



City of Austin Police Retirement System

July 31, 2020

Mr. Spencer Cronk
City Manager
City of Austin, TX
(sent via email)

RE: Austin Police Retirement System 2019 Actuarial Valuation

Dear Manager Cronk:

First, we want to thank you for your leadership and foresight in committing City resources toward the work needed to forge solutions for pension funding.

The following will formally inform you and the City of Austin about the recently completed actuarial valuation regarding the Austin Police Retirement System (APRS) as reported by the System's outside consulting actuary, Gabriel, Roeder, Smith & Company (GRS). The 2019 actuarial valuation was received and approved at the July meeting of the Board of Trustees, and it is provided with this communication.

As you will recall, it was reported to you a year ago that the System's 2018 valuation indicated a significant decline in funding status, largely due to revised actuarial assumptions, and the result showed an infinite funding period to amortize unfunded liability. The result of the 2019 valuation indicates a similar result with an increasing unfunded liability:

- Total actuarial assets: \$852,294,229
- Total actuarial liability: \$1,459,529,788
- Unfunded Actuarial Accrued Liability (UAAL): \$607,235,559
- Funded ratio: 58.4%
- Period to Amortize UAAL: Infinite (Never)

The Texas Pension Review Board guidelines specify a preferred funding period of 10-25 years. State law at Section 820.2015, Texas Government Code, requires a funding restoration plan be developed by the retirement system and its plan sponsor after three consecutive valuations result in a funding period beyond 40 years to amortize unfunded liabilities. This is the second year that the APRS funding period is over 40 years, and the System actuary estimates next year will be the third without increased funding. Benefit changes currently under discussion and supported by the Board will not provide short-term funding improvement. The 2019 valuation identifies a need for an additional contribution rate of 11.165% to bring the funding period to 30 years. The estimated additional contribution needed is expected to worsen with the next valuation given the investment losses already sustained in 2020 due to the global economic result of the COVID-19 pandemic.

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Your July 13 letter is appreciated, and we look forward to working with the City to develop plans for the long-term sustainability of the System. The commitment toward supporting the City's pension plans that you expressed is heard clearly and is welcome. We also respectfully understand there are many competing issues for City funding. However, *a placeholder* in the current City budget draft for a minimal potential contribution increase of 2% for APRS, which is contingent on action by the Texas Legislature, unfortunately is far from what is needed to address the funding issues facing APRS. Moreover, postponing any additional funding until action by the Texas Legislature only exacerbates the problem. This delayed approach increases unfunded liability and ultimately the cost of the City's financial obligation to the members of the System.

APRS has worked diligently with its actuary, legal counsel and the Board's Actuarial Review Committee for over two years to identify possible solutions to the funding dilemma. Positions adopted by the APRS Board of Trustees were conveyed to you in the Executive Director's letter of May 28 (attached). A subsequent letter from the Executive Director dated June 17 (attached) informed the City that increased City contributions equal to 3% of active member payroll would cost the City about \$5 million per year. If there was such an initial show of solid support by the City, the APRS Board already indicated its support for asking the System members for a vote to consider a 2% employee contribution increase (Board motion with May 28 letter) effective 1/1/2021. A resulting combined 5% increase in total contributions is not sufficient even with benefit changes the Board also supports, but a combined contribution increase of this amount would be a promising first step and would demonstrate to the Texas Legislature that all parties are working in good faith collaboration to at least start addressing the funding challenges that we are currently facing.

We are happy to work with the City staff that you have designated for these discussions, as well as with the City financial consultant, PFM, toward developing long-term plans for the sustainability of the System. Based on the broad conceptual information that we have received thus far from the City and PFM, it appears that agreement may be possible on various aspects of the proposed solutions. However, many details are yet to be determined.

More importantly, the position adopted by the APRS Board of Trustees envisions the development of the actuarial determined contribution (ADC) rate model as a longer-term process that would ensure the future sustainability of the System. The Board's support for an ADC was not intended to be a solution that replaced or mitigated the immediate need for additional funding, which is critical to stop the declining financial state of the System.

As APRS is established in state statute, the System's plan structure including funding is ultimately under the purview of the Texas Legislature. The System will be ready and happy to also work with legislators during the upcoming session to facilitate their duty in oversight by the State.

Thank you for your time and attention to this important matter. Again, we appreciate your leadership and foresight in allocating resources to resolve these issues. As always, we will be happy to meet with you at your earliest convenience to continue work toward our mutually desired funding solutions for the Austin Police Retirement System.

Sincerely,



Tyler Link,
Chair, APRS Board of Trustees



Pattie Featherston
APRS Executive Director

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Letter to Manager Spencer Cronk
July 30, 2020

Enclosures: 2019 APRS Actuarial Valuation
May 28 APRS letter, including Board of Trustees positions
June 17 APRS letter

CC: Austin City Council Audit and Finance Committee Members
CM Allison Alter, Chair
Mayor Steve Adler
CM Jimmy Flannigan
CM Leslie Pool
CM Kathie Tovo

Mark Dombrowski, Interim COA Chief Financial Officer

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