

DRAFT

WORK SESSION OF THE COMMON COUNCIL
OF THE CITY OF EL MIRAGE
EL MIRAGE CITY COUNCIL CHAMBERS
10000 N. EL MIRAGE ROAD
5:00 PM -TUESDAY, MARCH 2, 2021

Minutes

1. ROLL CALL

Present: Mayor Alexis Hermosillo; Vice Mayor Monica Dorcey; Councilmember Roy Delgado; Councilmember Anita Norton; Councilmember Mike Hutchinson; Councilmember David Shapera; Councilmember Donna Winston (via phone)

2. CALL TO ORDER - The meeting was held online and publicly with limited access; called to order at 5:00 pm.

3. WORK SESSION PRESENTATION

1. Presentation of Public Safety Personnel Retirement System (PSPRS) unfunded liability and funding options. (Finance)

Finance Director Robert Nilles introduced Mr. William Davis who is a Consultant with Piper Sandler & Company and previously served as a board member for the Public Safety Personnel Retirement System (PSPRS). Mr. Davis informed Council that his associate Mr. Greg Schwartz, who is known to many for his past work in El Mirage, was unable to attend this meeting due to a recent unfortunate mountain bike accident which required surgery and a hospital stay; Mr. Schwartz is doing well and updates will be provided to Mr. Nilles.

Mr. Davis explained there were multiple nuances involved with pension plans and the ultimate goal was to discuss the best strategies for El Mirage moving forward. He provided a background on PSPRS to include its inception in 1968 to administer retirement benefits to Public Safety personnel. Mr. Davis stated in the late 1990s the fund was 100 percent funded which also afforded Public Safety successful negotiating at the legislature regarding beneficial terms. He explained that until recently, the System offered two different benefit tiers, referred to as Tier 1 and Tier 2. Members hired before January 1, 2012, were placed in Tier 1, while members hired on or after January 1, 2012, were placed in Tier 2. Senate Bill 1428, which came into effect in February 2016, introduced significant changes to the benefit structure and governance of PSPRS. The Arizona Office of the Auditor identified two principal factors that contributed largely to the reduced plans' funded statuses, 1) required permanent benefit increases have raised the plans' pension obligations and 2) investment returns were lower than expected.

Mr. Davis stated pension funding consists of contributions from both employer and employee. The assets of the participating employers are co-mingled for investment purposes, but separate accounts are maintained for each individual employer. **Councilmember Hutchinson** asked why it was not ideal to fund at 100% and Mr. Davis responded that the long term impact could mean the loss of monies due to market fluctuations or an over funded account (monies not returned) and paying interest on money not needed. **Councilmember Shapera** asked how accurate the pension board

had been on calculating the percentage each year of their investment and Mr. Nilles responded. He reviewed the PSPRS Probability Analysis chart in the PowerPoint presentation and stated that over the past ten years the Board has lowered their assumed rate of return from 9% down to 7.3% which averages out to 8.1% and gave statistics over the past twenty and thirty years showing that the Board has not averaged even 7.3% on a regular basis. **Vice Mayor Dorcey** asked if current restrictions were placed on how monies are invested and is the Board required to have a balanced portfolio. Mr. Davis responded PSPRS and all pensions have the ability to make various kinds of investments such as US Stocks, International Stocks, Real Estate, or Equity Private Loans, etc. and stated the Board has created an investment policy to help protect from losses, which includes limiting the number of risky investments and diversifying the portfolio.

Mr. Nilles reviewed presentation slides and provided an overview of the current system in place and the City's responsibilities to making up the payment difference. Mr. Nilles identified tiers one, two and included the recent tier three and contribution rates for each tier. PSPRS has made certain modifications to the plan assumptions which will increase payments to the system by the City. For PSPRS members, the contribution rate is fixed between 7.65% and 11.65%. A combination of past system underperformance, increased benefits, outdated assumptions, and fixed contribution rates for employees has created a significant unfunded liability for both plans. Tier three was implemented to address these issues whereby new employees share equally in the system cost, change COLA benefit formulas and modified plan assumptions. These measures help to ensure the long-term health of the system, however, they do not address the short-term issues, specifically the growing unfunded liability (Tier 1 and Tier 2). Mr. Nilles stated the City has two PSPRS systems, one for police and one for fire. The fire department is healthy, however, the police is a little more challenged. The remaining City employees belong to the Arizona State Retirement System (ASRS) which is a shared pool and is about 73% funded; to date, the City has a liability of about eight million dollars within that system.

Mr. Nilles reported that the City had PSPRS conduct an analysis of how much was owed and the liability calculation was \$9.8M dollars for police and \$1M dollars for fire. He added those dollar amounts were likely untrue due to PSPRS not getting their rates of return. The more likely numbers would be \$17M dollars for police and \$5M dollars for fire; total unfunded liability for the City including ASRS and both PSPRS systems equaling \$30M dollars, with that number climbing over the next 17 years to \$60M dollars. Mr. Nilles reviewed three options to address the unfunded pension liability; 1) pay as you go, 2) pay from fund balance (the Council-adopted PSPRS funding policy states that the City will consider using available contingency funds to pay down debt), and 3) borrow. Each of these options carries risks and rewards depending on borrowing costs and investment returns. The one constant is that without a new revenue source the debt will have to be paid through General Fund revenues and the existing fund balance. Mr. Nilles stated the City's contribution rates would increase next year for both fire and police.

Councilmember Shapera recommended another work session because of the complexity of this discussion and Mayor and Council agreed. City Manager Dyches proposed extending the scheduled March 15, 2021 CIP Work Session to allow for further questions and information.

4. **ADJOURNMENT - The meeting was adjourned at 5:59 pm.**

Alexis A. Hermosillo, Mayor

ATTEST:

Sharon Antes, City Clerk

I hereby certify the aforementioned minutes are a true and accurate record of the El Mirage City Council Work Session held on Tuesday, _____ and a quorum was present.

Sharon Antes, City Clerk