

AGENDA ITEM #: \_\_\_\_\_

DATE: February 24, 2020

CAR #: 2020-6857



## **CITY COUNCIL ACTION REPORT**

**SUBJECT: Adopt Financial Policies and the Public Safety Retirement System FY2021 Funding Policy**

**STAFF PRESENTER(S):** Lauri Wingenroth, Finance Manager-Budget and Research

**OTHER PRESENTER(S):** None

### **Summary:**

Each year the Council adopts the Financial Policies that guide budget development and financial practices. In addition, state law now requires that the Council annually adopt a Public Safety Personnel Retirement System (PSPRS) Pension Funding Policy.

The proposed FY2021 PSPRS Pension Funding Policy reflects the same practice as in prior years.

The proposed Financial Policies reflect two changes and include an option for the City Council to discuss and consider a change to the amount of Construction Sales Tax treated as ongoing General Fund revenue. The changes include:

1. Put in policy the current practice that the Council approve any changes to the total ongoing full-time equivalent position count,
2. Reflect a change in budget transfer policy to allow administrative approval of all budget transfers to reconcile carryovers of one-time operating and capital projects, and
3. Consider revising from \$4.5 million to \$5.1 million the amount of Construction Sales Tax classified as ongoing General Fund revenue.

### **Recommendation:**

Adopt the:

- Public Safety Personnel Retirement System FY2021 Pension Funding Policy as presented in Attachment 1, and
- Financial Policies as presented in Attachment 2 which includes an increase from \$4.5 million to \$5.1 million in the amount of Construction Sales Tax treated as ongoing General Fund revenue.

If the Council does not desire to change the Construction Sales Tax portion of the policy, Attachment 3 should be approved as the Financial Policies.

**Fiscal Impact:** Adoption of this policy maintains all of our current budgetary practices related to pension funding, position approvals, and improves efficiency for delivery of one-time projects by facilitating timely processing carryovers. The recommended action does reclassify or shift an additional \$600,000 of Construction Sales Tax to ongoing status in the General Fund. Whether the change in the amount allocated to ongoing General Fund is approved or not, the total Construction Sales Tax revenue estimated is unchanged.

## **Background and Previous Actions**

With the 2018 passing of House Bill 2097 every governing body of a PRPRS plan is required to pass a Pension Funding Policy no later than June 30<sup>th</sup> of each year and post the policy on the governing body's website. Last fiscal year council adopted the Pension funding policies for FY2019 and FY2020. The provisions included in the attached policy mirror those adopted in prior years. The City of Goodyear pension funding policy is based upon the model policy created by the League of Arizona Cities & Towns and meets all of the requirements of state law.

The Financial Policies are also adopted annually. The last update was in March 2019.

## **Staff Analysis**

### PSPRS FY2021 Pension Funding Policy

The proposed City of Goodyear PSPRS FY2021 Pension Funding Policy continues to commit the city to funding annual contributions from operating revenues and further commits us to pre-pay all employer and a portion of employee contributions. These pre-payments maximize interest earnings which increases the financial strength and sustainability of our public safety pensions. Included in the pre-payment is 100% of budgeted amounts for PSPRS payments for all positions. This includes vacant positions and those of employees in the DROP program for which no city contribution is required. By budgeting for the full pension for full employment and committing 100% of all budgeted funds, the City of Goodyear is actively reducing the unfunded liabilities and increasing the long-term sustainability of our public safety pensions.

To fulfill the statutory requirement of Laws 2018, Chapter 112 the City must annually enact a policy to outline and communicate the Council's pension funding objectives as follows:

Beginning on or before July 1, 2019, each governing body of an employer shall annually:

1. Adopt a pension funding policy for the system for employees who were hired before July 1, 2017. The pension funding policy shall include funding objectives that address at least the following:
  - a) How to maintain stability of the governing body's contributions to the system.
  - b) How and when the governing body's funding requirements of the system will be met.
  - c) Define the governing body's funded ratio target under the system and the timeline for reaching the targeted funded ratio.

2. Formally accept the employer's share of the assets and liabilities under the system based on the system's actuarial valuation report.
3. Post the pension funding policy on the governing body's public website.

The proposed policy meets all of these requirements.

### Financial Policies

The city has long practiced that the City Council approve increases in the total ongoing position count, however this is not clearly stated in written policy. The state budget forms that are adopted annually do reflect the ongoing position count and the related budget associated with those positions and has been the primary reference for requiring Council approval.

This policy change does not change the current practice that permits the City Manager to reorganize, reclassify, or move positions.

The budget transfer policy has been revised and a related provision in the Financial Policies is changed to align with that policy in Resolution 2020-2039.

The Financial Policies call for annual review of the portion of General Fund Construction Sales Tax allocated to ongoing purposes. The analysis of Construction Sales Tax presented at the City Council Retreat in January demonstrated a \$5.1 million average annual revenue for the five lowest collection years dating back to FY2009. The most recent five and ten annual average General Fund collections are \$8.4 million and \$6.9 million respectively. These measures have been used to assess the base level of Construction Sales Tax that would be expected through a slow-down and that would be routinely available to fund ongoing operations. The Economic Update and Five-Year Forecast presented in February projected similar levels of construction activity in the next several years as the city has been experiencing in in FY2019 and FY2020. Using the lowest of these measures, setting the ongoing portion of Construction Sales Tax at \$5.1 million is a reasonable and conservative level.

### **Attachments**

1. PSPRS FY2021 Pension Funding Policy
2. Financial Policies with marked up changes shown including Construction Sales Tax revision
3. Financial Policies with marked up changes shown with no change in Construction Sale Tax