

City Sales Tax Increase and PSPRS Fact Sheet

As of November 1, 2016, City of Globe sales tax rate will increase by 0.3% to a City Total of 2.3%. The combined rate (which includes a State sales tax rate of 5.6%, Gila County sales tax rate of 1.0%, and City Rate of 2.3%) will be 8.9%

1) Why are City Sales Taxes going up?

On July 19, 2016, The Globe City Council voted to increase the City sales tax rate by 0.3% and require all revenue collected be used to pay down the City's unfunded PSPRS (Public Safety Personnel Retirement System) liability over and above our required benefit payment. The goal of this increase is to save millions of dollars in PSPRS payments over the next 20 years by paying down our liability sooner. Just as you save money on your credit card by making more than the minimal payment, the City will save money by making more than the minimal required PSPRS payment.

2) What is PSPRS?

PSPRS or Public Safety Personnel Retirement System is the mandatory retirement system that all sworn Police Officers and Fire Department personnell must participate in as part of being employed by the City. PSPRS requires the City to pay a percentage of each public safety employees salary into the PSPRS to fund their eventual retirement.

3) What is the PSPRS unfunded liability?

Based on actuarial tables, the PSPRS Board of Trustees approves a dollar amount that must be set aside for each employee participating in the PSPRS. These funds are held in accounts and invested in order to increase in value. But in the recession of 2008 the total value of funds held by PSPRS dropped by more than 50%. While the market eventually recovered, due to anomalies in PSPRS laws, the PSPRS fund never fully recovered. Those anomalies were corrected in 2016 by the passage of Prop 124, but the City of Globe accounts currently have a \$11.6 million shortfall on a \$21 million liability.

4) What is the impact of having a \$11.6 million unfunded PSPRS liability?

Currently, the City of Globe pays \$201,000 for the current years combined Police and Fire liability. On top of the \$201,000, the City of Globe is required to budget an additional minimal payment of \$790,000 to pay off the \$11.6 million liability over 21 years! In essence, by only making the minimal required payments, **it will cost the City of Globe \$18 million to pay off \$11 million over 21 years.** How much will the City save by using the 0.3 % tax to pay down the 11.6 million unfunded liability?

Globe staff estimates we can reduce our liability from over 50% (11.6M) to under 20% (\$2.0 M) in seven years. The calculations that determine our full liability are based on a number of dynamic factors: A) The number of currently retired employees, B) The number of current employees that may retire, C) The number of employees that leave the City before retirement, D) Average life expectancy and so on. A conservative estimate is that by paying down our liability in seven years rather than 21 years, we will save over \$5.0 million. We will reap additional budget savings each year as our mandatory minimum payment goes down.

5) How did the City Council determine that 0.3% tax increase was the proper amount?

On June 28, 2016, Mayor Wheeler called for the creation of a PSPRS Funding Task Force, primarily made up of members of the business community to learn about the financial burden placed on the City by PSPRS and to look at all options with the goal of determining the best way to respond to this burden. Over a period of a less than 30 days, the Task Force met three times, hearing from experts on PSPRS, City finances and investments. In the end, the Task Force members recommend the passage of a 0.3% sales tax increase dedicated to accelerating the paying down of the PSPRS liability and a one-time lump sum payment of \$1.0 Million on our unfunded liability to help make an initial impact this year. This recommendation was approved by Council on July 19, 2016.

6) Is it fair to place the burden of paying down the PSPRS liability just on the backs of the individuals who pay sales tax?

In addition to the 0.3% sales tax, the City Council spread the burden by voting to pay \$1.0 million immediately to help lower cost over the year. By their nature, Sales taxes are paid by both Globe residents and others who are traveling through Globe. This spreads the impact to those who benefit from the availability of our quality Fire and Police services as they travel through the region.

7) What happens to the \$0.3 sales tax when the unfunded liability is payed off?

The \$0.3 sales tax is dedicated by Council to only be used for the payment of our PSPRS unfunded liability. Once the debt is reduced to less than 20%, and the \$1.0 million payment reestablished, the 0.3% sales tax will end and our City sales tax rate will return to 2.0%

8) How can I find out more?

- Learn more about how PSPRS became an issue in the state of Arizona and recommendations to resolve the funding issues. <http://www.globeaz.gov/files/pdf/budget-stuff/PSPRS-Yardstick-Report-081915-FINAL.pdf>
- Learn more about the Constitutional initiative, prop 124, that was passed by the voters in 2016. <http://apps.azsos.gov/election/2016/Special/PropInfo/124-Pro.pdf>
- Visit the PSPRS Website at <http://www.psprs.com/>
- Or call City Hall at 928-425-7146, ext 24