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Town of Paradise Valley Excise Tax Revenue Debt & Pension Discussion

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History of Excise Tax Rate Changes

Transaction Privilege Tax

2.50% (effective July 31, 2011)
1.65% (effective September 1, 2004)
1.40% (effective January 1, 1999)
1.20% (effective October 1, 1993
1.00% (thru September 30, 1993

Use Tax

2.50% (effective July 31, 2011)
1.65% (effective September 1, 2004)
1.40% (effective January 1, 1999)

Source: Arizona Department of Revenue

Historical and Estimated Future Sales Tax Revenue and Debt Service Coverage

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)
					Population Based Distributions		***Population Based Distributions***					
Fiscal Year	Sales & Use Tax	% Growth	Bed Tax	% Growth	State Shared Income Tax	% Growth	State Shared Sales Tax	% Growth	Franchise Taxes	% Growth	TOTALS	Debt Coverage
2014/15	$ 11,447,385		$ 3,117,450		$ 1,551,940		$ 1,171,604		$ 1,037,258			
2015/16	$ 11,345,902	-0.89%	$ 3,207,626	2.89%	$ 1,543,526	-0.54%	$ 1,217,296	3.90%	$ 1,146,142	10.50%	$ 18,460,492	12.38x
2016/17	13,818,317	21.79%	3,701,739	15.40%	1,703,256	10.35%	1,277,675	4.96%	1,056,547	-7.82%	21,557,534	12.05x
2017/18	14,833,522	7.35%	4,443,281	20.03%	1,778,003	4.39%	1,378,388	7.88%	1,288,360	21.94%	23,721,554	13.67x
2018/19	16,964,383	14.37%	4,847,777	9.10%	1,730,881	-2.65%	1,439,439	4.43%	1,273,973	-1.12%	26,256,453	16.14x
2019/20	18,346,804	8.15%	4,003,739	-17.41%	1,875,319	8.34%	1,499,081	4.14%	1,252,683	-1.67%	26,977,626	17.83x
2020/21	17,816,818	-2.89%	3,759,236	-6.11%	2,091,832	11.55%	1,736,433	15.83%	1,264,625	0.95%	26,668,944	18.32x
2021/22	23,724,250	33.16%	6,731,157	79.06%	1,807,821	-13.58%	1,669,381	-3.86%	1,369,026	8.26%	35,301,635	12.13x
2022/23	25,615,262	7.97%	6,937,607	3.07%	2,405,795	33.08%	1,874,665	12.30%	1,374,569	0.40%	38,207,898	13.24x
2023/24	26,383,720	3.00%	7,145,735	3.00%	2,405,795	0.00%	1,930,905	3.00%	1,388,315	1.00%	39,254,470	13.69x
2024/25	27,175,231	3.00%	7,360,107	3.00%	2,405,795	0.00%	1,988,832	3.00%	1,402,198	1.00%	40,332,164	28.72x
2025/26	27,990,488	3.00%	7,580,910	3.00%	2,405,795	0.00%	2,048,497	3.00%	1,416,220	1.00%	41,441,911	29.57x
2026/27	28,830,203	3.00%	7,808,338	3.00%	2,405,795	0.00%	2,109,952	3.00%	1,430,382	1.00%	42,584,670	60.93x
2027/28	29,695,109	3.00%	8,042,588	3.00%	2,405,795	0.00%	2,173,251	3.00%	1,444,686	1.00%	43,761,428	
2028/29	30,585,962	3.00%	8,283,866	3.00%	2,405,795	0.00%	2,238,448	3.00%	1,459,133	1.00%	44,973,204	
2029/30	31,503,541	3.00%	8,532,382	3.00%	2,405,795	0.00%	2,305,601	3.00%	1,473,724	1.00%	46,221,043	
2030/31	32,448,648	3.00%	8,788,353	3.00%	2,405,795	0.00%	2,374,770	3.00%	1,488,461	1.00%	47,506,026	
2031/32	33,422,107	3.00%	9,052,004	3.00%	2,405,795	0.00%	2,446,013	3.00%	1,503,346	1.00%	48,829,264	
2032/33	34,424,770	3.00%	9,323,564	3.00%	2,405,795	0.00%	2,519,393	3.00%	1,518,379	1.00%	50,191,901	
2033/34	35,457,513	3.00%	9,603,271	3.00%	2,405,795	0.00%	2,594,975	3.00%	1,533,563	1.00%	51,595,117	
Average Growth (5-Years):		**12.15%**		**13.54%**		**7.35%**		**6.57%**		**1.37%**		

Projected Sales Tax Revenues

No debt outstanding

Existing Debt

- Annual debt service is approximately $1.4 million through final maturity
- Coverage is projected to be more than 25 times

Source: Town's Annual Comprehensive Financial Report (ACFR) and Arizona Department of Revenue

Summary

Existing debt secured by excise tax revenue has an interest rate of 1.09% and will be paid off in August 2026

Current debt service coverage is extremely high

Given excise tax revenue projections, the Town has significant flexibility with regard to issuing additional debt secured by excise tax revenue

2. Pension Discussion

Pension Discussion

Contributions and Investments = Benefits and Expenses			
Assets	**Liabilities**	**Moving Target**	**Analyze**
Market value at a point in time	Future pension benefits earned as of a point in time and considers all estimated future pension payment to be paid Discounted to present value (assumed rate of return on assets)	Overfunded or Underfunded Liability based on Assets Available to Fund Liability changes over time Investments Actuarial data	Level of funding Timing Gains and losses over time

Key Takeaways

- Pension costs are expected to rise for issuers across the state due in part to growing legacy costs (Tier 1 and Tier 2)

Accruing the Necessary Funds to Pay for the Future

Similar to saving for a child's college education or your retirement, you estimate the amount of money you will need and when you will need it. You have three basic options:

- You could deposit a single lump sum amount representing the present value of that future cost into a savings account calculated to grow with sufficient earnings to meet your target amount.
- You could save over time, depositing a certain percent each year into an account and again assume that sufficient interest earnings will accrue to fully fund your target amount.
- You could wait until that future date and hope to have the resources to pay the entire target amount in a single payment.

Unanticipated Events

Actuaries cannot anticipate:

- Plan changes; when a benefit formula is changed or the future of interest rates/returns, and
- Differing actual experience, when actual experience indicates that previous assumptions must be modified to reflect an updated current reality (i.e. life expectancy, salary levels, disability claims)

PSPRS Rates of Return (Net of Fee Returns)

	1 Year	3 Years	5 Years	7 Years	10 Years
PSPRS Return	8.0%	8.0%	7.2%	7.5%	6.9%

Town’s Historical Unfunded Actuarial Accrued Liability

- UAAL is the difference between the actuarial accrued liability and the actuarial value of assets. In simpler terms, if you compare the cost of the Town's pension promises with the value of Town’s pension assets, the promises currently exceed the assets. That shortfall is the Town's Unfunded Actuarial Accrued Liability.

Fiscal Year	Total UAAL	Funded Ratio
2014/15	$21,130,334	25.08%
2015/16	$21,313,569	26.55%
2016/17	$22,475,668	29.38%
2017/18	$17,948,248	48.64%
2018/19	$17,736,052	51.20%
2019/20	$9,389,315	75.40%
2020/21	$10,112,791	74.88%
2021/22	($87,775)	100.21%
2022/23	$5,265,223	88.17%

Source: PSPRS and the Town’s ACFR

Objectives

Arizona Public Safety Personnel Retirement System
Actuarial Valuation Report as of June 30, 2023 – Paradise Valley Police Dept. (076)

Impact of Additional Contributions

	Additional Contributions (000s)										
	$0	**$1,000**	**$2,000**	**$3,000**	**$4,000**	**$5,000**	**$6,000**	**$7,000**	**$8,000**	**$9,000**	**$10,000**
Impact On											
Funded Status - June 30, 2023	87.4%	89.5%	91.6%	93.8%	95.9%	98.0%	100.2%	102.3%	104.5%	106.6%	108.70%
FYE 2025 Contribution Rate	33.45%	30.34%	27.23%	24.11%	21.00%	17.89%	14.78%	11.66%	8.55%	5.44%	2.33%

Table shows the hypothetical change in the funded status and contribution rate from the June 30, 2023 actuarial valuation results for Tiers 1 & 2 if an additional contribution of the amount shown had been made to the Fund on June 30, 2023. This illustration can help estimate the impact of contributing additional monies to the fund in the future.

Historical Summary of Employer Rates

	Validation Date June 30	Fiscal Year Ending June 30	Normal Cost	Pension Unfunded Amortization	Total	Normal Cost	Health Unfunded Amortization	Total
TIERS 1 & 2	2019	2021	17.05%	21.25%	38.30%	0.48%	0.12%	0.60%
	2020	2022	15.59%	14.66%	30.25%	0.43%	0.13%	0.56%
	2021	2023	15.18%	9.15%	24.33%	0.42%	(0.01%)	0.41%
	2022	2024	14.99%	12.06%	27.05%	0.37%	0.00%	0.37%
	2023	2025	15.18%	18.27%	33.45%	0.32%	0.10%	0.42%
TIER 3 [1]	2019	2021	9.68%	0.00%	9.68%	0.26%	0.00%	0.26%
	2020	2022	9.68%	0.00%	9.68%	0.26%	0.00%	0.26%
	2021 [2]	2023	9.00%	0.00%	9.00%	0.12%	0.00%	0.12%
	2021	2023	9.68%	0.00%	9.68%	0.26%	0.00%	0.26%
	2022 [2]	2024	8.69%	0.00%	8.69%	0.12%	0.00%	0.12%
	2022	2024	9.30%	0.00%	9.30%	0.26%	0.00%	0.26%
	2023 [2]	2025	8.63%	0.00%	8.63%	0.12%	0.00%	0.12%
	2023	2025	8.77%	0.00%	8.77%	0.12%	0.00%	0.12%

1 Rates shown are Board approved EE/ER rates, unless otherwise noted. Does not reflect Legacy costs that the employer must also contribute.

[2] Rates shown are calculated EE/ER rates

Objectives

Manage to Town's Pension Policy

- Balance Funded status to achieve budget/resource priorities
- Discipline to ensure that promised benefits can be paid
- Maintain intergenerational equity

Contribution Requirements

Development of Employer Contributions - Tiers 1 & 2 Members				
Valuation Date	June 30, 2023		June 30, 2022	
Applicable to Fiscal Year Ending	2025		2024	
	Rate	**Dollar**	**Rate**	**Dollar**
Pension				
Normal Cost				
Total Normal Cost	22.83%	$ 672,333	22.64%	$ 653,979
Employee Cost	(7.65%)	(225,289)	(7.65%)	(220,978)
Employer (Net) Normal Cost	15.18%	447,044	14.99%	433,001
Amortization of Unfunded Liability	18.27%	538,043	12.06%	348,365
Total Employer Cost (Pension)	33.45%	985,087	27.05%	781,366
Health				
Normal Cost	0.32%	9,424	0.37%	10,688
Amortization of Unfunded Liability	0.10%	2,945	0.00%	0
Total Employer Cost (Health)	0.42%	12,369	0.37%	10,688
Total Employer Cost (Pension + Health)	**33.87%**	**997,456**	**27.42%**	**792,054**
Alternate Contribution Rate (ACR) *	18.37%		12.06%	
Underlying Payroll (as of valuation date)		2,887,211		2,818,147

** The Alternate Contribution Rate is the sum of the positive amortization rates for Tiers 1 & 2 Pension and Health (subject to an 8% minimum) and is charged when retirees return to active status.*

The results above are based on the current amortization schedule approved by the Board of Trustees for your individual plan (see "Actuarial Assumptions and Methods").

Best Approach

- Have a target range. This allows flexibility as there will be continuous movement.
- Plan for known changes that will impact the liability, including pay increases, staff changes, actuarial changes, and investment returns.
- Do not overcorrect. Move towards your target over time and make course corrections, but don’t be too reactive, as this is a long-term process. (The actuaries use actuarial numbers for a reason and allocate major changes over several years.)
- Make adjustments/payments based on your circumstances and what makes sense for your organization.
- Target actuarial rate, but do not ignore the market rate.

You can always put more money in, but you can never get a refund.

GFOA Recommendations

Every government employer that offers defined benefit pensions or OPEB should obtain no less than biennially a reasonable actuarially determined contribution (ADC) to serve as the basis for its contributions to those respective plans;

The ADC should be calculated in a manner that fully funds the long-term costs of promised benefits, while balancing the goals of 1) keeping contributions relatively stable and 2) equitably allocating the costs over the employees' period of active service;

Every government employer that offers defined benefit pensions or OPEB should make a commitment to fund the full amount of the ADC each period;

Every government employer that offers defined benefit pensions or OPEB should demonstrate accountability and transparency by communicating all of the information necessary for assessing the government's progress toward meeting its pension funding objectives.

https://www.gfoa.org/materials/core-elements-of-a-funding-policy

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