

DRAFT

MINUTES
CORRECTIONS OFFICER RETIREMENT PLAN
REGULAR SESSION
March 15, 2023
KACHINA CONFERENCE ROOM
11000 N. LA CAÑADA DRIVE

REGULAR SESSION AT OR AFTER 10:00 AM

CALL TO ORDER

Chair Kron called the meeting to order at 10:00 a.m.

ROLL CALL

Present: Carlene Kron, Chair
Michelle DeVault, Member
Keli Mendivil, Member
Dr. Roberta Hindenlang, Member
Brett Sadovnick, Member

Staff Present: Jennifer Inboden, Local Board Secretary
Dave Gephart, Chief Financial Officer

CALL TO AUDIENCE

Chair Kron opened the call to audience. No comments were received.

REGULAR SESSION AGENDA

1. REVIEW AND APPROVAL OF THE DECEMBER 21, 2021 REGULAR SESSION MEETING MINUTES

Members reviewed the minutes as written with no discussion.

Motion by Member Michelle DeVault, **seconded by** Member Brett Sadovnick to approve the December 21, 2021 regular session minutes.

Vote: 5 - 0 Carried

2. REAPPOINTMENT OF OFFICE: MAYOR AND COUNCIL REAPPOINTED ROBERTA HINDENLANG AS MEMBER TO THE CORRECTIONS OFFICER RETIREMENT PLAN LOCAL BOARD ON SEPTEMBER 21, 2022 FOR A TERM ENDING ON AUGUST 31, 2026

Motion by Member Brett Sadovnick, **seconded by** Member Michelle DeVault to acknowledge the reappointment of Roberta Hindenlang as Member to the Corrections Officer Retirement Plan Local Board for a term ending August 31, 2026.

Vote: 5 - 0 Carried

3. REVIEW AND DISCUSS PSPRS/CORP TRAINING VIDEOS

Chair Kron turned the floor over to Secretary Inboden. Secretary Inboden explained to the Board that it is not a requirement that they view the training videos since they were all elected or appointed prior to January 1, 2022, when the training videos were made mandatory for new Board members only. Since the Board had expressed interest in viewing the videos at a previous meeting, Secretary Inboden previewed the videos and showed portions that would be most beneficial to the experienced Board members.

There were no questions or further discussion of the matter.

4. REVIEW AND DISCUSS THE 2022 ACTUARIAL VALUATION REPORT

Guest Dave Gephart, Chief Financial Officer, provided an overview of the actuarial report:

- He provided an overview that actuarial reports are released by PSPRS/CORP annually in mid-December. The most recently released report that the Board is reviewing today covers the fiscal year from July 1, 2021 to June 30, 2022.
- State legislature passed a funding policy in 2019 requiring municipalities to adopt an unfunded liability strategy for PSPRS and CORP. The Town did implement a policy for funding retirement plans which can be viewed on the Town's website. The policy is updated annually for changes in the market and funding status.
- The Town Council has a strategic objective to deal with unfunded liabilities. The Town hired consultants to look at funding options to address the growth in liabilities that the Town was experiencing. The Town committed to devote \$10 million from reserves and \$17.6 million in pension obligation bonds to tackle the unfunded liability of PSPRS.
- Once the bonds were issued, the Town made the payment to PSPRS in 2021 and they devoted the \$27.6 million to fund the PSPRS pension plan since that is where the bulk of the Town's liability resided. In the PSPRS Actuarial report for 2021, the plan was funded at 102%.
- The Summary of the CORP actuarial report shows the proposed employer contribution rate at an increase from 118.45% to 128.44% and the funded status at a decrease from 46.5% to 46%. The proposed rates will be effective starting July 1, 2023. Mr. Gephart stated that the funding status is not healthy and the contribution rates are much too high.
- Review of assumption / method change that impacts both the funding status and the rate since half of the increase is due to these assumptions. The assumptions are payroll growth, mortality, and the assumed earnings rate over seven years.
 - Member Sadovnick asked about smoothing. Mr. Gephart shared an illustration that contributions + investments = benefits + expenses. Since investment income is down, the contributions had to increase. Looking at the long-term performance over 10 years, the funds are actually 0.1% better. Over 7 years, the funds are doing worse. They are saying that their assumed earnings rate may have been aggressive, and they are trying to take a more conservative approach moving forward.
 - Mr. Gephart shared that even a small increase of 0.1% can have a major impact on employer contributions. PSPRS/CORP is trying to stay balanced and not cause employer rates to skyrocket which would create challenges for municipalities and potentially cause them to reduce service levels and place them in a financial bind.
- If the plan were 100% funded, the employer would only need to pay the normal cost rate of 2.25%. This would pay for the benefits of current employees as they move closer to retirement and current retirees. When the plan is underfunded, investments do not bring in as much return, so contributions have to be higher. The unfunded liability with an employer contribution rate of 126.19% is trying to catch up to where the plan should be.
- The target date set forth by the State legislature is for municipalities to have their plans fully funded by June 30, 2036.
- The Impact of Additional Contributions table shows the impact on the funded status if the Town were to make an additional contribution. For example, a contribution of \$100,000 would increase the funded status from 46% to 48.7% and the total contribution rate would decrease from 131.41% to 123.07%.
- The Liabilities and Funded Ratios table shows the ratios based on the actuaries' calculations of

assets and liabilities or present value benefits. The unfunded actuarial accrued liability is just over \$2 million.

- Member Hindenlang asked if our ratios are similar to what other municipalities are seeing. Mr. Gephart said that our ratio of 46% funded is better than some and worse than others who have already addressed their unfunded liability through debt issuances. He said that PSPRS/CORP plans have done a better job than pension plans nationally in terms of addressing their unfunded liability. The Town's PSPRS pension plan was 66% funded as of June 30, 2021 and they got to 102% funded by the end of June of 2022.
- After finishing the review of the actuarial report, Mr. Gephart reported to the Board the current plan for addressing the unfunded liability for CORP.
 - The Town has made good headway with addressing the unfunded liability of the PSPRS pension plan. The current year is another challenging year for the market which will make it hard to have healthy yields with the current environment. This will probably be another down year where they don't hit the 7.2% assumed earnings rate.
 - This fiscal year, the Town plans to make excess contributions to the CORP plan in an amount of a little over \$2 million to get to fully funded status by the end of the fiscal year.
 - This excess contribution will address the unfunded actuarial accrued liability of \$2.01 million and bring the contribution rate down from 128% to the normal cost rate of 2.25%.
 - In order to do this, the Town will follow its policy and use operating revenues. When they had contributed the \$27.6 million in 2021, the intent had been to fund both the PSPRS and CORP plans but the entire contribution went to PSPRS which caused it to be slightly overfunded at 102%.
 - As a result, this current fiscal year, the extra payment of \$2 million can go entirely to CORP to address the unfunded liability. This \$2 million is the same amount that we were contributing historically as an excess payment to PSPRS towards funding their amortization of the actuarial accrued liability. Since the Town doesn't have to fund an unfunded liability for PSPRS moving forward, the same money can go to the CORP pension plan.
 - The Town's current policy for funding retirement plans has a goal of getting to 110% funded. They will not dial back their contributions until they get to 110% funded status for both plans which currently involves a contribution of \$2 million on top of the \$1.275 million debt service payment.

FUTURE AGENDA ITEMS

ADJOURNMENT

Motion by Member Michelle DeVault, **seconded by** Member Brett Sadovnick to adjourn the meeting at 10:50 a.m.

Vote: 5 - 0 Carried

I hereby certify that the foregoing minutes are a true and correct copy of the minutes of the regular session of the Town of Oro Valley Corrections Officer Retirement Plan Board of Oro Valley, Arizona held on the 15th day of March, 2023. I further certify that the meeting was duly called and held and that a quorum was present.

Dated this 15th day of March, 2023.

Jen Inboden
Human Resources Analyst