Additional Pension Contribution - FY2023-24 Budget Adjustment

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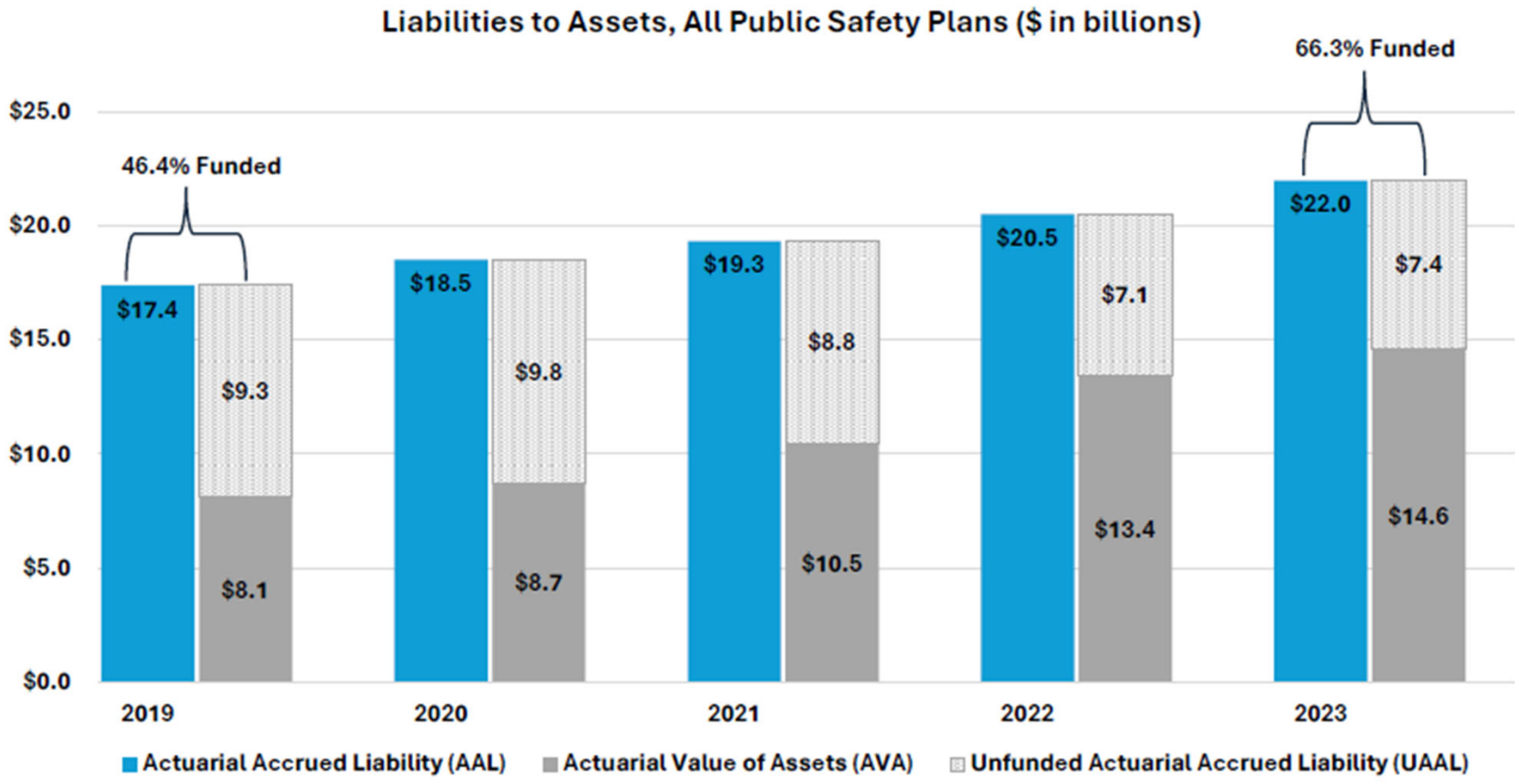
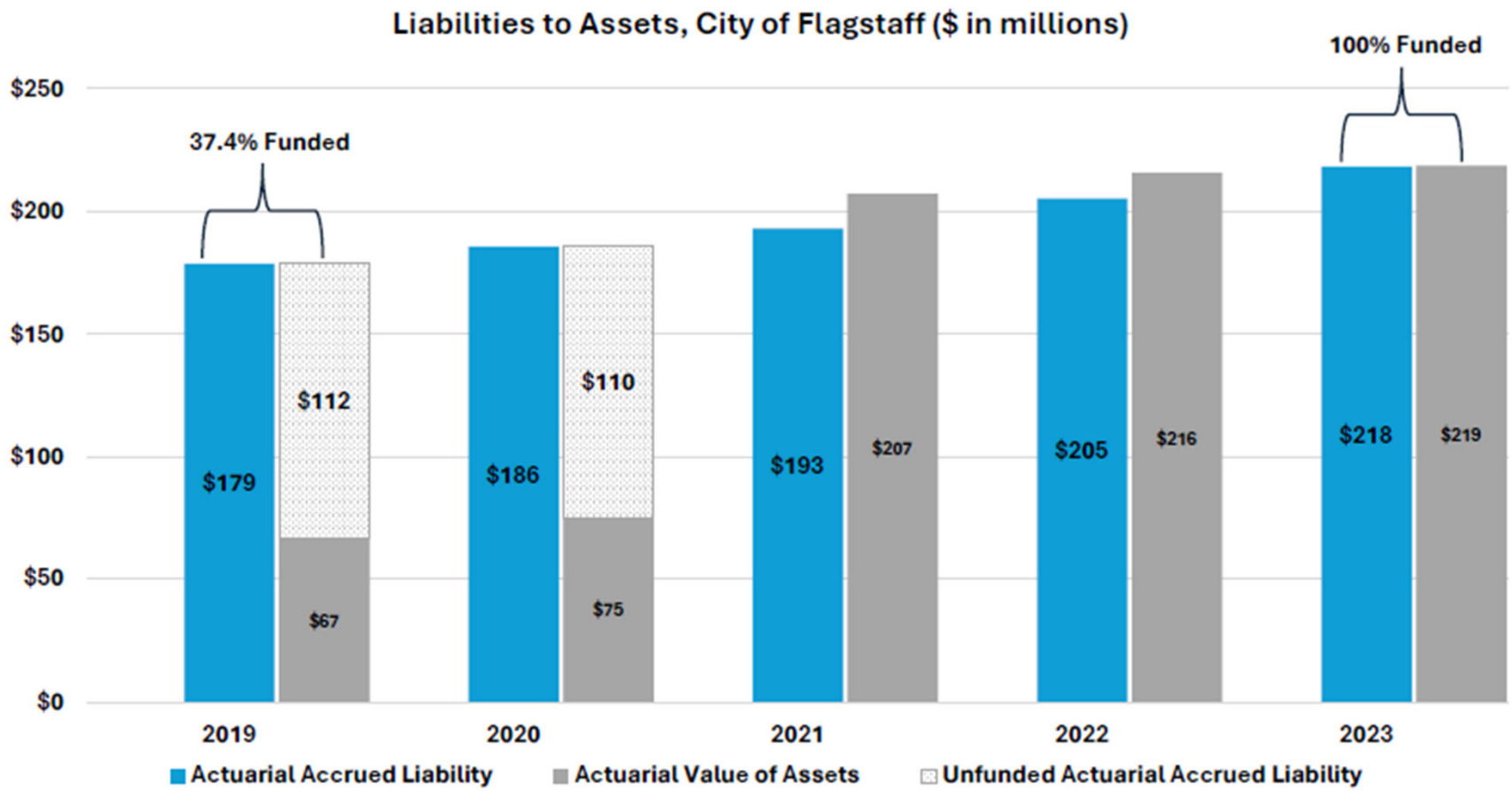
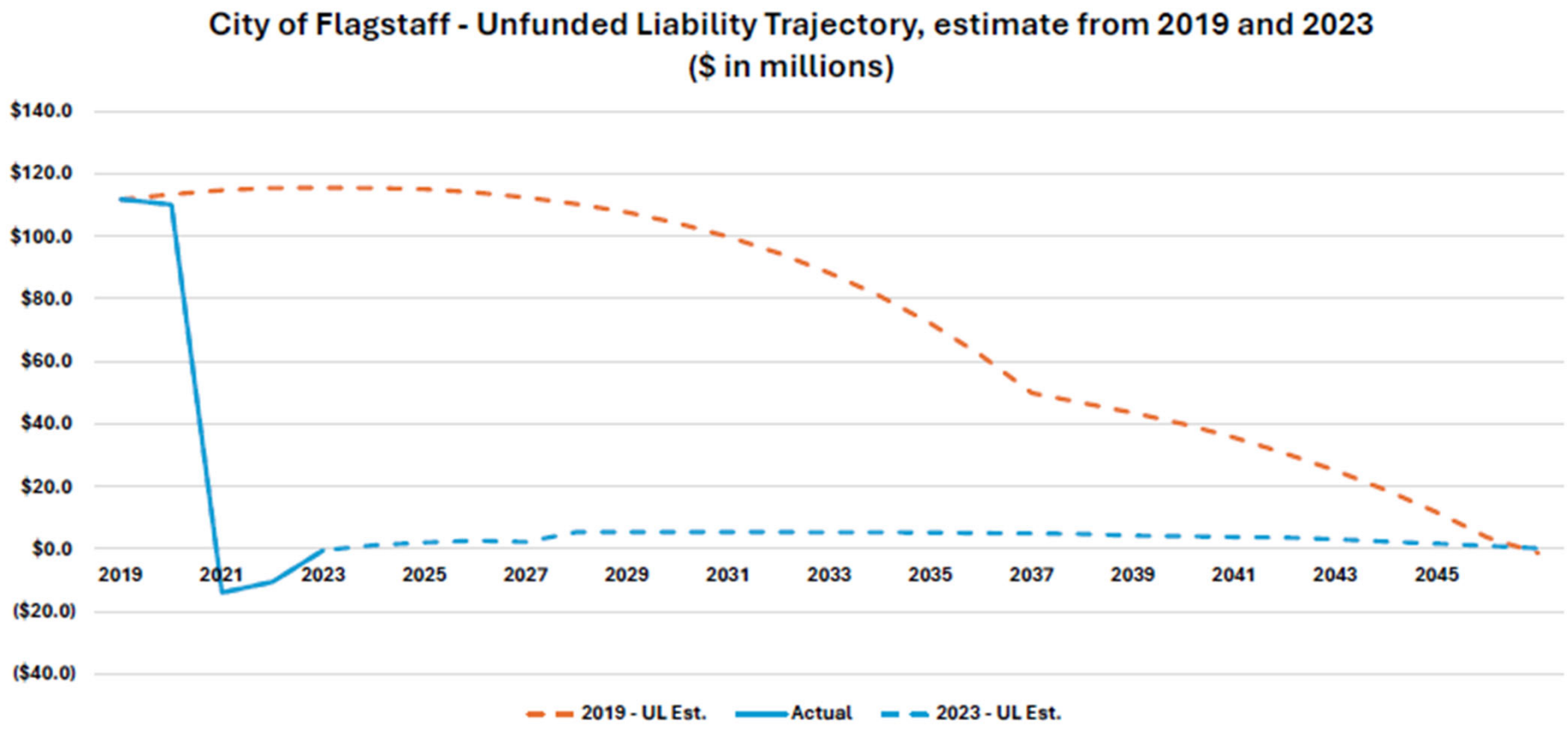
PSPRS Pension Funding History



Flagstaff Pension Funding History



Flagstaff Pension Funding History



Flagstaff Pension Funding History

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Financial Benefit from Pension Financing

- Deposited $116M into the PSPRS plans
- Market rate of returns
  - FY 2021 = 26.7%
  - FY 2022 = 4.2%
  - FY 2023 = 7.7%
  - FY 2024 = 10.0% (est.)
- Approximately $56 million in investment growth in PSPRS

WE ARE DOING BETTER WITH DEBT FINANCING THAN THE PSPSR ACTUARIAL MODEL!

- Debt Financing $131M at an effective rate of 2.69%
- Just under 4 year of interest expense ~ $14 million

- Deposited $14M into the Contingency Reserve Funds (CRF)
- More conservative investment per CRF policy ~ 2.4% annual return
- $1.3 million in investment growth in PSPRS

Flagstaff PSPRS Funding Policy

- Since the 2020 pension financing, the City maintains a commitment to stay at or above 100% funded
- Our Pension Policy considers the following to maintain funding levels
  - Contributions based on budget, not actuals
  - Continue City funding related to DROP employees
  - Calculate based on Normal Cost, do not include credits
  - Provide additional contribution from pension set aside
  - Provide additional contributions from the Contingency Reserve Fund ($15.5M current balance)

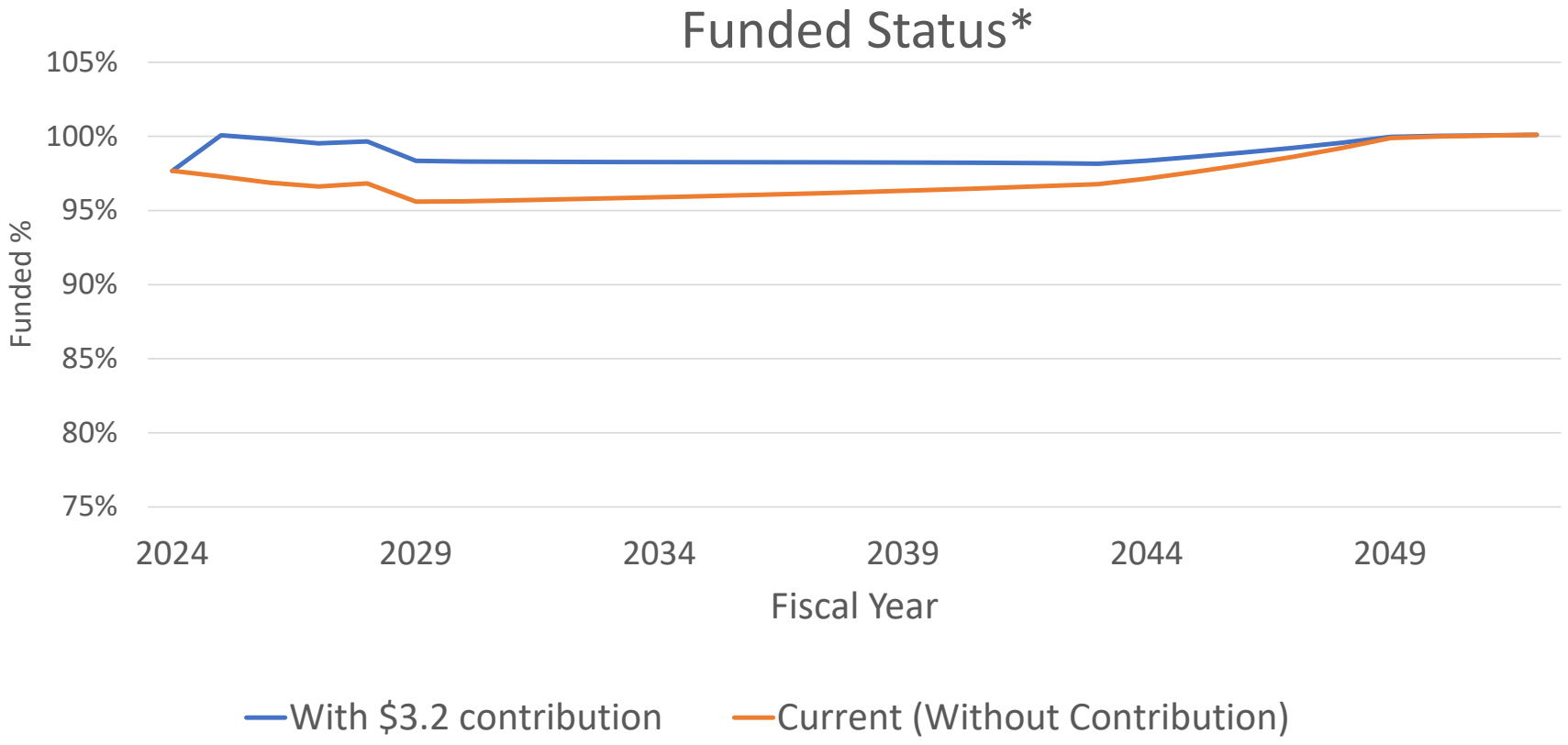
PSPRS – Police Plan

- As of 6/30/23: 97.7% funded status
- Underfunded by $2.5 million
- Causes:
  - Salary growth significantly greater than anticipated
  - Actuarial audit adjustments
  - Other actuarial assumption changes since 2020
    - Assumed Earning Rate Change from 7.4% to 7.2%
    - Assumed Payroll Growth Change from 3.5% to 2.0%

PSPRS – Police Plan

- The City made an additional contribution in June for $3.2M
- Payment based on our pension policy to stay 100% funded
- With the additional contribution:
  - We anticipate our funded status to be at or above 100% as of 6/30/24
  - Stabilize the annual contribution rates and amounts in future years
- Expect to be very close to 100% funded for next 5 years with only minor additional contributions needed

PSPRS – Police Plan



* Per the pension modeler provided by PSPRS.

Funding for $3.2M Contribution

Funding for the $3.2M Contribution

Staff were able to identify the following resources to fund the additional contribution

- $600,000 – savings in FY2023-24 police operation budget
- $316,000 – savings from public safety radio replacements purchase
- $889,000 – FY2023-24 pension contingency set aside
- $1,395,000 – FY2025-26 pension contingency set aside

- Pension Contingency Reserve funds were not used to fund this additional contribution.
- The FY2024-25 pension contingency set aside ($1,989,000) is still available if needed.

Questions?

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