

Public Safety Personnel Retirement System (PSPRS) FY 15/16 Contribution Options and Budget Update

March 26, 2015



PSPRS - Background

The City of Mesa provides sworn police and fire/medical personnel with a retirement plan benefit through the Arizona Public Safety Personnel Retirement System (PSPRS).

Mesa has two distinct PSPRS plans, one each for police and fire/medical.

Investment and administration of the plans are managed centrally by a State PSPRS agency.

Each year, PSPRS commissions an actuarial study for each plan to determine contribution amounts needed in the following year in order to adequately fund the plans.

Required contribution amounts are the estimated cost of participating in the plans in the upcoming year, plus a portion of any unfunded cost (liability) from prior years.

PSPRS Unfunded Liability

During FY 13/14 (which ended June 30, 2014), the funded status of Mesa's PSPRS plans declined significantly:

Mesa PSPRS Plans - Funded Status (Pension and Health)

Plan	As of June 30, 2013		As of June 30, 2014	
	Funded	Unfunded Liability	Funded	Unfunded Liability
Mesa - Fire/Medical	61.8%	\$ 105,604,693	55.9%	\$ 135,654,327
Mesa - Police	58.1%	\$ 204,673,038	51.7%	\$ 270,325,643
Total		\$ 310,277,731		\$ 405,979,970

PSPRS requires that all unfunded liability be fully funded by FY 2037-38.

PSPRS Unfunded Liability - Causes

Significant increases to FY 15/16 PSPRS unfunded liability are due to:

- Arizona Supreme Court ruling that certain aspects of 2011 pension reforms were unconstitutional
- Continued recognition of investment losses during 2008-2009 economic recession (smoothed over seven years)
- Adjustment of actuarial assumptions to account for anticipated permanent benefit increases/cost of living adjustments

PSPRS – Required Contribution

In order to fund the unfunded liability, the City's FY 15/16 required contribution for active employees increased substantially.

Recognizing the impact that the large increase would have on plan participants, PSPRS is allowing employers the option to phase in the FY 15/16 increase over three years.

Phase-in of the required contribution increase would result in lower contributions in FY 15/16, however, contributions in future years would need to be higher in order to make up the difference.

FY15/16 Contribution: Option 1 – Full Payment (\$8.7M Increase)

Option 1 – Full Payment

\$8.7M contribution increase from FY 14-15 to FY 15-16

Plan	FY 2014/15		FY 2015/16		Increase	
	Amount	Rate	Amount	Rate	Amount	Rate
Mesa - Fire/Medical	\$ 11,869,541	32.6%	\$ 14,845,235	40.8%	\$ 2,975,694	8.2%
Mesa - Police	20,831,464	33.1%	26,558,033	42.2%	5,726,569	9.1%
Total	\$ 32,701,005		\$ 41,403,268		\$ 8,702,263	

FY15/16 Contribution: Option 2 – Partial Phase-In (\$5.0M Increase)

Option 2 – Partial Phase-In

\$5.0M contribution increase from FY 14-15 to FY 15-16

Plan	FY 2014/15		FY 2015/16		Increase	
	Amount	Rate	Amount	Rate	Amount	Rate
Mesa - Fire/Medical	\$ 11,869,541	32.6%	\$ 13,579,265	37.3%	\$ 1,709,724	4.7%
Mesa - Police	20,831,464	33.1%	24,121,740	38.3%	3,290,276	5.2%
Total	\$ 32,701,005		\$ 37,701,005		\$ 5,000,000	

Additional Cost (over 22 years): \$7.6 million

FY15/16 Contribution: Option 3 – Entire Phase-In (\$2.2M Increase)

Option 3 – Entire Phase-In

\$2.2M contribution increase from FY 14-15 to FY 15-16

Plan	FY 2014/15		FY 2015/16		Increase	
	Amount	Rate	Amount	Rate	Amount	Rate
Mesa - Fire/Medical	\$ 11,869,541	32.6%	\$ 12,528,301	34.4%	\$ 658,760	1.8%
Mesa - Police	\$ 20,831,464	33.1%	\$ 22,375,075	35.5%	\$ 1,543,611	2.5%
Total	\$ 32,701,005		\$ 34,903,376		\$ 2,202,371	

Additional Cost (over 22 years): \$13.0 million

FY15/16 Contribution Increase Options

Increase in FY15/16 PSPRS Contributions by Plan and Payment Option (millions)

	Option 1	Option 2	Option 3
	Full Payment	Partial Phase-In	Entire Phase-In
Police	\$5.7	\$3.3	\$1.5
Fire/Medical	\$3.0	\$1.7	\$0.7
Total	\$8.7	\$5.0	\$2.2
Additional Cost (over 22 years)	\$0.0	\$7.6	\$13.0

PSPRS FY 15/16 Budget Impact – Full Payment

Estimated impact of full implementation of new contribution rate:

\$8.7M

Police Department:

\$5.7M, 3.4% of FY 14/15 adopted budget

Fire and Medical Department:

\$3.0M, 3.8% of FY 14/15 adopted budget

PSPRS FY 15/16 Budget Impact – Partial Phase-In

Estimated impact of partial phase in implementation of new contribution rate: \$5.0M

Police Department:

\$3.3M, 2.0% of FY 14/15 adopted budget

Fire and Medical Department:

\$1.7M, 2.1% of FY 14/15 adopted budget

Departments have identified the operating budget reductions that would be needed to cover the increased cost

Can be covered in FY 15/16 with vacant positions and less impact on current services

Allows time for further review of how to cover the cost increase in FY 16/17 and future years

FY 14/15 General Governmental Budget Update

Revenue receipts are still projected to end the year below budget

Expenses are anticipated to end the year below budget but not in the same magnitude as the revenues

Savings have been identified in various areas such as: operations related to capital improvement projects, reduced claims paid against the Worker's Compensation Fund and reduced claims paid against the Property and Public Liability Fund

Additional costs have been identified in various areas such as: personal services for police officer trainees, additional temporary employees to provide planning services, a fire fighter recruit academy and restocking of ambulance supplies

Departments have been asked to identify savings in their FY14/15 budget wherever possible

FY 15/16 General Governmental Budget Update

Growth in revenues is not forecasted to keep pace with growth in expenditures

The FY 15/16 on-going budget needs to be aligned to the anticipated on-going resources

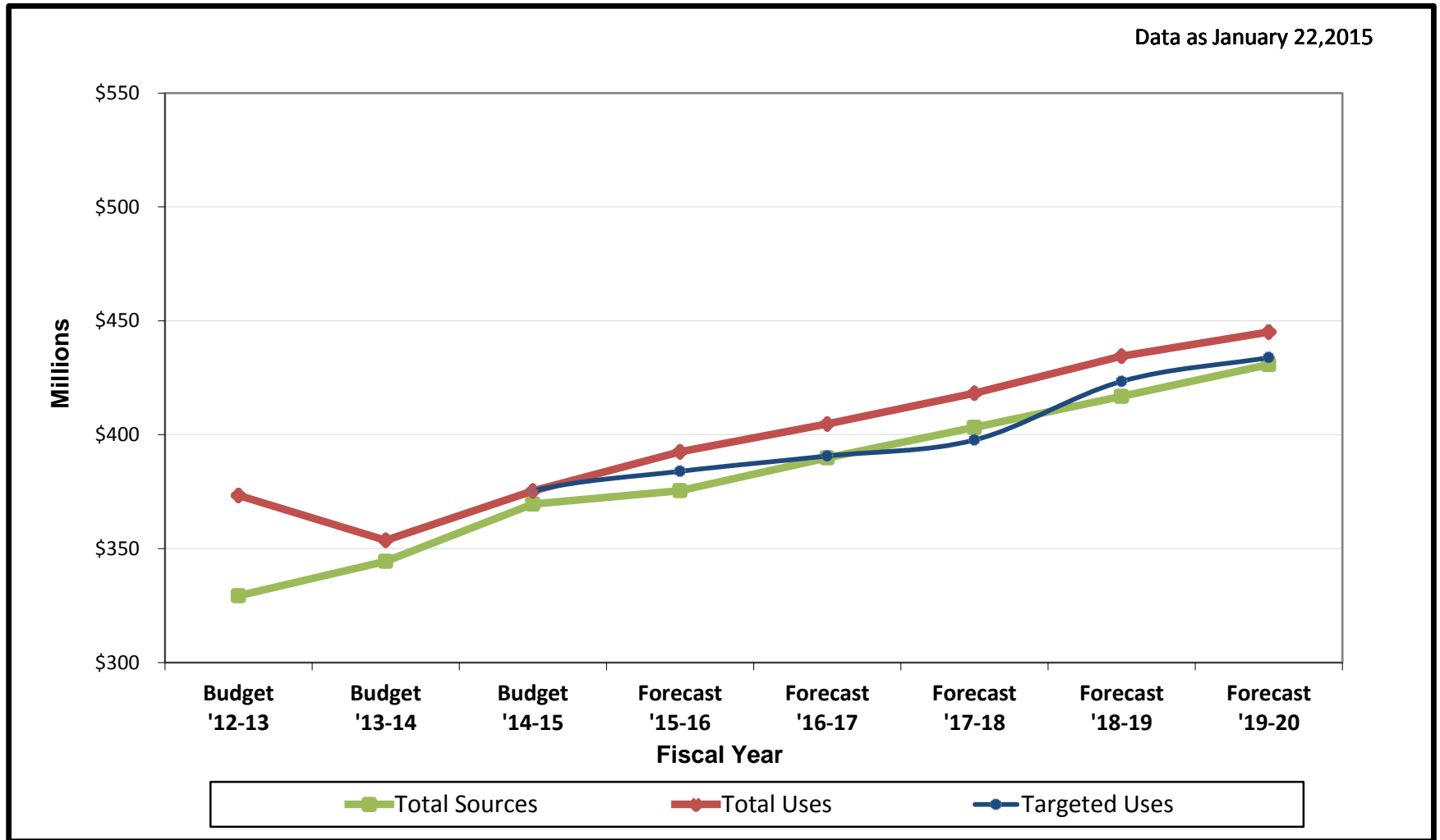
All departments (except Police and Fire) were asked to identify 5.0% of their operating budget for reduction consideration by the City Manager

The financial goal is to better align the on-going expenses with the on-going revenues by FY 16/17

Some unrestricted reserve fund capacity is available to ease the transition over two years due to savings achieved in FY 13/14

The FY 15/16 recommended budget will be discussed at the City Council study session on April 9, 2015

City of Mesa Forecasted Budget – General Governmental



Note: Effective 07/01/2012, grants and restricted funding are no longer included in the general governmental summary.

FY 15/16 Budget: Areas of Emphasis

Financial Sustainability

Competitive Compensation for Quality Workforce

Public Safety: Increasing service levels and decreasing costs through programmatically reducing vacancy duration

Economic Development

Marketing the “Next Mesa” and Downtown Mesa

Falcon Field Development Area

Storm Water Infrastructure Improvements

Transit Infrastructure and Operations

Utilities: Aligning rates with service demand on the system

Current Budget Discussion Schedule

April 2	Capital Improvement Program Review Utilities, Parks, Public Safety
April 2	Audit, Finance and Enterprise Committee Utility Rates and Fees & Charges
April 6	Capital Improvement Program Review Transportation, Transit, Storm Sewer
April 9	FY 15/16 Budget Summary
April 16	Utility Rates and Fees & Charges
April 20	Police/Transit
April 23	Communications/Fire/Library
April 30	Parks/Dev. & Sustainability/Arts & Culture
May 4	Transaction Privilege Tax Update



PSPRS - Unfunded Liability Payment Options

Fiscal Year	Option 1 - Full Payment (\$8.7M)		Option 2 - Partial Phase-In (\$5.0M)		Option 3 - Entire Phase-In (\$2.2M)	
	Contribution	(Savings)/Cost	Contribution	(Savings)/Cost	Contribution	(Savings)/Cost
2015/16	27,658,578	-	24,054,391	(3,604,187)	21,254,391	(6,404,187)
2016/17	28,764,921	-	26,654,182	(2,110,739)	25,434,744	(3,330,177)
2017/18	29,915,518	-	30,362,471	446,953	30,678,375	762,857
2018/19	31,112,139	-	31,576,970	464,831	31,905,510	793,371
2019/20	32,356,624	-	32,840,049	483,425	33,181,730	825,106
2020/21	33,650,889	-	34,153,651	502,762	34,508,999	858,110
2021/22	34,996,925	-	35,519,797	522,872	35,889,359	892,434
2022/23	36,396,802	-	36,940,589	543,787	37,324,933	928,132
2023/24	37,852,674	-	38,418,212	565,539	38,817,931	965,257
2024/25	39,366,781	-	39,954,941	588,160	40,370,648	1,003,867
2025/26	40,941,452	-	41,553,139	611,687	41,985,474	1,044,022
2026/27	42,579,110	-	43,215,264	636,154	43,664,893	1,085,783
2027/28	44,282,275	-	44,943,875	661,600	45,411,489	1,129,214
2028/29	46,053,566	-	46,741,630	688,064	47,227,948	1,174,383
2029/30	47,895,708	-	48,611,295	715,587	49,117,066	1,221,358
2030/31	49,811,537	-	50,555,747	744,210	51,081,749	1,270,212
2031/32	51,803,998	-	52,577,977	773,979	53,125,019	1,321,021
2032/33	53,876,158	-	54,681,096	804,938	55,250,019	1,373,862
2033/34	56,031,204	-	56,868,339	837,135	57,460,020	1,428,816
2034/35	58,272,452	-	59,143,073	870,621	59,758,421	1,485,969
2035/36	60,603,351	-	61,508,796	905,445	62,148,758	1,545,407
2036/37	63,027,485	-	63,969,148	941,663	64,634,708	1,607,224
2037/38	0	0	0	0	0	0
Total	947,250,146	0	954,844,632	7,594,486	960,232,184	12,982,038

Note: Amounts are based on PSPRS assumptions and may vary slightly from city budget estimates

FY15/16 Change in Contributions to State-Run Pension Plans

Retirement Plan	FY 14/15 Rate	FY15/16 Rate	% Change	Cost Increase (all funds)
Arizona State Retirement System (ASRS)	11.5%	11.4%	-1%	(\$0.2M)
Elected Official Retirement Plan (EORP)	57.5%	85.4%	+48%	\$0.1M
Public Safety Personnel Retirement System (PSPRS) - Fire	32.6%	40.8%	+25%	\$3.0M
Public Safety Personnel Retirement System (PSPRS) - Police	33.1%	42.2%	+27%	\$5.7M