTEST:

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Kim Lemons, Clerk of the Board