PURSUANT TO A.R.S. §38-431.01, THE GILA COUNTY BOARD OF SUPERVISORS WILL HOLD A MEETING AT THE GILA COUNTY COURTHOUSE, BOARD OF SUPERVISORS' HEARING ROOM, 1400 EAST ASH STREET, GLOBE, ARIZONA. ONE OR MORE BOARD MEMBERS MAY PARTICIPATE IN THE MEETING BY TELEPHONE CONFERENCE CALL OR BY INTERACTIVE TELEVISION VIDEO (ITV). THE MEETING IS ALSO TELEVISED TO THE GILA COUNTY COMPLEX, BOARD OF SUPERVISORS' CONFERENCE ROOM, 610 E. HIGHWAY 260, PAYSON, ARIZONA.

NOTE: Per the most recent guidelines from the federal government that no more than 10 people should be gathered in a room at the same time, no citizens will be allowed in the Board of Supervisors' hearing room at the Globe Courthouse or at the County Complex, Board of Supervisors' conference room in Payson.

Citizens may watch the Board meeting live-streamed at:
https://www.youtube.com/channel/UCkCHWVqrI5AmJKbvYbO-k2A/live

Citizens may submit comments related to the June 23, 2020 Work Session agenda by no later than 5 p.m. on Monday, June 22, by emailing to the Clerk of the Board at msheppard@gilacountyaz.gov or calling 928-402-8757. Please include the meeting date and agenda item number in the email.

THE AGENDA IS AS FOLLOWS:

WORK SESSION - TUESDAY, JUNE 23, 2020 - 10:00 A.M.

1. CALL TO ORDER - PLEDGE OF ALLEGIANCE

2. REGULAR AGENDA ITEMS:

A. Information/Discussion regarding funding options for Public Safety Personnel Retirement System (PSPRS) liability. **(Mary Springer)**

B. Information/Discussion regarding Arizona Coronavirus Aid Relief and Economic Security (CARES) Act funding allocation to Gila County and grant requirements. **(Mary Springer)**

C. Information/Discussion regarding potential public safety and public health uses of the Arizona Coronavirus Aid Relief and Economic Security (CARES) Act funding allocation. **(James Menlove)**

3. **CALL TO THE PUBLIC:** A call to the public is held for public benefit to allow individuals to address the Board of Supervisors on any issue within the jurisdiction of the Board of Supervisors. Board members may not discuss items that are not specifically identified on the agenda. Therefore, pursuant to Arizona Revised Statute §38-431.01(H), at the conclusion of an open call to the public, individual members of the Board of Supervisors may respond to criticism made by those who have addressed the Board, may ask staff to review a matter or may ask that a matter be put on a future agenda for further discussion and decision at a future date.

4. At any time during this meeting pursuant to A.R.S. §38-431.02(K), members of the Board of Supervisors and the County Manager may present a brief summary of current events. No action may be taken on information presented.

IF SPECIAL ACCOMMODATIONS ARE NEEDED, PLEASE CONTACT THE RECEPTIONIST AT (928) 425-3231 AS EARLY AS POSSIBLE TO ARRANGE THE ACCOMMODATIONS. FOR TTY, PLEASE DIAL 7-1-1 TO REACH THE ARIZONA RELAY SERVICE AND ASK THE OPERATOR TO CONNECT YOU TO (928) 425-3231.

THE BOARD MAY VOTE TO HOLD AN EXECUTIVE SESSION FOR THE PURPOSE OF OBTAINING LEGAL ADVICE FROM THE BOARD'S ATTORNEY ON ANY MATTER LISTED ON THE AGENDA PURSUANT TO A.R.S. §38-431.03(A)(3).

THE ORDER OR DELETION OF ANY ITEM ON THIS AGENDA IS SUBJECT TO MODIFICATION AT THE MEETING.

ARF-6122 **2. A.**

Work Session

Meeting Date: 06/23/2020

Submitted For: Mary Springer, Finance Director

Submitted By: Mary Springer, Finance Director

Department: Finance

Information

Request/Subject

Presentation of options to address Public Safety Personnel Retirement System (PSPRS) unfunded liability.

Background Information

Finance engaged Mark Reader from Stifel to identify cost saving opportunities and options for an annual level payment for PSPRS unfunded actuarial accrued liability (UAAL). Actuarial estimates the UAAL growth year over year to be 7.3%. Option to discuss will be using a debt instrument at a lower interest rate to pay off the UAAL. Options and risks will be discussed during the work session.

Evaluation

Board to determine viability of options and provide direction to staff.

Conclusion

N/A

Recommendation

Information only

Suggested Motion

Information/Discussion regarding funding options for Public Safety Personnel Retirement System (PSPRS) liability. **(Mary Springer)**

Attachments

Presentation by PSPRS

PSPRS-Presentation by Stifel

PSPRS

GILA COUNTY
JUNE 23, 2020

SERVING THOSE WHO SERVE OTHERS

UNDERSTANDING PENSIONS

1. Unfunded liabilities
2. Funded ratio
3. Pension funding formula

Starting Thoughts

- Critical financial issue facing taxpayers
  - 6/30/19 unfunded pension liability = $9.3 billion
  - 46% funded
- It's debt
- It's not **<u>IF</u>** the unfunded liability will be paid off, it is **<u>WHEN AND BY WHOM</u>**
- Depending on other factors, such as payroll growth, annual required contributions (ARC) may <u>not</u> be enough to reduce employer unfunded liabilities

Starting Thoughts

Reform **DOES NOT** reduce current Tier 1 and 2 unfunded pension liability (legacy costs)

- Reforms created tier 3 membership that has lower employer costs than tiers 1 and 2
- Prop 124 in 2016 replaced costly investment return-based permanent benefit increase (PBI) with simple annual cost-of-living-increase capped at 2 percent
- COLA savings already factored into actuarial valuations and contribution rates
  - System-wide savings of estimated $475 million

Defined Benefit

What the numbers are ***AND*** how the numbers are calculated. Basic example:

- Actual liability, at retirement it will be paid
  - Years of service x % multiplier
    - Tier 1, 25 years of service = 62.5%
  - 62.5% x average compensation
    - 62.5% x $80,000 = $50,000 annual pension

- Estimated liability
  - Estimated present value of the future liabilities
  - Based on actuarial assumptions

Unfunded Liability

Assets

- Market value of assets are the assets as of TODAY!

Liabilities

- All future pension benefits earned as of today
- Considers all future pension payments to be paid
- Discounted to present value
  - Discounted at the assumed rate of return on assets

- The difference is the over funded or unfunded liability.

Funded %

$$\frac{\text{Plan assets}}{\text{Liabilities (present value)}}$$

- Identifies the assets available to fund the liabilities (***in today's dollars***)
- Goal: 100% funded

Pension funding equation

$$C + I = B + E$$

Contributions | Investment Income | Benefits | Expenses

Unfunded liability (debt)

- PSPRS liabilities are not pooled (264 plans)
  - Unfunded liabilities have been ***earned*** and cannot be diminished or impaired
    - Pension clause and Field's decision

- A more appropriate term for unfunded liabilities is *debt, it is owed!*

The ***amount and timing*** of your contribution directly impacts the funded status of your plan

- Every additional dollar contributed today, can earn investment returns
- Every additional dollar not paid is a lost opportunity to earn investment returns

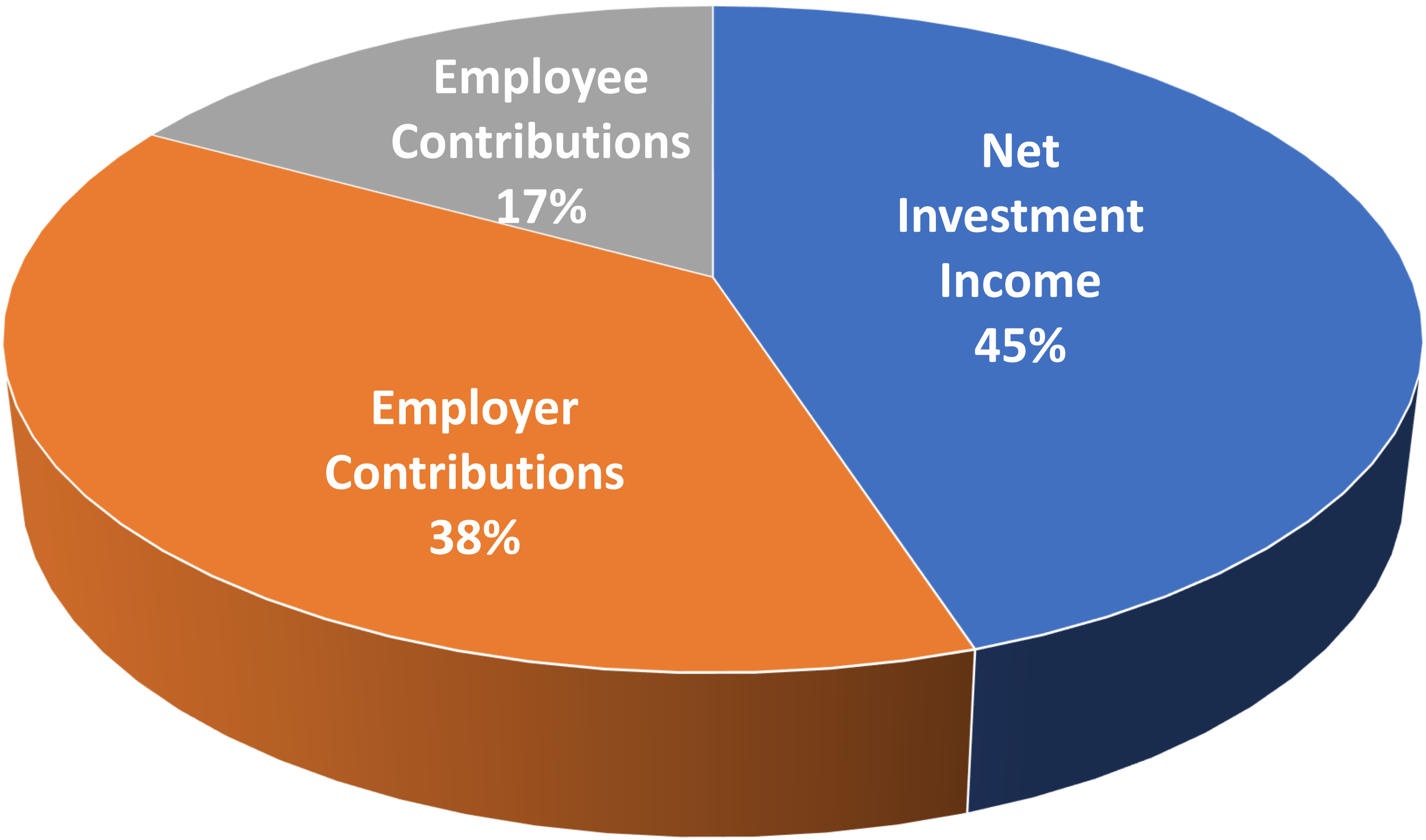
Contributions have 2 components

1. Normal cost: Annual cost of pension benefits "*earned*" in the current year
2. Unfunded liability: Cumulative effect of <u>*previous*</u> normal costs not funded
    - Amortized similar to a mortgage

- The present value of liabilities "earned" in the current year equate to <u>normal cost</u>

Where does the money come from?

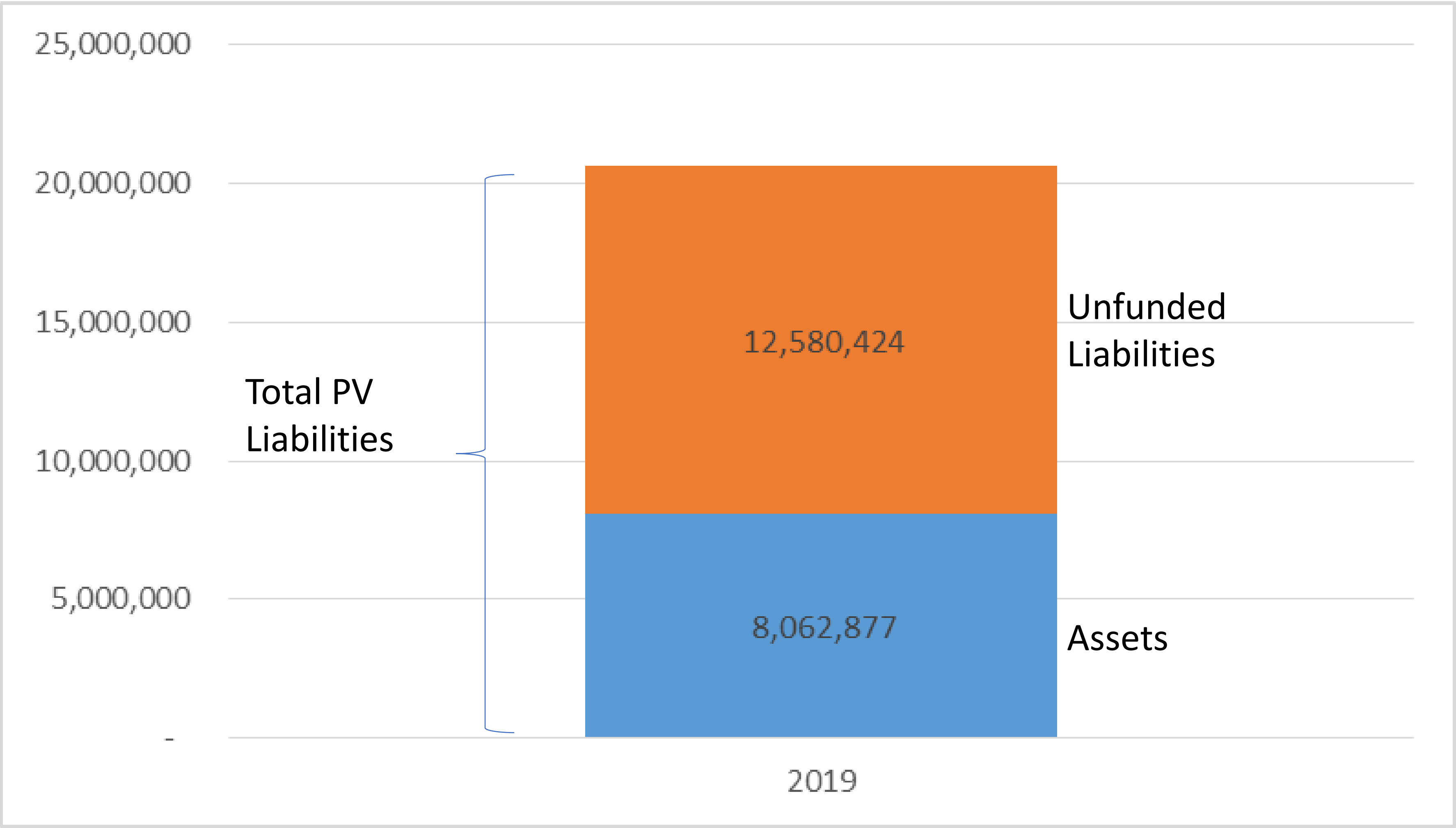
PSPRS system wide



GILA COUNTY

Actual numbers from the Sheriff's plan, the Correction Officer's plan would use the same math

Gila County - Sheriff



Gila County - Sheriff

- Investment returns are earned on the $8.1 million in assets
- If this plan were 100% funded, investment returns would be earned on $20.6 million in assets
- Regardless of the funded status, the total $20.6 million liabilities will be discounted one less year in FY 2020

Gila County - Sheriff

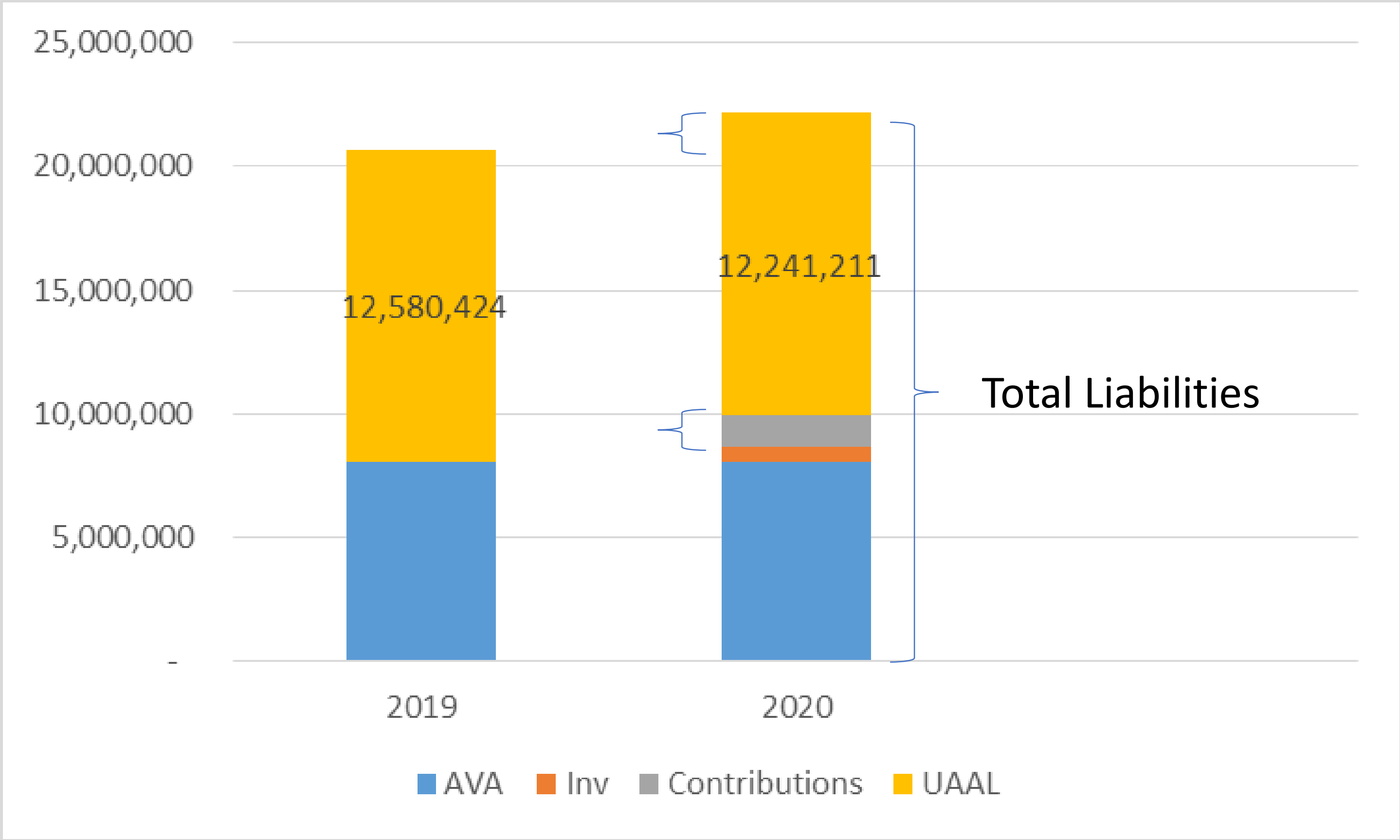
- Increased assets
- Investments + contributions = $1,846,174

	Assets
Begin FY19	8,062,877
Investments	588,590
Conributions	1,257,584
Ending FY19	9,909,051

- Increased liabilities
- Present value of liabilities discounted one less year

	AAL
2019	20,643,301
2020	22,150,262
Change	1,506,961

Gila County - Sheriff



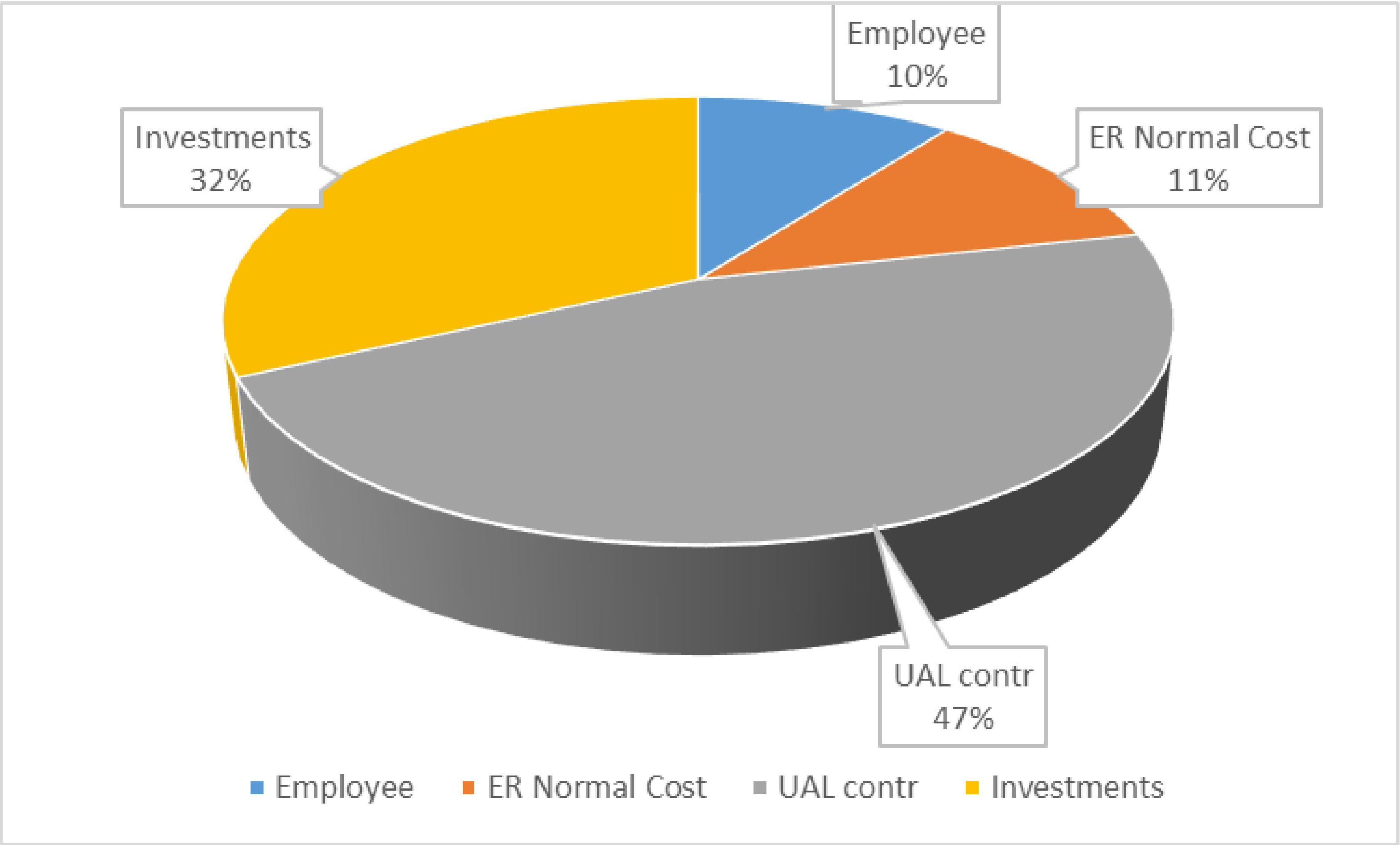
	Unfunded Liab
2019	12,580,424
2020	12,241,211
Change	(339,213)

Pension Funding Equation

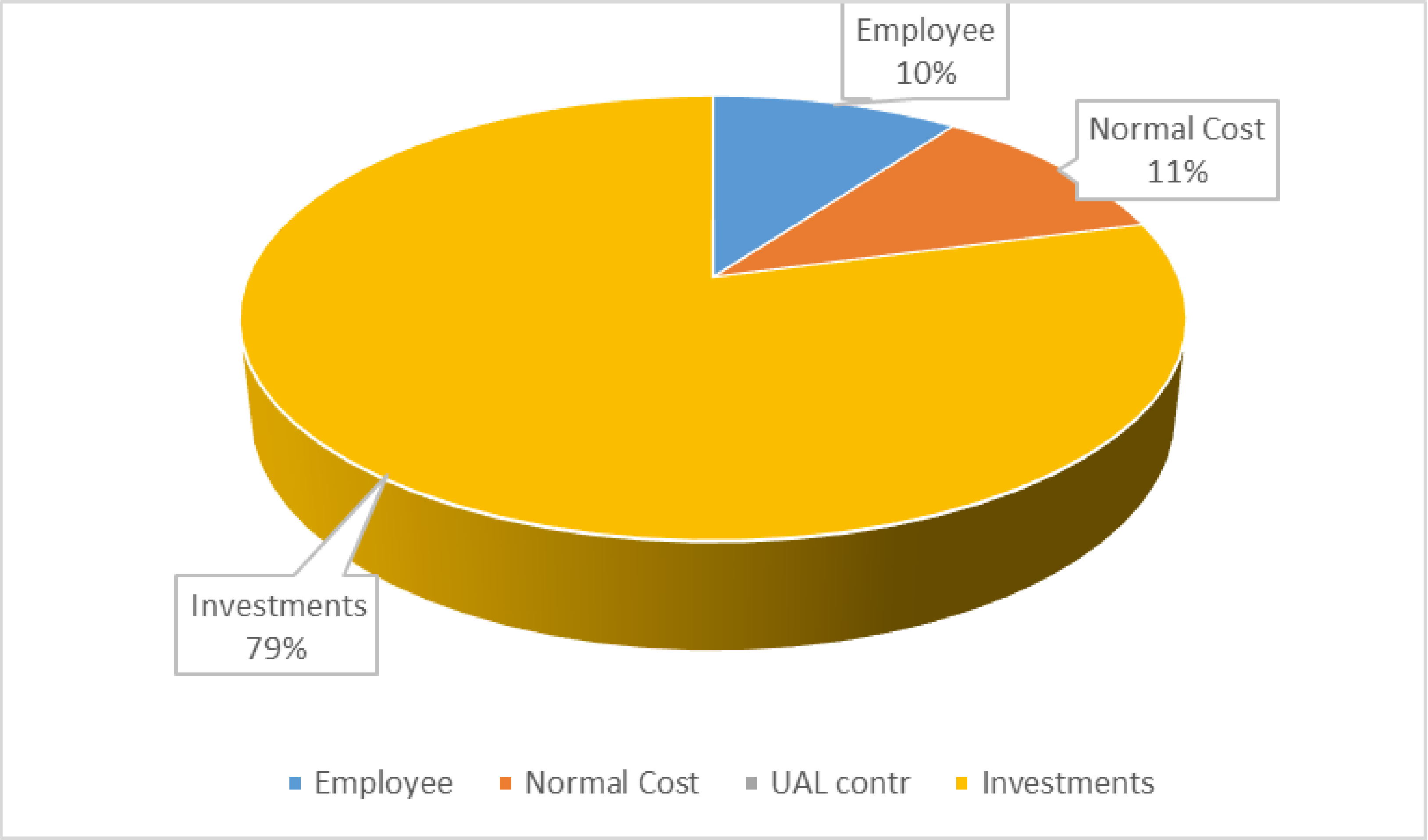
$$C + I = B + E$$

C	I	B	E
Contributions	Investment Income	Benefits	Expenses

Gila County – Sheriff FY 2020



Gila County – Sheriff if 100% funded



Gila County - Sheriff

Payroll growth and negative amortization

Contributions = $1,257,584

- Your actual payroll impacts actual contributions
  - Actuarial payroll growth assumption 3.5%
    - Zero payroll growth reduces contributions $44,015
  - Vacancies

	Assets
Begin FY19	8,062,877
Investments	588,590
Conributions	1,257,584
Ending FY19	9,909,051

	Unfunded Liab
2019	12,580,424
2020	12,241,211
Change	(339,213)

Gila County - Sheriff

$$C + I = B + E$$

Contributions Investment Income Benefits Expenses

- Investment returns will not solve large unfunded liabilities.
- Additional contributions leverage investment opportunities.
- Over a 17 year amortization cycle, \$1 million will save taxpayers an estimated \$1.8 million, and the original \$1 million will still be in the fund.

QUESTIONS, COMMENTS, AND DISCUSSION

Misleading myths framed as questions.

- What happens if investment returns do not meet or exceed the ARR?
  - Future actuarial losses of any type would add to the unfunded liability. Any reduction now of unfunded liabilities will be a benefit.
- If assumptions and amortization periods are changed and contributions go up, is this a waste of money?
  - Changes to assumptions that increase contributions change the present value estimate of liabilities, any reduction in liabilities will always be a benefit.
- If governments cut staff what will impact be to contributions?
  - Reduced unfunded liabilities will always be a benefit as the unfunded contributions are on top of normal (newly earned benefits). At 100% funding, there are no unfunded contributions that are allocated across all remaining staff.

Gila County (AZ)

Pension Liability Management

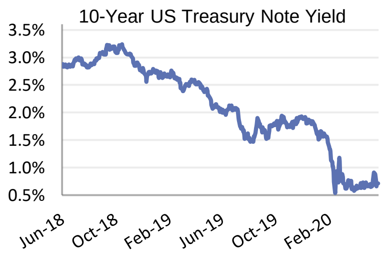
23 June 2020

Executive Summary: Understanding Pension Bonds
Why Do Pension Bonds Make Sense Right Now?

STIFEL

- **Rising Pension Costs**
  - Pension costs continue escalating for municipalities as the gap between assets and liabilities has widened over the years
  - Benefit payments are due and payable no matter what, which then places the entire risk of that benefit payment stream on the sponsor
  - This ongoing liability creates significant pressure on near- and mid-term structural balance, as well as long-term overall pressure on a municipality's credit

- **Historic Low Taxable Rates**
  - The 10-Year US Treasury Note Yield reached an all-time low in mid-February of this year, and continues to trend below 1.00%



- **State-wide Reform**
  - In Arizona, PSPRS' 46.4% funded ratio falls in the lower 20% of funding ratios nationally (national average as of 2019: 71.2%)
  - While the introduction of Tier 3 helps manage future liability growth, legacy costs associated with Tier 1 and 2 continue to escalate and crowd out other costs as they are expected to grow to many multiples of payroll over the next 20 years
  - Prop 124 and SB 1428 provide Arizona municipalities with a stable foundation for addressing these legacy costs and proactively managing their unfunded liability

- Recent Examples of Pension Obligation Bonds

$440,000,000*	$125,000,000*	$131,805,000	$84,195,000	$15,430,000	$31,960,000
City of Huntington Beach Pension Obligation Bonds, Series 2020	City of Flagstaff Certificates of Participation, Taxable Series 2020	City of Pasadena Pension Obligation Refunding Bonds, Series 2020 A and B	City of Glendora Pension Obligation Bonds, Series 2019	City of Wixom Limited Tax GO Pension Obligation Bonds, Series 2018	City of Riverside Txbl. Pension Obligation Refunding Bonds, 2017 Series A
Lead Manager	Lead Manager	Lead Manager	Lead Manager	Lead Manager	Lead Manager

** Preliminary, subject to change. City of Flagstaff financing in progress.*

Status Quo:
How do we compare to our peers?

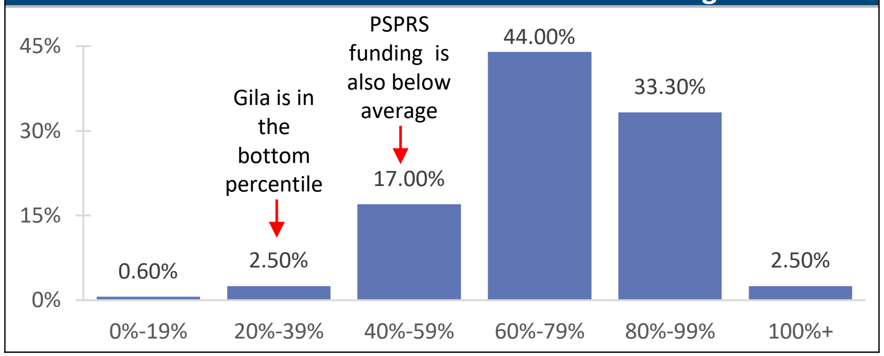
Key Decision Points:
- What's the cost of doing nothing?
- What are feasible alternatives?

STIFEL

Accruing at 7.30%, Gila's pension payments are among the fastest escalating costs on the County's budget

- Gila County participates in Arizona PSPRS for its Sherriff employees and retirees
- The plan is funded below 40% as of the 2019 valuation
- The liability is accruing at an assumed rate of 7.30%, well above what the County might pay on its debt (3% to 5%)
  - The actuarial rate was revised from 7.40% to 7.30% in the 2019 valuation, causing the UAAL to increase

Public Pensions: National Distribution of Funding Levels[2]



Overview of Key Terms.
- **Actuarially Accrued Liability ("AAL").** The present value of all future benefit payments payable to current and future retirees
- **Actuarial Value of Assets ("AVA").** The current value of all assets held/invested by PSPRS to generate returns and make benefit payments to retirees
- **Funded Ratio.** The ratio of AVA to AAL; 100% funding implies Assets = Liabilities
- **Unfunded Actuarially Accrued Liability ("UAAL").** The difference between the AAL and AVA

Gila County Sheriffs' Plan Statistics (as of 6/30/2019)[1]		Arizona PSPRS[1]
AAL	$20,643,301	$17,393,828,992
AVA	$8,062,877	$8,079,039,739
UAAL	$12,580,424	$9,325,730,005
Actuarial Rate	7.30%	7.30%
Funded Ratio	39.1%	46.4%

Recommendation:
- **Refinance pension liability using other debt instruments to:**
  - ✓ **Achieve 100% funding levels (top 2.5% nationally); greater assets will also allow the pension funds to improve investment efficiency and liquidity for paying benefits**
  - ✓ **Lower borrowing rate on $12 million UAAL from 7.30% to approximately 4% or lower (depending on market conditions)[3]**
  - ✓ **Generate budgetary stability and savings to address other needs and prevent crowding out of other priorities by escalating pension expenses**

1. *Source: Arizona Public Safety Personnel Retirement System Actuarial Valuation as of June 30, 2019.*
2. *Center for Retirement Research at Boston College, "The Funding of State and Local Pensions: 2015-2020." Alicia H. Munnell and Jean-Pierre Aubry.*
3. *Due to the current market dislocation caused by COVID-19, the interest rates assumed herein are estimated and provided for discussion purposes only and not indicative of available market execution.*

Status Quo:
What are we currently paying?

Key Decision Points:
- **What's the cost of doing nothing?**
- **What are feasible alternatives?**

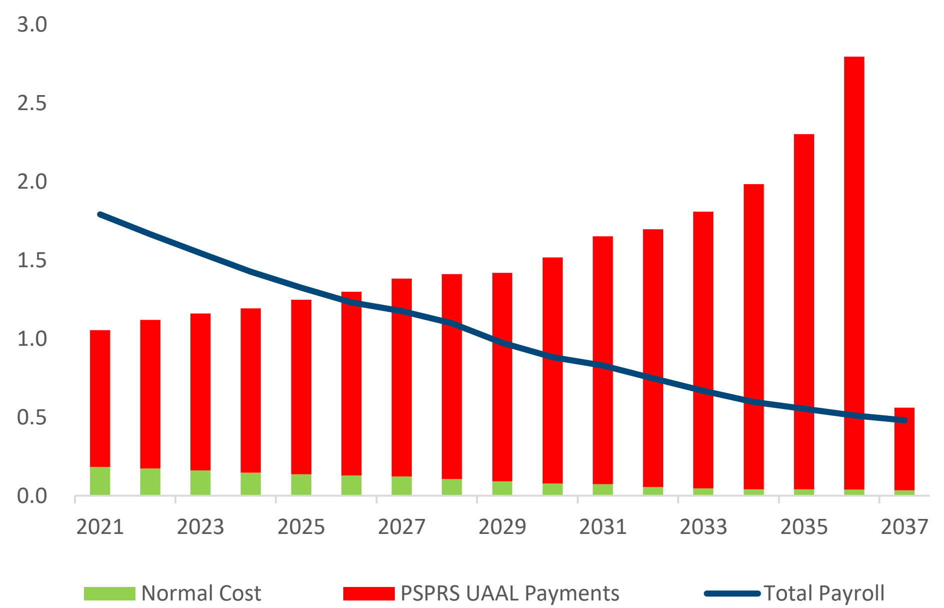
STIFEL

The County is essentially borrowing from PSPRS to support its pension plans and this cost continues growing as plan assumptions evolve

- ***If the County does nothing, it will continue to be exposed to the risk of increased future costs and liabilities due to changes in assumptions or investment return volatility***
- UAAL amortization payments will continue escalating well above total employee payroll

Gila County Projected Pension Payments per PSPRS[1]					
FY	Total Payroll	Normal Cost	% of Payroll	UAAL	% of Payroll
2021	1,791,717	184,009	10.27%	869,766	48.54%
2022	1,665,239	173,851	10.44%	946,610	56.85%
2023	1,544,941	161,446	10.45%	999,416	64.69%
2024	1,426,364	147,201	10.32%	1,046,802	73.39%
2025	1,325,322	137,701	10.39%	1,110,582	83.80%
2026	1,231,086	129,387	10.51%	1,170,814	95.10%
2027	1,175,998	122,069	10.38%	1,262,000	107.31%
2028	1,098,615	106,456	9.69%	1,306,276	118.90%
2029	974,783	91,045	9.34%	1,327,844	136.22%
2030	882,485	78,629	8.91%	1,438,635	163.02%
2031	828,790	73,348	8.85%	1,578,519	190.46%
2032	748,539	55,542	7.42%	1,640,945	219.22%
2033	668,781	46,079	6.89%	1,763,007	263.61%
2034	597,261	41,151	6.89%	1,942,770	325.28%
2035	553,370	40,507	7.32%	2,262,991	408.95%
2036	511,030	38,021	7.44%	2,759,085	539.91%
2037	479,966	34,078	7.10%	526,978	109.79%

Gila County Projected Pension Payments v. Payroll[1]



Recommendation:

- **The County can utilize a pension obligation bond issuance to refinance this liability, reduce ongoing annual payments to create more level annual payment structure and increase its funded ratio**

1. *Source: Arizona Public Safety Personnel Retirement System Actuarial Valuation as of June 30, 2019.*
2. *Due to the current market dislocation caused by COVID-19, the interest rates assumed herein are estimated and provided for discussion purposes only and not indicative of available market execution.*

Pension Bonds:
Impact on Annual Payments[1,2]

Key Decision Points:
- **How can the County address its escalating UAAL payments?**

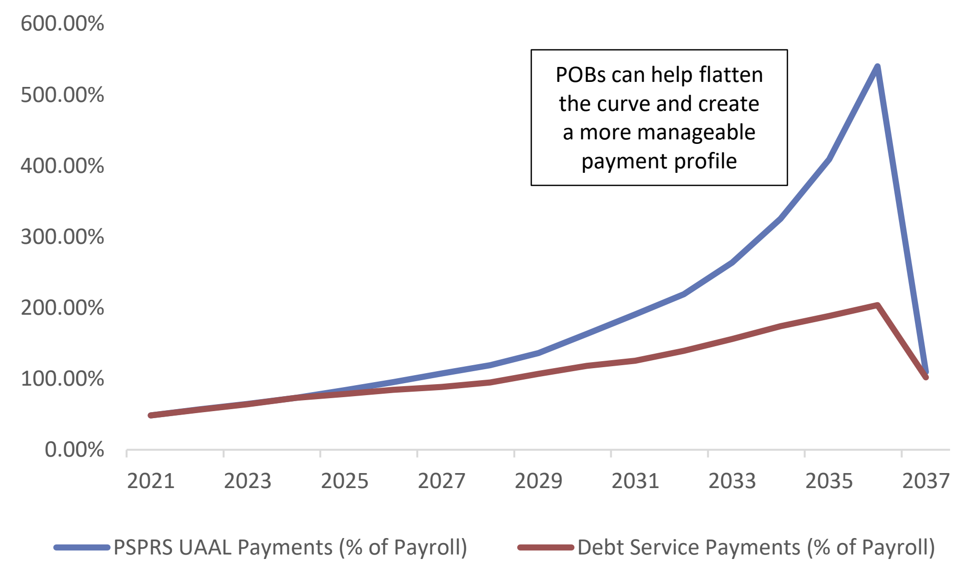
STIFEL

Issuing pensions bonds to fully fund the existing unfunded liability could allow the County to generate significant ongoing savings while leveling out year-over-year payments

- POBs provide an opportunity for the County to reduce annual costs while also creating a more stable and balanced long-term expense profile
- We recommend that the County approximate $1 million of annual level debt service on the bonds to mitigate the rapid escalation of UAAL payments relative to payroll, while also ensuring that debt service costs in any given year do **not** exceed the current PSPRS UAAL payment projections
- Finally, the County can utilize existing cash balances to establish Contingency Reserve Funds for its pension liability management; this paired reform would be a significant credit positive from a rating and investor perspective and will best position the County for managing future movements in plan projections and experience

Summary Statistics[1,2]	
Dated Date	7/1/2020
Final Maturity Date	1/1/2037
All-In TIC	3.89%
Average Life	9.00 years
Bond Par Amount	$12,805,000
Pension Fund Deposit	**$12,409,826**
Cost Savings (UAAL – Debt Service)	$7,128,029
Total NPV Benefit	***$4,361,339***
Total NPV Benefit (as % of Bond Proceeds)	***34.05%***
Actuarial Funding Status after Pension Bonds	***100.00%***

Payment Impact as a Percentage of Payroll[1,2]



1. *Market conditions as of April 24, 2020. Spreads based on comparable recent transactions. Stifel does not guarantee to underwrite at these levels. All NPV values are discounted to July 1, 2020 (assumed transaction closing date) at a discount rate of 3.89%. Please refer to Stifel's risk disclaimers in this presentation. 2021 UAAL amount was computed by Stifel using prior assumptions from the 2019 Actuarial Report*
2. *Due to the current market dislocation caused by COVID-19, the interest rates assumed herein are estimated and provided for discussion purposes only and should not be considered indicative of available market execution.*

Pension Bonds:
POB Analysis Results[1,2]

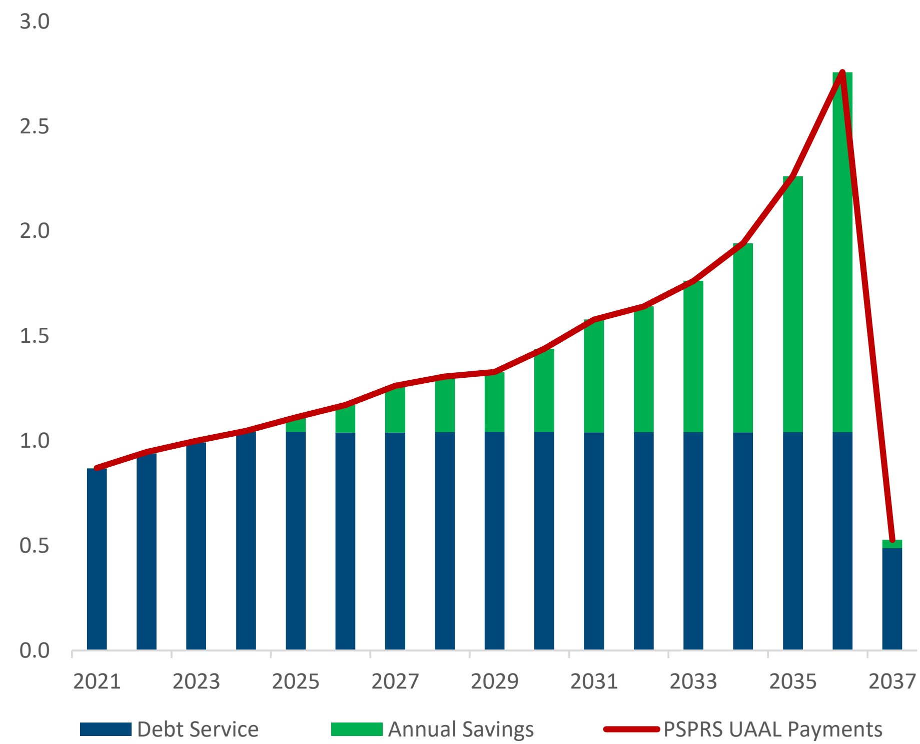
Key Decision Points:

- **What level of savings can the County expect from a pension bonding?**

STIFEL

FY	Budgeted UAAL Payments	Debt Service	Annual Savings	PV Benefit @ 3.89%
	[A]	*[B]*	*[C] = [A]-[B]*	*[D]=PV[C]*
2021	869,766	868,034	1,732	1,667
2022	946,610	940,096	6,514	6,035
2023	999,416	991,758	7,658	6,830
2024	1,046,802	1,041,270	5,532	4,749
2025	1,110,582	1,043,113	67,469	55,751
2026	1,170,814	1,039,069	131,745	104,787
2027	1,262,000	1,038,201	223,799	171,341
2028	1,306,276	1,041,379	264,898	195,213
2029	1,327,844	1,042,754	285,091	202,229
2030	1,438,635	1,042,566	396,069	270,434
2031	1,578,519	1,040,766	537,753	353,428
2032	1,640,945	1,042,304	598,642	378,717
2033	1,763,007	1,041,951	721,056	439,082
2034	1,942,770	1,040,091	902,679	529,101
2035	2,262,991	1,041,694	1,221,298	689,058
2036	2,759,085	1,041,544	1,717,542	932,762
2037	526,978	488,424	38,554	20,154
Total	**23,953,040**	**16,825,012**	**7,128,029**	**4,361,339**

POB Analysis Results[1,2]



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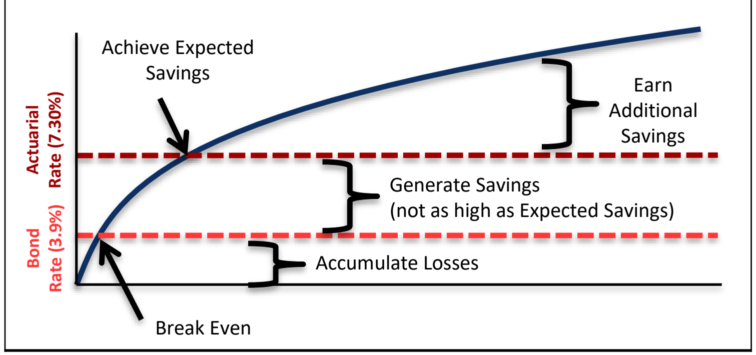
2. *Due to the current market dislocation caused by COVID-19, the interest rates assumed herein are estimated and provided for discussion purposes only and should not be considered indicative of available market execution.*

Pension Bonds: Risks

STIFEL

- Pension bonds carry three distinct types of risks: i) actuarial risk, ii) market risk, and iii) other risks
- **Actuarial Risk.** Any retirement system's independent actuaries calculate projections for plan assets and liabilities, and these projections are premised on a variety of assumptions such as investment returns, payroll increase, COLA, mortality, early retirement, and benefit payments
  - Annual employer contributions are calculated based on these assumptions
  - Any revision or variance from these assumptions will alter projections and required contributions, regardless of the issuance of pension bonds
  - Actuarial risk is inherent to all pension funds, and all projections of future contributions and payouts

Savings Impact from Varying Investment Returns



- **Market Risk.** The primary risk associated with pension bonds is long-term investment return performance
  - The bond rate is impacted by market risk at the time the bonds are sold, but is locked in after that
- **Other Risks.** Pension funding bonds have numerous risks including, but not limited to, variance from the anticipated investment return, payroll increase, COLA, mortality, early retirement, covered payroll and other assumptions contained in the actuarial reports, CAFR and other documents
  - All references to expected savings are for potential savings and are based on achieving rates assumed in actuarial reports, CAFR and other documents
  - Issuing pension bonds could result in savings that are greater or less than stated in the analysis, or could result in a loss
  - Potential savings vary from year to year; Actual savings or losses and the success of the pension bond transaction cannot be known until the amortization of the final pension bond maturity
- Additional risks may also exist

Mitigating Risks: Contingency Reserve Fund

Key Decision Points:
- **How can the County help mitigate risks associated with POBs?**

STIFEL

The County can utilize existing cash balances to create a Contingency Reserve Fund that helps manage market and actuarial risks associated with POBs

- **What?** Helps mitigate risks associated with year-over-year volatility in investment earnings as well as changes in actuarial assumptions, such as assumed rate of return, COLA, mortality
- **How?** Use a portion of existing cash to establish an initial balance in CRF
  - Apply a defined portion of ongoing year-over-year budgetary savings from the pension bond (difference between what UAAL payments would have been versus debt service costs) to continue funding CRF
- **Why?** In years where investment returns do not meet defined/established benchmarks, and/or changes in actuarial assumptions cause a significant change in projected annual payments, the County can draw on the MCR to smooth the budgetary impact of funding additional contributions for the newly created UAAL
- **Why not?** While cash funding eliminates any negative carry of issuing additional debt to fund an upfront deposit, the County may have an opportunity cost of funding other capital or operating needs

Rules for Investment of Proceeds. This is akin to permitted investment guidelines for reserve/escrow funds

- Proceeds should only be invested in liquid and/or short-term products to ensure prompt availability of funds

Rules for CRF Draws. While there may be greater flexibility to accord broader rules for draws on an CRF absent bond proceeds, in practice, permitting draws for any/every possible increase in payments could deplete the balance too soon

- The County may consider establishing a minimum fund balance threshold before which draws on the balance of the CRF could occur
- Draws may also be restricted to draws of investment income only, while the balance is untouched
- Establish periodic funded ratio thresholds, where CRF balance above a pre-defined level is drawn to supplement ARC

Rules for Contingency Replenishment. Could use ongoing pension bond savings or use *sell the float* on other County held funds for periodic inflows

- The County must also consider mechanisms to build up and/or maintain the CRFs balance by securing a stream of steady cash flow beyond the initial deposit
- This entails defining the revenue and investment sources for fiscal transparency, and redirecting investment returns in excess of an established benchmark to the Contingency Reserve Fund

Mitigating Risks:
Contingency Reserve Fund Sample Term Sheet

Key Decision Points:
- How can the County help mitigate risks associated with POBs?

STIFEL

The County can utilize existing cash balances to create a Contingency Reserve Fund that helps manage market and actuarial risks associated with POBs

Purpose	• To mitigate the impact of 1) investment return volatility and 2) changes in select actuarial assumptions (as defined herein) on bond proceeds deposited with PSPRS against Gila County's Sherriff's pension liability
Initial Deposit	• Use a portion of existing cash balances to create a CRF for managing risks associated with the Sherriff's pension liability
Rules for Investment	• Principal protected • Gross funded • Liquid within 90 days • Proceeds should only be invested in liquid and/or short-term products to ensure prompt availability of funds • County may have opportunity to utilize Act 151 Trusts to help PSPRS manage investment of proceeds; alternatively, could serve as a tool for supporting a local bank as trustee
Rules for Draws	• **Market.** Draw when investment return is below a defined threshold, for example 5%, or the Bond Rate • **Actuarial.** Draw when changes to COLA, revisions to mortality assumptions, and/or revision of the investment return assumptions occur and cause an impact on AAL in excess of a defined threshold • The County may consider establishing a minimum fund balance threshold before which draws on the balance of the CRF could occur • Draws may also be restricted to draws of investment income only, while the balance is untouched • Establish periodic funded ratio thresholds, where CRF balance above a pre-defined level is drawn to supplement ARC
Rules for Replenishment	• Could use ongoing pension bond savings or use sell the float on other County held funds for periodic inflows • The County must also consider mechanisms to build up and/or maintain the CRF balance by securing a stream of steady cash flow beyond the initial deposit • Amortize replenishment from General Fund over 7 years on a level basis • This entails defining the revenue and investment sources for fiscal transparency, and redirecting investment returns in excess of an established benchmark to the Contingency Reserve Fund
Sizing	• Size initial deposit to manage "worst case" scenario of all permitted draw events (market volatility and actuarial changes) occurring in one valuation • **Market.** $958,940; size initial deposit to manage up to 3 years of new UAAL payments that would be created if PSPRS experienced 30% investment loss in year 1 of issuing pension bonds • **Actuarial.** $1,000,000; size initial deposit to manage up to 3 years of new UAAL payments that would be created if the actuarial rate was revised to 7%, COLA increased by 1% and PSPRS adopted a new mortality table
Rules for Extinguishment	• Upon the repayment of the final debt service payment, the County could redirect the reserve to apply to fund OPEB or other retiree benefits, or General Fund

Pension Risk Disclaimer and Engaged Underwriter Disclosure

STIFEL

Pension Obligation Bonds ("POBs") are a source of financing for unfunded actuarial liabilities of pension funds and can serve a valuable function.However, the success of a POB financing is dependent on a number of assumptions proving to be accurate, and the failure of any of these assumptions is a risk that a government issuing POBs should consider.

Among the assumptions that are important to a POB financing, and the risks associated with those assumptions providing to be inaccurate, are the following:

- <u>Assumption</u>: The investment yield on the POB proceeds once deposited in the pension fund will equal or exceed the yield on the POBs.**<u>Risk</u>: If the investment yield on the POB proceeds is less than the yield on the POBs, and the decline is not offset by positive changes in other assumptions, the issuance of the POBs may actually increase the unfunded actuarial liability.**
- <u>Assumption</u>: Payroll increases during the term of the POBs will be as anticipated when the unfunded actuarial liability was estimated at POB issuance.**<u>Risk</u>: If payroll increases during the term of the POBs exceed expectations, and the increases are not offset by positive changes in other assumptions, the POB proceeds will not suffice to cover the unfunded actuarial liability.**
- <u>Assumption</u>: Cost of living adjustments ("COLAs") will be as anticipated when the unfunded actuarial liability was estimated at POB issuance**.<u>Risk</u>: If COLAs exceed expectations during the term of the POBs, and the increases are not offset by positive changes in other assumptions, the POB proceeds will not suffice to cover the unfunded actuarial liability.**
- <u>Assumption</u>: Various assumptions used in calculating the unfunded actuarial liability -- such as mortality rates, early retirement incentives, types of payrolls covered by the pension fund -- will be as anticipated at the time of POB issuance.**<u>Risk</u>: If there are reductions in mortality rates, increases in early retirement incentives, expansions of the payrolls covered by the pension plan during the term of the POBs, and these changes are not offset by positive changes to other assumptions, the POB proceeds will not suffice to cover the unfunded actuarial liability.**

In addition to analyzing potential benefits that are based on achieving assumptions made in estimating the unfunded actuarial liability, we will also analyze potential budgetary benefits or losses based on various prospective levels of the pension systems' earnings to assist you in gauging the likelihood of success of a POB transaction. It should be noted that potential budgetary benefits vary from year to year.Actual benefits or losses and the success of the POB financing cannot be known until the POBs have been paid in full.

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ARF-6123 **2. B.**

Work Session

Meeting Date: 06/23/2020

Submitted For: Mary Springer, Finance Director

Submitted By: Mary Springer, Finance Director

Department: Finance

Information

Request/Subject

Information on Arizona CARES (Coronavirus Aid Relief and Economic Security) Act Gila County Distribution

Background Information

Cares Act provided funding from the federal government to the state and entities with a population over 500,000. Only five jurisdictions received direct funding - the State of Arizona, Maricopa County, Pima County, City of Mesa, and City of Phoenix. The smaller jurisdictions received an allocation from the state through the AZ Cares Act which was population and per capita based. The grant performance period is March 1, 2020 through December 31, 2020 and provided for reimbursement of Health and Emergency Management, Sheriff's Office patrol and dispatch, actual salary and employee-related expenses. The County was required to apply through eCivis and explain how the funds will be used and what activities would would be accomplished over the performance period.

Evaluation

Provide information on the Arizona CARES Act grant fund application and reporting process.

Conclusion

N/A

Recommendation

N/A

Suggested Motion

Information/Discussion regarding Arizona Coronavirus Aid Relief and Economic Security (CARES) Act funding allocation to Gila County and grant requirements. **(Mary Springer)**

Attachments

AZ Cares Act Presentation

AZ CARES ACT FUNDING

Gila County Allocation

GILA COUNTY FUNDING ALLOCATION

Gila County	25,791	$2,960,977
Globe	7,347	$843,484
Hayden**	631	$72,443
Miami	1,780	$204,356
Payson	15,813	$1,815,437
Star Valley	2,308	$264,974
Winkelman**	348	$39,953
TOTAL GILA COUNTY POPULATION	**54,018**	

GILA COUNTY EXPENSES $9,366,356 EXCEEDS ALLOCATION

- SHERIFF PATROL
- DISPATCH
- HEALTH
- EMERGENCY MANAGEMENT

Reporting Requirements In compliance with the CARES Act reporting requirements,
the Grantee is required to provide the following information:

a. the total amount of funding received from the AZCares Fund;
b. the amount of funding received that was expended or obligated for each project or activity;
c. a detailed list of all projects or activities for which large covered funds were expended or obligated, including—
    i. the name of the project or activity;
    ii. a description of the project or activity; and
    iii. the estimated number of jobs created or retained by the project or activity, where applicable; and

d. detailed information on any level of subcontracts or subgrants awarded by the covered recipient or its subcontractors or subgrantees, to include the data elements required to comply with the Federal Funding Accountability and Transparency Act (FFATA) of 2006 Page 3 of 9 (31 U.S.C. 6101 note) allowing aggregate reporting on awards below $50,000 or to individuals, as prescribed by the Director of the Office of Management and Budget.

AZCares Narrative

Payroll reimbursement is requested for Sheriff's Office for Patrol and 9-1-1 Dispatch. Payroll reimbursement is also requested for the Health Services Department.

Gila County EOC/HEOC activities:

- Case investigations/Case Management
- Contact tracing
- Pubic information and warning
- Federal, State, County, and Local agency coordination and communication
- Logistics management (receiving and disseminating PPE and emergency supplies) as well as the process of locating and purchasing PPE and supplies

Gila County EOC/HEOC activities continued:

- Cost and personnel tracking
- Planning support for testing activities
- Public call center management
- Environmental Health support for businesses
- Policy support
- Operational coordination and information sharing with response agencies
- Facilitation of information sharing with government elected officials

Acquisition and deployment of Medical Counter Measures

Sheriff’s office activities:

- Enforcement of executive orders
- Welfare checks for unreachable COVID-19 patients/contacts
- Facilitation and planning of drive through testing sites
- Data collection on positive cases to warn responders
- Dispatch screens all contacts or COVID-19 related symptoms for responder safety
- Provide security for SNS and PPE deliveries
- Facilitate PPE deliveries for EOC/HEOC

Distribution to other entities

The Fire Chief's Association is working directly with the Governor's Office to receive direct funding from AZ CARES per John Flynn.

Any funds distributed must comply with CFR Title 2 Part 200

The Board of Supervisors to determine the priorities for the funding distribution

ARF-6121 **2. C.**

Work Session

Meeting Date: 06/23/2020
Submitted For: James Menlove, County Manager
Submitted By: James Menlove, County Manager
Department: County Manager

Information

Request/Subject

On Wednesday, May 27, 2020, Mr. Ben Blink from Governor Ducey's Office announced that approximately $441 million would be distributed to counties, cities and towns based on the same methodology that federal CARES Act money was distributed to the state and larger public entities in the state. Based on 25,791 residents living in unincorporated areas the County may receive up to $2,960,977. The allocation to Gila County is for reimbursement of Public Health and Public Safety expenditures related to COVID-19.

Background Information

AZ CARES Act fund allocations to other governmental entities in Gila County:

- City of Globe - $843,484 (population 7,347)
- Town of Hayden - $72,443 (population 631)
- Town of Miami - $204,356 (population 1,780)
- Town of Payson - $1,815,437 (population 15,813)
- Town of Star Valley - $264,974 (population (2,308)
- Town of Winkleman - $39,953 (population 348)

Evaluation

N/A

Conclusion

N/A

Recommendation

N/A

Suggested Motion

Information/Discussion regarding potential public safety and public health uses of the Arizona Coronavirus Aid Relief and Economic Security (CARES) Act funding allocation. **(James Menlove)**

Attachments

No file(s) attached.
