AGENDA

The Meeting of the Board of Trustees of the Public Safety Personnel Retirement System ("PSPRS" or the "System") will be held in the main public conference room of the administrative offices of PSPRS, 3010 East Camelback Road, Suite 200, Phoenix, Arizona 85016, commencing at 9:00 a.m. on Wednesday, June 26, 2019. The meeting will continue until 5:00 p.m. or until the matters set forth in this agenda are otherwise addressed. Members of the Board of Trustees will attend either in person or by telephonic conference call. The Board of Trustees may vote to hold an executive session, which will not be open to the public, to discuss certain matters. The Board of Trustees reserves the right to consider agenda items out of their listed order.

This meeting is available to the public through "Go to Meeting" over the Internet or in person. Please see www.psprs.com for the computer link to the meeting. All persons wishing to attend are invited.

1. Call to Order; Pledge of Allegiance; Roll Call; Opening remarks.

   Mr. William T. Buividas
   Chairman

2. Call to the Public.

   This is the time for the public to comment. Members of the Board of Trustees may not discuss items that are not specifically identified on the agenda, except to address criticism from the public. Therefore, pursuant to A.R.S. § 38-431.01(H), the Board of Trustees’ reaction to any public comment is limited to addressing criticism or recommending that the Board of Trustees or Staff respond or study such comment or schedule the subject matter for further consideration at a later date after appropriate notice.

3. Appropriate Action for approval of the items on the Consent Agenda (documentation concerning the matters on the consent agenda may be reviewed at the PSPRS office). Any matter on the Consent Agenda will be removed from the Consent Agenda and discussed as a regular agenda item upon the request of any member of the Board of Trustees.


   b. Acceptance of Elected Officials’ Retirement Plan of normal retirement benefit of Mary Dorgan.


e. Acceptance of Transfer Between State Retirement Systems of Eli Pile.

f. Acceptance of Transfer Between State Retirement Systems of Crista McCarthy.

g. Acceptance of Transfer Between State Retirement Systems of Robert Knisley.

h. Acceptance of Transfer Between State Retirement Systems of Anthony Panousopoulos.

i. Acceptance of Transfer Between State Retirement Systems of Jackie Hale.

j. Acceptance of Transfer Between State Retirement Systems of Timothy Wheeler.

k. Acceptance of Transfer Between State Retirement Systems of John Brooks.

l. Acceptance of Transfer Between State Retirement Systems of Raymond Sylvester.

m. Acceptance of Transfer Between State Retirement Systems of John Whitney.

n. Acceptance of Transfer Between State Retirement Systems of Brian Axelrod.

o. Acceptance of Transfer Between State Retirement Systems of Clint Musgrave.

p. Acceptance of Transfer Between State Retirement Systems of Steven Stem.

q. Acceptance of Transfer Between State Retirement Systems of Justin Shelton.

r. Acceptance of Transfer Between State Retirement Systems of Jim Gillihan.

s. Acceptance of Transfer Between State Retirement Systems of Mary Ducharme.

t. Acceptance of Transfer Between State Retirement Systems of Daren Carlson.

u. Acceptance of Transfer Between State Retirement Systems of Richard Athey.

v. Acceptance of Transfer Between State Retirement Systems of Gabriel Almanza.
w. Acceptance of Transfer Between State Retirement Systems of Patrick Ramirez.

x. Acceptance of Transfer Between State Retirement Systems of Steve Boltz.

y. Acceptance of Transfer Between State Retirement Systems of Kimberly Rush.

z. Acceptance of Transfer Between State Retirement Systems of Robert Carothers.

aa. Acceptance of Transfer Between State Retirement Systems of David Heathcock.

bb. Acceptance of Transfer Between State Retirement Systems of Daniel Mesa.

cc. Acceptance of Transfer Between State Retirement Systems of Matthew Johnson.

dd. Acceptance of Transfer Between State Retirement Systems of Kenneth Carlson.

e. Acceptance of Transfer Between State Retirement Systems of William Daily.

4. Review, discussion and appropriate Action to approve the PSPRS Board of Trustees Meeting Minutes from the May 29, 2019 Meeting.

   Chairman Buivididas

5. Appropriate Action regarding the Agreement to participate in the Supplemental Defined Contribution Plan with the Rio Verde Fire District.

   Chairman Buivididas

6. Appropriate Action regarding the Agreement to participate in the Supplemental Defined Contribution Plan with the City of El Mirage.

   Chairman Buivididas

Report by Mr. Harry A. Papp, Chairman of the Investment Committee, regarding agenda items 7 through 11, pertaining to the Investment Committee, and possible Board Action regarding the same.

7. Review and discussion of staff investment reports.

   Mr. Harry A. Papp
   Chairman of the Investment Committee

   a. Written report by Investment Department Staff regarding the Month-End and Fiscal Year-to-Date performance for the PSPRS Trust as of April 30, 2019

   Ms. Vaida Maleckaite
   Director of Investment Services

   b. Written report regarding the asset allocation and performance of the Firefighters and Peace Officers Cancer Insurance Program

   Ms. Vaida Maleckaite
c. Written report by Investment Department Staff regarding Portfolio Risk as of April 30, 2019
   
   Mr. Owen Zhao
   Portfolio Analyst - Risk

     d. Written report on Executed Transactions during prior period
       
       Jennifer Carlino, Esq.
       Chief Investment Counsel

     e. Detailed performance report
       
       Mr. Mark Steed
       Chief Investment Officer

   
   Mr. James Ko
   Portfolio Manager
   Mr. Mark Steed
   Mr. Allan Martin
   NEPC, LLC

9. Presentation, discussion and possible Action regarding the PSPRS Trust Asset Allocation.
   
   Mr. Mark Steed
   Mr. Allan Martin

10. Review, discussion and possible Action regarding the PSPRS Trust Investment Policy.
    
    Mr. Mark Steed
    Mr. Allan Martin

11. Presentation, discussion and possible Action with representatives from Brevet Capital Management regarding alternative capital solutions targeting unfunded liabilities.
    
    Mr. Mark Steed
    Representative(s) of Brevet Capital Management

Report by Mr. Mike Scheidt, Chairman of the Operations, Governance Policy and Audit Committee, regarding agenda items 12 through 20, pertaining to the Operations Committee and possible Board Action regarding the same.

12. Review and discussion of staff operation reports.
    
    Mr. Mike Scheidt
    Chairman of the Operations, Governance Policy and Audit Committee

b. Monthly Local Board & Employer Training Outreach Report

c. Monthly Report Regarding Requests for Rehearings Submitted to Various Local Boards

d. Monthly Report Regarding Various Communications Efforts

e. Law Firms' Billings for Legal Services

13. Review, discussion and possible Action with respect to the FY2020 PSPRS Administrative Budget and contract renewals.

   Ms. Liz Rozzell
   Chief Financial Officer

14. Review, discussion and possible Action regarding employer match to the deferred compensation plan for PSPRS staff.

   Ms. Liz Rozzell

15. Review and discussion of IT Assessments conducted by Agile Progress and Segal Consulting.

   Mr. Bret Parke
   Interim Administrator and General Counsel

16. Introduction of Rob Parkes, who has recently joined the PSPRS as Human Resources Director. Written report by Human Resources Director regarding monthly human resources activity as of June 2019.

   Mr. Tim Jackson
   Compliance Officer
   Mr. Rob Parkes
   Human Resources Director

17. Review, discussion and possible Action regarding the Cancer Insurance Plan document changes.

   Mr. Bret Parke


   Mr. Bret Parke
19. Review, discussion and possible Action on passed legislative actions and potential legislative proposals.

   Mr. Bret Parke
   Mr. Douglas Cole
   HighGround, Inc.
   Ms. Dianne McCallister
   Public Policy Partners, LLC

20. Discussion with a representative from Foster & Foster regarding actuarial impact studies.

   Chairman Buividas

21. Discussion and appropriate Action regarding Board of Trustee member requests to participate in training, educational and due diligence opportunities.

   Chairman Buividas

22. Discussion and potential Action regarding Board of Trustee information and follow-up requests. This item provides members of the Board of Trustees an opportunity to publicly request information, analysis or follow-up agenda items to be prepared by Investment Staff. All such requests will include the following parameters: (1) specific detail as to the information and/or analysis requested; (2) the format for the information requested (i.e. email response, research or financial analysis required), (3) the desired timing for receipt of such follow-up information, and (4) whether an agenda item should be scheduled for discussion regarding same at a later meeting of the Board of Trustees.

   Chairman Buividas

23. Discussion and consultation with legal counsel and Staff and possible Action regarding proposed legislation, investment matters, ongoing, contemplated or threatened legal action involving the Trust and Plans, including vendor disputes, public record requests, personnel matters and actual or potential litigation and claims based on contract, tort or statute. The Board may vote to discuss these matters in Executive Session pursuant to A.R.S. §§ 38-431.03(A)(1), (2), (3), (4) and (7) as set forth in item 24.

24. The Board of Trustees may vote to go into Executive Session (which will not be open to the public) to discuss matters pursuant to A.R.S. §§ 38-431.03(A) (1), (2), (3), (4) and (7), as applicable, including to receive legal advice from the Board’s attorneys on any matter listed on the agenda, including:

   a. Update and discussion on personnel matters, as authorized by A.R.S § 38-431.03(A)(1).
b. Discussion and consultation with legal counsel and Staff regarding matters arising from public record requests or subpoenas, and ongoing or threatened legal action or claims involving the Plans or Trust not otherwise referenced any matter listed on the agenda, including but not limited to those involving the status of lawsuits challenging provisions of SB1609, as authorized by A.R.S. §§ 38-431.03(A) (2) and (3).

c. Discussion or consultation with the attorneys of the public body in order to consider its position and instruct its attorneys regarding the public body's position regarding contracts that are the subject of negotiations, in pending or contemplated litigation or in settlement discussions conducted in order to avoid or resolve litigation, as authorized by A.R.S § 38-431.03(A) (3) and (4).

d. Discussion or consultation with the attorneys and designated representatives of the public body in order to consider its position and instruct its attorneys and designated representatives considering its legal position regarding salaries, salary schedules or compensation of employees of the public body, as authorized by A.R.S § 38-431.03(A)(1), (3) and (5).

25. Possible Action on future meeting dates. *(Next meeting currently scheduled for Wednesday, August 28, 2019.)*


A copy of the agenda background material that is provided to the Board of Trustees (with the exception of materials relating to possible executive sessions and/or materials exempt by law from public inspection) is available for public inspection at the PSPRS offices located at 3010 East Camelback Road, Suite, 200, Phoenix, Arizona. The agenda is subject to revision up to 24 hours prior to the meeting.

Persons with a disability may request a reasonable accommodation, such as a sign language interpreter, by contacting Michelle Pechan, Paralegal, or Rose Crutcher, Paralegal, at (602) 255-5575. Requests should be made as early as possible to arrange the accommodation.
## EORP RETIREMENTS FOR BOARD OF TRUSTEES MEETING - JUNE 2019

<table>
<thead>
<tr>
<th>Name</th>
<th>Retirement Type</th>
<th>Employer</th>
<th>Service</th>
<th>Position</th>
<th>Effective Date</th>
<th>Average Monthly Salary</th>
<th>Benefit Amount</th>
<th>Reduction for Early Retirement</th>
<th>Notes</th>
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<tr>
<td>Buckelew, R. Glenn</td>
<td>Early</td>
<td>La Paz County</td>
<td>8.00</td>
<td>Former County Attorney</td>
<td>6/1/2019</td>
<td>$8,050.00</td>
<td>$2,421.44</td>
<td>6.000%</td>
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<tr>
<td>Dorgan, Mary</td>
<td>Normal</td>
<td>Pima County</td>
<td>18.41</td>
<td>Constable</td>
<td>6/1/2019</td>
<td>$5,489.00</td>
<td>$4,042.54</td>
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<td>Laos, Roy B.</td>
<td>Early Term</td>
<td>City of Tucson</td>
<td>20.95</td>
<td>Former Councilmember</td>
<td>5/1/2019</td>
<td>$545.31</td>
<td>$545.31</td>
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<td>Todd, Douglas P.</td>
<td>Normal Term</td>
<td>Maricopa County</td>
<td>25.98</td>
<td>Former County Treasurer</td>
<td>6/1/2019</td>
<td>$5,445.59</td>
<td>$5,445.59</td>
<td>DOD: 5-24-2019</td>
<td></td>
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PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
May 29, 2019
MINUTES

Members Present: Mr. William T. Buividas, Trustee, Chairman
Mr. Mike Scheidt, Trustee, Vice-Chairman
Mr. Harry A. Papp, Trustee
Mr. Dean Scheinert, Trustee - (Attended via teleconference at 9:04 a.m.,
left the call at 9:12 am) (Arrived in person at 9:36 a.m. left at 11:49 a.m.)
(Returned to the meeting in person at 1:03 p.m.)
Mr. Donald A. Smith, Trustee
Mr. Scott McCarty, Trustee
(Attended via teleconference at 9:01 a.m., left the call at 9:30 a.m.),
(Resumed via teleconference at 10:19 a.m.)
Mr. Jim Ameduri, Trustee - Excused

Others Present: Mr. Bret Parke, Interim Administrator
Mr. Dave DeJonge, Deputy Administrator
Mr. Mark Steed, Chief Investment Officer
Ms. Liz Rozzell, Chief Financial Officer
Ms. Ivy Voss, Attorney
Mr. Christian Palmer, Communications Director
Ms. Chrystal Angotti, Sr. Executive Assistant
Ms. Cheryl Cohen, Executive Assistant
Mr. Paul Hemmes, Information Technology
Ms. Vivian Padilla, Communications Assistant
Mr. Phil Coleman, Employer Relationship Manager
Ms. Vaida Maleckaite, Investment Operations Director
Mr. Owen Zhao, Portfolio Analyst - Risk
Mr. Kevin Chen, Investment Operations
Mr. Shan Chen, Lead Portfolio Manager
Mr. William Thatcher, Portfolio Manager
Mr. James Ko, Portfolio Manager
Mr. Jefferson Weston, Investment Analyst
Ms. Laura Long, Investment Analyst
Ms. Jennifer Carlino, Chief Investment Counsel
Ms. Dianne McCallister, Public Policy Partners
Mr. Doug Cole, HighGround
Mr. Stan Hoover, PSPRS Retiree
Mr. Alan Bowser, Bridgewater Associates
Mr. Paul Podolsky, Bridgewater Associates
Mr. Michael Angulo, Unite Here Local 11
Mr. David Leibowitz, Consultant

1. Call to Order; Pledge of Allegiance; Roll Call; Opening remarks.

Mr. William T. Buividas
The meeting was called to order by Chairman Buividas at 9:04 a.m. The Pledge of Allegiance was recited and the roll was called.

2. Call to the Public.

This is the time for the public to comment. Members of the Board of Trustees may not discuss items that are not specifically identified on the agenda, except to address criticism from the public. Therefore, pursuant to A.R.S. § 38-431.01(H), the Board of Trustees’ reaction to any public comment is limited to addressing criticism or recommending that the Board of Trustees or Staff respond or study such comment or schedule the subject matter for further consideration at a later date after appropriate notice.

Michael Angulo, Research and Policy Analyst with Unite Here Local 11, responded to the call to the public. Mr. Angulo represents employees from Local 217, a union for hotel and food service employees across Connecticut. Mr. Angulo discussed a labor dispute with Rubenstein Properties, an existing investment of the Trust, and indicated he appreciated the emphasis PSPRS has placed on responsible investments. Chairman Buividas requested that Mr. Steed provide the Board with a process of how the Board should respond to comments made pertaining to investments during a call to the public.

3. Appropriate Action for approval of the items on the Consent Agenda (documentation concerning the matters on the consent agenda may be reviewed at the PSPRS office). Any matter on the Consent Agenda will be removed from the Consent Agenda and discussed as a regular agenda item upon the request of any member of the Board of Trustees.

4. Review, discussion and possible Action to approve the PSPRS Board of Trustees Meeting Minutes and Committee Meeting Minutes, including:
   a. Meeting minutes from the April 23, 2019 Board of Trustees Meeting;
   b. Meeting minutes from the May 8, 2019 Special Board of Trustees Meeting;
   c. Meeting minutes from the May 13, 2019 Special Board of Trustees Meeting

DRAFT
5. Appropriate Action regarding the approval of the Buckeye Valley Fire District’s request to increase its amortization period.

Mr. William T. Buividas

| Motion: 3-05/29/2019 | At 10:25 a.m. |
| Motion | To approve the Buckeye Valley Fire District’s request to increase amortization period |
| Moved by: | Mr. Scheidt |
| Seconded By: | Mr. Scheinert |
| Discussion: | None |
| Voted in Favor: | Mr. Buividas, Mr. Scheidt, Mr. Smith, Mr. McCarty, Mr. Scheinert, Mr. Papp |
| Voted Against: | None. Mr. Ameduri was absent/excused. |
| Motion Result: | Passes Unanimously |

Report by Mr. Harry Papp, Chairman of the Investment Committee, regarding agenda Items 6 through 13 pertaining to the Investment Committee, and possible Board Action regarding same.

6. Written report by Investment Staff regarding the (i) Month-End and Fiscal Year-to-Date performance for the PSPRS Trust as of March 31, 2019; and (ii) written report regarding the asset allocation and performance of the Firefighters and Peace Officers Cancer Insurance Program.

Ms. Vaida Maleckaitė
Director of Investment Services

A written report regarding the Month-End and Fiscal Year-to-Date performance for the PSPRS Trust as of March 31, 2019 was provided. No discussion was held.

A written report regarding the asset allocation and performance of the Firefighters and Peace Officers Cancer Insurance Program was provided. No discussion was held.

| Motion: 7-05/29/2019 | At 2:47 p.m. |
| Motion | To authorize Chairman Buividas and Trustee Harry Papp to work with Mark Steed, CIO, to resolve existing legacy real estate investments |
| Moved by: | Mr. Buividas |
| Seconded By: | Mr. Smith |
| Discussion: | None |
| Voted in Favor: | Mr. Buividas, Mr. Scheidt, Mr. Smith, Mr. McCarty, Mr. Scheinert, Mr. Papp |
| Voted Against: | None. Mr. Ameduri was absent/excused |
| Motion Result: | Passes Unanimously |
7. **Written report by Investment Department Staff regarding Portfolio Risk as of March 31, 2019.**

   *Mr. Owen Zhao*
   *Portfolio Analyst – Risk*

A written report regarding the Portfolio Risk as of March 31, 2019 was provided. No discussion was held.

8. **Written report and possible discussion regarding Global Financial Market Developments.**

   *Mr. James Ko*
   *Portfolio Manager*
   *Mr. Mark Steed*
   *Chief Investment Officer*
   *Mr. Allan Martin*
   *NEPC, LLC*

A written report regarding the Global Financial Market Developments was provided.

9. **Presentation and discussion by Bridgewater Associates regarding opportunities in Chinese Financial Markets.**

   *Mr. Paul Podolsky*
   *Sr. Portfolio Strategist*
   *Bridgewater Associates*

A presentation was provided by Bridgewater regarding opportunities in Chinese financial markets. Perspectives on China were discussed. Discussion was held regarding same.

10. **Presentation, discussion and possible **Action** regarding PSPRS Trust Asset Allocation.**

    *Mr. Mark Steed*
    *Mr. Allan Martin*

A brief discussion regarding the PSPRS Trust Asset Allocation was held. Chairman Buividas requested that action on this item be deferred until the June Board of Trustees Meeting.

11. **Review, discussion and possible **Action** regarding the PSPRS Trust Investment Policy.**

    *Mr. Mark Steed*
    *Mr. Allan Martin*

A brief discussion regarding the PSPRS Trust Investment Policy was held. Chairman Buividas requested that action on this item be deferred until the June Board of Trustees Meeting.

12. **Presentation and discussion by NEPC representatives and PSPRS staff regarding Quarterly performance ending March 31, 2019.**

    *Mr. Mark Steed*
    *Mr. Allan Martin*
A presentation regarding quarterly performance ending March 31, 2019 was given. Chairman Buivididas requested a future presentation regarding private equity performance.


Ms. Jennifer Carlino
Chief Investment Counsel

A written report on Executed Transactions during Prior Period was provided. No discussion was held.

The Board of Trustees Meeting was recessed for lunch break at 11:49 a.m.

The Board of Trustees resumed open session at 12:05 p.m.

Report by Mr. Mike Scheidt, Chairman of the Operations, Governance Policy and Audit Committee, regarding agenda items 14 through 25, pertaining to the Operations, Governance Policy and Audit Committee, and possible Board Action regarding same.

14. Review and discussion of staff operation reports.

a. Operations Update Report
b. Year to Date Budget Report
c. Local Board and Employer Outreach Report
d. Local Board Rehearing Report
e. Communications Efforts
f. Law Firms Billings for Legal Services

Mr. Dave DeJonge
Deputy Administrator

Written reports regarding topics 14 a. through 14 f. above were provided. As to Item 14f, Chairman Buivididas requested that Mr. DeJonge prepare and provide a chart detailing the prior 5-years rolling average of fees.

15. Review, discussion and possible Action with respect to the FY2020 PSPRS Administrative Budget and contract renewals.

Ms. Liz Rozzell
Chief Financial Officer

Discussion regarding the proposed FY2020 PSPRS Administrative Budget was held. Chairman Buivididas requested that Ms. Rozzell include various additional line items in the budget to be presented at the June, 2019 meeting. Chairman Buivididas requested Mr. DeJonge review the business analyst position to determine the status of creation of the position. Chairman Buivididas requested Ms. Rozzell include the position for member services in the budget, however, he requested we do not hire for that position before the Board addresses the cancer insurance program. Chairman Buivididas requested Ms. Rozzell include 2% of payroll into the budget for possible salary increases for Staff. Chairman Buivididas requested Mr. DeJonge provide a report on information about compensation increases in the prior five years.
16. Review, discussion and possible Action regarding various interest and other rates utilized by Staff for calculations.

Mr. Dave DeJonge

A written memo was presented regarding interest and other rates utilized by Staff for certain calculations. Chairman Buividas requested Mr. DeJonge conduct a survey to see which state agencies, public pension plans and other local government entities provide employees with a match to 457 or similar deferred plans.

Motion: 4-05/29/2019
Motion
At 12:51 p.m.
To approve the recommendation (excluding the rate approval for the 401(a)) and to provide further details at the June, 2019 Board of Trustee Meetings for further review.

Moved by: Mr. Buividas
Seconded By: Mr. Papp
Discussion: None
Voted in Favor: Mr. Buividas, Mr. Scheidt, Mr. Smith, Mr. McCarty, Mr. Papp
Voted Against: None. Mr. Ameduri and Mr. Scheinert were excused/absent.
Motion Result: Passes Unanimously.

17. Presentation, discussion and possible Action regarding the GASB 68 Reports.

Mr. Dave DeJonge

A presentation and written report regarding GASB 68 were provided. Chairman Buividas requested that the information be posted on the PSPRS website.

Motion: 5-05/29/2019
Motion
At 1:18 p.m.
To approve the GASB 68 Reports as provided

Moved by: Mr. McCarty
Seconded By: Mr. Scheinert
Discussion: None
Voted in Favor: Mr. Buividas, Mr. Scheidt, Mr. Smith, Mr. McCarty, Mr. Scheinert, Mr. Papp
Voted Against: None. Mr. Ameduri was excused/absent.
Motion Result: Passes Unanimously.

18. Written report by Compliance Officer regarding Quarterly Investment Manager Compliance for May, 2019.

Mr. Timothy Jackson
Compliance Officer

A written report was provided. No discussion was held.

19. Written report by Interim Human Resources Director regarding monthly human resources activity as of May, 2019.

Mr. Timothy Jackson
Interim Human Resources Director

A written report was provided. No discussion was held.
20. Review, discussion and possible Action regarding PSPRS Board Outside Counsel RFP and Task Order.

Mr. Bret Parke

No discussion was held. Chairman Buivididas indicated this item will be discussed in executive session.

<table>
<thead>
<tr>
<th>Motion: 8-05/29/2019</th>
<th>At 2:50 p.m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motion</td>
<td>To send a task order out for Board Fiduciary counsel, to the firms that are listed on the Attorney General’s Office approved list.</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Mr. Buivididas</td>
</tr>
<tr>
<td>Seconded By:</td>
<td>Mr. Papp</td>
</tr>
<tr>
<td>Discussion:</td>
<td>None</td>
</tr>
<tr>
<td>Voted in Favor:</td>
<td>Mr. Buivididas, Mr. Scheidt, Mr. Smith, Mr. McCarty, Mr. Scheinert, Mr. Papp</td>
</tr>
<tr>
<td>Voted Against:</td>
<td>None. Mr. Ameduri was absent/excused</td>
</tr>
<tr>
<td>Motion Result:</td>
<td>Passes Unanimously</td>
</tr>
</tbody>
</table>

21. Review, discussion and possible Action regarding the EORP COLA Appeal.

Mr. Bret Parke

No discussion was held. Chairman Buivididas indicated this item will be discussed in executive session.

<table>
<thead>
<tr>
<th>Motion: 9-05/29/2019</th>
<th>At 2:51 p.m.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motion</td>
<td>To pay out the COLA to the EORP and OCRP retirees, effective July 1, 2019</td>
</tr>
<tr>
<td>Moved by:</td>
<td>Mr. Buivididas</td>
</tr>
<tr>
<td>Seconded By:</td>
<td>Mr. Scheinert</td>
</tr>
<tr>
<td>Discussion:</td>
<td>None</td>
</tr>
<tr>
<td>Voted in Favor:</td>
<td>Mr. Buivididas, Mr. Scheidt, Mr. Smith, Mr. McCarty, Mr. Scheinert, Mr. Papp</td>
</tr>
<tr>
<td>Voted Against:</td>
<td>None. Mr. Ameduri was absent/excused</td>
</tr>
<tr>
<td>Motion Result:</td>
<td>Passes Unanimously</td>
</tr>
</tbody>
</table>

22. Review, discussion and possible Action regarding the Cancer Insurance Plan document changes.

Mr. Bret Parke

No public discussion was held. Chairman Buivididas indicated this item will be discussed in executive session. Mr. Buivididas requested Mr. Parke determine whether the Cancer Insurance Plan can be outsourced versus remain in-house and that this item be tabled for further review.


Mr. Bret Parke

No public discussion was held. Chairman Buivididas indicated this item will be discussed in executive session. Mr. Buivididas asked that this item be tabled until the June, 2019 meeting.
24. Review, discussion and possible Action regarding the Hualapai Tribe Local Board complaint.

Mr. Bret Parke

No public discussion was held. Chairman Buividas indicated this item will be discussed in executive session and this item was for informational purposes only.

25. Review, discussion and possible Action on pending and past legislative actions and potential legislative proposals.

Mr. Bret Parke

A brief update on legislative actions was provided.

26. Discussion and appropriate Action regarding Board of Trustee member requests to participate in training, education and due diligence opportunities.

Mr. William T. Buividas

No travel or education requests were submitted.

27. Discussion and consultation with legal counsel and Staff and possible Action regarding proposed legislation, investment matters, ongoing, contemplated or threatened legal action involving the Trust and Plans, including vendor disputes, public record requests, personnel matters and actual or potential litigation and claims based on contract, tort or statute. The Board may vote to discuss these matters in Executive Session pursuant to A.R.S. §§ 38-431.03(A)(1), (2), (3), (4), (5), and (6) as set forth in item 28.

Motion: 6-05/29/2019
Motion to recess Open Session and enter Executive Session to discuss agenda items 6, 20, 21, 22, 23, 24 and personnel issues.

Moved by: Mr. Scheinert
Seconded By: Mr. Smith
Discussion: None
Voted in Favor: Mr. Buividas, Mr. Scheidt, Mr. Smith, Mr. McCarty, Mr. Scheinert, Mr. Papp
Voted Against: None. Mr. Ameduri was excused/absent
Motion Result: Passes Unanimously

Attendees:
Mr. Buividas, Mr. Scheidt, Mr. Smith, Mr. McCarty, Mr. Scheinert, Mr. Papp
Mr. Steed was excused from Executive Session at 1:57 pm
Mr. Christian Palmer and Mr. David Liebowitz were called into Executive Session at 2:22 p.m., and excused at 2:25 p.m.
Executive Session was closed at 2:51 p.m.

The Board resumed Open Session at 2:51 p.m.

28. The Board of The Board of Trustees may vote to go into Executive Session (which will not be open to the public) to discuss matters pursuant to A.R.S. §§ 38-431.03(A)(1), (2), (3), (4), (5) and (6) as applicable, including to receive legal advice from the Board's attorneys on any matter listed on the agenda, including:
a. Update and discussion on personnel matters, as authorized by A.R.S. §§ 38-431.03(A) (1).

b. Discussion and consultation with legal counsel and Staff regarding matters arising from public record requests or subpoenas, and ongoing or threatened legal action or claims involving the Plans or Trust referenced any matter listed on the agenda, including but not limited to those involving the status of lawsuits, as authorized by A.R.S. §§ 38-431.03(A) (2), (3).

c. Discussion or consultation with the attorneys of the public body in order to consider its position and instruct its attorneys regarding the public body's position regarding contracts that are the subject of negotiations, in pending or contemplated litigation or in settlement discussions conducted in order to avoid or resolve litigation, as authorized by A.R.S § 38-431.03(A)(4).

d. Discussion or consultation with the attorneys and designated representatives of the public body in order to consider its position and instruct its attorneys and designated representatives considering its legal position regarding salaries, salary schedules or compensation of employees of the public body, as authorized by A.R.S § 38-431.03(A)(5).

e. Discussion, consultation or consideration for international and interstate negotiations or for negotiations by a city or town, or its designated representatives, with members of a tribal council, or its designated representatives, of an Indian reservation located within or adjacent to the city or town, as authorized by A.R.S § 38-431.03(A)(6).

29. Possible Action on future meeting dates (Next meeting scheduled for June 26, 2019).

Discussion on whether to move the meeting to June 19, 2019 occurred. The Board chose to keep the next meeting as scheduled for June 26, 2019.

30. Adjournment.

The meeting was adjourned at 2:55 p.m.
William T. Buividas, Trustee, Chairman

Mike Scheidt, Trustee, Vice Chairman

Harry A. Papp, Trustee

Dean Scheinert, Trustee

Donald A. Smith, Jr., Trustee

EXCUSED

Scott McCarty, Trustee

Jim Ameduri, Trustee

VACANT

VACANT

Eighth Trustee

Ninth Trustee
To: Board of Trustee  
From: PSPRS  
Date: June 17, 2019

PSPRS will enter into an agreement to participate in the Supplemental Defined Contribution Plan with a specific employer. This month we have two employers seeking the agreement:

El Mirage Police and Fire  
Rio Verde Fire District.

The PSPRS Board Chairman will sign the agreement on the supplemental 401(a) joinder agreements as part of the meeting consent agendas.

The adoption agreement for the State of Arizona Supplemental Defined Contribution Plan is attached.
AMENDED AND RESTATE

ADOPTION AGREEMENT

FOR

STATE OF ARIZONA SUPPLEMENTAL DEFINED CONTRIBUTION PLAN

The undersigned, on behalf of the Board of Trustees of the Arizona Public Safety Personnel Retirement System adopts this State of Arizona Supplemental Defined Contribution Plan for those employees ("Employees") of the State of Arizona ("Employer") who shall qualify as participants hereunder.


The Plan shall be effective as of the date specified below. The Employer hereby selects the following Plan specifications:

EMPLOYER INFORMATION

B1: The name of the Employer is the State of Arizona and all applicable political subdivisions thereof that have employees in an eligible group.

B2: The Employer's address is c/o the Arizona Public Safety Personnel Retirement System, 3010 E. Camelback Road, Suite 200, Phoenix, Arizona 85016.

The Employer's telephone number is (602) 255-5575.

B3: The Employer's tax identification number is: 86-215767.

B4: The Trustee of the Plan is the Board of Trustees of the Arizona Public Safety Personnel Retirement System.

B5: The Trustee's address is 3010 E. Camelback Road, Suite 200, Phoenix, Arizona, 85016.

B6: The Employer's location is the entire State of Arizona and the address of its principal office for administration of the Plan is 3010 E. Camelback Road, Suite 200, Phoenix, Arizona 85016.

B7: "Employer Fiscal Year" means the 12 consecutive month period commencing on July 1 and ending on June 30th.
PLAN INFORMATION

C1: This original Adoption Agreement of the Plan shall be effective from and after August 8, 2001. This Amended and Restated Adoption Agreement shall be effective from and after January 1, 2011.

C2: “Plan Year” means the 12 consecutive month period commencing on January 1 and ending on December 31st.

C3: The “Anniversary Date” of the Plan (the “Annual Valuation Date”) shall be June 30.

C4: The Plan Number of the Plan assigned by the Employer is 005.

C5: The Administrator of the Plan is the Board of Trustees or its designee of the Arizona Public Safety Personnel Retirement System whose address is 3010 E. Camelback Road, Suite 200, Phoenix, Arizona 85016, and whose telephone number is (602) 255-5575. The Administrator’s Tax Identification Number is the same as the Employer: 86-0215767.

C6: The Plan’s agent for service of process is Charles W. Whetstine, whose address is 3101 N. Central Avenue, Suite 1600, Phoenix, Arizona 85012.

ELIGIBILITY AND VESTING

D1: “Eligible Group,” as that term is used in the Plan shall mean any of the following:

(1) Employees of the Public Safety Personnel Retirement System.

(2) The Elected Officials’ Retirement Plan established by Article 3 of Chapter 5 (Sec. 9, Title 38, Arizona Revised Statutes).

(3) The Public Safety Personnel Retirement System established by Article 4 of Chapter 5 (Sec. 9, Title 38, Arizona Revised Statutes).

(4) The Correction Officer Retirement Plan established by Article 6 of Chapter 5 (Sec. 9, Title 38, Arizona Revised Statutes).

D2: “Hours of Service” as referenced in the Plan will be determined on the basis of actual hours for which an Employee is paid or entitled to payment.
D3: The "Elapsed Time Method" will be used for purposes of determining the years of service required to obtain vested benefits as provided in the Plan.

D4: No age or service requirements are specified to achieve status as an Eligible Employee.

D5: An Eligible Employee shall become a participant in the Plan ("Participant") as of the first day he or she elects to be included. Such election must be made within two years of meeting eligibility requirements or the date of the joinder agreement, whichever is later.

D6: Employer contributions and earnings are vested according to the following schedule:

<table>
<thead>
<tr>
<th>Service Eligibility</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than one year of service</td>
<td>0%</td>
</tr>
<tr>
<td>One year but less than two years of service</td>
<td>20%</td>
</tr>
<tr>
<td>Two years but less than three years of service</td>
<td>40%</td>
</tr>
<tr>
<td>Three years but less than four years of service</td>
<td>60%</td>
</tr>
<tr>
<td>Four years but less than five years of service</td>
<td>80%</td>
</tr>
<tr>
<td>Five years or more</td>
<td>100%</td>
</tr>
</tbody>
</table>

Notwithstanding the foregoing, a Participant will be fully vested in all amounts credited to such Participant’s Accounts upon attaining his or her Normal Retirement Date while employed by his or her Employer and such Accounts shall not thereafter be subject to Forfeiture.

D7: Except as specified in D6 above and E4 below, there are no exclusions in determining Years of Service for vesting purposes.

CONTRIBUTIONS, ALLOCATIONS AND DISTRIBUTIONS

E1: "Compensation" with respect to any Participant means wages, tips, and other compensation on Form W-2. Compensation shall be based on the Plan Year.

Compensation shall include Compensation, which is not currently includible in the Participant’s gross income by reason of the applications of I.R.C. §§ 125, 402(e)(3), 402(h)(1)(B), 403(b), 414(h) or 457(b).

E2: The Employer’s may elect to match the contributions made by the employee pursuant to the applicable I.R.C. sections at a rate
determined by the Employer. The rate of the employer match shall be determined at the beginning of that employer’s budget cycle and shall terminate at the end of that budget cycle.

E3. Forfeitures of contributions shall be applied to offset administrative expenses of the Plan.

E4: A Participant shall be required to complete a Year of Service in order to share in any Employer contributions, and thereafter according to the schedule per section D6.

E5: An Eligible Employee shall, subsequent to his Entry Date, contribute an amount equal to at least 1.00% of his Compensation to the Plan. In accordance with A.R.S. § 38-953.D, the aforesaid mandatory employee contribution shall be considered “picked up” by the Employer under the Plan, provided the Internal Revenue Service has first notified the Employer or Administrator that such “pick up” shall not be included in the Eligible Employee’s gross income for income tax purposes until the time that the picked up contributions are distributed by refund or pension payments. All Eligible Employees are required to make a Mandatory Contribution as specified herein as a condition of their participation in the Plan if electing to participate in the Plan pursuant to A.R.S. § 38-953.D. All amounts contributed are subject to the discretion and control of the Employer. See E6 of this document and Section 10.9 of the Plan.

E6: Employers have the right to designate the amounts contributed per E5 above. If the employer does not designate an amount, including employee contributions “picked up” pursuant to IRC §414(h)(2), then no contribution may be made.

E7: Any Participant who leaves service (as defined in the Plan) with the Employer during the Plan Year shall not share in the allocations of Contributions or Forfeitures referenced in § 4.3(e) of the Plan.

E8: If any Participant is or was covered under another qualified defined contribution plan maintained by the Employer, or if the Employer maintains a welfare benefit fund, as defined in IRC § 415(1)(2), under which amounts are treated as Annual Additions with respect to any Participant in this Plan, the Administrator or Employer shall provide a method under which the Plans will limit total Annual Additions to the Maximum Permissible Amount and in a manner that precludes Employer discretion.
E9: Distributions upon the death of a Participant prior to receiving any benefits under the Plan shall be made pursuant to the election of the Participant or to his or her designated heir or beneficiary.

E10: Distributions upon termination of employment pursuant to the Plan shall be immediate or as otherwise provided in the Plan.

E11: Distributions under the Plan shall be made in lump sums. Regardless of any provisions in the Plan to the contrary, if the Participant’s vested interest derived from Employer and Employee contributions does not exceed and has never exceeded $5,000, prior to March 28, 2005, an immediate distribution may be made to the Participant or to a qualified trustee upon his or her termination of employment with the Employer. Effective March 28, 2005, an immediate distribution may not be made to the Participant or to a qualified trustee prior to the Participant’s Normal Retirement Date under the Plan without the Participant’s written consent.

MISCELLANEOUS

F1: No loans may be made to Participants from the Plan.

F2: Participants are required to direct their own investments under the Plan.

F3: No transfers from qualified plans into the Plan will be allowed.

F4: Employers may annually increase or decrease the employee contribution in increments of 1% up to the maximum allowed by law.

F5: No life insurance may be purchased with Plan assets or contributions.

In witness whereof, the Employer and Trustee hereby cause this Amended and Restated Adoption Agreement to be executed on the 27th day of April, 2011.

TRUSTEE/EMPLOYER

By:

Title: Chairman

On behalf of the Board of Trustees, Arizona Public Safety Personnel Retirement System, for and on behalf of the Employer, the State of Arizona.
THE BOARD OF TRUSTEES
Public Safety Retirement System
of the State of Arizona

Agreement to participate in the Supplemental Defined Contribution Plan

THIS AGREEMENT, entered into this 21st day of May, 2019, effective as of the 31st day of July 2019, by and between the undersigned Employer and The Board of Trustees of the Arizona Public Safety Personnel Retirement System

WITNESSETH:

WHEREAS, the Employer is a public body deriving its powers from the legislature of the State of Arizona which employs certain employees who are members of either the Elected Officials Retirement Plan, the Public Safety Personnel Retirement System or the Corrections Officer Retirement Plan, and

WHEREAS, the Employer has determined to provide additional benefits for such employees through the supplemental defined contribution plan (the “Plan”) authorized by Title 38, Chapter 5, Article 8, Arizona Revised Statutes, and has adopted a resolution or motion by the employer’s governing authority and followed such other appropriate procedures to elect to provide such benefits, and

WHEREAS, The Board of Trustees of the Arizona Public Safety Personnel Retirement System has prepared a plan document for the Plan and has entered into a contract with at least one vendor to administer the Plan, and

WHEREAS, The Board of Trustees of the Arizona Public Safety Personnel Retirement System has considered the request of the undersigned Employer to join the Plan and has approved the participation of the Employer in the Plan:

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants herein contained, the Employer and The Board of Trustees hereby agree as follows:

1. By execution of this Joinder Agreement the undersigned Employer unconditionally adopts, accepts and agrees to be bound by all the terms and conditions of the Plan with respect to employees of the employer (the “Eligible Employees”) who are members of either the Elected Officials’ Retirement Plan, the Public Safety Personnel Retirement System or the Corrections Officer Retirement Plan.

2. The undersigned Employer agrees that all of the Eligible Employees at their election may participate in the Plan and if such election is made will require these Eligible Employees to make employee contributions pursuant to A.R.S. section 38-953, subsection D.

3. The undersigned Employer further agrees that it will make reductions or deductions in the Eligible Employees’ salary as required by law, will notify The Board of Trustees or The Board of Trustees’ vendor of any employer matching monies and will submit reports as required by either The Board of Trustees or The Board of Trustees’ vendor.

4. In consideration of the above, The Board of Trustees, by execution of this Joinder Agreement, accepts the Employer for participation in the Plan.

IN WITNESS WHEREOF, the Employer has caused to be executed in its behalf by a duly authorized officer and The Board of Trustees has executed this Joinder Agreement this 21st day of May, 2019.

BOARD OF TRUSTEES:

[Signature]
Chairman, The Board of Trustees
Public Safety Personnel Retirement System

EMPLOYER:

[Signature]
Fire Chief, Rio Verde Fire District

(Official Position or Title)
To: Board of Trustee  
From: PSPRS  
Date: June 17, 2019

PSPRS will enter into an agreement to participate in the Supplemental Defined Contribution Plan with a specific employer.
This month we have two employers seeking the agreement:

El Mirage Police and Fire  
Rio Verde Fire District.

The PSPRS Board Chairman will sign the agreement on the supplemental 401(a) joinder agreements as part of the meeting consent agendas.

The adoption agreement for the State of Arizona Supplemental Defined Contribution Plan is attached.
AMENDED AND RESTATE

ADOPTION AGREEMENT

FOR

STATE OF ARIZONA SUPPLEMENTAL DEFINED CONTRIBUTION PLAN

The undersigned, on behalf of the Board of Trustees of the Arizona Public Safety Personnel Retirement System adopts this State of Arizona Supplemental Defined Contribution Plan for those employees ("Employees") of the State of Arizona ("Employer") who shall qualify as participants hereunder.


The Plan shall be effective as of the date specified below. The Employer hereby selects the following Plan specifications:

EMPLOYER INFORMATION

B1: The name of the Employer is the State of Arizona and all applicable political subdivisions thereof that have employees in an eligible group.

B2: The Employer's address is c/o the Arizona Public Safety Personnel Retirement System, 3010 E. Camelback Road, Suite 200, Phoenix, Arizona 85016.

The Employer's telephone number is (602) 255-5575.

B3: The Employer's tax identification number is: 86-215767.

B4: The Trustee of the Plan is the Board of Trustees of the Arizona Public Safety Personnel Retirement System.

B5: The Trustee's address is 3010 E. Camelback Road, Suite 200, Phoenix, Arizona, 85016.

B6: The Employer's location is the entire State of Arizona and the address of its principal office for administration of the Plan is 3010 E. Camelback Road, Suite 200, Phoenix, Arizona 85016.

B7: "Employer Fiscal Year" means the 12 consecutive month period commencing on July 1 and ending on June 30th.
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C1: This original Adoption Agreement of the Plan shall be effective from and after August 8, 2001. This Amended and Restated Adoption Agreement shall be effective from and after January 1, 2011.

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<thead>
<tr>
<th>Years of Service</th>
<th>Vested Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than one</td>
<td>0%</td>
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<tr>
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<tr>
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<td>40%</td>
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E1: “Compensation” with respect to any Participant means wages, tips, and other compensation on Form W-2. Compensation shall be based on the Plan Year.

Compensation shall include Compensation, which is not currently includible in the Participant’s gross income by reason of the applications of I.R.C. §§ 125, 402(e)(3), 402(h)(1)(B), 403(b), 414(h) or 457(b).

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E7: Any Participant who leaves service (as defined in the Plan) with the Employer during the Plan Year shall not share in the allocations of Contributions or Forfeitures referenced in § 4.3(e) of the Plan.

E8: If any Participant is or was covered under another qualified defined contribution plan maintained by the Employer, or if the Employer maintains a welfare benefit fund, as defined in IRC § 415(1)(2), under which amounts are treated as Annual Additions with respect to any Participant in this Plan, the Administrator or Employer shall provide a method under which the Plans will limit total Annual Additions to the Maximum Permissible Amount and in a manner that precludes Employer discretion.
E9: Distributions upon the death of a Participant prior to receiving any benefits under the Plan shall be made pursuant to the election of the Participant or to his or her designated heir or beneficiary.

E 10: Distributions upon termination of employment pursuant to the Plan shall be immediate or as otherwise provided in the Plan.

E11: Distributions under the Plan shall be made in lump sums. Regardless of any provisions in the Plan to the contrary, if the Participant’s vested interest derived from Employer and Employee contributions does not exceed and has never exceeded $5,000, prior to March 28, 2005, an immediate distribution may be made to the Participant or to a qualified trustee upon his or her termination of employment with the Employer. Effective March 28, 2005, an immediate distribution may not be made to the Participant or to a qualified trustee prior to the Participant’s Normal Retirement Date under the Plan without the Participant’s written consent.

MISCELLANEOUS

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F3: No transfers from qualified plans into the Plan will be allowed.

F4: Employers may annually increase or decrease the employee contribution in increments of 1% up to the maximum allowed by law.

F5: No life insurance may be purchased with Plan assets or contributions.

In witness whereof, the Employer and Trustee hereby cause this Amended and Restated Adoption Agreement to be executed on the 27 day of April, 2011.

TRUSTEE/EMPLOYER

By: [Signature]
Title: [Title]

On behalf of the Board of Trustees, Arizona Public Safety Personnel Retirement System, for and on behalf of the Employer, the State of Arizona
THE BOARD OF TRUSTEES
Public Safety Retirement System
of the State of Arizona

Agreement to participate in the Supplemental Defined Contribution Plan

THIS AGREEMENT, entered into this ___ day of ____________, 2019, effective as of the ___ day of
______________, 2019, by and between the undersigned Employer and The Board of Trustees of the Arizona Public
Safety Personnel Retirement System.

WITNESSETH:

WHEREAS, the Employer is a public body deriving its powers from the legislature of the State of Arizona which employs certain
employees who are members of either the Elected Officials Retirement Plan, the Public Safety Personnel Retirement System or the
Corrections Officer Retirement Plan, and

WHEREAS, the Employer has determined to provide additional benefits for such employees through the supplemental defined
contribution plan (the “Plan”) authorized by Title 38, Chapter 5, Article 8, Arizona Revised Statutes, and has adopted a resolution or
motion by the employer’s governing authority and followed such other appropriate procedures to elect to provide such benefits, and

WHEREAS, The Board of Trustees of the Arizona Public Safety Personnel Retirement System has prepared a plan document for
the Plan and has entered into a contract with at least one vendor to administer the Plan, and

WHEREAS, The Board of Trustees of the Arizona Public Safety Personnel Retirement System has considered the request of the
undersigned Employer to join the Plan and has approved the participation of the Employer in the Plan;

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants herein contained, the Employer and The
Board of Trustees hereby agree as follows:

1. By execution of this Joinder Agreement the undersigned Employer unconditionally adopts, accepts and agrees to be
bound by all the terms and conditions of the Plan with respect to employees of the employer (the “Eligible Employees”) who
are members of either the Elected Officials Retirement Plan, the Public Safety Personnel Retirement System or the
Corrections Officer Retirement Plan.

2. The undersigned Employer agrees that all of the Eligible Employees at their election may participate in the Plan and if
such election is made will require these Eligible Employees to make employee contributions pursuant to A.R.S. section
38-953. subsection D.

3. The undersigned Employer further agrees that it will make deductions in the Eligible Employees’ salary as
required by law, will notify The Board of Trustees or The Board of Trustees’ vendor of any employer matching money and will
submit reports as required by either The Board of Trustees or The Board of Trustees’ vendor.

4. In consideration of the above, The Board of Trustees, by execution of this Joinder Agreement, accepts the Employer for
participation in the Plan.

IN WITNESS WHEREOF, the Employer has caused to be executed in its behalf by a duly authorized officer and The Board of
Trustees has executed this Joinder Agreement this ___ day of ____________, 2019.

BOARD OF TRUSTEES:

[Signature]
Chairman, The Board of Trustees
Public Safety Personnel Retirement System

EMPLOYER:

[Signature]
May or Mayor
(Official Position or Title)
## Arizona PSPRS Trust - Performance as of 4/30/2019 (Gross of Fees)

### Description

<table>
<thead>
<tr>
<th>Description</th>
<th>Market Values ($)</th>
<th>%</th>
<th>Asset Allocation</th>
<th>Performance %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona PSPRS Trust - Total Fund</td>
<td>$10,551,994,600</td>
<td>100.00%</td>
<td>Target (%)</td>
<td>Range (%)</td>
</tr>
<tr>
<td>Target Fund Benchmark*</td>
<td></td>
<td></td>
<td>1.86%</td>
<td>3.98%</td>
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<tr>
<td>Total Equity</td>
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<td>34.35%</td>
<td>30%</td>
<td>19-41%</td>
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<tr>
<td>Target Equity Benchmark*</td>
<td></td>
<td></td>
<td>1.98%</td>
<td>4.58%</td>
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<tr>
<td>U.S. Equity</td>
<td>$2,067,337,391</td>
<td>19.59%</td>
<td>16%</td>
<td>10-22%</td>
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<tr>
<td>Russell 3000</td>
<td></td>
<td></td>
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<tr>
<td>Non-U.S. Equity</td>
<td>$1,557,507,339</td>
<td>14.76%</td>
<td>14%</td>
<td>9-19%</td>
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<tr>
<td>MSCI ACWI Ex-US Net</td>
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<tr>
<td>Private Equity</td>
<td>$1,318,573,486</td>
<td>12.50%</td>
<td>12%</td>
<td>7-17%</td>
</tr>
<tr>
<td>Russell 3000 + 100 bps</td>
<td></td>
<td></td>
<td>5.56%</td>
<td>10.79%</td>
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<tr>
<td>Fixed Income</td>
<td>$521,549,422</td>
<td>4.94%</td>
<td>5%</td>
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<td>Fixed Income Blended Benchmark*</td>
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<td>-0.10%</td>
<td>1.32%</td>
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<tr>
<td>Private Credit</td>
<td>$1,652,706,942</td>
<td>15.66%</td>
<td>16%</td>
<td>10-20%</td>
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<tr>
<td>50% BofA ML US High Yield BB-B Constr./ 50% CSFB Fixed Income Arbitrage</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Global Trading Strategies</td>
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<td>8.90%</td>
<td>12%</td>
<td>7-17%</td>
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<tr>
<td>3-Month LIBOR + 300 bps</td>
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<td></td>
<td>0.46%</td>
<td>1.39%</td>
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<td>Real Assets</td>
<td>$900,944,014</td>
<td>8.54%</td>
<td>9%</td>
<td>6-14%</td>
</tr>
<tr>
<td>CPI + 200 bps</td>
<td></td>
<td></td>
<td>0.35%</td>
<td>1.54%</td>
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<tr>
<td>Real Estate</td>
<td>$851,442,126</td>
<td>8.07%</td>
<td>10%</td>
<td>6-14%</td>
</tr>
<tr>
<td>NCREIF NPI **</td>
<td></td>
<td></td>
<td>0.60%</td>
<td>1.80%</td>
</tr>
<tr>
<td>Risk Parity</td>
<td>$441,116,820</td>
<td>4.18%</td>
<td>4%</td>
<td>2-6%</td>
</tr>
<tr>
<td>60% Bloomberg BC Global Aggregate/ 30% MSCI AC World Net/ 10% Bloomberg Commodity TR</td>
<td></td>
<td></td>
<td>0.79%</td>
<td>2.48%</td>
</tr>
<tr>
<td>Short Term Investments†</td>
<td>$301,490,127</td>
<td>2.86%</td>
<td>2%</td>
<td>0-5%</td>
</tr>
<tr>
<td>BofA ML 3-Month T-Bill</td>
<td></td>
<td></td>
<td>0.19%</td>
<td>0.59%</td>
</tr>
</tbody>
</table>

---

* Please see Page 2 for additional notes regarding the benchmarks and effective dates.

** The NCREIF NPI index return is published on a quarterly basis approximately six weeks after the end of the quarter and will be updated as soon as it is available. The monthly returns shown above are based on geometric smoothing of the quarterly data.

† The returns for Short Term Investments account for both the interest on cash holdings and the revenue from securities lending.
Target Fund Benchmarks/ Effective Dates:
July 1, 2017 to Present: 16% Russell 3000, 14% MSCI World Ex-US Net, 12% Russell 3000 + 100 bps, 5% Fixed Income Blended Benchmark, 16% Private Credit (aka Credit Opportunities) Benchmark, 12% 3-Month LIBOR + 300 bps, 9% CPI + 200 bps, 10% NCREIF NPI, 4% Risk Parity Benchmark and 2% BofA ML 3-Month T-Bill.
July 1, 2016 to June 30, 2017: 16% Russell 3000, 14% MSCI World Ex-US Net, 11% Russell 3000 + 100 bps, 5% Fixed Income Blended Benchmark, 15% Credit Opportunities Benchmark, 5% BofA ML 3-Month T-Bill + 200 bps, 10% 3-Month LIBOR + 300 bps, 8% CPI + 200 bps, 10% NCREIF NPI, 4% Risk Parity Benchmark and 2% BofA ML 3-Month T-Bill.
July 1, 2015 - June 30, 2016: 16% Russell 3000, 14% MSCI World Ex-US Net, 11% Russell 3000 + 100 bps, 7% Fixed Income Blended Benchmark, 13% Credit Opportunities Benchmark, 5% BofA ML 3-Month T-Bill + 200 bps, 10% 3-Month LIBOR + 300 bps, 8% CPI + 200 bps, 10% NCREIF NPI, 4% Risk Parity Benchmark and 2% BofA ML 3-Month T-Bill.
July 1, 2014 - June 30, 2015: 16% Russell 3000, 14% MSCI World Ex-US Net, 11% Russell 3000 + 100 bps, 7% Fixed Income Blended Benchmark, 13% Credit Opportunities Benchmark, 4% BofA ML 3-Month T-Bill + 200 bps, 10% 3-Month LIBOR + 300 bps, 8% CPI + 200 bps, 11% NCREIF NPI, 4% Risk Parity Benchmark and 2% BofA ML 3-Month T-Bill.
July 1, 2013 - June 30, 2014: 17% Russell 3000, 14% MSCI ACWI Ex-US Net, 10% Russell 3000 + 100 bps, 8% Fixed Income Blended Benchmark, 12% Credit Opportunities Benchmark, 4% BofA ML 3-Month T-Bill + 200 bps, 10% 3-Month LIBOR + 300 bps, 8% CPI + 200 bps, 11% NCREIF NPI, 4% Risk Parity Benchmark and 2% BofA ML 3-Month T-Bill.
July 1, 2012 - June 30, 2013: 18% Russell 3000, 14% MSCI World Ex-US Net, 9% Russell 3000 + 100 bps, 12% Credit Opportunities Benchmark, 12% BofA ML 3-Month T-Bill + 200 bps, 8% 3-Month LIBOR + 300 bps, 7% CPI + 200 bps, 10% NCREIF NPI, 4% Risk Parity Benchmark and 2% BofA ML 3-Month T-Bill.
July 1, 2010 - June 30, 2012: 20% Russell 3000, 15% MSCI World Ex-US Net, 8% 3-Month LIBOR + 300 bps, 20% Fixed Income Blended Benchmark, 4% BofA ML 3-Month T-Bill + 200 bps, 9% BofA ML US High Yield BB-B Constrained, 8% Russell 3000 + 100 bps, 6% CPI + 200 bps, 8% NCREIF NPI and 2% BofA ML 3-Month T-Bill.
April 1, 2009 - June 30, 2010: 30% Russell 3000, 20% MSCI World Ex-US Net, 20% Fixed Income Blended Benchmark, 8% NCREIF NPI, 8% Russell 3000 + 100 bps, 8% BofA ML US High Yield BB-B Constrained, 5% CPI + 200 bps and 1% BofA ML 3-Month T-Bill.

Target Total Equity Benchmarks/ Effective Dates:
July 1, 2014 to Present: 53.33% Russell 3000 and 46.67% MSCI World Ex-US Net.
July 1, 2013 to June 30, 2014: 54.84% Russell 3000 and 45.16% MSCI ACWI Ex-US Net.
July 1, 2012 - June 30, 2013: 56.25% Russell 3000 and 43.75% MSCI World Ex-US Net.
July 1, 2011 - June 30, 2012: 57.14% Russell 3000 and 42.86% MSCI World Ex-US Net.
April 1, 2009 - June 30, 2010: 60% Russell 3000 and 40% MSCI World Ex-US Net.

Target Fixed Income Benchmarks/ Effective Dates:
July 1, 2012 - June 30, 2018 - 100% Bloomberg Barclays Global Aggregate.
## Public Safety Cancer Insurance Policy (CIP) Program - Performance as of 4/30/2019 (Net of Fees)

<table>
<thead>
<tr>
<th>Description</th>
<th>Asset Allocation</th>
<th>Target (%)</th>
<th>Performance %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Market Values ($)</td>
<td>%</td>
<td>Month Ending</td>
</tr>
<tr>
<td>CIP - Total Fund</td>
<td>$26,591,733</td>
<td>100.00%</td>
<td>1.77%</td>
</tr>
<tr>
<td>Target Fund Benchmark*</td>
<td></td>
<td></td>
<td>1.64%</td>
</tr>
<tr>
<td>U.S. Equity</td>
<td>$6,664,232</td>
<td>25.06%</td>
<td>3.93%</td>
</tr>
<tr>
<td>Russell 3000</td>
<td></td>
<td>25%</td>
<td>3.99%</td>
</tr>
<tr>
<td>Non-U.S. Equity</td>
<td>$6,245,911</td>
<td>23.49%</td>
<td>2.89%</td>
</tr>
<tr>
<td>MSCI ACWI Ex-US Net</td>
<td></td>
<td>25%</td>
<td>2.64%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>$8,224,268</td>
<td>30.93%</td>
<td>0.07%</td>
</tr>
<tr>
<td>Fixed Income Blended Benchmark - CIP**</td>
<td></td>
<td>30%</td>
<td>-0.10%</td>
</tr>
<tr>
<td>Inflation-Linked Securities</td>
<td>$2,655,541</td>
<td>9.99%</td>
<td>0.22%</td>
</tr>
<tr>
<td>Bloomberg Barclays U.S. TIPS Index</td>
<td></td>
<td>10%</td>
<td>0.33%</td>
</tr>
<tr>
<td>Commodities</td>
<td>$1,391,506</td>
<td>5.23%</td>
<td>1.48%</td>
</tr>
<tr>
<td>SPDR® Gold Trust Index (GLD)</td>
<td></td>
<td>5%</td>
<td>-0.66%</td>
</tr>
<tr>
<td>Short Term Investments¹</td>
<td>$1,410,275</td>
<td>5.30%</td>
<td>0.37%</td>
</tr>
<tr>
<td>BofA ML 3-Month T-Bill</td>
<td></td>
<td>5%</td>
<td>0.19%</td>
</tr>
</tbody>
</table>

¹ - The returns for Short Term Investments account for both the interest on cash holdings and the revenue from securities lending.

---

* **Target Fund Benchmarks/ Effective Dates:**

  * July 1, 2014 to Present: 25% Russell 3000, 25% MSCI ACWI Ex-US Net, 30% Fixed Income Blended Benchmark - CIP, 10% Barclays U.S. TIPS, 5% GLD Index Return, 5% BofA ML 3-Month T-Bill.
  * July 1, 2009 - June 30, 2014: 30% Russell 3000, 30% MSCI ACWI Ex-US Net, 35% Fixed Income Blended Benchmark - CIP, 5% BofA ML 3-Month T-Bill.
  * July 1, 2002 - June 30, 2009: 60% Russell 3000, 35% Fixed Income Blended Benchmark - CIP, 5% BofA ML 3-Month T-Bill.

** Target Fixed Income Benchmarks/ Effective Dates:**

  * July 1, 2014 - June 30, 2018: 100% Bloomberg Barclays Global Aggregate.
  * July 1, 2002 - June 30, 2014: 100% Bloomberg Barclays U.S. Aggregate.
## Public Safety Cancer Insurance Policy (CIP) Program - Performance as of 4/30/2019 (Net of Fees)

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* Target Fund Benchmarks/ Effective Dates:

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** Target Fixed Income Benchmarks/ Effective Dates:

July 1, 2014 - June 30, 2018: 100% Bloomberg Barclays Global Aggregate.
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM

PSPRS  CORP  EORP  EODCRS

PSPRS Trust Risk Report

Serving Those Who Serve Others
Agenda - PSPRS Trust Portfolio Risk as of April 30, 2019

Current Realized and Forecasted Levels of PSPRS Trust Portfolio Risk

- Volatility and Value at Risk (VAR)
- Comparison with Historical Levels
- Risk Contributions of all Asset Classes to Total Portfolio Risk
- Exposure to Major Market Factors on both Asset-Class and Global Trust Levels
- Stress Test Results
- Upside and Downside Returns
- Conclusions
Current Status

* For comparison, the monthly volatility of the S&P 500 over the past ten years has been 4.3% per month, or 15.0% per year.
* All risk values reported as monthly risk based on the past year of returns.

** GTS monthly performance (8/31/2016 – 7/31/2017) was derived from Absolute Return and GTAA.
*** For comparison, a volatility of 1.0% per month, corresponds to 3.5% per year.

While the risk forecasts for the Trust portfolio remained the same, the historic volatility increased by 10 bps.

<table>
<thead>
<tr>
<th>PSPRS Trust 04/30/2019</th>
<th>Portfolio Weight</th>
<th>Historic Volatility* (12m Std. Dev.)</th>
<th>Monthly Volatility (Forecast)</th>
<th>Monthly VAR Forecast (95% Confidence)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Equity</td>
<td>19.6%</td>
<td>4.9%</td>
<td>3.6%</td>
<td>-5.6%</td>
</tr>
<tr>
<td>Int’l Equity</td>
<td>14.8%</td>
<td>3.9%</td>
<td>4.1%</td>
<td>-6.1%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>12.5%</td>
<td>1.8%</td>
<td>4.3%</td>
<td>-7.4%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>4.9%</td>
<td>1.0%</td>
<td>1.0%</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Private Credit</td>
<td>15.7%</td>
<td>0.7%</td>
<td>1.6%</td>
<td>-1.6%</td>
</tr>
<tr>
<td>GTS**</td>
<td>8.9%</td>
<td>1.1%</td>
<td>2.3%</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>8.5%</td>
<td>0.9%</td>
<td>2.0%</td>
<td>-2.6%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>8.1%</td>
<td>1.0%</td>
<td>3.2%</td>
<td>-6.4%</td>
</tr>
<tr>
<td>Risk Parity</td>
<td>4.2%</td>
<td>2.3%</td>
<td>2.8%</td>
<td>-3.7%</td>
</tr>
<tr>
<td>PSPRS Trust</td>
<td>97.1%</td>
<td>1.6%***</td>
<td>2.1%</td>
<td>-3.3%</td>
</tr>
</tbody>
</table>

* For comparison, the monthly volatility of the S&P 500 over the past ten years has been 4.3% per month, or 15.0% per year.
* All risk values reported as monthly risk based on the past year of returns.
** GTS monthly performance (8/31/2016 – 7/31/2017) was derived from Absolute Return and GTAA.
*** For comparison, a volatility of 1.0% per month, corresponds to 3.5% per year.

* Definition of 95% monthly VAR (used here): The maximum amount that could be lost over any one month period, with 95% confidence (in other words, with the exception of one month in 20, in which that maximum amount would be exceeded).
Volatility Comparison – 12 Month Trailing Volatility

PSPRS Trust global portfolio was 66% less volatile than the market.
Risk Decomposition by Asset Class (Measured as “VAR”)

Minor changes in Marginal VAR Contributions:
- US Equity: increased by 0.47%
- Real Estate: decreased by 0.36%
### Notable Drivers of Asset Class Risk

<table>
<thead>
<tr>
<th>PSPRS Portfolio</th>
<th>Portfolio Weight</th>
<th>Primary Driver</th>
<th>Secondary Driver</th>
<th>Fraction Explained</th>
</tr>
</thead>
<tbody>
<tr>
<td>US Equity</td>
<td>19.6%</td>
<td>Russell 2000 (small caps)</td>
<td>Change in VIX</td>
<td>90%</td>
</tr>
<tr>
<td>International Equity</td>
<td>14.8%</td>
<td>Russell 2000 (small caps)</td>
<td>Change in VIX</td>
<td>62%</td>
</tr>
<tr>
<td>Private Equity</td>
<td>12.5%</td>
<td>Russell 2000 (small caps)</td>
<td>Change in VIX</td>
<td>78%</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>4.9%</td>
<td>Change in VIX</td>
<td>Oil</td>
<td>31%</td>
</tr>
<tr>
<td>Private Credit</td>
<td>15.7%</td>
<td>Russell 2000 (small caps)</td>
<td>Credit Spread (BAA-AAA)</td>
<td>52%</td>
</tr>
<tr>
<td>GTS</td>
<td>8.9%</td>
<td>--</td>
<td>--</td>
<td>-</td>
</tr>
<tr>
<td>Real Assets</td>
<td>8.5%</td>
<td>Russell 2000 (small caps)</td>
<td>Oil</td>
<td>44%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>8.1%</td>
<td>Credit Spread (BAA-AAA)</td>
<td>US10Y T-Note</td>
<td>60%</td>
</tr>
<tr>
<td>Risk Parity</td>
<td>4.2%</td>
<td>--</td>
<td>--</td>
<td>-</td>
</tr>
</tbody>
</table>

*Values in yellow/red indicate an inverse relation.

*We note the significant conclusion that our inability to model GTS and Risk Parity portfolios - using fundamental market or economic factors - is an indication of successful design and implementation of these investment portfolios.
Notable Drivers of Portfolio Risk

• As with past months, risk modeling indicates that the PSPRS global portfolio is subject – in part – to two main drivers (explaining 93% of variance, or market risk):
  - Russell 2000 Total Return
  - Treasury Spread 10Y-3M

• We report the (all other things being equal) results of stress tests on these drivers in order to gauge our exposure to them.

<table>
<thead>
<tr>
<th>Market Factor Change</th>
<th>Portfolio Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russell 2000 Total Return-3 std</td>
<td>-6.0%</td>
</tr>
<tr>
<td>Russell 2000 Total Return-2 std</td>
<td>-3.9%</td>
</tr>
<tr>
<td>Russell 2000 Total Return-1 std</td>
<td>-1.8%</td>
</tr>
<tr>
<td>Russell 2000 Total Return+1 std</td>
<td>4.4%</td>
</tr>
<tr>
<td>Russell 2000 Total Return+2 std</td>
<td>6.4%</td>
</tr>
<tr>
<td>Russell 2000 Total Return+3 std</td>
<td>8.5%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Market Factor Change</th>
<th>Portfolio Return</th>
</tr>
</thead>
<tbody>
<tr>
<td>Treasury Spread 10Y-3M-3 std</td>
<td>2.6%</td>
</tr>
<tr>
<td>Treasury Spread 10Y-3M-2 std</td>
<td>2.5%</td>
</tr>
<tr>
<td>Treasury Spread 10Y-3M-1 std</td>
<td>2.5%</td>
</tr>
<tr>
<td>Treasury Spread 10Y-3M+1 std</td>
<td>2.2%</td>
</tr>
<tr>
<td>Treasury Spread 10Y-3M+2 std</td>
<td>2.1%</td>
</tr>
<tr>
<td>Treasury Spread 10Y-3M+3 std</td>
<td>2.1%</td>
</tr>
</tbody>
</table>
**Historical Worst-Case Scenarios**

**Stress Testing:** The style analysis model of our current holdings can be subjected to stress scenarios.

<table>
<thead>
<tr>
<th>Events</th>
<th>Today's Portfolio</th>
<th>PSPRS Trust Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>WTC Attacks - Sept. 11</td>
<td>-4.4%</td>
<td>-11.7%</td>
</tr>
<tr>
<td>Stock Market Crash 2002</td>
<td>-1.7%</td>
<td>-21.1%</td>
</tr>
<tr>
<td>August Crisis 2007</td>
<td>1.8%</td>
<td>1.6%</td>
</tr>
<tr>
<td>January Crisis 2008</td>
<td>-1.9%</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Credit Crunch 2008 (Aug to Nov)</td>
<td>-12.1%</td>
<td>-23.1%</td>
</tr>
<tr>
<td>Crisis 2009 (Jan-Feb)</td>
<td>-4.5%</td>
<td>-12.9%</td>
</tr>
<tr>
<td>Flash Crash 2010</td>
<td>-2.3%</td>
<td>-3.7%</td>
</tr>
<tr>
<td>Brexit (2016)</td>
<td>0.7%</td>
<td>-0.3%</td>
</tr>
</tbody>
</table>
### Upside and Downside Returns

#### Actual Portfolio Returns During Market Upside and Downside

<table>
<thead>
<tr>
<th>Period</th>
<th>Upside</th>
<th>In 6-month</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Russell 3000</td>
<td>PSPRS Actual</td>
</tr>
<tr>
<td>10/31/2011</td>
<td>11.4%</td>
<td>3.1%</td>
</tr>
<tr>
<td>09/30/2010</td>
<td>9.3%</td>
<td>4.4%</td>
</tr>
<tr>
<td>01/31/2019</td>
<td>8.5%</td>
<td>3.1%</td>
</tr>
<tr>
<td>10/31/2015</td>
<td>7.8%</td>
<td>2.1%</td>
</tr>
<tr>
<td>03/31/2016</td>
<td>6.9%</td>
<td>3.4%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Period</th>
<th>Downside</th>
<th>In 6-month</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Russell 3000</td>
<td>PSPRS Actual</td>
</tr>
<tr>
<td>12/31/2018</td>
<td>-9.5%</td>
<td>-2.0%</td>
</tr>
<tr>
<td>5/31/2010</td>
<td>-8.1%</td>
<td>-3.7%</td>
</tr>
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<td>9/30/2011</td>
<td>-7.9%</td>
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<td>5/31/2012</td>
<td>-6.4%</td>
<td>-2.6%</td>
</tr>
</tbody>
</table>

- Upside participation: 44%
- Downside mitigation: 69% (31% participation)

\[
y = 0.3684x + 0.0029\]

\[
R^2 = 0.9226\]
Conclusions

- In April, the Trust asset allocation and volatility level rarely changed. However, the Value at Risk ("VAR") contributions from US and International equities increased by 47 and 39 bps separately. Since March, the risk contribution from the US equity has increased by 159 bps in aggregate, indicating a higher risk coming from this asset class. At the same time, it also contributed the most to the overall performance as the equity market was doing well.

- In terms of the risk drivers, the primary and secondary factors for each asset class did not change. Nonetheless, the risk model showed that the spread between 10-year and 3-month treasuries had a larger influence on the total portfolio. Therefore, it became the secondary risk driver.

- Compared to the broad market, the Trust portfolio was able to further mitigate the market downside risk by approximately 70% in total while maintaining the same upside participation rate of 44%.

- In addition to the PSPRS Trust being:
  - Top decile on risk-terms since 2009.
  - Top quartile in efficiency (Sharpe Ratio) terms since 2010.
## EXECUTED TRANSACTIONS DURING PRIOR PERIOD

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fund Name</strong></td>
<td><strong>Portfolio</strong></td>
<td><strong>Date Closed</strong></td>
</tr>
<tr>
<td>WNG Aircraft Opportunities Fund II</td>
<td>Real Assets</td>
<td>4/18/2019</td>
</tr>
<tr>
<td>Henderson Park Real Estate Fund I</td>
<td>Real Estate</td>
<td>5/15/2019</td>
</tr>
<tr>
<td>Northern Shipping Fund IV</td>
<td>Private Credit</td>
<td>6/14/2019</td>
</tr>
<tr>
<td>Ridgewood Energy Oil &amp; Gas Fund IV</td>
<td>Real Assets</td>
<td>6/14/2019</td>
</tr>
</tbody>
</table>
U.S. State and Local Pension Investments
Concerns Grow with Riskier Allocations, Lower Returns
Special Report

State and local pension asset allocations have become riskier over the past two economic cycles, raising their potential volatility and exposing participating governments to higher funding risks, including potentially higher contributions. From 2001 to 2017, average allocations to higher-risk equities and alternatives increased to 77%, from 67%, while lower-risk fixed income and cash declined to 23%, from 33%.

The shift away from lower-risk allocations has not necessarily produced stronger returns. For state and local systems in this survey, median average returns were 6.2% for the 10-year horizon between 2008 and 2017 and 6.4% for the 17-year horizon between 2001 and 2017. Lower performance since 2008 captures the unusually severe losses of the Great Recession, the relatively slow and unsteady economic recovery that began in 2009, compared to past recoveries, and the persistently low interest rate environment in place over that time.

Returns Miss Targets: Using weighted averages to aggregate data across each state’s major pension systems, actual returns by state fell short of the expected targets for all states between 2001 and 2017, with the exception of South Dakota. The margin of underperformance in seven states — Arizona, Connecticut, Hawaii, Maryland, New Hampshire, New Jersey and Rhode Island — was 2.0% or higher over that period, which when compounded over time could have a potentially meaningful impact on funding progress.

For individual state and local plans in this survey, the median standard deviation was 11.2% for 2001–2017. Most plans generated average returns between 6% and 7% and standard deviations between 10% and 12%. Notable outliers included the Texas Municipal Retirement System, with average investment returns of 7.5% and a low standard deviation of 5.2%. Three plans had relatively low returns compared to above-average standard deviation: Arizona Public Safety Personnel Retirement System, Arizona State Corrections Officer Retirement Plan and Dallas Police and Fire Pension System. They all showed annual returns below 5% and standard deviations above approximately 12%.

Unfunded Liabilities Advance: Unfunded pension liabilities steadily increased to $1.2 trillion (74% funding) at the end of 2017 from $33 billion (98% funding) in 2001. The increase largely reflects lower than expected investment returns (particularly the significant impact of the economic and financial downturn of 2007–2009), shortfalls in actual contributions relative to ADCs and increases in projected future benefits.
Pensions Remain a Key Risk for State and Local Credit

Public defined benefit pension liabilities and the cost of supporting them have long been a source of uncertainty for participating states, local governments and public enterprises given the irrevocable nature of vested benefits, the variable nature of unfunded liabilities and the rising burden of contributions relative to resources. For many pension systems, assets set aside to prefund pensions remain well below the accrued benefits that have been promised to current and future retirees. This challenge is made more acute by rising retirements and flat workforces, two trends that may influence, for some plans, the manner in which portfolios need to be managed. The ability of plan managers to accumulate and effectively manage assets to cover promised benefits has become a key source of pension risk for governments, particularly as funding challenges continue, plan demographics continue weakening, and constrained state and local budgets persist.

Spotlight on Investment Risk

Over the 2001–2017 period, aggregate actuarial pension liabilities for all plans in the survey increased at a steady 5.2% compounded annual growth rate (CAGR), while pension assets lagged, with a 3.4% CAGR. Investments gains and contributions from employers and from employees are the primary drivers of pension asset growth. Investment gains alone are the most significant driver, representing nearly 60% of total inflows, as shown in the chart at left. The reliance on investment gains to accumulate assets in pension plans and to ultimately stabilize and eventually reduce employer contributions over time is the intended purpose of prefunding future benefits, instead of funding pension benefits on a pay-go basis.

Given the importance of investment returns to meeting long-term funding goals, the adequacy and volatility of actual returns are a key risk to the long-term health of state and local pensions. Investment gains for pension plans were fairly volatile between 2001 and 2017, averaging approximately 6.5%, a figure that incorporates 10 years of above-average positive returns, three years of below-average positive returns and four years of negative returns, as shown in the chart below. This underscores the need to evaluate the investment risks inherent in these plans and the potential impact of volatility on the budgets and liability burdens of participating governments.

Annual Sources of Pension Funding (2001–2017)

Fitch's baseline expectation is that future experience across plans will remain volatile and below long-term historical averages. Investment returns have been volatile in recent years: for plans with Dec. 31 fiscal year ends, returns fared poorly in 2018. Another round of material losses, especially in conjunction with an economic recession, could drive up actuarial contributions even further and erode the long-term affordability of providing pensions to state...
and local government employees. States and local governments with severe pension challenges remain outliers, but pension-related downgrades have affected several state and local governments, including Illinois, New Jersey, Connecticut, Chicago, IL, Dallas, TX and Jacksonville, FL.

Adding More Volatile Assets Raises Risks

On average, state and local pension plans have steadily increased their allocations to equities and alternatives (real estate, private equity, hedge funds and commodities) since 2001. Fitch views these asset classes as being subject to higher volatility in most cases, relative to the fixed income investments and cash that comprised a higher share of pension allocations in the past.

Average Pension Asset Allocation — State and Local Governments

As shown in the chart above, asset allocation to both equities and alternative investments increased to 77% in 2017 from 67% in 2001 while asset allocation to fixed-income investments and cash declined to 23% in 2017 from 33% in 2001.

The decades-long decline in risk-free interest rates to the historically low range of 2%–3% since 2012 also poses a challenge for pension plans in meeting their long-term investment return assumptions. Simultaneous with policy rates edging lower, pension portfolios have shifted into broader ranges of equity and alternative assets with the intention of preserving long-term returns. However, this has often been at the cost of greater exposure to short-term volatility and the risk that plan sponsors and participating governments will have to absorb the consequences of the heightened risks.

As the risk free rate (using the 10-year Treasury yield as the proxy) declined to 2%, from approximately 5% since 2001, the average investment return assumption of state and local pension plans declined only modestly, to 7.4% in 2017, from 8.0% in 2001. During that period, most plans further re-allocated assets from fixed income toward equities and alternative investments in an effort to diversify their portfolios, preserve expected long-term return targets and reduce contribution pressure.
The investment return assumption is perhaps the most important assumption affecting the estimation of pension liabilities and by far the most controversial. Generally, the Governmental Accounting Standards Board (GASB) requires the value of future benefit payments be discounted to a present value using an assumption identical to that used for the plan’s assumed return on invested assets. The investment return assumption is intended to reflect the allocation of plan assets among investment categories, actual plan return experience, and likely future returns.

Fitch regards the trend of pension systems lowering their investment return assumptions as a positive credit factor, despite the offsetting increase to reported pension liabilities in the short term and the consequent rise in actuarial contributions.

Fitch views high investment return assumptions as unrealistic, particularly in the context of more volatile asset performance and the historically low inflation and interest rates of recent years. Fitch adjusts the return assumption to a standard, fixed 6% target for pension plans reported by the state and local governments it rates that use higher return assumptions. The adjustment is motivated specifically by Fitch’s expectation for continued subdued economic and investment portfolio growth and the need to estimate the potential impact of these trends on pension plans.

Pension Asset Allocation — A State-by-State Breakdown

While diversification into riskier allocations has increased over the past few decades, current asset allocations for plans show wide variations. The chart on the following page shows 2017 allocations among investments Fitch views as riskier (equities and alternatives), with state and local plans aggregated by state. The chart also shows a 17-year weighted average by market value for equities and alternatives between 2001 and 2017. Comparing the 2017 aggregate allocation to the 17-year average reveals the shift to higher (or lower, in some cases) risk allocations. It should be noted that state-administered plans, in aggregate, account for more than 80% of U.S. public pension plans by plan assets and participants. Hence the weights are skewed towards the allocation of the large state plans. As of 2017, Arizona’s reported allocation to equities and alternatives of approximately 86% was the highest among the states, and was also higher than its own 17-year average of 76%, as plans in Arizona elevated their exposure to these asset classes over this period. In contrast, South Dakota’s 66% allocation to equities and alternatives as of 2017 was the lowest among the states. The significant difference between the 17-year average and the 2017 allocation reflects South Dakota’s rapid shift away from riskier assets toward cash in recent years: they rose to 14% in 2017 from 6% in 2016. Also of note is Indiana’s 48% allocation to alternative investments, twice the 24% allocation to equities. In contrast, Georgia and Alabama reported a zero allocation of plan assets to alternative investments.
While point-in-time asset allocations are important, target asset allocations provide a better reflection of future intent and direction. Hence, they should be considered alongside current asset allocations. The chart below compares the weighted average target allocation for aggregated plans within a state to the weighted average actual allocation at the end of 2017. Generally, target asset allocations are mostly in line with current allocations. Of note are Missouri, Oregon, Maine and Hawaii. The target allocations for these states show lower allocations to equities and alternatives.

**Investment Returns — Riskier Allocations Not Producing Higher Returns**

Unsurprisingly, with varying asset allocations, the investment performance of state and local government pension plans varies widely and has been volatile. The chart on the following page shows minimum, maximum and median investment returns by plan. The years 2001, 2002, 2008 and 2009 showed negative median returns, reflecting the impact of the 2001 dot-com recession and the 2008–2009 Great Recession.

Of note is the varied investment performance from year to year. For example in 2008, while the lowest plan return was approximately a decline of 30%, the median was a decline of 5% and the maximum return in 2008 was 5%.
Looking beyond the year-to-year investment fluctuations, an assessment of longer-term portfolio returns reflects the long time horizon of the assets and liabilities of public pension plans and underscores the necessity of a multiyear approach to managing these plans. The table below shows average investment returns for individual plans over multiple time horizons between 2001 and 2017; plans are aggregated by state. Median returns were 6.2% for the 10-year horizon and 6.4% for the 17-year horizon.

Comparing Weighted Average Investment Performance by State

The chart below shows 17- and 10-year weighted average returns aggregated by state, which is helpful to illustrate the variability of returns from one state to another. The weights by state are based on the market value of plan assets as of 2017. Of note are the pension plans of Indiana, Maryland, Hawaii, Rhode Island, Maine and Connecticut, which reported 10- and 17-year weighted average returns less than or equal to 6%. Also of note are South Dakota, Colorado, Utah, Wisconsin and Oklahoma, the five states with weighted average returns greater than approximately 7% over the same period.
Actual Investment Return versus Expected Return Assumption

On an individual plan basis, a key consideration in assessing asset performance is the margin of investment gain compared to that plan's investment return assumption, which for most plans ranges from 7.0%–8.0%. Shortfalls in actual returns relative to the long-term expected return eventually lead to higher employer contributions absent other offsetting changes. As the chart on below shows, using weighted average returns by state between 2001 and 2017, actual investment returns for most states' plans fell short of their expected returns. Except for South Dakota, all other states underperformed this key benchmark for pension performance. Of note, seven states (Arizona, Connecticut, Hawaii, Maryland, New Hampshire, New Jersey and Rhode Island) showed average underperformance of 2.0% and higher, a performance gap that over time could have a material impact on the funding condition of their plans.

Public Pension Actual versus Assumed Investment Returns
(State and Local Plans Weighted by Market Value of Assets)

Quantifying Historical Volatility

Asset returns cannot be assessed at a point in time, but rather must be assessed relative to the risk taken over a period of time. Using standard deviation as a measure of historical volatility of state and local pension plans, the median standard deviation for individual plans was 11.2%, compared to a median average investment return of 6.4% over a 17-year horizon between 2001 and 2017. As the chart below shows, most plans show average returns between 6% and 7% and a standard deviation between 10% and 12%. Notable outliers include Texas Municipal Retirement Fund with average investment returns of 7.5% and an unusually low standard deviation of 5.2%. Three plans have relatively low returns relative to above-average standard deviations: the Arizona Public Safety Retirement System, the Arizona State Corrections Officers Retirement Plan and the Dallas Police and Fire plans. They all show returns below 5% and standard deviations above approximately 12%.

Source: Fitch Ratings, Center for Retirement Research at Boston College.
Funding Pressures Continue in a Late Cycle Expansion

As of year-end 2017, state and local pension plans had accumulated assets of approximately $3.7 trillion against liabilities of $4.9 trillion. This amounts to an aggregate unfunded pension liability of approximately $1.2 trillion. The CRR database includes 180 state and local plans (114 state administered and 66 locally administered) and accounts for an estimated 95% of the state and local pension plans by assets and plan participants. Of note, pension liabilities cited in this report reflect the reporting in Comprehensive Annual Financial Reports, and they are not adjusted to Fitch’s 6% discount rate assumption, the measure used by Fitch when assessing the long-term liability burden of state and local governments.

As the chart above shows, the gap between pension assets and liabilities has steadily increased, to $1.2 trillion (74% funding) in 2017 from $33 billion (98% funding) in 2001. The increase in unfunded liabilities largely reflects lower than expected investment returns, particularly due to the significant impact of the Great Recession, inadequate actual contributions relative to ADC and steady increases in projected future benefit in many states.

It should be noted that while aggregate measures show a widening gap between pension assets and liabilities, some plans have maintained solid funding levels, albeit a share generally lower than in 2001. As of 2017, the funded status of approximately 20% of state and local pension plans were at 80% or higher, while approximately 35% of plans were below 70%.
Distribution of Funded Status — State and Local Pension Plans

Source: Fitch Ratings, Center for Retirement Research at Boston College.
Financial Markets Overview
Market & Rate Update

June 26th, 2019
### Major Market Rolling Returns ending 5/31/2019

<table>
<thead>
<tr>
<th>Start/End Date</th>
<th>S&amp;P 500 Total Return</th>
<th>Russell 2000</th>
<th>Nasdaq</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1-Year</td>
<td>3-Year</td>
<td>5-Year</td>
</tr>
<tr>
<td>Rolling Average</td>
<td>11.7%</td>
<td>10.6%</td>
<td>10.1%</td>
</tr>
<tr>
<td>Stdev.</td>
<td>16.0%</td>
<td>10.6%</td>
<td>8.4%</td>
</tr>
<tr>
<td>Trailing Return</td>
<td>3.8%</td>
<td>11.7%</td>
<td>9.7%</td>
</tr>
<tr>
<td># of σ away from avg.</td>
<td>-0.49</td>
<td>0.11</td>
<td>-0.06</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Start/End Date</th>
<th>Stoxx Europe 600</th>
<th>Germany: DAX</th>
<th>UK: FTSE 100</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1-Year</td>
<td>3-Year</td>
<td>5-Year</td>
</tr>
<tr>
<td>Rolling Average</td>
<td>6.5%</td>
<td>5.6%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Stdev.</td>
<td>18.8%</td>
<td>11.6%</td>
<td>8.4%</td>
</tr>
<tr>
<td>Trailing Return</td>
<td>-3.7%</td>
<td>2.0%</td>
<td>1.4%</td>
</tr>
<tr>
<td># of σ away from avg.</td>
<td>-0.54</td>
<td>-0.31</td>
<td>-0.48</td>
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</table>

<table>
<thead>
<tr>
<th>Start/End Date</th>
<th>Hang Seng</th>
<th>China: Shanghai Composite</th>
<th>Japan: Nikkei 225</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1-Year</td>
<td>3-Year</td>
<td>5-Year</td>
</tr>
<tr>
<td>Rolling Average</td>
<td>12.4%</td>
<td>9.2%</td>
<td>8.9%</td>
</tr>
<tr>
<td>Stdev.</td>
<td>27.0%</td>
<td>12.0%</td>
<td>9.6%</td>
</tr>
<tr>
<td>Trailing Return</td>
<td>-11.7%</td>
<td>8.9%</td>
<td>3.1%</td>
</tr>
<tr>
<td># of σ away from avg.</td>
<td>-0.89</td>
<td>-0.02</td>
<td>-0.61</td>
</tr>
</tbody>
</table>
## Major Market Rolling Returns ending 5/31/2019

<table>
<thead>
<tr>
<th>Start/End Date</th>
<th>Brent Crude</th>
<th>WTI</th>
<th>Gold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rolling 1-Year</td>
<td>10.3%</td>
<td>7.7%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Rolling 3-Year</td>
<td>5.5%</td>
<td>4.4%</td>
<td>4.5%</td>
</tr>
<tr>
<td>Rolling 5-Year</td>
<td>5.2%</td>
<td>4.2%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Rolling 7-Year</td>
<td>6.3%</td>
<td>4.8%</td>
<td>4.9%</td>
</tr>
<tr>
<td>Average</td>
<td>10.3%</td>
<td>7.7%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Stdev.</td>
<td>34.3%</td>
<td>33.7%</td>
<td>15.0%</td>
</tr>
<tr>
<td>Trailing Return</td>
<td>-16.9%</td>
<td>-20.2%</td>
<td>0.5%</td>
</tr>
<tr>
<td># of σ away from avg.</td>
<td>-0.79</td>
<td>-0.83</td>
<td>-0.31</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Start/End Date</th>
<th>S&amp;P 500 Sales/Share</th>
<th>S&amp;P 500 EPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rolling 1-Year</td>
<td>4.0%</td>
<td>8.2%</td>
</tr>
<tr>
<td>Rolling 3-Year</td>
<td>3.7%</td>
<td>7.4%</td>
</tr>
<tr>
<td>Rolling 5-Year</td>
<td>3.8%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Rolling 7-Year</td>
<td>3.9%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Average</td>
<td>3.8%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Stdev.</td>
<td>4.8%</td>
<td>17.5%</td>
</tr>
<tr>
<td>Trailing Return</td>
<td>-16.9%</td>
<td>-20.2%</td>
</tr>
<tr>
<td># of σ away from avg.</td>
<td>0.94</td>
<td>0.94</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Start/End Date</th>
<th>EUR/USD</th>
<th>JPY/USD</th>
<th>GBP/USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rolling 1-Year</td>
<td>1.9%</td>
<td>3.1%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Rolling 3-Year</td>
<td>0.8%</td>
<td>1.9%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>Rolling 5-Year</td>
<td>0.4%</td>
<td>1.3%</td>
<td>-0.3%</td>
</tr>
<tr>
<td>Rolling 7-Year</td>
<td>0.4%</td>
<td>1.4%</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Average</td>
<td>0.8%</td>
<td>1.9%</td>
<td>0.5%</td>
</tr>
<tr>
<td>Stdev.</td>
<td>11.6%</td>
<td>12.9%</td>
<td>9.7%</td>
</tr>
<tr>
<td>Trailing Return</td>
<td>-4.5%</td>
<td>0.5%</td>
<td>-5.0%</td>
</tr>
<tr>
<td># of σ away from avg.</td>
<td>-0.55</td>
<td>-0.20</td>
<td>-0.57</td>
</tr>
</tbody>
</table>
The investment environment is constantly changing, so investment decisions should recognize the potential for shifts.

Out of favor investments can quickly emerge back in favor.
Introduction to Equity Valuation

- The intrinsic value of financial assets represents the present value of future cash flows discounted at a market rate.
- Changes in pricing are driven not necessarily by what transpires in the market, but by what transpires relative to what was expected.
- Identifying “market” expectations based on current prices can help investors gauge the likelihood of positive and negative surprises and the expected magnitude of price changes on a specific asset given those surprises.
- Note: although such an exercise involves as much art as science it is still useful in understanding broad market regimes and expected returns.
Basic Cash-Flow Model

Intrinsic Value = PV of Future Cash Flows

Expected Growth Rate in Earnings

Expected Cash Flow = Expected Dividends + Buybacks

CF₁  CF₂  CF₃  CF₄  CF₅  CFₙ

Equity Risk Premium = Rate of Return Demanded by Equity Investors

Terminal Value = CFₙ / (RFR+ERP-LT Growth Rate)

Intrinsic Value of Equity = \( \frac{CF_1}{(1+RFR+ERP)^1} + \frac{CF_2}{(1+RFR+ERP)^2} + \frac{CF_3}{(1+RFR+ERP)^3} + \frac{CF_4}{(1+RFR+ERP)^4} + \frac{CF_5}{(1+RFR+ERP)^5} + \frac{\text{Terminal Value}}{(1+RFR+ERP)^5} \)

Source: Damodaran
S&P 500 Valuation Example

Hypothetical input for illustration only

Current Earnings: $161.50 /share (EPS of S&P 500)
Expected Earnings Growth: 5.00% (growth rate in EPS)
Expected cash payout: 80.00% (cash distribution to shareholders)
Risk Free Rate: 2.20% (treasury rate over desired period)
Risk Premium: 5.25% (expected return above the risk-free rate)
Expected Long Term Growth Rate: 2.50%

<table>
<thead>
<tr>
<th>Last 12 months</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Terminal Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expected Earnings</td>
<td>$162</td>
<td>$170</td>
<td>$178</td>
<td>$187</td>
<td>$196</td>
<td>$206</td>
</tr>
<tr>
<td>Expected cash payout (dividends + buybacks) as % of earnings</td>
<td>80.0%</td>
<td>80.0%</td>
<td>80.0%</td>
<td>80.0%</td>
<td>80.0%</td>
<td>80.0%</td>
</tr>
<tr>
<td>Expected Dividends + Buybacks =</td>
<td>$129</td>
<td>$136</td>
<td>$142</td>
<td>$150</td>
<td>$157</td>
<td>$165</td>
</tr>
<tr>
<td>Expected Terminal Value =</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>$3,415</td>
</tr>
<tr>
<td>Present Value =</td>
<td>$126</td>
<td>$123</td>
<td>$121</td>
<td>$118</td>
<td>$2,499</td>
<td></td>
</tr>
</tbody>
</table>

**Intrinsic Value of Index =** 2,987

- In this example, the “market” expects earnings growth of 5.0%. If expected earnings growth falls from 5.0% to 4.0%, the projected value of the index falls to 2,747.
- Over the short term, the difference between actual versus consensus estimates is perhaps the single most important factor driving movement in share price.

Source: Staff calculations
# Sensitivity Analysis – Calculations after Tweaking One Input

## Expected Earnings Growth vs. Estimated Intrinsic Value

<table>
<thead>
<tr>
<th>Expected Earnings Growth</th>
<th>Estimated Intrinsic Value</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>-2.0%</td>
<td>2,100</td>
<td>-23.7%</td>
</tr>
<tr>
<td>-1.0%</td>
<td>2,198</td>
<td>-20.1%</td>
</tr>
<tr>
<td>0.0%</td>
<td>2,299</td>
<td>-16.5%</td>
</tr>
<tr>
<td>1.0%</td>
<td>2,405</td>
<td>-12.6%</td>
</tr>
<tr>
<td>2.0%</td>
<td>2,515</td>
<td>-8.6%</td>
</tr>
<tr>
<td>3.0%</td>
<td>2,629</td>
<td>-4.5%</td>
</tr>
<tr>
<td>4.0%</td>
<td>2,747</td>
<td>-0.2%</td>
</tr>
<tr>
<td>5.0%</td>
<td>2,870</td>
<td>4.3%</td>
</tr>
<tr>
<td>6.0%</td>
<td>2,997</td>
<td>8.9%</td>
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</table>

## Risk Free Rate vs. Estimated Intrinsic Value

<table>
<thead>
<tr>
<th>Risk Free Rate</th>
<th>Estimated Intrinsic Value</th>
<th>% Change</th>
</tr>
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<tbody>
<tr>
<td>1.0%</td>
<td>3,952</td>
<td>43.6%</td>
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<tr>
<td>1.5%</td>
<td>3,484</td>
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<tr>
<td>2.0%</td>
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<td>2.5%</td>
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<td>2,360</td>
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<tr>
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<td>4.5%</td>
<td>2,031</td>
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<tr>
<td>5.0%</td>
<td>1,898</td>
<td>-31.0%</td>
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## Expected Long Term Growth vs. Estimated Intrinsic Value

<table>
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<th>Expected Long Term Growth</th>
<th>Estimated Intrinsic Value</th>
<th>% Change</th>
</tr>
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<td>-0.5%</td>
<td>1,992</td>
<td>-27.6%</td>
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<tr>
<td>0.0%</td>
<td>2,091</td>
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<tr>
<td>0.5%</td>
<td>2,203</td>
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<td>1.0%</td>
<td>2,332</td>
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<tr>
<td>1.5%</td>
<td>2,482</td>
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</tr>
<tr>
<td>2.0%</td>
<td>2,659</td>
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<tr>
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## Expected Risk Premium vs. Estimated Intrinsic Value

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<th>Estimated Intrinsic Value</th>
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<td>3.0%</td>
<td>5,119</td>
<td>86%</td>
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<tr>
<td>3.5%</td>
<td>4,362</td>
<td>59%</td>
</tr>
<tr>
<td>4.0%</td>
<td>3,799</td>
<td>38%</td>
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<tr>
<td>4.5%</td>
<td>3,364</td>
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<td>5.5%</td>
<td>2,736</td>
<td>-1%</td>
</tr>
<tr>
<td>6.0%</td>
<td>2,502</td>
<td>-9%</td>
</tr>
<tr>
<td>6.5%</td>
<td>2,304</td>
<td>-16%</td>
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</table>

The Arizona PSPRS Trust

Earnings Growth Forecasts

<table>
<thead>
<tr>
<th>Earnings Growth Forecast</th>
<th>12/31/18</th>
<th>1/31/19</th>
<th>2/28/19</th>
<th>3/15/19</th>
<th>4/12/19</th>
<th>5/10/19</th>
<th>6/14/19</th>
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<tbody>
<tr>
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<td>20.2%</td>
<td>20.0%</td>
<td>20.0%</td>
<td>20.0%</td>
<td>20.0%</td>
<td>20.0%</td>
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<tr>
<td>CY 2019</td>
<td>7.4%</td>
<td>7.4%</td>
<td>4.1%</td>
<td>3.8%</td>
<td>3.4%</td>
<td>3.3%</td>
<td>3.0%</td>
</tr>
<tr>
<td>CY 2020</td>
<td>11.2%</td>
<td>11.5%</td>
<td>11.6%</td>
<td>11.4%</td>
<td>11.2%</td>
<td>11.0%</td>
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</tr>
<tr>
<td>Q1 2019</td>
<td>2.9%</td>
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<td>-3.6%</td>
<td>-4.3%</td>
<td>-0.5%</td>
<td>-0.3%</td>
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<tr>
<td>Q2 2019</td>
<td>3.7%</td>
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<td>-0.4%</td>
<td>-1.7%</td>
<td>-2.5%</td>
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<tr>
<td>Q3 2019</td>
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<td>1.4%</td>
<td>0.6%</td>
<td>0.0%</td>
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<tr>
<td>Q4 2019</td>
<td>12.1%</td>
<td>9.9%</td>
<td>8.5%</td>
<td>8.1%</td>
<td>8.3%</td>
<td>7.4%</td>
<td>6.8%</td>
</tr>
</tbody>
</table>

Source: FactSet

- As of June 14th, Analysts’ expected earnings growth for calendar year 2019 meaningfully declined versus the end of 2018 and is trending downwards.
- If Q2:2019 earnings is an actual decline, it will mark the first time the index has reported two straight quarters of year-over-year declines since Q1:2016 and Q2:2016.
- Current growth estimates for calendar year 2020 are relatively in-line with the previous two months.
## 2019 S&P500 Strategist Forecast

### As of 1/16/2019

<table>
<thead>
<tr>
<th>Firm</th>
<th>2019 Target</th>
<th>2019 EPS</th>
<th>Implied P/E</th>
</tr>
</thead>
<tbody>
<tr>
<td>BAML</td>
<td>2,900</td>
<td>$170.0</td>
<td>17.1</td>
</tr>
<tr>
<td>Barclays</td>
<td>2,750</td>
<td>$171.0</td>
<td>16.1</td>
</tr>
<tr>
<td>BMO</td>
<td>3,000</td>
<td>$174.0</td>
<td>17.2</td>
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<tr>
<td>BTIG</td>
<td>3,000</td>
<td>$172.0</td>
<td>17.4</td>
</tr>
<tr>
<td>CG</td>
<td>2,950</td>
<td>$168.0</td>
<td>17.6</td>
</tr>
<tr>
<td>CFRA</td>
<td>2,975</td>
<td>$174.5</td>
<td>17</td>
</tr>
<tr>
<td>Citigroup</td>
<td>2,850</td>
<td>$172.5</td>
<td>16.5</td>
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<tr>
<td>Credit Suisse</td>
<td>2,925</td>
<td>$174.0</td>
<td>16.8</td>
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<tr>
<td>Deutsche Bank</td>
<td>3,250</td>
<td>$175.0</td>
<td>18.6</td>
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<tr>
<td>Goldman Sachs</td>
<td>3,000</td>
<td>$173.0</td>
<td>17.3</td>
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<tr>
<td>JPMorgan Chase</td>
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<td>17.3</td>
</tr>
<tr>
<td>Morgan Stanley</td>
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<td>15.6</td>
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<tr>
<td>Oppenheimer</td>
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<td>16.9</td>
</tr>
<tr>
<td>RBC</td>
<td>2,900</td>
<td>$171.0</td>
<td>17</td>
</tr>
<tr>
<td>UBS</td>
<td>2,950</td>
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<tr>
<td>Wells Fargo</td>
<td>2,910</td>
<td>$177.0</td>
<td>16.4</td>
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</table>

### As of 6/13/2019

<table>
<thead>
<tr>
<th>Firm</th>
<th>2019 Target</th>
<th>2019 EPS</th>
<th>Implied P/E</th>
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</thead>
<tbody>
<tr>
<td>BAML</td>
<td>2,900</td>
<td>$166.0</td>
<td>17.5</td>
</tr>
<tr>
<td>Barclays</td>
<td>2,750</td>
<td>$171.0</td>
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<tr>
<td>BMO</td>
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<tr>
<td>BTIG</td>
<td>3,000</td>
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<tr>
<td>CG</td>
<td>2,950</td>
<td>$168.0</td>
<td>17.6</td>
</tr>
<tr>
<td>CFRA</td>
<td>2,975</td>
<td>$174.5</td>
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<tr>
<td>Citigroup</td>
<td>2,850</td>
<td>$172.5</td>
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<tr>
<td>Credit Suisse</td>
<td>3,025</td>
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<td>3,250</td>
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<td>Goldman Sachs</td>
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<tr>
<td>JPMorgan Chase</td>
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<tr>
<td>Morgan Stanley</td>
<td>2,750</td>
<td>$176.0</td>
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<tr>
<td>Oppenheimer</td>
<td>2,960</td>
<td>$175.0</td>
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<tr>
<td>RBC</td>
<td>2,950</td>
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<td>17.0</td>
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<tr>
<td>UBS</td>
<td>2,950</td>
<td>$174.0</td>
<td>17.0</td>
</tr>
<tr>
<td>Wells Fargo</td>
<td>2,910</td>
<td>$177.0</td>
<td>16.4</td>
</tr>
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Source: S&P 500 CNBC Market Strategist Survey
### 2019-2020 Short-Rate Forecasts

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<th>150-175</th>
<th>175-200</th>
<th>200-225</th>
<th>225-250</th>
<th>250-275</th>
<th>275-300</th>
<th>300-325</th>
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<td>0.00%</td>
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<td>80.80%</td>
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<tr>
<td>7/31/2019</td>
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</tr>
<tr>
<td>9/18/2019</td>
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<td>0.00%</td>
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<tr>
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<td>7.60%</td>
<td>0.80%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
</tbody>
</table>

Source: CME Group

- Over the short-term, investors anticipate that short-rates will remain at their current levels.
- Expectations that the Fed will lower rates this year is increasing.
- Fed rate hike poses meaningful risk to equity price appreciation.
Summary

\[
\text{Price} = \frac{\text{Cash Flows} \times (\text{Earnings + Earnings Growth})}{\text{Discount Rate} \times (\text{Risk Free Rate} + \text{Risk Premium})}
\]

• **Earnings and Earnings Growth** expectations for 2019 are lower compared to last month, reducing valuations, all things equal.
• **Discount Rate** expectations for 2019 are lower compared to last month, increasing valuations, all things equal.
• In aggregate, lower discount rates counteracted weakening fundamentals.
## Range of Expected Outcomes – U.S. Equity

<table>
<thead>
<tr>
<th>Date</th>
<th>PX_LAST</th>
<th>PX_Forecast</th>
<th>1 STD_Up</th>
<th>1 STD_Down</th>
<th>2 STD_Up</th>
<th>2 STD_Down</th>
</tr>
</thead>
<tbody>
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<td>Aug-18</td>
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<td>Feb-20</td>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

- **PX_LAST**: Historic price data.
- **PX_Forecast**: Forecasted price data.
- **1 STD_Up** and **1 STD_Down**: One standard deviation upper and lower bounds.
- **2 STD_Up** and **2 STD_Down**: Two standard deviation upper and lower bounds.

The graph shows the historical price data for the S&P 500, along with forecasted values and their respective standard deviation bounds. The forecasted values are indicated by dashed lines, while the historical data is represented by solid lines. The chart includes data points from February 2018 to February 2020, with specific values marked at key points in time.
Range of Expected Outcomes – Int’l Equity

MSCI World


PX_LAST  PX_Forecast  1 STD_Up  1 STD_Down  2 STD_Up  2 STD_Down

PX_Last  1 STD_Up  1 STD_Down  2 STD_Up  2 STD_Down

The Arizona PSPRS Trust
Portfolio Priorities and Asset Allocation Recommendation

Strategic priorities

• **Return over risk.** Actuarial smoothing and the amortization of unfunded liabilities mute income volatility in any single year. This doesn’t mean the System should ignore risk (volatility), only that the System can tolerate more of it and that risk matters less than returns.

• **Force investments with similar economic risks to compete for capital.** Many financial markets are different but not truly distinct on an economic basis. For example, junk bond prices often move the same direction as publicly-traded stock prices. Acknowledging such similarities, favoring the purest instrument for a certain risk, is more likely to result in an efficient asset mix.

• **Minimize investments with returns below the AER.** Cash, core bonds and treasuries, among other assets (low volatility hedge funds), won’t meet the AER in the near term. Allocations should/will be kept to a minimum (i.e. for liquidity, diversification, etc.).

• **Diversify without sacrificing returns.** While returns (not volatility) are the priority, investments that are not correlated to existing holdings and have expected returns that are the same or higher as the reference assets reduce volatility but not returns.

• **Increase the System’s platform of income-based strategies.** Despite competition for traditional income-based investments (private lending, leasing, etc.) new markets repeatedly develop and, though not riskless, provide income-based returns in excess of the AER.

• **Look for ways to collaborate with stakeholders.** Proactively explore ways to prudently partner with stakeholders to identify mutually beneficial capital solutions.
Portfolio Evaluation and Asset Allocation Recommendation

Tactical priorities

- **Emphasize “high-confidence” outcomes.** Between high-confidence but low value-add, and low-confidence but high value-add decisions, the former is underappreciated and less interesting to most investors but probably better for the portfolio. For example, reducing fees is a guaranteed payout (high-confidence, low value-add decision), assuming no adverse selection, and is highly scalable.

- **Enhance the System’s direct investment program.** The current program is a success but could be modestly enhanced to “move the needle”.

- **Re-form the “partnership” model.** Decade-long growth across nearly all strategies and markets typically produces the type of wealth and hubris that creates conflicts of interest and economic misalignment between parties.

- **Continue build-out of internal predictive analytics complex.** Models help identify areas of opportunity quickly and, when paired with experience, enhance decision velocity, reduce fees and enforce accountability.
# Recommended Asset Allocation

<table>
<thead>
<tr>
<th>Category</th>
<th>Target</th>
<th>Min</th>
<th>Max</th>
<th>Benchmark</th>
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<tbody>
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</tr>
<tr>
<td>US Public Equity</td>
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<td>15%</td>
<td>25%</td>
<td>Russell 3000</td>
</tr>
<tr>
<td>International Public Equity</td>
<td>18%</td>
<td>14%</td>
<td>22%</td>
<td>MSCI ACWI Ex-US IMI Net</td>
</tr>
<tr>
<td>Global Private Equity</td>
<td>23%</td>
<td>15%</td>
<td>30%</td>
<td>Russell 3000 + 1%</td>
</tr>
<tr>
<td><strong>Contractual Income</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core Bonds</td>
<td>3%</td>
<td>2%</td>
<td>15%</td>
<td>Bloomberg Barclays US Aggregate</td>
</tr>
<tr>
<td>Private Credit</td>
<td>22%</td>
<td>15%</td>
<td>30%</td>
<td>50% BofAML US HY BB-B Constrained Ind / 50% CSFB Leveraged Loan Index</td>
</tr>
<tr>
<td>Diversifying Strategies</td>
<td>12%</td>
<td>5%</td>
<td>20%</td>
<td>LIBOR + 4%</td>
</tr>
<tr>
<td>Cash</td>
<td>2%</td>
<td>2%</td>
<td>6%</td>
<td>LIBOR</td>
</tr>
</tbody>
</table>
Category Classification

Interconnectivity is increasing with globalization which increases correlations among once disparate financial markets.

<table>
<thead>
<tr>
<th>Broad</th>
<th>Detailed</th>
</tr>
</thead>
</table>
| Capital Appreciation       | • US Equity  
• Int’l Equity  
• Private Equity                                                                 |
| Contractual Income         | • Investment Grade Bonds  
• Private lending                                                             |
| Diversifying Strategies    | • Hedge Funds                                                             |

• Domestic Equity  
• Intl Equity  
• EM Equity  
• EM Debt  
• Buyouts  
• Venture Capital  
• Opportunistic Real Estate

• US IG Bonds  
• Int’l IG Bonds  
• MLPs  
• REITs  
• Direct Lending  
• Reinsurance  
• Film Royalties  
• Music Royalties  
• Leasing  
• Core-plus Real Estate

• Event-driven  
• CTAs  
• Global Macro  
• Merger Arbitrage
Tactical Framework

Methods: Quantitative and qualitative. Sponsor must specify outcome, timing and degree of confidence. Outcomes are scored against prediction for calibration. By “high-confidence” we mean based on objective metrics, not “over-confidence”.

- **High-confidence / High value-add**: High degree of outcome predictability. Typically a structural dislocation due to regulatory changes or other non-economic behavior, rarely the result of out-smarting other investors. Rare. Merits a high allocation. Not scalable. Likely time independent. Key risk is correlation to other strategies.


- **Low-confidence / High value-add**: Low degree of outcome predictability. Relies on internal research. Time dependent, thesis can take months or years to develop. Merits a smaller allocation due to uncertainty but justified given potential payout. Key risk is idiosyncratic but correlation to other strategies is important too.

- **Low-confidence / Low value-add**: Do not pursue.
Tactical Framework

...Continued

- Ultimately high-predictability is more useful than the magnitude of an idea’s potential value-add because allocators can take bigger positions which are more likely to materially contribute to investment performance.

- Low conviction allocations must be sized appropriately to avoid idiosyncratic risks, requiring allocators to be right a lot, and also must avoid cross-correlations.

Table – Profit generated based on excess performance and capital allocation

- The table below shows the expected profit (in percentage) of a particular trade based on the level of excess performance relative to the reference asset and how much capital is allocated to the idea.

- For example, an investor that expects to earn 10% will add 0.05% (10.05%) to performance by allocating 5% to a trade that makes 11%.

<table>
<thead>
<tr>
<th>Capital</th>
<th>+1%</th>
<th>+2%</th>
<th>+3%</th>
<th>+4%</th>
<th>+5%</th>
<th>+10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.0%</td>
<td>0.050%</td>
<td>0.100%</td>
<td>0.150%</td>
<td>0.200%</td>
<td>0.250%</td>
<td>0.500%</td>
</tr>
<tr>
<td>7.5%</td>
<td>0.075%</td>
<td>0.150%</td>
<td>0.225%</td>
<td>0.300%</td>
<td>0.375%</td>
<td>0.750%</td>
</tr>
<tr>
<td>10.0%</td>
<td>0.100%</td>
<td>0.200%</td>
<td>0.300%</td>
<td>0.400%</td>
<td>0.500%</td>
<td>1.000%</td>
</tr>
</tbody>
</table>
## Performance Evaluation

<table>
<thead>
<tr>
<th>TYPE</th>
<th>QUESTION</th>
<th>BENCHMARK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ABSOLUTE RETURN</strong></td>
<td>Have we earned enough to meet our financial objectives?</td>
<td>Assumed Earnings Rate</td>
</tr>
<tr>
<td><strong>SIMPLE</strong></td>
<td>Have we done better than an investable, passive approach?</td>
<td>Listed stocks and bonds or stock and bond index funds</td>
</tr>
<tr>
<td><strong>POLICY</strong></td>
<td>Have we outperformed a mix of indexes that represent our asset allocation?</td>
<td>Policy Benchmark</td>
</tr>
<tr>
<td><strong>TACTICAL</strong></td>
<td>Have we added value within asset classes through security or fund selection?</td>
<td>Asset class benchmark</td>
</tr>
<tr>
<td><strong>PEER GROUP</strong></td>
<td>Have we outperformed similar institutions?</td>
<td>Custom peer group</td>
</tr>
<tr>
<td><strong>RISK-ADJUSTED</strong></td>
<td>Have we outperformed investments with similar risks?</td>
<td>Risk-adjusted measures</td>
</tr>
</tbody>
</table>
Illiquid Performance, net, as of 6/30/2018

- The Trust’s illiquid investments have a good track record of outperforming their respective benchmarks (Real Estate outperforms excluding legacy holdings on a 3-yr and 5-yr basis).
- Many stakeholders erroneously blame alternative investments, and not asset allocation, for underperformance.
- For example, the Real Assets portfolio outperformed the liquid index but underperformed domestic equities. Observers comparing the Trust to other pensions blamed alternative investments when performance would have been higher without the allocation to Real Assets but lower without the alternative investments.

<table>
<thead>
<tr>
<th>Description</th>
<th>Performance %</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Month Ending</td>
</tr>
<tr>
<td>Private Equity</td>
<td>0.44%</td>
</tr>
<tr>
<td>Russell 3000 + 100 bps</td>
<td>0.72%</td>
</tr>
<tr>
<td>Private Credit</td>
<td>0.09%</td>
</tr>
<tr>
<td>50% BofA ML US High Yield BB-B Cnstr/50% CSFB Fixed Inc Arb</td>
<td>0.20%</td>
</tr>
<tr>
<td>Real Assets</td>
<td>-0.22%</td>
</tr>
<tr>
<td>CPI + 200 bps</td>
<td>0.50%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>-7.37%</td>
</tr>
<tr>
<td>NCREIF NPI **</td>
<td>0.60%</td>
</tr>
</tbody>
</table>
Major markets are highly correlated

Rolling 5-year Returns Major Markets
High-Yield

Rolling 5-year Returns Major Markets
MSCI ex-US

Rolling 5-year Returns Major Markets
The power of low correlation

Assumes same return and volatility for each investment

Impact of assets with varying correlations on portfolio volatility

Portfolio volatility

Number of holdings

Correlation of each added investments to the reference assets

2x return & vol
PensionPlus+ 
A Solution to Pay Down Unfunded PSPRS Pension Liabilities

Brevet Capital
Resolving Employers’ Unfunded Public Safety Pension Liabilities

*Brevet Capital developed PensionPlus\(^+\), in partnership with PSPRS \(^1\) and others, which enables employers to significantly reduce their public safety pension liabilities*

<table>
<thead>
<tr>
<th>Situation Overview</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ In 2017, PSPRS hosted a summit to brainstorm pension solutions for their employers</td>
</tr>
<tr>
<td>▪ Seeking innovative ideas, PSPRS’ special committee asked Brevet Capital(^2) for help</td>
</tr>
<tr>
<td>▪ Brevet Capital recommended utilizing an employer’s existing portfolio of stranded assets</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Employer Challenges with Pension Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Growing pension liabilities impact employer budgets and reduce spending on public services</td>
</tr>
<tr>
<td>▪ Employers lack liquidity to fully-fund existing and future pension liabilities</td>
</tr>
<tr>
<td>▪ Long-term cost of funding pension compounds employers’ challenges</td>
</tr>
</tbody>
</table>

\(^1\) Arizona Public Safety Personnel Retirement System; \(^2\) FCS Advisors, LLC d/b/a Brevet Capital Advisors and its affiliates
Resolving Employer’s Unfunded Public Safety Pension Liabilities (Cont’d…)

<table>
<thead>
<tr>
<th>PensionPlus+ Solution</th>
<th>Employer Benefits¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilize otherwise illiquid, stranded real assets</td>
<td>Employer retains ownership of real assets</td>
</tr>
<tr>
<td>Partially/fully-fund an employer’s pension liabilities</td>
<td>Does not create a new liability</td>
</tr>
<tr>
<td>Meet the needs/requirements of most employers</td>
<td>Access to new, flexible liquidity</td>
</tr>
<tr>
<td>Work within existing pension funding policies</td>
<td>Cost-neutral to positive solution</td>
</tr>
<tr>
<td>Reduce long-term pension financing cost</td>
<td>Ability to terminate/extend contract annually</td>
</tr>
<tr>
<td></td>
<td>No impact to budget, credit rating, or funding capacity</td>
</tr>
</tbody>
</table>

¹ Please confirm with your legal, financial, and tax advisors
PensionPlus+ Takeaways

Solution Highlights

▪ Expected to reduce employer’s pension liabilities and lower future pension accrual cost

▪ Transaction would be priced at/near employer’s current debt issuance cost

▪ Employer expected to maintain control of stranded assets

▪ Employer is not expected to raise taxes on citizens¹

▪ Expected impact to credit rating is neutral to positive²

▪ Employer is not expected to encumber existing revenue streams or other sources of liquidity

¹ Please confirm with your legal, financial, and tax advisors; ² Please discuss with the rating agencies
# Brevet Capital’s Dedicated Team

<table>
<thead>
<tr>
<th>Name</th>
<th>Contact Information</th>
</tr>
</thead>
</table>
| Doug Monticciolo      | Office: 212.313.5101  
                                             Mobile: 917.865.1444  
                                             Email: doug@brevetcapital.com |
| Justin Clayborne*     | Office: 212.313.5142  
                                             Mobile: 404.938.3342  
                                             Email: jclayborne@brevetcapital.com |
| Mark Dunsheath        | Office: 212.313.5107  
                                             Mobile: 908.447.9260  
                                             Email: mdunsheath@brevetcapital.com |
| Randy Pereira         | Mobile: 602.317.2250  
                                             Email: rpereira@brevetcapital.com |

*Designated point of contact
Disclaimer

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1. **1609 Adjustments—Service Purchases**

   The group of members who are being given the opportunity to purchase service using 7/1/17 data continues to grow, but we are able to do a good job of keeping up. Through the middle of June, we have received requests for service purchase calculations from 456 members. We have completed 415 of those requests. Of the 41 calculations we have yet to process, we are waiting for additional paperwork for 16. When we receive a request, we send out an email letting members know we have received the request. If we have not completed the request within two weeks, we send out a second email letting the member know the request is in our queue. The vast majority of the requests are being completed before we hit that two-week mark. We are receiving 20-25 requests a week. The window for submitting a request to purchase service using 7/1/17 data closes at midnight on Monday, July 1, 2019.

   The group of members who purchased service after 7/1/17, and are having the cost of that purchase recalculated using the assumed earnings rate as the discount rate instead of the 10-year treasury plus 2% is being worked on. There are roughly 100 members in this group. We have completed recalculations for 80 of them (as of June 17th) and sent out letters asking those members if they want to purchase more time or take a refund. We have heard back from 61 of those. Members who qualify to purchase additional service are given the ability to choose between using the difference in cost to either purchase additional service or receive a refund. Members who do not have additional service to purchase are being sent a refund. Refunds, which include judgment interest, will be sent directly to the account from which the service purchase originally came from, per advice from our tax counsel. We hope to have all of these done yet this fiscal year.

2. **Software Development Methodology**

   After several months in the planning phase, we are now in the process of rolling out a new software development methodology. Training began earlier this month. We have hired Agile Progress to coach and mentor us through the first few months. We are adopting an Agile methodology using the Scrum framework. At a high level, here's how the new process works.

   Our software development team (Dev Team) will be broken into two groups, called “Scrums.” The first scrum will strictly be responsible for completing our transition from EPIC 1.0 (called “E1”) to EPIC 2.0 (called “E2”). The first module this team is working on is the refund module. The second group of developers will handle ongoing maintenance and bug fixes, and will complete a couple of projects we are presently working on.

   The scrum will include not only developers, but key knowledge experts from the business. Those knowledge experts will commit 25-50% of their daily time to working on the project—determining requirements, verifying prototypes, testing and training. Modules will be broken into small bite-sized user stories that the scrum will work on over a two-week period of time called a “sprint.” At the end of each sprint, something tangible will have been developed, reviewed and tested. By including business owners in the scrum on a daily basis, we expect to greatly reduce the number of
misunderstood business requirements that led to software rework in the past. We also hope to eliminate many of the issues that were found to be problems in our IT Assessment.

We have created an Organizational Change Management team to help the organization work through this transition and help set us up for success. The team will also be responsible for making policy decisions that may be hindering progress and for monitoring progress throughout the software development life cycle.
Employer/Local Board Outreach Recap

Employer/Local Board Outreach & Additional Projects:

- Training events we led over the past month:
  - May 21, 2019 Local Board training in Tucson, Arizona 38 in attendance
  - May 29, 2019 Employer sponsored training in Prescott, Arizona 12 in attendance
  - June 6, 2019 Employer sponsored training in Tucson, Arizona 30 in attendance
  - June 12, 2019 Meet with Rio Verde Fire District and reviewed the actuarial report

- Training schedule for the next few months:
  - June 17, 2019 Employer sponsored training in San Carlos, Arizona
  - June 19, 2019 Employer sponsored training in Kingman, Arizona
  - June 20, 2019 Local Board training in Taylor, Arizona
  - June 25, 2019 Employer sponsored training in Yuma, Arizona
  - July 18, 2019 Local Board training in Chandler, Arizona
  - July 24, 2019 EORP – Constable training
  - July 25, 2019 Employer sponsored training in Page, Arizona
  - August 15, 2019 Local Board training in Lake Havasu City, Arizona
  - January 22, 2020 PSPRS Annual Training Seminar in Phoenix, Arizona

- We continue to work with certain local boards who have a disability application to ensure each employer group is processing the disability correctly.

- We are reviewing the minutes of the local boards and contacting those boards that appear to need additional help.

- We are contacting every local board this year to determine how we can better meet their needs. We will provide a report to the Board of Trustee each quarter on our progress and findings.
The PSPRS communications department and consultant David Leibowitz continued meeting with trustees in June to survey the new board’s priorities and expectations and develop communications goals for members, employers, local boards and policymakers. Appointments with all trustees with the exception of Don Smith (travelling) and Will Buividas occurred.

The PSPRS quarterly newsletter was also published and distributed to all PSPRS stakeholder audiences. For the first time, different newsletters were created for employers and local boards and members and retirees due to various needs of each constituency and the sheer amount of information.

Employers and boards received full rundowns of all PSPRS-related legislation, including related appropriations in the state budget. Members/retirees received summaries of important legislation and other topics, including service purchases, pending COLAs and the soon to be enacted 457 deferred compensation account. Both newsletters included an introductory message from Chairman Buividas, appointment announcements, links to the new PSPRS investment video, and contact information for the PSPRS Advisory Committee.

PSPRS investment activities were of immense interest to national press and research/media outlets. No fewer than eight media and research firms contacted PSPRS in light of investment disclosures made during the May board meeting, including Pension & Investments, Chief Investment Officer magazine, Financial Investment News, Mandate Wire, FundMap, Wall Street Journal and S & P 500 research.

PSPRS-related news, primarily municipal budgeting reporting, was also published by Tucson Local Media, the Tucson Weekly, the Glendale Star and KYCA (radio) in Prescott. Chief Investment Officer magazine reported on the Bridgewater presentation on the investment landscape of China during the May board meeting.

Other PSPRS communications-related activity(updates for June include:

- Average email open rate of 50 percent – more than double 23 percent industry average
- Member/retiree newsletter opened by 21,230 contacts (45 percent open rate before “DNO” (did not open) follow-through email was sent
- Employer newsletter opened by 850 contacts (37 percent open rate before “DNO” email sent
- 15 mass email communications sent by PSPRS as of June 19
- 290 YouTube views of the “Understanding PSPRS Investments – Managing Risk” video
- Ongoing member communications regarding service purchase refunds and purchase quote request acknowledgements
- Ongoing email campaign to Tier 3 members who have not elected to receive Defined Benefit or Defined Contribution benefits – this campaign has increased elections by 15 percent
- Continued culling of inactive and bounceback emails to ensure communications viability (to avoid triggering “spam filters”)
- Continued growth of PSPRS email contact list
- Webpage creation and trustee bio drafting
## FY2019 LEGAL INVOICES PAID IN MAY 2019

### TOTALS BY VENDOR

#### SUMMARY BY VENDOR and TYPE

<table>
<thead>
<tr>
<th>Vendor</th>
<th>AMOUNT PAID (MAY 2019)</th>
<th>FYTD 2019 (Fees &amp; Costs)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>KUTAK ROCK</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>891.00</td>
<td>55,470.19</td>
</tr>
<tr>
<td>Litigation</td>
<td>869.60</td>
<td>6,599.11</td>
</tr>
<tr>
<td>Investment</td>
<td>54,226.90</td>
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<tr>
<td><strong>KUTAK TOTAL</strong></td>
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<tr>
<td><strong>STEPTOE &amp; JOHNSON</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td></td>
<td>1,962.00</td>
</tr>
<tr>
<td>Litigation</td>
<td></td>
<td>1,962.00</td>
</tr>
<tr>
<td><strong>STEPTOE &amp; JOHNSON TOTAL</strong></td>
<td></td>
<td>1,962.00</td>
</tr>
<tr>
<td><strong>FOLEY &amp; LARDNER</strong></td>
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<td></td>
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<tr>
<td>Administration</td>
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<td><strong>FOLEY &amp; LARDNER TOTAL</strong></td>
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<td>255,283.62</td>
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<td><strong>AKIN GUMP</strong></td>
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<tr>
<td>Investment</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>AKIN GUMP TOTAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>JACKSON WALKER</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>JACKSON WALKER TOTAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>CHARLES W. WHETSTINE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>6,972.00</td>
<td>31,260.00</td>
</tr>
<tr>
<td><strong>CHARLES W. WHETSTINE TOTAL</strong></td>
<td></td>
<td>31,260.00</td>
</tr>
<tr>
<td><strong>LEWIS ROCA ROTHGERBER</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>LEWIS ROCA ROTHGERBER TOTAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>DLA PIPER</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td>20,989.60</td>
<td></td>
</tr>
<tr>
<td><strong>DLA PIPER TOTAL</strong></td>
<td>20,989.60</td>
<td></td>
</tr>
<tr>
<td><strong>Coppersmith/Brockelman</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Litigation</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Coppersmith/Brockelman TOTAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Napier Coury &amp; Baillie</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Litigation</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Special Counsel TOTAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Yen Pilch &amp; Landeen</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Litigation</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Yen Pilch &amp; Landeen TOTAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fennemore Craig, PC.</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Fennemore Craig TOTAL</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administration</td>
<td>$7,863.00</td>
<td>$128,795.31</td>
</tr>
<tr>
<td>Litigation</td>
<td>869.60</td>
<td>8,561.11</td>
</tr>
<tr>
<td>Investment</td>
<td>55,972.90</td>
<td>774,711.51</td>
</tr>
<tr>
<td><strong>GRAND TOTAL</strong></td>
<td>64,525.50</td>
<td>912,067.93</td>
</tr>
</tbody>
</table>
PUBLIC SAFETY PERSONNEL RETIREMENT SYSTEM

Fiscal Year 2019 Budget with Fiscal Year to Date Expenses

As of 05-31-2019
Comments on the Budget

FY 2019

Fiscal year-to-date as of May 31, 2019, actual and projected expenses are expected to be under budget by $53,135 or .40%.
## All Departments Budget to Actual

### Public Safety Personnel Retirement System

**Fiscal Year Projections**

**As of 05-31-2019**

<table>
<thead>
<tr>
<th>Department</th>
<th>2019 Budget</th>
<th>FYTD Expense</th>
<th>Projected Expense</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel Services</td>
<td>8,357,553</td>
<td>7,262,138</td>
<td>700,316</td>
<td>395,099</td>
<td>4.73%</td>
</tr>
<tr>
<td>Education &amp; Training</td>
<td>414,150</td>
<td>175,521</td>
<td>128,301</td>
<td>110,328</td>
<td>26.64%</td>
</tr>
<tr>
<td>Board of Trustees</td>
<td>573,000</td>
<td>472,531</td>
<td>139,045</td>
<td>(38,576)</td>
<td>(6.73%)</td>
</tr>
<tr>
<td>Professional Services</td>
<td>2,656,975</td>
<td>2,252,252</td>
<td>731,644</td>
<td>(326,921)</td>
<td>(12.30%)</td>
</tr>
<tr>
<td>Legal Counsel</td>
<td>100,000</td>
<td>187,514</td>
<td>12,500</td>
<td>(100,014)</td>
<td>(100.01%)</td>
</tr>
<tr>
<td>Communications</td>
<td>87,600</td>
<td>86,699</td>
<td>8,884</td>
<td>(7,982)</td>
<td>(9.11%)</td>
</tr>
<tr>
<td>Contractual Services</td>
<td>370,960</td>
<td>336,900</td>
<td>29,600</td>
<td>4,460</td>
<td>1.20%</td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>61,000</td>
<td>62,327</td>
<td>5,554</td>
<td>(6,881)</td>
<td>(11.28%)</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>288,100</td>
<td>161,599</td>
<td>117,860</td>
<td>8,640</td>
<td>3.00%</td>
</tr>
<tr>
<td>Software</td>
<td>180,062</td>
<td>134,968</td>
<td>81,854</td>
<td>(36,760)</td>
<td>(20.42%)</td>
</tr>
<tr>
<td>Building</td>
<td>299,220</td>
<td>221,667</td>
<td>25,809</td>
<td>51,744</td>
<td>17.29%</td>
</tr>
<tr>
<td><strong>All Departments Budget Total</strong></td>
<td><strong>13,388,620</strong></td>
<td><strong>11,354,118</strong></td>
<td><strong>1,981,367</strong></td>
<td><strong>53,135</strong></td>
<td><strong>0.40%</strong></td>
</tr>
</tbody>
</table>

### Column Descriptions:
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- 2019 Expenses contain actual expenses paid fiscal year-to-date as of report date.
- Projected Expenses contain estimated remaining budgeted expenditures yet to be incurred and recurring non-budgeted expenditures.
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- (Over) Under Budget % is the percentage of (Over) Under as compared to the 2019 Budget.
### Agency Budget to Actual

**Public Safety Personnel Retirement System**

*Fiscal Year Projections*

*As of 05-31-2019*

<table>
<thead>
<tr>
<th></th>
<th>2019 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AGENCY BUDGET</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professional Services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>On-Site Shredding</td>
<td>1,000</td>
<td>1,000</td>
<td>125</td>
<td>(125)</td>
<td>(12.54%)</td>
</tr>
<tr>
<td>Records Management</td>
<td>10,000</td>
<td>4,149</td>
<td>377</td>
<td>5,474</td>
<td>54.74%</td>
</tr>
<tr>
<td>Cyber Insurance</td>
<td>50,000</td>
<td>-</td>
<td>50,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Total Professional Services</td>
<td>61,000</td>
<td>5,149</td>
<td>50,502</td>
<td>5,349</td>
<td>8.77%</td>
</tr>
<tr>
<td><strong>Communications</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Postage</td>
<td>15,000</td>
<td>17,187</td>
<td>199</td>
<td>(2,386)</td>
<td>(15.91%)</td>
</tr>
<tr>
<td>Printing - External</td>
<td>2,000</td>
<td>12,167</td>
<td>1,445</td>
<td>(11,722)</td>
<td>(580.60%)</td>
</tr>
<tr>
<td>Delivery Service</td>
<td>1,000</td>
<td>273</td>
<td>55</td>
<td>672</td>
<td>67.19%</td>
</tr>
<tr>
<td>Total Communications</td>
<td>18,000</td>
<td>29,628</td>
<td>1,698</td>
<td>(13,326)</td>
<td>(74.04%)</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office Supplies - General</td>
<td>32,000</td>
<td>34,511</td>
<td>3,137</td>
<td>(5,648)</td>
<td>(17.65%)</td>
</tr>
<tr>
<td>Copier/Printer Supplies</td>
<td>17,000</td>
<td>13,177</td>
<td>1,417</td>
<td>2,466</td>
<td>14.51%</td>
</tr>
<tr>
<td>Envelopes</td>
<td>1,000</td>
<td>-</td>
<td>1,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Forms</td>
<td>500</td>
<td>1,039</td>
<td>-</td>
<td>(539)</td>
<td>(107.73%)</td>
</tr>
<tr>
<td>Other Office Expense</td>
<td>10,500</td>
<td>13,661</td>
<td>-</td>
<td>(3,161)</td>
<td>(30.10%)</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>61,000</td>
<td>62,327</td>
<td>5,554</td>
<td>(6,881)</td>
<td>(11.28%)</td>
</tr>
<tr>
<td><strong>Total Agency Budget</strong></td>
<td>140,000</td>
<td>97,105</td>
<td>57,754</td>
<td>(14,859)</td>
<td>(10.61%)</td>
</tr>
</tbody>
</table>

**Column Descriptions:**
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- (Over) Under Budget % is the percentage of (Over) Under as compared to the 2019 Budget.
## Building Budget to Actual

**Public Safety Personnel Retirement System**  
*Fiscal Year Projections*  
*As of 05-31-2019*

<table>
<thead>
<tr>
<th></th>
<th>2019 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>BUILDING BUDGET</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Building Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Condo Association Fees</td>
<td>35,500</td>
<td>29,499</td>
<td>5,900</td>
<td>101</td>
<td>0.28%</td>
</tr>
<tr>
<td>Elevator</td>
<td>4,800</td>
<td>2,138</td>
<td>194</td>
<td>2,467</td>
<td>51.40%</td>
</tr>
<tr>
<td>Security System</td>
<td>1,500</td>
<td>944</td>
<td>-</td>
<td>556</td>
<td>37.07%</td>
</tr>
<tr>
<td>Janitorial</td>
<td>22,000</td>
<td>18,470</td>
<td>3,694</td>
<td>(164)</td>
<td>(0.75%)</td>
</tr>
<tr>
<td>Utilities</td>
<td>55,000</td>
<td>45,514</td>
<td>9,486</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Window Cleaning</td>
<td>1,500</td>
<td>1,330</td>
<td>170</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Odorite of Arizona</td>
<td>420</td>
<td>375</td>
<td>34</td>
<td>10</td>
<td>2.38%</td>
</tr>
<tr>
<td>Arizona Lock &amp; Safe</td>
<td>1,000</td>
<td>5,404</td>
<td>250</td>
<td>(4,654)</td>
<td>(465.40%)</td>
</tr>
<tr>
<td>Pest Control</td>
<td>2,000</td>
<td>1,188</td>
<td>108</td>
<td>704</td>
<td>35.20%</td>
</tr>
<tr>
<td><strong>Total General Expenses</strong></td>
<td>123,720</td>
<td>104,862</td>
<td>19,836</td>
<td>(980)</td>
<td>(0.79%)</td>
</tr>
<tr>
<td><strong>Other Occupancy Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>72,500</td>
<td>72,300</td>
<td>-</td>
<td>200</td>
<td>0.28%</td>
</tr>
<tr>
<td>Building Management</td>
<td>20,000</td>
<td>5,500</td>
<td>1,000</td>
<td>13,500</td>
<td>67.50%</td>
</tr>
<tr>
<td><strong>Total Other Occupancy Expenses</strong></td>
<td>92,500</td>
<td>77,800</td>
<td>1,000</td>
<td>13,700</td>
<td>14.81%</td>
</tr>
<tr>
<td><strong>Repair &amp; Maintenance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repair &amp; Mtn - Air Conditioning</td>
<td>10,000</td>
<td>10,928</td>
<td>(928)</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Repair &amp; Maintenance - Other</td>
<td>20,000</td>
<td>8,306</td>
<td>1,694</td>
<td>10,000</td>
<td>50.00%</td>
</tr>
<tr>
<td><strong>Total Repair &amp; Maintenance</strong></td>
<td>30,000</td>
<td>19,234</td>
<td>766</td>
<td>10,000</td>
<td>33.33%</td>
</tr>
<tr>
<td><strong>Total Building Expenses</strong></td>
<td>246,220</td>
<td>201,896</td>
<td>21,602</td>
<td>22,720</td>
<td>9.23%</td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture &amp; Equipment</td>
<td>10,000</td>
<td>8,663</td>
<td>1,337</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Building Improvements</td>
<td>2,000</td>
<td>-</td>
<td>2,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Alarm &amp; Video</td>
<td>1,000</td>
<td>130</td>
<td>870</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Remodeling</td>
<td>29,500</td>
<td>-</td>
<td>-</td>
<td>29,500</td>
<td>100.00%</td>
</tr>
<tr>
<td>Space Planner</td>
<td>10,500</td>
<td>10,977</td>
<td>-</td>
<td>(477)</td>
<td>(4.54%)</td>
</tr>
<tr>
<td><strong>Total Capital</strong></td>
<td>53,000</td>
<td>19,771</td>
<td>4,207</td>
<td>29,023</td>
<td>54.76%</td>
</tr>
<tr>
<td><strong>Total Building Budget</strong></td>
<td>299,220</td>
<td>221,667</td>
<td>25,809</td>
<td>51,743</td>
<td>17.29%</td>
</tr>
</tbody>
</table>

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### Board of Trustees Budget to Actual

**Public Safety Personnel Retirement System**

*Fiscal Year Projections As of 05-31-2019*

<table>
<thead>
<tr>
<th></th>
<th>2019 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Board of Trustees</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board of Trustee - Meetings</td>
<td>25,000</td>
<td>16,065</td>
<td>8,935</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Board of Trustee - Training</td>
<td>80,000</td>
<td>10,120</td>
<td>14,880</td>
<td>55,000</td>
<td>68.75%</td>
</tr>
<tr>
<td>Board of Trustee - Other</td>
<td>10,000</td>
<td>9,214</td>
<td>786</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv - Board Consultant</td>
<td>458,000</td>
<td>437,132</td>
<td>114,444</td>
<td>(93,576)</td>
<td>(20.43%)</td>
</tr>
<tr>
<td><strong>Total Board of Trustees</strong></td>
<td>573,000</td>
<td>472,531</td>
<td>139,045</td>
<td>(38,576)</td>
<td>(6.73%)</td>
</tr>
</tbody>
</table>

**Total Board of Trustees Budget**

| 573,000 | 472,531 | 139,045 | (38,576) | (6.73%) |

**Column Descriptions:**
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## Administration Budget to Actual

**Public Safety Personnel Retirement System**  
**Fiscal Year Projections**  
**As of 05-31-2019**

<table>
<thead>
<tr>
<th>Personnel Services</th>
<th>2019 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Wages</td>
<td>1,905,875</td>
<td>1,742,069</td>
<td>150,950</td>
<td>12,855</td>
<td>0.67%</td>
</tr>
<tr>
<td>Incentives/In-grades/Payouts</td>
<td>118,537</td>
<td>-</td>
<td>118,537</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>121,465</td>
<td>70,258</td>
<td>5,855</td>
<td>45,352</td>
<td>37.34%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>214,480</td>
<td>168,733</td>
<td>12,992</td>
<td>32,754</td>
<td>15.27%</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>21,458</td>
<td>20,174</td>
<td>1,751</td>
<td>(467)</td>
<td>(2.17%)</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>387,649</td>
<td>339,757</td>
<td>28,403</td>
<td>19,489</td>
<td>5.03%</td>
</tr>
<tr>
<td>Total Personnel Services</td>
<td>2,769,464</td>
<td>2,340,991</td>
<td>318,489</td>
<td>109,984</td>
<td>3.97%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Education &amp; Training</th>
<th>2019 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Board/Employer Training</td>
<td>28,000</td>
<td>2,894</td>
<td>5,106</td>
<td>20,000</td>
<td>71.43%</td>
</tr>
<tr>
<td>Travel Expense</td>
<td>15,000</td>
<td>9,235</td>
<td>5,765</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Conferences</td>
<td>43,735</td>
<td>24,187</td>
<td>9,548</td>
<td>10,000</td>
<td>22.86%</td>
</tr>
<tr>
<td>Dues &amp; Subscriptions</td>
<td>24,465</td>
<td>20,624</td>
<td>3,841</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Tuition Reimburse</td>
<td>10,500</td>
<td>5,200</td>
<td>5,300</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Expense</td>
<td>18,000</td>
<td>4,494</td>
<td>8,506</td>
<td>5,000</td>
<td>27.78%</td>
</tr>
<tr>
<td>Total Education &amp; Training</td>
<td>139,700</td>
<td>66,635</td>
<td>38,065</td>
<td>35,000</td>
<td>25.05%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Professional Services</th>
<th>2019 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prof Serv - Due Diligence</td>
<td>4,000</td>
<td>2,171</td>
<td>-</td>
<td>1,829</td>
<td>45.73%</td>
</tr>
<tr>
<td>Prof Serv - Other</td>
<td>10,000</td>
<td>21,302</td>
<td>7,586</td>
<td>(18,888)</td>
<td>(188.88%)</td>
</tr>
<tr>
<td>Prof Serv - Actuarial Services</td>
<td>287,500</td>
<td>320,417</td>
<td>113,333</td>
<td>(146,250)</td>
<td>(50.87%)</td>
</tr>
<tr>
<td>Prof Serv - Actuarial Other</td>
<td>30,000</td>
<td>1,500</td>
<td>28,500</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Strategic Consultant</td>
<td>50,000</td>
<td>30,193</td>
<td>19,808</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Prof Serv - Legislative Liaison</td>
<td>213,600</td>
<td>196,100</td>
<td>17,827</td>
<td>(327)</td>
<td>(0.15%)</td>
</tr>
<tr>
<td>Communication Services</td>
<td>91,980</td>
<td>55,523</td>
<td>12,000</td>
<td>24,457</td>
<td>26.59%</td>
</tr>
<tr>
<td>Total Professional Services</td>
<td>687,080</td>
<td>627,206</td>
<td>199,054</td>
<td>(139,180)</td>
<td>(20.26%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Legal Counsel</th>
<th>2019 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>External Legal Counsel</td>
<td>100,000</td>
<td>137,167</td>
<td>7,500</td>
<td>(44,667)</td>
<td>(44.67%)</td>
</tr>
<tr>
<td>External Legal Contract Services</td>
<td>-</td>
<td>50,347</td>
<td>5,000</td>
<td>(55,347)</td>
<td>N/A</td>
</tr>
<tr>
<td>Total Legal Counsel</td>
<td>100,000</td>
<td>187,514</td>
<td>12,500</td>
<td>(100,014)</td>
<td>(100.01%)</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Contractual Services</th>
<th>2019 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administrative Contract Services</td>
<td>-</td>
<td>10,931</td>
<td>-</td>
<td>(10,931)</td>
<td>N/A</td>
</tr>
<tr>
<td>Total Contractual Services</td>
<td>-</td>
<td>10,931</td>
<td>-</td>
<td>(10,931)</td>
<td>N/A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Software</th>
<th>2019 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Securities Monitoring</td>
<td>7,000</td>
<td>-</td>
<td>7,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Software Other</td>
<td>-</td>
<td>420</td>
<td>-</td>
<td>(420)</td>
<td>N/A</td>
</tr>
<tr>
<td>Total Software</td>
<td>7,000</td>
<td>420</td>
<td>7,000</td>
<td>(420)</td>
<td>(6.01%)</td>
</tr>
</tbody>
</table>

| Total Administration Dept. Budget | 3,703,244 | 3,233,697 | 575,108 | (105,561) | (2.85%) |

**Column Descriptions:**  
- 2019 Budget contains the budget approved by the Board of Trustees.  
- 2019 Expenses contain actual expenses paid fiscal year-to-date as of report date  
- Projected Expenses contain estimated remaining budgeted expenditures yet to be incurred and recurring non-budgeted expenditures;  
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## Finance Department Budget to Actual

### Public Safety Personnel Retirement System

#### Fiscal Year Projections

**As of 05-31-2019**

<table>
<thead>
<tr>
<th></th>
<th>2019 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personnel Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries &amp; Wages</td>
<td>469,206</td>
<td>425,840</td>
<td>38,809</td>
<td>4,557</td>
<td>0.97%</td>
</tr>
<tr>
<td>Incentives/In-grades/Payouts</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>28,152</td>
<td>17,708</td>
<td>1,737</td>
<td>8,707</td>
<td>30.93%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>81,601</td>
<td>65,242</td>
<td>5,203</td>
<td>11,155</td>
<td>13.67%</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>4,975</td>
<td>4,899</td>
<td>450</td>
<td>(374)</td>
<td>(7.52%)</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>92,551</td>
<td>85,454</td>
<td>7,966</td>
<td>(869)</td>
<td>(0.94%)</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td>676,485</td>
<td>599,143</td>
<td>54,165</td>
<td>23,176</td>
<td>3.43%</td>
</tr>
<tr>
<td><strong>Education &amp; Training</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel Expense</td>
<td>200</td>
<td>-</td>
<td>200</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Conferences</td>
<td>2,000</td>
<td>2,185</td>
<td>-</td>
<td>(185)</td>
<td>(9.25%)</td>
</tr>
<tr>
<td>Dues &amp; Subscriptions</td>
<td>2,900</td>
<td>785</td>
<td>1,115</td>
<td>1,000</td>
<td>34.48%</td>
</tr>
<tr>
<td>Tuition Reimbursement</td>
<td>5,250</td>
<td>-</td>
<td>-</td>
<td>5,250</td>
<td>100.00%</td>
</tr>
<tr>
<td>Training Expense Other</td>
<td>200</td>
<td>-</td>
<td>-</td>
<td>200</td>
<td>100.00%</td>
</tr>
<tr>
<td><strong>Total Education &amp; Training</strong></td>
<td>10,550</td>
<td>2,970</td>
<td>1,315</td>
<td>6,265</td>
<td>59.38%</td>
</tr>
<tr>
<td><strong>Professional Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditing Services</td>
<td>91,495</td>
<td>91,495</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Auditing Services GASB</td>
<td>50,000</td>
<td>50,000</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Annual Report (GFOA)</td>
<td>1,100</td>
<td>1,095</td>
<td>-</td>
<td>5</td>
<td>0.45%</td>
</tr>
<tr>
<td>Wells Fargo Services</td>
<td>500</td>
<td>3,883</td>
<td>1,000</td>
<td>(4,383)</td>
<td>(876.60%)</td>
</tr>
<tr>
<td>GL Implementation - Consulting</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td><strong>Total Professional Services</strong></td>
<td>143,095</td>
<td>146,473</td>
<td>1,000</td>
<td>(4,378)</td>
<td>(3.06%)</td>
</tr>
<tr>
<td><strong>Communications</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1099 Distribution</td>
<td>22,000</td>
<td>21,144</td>
<td>-</td>
<td>856</td>
<td>3.89%</td>
</tr>
<tr>
<td><strong>Total Communications</strong></td>
<td>22,000</td>
<td>21,144</td>
<td>-</td>
<td>856</td>
<td>3.89%</td>
</tr>
<tr>
<td><strong>Contractual Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Temporary Services</td>
<td>50,000</td>
<td>44,416</td>
<td>-</td>
<td>5,584</td>
<td>11.17%</td>
</tr>
<tr>
<td><strong>Total Contractual Services</strong></td>
<td>50,000</td>
<td>44,416</td>
<td>-</td>
<td>5,584</td>
<td>11.17%</td>
</tr>
<tr>
<td><strong>Total Finance Dept. Budget</strong></td>
<td>902,130</td>
<td>814,145</td>
<td>56,480</td>
<td>31,503</td>
<td>3.49%</td>
</tr>
</tbody>
</table>

**Column Descriptions:**

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## Information Governance Department Budget to Actual

### Public Safety Personnel Retirement System

**Fiscal Year Projections**

**As of 05-31-2019**

<table>
<thead>
<tr>
<th></th>
<th>2019 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personnel Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries &amp; Wages</td>
<td>277,862</td>
<td>255,236</td>
<td>13,533</td>
<td>9,093</td>
<td>3.27%</td>
</tr>
<tr>
<td>Incentives/In-grades/Payouts</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>16,672</td>
<td>7,571</td>
<td>661</td>
<td>8,440</td>
<td>50.62%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>44,281</td>
<td>36,711</td>
<td>2,220</td>
<td>5,350</td>
<td>12.08%</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>2,945</td>
<td>2,929</td>
<td>157</td>
<td>(141)</td>
<td>(4.79%)</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>56,704</td>
<td>51,358</td>
<td>2,837</td>
<td>2,510</td>
<td>4.43%</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td>398,464</td>
<td>353,804</td>
<td>19,407</td>
<td>25,252</td>
<td>6.34%</td>
</tr>
<tr>
<td><strong>Education &amp; Training</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel Expense</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Conferences</td>
<td>14,000</td>
<td>6,727</td>
<td>7,273</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Dues &amp; Subscriptions</td>
<td>1,250</td>
<td>909</td>
<td>341</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Tuition Reimbursement</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Training Expense Other</td>
<td>3,050</td>
<td>-</td>
<td>3,050</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Education &amp; Training</strong></td>
<td>18,300</td>
<td>7,636</td>
<td>10,664</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Software</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software</td>
<td>1,312</td>
<td>1,429</td>
<td>-</td>
<td>(117)</td>
<td>(8.92%)</td>
</tr>
<tr>
<td><strong>Total Software</strong></td>
<td>1,312</td>
<td>1,429</td>
<td>-</td>
<td>(117)</td>
<td>(8.92%)</td>
</tr>
<tr>
<td><strong>Total Info. Governance Dept. Budget</strong></td>
<td>418,076</td>
<td>362,869</td>
<td>30,071</td>
<td>25,135</td>
<td>6.01%</td>
</tr>
</tbody>
</table>

### Column Descriptions:

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## Investment Department Budget to Actual

**Public Safety Personnel Retirement System**

*Fiscal Year Projections*

*As of 05-31-2019*

### INVESTMENT DEPARTMENT BUDGET

#### Personnel Services

<table>
<thead>
<tr>
<th></th>
<th>2019 Budget</th>
<th>FYTD Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Wages</td>
<td>906,048</td>
<td>767,065</td>
<td>66,379</td>
<td>72,604</td>
</tr>
<tr>
<td>Incentives/In-grades/Payouts</td>
<td>-</td>
<td>172,258</td>
<td>-</td>
<td>(172,258)</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>52,616</td>
<td>35,310</td>
<td>2,681</td>
<td>14,625</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>87,932</td>
<td>68,530</td>
<td>5,976</td>
<td>13,426</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>9,604</td>
<td>10,091</td>
<td>770</td>
<td>(1,257)</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>185,052</td>
<td>149,742</td>
<td>14,156</td>
<td>21,154</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td>1,241,252</td>
<td>1,202,996</td>
<td>89,962</td>
<td>(51,706)</td>
</tr>
</tbody>
</table>

#### Education & Training

<table>
<thead>
<tr>
<th></th>
<th>2019 Budget</th>
<th>FYTD Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel Expense</td>
<td>60,000</td>
<td>54,848</td>
<td>5,152</td>
<td>-</td>
</tr>
<tr>
<td>Conferences</td>
<td>30,000</td>
<td>8,031</td>
<td>21,969</td>
<td>-</td>
</tr>
<tr>
<td>Dues &amp; Subscriptions</td>
<td>5,000</td>
<td>11,168</td>
<td>-</td>
<td>(6,168)</td>
</tr>
<tr>
<td>Tuition Reimbursement</td>
<td>5,250</td>
<td>5,250</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Investment Research</td>
<td>45,000</td>
<td>15,000</td>
<td>30,000</td>
<td>-</td>
</tr>
<tr>
<td>Training Expense Other</td>
<td>1,000</td>
<td>681</td>
<td>319</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Education &amp; Training</strong></td>
<td>146,250</td>
<td>94,977</td>
<td>57,440</td>
<td>(6,168)</td>
</tr>
</tbody>
</table>

#### Professional Services

<table>
<thead>
<tr>
<th></th>
<th>2019 Budget</th>
<th>FYTD Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prof Serv - Other</td>
<td>-</td>
<td>4,737</td>
<td>748</td>
<td>(5,485)</td>
</tr>
<tr>
<td>Investment Tech Research</td>
<td>10,000</td>
<td>-</td>
<td>10,000</td>
<td>-</td>
</tr>
<tr>
<td>ORG</td>
<td>310,000</td>
<td>240,000</td>
<td>70,000</td>
<td>-</td>
</tr>
<tr>
<td>Legacy Real Estate Valuations</td>
<td>150,000</td>
<td>13,360</td>
<td>136,640</td>
<td>-</td>
</tr>
<tr>
<td>Stepstone Group</td>
<td>100,000</td>
<td>93,500</td>
<td>8,500</td>
<td>(2,000)</td>
</tr>
<tr>
<td>Albourne America</td>
<td>640,000</td>
<td>480,000</td>
<td>160,000</td>
<td>-</td>
</tr>
<tr>
<td>Mellon Bank Fees</td>
<td>400,000</td>
<td>598,128</td>
<td>-</td>
<td>(198,128)</td>
</tr>
<tr>
<td>Withheld Tax Recovery</td>
<td>40,000</td>
<td>-</td>
<td>40,000</td>
<td>-</td>
</tr>
<tr>
<td>Due Dilligence - Consultants</td>
<td>-</td>
<td>12,833</td>
<td>-</td>
<td>(12,833)</td>
</tr>
<tr>
<td><strong>Total Professional Services</strong></td>
<td>1,650,000</td>
<td>1,442,558</td>
<td>425,888</td>
<td>(218,446)</td>
</tr>
</tbody>
</table>

#### Software

<table>
<thead>
<tr>
<th></th>
<th>2019 Budget</th>
<th>FYTD Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bloomberg</td>
<td>33,000</td>
<td>37,337</td>
<td>4,466</td>
<td>(16,782)</td>
</tr>
<tr>
<td>Investment Analytics</td>
<td>50,000</td>
<td>41,233</td>
<td>8,767</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Software</strong></td>
<td>83,000</td>
<td>78,570</td>
<td>21,213</td>
<td>(16,782)</td>
</tr>
</tbody>
</table>

#### Total Investment Dept. Budget

<table>
<thead>
<tr>
<th></th>
<th>2019 Budget</th>
<th>FYTD Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mellon Direct Expense</strong></td>
<td>3,120,502</td>
<td>2,819,101</td>
<td>594,503</td>
<td>(293,102)</td>
</tr>
</tbody>
</table>

#### Mellon Direct Expense

<table>
<thead>
<tr>
<th></th>
<th>2019 Budget</th>
<th>FYTD Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Due Dilligence</td>
<td>336,017</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal Counsel</td>
<td>774,712</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Appraisals</td>
<td>64,385</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total Mellon Direct Expense</strong></td>
<td>1,175,113</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Column Descriptions:

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- 2019 Expenses contain actual expenses paid fiscal year-to-date as of report date.
- Projected Expenses contain estimated remaining budgeted expenditures yet to be incurred and recurring non-budgeted expenditures.
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- (Over) Under Budget % is the percentage of (Over) Under as compared to the 2019 Budget.
## IT Network Services Department Budget to Actual
**Public Safety Personnel Retirement System**

**Fiscal Year Projections**

*As of 05-31-2019*

### IT Network Services Department Budget

<table>
<thead>
<tr>
<th></th>
<th>2019 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personnel Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries &amp; Wages</td>
<td>394,730</td>
<td>325,364</td>
<td>22,641</td>
<td>46,725</td>
<td>11.84%</td>
</tr>
<tr>
<td>Incentives/In-grades/Payouts</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>23,684</td>
<td>16,115</td>
<td>1,091</td>
<td>6,478</td>
<td>27.35%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>58,933</td>
<td>44,966</td>
<td>3,656</td>
<td>10,311</td>
<td>17.50%</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>4,184</td>
<td>3,729</td>
<td>263</td>
<td>192</td>
<td>4.59%</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>81,361</td>
<td>66,276</td>
<td>4,647</td>
<td>10,437</td>
<td>12.83%</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td>562,892</td>
<td>456,450</td>
<td>32,298</td>
<td>74,143</td>
<td>13.17%</td>
</tr>
<tr>
<td><strong>Education &amp; Training</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel Expense</td>
<td>4,500</td>
<td>-</td>
<td>-</td>
<td>4,500</td>
<td>100.00%</td>
</tr>
<tr>
<td>Conferences</td>
<td>-</td>
<td>(7,840)</td>
<td>-</td>
<td>7,840</td>
<td>N/A</td>
</tr>
<tr>
<td>Dues &amp; Subscriptions</td>
<td>-</td>
<td>1,170</td>
<td>-</td>
<td>(1,170)</td>
<td>N/A</td>
</tr>
<tr>
<td>Tuition Reimbursement</td>
<td>15,750</td>
<td>-</td>
<td>-</td>
<td>15,750</td>
<td>100.00%</td>
</tr>
<tr>
<td>Training Expense Other</td>
<td>18,000</td>
<td>6,111</td>
<td>11,889</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Education &amp; Training</strong></td>
<td>38,250</td>
<td>(559)</td>
<td>11,889</td>
<td>26,920</td>
<td>70.38%</td>
</tr>
<tr>
<td><strong>Professional Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prof Serv - Other</td>
<td>105,000</td>
<td>19,800</td>
<td>55,200</td>
<td>30,000</td>
<td>28.57%</td>
</tr>
<tr>
<td><strong>Total Professional Services</strong></td>
<td>105,000</td>
<td>19,800</td>
<td>55,200</td>
<td>30,000</td>
<td>28.57%</td>
</tr>
<tr>
<td><strong>Communications</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Communications - Telephone</td>
<td>22,500</td>
<td>15,458</td>
<td>3,092</td>
<td>3,951</td>
<td>17.56%</td>
</tr>
<tr>
<td>Communications - Internet</td>
<td>25,100</td>
<td>20,469</td>
<td>4,094</td>
<td>537</td>
<td>2.14%</td>
</tr>
<tr>
<td><strong>Total Communications</strong></td>
<td>47,600</td>
<td>35,927</td>
<td>7,185</td>
<td>4,488</td>
<td>9.43%</td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IT Hardware</td>
<td>150,000</td>
<td>16,825</td>
<td>103,175</td>
<td>30,000</td>
<td>20.00%</td>
</tr>
<tr>
<td>IT Security</td>
<td>18,000</td>
<td>15,314</td>
<td>2,686</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>IT Services</td>
<td>39,500</td>
<td>34,697</td>
<td>4,803</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Warranty Renewal</td>
<td>40,500</td>
<td>64,314</td>
<td>-</td>
<td>(23,814)</td>
<td>(58.80%)</td>
</tr>
<tr>
<td>Backup &amp; Disaster Recovery</td>
<td>38,600</td>
<td>30,449</td>
<td>5,696</td>
<td>2,455</td>
<td>6.36%</td>
</tr>
<tr>
<td><strong>Total Infrastructure</strong></td>
<td>286,600</td>
<td>161,599</td>
<td>116,360</td>
<td>8,641</td>
<td>3.02%</td>
</tr>
<tr>
<td><strong>Software</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software - Other</td>
<td>65,000</td>
<td>24,765</td>
<td>40,235</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>License &amp; Maintenance - Other</td>
<td>10,000</td>
<td>-</td>
<td>10,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Software</strong></td>
<td>75,000</td>
<td>24,765</td>
<td>50,235</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total IT Network Services Department Budget</strong></td>
<td><strong>1,115,342</strong></td>
<td><strong>697,983</strong></td>
<td><strong>273,168</strong></td>
<td><strong>144,192</strong></td>
<td><strong>12.93%</strong></td>
</tr>
</tbody>
</table>

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## IT Systems Development Budget to Actual
### Public Safety Personnel Retirement System
#### Fiscal Year Projections
##### As of 05-31-2019

<table>
<thead>
<tr>
<th></th>
<th>2019 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IT SYSTEMS DEVELOPMENT DEPARTMENT BUDGET</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Personnel Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries &amp; Wages</td>
<td>574,525</td>
<td>506,722</td>
<td>44,040</td>
<td>23,762</td>
<td>4.14%</td>
</tr>
<tr>
<td>Incentives/In-grades/Payouts</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>34,472</td>
<td>13,587</td>
<td>1,418</td>
<td>19,467</td>
<td>56.47%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>92,975</td>
<td>68,080</td>
<td>5,857</td>
<td>19,038</td>
<td>20.48%</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>6,089</td>
<td>5,823</td>
<td>511</td>
<td>(245)</td>
<td>(4.02%)</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>115,679</td>
<td>99,092</td>
<td>9,130</td>
<td>7,457</td>
<td>6.45%</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td>823,740</td>
<td>693,305</td>
<td>60,955</td>
<td>69,479</td>
<td>8.43%</td>
</tr>
<tr>
<td><strong>Education &amp; Training</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel Expense</td>
<td>1,000</td>
<td>-</td>
<td>1,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Conferences</td>
<td>12,000</td>
<td>-</td>
<td>3,000</td>
<td>9,000</td>
<td>75.00%</td>
</tr>
<tr>
<td>Dues &amp; Subscriptions</td>
<td>300</td>
<td>372</td>
<td>(72)</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Tuition Reimbursement</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Training Expense Other</td>
<td>31,000</td>
<td>2,983</td>
<td>5,000</td>
<td>23,017</td>
<td>74.25%</td>
</tr>
<tr>
<td><strong>Total Education &amp; Training</strong></td>
<td>44,300</td>
<td>3,355</td>
<td>8,928</td>
<td>32,017</td>
<td>72.27%</td>
</tr>
<tr>
<td><strong>Contractual Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract Services</td>
<td>232,960</td>
<td>241,831</td>
<td>14,400</td>
<td>(23,271)</td>
<td>(9.99%)</td>
</tr>
<tr>
<td><strong>Total Contractual Services</strong></td>
<td>232,960</td>
<td>241,831</td>
<td>14,400</td>
<td>(23,271)</td>
<td>(9.99%)</td>
</tr>
<tr>
<td><strong>Software</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Go-To-Webinar</td>
<td>1,100</td>
<td>-</td>
<td>1,100</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Go-To-Meeting</td>
<td>650</td>
<td>-</td>
<td>650</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Sybase Support</td>
<td>6,000</td>
<td>-</td>
<td>6,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Software Other</td>
<td>4,000</td>
<td>23,441</td>
<td>-</td>
<td>(19,441)</td>
<td>(486.03%)</td>
</tr>
<tr>
<td>License Backup Line</td>
<td>1,000</td>
<td>1,000</td>
<td>-</td>
<td>1</td>
<td>0.10%</td>
</tr>
<tr>
<td>License Other</td>
<td>1,000</td>
<td>5,344</td>
<td>(4,344)</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Software</strong></td>
<td>13,750</td>
<td>29,784</td>
<td>3,406</td>
<td>(19,440)</td>
<td>(141.38%)</td>
</tr>
<tr>
<td><strong>Furniture &amp; Equipment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repairs &amp; Maintenance</td>
<td>1,500</td>
<td>-</td>
<td>1,500</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Furniture &amp; Equipment</strong></td>
<td>1,500</td>
<td>-</td>
<td>1,500</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total IT Systems Development Department Budget</strong></td>
<td>1,116,250</td>
<td>968,275</td>
<td>89,189</td>
<td>58,785</td>
<td>5.27%</td>
</tr>
</tbody>
</table>

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- Projected Expenses contain estimated remaining budgeted expenditures yet to be incurred and recurring non-budgeted expenditures;
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# Member Services Department Budget to Actual

Public Safety Personnel Retirement System  
*Fiscal Year Projections*  
*As of 05-31-2019*

<table>
<thead>
<tr>
<th>Personnel Services</th>
<th>2019 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries &amp; Wages</td>
<td>1,293,907</td>
<td>1,149,195</td>
<td>89,336</td>
<td>55,376</td>
<td>4.28%</td>
</tr>
<tr>
<td>Incentives/In-grades/Payouts</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>77,634</td>
<td>41,968</td>
<td>3,337</td>
<td>32,329</td>
<td>41.64%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>234,282</td>
<td>175,856</td>
<td>13,287</td>
<td>45,140</td>
<td>19.27%</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>13,715</td>
<td>13,173</td>
<td>1,036</td>
<td>(494)</td>
<td>(3.60%)</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>265,717</td>
<td>235,258</td>
<td>18,044</td>
<td>12,415</td>
<td>4.67%</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td>1,885,256</td>
<td>1,615,449</td>
<td>125,040</td>
<td>144,766</td>
<td>7.68%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Education &amp; Training</th>
<th>2019 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel Expense</td>
<td>500</td>
<td>507</td>
<td>-</td>
<td>(7)</td>
<td>(1.40%)</td>
</tr>
<tr>
<td>Conferences</td>
<td>3,600</td>
<td>-</td>
<td>-</td>
<td>3,600</td>
<td>100.00%</td>
</tr>
<tr>
<td>Dues &amp; Subscriptions</td>
<td>200</td>
<td>-</td>
<td>-</td>
<td>200</td>
<td>100.00%</td>
</tr>
<tr>
<td>Tuition Reimbursement</td>
<td>10,500</td>
<td>-</td>
<td>-</td>
<td>10,500</td>
<td>100.00%</td>
</tr>
<tr>
<td>Training Expense Other</td>
<td>2,000</td>
<td>-</td>
<td>-</td>
<td>2,000</td>
<td>100.00%</td>
</tr>
<tr>
<td><strong>Total Education &amp; Training</strong></td>
<td>16,800</td>
<td>507</td>
<td>-</td>
<td>16,293</td>
<td>96.98%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Professional Services</th>
<th>2019 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Death Index</td>
<td>10,800</td>
<td>11,066</td>
<td>-</td>
<td>(266)</td>
<td>(2.46%)</td>
</tr>
<tr>
<td><strong>Total Professional Services</strong></td>
<td>10,800</td>
<td>11,066</td>
<td>-</td>
<td>(266)</td>
<td>(2.46%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Contractual Services</th>
<th>2019 Budget</th>
<th>FYTD Expenses</th>
<th>Projected Expenses</th>
<th>(Over) Under</th>
<th>(Over) Under Budget %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scanning Services</td>
<td>41,000</td>
<td>25,800</td>
<td>15,200</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Temporary Services</td>
<td>47,000</td>
<td>13,922</td>
<td>(0)</td>
<td>33,078</td>
<td>70.38%</td>
</tr>
<tr>
<td><strong>Total Contractual Services</strong></td>
<td>88,000</td>
<td>39,722</td>
<td>15,200</td>
<td>33,078</td>
<td>37.59%</td>
</tr>
</tbody>
</table>

| Total Member Services Department Budget | 2,000,856 | 1,666,744 | 140,240 | 193,871 | 9.69% |

**Column Descriptions:**
- 2019 Budget contains the budget approved by the Board of Trustees.
- 2019 Expenses contain actual expenses paid fiscal year-to-date as of report date.
- Projected Expenses contain estimated remaining budgeted expenditures yet to be incurred and recurring non-budgeted expenditures.
- (Over) Under compares 2019 Expenses and Projected Expenses to the 2019 Budget.
- (Over) Under Budget % is the percentage of (Over) Under as compared to the 2019 Budget.
The purpose of this memorandum is to summarize the changes made to the attached final budget proposal for fiscal 2020 as compared to the proposed budget presented at the May 29, 2019 Board of Trustees’ meeting.

The final proposed total budget of $14,822,344 represents an increase of $1,433,724 or 10.71% when compared to the approved fiscal 2019 budget of $13,388,620. The final proposed budget of $14,822,344 represents a $-3,056 or -1.23% decrease from the preliminary proposed budget presented in May.

Changes to the preliminary budget presented in May and included in the attached proposed final budget are as follows:

- Personnel services increased a net amount of $167,002, which are comprised of the following:
  - At the Board’s request, 2% of gross salaries was added for potential merit and in-grade increases for fiscal 2020.
  - A decrease related to the PSPRS employer 401(a) match for employees contributing to the 457 Deferred Compensation plan. The May draft of the preliminary budget included an amount equal to the maximum employer match. The June draft of the final proposed budget includes an employer match equal to the actual employee deferral percentage.
  - At the Board’s request, the final proposed budget includes increases for potential in-grade salary adjustments in accordance with the Board’s approved Special Pay Plan, which is now in its second year.

- Consultant fees of $60,000 were eliminated.
- Contract services of $52,933 were eliminated.
- Investment research fees were reduced by $20,000.
- Education and training costs were reduced $125.
- Legal fees related to administrative matters were reduced $37,000.

This is the final budget proposal for which action to approve or modify is being requested.
## PSPRS
### FINAL PROPOSED BUDGET SUMMARY
#### FISCAL YEAR 2020

<table>
<thead>
<tr>
<th>Department</th>
<th>Approved Budget 2019</th>
<th>Proposed Budget 2020</th>
<th>Change $</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Board of Trustees</strong></td>
<td>2,895,595</td>
<td>2,902,171</td>
<td>6,576</td>
<td>0.23%</td>
</tr>
<tr>
<td><strong>Agency</strong></td>
<td>129,000</td>
<td>152,300</td>
<td>23,300</td>
<td>18.06%</td>
</tr>
<tr>
<td><strong>Administration</strong></td>
<td>3,122,144</td>
<td>3,595,806</td>
<td>473,662</td>
<td>15.17%</td>
</tr>
<tr>
<td><strong>Finance</strong></td>
<td>760,635</td>
<td>777,503</td>
<td>16,868</td>
<td>2.22%</td>
</tr>
<tr>
<td><strong>Information Governance</strong></td>
<td>429,076</td>
<td>410,058</td>
<td>(19,018)</td>
<td>-4.43%</td>
</tr>
<tr>
<td><strong>Investment</strong></td>
<td>1,520,502</td>
<td>1,797,386</td>
<td>276,884</td>
<td>18.21%</td>
</tr>
<tr>
<td><strong>IT Network</strong></td>
<td>1,115,342</td>
<td>1,211,208</td>
<td>95,866</td>
<td>8.60%</td>
</tr>
<tr>
<td><strong>IT Development</strong></td>
<td>1,116,250</td>
<td>1,672,006</td>
<td>555,756</td>
<td>49.79%</td>
</tr>
<tr>
<td><strong>Member Services</strong></td>
<td>2,000,856</td>
<td>2,003,890</td>
<td>3,034</td>
<td>0.15%</td>
</tr>
<tr>
<td><strong>Building</strong></td>
<td>299,220</td>
<td>300,016</td>
<td>796</td>
<td>0.27%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>13,388,620</td>
<td>14,822,344</td>
<td>1,433,724</td>
<td>10.71%</td>
</tr>
</tbody>
</table>

#### CHANGE FROM PROPOSED MAY BUDGET DRAFT

<table>
<thead>
<tr>
<th>Category</th>
<th>Proposed Budget 2020</th>
<th>Change $</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Board of Trustees</strong></td>
<td>2,895,595</td>
<td>6,576</td>
<td>0.23%</td>
</tr>
<tr>
<td><strong>Personnel Services</strong></td>
<td>8,357,553</td>
<td>653,899</td>
<td>7.82%</td>
</tr>
<tr>
<td><strong>Education &amp; Training</strong></td>
<td>447,150</td>
<td>140,196</td>
<td>31.35%</td>
</tr>
<tr>
<td><strong>Professional Services</strong></td>
<td>334,380</td>
<td>16,460</td>
<td>4.92%</td>
</tr>
</tbody>
</table>

#### BY CATEGORY

**Board of Trustees**
- Board Expenses: 115,000 (0.00%)
- Board Consultants: 2,780,595 (0.24%)
- DC Committee: 100,000 (0.00%)
- DC Committee - Nationwide Reimburse: (100,000) (0.00%)
- Total Board of Trustees: 2,895,595 (0.23%)

**Personnel Services**
- Administration: 2,769,464 (18.08%)
- Finance: 676,485 (6.27%)
- Information Governance: 398,464 (3.07%)
- Investment: 1,241,252 (11.73%)
- IT Network: 562,892 (1.34%)
- IT Development: 823,740 (2.92%)
- Member Services: 1,885,256 (0.32%)
- Total Personnel Services: 8,357,553 (7.82%)

**Education & Training**
- Administration: 139,700 (16.19%)
- Finance: 10,550 (19.38%)
- Information Governance: 18,300 (15.27%)
- Investment: 179,250 (95.54%)
- IT Network: 38,250 (38.10%)
- IT Development: 44,300 (11.29%)
- Member Services: 16,800 (36.31%)
- Total Education & Training: 447,150 (31.35%)

**Professional Services**
- Agency: 50,000 (0.00%)
- Administration: 105,980 (5.64%)
- Finance: 1,600 (1593.75%)
- Information Governance: 11,000 (37.82%)
- Investment: 50,000 (80.00%)
- IT Network: 105,000 (38.10%)
- IT Development: 0 (DIV/0!)
- Member Services: 10,800 (10.19%)
- Total Professional Services: 334,380 (4.92%)
## Legal Counsel

<table>
<thead>
<tr>
<th>Category</th>
<th>Administration</th>
<th>Finance</th>
<th>Information Governance</th>
<th>Investment</th>
<th>IT Network</th>
<th>IT Development</th>
<th>Member Services</th>
<th>Total Legal Counsel</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>100,000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>#DIV/0!</td>
<td>0</td>
<td>100,000</td>
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</table>

## Contractual Services

<table>
<thead>
<tr>
<th>Category</th>
<th>Administration</th>
<th>Finance</th>
<th>Information Governance</th>
<th>Investment</th>
<th>IT Network</th>
<th>IT Development</th>
<th>Member Services</th>
<th>Total Contractual Services</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0</td>
<td>50,000</td>
<td>0</td>
<td>0</td>
<td>75,000</td>
<td>13,750</td>
<td>88,000</td>
<td>370,960</td>
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</table>

## Software

<table>
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<tr>
<th>Category</th>
<th>Administration</th>
<th>Finance</th>
<th>Information Governance</th>
<th>Investment</th>
<th>IT Network</th>
<th>IT Development</th>
<th>Member Services</th>
<th>Total Software</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>7,000</td>
<td>0</td>
<td>1,312</td>
<td>50,000</td>
<td>75,000</td>
<td>13,750</td>
<td>0</td>
<td>147,062</td>
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## Communications

<table>
<thead>
<tr>
<th>Category</th>
<th>Administration</th>
<th>Finance</th>
<th>Information Governance</th>
<th>Investment</th>
<th>IT Network</th>
<th>IT Development</th>
<th>Member Services</th>
<th>Total Communications</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>18,000</td>
<td>22,000</td>
<td>47,600</td>
<td>13,750</td>
<td>47,600</td>
<td>13,750</td>
<td>0</td>
<td>87,600</td>
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## Infrastructure

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<thead>
<tr>
<th>Category</th>
<th>IT Network</th>
<th>Total Infrastructure</th>
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<tr>
<td></td>
<td>286,600</td>
<td>286,600</td>
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</table>

## Operating Expenses

<table>
<thead>
<tr>
<th>Category</th>
<th>Agency</th>
<th>IT Development</th>
<th>Total Operating Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>61,000</td>
<td>1,500</td>
<td>62,500</td>
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</table>

## Building Expenses

<table>
<thead>
<tr>
<th>Category</th>
<th>Building Expense</th>
<th>Capital - Building</th>
<th>Total Building Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>246,220</td>
<td>53,000</td>
<td>299,220</td>
</tr>
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</table>

## TOTAL

<table>
<thead>
<tr>
<th>Category</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>13,388,620</td>
</tr>
</tbody>
</table>
# Proposed Board of Trustees Budget

## Fiscal Year 2020

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Board of Trustees Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BOT Meetings</td>
<td>25,000</td>
<td>25,000</td>
<td>0.00%</td>
<td></td>
</tr>
<tr>
<td>BOT Training</td>
<td>80,000</td>
<td>80,000</td>
<td>0.00%</td>
<td></td>
</tr>
<tr>
<td>BOT Other</td>
<td>10,000</td>
<td>10,000</td>
<td>0.00%</td>
<td></td>
</tr>
<tr>
<td><strong>Total Board Expenses</strong></td>
<td>115,000</td>
<td>115,000</td>
<td>0.00%</td>
<td></td>
</tr>
</tbody>
</table>

| **Board fo Trustees Consultants** |       |       |          |          |
| Actuarial Services      | 287,500| 217,104| (70,396)| -24.49%  |
| Actuarial Other         | 30,000 | 30,000 |        | 0.00%    |
| Auditing Services       | 91,495 | 91,495 |        | 0.00%    |
| Auditing Services GASB  | 50,000 | 50,000 |        | 0.00%    |
| ORG                    | 310,000| 320,000| 10,000 | 3.23%    |
| Legacy Real Estate Valuations | 150,000| 50,000 | (100,000) | -66.67%  |
| Stepstone Group        | 100,000| 104,040| 4,040   | 4.04%    |
| Albourne America       | 640,000| 576,000| (64,000)| -10.00%  |
| Mellon Bank Fees       | 400,000| 540,000| 140,000 | 35.00%   |
| Strategic Consultant   | 50,000 | -      | (50,000)| -100.00% |
| External Legal Counsel | -      | 50,000 | 50,000  | #DIV/0!  |
| Legislative Liaison    | 213,600| 213,600|        | 0.00%    |
| NEPC                  | 458,000| 466,932| 8,932   | 1.95%    |
| External Legal Contract Services | - | 65,000 | 65,000 | #DIV/0! |
| Due Diligence - Consultants | - | 13,000 | 13,000 | #DIV/0! |
| **Total Board Consultants** | 2,780,595 | 2,787,171 | 6,576 | 0.24% |

| **DC Committee** |       |       |          |          |
| DC Meetings       | 1,000 | 1,000 |        | 0.00%    |
| DC Training       | 10,000| 10,000|        | 0.00%    |
| DC Other          | 14,000| 14,000|        | 0.00%    |
| Sageview          | 45,000| 45,000|        | 0.00%    |
| Galloway          | 30,000| 30,000|        | 0.00%    |
| Total Prior to Reimbursement | 100,000 | 100,000 |        | 0.00% |
| Nationwide Reimbursement | (100,000) | (100,000) |        | 0.00% |
| **Total DC Committee** | - | - | - | #DIV/0! |

| **Total Board of Trustees Budget** | 2,895,595 | 2,902,171 | 6,576 | 0.23% |

# Raw Texts

- **Board of Trustees Expenses**
  - BOT Meetings: 25,000
  - BOT Training: 80,000
  - BOT Other: 10,000
  - **Total Board Expenses**: 115,000

- **Board fo Trustees Consultants**
  - Actuarial Services: 287,500
  - Actuarial Other: 30,000
  - Auditing Services: 91,495
  - Auditing Services GASB: 50,000
  - ORG: 310,000
  - Legacy Real Estate Valuations: 150,000
  - Stepstone Group: 100,000
  - Albourne America: 640,000
  - Mellon Bank Fees: 400,000
  - Strategic Consultant: 50,000
  - External Legal Counsel: -
  - Legislative Liaison: 213,600
  - NEPC: 458,000
  - External Legal Contract Services: -
  - Due Diligence - Consultants: -
  - **Total Board Consultants**: 2,780,595

- **DC Committee**
  - DC Meetings: 1,000
  - DC Training: 10,000
  - DC Other: 14,000
  - Sageview: 45,000
  - Galloway: 30,000
  - **Total Prior to Reimbursement**: 100,000
  - **Total DC Committee**: -

- **Total Board of Trustees Budget**: 2,895,595
### Proposed Agency Budget

**Fiscal Year 2020**

<table>
<thead>
<tr>
<th></th>
<th>2019 Approved Budget</th>
<th>2020 Proposed Budget</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Professional Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cyber Insurance</td>
<td>50,000</td>
<td>50,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Total Professional Services</td>
<td>50,000</td>
<td>50,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Communications</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Postage</td>
<td>15,000</td>
<td>18,000</td>
<td>3,000</td>
<td>20.00%</td>
</tr>
<tr>
<td>Printing</td>
<td>2,000</td>
<td>5,000</td>
<td>3,000</td>
<td>150.00%</td>
</tr>
<tr>
<td>Delivery Service</td>
<td>1,000</td>
<td>1,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Total Communications</td>
<td>18,000</td>
<td>24,000</td>
<td>6,000</td>
<td>33.33%</td>
</tr>
<tr>
<td><strong>Operating Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office Supplies - General</td>
<td>32,000</td>
<td>40,000</td>
<td>8,000</td>
<td>25.00%</td>
</tr>
<tr>
<td>Copier/Printer Supplies</td>
<td>17,000</td>
<td>13,300</td>
<td>(3,700)</td>
<td>-21.76%</td>
</tr>
<tr>
<td>Envelopes</td>
<td>1,000</td>
<td>1,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Forms</td>
<td>500</td>
<td>1,500</td>
<td>1,000</td>
<td>200.00%</td>
</tr>
<tr>
<td>Other Office Expense</td>
<td>10,500</td>
<td>22,500</td>
<td>12,000</td>
<td>114.29%</td>
</tr>
<tr>
<td>Total Operating Expenses</td>
<td>61,000</td>
<td>78,300</td>
<td>17,300</td>
<td>28.36%</td>
</tr>
<tr>
<td><strong>Total Agency Budget</strong></td>
<td>129,000</td>
<td>152,300</td>
<td>23,300</td>
<td>18.06%</td>
</tr>
</tbody>
</table>
# Proposed Administration Budget

## Fiscal Year 2020

<table>
<thead>
<tr>
<th></th>
<th>2019 Approved Budget</th>
<th>2020 Proposed Budget</th>
<th>Change</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personnel Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries &amp; Wages</td>
<td>1,905,875</td>
<td>2,416,126</td>
<td>510,251</td>
<td>26.77%</td>
</tr>
<tr>
<td>Incentives/In-grades/Payouts</td>
<td>118,537</td>
<td>0</td>
<td>(118,537)</td>
<td>-100.00%</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>121,465</td>
<td>95,001</td>
<td>(26,464)</td>
<td>-21.79%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>214,480</td>
<td>236,226</td>
<td>21,746</td>
<td>10.14%</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>21,458</td>
<td>26,184</td>
<td>4,726</td>
<td>22.02%</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>387,649</td>
<td>496,585</td>
<td>108,936</td>
<td>28.10%</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td>2,769,464</td>
<td>3,270,121</td>
<td>500,657</td>
<td>18.08%</td>
</tr>
<tr>
<td><strong>Education &amp; Training</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local Board/Employer Training</td>
<td>28,000</td>
<td>5,500</td>
<td>(22,500)</td>
<td>-80.36%</td>
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<tr>
<td>Travel Expense</td>
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<td>17,000</td>
<td>2,000</td>
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<tr>
<td>Conferences</td>
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<td>40,700</td>
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<td>Dues &amp; Subscriptions</td>
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<td>28,135</td>
<td>3,670</td>
<td>15.00%</td>
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<tr>
<td>Tuition Reimburse</td>
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<td>9,750</td>
<td>(750)</td>
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<td>Training Expense</td>
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<td>-11.11%</td>
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<tr>
<td><strong>Total Education &amp; Training</strong></td>
<td>139,700</td>
<td>117,085</td>
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<td>-16.19%</td>
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<tr>
<td><strong>Professional Services</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Prof Serv - Due Diligence</td>
<td>4,000</td>
<td>4,000</td>
<td>-</td>
<td>0.00%</td>
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<tr>
<td>Prof Serv - Other</td>
<td>10,000</td>
<td>16,000</td>
<td>6,000</td>
<td>60.00%</td>
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<td>Prof Serv - Actuarial Services</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>#DIV/0!</td>
</tr>
<tr>
<td>Prof Serv - Actuarial Other</td>
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<td>-</td>
<td>-</td>
<td>#DIV/0!</td>
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<tr>
<td>Strategic Consultant</td>
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<td>-</td>
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<td>#DIV/0!</td>
</tr>
<tr>
<td>Prof Serv - Legislative Liaison</td>
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<td>-</td>
<td>-</td>
<td>#DIV/0!</td>
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<tr>
<td>Communication Services</td>
<td>91,980</td>
<td>80,000</td>
<td>(11,980)</td>
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<tr>
<td><strong>Total Professional Services</strong></td>
<td>105,980</td>
<td>100,000</td>
<td>(5,980)</td>
<td>-5.64%</td>
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<tr>
<td><strong>Legal Counsel</strong></td>
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<td></td>
<td></td>
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## Proposed Finance Budget

**Fiscal Year 2020**

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<th>% Change</th>
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## Proposed Information Governance Budget

### Fiscal Year 2020

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<th>% Change</th>
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# Proposed Investments Budget

**Fiscal Year 2020**

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<th>$ Change</th>
<th>% Change</th>
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<td><strong>Personnel Services</strong></td>
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<td>Salaries &amp; Wages</td>
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# Proposed IT Network Budget

## Fiscal Year 2020

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<th>$ Change</th>
<th>% Change</th>
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<td>12.95%</td>
</tr>
<tr>
<td><strong>Total Infrastructure</strong></td>
<td>286,600</td>
<td>321,500</td>
<td>34,900</td>
<td>12.18%</td>
</tr>
<tr>
<td><strong>Software</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Software - Other</td>
<td>65,000</td>
<td>80,000</td>
<td>15,000</td>
<td>23.08%</td>
</tr>
<tr>
<td>License &amp; Maintenance - Other</td>
<td>10,000</td>
<td>12,000</td>
<td>2,000</td>
<td>20.00%</td>
</tr>
<tr>
<td><strong>Total Software</strong></td>
<td>75,000</td>
<td>92,000</td>
<td>17,000</td>
<td>22.67%</td>
</tr>
<tr>
<td><strong>Total IT Network Budget</strong></td>
<td>1,115,342</td>
<td>1,211,208</td>
<td>95,866</td>
<td>8.60%</td>
</tr>
</tbody>
</table>
### Proposed IT Systems Development Budget

**Fiscal Year 2020**

<table>
<thead>
<tr>
<th></th>
<th>2019 Approved Budget</th>
<th>2020 Proposed Budget</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Personnel Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries &amp; Wages</td>
<td>574,525</td>
<td>572,525</td>
<td>(2,000)</td>
<td>-0.35%</td>
</tr>
<tr>
<td>Incentives/In-grades/Payouts</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>#DIV/0!</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>34,472</td>
<td>18,430</td>
<td>(16,042)</td>
<td>-46.54%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>92,975</td>
<td>76,135</td>
<td>(16,840)</td>
<td>-18.11%</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>6,089</td>
<td>6,641</td>
<td>552</td>
<td>9.07%</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>115,679</td>
<td>125,955</td>
<td>10,276</td>
<td>8.88%</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td>823,740</td>
<td>799,686</td>
<td>(24,054)</td>
<td>-2.92%</td>
</tr>
<tr>
<td><strong>Education &amp; Training</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel Expense</td>
<td>1,000</td>
<td>2,000</td>
<td>1,000</td>
<td>100.00%</td>
</tr>
<tr>
<td>Conferences</td>
<td>12,000</td>
<td>15,000</td>
<td>3,000</td>
<td>25.00%</td>
</tr>
<tr>
<td>Dues &amp; Subscriptions</td>
<td>300</td>
<td>300</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Tuition Reimbursement</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>#DIV/0!</td>
</tr>
<tr>
<td>Training Expense Other</td>
<td>31,000</td>
<td>32,000</td>
<td>1,000</td>
<td>3.23%</td>
</tr>
<tr>
<td><strong>Total Education &amp; Training</strong></td>
<td>44,300</td>
<td>49,300</td>
<td>5,000</td>
<td>11.29%</td>
</tr>
<tr>
<td><strong>Contractual Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract Services</td>
<td>232,960</td>
<td>806,320</td>
<td>573,360</td>
<td>246.12%</td>
</tr>
<tr>
<td><strong>Total Contractual Services</strong></td>
<td>232,960</td>
<td>806,320</td>
<td>573,360</td>
<td>246.12%</td>
</tr>
<tr>
<td><strong>Software</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Go-To-Webinar</td>
<td>1,100</td>
<td>1,200</td>
<td>100</td>
<td>9.09%</td>
</tr>
<tr>
<td>Go-To-Meeting</td>
<td>650</td>
<td>1,000</td>
<td>350</td>
<td>53.85%</td>
</tr>
<tr>
<td>Sybase Support</td>
<td>6,000</td>
<td>6,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Software Other</td>
<td>4,000</td>
<td>4,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>License Backup Line</td>
<td>1,000</td>
<td>1,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>License Other</td>
<td>1,000</td>
<td>3,500</td>
<td>2,500</td>
<td>250.00%</td>
</tr>
<tr>
<td><strong>Total Software</strong></td>
<td>13,750</td>
<td>16,700</td>
<td>2,950</td>
<td>21.45%</td>
</tr>
<tr>
<td><strong>Furniture &amp; Equipment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repairs &amp; Maintenance</td>
<td>1,500</td>
<td>-</td>
<td>(1,500)</td>
<td>-100.00%</td>
</tr>
<tr>
<td><strong>Total IT Systems Development Budget</strong></td>
<td>1,116,250</td>
<td>1,672,006</td>
<td>555,756</td>
<td>49.79%</td>
</tr>
</tbody>
</table>
# Proposed Member Services Budget

## Fiscal Year 2020

<table>
<thead>
<tr>
<th></th>
<th>2019</th>
<th>2020</th>
<th>$ Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Approved Budget</td>
<td>Proposed Budget</td>
<td>Change</td>
<td></td>
</tr>
<tr>
<td><strong>Personnel Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries &amp; Wages</td>
<td>1,293,908</td>
<td>1,311,243</td>
<td>17,335</td>
<td>1.34%</td>
</tr>
<tr>
<td>Incentives/In-grades/Payouts</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>#DIV/0!</td>
</tr>
<tr>
<td>DC Plan - ER Matching</td>
<td>77,634</td>
<td>51,468</td>
<td>(26,166)</td>
<td>-33.70%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>234,282</td>
<td>216,290</td>
<td>(17,992)</td>
<td>-7.68%</td>
</tr>
<tr>
<td>Payroll Expenses - ADOA Fees</td>
<td>13,715</td>
<td>15,035</td>
<td>1,320</td>
<td>9.63%</td>
</tr>
<tr>
<td>Payroll Expenses - Other</td>
<td>265,717</td>
<td>285,154</td>
<td>19,437</td>
<td>7.31%</td>
</tr>
<tr>
<td><strong>Total Personnel Services</strong></td>
<td>1,885,256</td>
<td>1,879,191</td>
<td>(6,065)</td>
<td>-0.32%</td>
</tr>
<tr>
<td><strong>Education &amp; Training</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Travel Expense</td>
<td>500</td>
<td>2,700</td>
<td>2,200</td>
<td>440.00%</td>
</tr>
<tr>
<td>Conferences</td>
<td>3,600</td>
<td>3,500</td>
<td>(100)</td>
<td>-2.78%</td>
</tr>
<tr>
<td>Dues &amp; Subscriptions</td>
<td>200</td>
<td>-</td>
<td>(200)</td>
<td>-100.00%</td>
</tr>
<tr>
<td>Tuition Reimbursement</td>
<td>10,500</td>
<td>-</td>
<td>(10,500)</td>
<td>-100.00%</td>
</tr>
<tr>
<td>Training Expense Other</td>
<td>2,000</td>
<td>4,500</td>
<td>2,500</td>
<td>125.00%</td>
</tr>
<tr>
<td><strong>Total Education &amp; Training</strong></td>
<td>16,800</td>
<td>10,700</td>
<td>(6,100)</td>
<td>-36.31%</td>
</tr>
<tr>
<td><strong>Professional Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Death Index/Audit</td>
<td>10,800</td>
<td>11,900</td>
<td>1,100</td>
<td>10.19%</td>
</tr>
<tr>
<td><strong>Total Professional Services</strong></td>
<td>10,800</td>
<td>11,900</td>
<td>1,100</td>
<td>10.19%</td>
</tr>
<tr>
<td><strong>Contractual Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scanning Services</td>
<td>41,000</td>
<td>42,099</td>
<td>1,099</td>
<td>2.68%</td>
</tr>
<tr>
<td>Temporary Services</td>
<td>47,000</td>
<td>60,000</td>
<td>13,000</td>
<td>27.66%</td>
</tr>
<tr>
<td><strong>Total Contractual Services</strong></td>
<td>88,000</td>
<td>102,099</td>
<td>14,099</td>
<td>16.02%</td>
</tr>
<tr>
<td><strong>Total Member Services Budget</strong></td>
<td>2,000,856</td>
<td>2,003,890</td>
<td>3,034</td>
<td>0.15%</td>
</tr>
</tbody>
</table>
## Proposed Building Budget
### Fiscal Year 2020

<table>
<thead>
<tr>
<th></th>
<th>2019 Budget</th>
<th>2020 Proposed Budget</th>
<th>Change</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Building Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Condo Association Fees</td>
<td>35,500</td>
<td>32,400</td>
<td>(3,100)</td>
<td>-8.73%</td>
</tr>
<tr>
<td>Elevator</td>
<td>4,800</td>
<td>2,400</td>
<td>(2,400)</td>
<td>-50.00%</td>
</tr>
<tr>
<td>Security System</td>
<td>1,500</td>
<td>1,000</td>
<td>(500)</td>
<td>-33.33%</td>
</tr>
<tr>
<td>Janitorial</td>
<td>22,000</td>
<td>25,800</td>
<td>3,800</td>
<td>17.27%</td>
</tr>
<tr>
<td>Utilities</td>
<td>55,000</td>
<td>55,200</td>
<td>200</td>
<td>0.36%</td>
</tr>
<tr>
<td>Window Cleaning</td>
<td>1,500</td>
<td>1,500</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Odorite of Arizona</td>
<td>420</td>
<td>420</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Arizona Lock &amp; Safe</td>
<td>1,000</td>
<td>3,000</td>
<td>2,000</td>
<td>200.00%</td>
</tr>
<tr>
<td>Pest Control</td>
<td>2,000</td>
<td>1,296</td>
<td>(704)</td>
<td>-35.20%</td>
</tr>
<tr>
<td>Insurance</td>
<td>72,500</td>
<td>75,000</td>
<td>2,500</td>
<td>3.45%</td>
</tr>
<tr>
<td>Building Management</td>
<td>20,000</td>
<td>6,000</td>
<td>(14,000)</td>
<td>-70.00%</td>
</tr>
<tr>
<td>Repair &amp; Mtn - Air Conditioning</td>
<td>10,000</td>
<td>12,000</td>
<td>2,000</td>
<td>20.00%</td>
</tr>
<tr>
<td>Repair &amp; Maintenance - Other</td>
<td>20,000</td>
<td>20,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td><strong>Total Building Expenses</strong></td>
<td>246,220</td>
<td>236,016</td>
<td>(10,204)</td>
<td>-4.14%</td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furniture &amp; Equipment</td>
<td>10,000</td>
<td>10,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Building Improvements</td>
<td>2,000</td>
<td>3,000</td>
<td>1,000</td>
<td>50.00%</td>
</tr>
<tr>
<td>Alarm &amp; Video</td>
<td>1,000</td>
<td>1,000</td>
<td>-</td>
<td>0.00%</td>
</tr>
<tr>
<td>Remodeling</td>
<td>29,500</td>
<td>50,000</td>
<td>20,500</td>
<td>69.49%</td>
</tr>
<tr>
<td>Space Planner</td>
<td>10,500</td>
<td>-</td>
<td>(10,500)</td>
<td>-100.00%</td>
</tr>
<tr>
<td><strong>Total Capital</strong></td>
<td>53,000</td>
<td>64,000</td>
<td>11,000</td>
<td>20.75%</td>
</tr>
<tr>
<td><strong>Total Building Budget</strong></td>
<td>299,220</td>
<td>300,016</td>
<td>796</td>
<td>0.27%</td>
</tr>
</tbody>
</table>
BACKGROUND
A.R.S. § 38-848(N)(7) requires the administrator to “recommend to the board annual contracts for the system's actuary, auditor, investment counsel, legal counsel and safeguarding of securities.” In the past, that recommendation has been included as part of the annual budget process. This memo serves to fulfill that requirement. The 2019-20 fees have been included in the fiscal year 2019-20 budget. Approval of the budget will include approval of the vendors listed below for FY20 unless the Board decides otherwise.

VENDORS
Per Section 5.06 of the Vendor Selection Police of the Governance Manual, the board is responsible for approving the appointment of named vendors, which include the following:

<table>
<thead>
<tr>
<th>Firm</th>
<th>Area</th>
<th>2018-19 Fees</th>
<th>Renewal Period</th>
<th>2019-20 Fees</th>
<th>Last External</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ivy Voss</td>
<td>Board Counsel</td>
<td>$125/Hour</td>
<td>Monthly</td>
<td>$125/Hour</td>
<td></td>
</tr>
<tr>
<td>Foster &amp; Foster</td>
<td>Actuarial Services</td>
<td>NA</td>
<td>4/1/19 – 6/30/22</td>
<td>$425,000</td>
<td>2019</td>
</tr>
<tr>
<td>Heinfeld, Meech &amp; Co.</td>
<td>Financial Auditors</td>
<td>$141,495</td>
<td>5/1/19 – 4/30/20</td>
<td>$141,495</td>
<td>2014</td>
</tr>
<tr>
<td>HighGround</td>
<td>Legislative Liaison</td>
<td>$7,800/Month</td>
<td>7/1/17 – 6/30/20</td>
<td>$7,800/Month</td>
<td>2008</td>
</tr>
<tr>
<td>Public Policy Partners</td>
<td>Legislative Liaison</td>
<td>$10,000/Month</td>
<td>7/1/17 – 6/30/20</td>
<td>$10,000/Month</td>
<td>2008</td>
</tr>
</tbody>
</table>

Investment Related Contracts

<table>
<thead>
<tr>
<th>Firm</th>
<th>Area</th>
<th>2018-19 Fees</th>
<th>Renewal Period</th>
<th>2019-20 Fees</th>
<th>Last External</th>
</tr>
</thead>
<tbody>
<tr>
<td>NEPC (General)</td>
<td>Fiduciary Consultant</td>
<td>$532,776</td>
<td>7/1/19 - 6/30/20</td>
<td>$541,932</td>
<td>2010</td>
</tr>
<tr>
<td>Albourne</td>
<td>Hedge Funds</td>
<td>$360,000</td>
<td>7/1/19 - 6/30/20</td>
<td>$360,000</td>
<td>2010</td>
</tr>
<tr>
<td>Albourne</td>
<td>Private Equity</td>
<td>$216,000</td>
<td>7/1/19 - 6/30/20</td>
<td>$216,000</td>
<td>2010</td>
</tr>
<tr>
<td>ORG</td>
<td>Real Estate</td>
<td>$320,000</td>
<td>7/1/19 - 6/30/20</td>
<td>$320,000</td>
<td>2010</td>
</tr>
<tr>
<td>StepStone</td>
<td>Global Private Equity</td>
<td>$102,000</td>
<td>7/1/19 - 6/30/20</td>
<td>$104,040</td>
<td>2010</td>
</tr>
</tbody>
</table>

The board's contract committee conducted an external search for an actuarial firm in 2019 and extended a 3-year, 3-month contract with Foster & Foster effective April 1, 2019. That contract runs through 6/30/22. Contracts with our legislative liaisons are 3-year contracts that were signed in 2017 and expire in 2020. The contract with our financial auditor is renewable on an annual basis and presently runs through 4/30/20. The board approved one year extensions for the investment related contracts in 2018.

At the April 25, 2018 board meeting, the board voted to review one operations-related contract a year and issue RFPs for those contracts. The schedule the board approved is as follows:

<table>
<thead>
<tr>
<th>Firm</th>
<th>Review Year</th>
<th>Effective Date of New Contract</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actuarial Services</td>
<td>Fiscal Year 2018-19</td>
<td>4/1/19</td>
</tr>
<tr>
<td>Legislative Liaisons</td>
<td>Fiscal Year 2019-20</td>
<td>7/1/20</td>
</tr>
<tr>
<td>Financial Auditor</td>
<td>Fiscal Year 2020-21</td>
<td>7/1/21</td>
</tr>
</tbody>
</table>
BACKGROUND

PSPRS employees are state employees. One of the benefits offered to state employees is the opportunity to contribute to a supplemental 457 plan on a pre-tax basis and receive a possible match from the employer. The employer match is considered pensionable wages, so employees contribute to ASRS on the employer match, and the employer match is included in an employee’s high-3 or high-5 salary when benefits are calculated. PSPRS as an employer has provided an employer match since the supplemental plan was first offered in 2001.

At the May, 2019 Board meeting the Board reviewed the employer match and requested additional data from staff about which other entities offer a supplemental deferred compensation plan that includes an employer match.

SURVEY RESULTS

Staff contacted 20 other public pension plans and a few of the larger Arizona cities. We also contacted the State of Arizona. We learned that there are not any other state agencies that provide the match, but there are other cities and other pension plans that do. Here are the entities that we contacted and the results:

<table>
<thead>
<tr>
<th>Entity</th>
<th>Supplementary DC Plan</th>
<th>Employer Match</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arizona State Retirement System (ASRS)</td>
<td>Y</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>City of Chandler</td>
<td>Y</td>
<td>Y</td>
<td>1 - 4% sliding scale based on min. employee contribution of $10 to $60</td>
</tr>
<tr>
<td>City of Phoenix (COPERS)</td>
<td>Y</td>
<td>Y</td>
<td>Execs and Middle Managers 8.5%, Supervisory and Professional Staff 6.2% Clerical Staff 0.1%</td>
</tr>
<tr>
<td>Colorado Police &amp; Fire (FPPA)</td>
<td>Y</td>
<td>Y</td>
<td>50% up to $1,100</td>
</tr>
<tr>
<td>Delaware Public Employees' Retirement System (DPERS)</td>
<td>Y</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>Idaho PERSI</td>
<td>Y</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>Illinois Municipal Retirement Fund (IMRF)</td>
<td>Y</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>Indiana Public Retirement System (INPRS)</td>
<td>Y</td>
<td>Y</td>
<td>2% of salary or $15/pay period, whichever is less</td>
</tr>
<tr>
<td>Iowa Fire &amp; Police (IPERS)</td>
<td>Y</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>Louisiana State (LASERS)</td>
<td>Y</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>MERS of Michigan</td>
<td>Y</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>Minnesota State Retirement System</td>
<td>Y</td>
<td>Y</td>
<td>Varies by contract, bargained amount. 100% match ranges from $175 to $300 per year. Option to convert to vacation or compensatory time in lieu of employer match.</td>
</tr>
<tr>
<td>Plan Name</td>
<td>Employer Match</td>
<td>Employee Match</td>
<td>Match Details</td>
</tr>
<tr>
<td>----------------------------------------------------</td>
<td>----------------</td>
<td>----------------</td>
<td>--------------------------------------------------------</td>
</tr>
<tr>
<td>Missouri LAGERS</td>
<td>Y</td>
<td>Y</td>
<td>2%</td>
</tr>
<tr>
<td>Montana Teachers' (MPERA)</td>
<td>Y</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>Montgomery County Employee Retirement Plan</td>
<td>Y</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>Ohio (PERS)</td>
<td>Y</td>
<td>Y</td>
<td>Up to $15</td>
</tr>
<tr>
<td>Ohio SERS</td>
<td>Y</td>
<td>Y</td>
<td>Up to $15 per pay period</td>
</tr>
<tr>
<td>South Carolina (PEBA)</td>
<td>Y</td>
<td>Y</td>
<td>State has not budgeted to matched EE contributions in many years</td>
</tr>
<tr>
<td>State of Tennessee (TCRS)</td>
<td>Y</td>
<td>Y</td>
<td>State and higher education. Dollar for dollar match up to $50 per month</td>
</tr>
<tr>
<td>Texas Municipal Retirement System (TMRS)</td>
<td>Y</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>Town of Gilbert</td>
<td>Y</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td>Utah Retirement System (URS)</td>
<td>Y</td>
<td>Y</td>
<td>Up to 2%, plus $26</td>
</tr>
<tr>
<td>Virginia Retirement System</td>
<td>Y</td>
<td>Y</td>
<td>DB Supplemental Plan: 50% up to $20 per semi-monthly pay period. Hybrid Retirement Plan: 2.5% match of EE voluntary contributions.</td>
</tr>
</tbody>
</table>

**DECISION ITEM**

In accordance with statute, employers must determine the rate of their employer match at the beginning of each fiscal year. Here is some additional information to help make the decision whether or not the Board will continue to offer PSPRS employees a deferred compensation plan contribution match.

- 41 of 55 employees take advantage of the employer match.
- The cost of providing the match in fiscal year 2019-20 is $259,718.
- Since other state agencies do not provide the match, we have been successful in recruiting from other state agencies because we do offer the match. That allows state employees to do a lateral move from a state agency to PSPRS and increase their pensionable wages. The match has been an excellent recruiting tool.
- PSPRS has offered a match since the day the plan was offered. Should the Board decide to stop providing the match, it would be considered a cut in pay by staff.
- While many other pension plans offer a match, most are not as generous as the 6% our Board offers to PSPRS employees.
BACKGROUND
For many years, software development at PSPRS was handled by one person. That person built EPIC 1.0 over a period of roughly 20 years. As he hired additional staff, he developed a software development methodology that worked well for bug fixes and maintenance, but did not do a good job of moving us forward with new development. Our systems became antiquated, and we discovered in 2017 that the software development methodology did not work well at all for large-scale projects.

In 2018, the leadership team made several changes to the way we managed software development projects, but knew that we needed to adopt a new software development methodology. Some of us had experience in Agile/Scrum and believed we needed to transition to some form of that methodology, which is now widely used by most software development shops. We also knew, however, that the methodology was not the only problem we had, and felt that if we were to change methodologies, we should also assess what else was broken so that we could address those issues as well and set our software development team up for future success.

We hired Agile Progress, LLC to help assess all aspects of our current software development lifecycle. Agile Progress also evaluated communications and communications flow, overall project management, our organizational change management process, and our readiness as an organization to transition to a new methodology. Their findings are summarized in nine common themes. According to Agile Progress, these themes are fairly common among organizations that are struggling with their existing software development methodology, and they made recommendations for improvement in each of the nine themes. We have begun implementing many of their recommendations. The observations made by Agile Progress and what we’re doing to address those observations are as follows.

KEY FINDINGS
Theme 1: Major Silos & Communication Barriers Exist
Observations
The Development Team (Dev Team) and the business do not regularly communicate throughout the software development process, and when problems arise, the business often blames the Dev Team, and the Dev Team often blames the business. We do not have a central repository for tracking software requirements (either new development or bug fixes), and we do not have enough interaction between developers and subject matter experts while software is being developed. Requirements are at times misinterpreted by the Dev Team, and the business does not realize it until weeks or months later when software is rolled out that doesn’t match what the business requested, leading to rework.

What are we doing about it?
We have installed Jira, a software package that allows us to track and manage software development projects. We are also implementing an Agile development framework and will be handling software development in project teams (called “Scrums”) that consist of developers and subject matter experts working with each other on a daily basis throughout the software development process. We have hired Agile Progress to train staff on the Agile/Scrum process. That training has already begun, and includes the development of a change management and communications framework.
Theme 2: Lack of Shared Understanding of Business Needs, Requirements, System Features, Priorities and System Limitations

Observations
While the business and the Dev Team have initial meetings to define and document software requirements, a process does not exist for continual verification of those requirements throughout the development process. As a result, software is rolled out that does not meet the needs of the business and must be rewritten. The business blames the Dev Team for defining features that the business did not ask for, and the Dev Team blames the business for changing business requirements mid-stream or not providing business requirements at all. Both are frustrated when priorities change.

What are we doing about it?
We are adopting an Agile development framework, which addresses these issues. Our first project using this new methodology is the Refunds module. We started with a joint visioning session to develop an overall product vision, roadmap and major goals. We also developed a product backlog and set priorities. We have created a scrum that consists of developers and subject matter experts that will provide continual verification of business requirements while the software is being developed. We are in the process of hiring a business analyst to help document business requirements. We have assigned a Product Owner and a Scrum Master, and will hold daily meetings to provide continual verification of business requirements throughout the development process.

Theme 3: Lack of Shared Ownership

Observations
EPIC is an enterprise-wide system that affects almost every department. As a result, no one department or individual owns EPIC. For instance, the 1099 module affects the Active Member department (they issue refunds), the Retired Member department (they issue benefits) and the Accounting department (they reconcile 1099Rs and prepare related tax reports). When that module does not function as intended, we have not defined who is responsible for getting it fixed. As a result, responsibility and blame often get thrown over the fence.

What are we doing about it?
The new Agile methodology will require us to determine who the subject matter experts are when we begin working on various modules, and will require those experts to be part of the scrum team that defines requirements and oversees development of the software throughout the development lifecycle. The training we receive from Agile Progress will also help us develop an effective change management system that helps us manage joint ownership of EPIC.

Theme 4: Lack of Transparency and Lack of Tracking Mechanisms

Observations
We do not have a tracking mechanism to track the backlog of features and bug fixes that the Dev Team will be working on. As a result, the business does not always know what’s being developed, nor does the business know the progress of what’s being developed. System development schedules are not managed well, so when the Dev Team is ready for software to be tested, the business is not ready to do so, leading to delays or to software being rolled out that has not been thoroughly tested.

What are we doing about it?
We have purchased and installed Jira, a software package that will allow us to better track and view the backlog of features and bug fixes. The Product Owner will maintain the backlog and communicate progress with staff. The new Agile methodology breaks projects into small chunks that are worked on
over a 2-week timeframe (called a “sprint”). At the end of each sprint, the business will be able to track what was developed during that sprint. Since business users will be included in each scrum team, the business will know what is being worked on and will be prepared to test software before it is rolled out.

Theme 5: Lack of Testing

Observations

All too often, software is developed and released with little business testing. That’s often due to the issue listed in Theme 4—subject matter experts often do not know when software is ready for testing, and are often too busy with the day-to-day work to spend time testing software. Prior to 2018 when we hired a dedicated tester to be on the Dev Team, we did not develop any test scenarios for the business, so the business often did not know what to test. Because there was little communication between the business and the Dev Team, software was sometimes developed but not implemented because the Dev Team was waiting for the business to test the software, and the business didn’t know the software was ready to test, nor did they know what changes were made that needed to be tested. At other times, the software was released to production without first being tested.

What are we doing about it?

Business subject matter experts are now part of the scrum team with full knowledge of the features that are being developed, and testing is now included with each sprint. We are in the process of hiring a business analyst who will help document acceptance criteria as part of each user story. That acceptance criteria will be used when testing software prior to implementation. We have asked the Board for one new resource in the Member Services division, knowing we will need to dedicate existing resources to testing and being part of scrum teams.

Theme 6: No Common Understanding of Agile/Scrum Methodology Across all Team Members

Observations

Since Agile is a new methodology for most staff, we do not yet have a common understanding of the methodology and how we might best implement it. The Agile methodology is a high-level methodology that can be implemented in different ways. We have chosen to implement Agile using a Scrum framework, but that can be implemented in different ways as well. Most staff have no prior experience with Agile, so everything will be new. The Dev Team has limited experience, but the experience they do have has been varied. Because of that, the level of understanding as to what can be achieved via Agile/Scrum and how it is achieved varies.

What are we doing about it?

Agile Progress spent two full days working with staff who will be involved in software development, either on the Dev Team or as a subject matter expert, product owner or change manager. During that training we developed a common understanding of the Agile framework specific to our agency and resources. As we gain experience, we will develop a common understanding of the new methodology across all team members.

Theme 7: Strong Desire to Change and to Collaborate or Provide Input

Observations

From a change management perspective, this is a very positive theme. The agency is looking forward to changing our software development methodology and seeing better results. Jon Chase, our software development manager, has wanted to implement the new methodology, but hasn’t known how to transition us from where we are today to where we need to be. The business has experienced tremendous pain the past two years, and is excited to work more closely with the Dev Team, even though
they know it will involve more resources. The Dev Team is already working collaboratively within their team, so the transition to scrum teams that hold daily meetings will not be a big change for them. According to Agile Progress, not every entity wants to change their software development methodology, so our strong desire to change and to collaborate with each other is a positive.

What are we doing about it?
We are moving to the Agile/Scrum methodology now while staff is excited about the change. We have developed an organization change management team made up of Bret, Liz, Robert and Dave. This group will be able to capitalize on the current desire and imperative to change. We are also developing scrum teams that require the business and Dev Team to work collaboratively on a daily basis.

Theme 8: Project and Program Management Discipline Needs to Mature
Observations
We do not have a way to track and manage issues and risks, nor do we have clearly defined roles when it comes to software development. We also do not have a resource dedicated to project management, and so we often do not have a clear roadmap or project plan for major software development projects.

What are we doing about it?
We have included the cost of hiring a project manager in the Fiscal Year 2020 budget. We are also attempting to hire a CTO to help manage IT-related projects.

Theme 9: Key Resources are Constrained
Observations
Member Services is understaffed, making it difficult for them to fully participate in the process. Although we have 5 developers, only 2 of them have experience in PowerBuilder (the language EPIC is written in) and those two are already overworked. One of them is the Development Manager, and he is so busy writing software that he doesn’t have time to truly manage his team or set up Jira, the new issue tracking software.

What are we doing about it?
We have asked the Board for an additional resource in the Member Services division to help give us the resources we need to more fully participate in software development projects. We have also requested additional contract help in the IT Development department and included the cost in our FY20 budget. We are training our existing staff to develop in PowerBuilder so that we can complete the transition from EPIC 1 to EPIC 2. As we hire contractors, we will pair them up with experienced developers and subject matter experts who know the business.

MAJOR RECOMMENDATIONS
Agile Progress included some recommendations.

First, they recommend that after we are fully transitioned to EPIC 2, we evaluate whether it would be better going forward to “build or buy.” There are Pension Administration Software solutions available, although those “off the shelf” solutions still need to be configured for our specific needs. Those solutions, they noted, typically take 3-5 years to fully configure, and in further discussions they noted that the cost typically starts at $30 million. As an example, the Tennessee Retirement System recently finished implementing an “off the shelf” Pension Administration Software solution, and it took 4 years and $52 million. That seems to be fairly typical.
Second, they recommend that we get trained in the Agile framework and use a coach to mentor us through that transition. We have hired Agile Progress to do that work.

Third, they recommend that we develop a Change Management framework to support transition efforts. We have formed an Organizational Change Management team and will be developing such a framework.

Fourth, they recommend that we assess the effectiveness of the approach after several sprints and determine a go-forward strategy, which we plan to do.

Fifth, they recommend that we plan for 2-4 additional operations staff members to backfill the time our subject matter experts will need to devote to development projects. The FY20 budget includes the addition of one additional staff member in the call center. They also recommend that we continue with the transition from EPIC 1 to EPIC 2 by teaching our C# developers how to program in PowerBuilder and use a team programming approach to development, which we are doing.
Learning/Development
- No update

New Hire/Recruitment and Position Update
- Position Update
  - CTO position is posted as open until filled. First batch of applicants are currently being reviewed.
  - IT Systems/Network Engineer (IT Operations) – A contingent offer is being prepared.
  - IT Junior Systems Engineer (IT Operations) – Second batch of applicants being reviewed (first only yielded 2 potential candidates for interview)
- New Hire
  - Rob Parkes started on June 10 as Human Resources Director
  - William Harrison started on June 10 as Retirement Advisor Technician (Call Center)
- Separations
  - No update

Professional Development
- No update
Personnel Manual

Public Safety Personnel Retirement System

July 2015

A manual of Personnel rules, regulations and procedures applicable to all employees of PSPRS
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GENERAL POLICY STATEMENT

Employment with the Public Safety Personnel Retirement System, Corrections Officer Retirement Plan, and the Elected Officials’ Retirement Plan (collectively referred to herein as the “System”) is an “at will” uncovered State employment relationship. Employees are free to resign at any time, with or without cause. Similarly, employees serve at the pleasure of the System.

Policies and procedures set forth in this manual are the administrative personnel polices currently followed by the System and are not intended to be construed as a contract, either express or implied, nor are they to be construed to create contractual obligations of any kind including a contract of employment between the System and any of its employees. No employee of the System either in writing or verbally can alter this at will arrangement between the System and its employees. In other words, no employee of the System can make any promises or guarantees of any kind that alter the at will relationship.

The Administrative personnel policies may change without prior notice to employees. Questions about the personnel policies should be referred to the Administrator, Assistant/Deputy Administrator(s) or Human Resources.

Where there is a conflict with the State of Arizona’s Personnel System Rules, the Personnel System Rules controls.

Personnel Rules, Regulations, and Procedures were amended as follows:

Motion 02-26-90 at the Regular Meeting of the Board of Trustees held on February 14, 1990.
Motion 05-12-01 at the Regular Meeting of the Board of Trustees held on May 25, 2001.
Motion 11-36-01 at the Regular Meeting of the Board of Trustees held on November 14, 2001.
Motion 01-07-02 at the Regular Meeting of the Board of Trustees held on January 6, 2002.
Motion 03-32-05 at the Regular Meeting of the Board of Trustees held on March 16, 2005.
Amended 3-30-07
Amended 5-22-07
Amended 7-01-09
Amended 7-1-10
Amended 9-29-2012 (Establishment of Statewide Personnel System)
Amended 10-16-2014
Amended 7-1-2015
State of Arizona Personnel System Rules

PERSONNEL SYSTEM FINAL RULES
Effective: September 29, 2012

TITLE 2. ADMINISTRATION
CHAPTER 5. DEPARTMENT OF ADMINISTRATION
STATE PERSONNEL SYSTEM

SUBCHAPTER A. COVERED AND UNCOVERED EMPLOYEES

ARTICLE 1. GENERAL

R2-5A-101. Definitions
In this subchapter, the following words and phrases have the defined meanings unless otherwise clearly indicated by the context:

“Agency head” means the chief executive officer of a state agency, or designee.

“Appeal” means a covered employee's request for a review of a disciplinary action by the State Personnel Board under A.R.S. § 41-782 or the Law Enforcement Merit System Council under A.R.S. § 41-1830.16, as applicable.

“Applicant” means a person who seeks appointment to a position in state employment.

"Appointing authority" means the person or group of persons authorized by law or delegated authority to make appointments to fill positions. A.R.S. § 41-741(1)

“Appointment” means the offer to and the acceptance by a candidate of a position in a state agency.

"At will" means an employment relationship where either party to the relationship may sever the relationship at any time for any reason other than an unlawful reason. A.R.S. § 41-741(2)

“Base salary” means an employee’s salary excluding supplemental pay provided by R2-5A-403, overtime pay or other pay allowance provided by law.

"Break in service" means a separation from state employment, regardless of the reason for separation. A.R.S. § 41-741(3)

“Business day” means the hours between 8:00 a.m. and 5:00 p.m. Monday through Friday, excluding observed state holidays.
“Candidate” means a person whose education, experience, competencies and other qualifications meet the requirements of a position and who may be considered for employment.

“Cause” means any of the reasons for disciplinary action provided by A.R.S. § 41-773 or these rules.

"Change in assignment“ means movement of an employee to a different position in the same state agency or another state agency. A.R.S. § 41-741(4)

“Child” means, for purposes of R2-5A-B603, pertaining to sick leave, and R2-5A-B605 pertaining to bereavement leave, a natural child, adopted child, foster child, or stepchild.

“Class” means a group of positions with the same title and grade because each position in the group has similar duties, scope of discretion and responsibility, required qualifications, or other job-related characteristics.

“Class series” means a group of related classes as listed by the Arizona Department of Administration, Human Resources Division.

“Class specification” means a description of the type and level of duties and responsibilities of the positions assigned to a class.

“Competencies” means knowledge, skills, abilities, behaviors and other characteristics that contribute to successful job performance and the achievement of organizational results.

“Covered employee” means an employee who:

(a) Before September 29, 2012, is in the state service, is not uncovered pursuant to section 41-742, subsection A, and has remained in covered status without a break in service since that date.

(b) Before September 29, 2012, is in the state service, is employed as a Correctional Officer I, Correctional Officer II, Correctional Officer III or Community Corrections Officer and has remained in covered status without a break in service since that date.

(c) Before September 29, 2012, is in the state service, is a full authority peace officer as certified by the Arizona Peace Officer Standards and Training Board and has remained in that status without a break in service since that date.

(d) On or after September 29, 2012, is a Correctional Officer I, Correctional Officer II, Correctional Officer III or Community Corrections Officer and is appointed to a position in the covered service, but does not include a position in any other class in the correctional officer class series or the community correctional officer class series or in any other correctional class series.

(e) On or after September 29, 2012, is a full authority peace officer as certified by the Arizona Peace Officer Standards and Training Board and is appointed to a position that requires such a certification in the covered service. A.R.S. § 41-741(5)

“Covered position” means a position in the covered service.

"Covered service" is defined in A.R.S. § 41-741 and means that employment status conferring rights of appeal as prescribed in A.R.S. §§ 41-782 and 41-783 or A.R.S. § 41-1830.16, as applicable.
“Days” means calendar days, unless otherwise stated.
“Demotion” means a change in the assignment of an employee from a position in one class to a position in another class that has a lower grade.
“Department” means the Arizona Department of Administration.
“Director” means the Director of the Arizona Department of Administration, or the Director’s designee, who is responsible for administering the state personnel system pursuant to applicable state and federal laws. A.R.S. § 41-741(7)
"Employee" means all officers and employees of this state, whether in covered service or uncovered service, unless otherwise prescribed. A.R.S § 41-741(8)
"Employing agency" means the agency where the employee is employed or, if an applicant, the agency to which the person has applied.
“Essential job function” means a fundamental job duty of a position that an applicant or employee must be able to perform, with or without a reasonable accommodation.
“FLSA exempt” means a position that is not entitled to overtime compensation under the FLSA.
“FLSA non-exempt” means a position that is entitled to overtime compensation under the FLSA.
“FMLA” means the federal Family and Medical Leave Act.
"Full authority peace officer" means a peace officer whose authority to enforce the laws of this state is not limited by the rules adopted by the Arizona Peace Officer Standards and Training Board. A.R.S. § 41-741(9)
“Grade” means the numeric identifier associated with one or more pay ranges, used to determine the internal worth of a class relative to other classes.
“Manifest error” means an act or failure to act that is, or clearly has caused, a mistake.
“Parent” means, for purposes of R2-5A-B602, pertaining to annual leave, R2-5A-B603, pertaining to sick leave, and R2-5A-B605, pertaining to bereavement leave, a birth parent, adoptive parent, stepparent, foster parent, grandparent, parent-in-law, or anyone who can be considered “in loco parentis.”
“Part-time” means employment scheduled for less than 40 hours per week.
“3/4 time” means employment regularly scheduled for at least 30 hours but fewer than 40 hours per week.
“1/2 time” means employment regularly scheduled for at least 20 hours but fewer than 30 hours per week.
“1/4 time” means employment regularly scheduled for at least 10 hours but fewer than 20 hours per week.
“Pay status” means an employee is receiving pay for work or for a compensated absence.
“Premium/contribution” means the amount paid in exchange for insurance coverage. Depending on the type of coverage, the premium/contribution is paid by the employee, the state, or a combination of both.
“Promotion” means a change in assignment of an employee from a position in one class to a position in another class that has a higher grade.
“Reallocation” means changing the allocation of a position to a different class if a material and permanent change in duties or responsibilities occurs.

“Reversion” means the return of a covered employee on promotional probation to a position in the class in which the employee held permanent status immediately before the promotion or to a similar position in another class at the same grade as the class the employee held permanent status if the employee possesses the qualifications for that position.

“Rules” means the rules adopted by the Department of Administration, Human Resources Division. A.R.S. § 41-741(13)

“Special assignment” means the temporary assignment, for up to six months, of the duties and responsibilities of another position to an employee in the same agency.

"State agency" means a department, board, office, authority, commission or other governmental budget unit of this state and includes an agency assigned to a department for administrative purposes. State agency does not include the legislative and judicial branches, the Arizona Board of Regents, state universities, the Arizona State Schools for the Deaf and the Blind, the Department of Public Safety, the Arizona Peace Officer Standards and Training Board, the Cotton Research and Protection Council or public corporations. A.R.S. § 41-741(14)

"State Personnel Board" is defined in A.R.S. § 41-741 and means the board established by A.R.S. Title 41, Chapter 4, Article 6.

"State Personnel System" is defined in A.R.S. § 41-741 and means all state agencies and employees of those agencies that are not exempted by the provisions of A.R.S. Title 41, Chapter 4, Article 4.

“State service” is defined in A.R.S. § 41-741 and means all offices and positions of employment in state government that, before September 29, 2012, were subject to the provisions of A.R.S. Title 41, Chapter 4, Articles 5 and 6 that were in effect before September 29, 2012.

"Supervisor" means a state employee who has one or more other state employees reporting directly to the person and, for those state employees, typically has the authority to:

(a) Approve sick or annual leave.
(b) Recommend hiring, discipline or dismissal.
(c) Assign or schedule daily work.
(d) Complete a performance evaluation. A.R.S. § 41-741(18)

“Temporary appointment” means an appointment made for a maximum of 1,500 hours worked in any agency in each calendar year.

“Transfer” means the movement of an employee from one position to another position in the same or an equivalent grade.

"Uncovered employee" means an employee in uncovered service. A.R.S. § 41-741(19)
"Uncovered service" means employment at will and includes all state employees except those in covered service.

A.R.S. § 41-741(20)

"Working day" or "working hours" means a day or the hours an employee is regularly scheduled to work.


A. Authority of Director.

1. The Director may approve, modify or deny a request, plan or proposal submitted by a state agency for review or when the Director's approval is required by rule.

2. The Director may audit an agency's personnel policies and procedures at any time. If the Director determines that the agency's policies or procedures are inconsistent with these rules or are inconsistent with the procedures or guidelines issued by the Director, the Director may direct the agency head to modify them to achieve consistency or to discontinue them.

B. Delegation of authority.

1. The Director may, in writing, delegate authority to an agency head as consistent with legal requirements.

2. The Director may review or audit delegated authority to determine compliance with laws, rules, and policies.

3. Unless otherwise stated by law, or in these rules, an agency head may delegate authority granted to the agency head in these rules.

C. Availability of funds. The granting of any compensation under these rules is contingent upon the availability of funds, as determined by an agency head and the Director.

D. Service of notice. If a notice or document is to be given to a person or agency, the notice or document may be served personally or mailed to the last known residence or current business address of the person or agency. Unless otherwise provided by law or these rules, service is complete upon personal delivery or mailing.

E. Employee handbook. The Director may publish an employee handbook outlining pertinent rules and regulations and make the handbook available to all employees. If published, the employee handbook shall serve as the official handbook for all employees in the State Personnel System. An agency head may supplement the employee handbook with agency specific policies and directives.

F. Employment contracts. Unless otherwise provided by law, an appointing authority shall not execute an employment contract with any state employee.

G. Correction of errors. Only the Director, or designee, has authority to determine whether a manifest error exists and to correct the manifest error.

R2-5A-103. Applicability

A. General. Except as provided in A.R.S., Title 41, Chapter 4, Article 4 and Article 5, or otherwise stated in rule, the rules in this subchapter are applicable to covered and uncovered positions, applicants for covered and
uncovered positions and covered and uncovered employees in the State Personnel System. An employee who violates or fails to comply with these rules may be disciplined or separated from state employment. Any such actions involving a covered employee shall be in accordance with the rules in Subchapter B, Article 3.

B. Temporary procedures. The Director may:
   1. Unless otherwise prescribed by statute, waive any rule and implement temporary procedures if the Director determines that essential public services are being hampered or it is in the best interest of the state.
   2. Implement a temporary pilot project to improve efficiency, productivity, or accountability in the State Personnel System. The project may include an activity or procedure that is not in accordance with these rules and shall not exceed two years in duration.

R2-5A-104. Prohibition Against Discrimination, Harassment and Retaliation
A. General. Agencies shall comply with all federal and state anti-discrimination laws. Agencies shall not unlawfully discriminate against any individual with regard to the terms and conditions of employment, including hiring, pay, leave, insurance benefits, retention, and rehiring. The information provided in this rule is intended to serve as a summary of agencies' and employees' obligations with regard to compliance with applicable federal and state laws, rules and regulations. Nothing in these rules shall be construed as providing rights in excess of, or in addition to those authorized under federal laws and Arizona Revised Statutes.

B. Equal Employment Opportunity. Each agency shall provide equal employment opportunity for all individuals regardless of race, color, national origin, religion, age, disability, genetic information, sex, pregnancy, military or veteran status, or any other status protected by federal law, state law, or regulation. It is the policy of this state that all individuals are treated in a fair and non-discriminatory manner throughout the application and employment process.

C. Harassment Prohibited. Harassment of a sexual nature or harassment based on race, color, national origin, religion, age, disability, genetic information, sex, pregnancy, military or veteran status, or any other status protected by federal law, state law, or regulation is prohibited. An agency shall prohibit the unlawful harassment of any employee in the course of the employee’s work by supervisors, coworkers, or third parties, such as vendors or customers. Any employee who engages in unlawful harassment may be subject to disciplinary action, up to and including termination of employment.

D. Protection from Retaliation. The state prohibits retaliation against anyone for raising a concern about, assisting in an investigation of, or filing a complaint concerning unlawful discrimination or unlawful harassment.

E. Complaints.
   1. An applicant for state employment who has a complaint alleging discrimination or harassment may file a complaint under the procedures in R2-5A-308.
2. It is every employee's responsibility to promptly bring any allegation of discrimination, harassment or retaliation to the attention of the employing agency. Such complaints shall be filed under the procedures established under Article 9.

R2-5A-105. Records
A. Definitions. For the purposes of this Section, "record" generally refers to a paper document; however, a document may be maintained electronically.

B. Application Materials.
1. An agency head shall maintain and keep confidential all resumés, applications, tests, test results, records, correspondence, and other documents used to seek state employment. The agency head shall not release any materials that the agency head determines would compromise the application process for future applicants and shall restrict the review of the applicant's application materials to:
   a. The applicant,
   b. An individual who has written authorization from the applicant,
   c. State officials in the normal line of duty, or,
   d. Officials acting in response to court orders or subpoenas.

2. The Director, or designee, shall ensure that when a person makes a public records request under A.R.S. Title 39, Chapter 1, Article 2 for applicant information:
   a. Information shall only be provided if the position under recruitment is a high-level position and the public has a legitimate interest in the names of persons being seriously considered for the position, as determined by the Director; and
   b. Only the names and resumés of the final candidates for the position as determined by the Director shall be released.

C. Official Personnel File.
1. An employee’s official personnel file is the official record and documentation of the employee’s employment.

2. An agency head shall, for each agency employee, maintain an official personnel file that contains:
   a. A copy of the job application for the employee’s current position;
   b. A copy of all performance appraisals completed as required by Article 7;
   c. Personnel action forms that authorize changes in employment status, position, classification, pay, or leave status;
   d. Letters of commendation as established by agency policy; and
   e. Correspondence consisting of:
      i. Letters of reprimand, suspension, demotion or dismissal;
ii. Acknowledgments of receipt of letters of reprimand or other disciplinary communications; and

iii. Employee objections or responses to correspondence described in subsection (C)(2)(e)(i) that are not filed as complaints under Article 9 or grievances under Subchapter B, Article 4, if the objection or response is received within 30 calendar days of the date of the disciplinary action or letter of reprimand.

3. For the purpose of this subsection, an official is an individual who provides identification verifying that the individual is exercising powers and duties on behalf of the chief administrative head of a public body.

An agency head shall limit access to an employee’s official personnel file to:

a. The employee;
b. The employee’s attorney or an individual who has written authorization from the employee to review the personnel file;
c. Agency personnel designated by the agency head as having a need for the information;
d. A Department official in the normal line of duty;
e. An official acting in response to a court order or subpoena;
f. An official of an agency to which the employee has applied; and
g. An official of an agency of the federal government, state government, or political subdivision, if the agency head of the employing agency deems access to the file to be appropriate.

4. When an employee moves from one state agency to another, the gaining agency shall request that the losing agency forward the employee’s official personnel file to the gaining agency. The losing agency shall forward the file within 20 business days of the receipt of the request.

5. When a former employee returns to state employment within five years of the former employee's separation to an agency other than the agency in which the employee was last employed, the gaining agency shall request that the last agency forward the employee’s official personnel file. The last agency shall forward the file within 20 business days of the receipt of the request.

D. Disclosure of information.

1. Definitions. For the purposes of this subsection:

a. “Disciplinary actions” means letters of reprimand, suspension, demotion or dismissal.
b. “Records that are reasonably necessary or appropriate to maintain an accurate knowledge of the employee’s disciplinary actions” means the correspondence listed in subsection (D)(1)(a) and includes an official notice of charges of misconduct as applicable to covered employees, the final disciplinary letter, and any responses related to complaints, grievances or appeals upholding, amending, or overturning the discipline.
c. “Employee responses” means any written documents, submitted and signed by the employee, either:
i. In response to an official notice of charges of misconduct;
ii. As a formal complaint filed under the provisions of Article 9 or a formal grievance under Subchapter B, Article 4, of these rules pertaining to a specific disciplinary action; or
iii. As an objection to a specific disciplinary action and contained in the employee’s official personnel file under subsection (C)(2)(e)(iii).

2. Personnel records are confidential and an agency head shall ensure that except as provided in subsection (C)(3), only the following information about a current or former employee is provided to any person making a public records request under A.R.S. Title 39, Chapter 1, Article 2.
   a. Name of employee;
   b. Date of employment;
   c. Current and previous class titles and dates of appointment to the class;
   d. Current and previous agencies to which the employee has been assigned and the location of the main office for each agency;
   e. Current and previous salaries and dates of each change;
   f. Name of employee’s current or last known supervisor; and
   g. Records that are reasonably necessary or appropriate to maintain an accurate knowledge of the employee’s disciplinary actions, including the employee responses to all disciplinary actions, unless providing this information is contrary to law.

E. Insurance and medical records. An agency head:
   1. May maintain group insurance enrollment forms in an employee’s official personnel file for an employee hired prior to September 29, 2012.
   2. Shall maintain in a separate file that is not part of the employee's official personnel file:
      a. Medical records, and
      b. Group insurance enrollment forms for an employee hired on or after September 29, 2012.

F. Employment eligibility records. An agency head shall retain I-9 forms and other documents required by law to prove employment eligibility in a separate file that is not part of the employee’s official personnel file.

G. Employee access to files. An employee has the right to review only the employee’s official personnel file.

H. Recordkeeping Requirements. An agency head shall ensure that agency recruitment and employee records are maintained in accordance with the General Records Retention Schedule for Human Resources/Personnel Records published by and on file with the Secretary of State, Arizona State Library, Archives and Public Records.
ARTICLE 2. CLASSIFICATION SYSTEM

R2-5A-201. Classification Plan
A. General. The Director shall group positions into classes based on similarities of duties and responsibilities. All positions are assigned a class specification with a specific title. An agency head may not appoint, transfer, promote, or demote an employee, or make any change in salary for any position until the position is allocated to a class.

B. Class title. An agency head shall use the class title of a position to designate the position in all budget estimates, payrolls, vouchers, and communications in connection with personnel processes.

C. Class specification. A class specification indicates the kinds of positions to be allocated to the class, as determined by the duties and responsibilities described for that class. Each class specification shall contain a statement of the minimum education, experience, competencies, and other qualifications required to perform the work. Required postsecondary education shall be attained in an institution that meets the standards established by an accrediting agency recognized by the U.S. Department of Education.

D. Position description. An agency head shall ensure that every position in the agency has a completed position description describing the current duties, responsibilities, and essential job functions specific to the position.

E. Allocation. The Director shall place every position in a class based on its duties and responsibilities.

F. Reallocation. Upon completion of a review of a position, the Director may determine that the position should be placed in a different class.

G. Regrade. Upon completion of a review of a classification, the Director may determine that the class should be placed in a different grade.

R2-5A-202. Change in Classification
A. Change in classification plan. The Director may establish new classes and divide, combine, alter, or abolish existing classes, grades, or both, in consultation with affected agency heads.

B. Change in job duties.
   1. An employee in a position or the agency head may file a written request with the Director for review of the classification of the position. The request shall contain an updated position description, a specific explanation of how and when the position’s duties and responsibilities have changed and the reasons why the current classification does not match these job duties.
   2. If a material and permanent change takes place in the duties and responsibilities of a position, the agency head shall report this change to the Director in an updated position description. The Director may order a reallocation of the position. The employee in the position at the time of reallocation shall continue to serve in the position.
C. Effective date. The effective date of a change in classification shall be the first day of the pay period immediately following the Director’s determination, unless the Director authorizes an exception.

**R2-5A-203. Second Level Review**
An employee in a position or the agency head may submit a written request for a second level review of a classification decision within 30 days of the initial determination. The request shall contain a concise and specific statement as to why the original decision was inappropriate. The Director may assign a different analyst to review the request and evaluate the proper classification of the position. The second level review shall be the final step in the classification review process.

**ARTICLE 3. RECRUITMENT, SELECTION AND APPOINTMENT**

**R2-5A-301. General**
An agency head shall follow the guidelines outlined in this Article to identify and appoint qualified candidates to fill vacancies. The Director shall establish and maintain a centralized employment system that includes a job board for announcing vacancies in state employment, applicant tracking and candidate identification. The Director shall establish procedures for state agencies to request approval for transportation or other travel expenses or moving expenses provided by A.R.S. § 35-196.01 for out of state candidates.

**R2-5A-302. Recruitment**

A. Job posting.
   1. Unless exempted by A.R.S. Title 41, Chapter 4, Article 4, an appointing authority shall post an open position to the state's centralized job board. This includes recruitments open to only employees currently employed by the agency, to state employees currently employed in any state agency, or the general public. An agency head may authorize an exception to the job posting requirement for a position in an individual case. Any exceptions shall be documented by the agency head and subject to audit by the Director.
   2. In addition to posting to the state's centralized job board, an appointing authority may post an open position in a publication or to a commercial job posting board or both, in compliance with applicable procurement rules.

B. Application form.
   1. A candidate for a position shall complete the standardized application form developed by the Director.
   2. In addition to the standardized application form, an agency head may develop supplemental application procedures and forms specific to the agency or to a certain class or classes within the agency.

C. Preferences.
1. The state will provide preference to qualified veterans and disabled veterans seeking employment with the state.

2. For positions in the covered service, preference points authorized by A.R.S. § 38-492 shall be added to an applicant's grade on any assessment or evaluation that results in a numeric grade after the final grade is determined, if a passing grade is earned without the addition of preference points. Preference points shall not be applied to promotional examinations. If an evaluation does not result in a numeric grade, preference shall be given by granting applicable preference codes to qualified applicants.

R2-5A-303. Reference and Background Checks
A candidate may be required to furnish, at the candidate’s own expense, evidence of education or other qualification. The appointing authority is responsible for verifying education, work experience, applicable license or licenses and references provided by candidates on the application form and in interviews. An appointing authority shall not conduct a criminal background check or a credit check on a candidate unless the agency has statutory or executive order authority to conduct such a check.

R2-5A-304. Qualifications of Selected Candidate
An agency head shall ensure that any candidate selected for hire meets the established qualifications for the position filled.

R2-5A-305. Employment of Relatives
A. Relationship to supervisors. An individual shall not be employed in a position if the immediate supervisor of the individual is related within the third degree of affinity (marriage) or consanguinity (blood), or by adoption.

B. Relationship to other employees. An individual shall not be employed in a position if the individual is related within the third degree to an employee who currently occupies a position under the same immediate supervisor.

C. Exceptions. The Director may grant an exception to the prohibitions in subsections (A) and (B) if there is no other qualified person for the position at the location.

D. Relationship to subordinate employees. A supervisor or manager at any level shall not make an employment decision specifically benefitting any individual who is related within the third degree, unless an exception under subsection (C) has been granted.

E. Relationship to interviewer or interview panel members. An employee shall not interview or serve on an interview panel of any job candidate if the candidate is related within the third degree.

F. Definition. For the purpose of this Section, persons related within the third degree include a spouse, child, parent, grandchild, grandparent, sister, brother, great grandchild, great grandparent, aunt, uncle, niece, nephew or first cousin.
R2-5A-306. Hiring Requirements
Agencies shall comply with federal and state law, including the verification of employment eligibility pursuant to A.R.S. § 23-214. An agency head shall ensure the completion of the Form I-9 and the employment eligibility verification process for all new hires.

R2-5A-307. Appointment
A. General. Except as provided in A.R.S. Title 41, Chapter 4, Articles 4 and 5, all appointments shall be at will uncovered. An agency head may appoint a current state employee who accepts a change in assignment or an external candidate in accordance with these rules and the procedures established by the Director.
B. Types of Appointment.
1. A regular appointment may be:
   a. Full-time employment;
   b. Part-time employment;
   c. Subject to funding availability, such as federal or grant funding; or
   d. To a trainee position.
2. A temporary appointment may be made for a recurring period of time up to a maximum of 1500 hours in any one position per agency each calendar year. A temporary appointment employee may work full time for a portion of the year, intermittently, on a seasonal basis, or on an as needed basis. An employee in a pool classification is considered a temporary appointment.
3. An agency head may place an employee on special assignment within the agency. A special assignment may be made non-competitively and for up to 6 months with the concurrence of the employee, the agency head of the employing agency and the Director. A special assignment shall not exceed 6 months unless extended by the Director. An agency head shall not make successive special assignments of the same person to the same class.

R2-5A-308. Applicant Complaint
An applicant who has a complaint alleging discrimination or harassment relating to the procedures used in the selection or evaluation process shall submit the applicant complaint to the agency human resources representative within 90 days of the action giving rise to the complaint. The agency human resources representative shall evaluate the complaint and notify the applicant of the final action to be taken.

ARTICLE 4. COMPENSATION SYSTEM

R2-5A-401. Salary Plans
A. General. The Director shall establish a salary plan. The salary plan shall allow for the following:
1. Minimum and maximum rates of pay for classes outlined in the classification plan.

2. Salary adjustments, including adjustments to base salary and pay supplements and incentives, including add-ons to base salary.

B. Alternative salary plan. The Director may establish a special salary plan or pay practice determined to be the prevailing practice in the labor market and in the best interest of the state.

**R2-5A-402. Salary Administration**

A. General. The Director shall develop procedures for salary administration for use by all agencies when setting the salary of an employee. In setting an employee’s salary, an agency head shall consider such factors as the employee’s education, experience, skills, performance, and current or former salary, as well as the current salaries of employees in the same class in the agency and the relative experience and performance of those employees.

B. Classes. The Director shall assign each class to a salary range and to a grade.

C. Salary. The base salary of an employee shall be not less than the minimum nor more than the maximum of the salary range of the class to which the employee’s position is allocated, except as provided by these rules.

D. Salary adjustment. The salary used to compute a salary adjustment is the employee’s base salary. Following an adjustment to the base salary, an agency shall add to the new rate of pay any special pay supplement still valid.

E. New hire starting rate. An agency head may offer a salary to a new hire within the salary range of the class to which the employee is being appointed in accordance with the procedures and guidelines published by the Director, unless an exception is approved by the Director.

F. Promotion. An employee who has a change in assignment from a position in one class to a position in another class having a higher grade shall receive a salary increase as determined by the agency head in accordance with the procedures and guidelines published by the Director, unless an exception is approved by the Director.

G. Demotion.

1. An employee who has a change in assignment from a position in one class to a position in another class having a lower grade, whether voluntary or involuntary, shall receive a salary decrease as determined by the agency head in accordance with the procedures and guidelines published by the Director, unless an exception is approved by the Director.

2. If the employee’s demotion is involuntary, the employee shall not be eligible for a salary increase for six months after the effective date of the demotion, other than a salary increase that is legislatively mandated. After six months, the employee may become eligible for a salary increase only after a performance evaluation in the new position for which the employee received an overall rating of “meets expectations” or higher.
H. Lateral transfer. An employee who has a change in assignment from a position in one class to a position in another class having the same grade shall receive no increase in salary, unless an exception is approved by the Director. The Director may approve a salary increase based upon documentation of recruitment difficulties to fill the position, specific needs identified by the agency, or the employee’s qualifications. Transferred employees are not eligible for increases to base salary during their first six months in the new job unless approved by the Director. An employee who transfers to another agency may become eligible for a salary increase only after a performance evaluation in the new position for which the employee received an overall rating of “meets expectations” or higher.

I. Reversion of covered employee. A covered employee who is reverted under the rules in Subchapter B shall be paid the same salary as that paid prior to the promotion, plus the percentage or dollar amount of increase of an intervening general salary adjustment for which the employee was eligible.

J. Job reallocation.
   1. The base salary of an employee in a position that is reallocated to a class in a higher pay range may receive a salary increase in accordance with the procedures and guidelines published by the Director. If increasing the base salary of an employee would result in a salary level that is less than the minimum or greater than the maximum salary of the pay range, the employee's salary shall be the minimum or the maximum salary of the pay range, respectively.
   2. The base salary of an employee in a position that is reallocated to a class with the same or lower pay range shall remain the same provided that the employee’s salary is within the pay range of the position. If the employee’s salary is less than the minimum of the salary range or greater than the maximum salary of the new pay range, the employee’s salary shall be the minimum salary or the maximum salary of the new pay range, respectively.

K. Job regrade.
   1. The base salary of an employee in a class that is reassigned to a higher grade shall be adjusted by the amount determined by the Director. If adjusting the base salary of an employee would result in a salary level that is less than the minimum or greater than the maximum salary of the pay range, the employee's salary shall be the minimum or the maximum salary of the pay range, respectively.
   2. The base salary of an employee in a class that is reassigned to a lower grade shall remain the same provided that the employee’s salary is at or above the minimum salary of the new pay range of the class, and may be greater than the maximum salary of the pay range. If the employee’s salary is greater than the maximum, the employee is not eligible for an increase to base pay until the employee’s salary is less than the maximum salary of the new pay range.

L. Merit increases.
   1. The Director shall establish guidelines for merit increases to base pay.
2. Merit increases shall be available:
   a. To uncovered employees.
   b. To covered employees only if such increases are legislatively appropriated.

3. Subject to the guidelines established by the Director:
   a. Merit increases may be implemented at the discretion of the agency head.
   b. Merit increases are subject to the availability of funding and must be within an agency’s appropriation unless otherwise legislatively appropriated.

4. An agency head shall report to the Director on the utilization of merit increases pursuant to the reporting requirements in the guidelines established by the Director.

M. Legislatively-appropriated salary adjustments. Subject to legislative appropriation, the Director shall determine employee eligibility and criteria for salary adjustments.

R2-5A-403. Supplemental Pay

A. General. Supplemental pay is in addition to an employee’s base pay. The salary of an employee may exceed the maximum salary of the pay range for the employee’s class if the excess amount is due to the receipt of supplemental pay.

B. Shift differential. The Director may authorize a shift differential to be paid to an employee on other than a day shift. The Director shall establish a competitive shift differential rate periodically based on an annual survey of the market place. Employees in the same class in the same agency who work on the same shift shall receive the same shift differential pay.

C. Special assignment. An employee on a special assignment shall remain in the employee’s current position with no change to base salary. If the classification to which the employee is on a special assignment is a higher grade, the employee shall be provided a conditional pay supplement in an amount that, when added to the employee’s base salary, would be within the range of the higher classification. If the classification to which the employee is on a special assignment is the same or a lower grade, the employee shall not be eligible for a conditional pay supplement while on special assignment. Any conditional pay supplement received by the employee for the special assignment shall be discontinued at the conclusion of the special assignment.

D. Conditional pay supplements. The Director may establish conditional pay supplements. A conditional pay supplement provides additional compensation to an eligible employee and shall be discontinued when the qualifying conditions no longer apply. An employee may be awarded multiple conditional pay supplements. A conditional pay supplement does not:
1. Change base salary;
2. Provide a basis for the computation of a salary increase; or
3. Provide a basis for the computation of pay upon an employee’s promotion, demotion or transfer.

E. Variable pay.
1. The Director may establish variable pay strategies determined to be the prevailing practices in the market and in the best interest of the state.
2. If the Director establishes variable pay strategies, the Director shall establish guidelines for the administration of variable pay.
3. Variable pay shall be available only to uncovered employees, except for employees in covered positions classified as Correctional Officers I, II, or III, or Community Corrections Officers, as specified in the guidelines established by the Director.
4. Subject to the guidelines established by the Director:
   a. Variable pay strategies may be implemented at the discretion of the agency head.
   b. Variable pay strategies are subject to the availability of funding and must be within an agency’s appropriation unless otherwise legislatively appropriated.
5. An agency head shall report to the Director on the utilization of variable pay strategies pursuant to the reporting requirements in the guidelines established by the Director.

R2-5A-404. Overtime
A. Approval of overtime work. An agency head may require that an employee work overtime and:
   1. Shall approve in advance all work in excess of 40 hours per workweek or in excess of a work period as defined by the Fair Labor Standards Act (FLSA). FLSA Regulations 29 CFR 553 and 778 (July 2012), are incorporated by this reference and on file with the Department and available from the U.S. Government Printing Office, 732 North Capitol Street N.W., Washington, D.C. 20401. This incorporation by reference contains no future editions or amendments; and
   2. May assign an employee who volunteers for overtime before mandatory overtime is required.
C. Non-exempt employees.
   1. An agency shall compensate an employee in a non-exempt position who works in excess of 40 hours per
      workweek or in excess of a work period as defined by the FLSA by either:
      a. Additional pay at the rate of 1 1/2 times the employee’s regular rate for each excess hour worked, or
      b. Compensatory leave at the rate of 1 1/2 hours for each excess hour worked.
   2. An employee shall select either overtime pay or compensatory leave for overtime compensation. If the
      employee selects both overtime pay and compensatory leave, the agency head shall determine which
      applies. If an employee’s compensatory leave balance reaches the maximum allowed in subsection (E),
      the agency head shall compensate the employee by overtime pay.

D. Exempt employees.
   1. Unless otherwise provided by statute or as specified in subsection (D)(2), an employee who is in a
      position that is exempt from the FLSA is excluded from receiving either overtime pay or compensatory
      leave.
   2. An employee who is in a position that is exempt from the FLSA who works in excess of 40 hours per
      workweek or in excess of an established work period shall receive for each hour of overtime worked,
      either one hour of additional pay or earn one hour of compensatory leave, at the option of the agency
      head, if the employee is either:
      a. Engaged in law enforcement activities;
      b. Engaged in firefighting activities; or
      c. A full authority peace officer as certified by the Arizona Peace Officer Standards and Training Board,
         is in a position that requires such certification, and is in the covered service.
   3. An exempt employee may earn compensatory leave as provided by subsection (D)(2) until the employee's
      compensatory leave balance reaches the maximum allowed in subsection (E). When the maximum
      balance is reached, an agency head shall compensate the employee by overtime pay for excess hours
      worked.
   4. For the purposes of this subsection, “engaged in law enforcement activities” has the same meaning as
      defined in A.R.S. Title 23, Chapter 2, Article 9.

E. Maximum accumulation. The maximum number of hours of accumulated compensatory leave is:
   1. 480 hours for an employee who works in a public safety activity or an emergency response activity, or
   2. 240 hours for an employee who works in any other activity.

R2-5A-405. Tuition Reimbursement for Education
A. General. A state agency may assist an employee in the pursuit of educational goals by providing tuition
   reimbursement.
B. Procedures. Prior to granting tuition reimbursement, an agency shall establish a policy which shall include the following conditions:

1. The educational program will provide a benefit to the state.
2. The employee shall successfully complete the required course work or the educational requirements of the program in order to receive reimbursement.
3. Education assistance may not exceed $5,250 per employee in any one calendar year unless approved in advance by the Director.
4. An employee who receives education assistance may be required to return all or a portion of the amount received if the employee does not remain employed with the agency for a defined period of time, as specified in the agency’s policy.

R2-5A-406. Reimbursement for Relocation
An agency head may reimburse reasonable relocation expenses to a current employee for a management initiated geographical transfer of more than 50 miles from the employee’s current work site in accordance with the procedures established by the Director.

ARTICLE 5. CONDITIONS OF EMPLOYMENT

R2-5A-501. Standards of Conduct
A. Required conduct. A state employee shall at all times:

1. Comply with federal and state laws and rules, and agency policies and directives;
2. Maintain high standards of honesty, integrity, and impartiality, free from personal considerations, or favoritism;
3. Be courteous, considerate, and prompt in interactions with and serving the public and other employees; and
4. Conduct himself or herself in a manner that will not bring discredit or embarrassment to the state.

B. Prohibited conduct. A state employee shall not:

1. Use his or her official position for personal gain, or attempt to use, or use, confidential information for personal advantage;
2. Permit himself or herself to be placed under any kind of personal obligation that could lead a person to expect official favors;
3. Perform an act in a private capacity that may be construed to be an official act;
4. Accept or solicit, directly or indirectly, anything of economic value as a gift, gratuity, favor, entertainment, or loan that is, or may appear to be, designed to influence the employee’s official conduct.
This provision shall not prohibit acceptance by an employee of food, refreshments, or unsolicited advertising or promotional material of nominal value;
5. Directly or indirectly use or allow the use of state equipment or property of any kind, including equipment and property leased to the state, for other than official activities unless authorized by written agency policy or as otherwise allowed by these rules;
6. Inhibit a state employee from joining or refraining from joining an employee organization; or
7. Take disciplinary or punitive action against another employee that impedes or interferes with that employee’s exercise of any right granted under the law or these rules.
C. Consequences of non-compliance. An employee who violates the standards of conduct requirements listed in subsection (A) or (B) may be disciplined or separated from state employment. Any such actions involving a covered employee shall be in accordance with the rules in Subchapter B, Article 3.

R2-5A-502. Hours of Work
A. State work week. The state work week is the period of seven consecutive days starting Saturday at 12:00 a.m. and ending Friday at 11:59 p.m. An agency head may apply to the Director for an exception from the work week period for all or part of an agency workforce. The Director may grant an exception from the work week period to promote efficiency in the State Personnel System.
B. Hours of employment.
   1. An agency head shall determine the hours of employment in the work week for each agency employee.
   2. An agency head may provide for breaks during the work period consistent with carrying out the duties of the agency.
   3. An agency head may require an employee to work overtime.
C. Flexible work options. An agency head may offer a flexible 40-hour work week option to an employee if the agency head determines the agency’s services can be maintained.
D. Attendance standards. An agency head may establish a standard of attendance.

R2-5A-503. Outside Employment
A. General. A state employee may seek employment and engage in a variety of activities outside of the employee’s work for the state; however, the employee shall not engage in other employment or other activity that is not compatible with the full and proper discharge of the duties and responsibilities of state employment, or that tends to impair the employee’s capacity to perform the employee’s duties and responsibilities in an acceptable manner.
B. Definitions. For the purposes of this Section:
   1. “Other employment” includes, but is not limited to:
      a. Working as an employee for any employer, including another state agency;
b. Owning a business;  
c. Contracting to provide services for a fee; or  
d. Serving as a consultant for a fee or being self-employed;  
e. Holding any elected or appointed public office, whether federal, state, or local; or  
f. Holding a position in a political party or organization.  

2. “Primary agency” means the agency in which the employee is employed at the time of the employee’s request to obtain outside employment with another agency.  

3. “Secondary agency” means the agency in which the employee is requesting to be employed while remaining employed with the primary agency.  

C. Notice requirement. An employee who desires to engage in other employment shall notify the employee’s supervisor and abide by the policies of the employing agency. An employee engaged in outside employment, including consultant relationships, shall inform the supervisor of the nature of the employment and corresponding work hours. An employee shall also disclose actual or potential conflicts of interest related to outside employment activities as soon as the employee becomes aware of the conflict. The determination as to whether a conflict or potential conflict exists shall be made by the agency head.  

D. Outside employment with another state agency. An employee who seeks outside employment with another state agency must request approval from both the employee’s primary agency and prospective secondary agency before commencing employment with the secondary agency. The primary and secondary agencies must ensure that the request complies with state and federal guidelines. Such request, if approved shall be in writing and on file with both agencies. Employment records are to be maintained in accordance with the provisions of R2-5A-105.  

E. Outside employment as a paid public official or in a political party or organization. All employees shall comply with A.R.S. § 41-752 pertaining to political activities.  

F. Termination of outside employment. If an agency head determines that an employee’s outside employment interferes with the employee’s performance or creates a conflict of interest, the employee will be required to terminate the outside employment.  

G. Consequences of non-compliance. An employee who fails to make required disclosures or to take action to resolve any conflict of interest may be disciplined or separated from state employment. Any such actions involving a covered employee shall be in accordance with the rules in Subchapter B, Article 3.  

R2-5A-504. Alcohol and Drug-free Workplace  
State agencies shall prohibit the manufacture, distribution, dispensation, possession or use of alcohol, illegal drugs, unauthorized drugs, inhalants, or other unauthorized controlled substances during an employee’s working hours or while on state premises or worksites, including state vehicles and property leased to the state. A state employee shall not be impaired by alcohol or drugs while on duty.
ARTICLE 6. LEAVE

PART A. GENERAL

R2-5A-A601. Leave Administration

A. Leave plans. The Director shall adopt leave plans. Agency heads are responsible for administering leave for agency employees in accordance with the leave plans in this Article.

B. Eligibility for leave. All state employees, except temporary employees, are eligible for any type of leave with pay from the date of appointment. Temporary employees are eligible only for holidays subject to the provisions of R2-5A-B601, administrative leave, civic duty leave for the purpose of voting, living donor leave and military leave.

C. Amount of leave. Leave amounts are based on full-time employment and shall be pro-rated for part-time employees, even if not specified in an individual rule.

D. Family and Medical Leave Act (FMLA) leave. FMLA Regulations, 29 CFR 825.100 through 29 CFR 825.800 (July 2012), are incorporated by this reference and on file with the Department and available from the U.S. Government Printing Office, 732 N. Capitol Street N.W., Washington, D.C. 20401. This incorporation by reference contains no future editions or amendments. An employee who meets FMLA eligibility requirements and uses leave for any of the situations covered by the FMLA shall be subject to the following:

1. Counting FMLA leave. Periods of paid leave and periods of leave without pay shall count towards the employee’s available FMLA leave.

2. Use of accrued paid leave. An employee shall use available paid leave for all or part of the employee’s FMLA leave under the conditions in:
   a. R2-5A-D602 for an employee on industrial leave,
   b. R2-5A-D601 for an employee on FMLA leave for any other reason.

E. Insurance benefits continuation. An employee remains eligible for continued participation in the employee insurance plans while on leave pursuant to this Article.

F. Requests for leave. Except in an emergency, an employee shall obtain approval in advance and in writing before taking any leave.

PART B. PAID LEAVE

R2-5A-B601. Holidays

A. State holidays.

1. January 1, “New Year’s Day.”

2. Third Monday in January, “Martin Luther King, Jr./Civil Rights Day.”

4. Last Monday in May, “Memorial Day.”
7. Second Monday in October, “Columbus Day.”

B. Employees scheduled to work. Unless required to work to maintain essential state services, an employee who is regularly scheduled to work on a day on which one of the holidays listed in subsection (A) is observed is entitled to be absent with pay for the number of hours regularly scheduled to work, not to exceed eight hours, provided the employee is not on leave without pay on the employee’s work days immediately preceding or following the day on which the holiday is observed.

1. Part-time employees who work 1/4 time, 1/2 time, or 3/4 time are entitled to a proportional amount of holiday pay. Part-time employees who work a percentage of full-time other than 1/4 time, 1/2 time, or 3/4 time are entitled to holiday pay at the next lower rate. An employee who works less than 1/4 time is not entitled to holiday pay.

2. Temporary employees shall receive holiday pay provided they are in pay status the day before and the day after the holiday.

C. Employees not scheduled to work. An employee, excluding part-time and temporary employees, who is not scheduled to work on a day on which one of the holidays listed in subsection (A) above is observed shall receive holiday compensation for the number of hours normally worked per day, not to exceed eight, provided the employee is not on leave without pay on the employee’s work days immediately preceding or following the day on which the holiday is observed.

D. Employees required to work. An employee who is required to work on a day on which a holiday listed in subsection (A) is observed shall receive:

1. Both holiday compensation and one hour of pay at the employee’s current salary rate for each hour worked if the employee is in a position that is either:
   a. FLSA non-exempt; or
   b. Exempt from the FLSA, but meets the conditions in R2-5A-404(D)(2).

2. No additional compensation if the employee is in a position that is exempt from the FLSA and is employed in any other capacity.

E. Holiday compensation.
1. Except as modified by subsection (E)(2), an employee who is eligible for holiday compensation pursuant to subsection (C) or (D) shall receive for each hour of holiday compensation authorized, at the option of the agency head, either:
   a. One hour of additional pay at the current salary rate; or
   b. One hour of annual leave; or
   c. One hour time off with pay on an alternate work day specified by the agency head after the holiday and during the pay period in which the holiday is observed, or the succeeding pay period.

2. Temporary employees do not accrue annual leave and shall receive either additional pay or time off as in subsection (E)(1)(c) above.

3. An employee may not receive more than eight hours of holiday compensation for any holiday.

**R2-5A-B602. Annual Leave**

**A. Definitions.** For the purposes of this Section:

1. “Annual leave” means a period of approved absence with pay that is not chargeable to another category of leave.

2. “Hire date” means the employee’s first day of work upon hire or, if the employee has a break in service, rehire.

**B. Accrual.**

1. All employees, except temporary and part-time employees shall accrue annual leave as follows:
   a. Covered employees shall accrue annual leave in accordance with the following schedule:

<table>
<thead>
<tr>
<th>Credited Service</th>
<th>Hours Bi-weekly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fewer than 3 years</td>
<td>3.70</td>
</tr>
<tr>
<td>3 years but fewer than 7 years</td>
<td>4.62</td>
</tr>
<tr>
<td>7 years but fewer than 15 years</td>
<td>5.54</td>
</tr>
<tr>
<td>15 years or more</td>
<td>6.47</td>
</tr>
</tbody>
</table>

   b. Except as provided in subsection (B)(1)(c), uncovered employees shall accrue leave based on the following schedule:

<table>
<thead>
<tr>
<th>Credited Service</th>
<th>Hours Bi-weekly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fewer than 3 years</td>
<td>4.00</td>
</tr>
<tr>
<td>3 years but fewer than 9 years</td>
<td>5.54</td>
</tr>
<tr>
<td>9 years or more</td>
<td>6.47</td>
</tr>
</tbody>
</table>
c. An uncovered employee shall accrue annual leave at the rate of 6.47 hours bi-weekly if:
   i. The employee’s hire date is prior to September 29, 2012, the employee has remained employed
      without a break in service since that date, and the employee either was uncovered prior to
      September 29, 2012 or became uncovered in accordance with A.R.S. Title 41, Chapter 4, Article
      4; or
   ii. The employee is in a position listed in A.R.S. § 41-742(F).
2. Temporary employees shall not accrue annual leave.
3. Part-time employees who:
   a. Work 1/4 time, 1/2 time, or 3/4 time shall accrue a proportional amount of annual leave;
   b. Work a percentage of full-time other than 1/4 time, 1/2 time, or 3/4 time shall accrue annual leave at
      the next lower rate;
   c. Work less than 1/4 time shall not accrue annual leave.
4. Except as provided by R2-5A-D602 for an employee on industrial leave, an eligible employee accrues
   annual leave each bi-weekly pay period if the employee is in pay status for at least one-half of the
   employee’s scheduled work hours in that pay period.
5. An annual leave accrual is credited on the last day of the bi-weekly pay period in which the accrual is
   earned and is available for use on the first day of the following pay period.
   a. Annual leave accrued during the last pay period that begins in a calendar year is not subject to
      forfeiture under subsection (D).
   b. An employee who is separating from state employment is compensated in accordance with subsection
      (I) for annual leave accrued through the employee’s last date of employment.
6. The effective date for change in the accrual rate is the first day of the pay period immediately following
   the attainment of the required credited service.
C. Credited service.
   1. Credited service shall be calculated from the first day of the first complete pay period worked.
   2. Credited service shall include:
      a. A period of service as an employee of a state budget unit before a break in service of less than two
         years;
      b. A period of leave without pay of 240 hours or less;
      c. Family and Medical Leave Act (FMLA) leave;
      d. Military leave taken under A.R.S. §§ 26-168, 26-171, or 38-610; and
      e. Active military service of an employee who is restored to state employment under A.R.S. § 38-298.
D. Accumulation.
1. Except as provided in subsections (D)(2) and (3), an employee shall forfeit annual leave in excess of the accumulation limit as of the last day of the last pay period that begins in a calendar year. The accumulation limit is:
   a. 240 hours for a covered employee.
   b. 320 hours for an uncovered employee.

2. An agency head may request an exception to the accumulation limit contained in subsection (D)(1) for an employee in an individual case.
   a. An agency head seeking an exception shall submit a written request to the Director that contains a plan to use the excess hours during the following calendar year, pay the employee for the excess hours, or a combination of both.
   b. The Director may approve, modify, or deny the request.

3. Annual leave earned for working on a day on which a state holiday is observed is not included in the accumulation limit specified in subsection (D)(1) and shall not be forfeited.

E. Use of annual leave.
   1. An employee may take annual leave at any time approved by the agency head.
   2. An agency head shall not advance annual leave to an employee.

F. Donation of annual leave.
   1. Definitions. For the purposes of this subsection:
      a. “Immediate family” means the recipient employee’s parent, spouse, or child, whether natural, adopted, foster, or step. A.R.S. § 41-748(B)(1)
      c. “Disability that is caused by pregnancy or childbirth” means, as certified by a licensed health care practitioner:
         i. An employee is unable to work due to the employee’s pregnancy, childbirth, or medical care associated with the pregnancy or childbirth; or
         ii. A member of the employee’s immediate family requires assistance to perform regular daily activities due to the immediate family member’s pregnancy, childbirth, or medical care associated with the pregnancy or childbirth.
      d. “Extended” means a period of at least three consecutive weeks.
      e. “Seriously incapacitating” means a licensed health care practitioner certifies that an illness, injury, or disability that is caused by pregnancy or childbirth:
i. Involves in-patient care, or
ii. Involves continuing treatment.

2. Eligibility to receive donation of annual leave. An employee who has exhausted all available leave balances is eligible to receive donations of annual leave if, as certified by a licensed health care practitioner:
   a. The employee is unable to work due to:
      i. A seriously incapacitating and extended illness or injury, or
      ii. A seriously incapacitating and extended disability that is caused by pregnancy or childbirth, or
   b. The employee needs to care for a member of the employee’s immediate family who has:
      i. A seriously incapacitating and extended illness or injury, or
      ii. A seriously incapacitating and extended disability that is caused by pregnancy or childbirth.

3. Eligibility to donate annual leave. An employee may donate annual leave to another employee who has exhausted all available leave balances if:
   a. The recipient employee is employed in the same state agency as the donating employee, or
   b. The recipient employee is a family member of the donating employee and employed in another state agency.

4. Exhaustion of available leave. Before using donated annual leave, a recipient employee:
   a. Who has a qualifying illness, injury, or disability caused by pregnancy or childbirth shall exhaust all available sick leave, compensatory leave, annual leave earned for working on a day on which a state holiday is observed and accrued annual leave; or
   b. Whose immediate family member has a qualifying illness, injury, or disability caused by pregnancy or childbirth shall exhaust sick leave granted in accordance with R2-5A-B603(A)(4), if available, and all available compensatory leave, annual leave earned for working on a day on which a state holiday is observed and accrued annual leave.

5. Calculation of hours donated. An agency head shall adjust the number of hours of annual leave donated in proportion to the hourly rate of pay of the donating employee and the recipient employee. To calculate the number of hours of donated annual leave:
   a. Multiply the actual number of hours donated by the donating employee’s hourly rate of pay, and
   b. Divide the result by the recipient employee’s hourly rate of pay.

6. Maximum duration. A recipient employee is limited to using donated annual leave to allow the employee to be absent from work for a maximum of six consecutive months, or if the leave is intermittent, 1040 hours (the employee’s available leave plus leave donated to the employee) for each qualifying occurrence. If the recipient employee has a seriously incapacitating and extended illness or injury, or a seriously incapacitating and extended disability that is caused by pregnancy or childbirth and the
employee applies for Long-term Disability (LTD) by the end of the fifth month of the employee’s leave, the recipient employee may continue to use donated annual leave for up to 60 additional days or until LTD benefit payments begin, whichever is sooner.

7. Unused donated leave. If the recipient employee separates from state employment, recovers before using all donated leave, attains the maximum donation of annual leave as permitted under subsection (F)(6), or the need for the donated annual leave is otherwise abated, the agency head shall return unused donated leave to employees who donated leave on a pro-rata basis.

G. Payment of annual leave. Subject to funding availability:

1. An agency head may pay an employee at any time at the employee’s current rate of pay for all or any portion of the employee’s annual leave that was earned as the result of working on a day on which a state holiday is observed.

2. An agency head may request and the Director may approve pay to a non-separating employee for all or any portion of the employee’s accumulated and unused annual leave at the employee’s current rate of pay subject to the following:

   a. Agency procedures. Before requesting approval to pay an employee under this subsection, an agency head shall develop written standards and procedures that provide for equal consideration of all employees similarly situated. The agency head shall submit proposed standards and procedures and any subsequent changes to the Director for approval. The agency’s procedures shall include at minimum:

      i. Request and approval procedures;
      ii. Documentation required to support the request for payment;
      iii. Any limitations, as applicable, including, but not limited to: the maximum number of times an employee may receive payment under this subsection; the maximum number of hours an employee may be paid per occurrence; the minimum number of hours of annual leave an employee must have used in the previous 12 months; and the minimum balance an employee is required to maintain after payout, if any.

   b. Restrictions. If payment would reduce the employee’s annual leave balance to fewer than 240 hours, the agency head shall obtain the employee’s concurrence.

H. Movement.

1. To another state agency. If an employee moves from one agency to another state agency, the employee’s accumulated and unused annual leave shall be transferred to the employee’s annual leave account in the new state agency, unless:

   a. The provisions of subsection (H)(2) apply; or
b. The employee’s leave exceeds the accumulation limit contained in subsection (D)(1). An agency head may pay an employee who transfers to another state agency for all excess annual leave at the time of the transfer. An agency head may transfer part or all of the employee’s excess annual leave accumulated by the employee who transfers to another agency with the gaining agency’s concurrence. If the gaining agency does not concur, the losing agency shall pay all of the unused excess annual leave that the gaining agency will not accept.

2. To an employment status ineligible for leave accrual. If an employee becomes ineligible for accrual of annual leave under R2-5A-A601(B), the agency head or the agency head of the losing agency if the employee moves to another state agency, shall pay the employee for all unused and unforfeited annual leave at the employee’s current rate of pay immediately before the change in status.

I. Separation. An agency head shall pay an employee who separates from state employment for all unused and unforfeited annual leave at the employee's current rate of pay.

R2-5A-B603. Sick Leave

A. Definition. “Sick leave” is any approved period of paid absence granted an employee due to:
   1. Illness or injury that renders the employee unable to perform the duties of the employee’s position.
   2. Disability of the employee that is caused by pregnancy, childbirth, miscarriage, or abortion.
   3. Examination or treatment of the employee by a licensed health care practitioner.
   4. Illness, injury, disability caused by pregnancy or childbirth, or examination or treatment by a licensed health care practitioner of an employee’s spouse, dependent child, or parent. Sick leave granted for this purpose shall be charged to the employee’s sick leave account and shall not exceed 40 hours per calendar year. For the purposes of this Section:
      a. The term “dependent child” means a natural child, an adopted child, a foster child, or a stepchild, more than one-half of whose support is received from the employee.
      b. The term “parent” means a birth parent, adoptive parent, stepparent, foster parent, grandparent, parent-in-law, or an individual who stood “in loco parentis.”

B. Accrual.
   1. All state employees, except temporary and part-time employees, shall accrue sick leave at the rate of 3.70 hours bi-weekly.
   2. Temporary employees shall not accrue sick leave.
   3. Part-time employees who:
      a. Work 1/4 time, 1/2 time, or 3/4 time shall accrue a proportional amount of sick leave;
      b. Work a percentage of full-time other than 1/4 time, 1/2 time, or 3/4 time will accrue sick leave at the next lower rate;
      c. Work less than 1/4 time shall not accrue sick leave.
4. Except as provided by R2-5A-D602 for an employee on industrial leave, an eligible employee accrues sick leave each bi-weekly pay period if the employee has been in a pay status for at least one-half of the employee’s scheduled work hours in that pay period or month.

5. A sick leave accrual is credited on the last day of the bi-weekly pay period or month in which the accrual is earned and is available for use on the first day of the following pay period or month. An employee who is separating from state employment accrues leave through the employee’s last date of employment for the purpose of determining the employee’s accumulated sick leave at the time of the employee’s separation pursuant to subsection (F).

C. Accumulation. Sick leave accumulates without limit.

D. Use of sick leave.

1. Sick leave may be taken when approved by the agency head.

2. The agency head may require submission of evidence substantiating the need for sick leave. If the agency head determines the evidence is inadequate, the absence shall be charged to another category of leave or considered absence without leave.

3. An agency head may require an employee to be examined by a licensed health care practitioner designated by the agency head.
   a. If the licensed health care practitioner determines that the employee should not work due to illness or injury, the agency head may place the employee on sick leave or, if the employee’s sick leave is exhausted, charge the absence to another category of leave or leave without pay.
   b. The agency head may require the employee to obtain approval from the licensed health care practitioner before returning to work.
   c. The agency shall pay for all examinations required pursuant to this subsection. The employee shall not be charged any leave while participating in or traveling to or from any examination required pursuant to this subsection.

E. Movement to another state agency. An employee who moves to another state agency shall transfer all accumulated and unused sick leave to the employee’s sick leave account in the new state agency.

F. Separation. All sick leave credits are forfeited upon separation from state employment except as provided in A.R.S. § 38-615 or otherwise provided by law. However, an employee who returns to state employment within two years after separation shall be credited with all unused sick leave accumulated at the time of separation if the employee was not paid for accumulated sick leave pursuant to A.R.S. § 38-615.

R2-5A-B604. Administrative Leave

A. General. An agency head may authorize an employee to be absent with pay on administrative leave during a state of emergency declared by the Governor or:
1. In other emergency situations such as extreme weather conditions, fire, flood, or malfunction of publicly-owned or controlled machinery or equipment.

2. To relieve an employee of duties temporarily during the investigation of alleged wrongdoing by the employee or during a disciplinary process, subject to the requirements outlined in subsections (B) and (C).

B. Reporting administrative leave. If an employee's administrative leave totals 80 consecutive hours, the agency head shall submit a report to the Director and for each week thereafter, until the employee's administrative leave is terminated. The report shall include:

1. The name of the agency,
2. The employee identification number (EIN) of the employee,
3. The name of the employee,
4. The employment status of the employee,
5. The date the employee was placed on administrative leave,
6. The number of hours the employee has been on administrative leave as of the date of the report, and
7. A brief description as to why the employee is on administrative leave.

C. Approval of Director. If an employee's administrative leave is anticipated to exceed 240 consecutive working hours, the agency head shall obtain the approval of the Director.

1. An agency head requesting approval to continue an employee's administrative leave for more than 240 working hours shall submit a request to the Director for approval at least five business days before the employee's administrative leave will total 240 working hours. If circumstances beyond the agency's control do not permit at least five business days' notice, the agency head shall submit the request as soon as the agency head is aware of the necessity for the request. The request shall include all of the information listed in subsection (B), the reason the administrative leave will extend beyond 240 working hours and the anticipated date the administrative leave will be terminated.

2. The Director shall review the request and approve, modify or deny the request within three business days of receipt.

R2-5A-B605. Bereavement Leave

A. General. An employee may be absent with pay due to the death or funeral of a spouse, natural child, adopted child, foster child, stepchild, natural parent, stepparent, adoptive parent, an individual who stood “in loco parentis,” grandparent, grandchild, brother, sister, brother-in-law, sister-in-law, mother-in-law, father-in-law, son-in-law, or daughter-in-law.

B. Amount of bereavement leave.
1. A full-time employee may be absent with pay for up to 24 regularly scheduled work hours. An agency head may extend the bereavement leave for up to 16 additional work hours if the employee travels out-of-state for the funeral.

2. A part-time employee who works 1/4 time, 1/2 time, or 3/4 time may be absent with pay for a proportional amount of bereavement leave. A part-time employee who works a percentage of full-time other than 1/4 time, 1/2 time, or 3/4 time may be absent with pay at the next lower rate. An employee who works less than 1/4 time is not entitled to bereavement leave.

R2-5A-B606. Civic Duty Leave

A. General. Upon substantiated application, an employee shall receive absence with pay as civic duty leave while serving as a juror, complying with a subpoena, voting, or serving as a member of a governmental board, commission, or similarly constituted governmental body, subject to the conditions set forth in this rule and the limitations in R2-5A-A601(B).

B. Use of civic duty leave. Except for voting pursuant to A.R.S. § 16-401 (primary elections) or A.R.S. § 16-402 (general elections), an employee granted civic duty leave shall report for duty with the employing agency whenever the employee’s presence is not required for the civic duty, unless:
   1. The distance to the work location would preclude timely reporting for the civic duty, or
   2. The employee cannot return to work at least one hour before the end of the work shift.

C. Appearance as a witness. An employee who is subpoenaed as a witness by any court or administrative, executive, or judicial body in this state may be absent with pay unless the testimony or evidence to be given relates to the employee’s commercial, business, or personal matters.

D. Jury and witness fees. Employees who are granted civic duty leave when called for jury duty or subpoenaed as a witness shall remit any fees to the employing agency, except for mileage allowance.

E. Membership on a public service body. An employee serving as a member of a governmental board, commission, or similarly constituted governmental body may be absent with pay while performing official duties with the body.

R2-5A-B607. Compensatory Leave

A. General. Compensatory leave is leave that has been earned by an employee under the provisions of R2-5A-404.

B. Use of compensatory leave. An agency head:
   1. Shall approve an employee’s request for earned compensatory time off within a reasonable time after the employee makes the request if the use of such time off would not unduly disrupt agency operations.
   2. May require an employee to use the employee’s available compensatory leave during a period specified by the agency head.
C. Payment. Subject to funding availability, an agency head may pay an employee at any time for all or any portion of the employee’s earned compensatory leave balance at the employee’s regular rate of pay.

D. Movement.
   1. To another state agency. An agency head may pay an employee who transfers to another state agency for all unused compensatory leave at the time of the transfer. An agency head may transfer part or all of the compensatory leave earned by an employee who transfers to another agency with the gaining agency’s concurrence. If the gaining agency does not concur, the losing agency shall pay all of the unused compensatory leave that the gaining agency will not accept.
   2. To an employment status or a position ineligible for compensatory leave. If an employee has a change in employment status or position that results in the employee being ineligible to earn compensatory leave, the agency head or the agency head of the losing agency if the employee moves to another state agency, shall pay the employee for all unused compensatory leave at the employee’s regular rate of pay immediately before the employee’s change in status or position.

E. Separation. An agency head shall pay an employee who separates from state employment for all unused compensatory leave at a rate of compensation not less than the higher of:
   1. The average regular rate received by such employee during the last three years of the employee’s employment, or
   2. The final regular rate received by such employee.

R2-5A-B608. Educational Leave
A. General. An employee may be sent with pay to participate in a formal educational or training course of study at a college, university, or technical school with the approval of the agency head and the Director, based on the determination that the leave is in the best interest of the state.

B. Application. The approved application shall be accompanied by a written agreement signed by the agency head and the employee containing the following provisions at a minimum:
   1. A statement of the payments, if any, to be provided to the employee and the manner of their payment.
   2. An agreement by the employee to return to or continue in state employment upon the completion of the educational or training course of study for a period of time specified by the agency head.
   3. A statement by the employee that failure to successfully complete the course, to complete the specified state employment, or to fulfill all of the terms of the agreement, shall result in the employee’s being required to repay all or a proportionate part of the salary and other payments received, if any.
**R2-5A-B609. Living Donor Leave**

An employee who requests absence with pay for living donor leave under A.R.S. § 41-706 shall submit written verification that the employee is to serve as a donor. An employee may be absent with pay for the time specified for the following purposes:

1. Up to 40 working hours to serve as a bone marrow donor.
2. Up to 240 working hours to serve as an organ donor.

**R2-5A-B610. Leave for National Disaster Medical System (NDMS) Training**

An employee who requests absence with pay on national disaster medical system leave under A.R.S. § 38-610 is entitled to be absent with pay for the number of hours regularly scheduled to work on all days the employee is on training duty.

**R2-5A-B611. Meritorious Service Leave**

**A.** The Director shall establish guidelines for meritorious service leave.

**B.** Except for employees in covered positions classified as Correctional Officers I, II, or III, or Community Corrections Officers, meritorious service leave is only available to uncovered employees.

**C.** The guidelines established by the Director shall include at a minimum:

1. The maximum number of hours of meritorious service leave that may be awarded to an employee per calendar year;
2. The maximum percentage of agency employees eligible for meritorious service leave;
3. A requirement that an employee shall use meritorious service leave within 12 months of receipt of the leave;
4. A requirement that if the employee does not use the meritorious service leave within 12 months of receipt, that the leave is forfeited; and
5. A statement that unused meritorious service leave is forfeited upon separation from state employment.

**D.** Subject to the guidelines established by the Director, a meritorious service leave program may be implemented at the discretion of the agency head.

**E.** An agency head shall report to the Director on the utilization of meritorious service leave pursuant to the reporting requirements in the guidelines established by the Director.
PART C. UNPAID LEAVE

R2-5A-C601. Furlough

A. Definition. A furlough is the involuntary placement of an employee on leave of absence without pay for budgetary reasons.

B. Types of furloughs. A furlough may be authorized by legislative action. In addition, the Director may approve:

1. A reduction of funding furlough that allows an agency head to place employees on furlough for any combination of consecutive or non-consecutive days. There is no maximum number of days an employee may be placed on furlough, but consecutive furlough days shall not exceed five consecutive days or more than one-half the employee’s regularly scheduled hours in a pay period, whichever is less; and

2. A suspension of funding furlough that allows an agency head to place employees on furlough indefinitely until funding is restored.

C. General.

1. The total number of days an employee is placed on furlough may vary based on the amount of the reduction or length of suspension of funding.

2. A furlough day equals eight hours for full-time employees and is pro-rated for part-time employees. Furlough hours for part-time employees are calculated by multiplying the number of hours the employee is scheduled to work in a week by 0.2. If the calculation results in a fraction, the furlough hours shall be rounded to the nearest whole hour, as follows:
   a. 0.5 or above is rounded up, and
   b. Less than 0.5 is rounded down.

3. A furlough is unpaid.

4. Unless a work emergency occurs under subsection (D)(5)(d), while on furlough, an employee shall not conduct state work or volunteer to conduct state work, either with or without compensation.

5. Paid leave shall not be substituted for furlough days.

6. All state employees within the scope of the furlough shall be subject to the furlough in the same manner. Exceptions may be granted when an agency head determines certain employees within the scope of the furlough have unique knowledge or skills or are considered mission critical and need to be excluded from the furlough.

7. Unless the employee is in a physician or attorney position, an employee who is in a position that has been determined to be exempt from the provisions of the Fair Labor Standards Act (FLSA) will lose the exemption for any work week in which the employee is furloughed for less than the full work week.

8. A furlough shall not adversely affect an employee’s service anniversary date or create a break in service.
9. Upon conclusion of the furlough period, an agency head shall return an employee to the employee’s status and position held prior to the furlough, unless a personnel action taken in accordance with State Personnel System rules authorizes a change to the employee’s record.

10. An employee’s failure or inability to return to work upon conclusion of the furlough period may, in accordance with applicable State Personnel System rules:
   a. Result in the employee being placed on leave,
   b. Be considered a resignation,
   c. Result in separation without prejudice, or
   d. Be cause for dismissal of a covered employee.

D. Reduction of funding furlough.

1. An agency head shall submit to the Director a furlough plan for approval if the agency head determines a furlough is necessary due to a reduction of funding. An agency head is not required to implement or exhaust other cost-savings measures prior to initiating a furlough plan.

2. The agency head shall submit the furlough plan for approval at least 30 business days prior to the proposed implementation date of the furlough. If circumstances beyond the agency head’s control do not permit at least 30 business days’ notice, the agency head shall submit the furlough plan as soon as the agency head is aware of the necessity for the furlough and provide a written explanation of why the 30 business day requirement was not met.

3. An agency head shall include all of the following in the furlough plan:
   a. The proposed scope of the furlough plan, which shall be either agency-wide or limited to:
      i. Agency operations in one or more geographic areas,
      ii. One or more organizational units of the agency,
      iii. One or more funding sources,
      iv. One or more job classes,
      v. One or more class series, or
      vi. Any combination of the above.
   b. If the furlough will not be conducted on an agency-wide basis, each affected:
      i. Geographic location,
      ii. Organizational unit,
      iii. Funding source,
      iv. Job class, and
      v. Class series.
   c. For each affected geographical location, organizational unit, funding source, job class, and class series specified in the furlough plan, the total number of employees scheduled for furlough;
d. If requesting any exceptions within the scope of the furlough under subsection (C)(6), the total number of employees within the scope of the furlough, the number of employees for whom an exception is requested, and the reason for the request;

e. The number of days and date ranges for the furlough;

f. The anticipated cost savings due to the furlough;

g. The agency’s procedures for scheduling furloughs; and

h. The procedures for notifying employees of the furlough.

4. The Director shall review and provide written notification of approval, modification, or denial of an agency’s furlough plan within 20 business days of receipt.

5. Upon approval of the Director to conduct a reduction of funding furlough, an agency head:

   a. May place an employee on furlough for any combination of consecutive or non-consecutive days, subject to the limits in subsection (B)(1);

   b. Shall determine the scheduling of furloughs that provide for the continuation of any agency operations required by law;

   c. May cancel or rescind any approved paid or unpaid leave in progress or scheduled for an employee who is designated for furlough and shall notify the affected employee in writing of the cancellation of the approved leave for the duration of the furlough. If the previously approved leave was scheduled to extend beyond the furlough, the employee may return to paid leave status, if available, following the furlough period. If the agency head cancels an employee’s paid leave and:

      i. The employee is on leave pursuant to the provisions of the federal Family and Medical Leave Act (FMLA) during a scheduled furlough day, the furlough day shall not count against the employee’s FMLA entitlement and the employee’s leave balance shall not be charged for the furlough day; or

      ii. The employee is on military leave during a scheduled furlough day, the furlough day shall not count against the employee’s military leave and the employee’s leave balance shall not be charged for the furlough day; and

   d. Shall prohibit an employee from working during the period of the furlough, unless a work emergency arises. In the event of a work emergency, an agency head may revoke the furlough for an employee in an individual case. An employee whose furlough is revoked due to an emergency shall be paid for time required to work and shall be required to take the furlough on another day, unless otherwise exempted.

E. Suspension of funding furlough - agency head request.

   1. An agency head shall submit to the Director for approval a furlough plan if the agency head determines a furlough is required due to a suspension of funding to pay employees.
2. The agency head shall submit the furlough plan for approval at least 15 business days prior to the
proposed implementation date of the furlough. If circumstances beyond the agency head’s control do not
permit at least 15 business days’ notice, the agency head shall submit the furlough plan as soon as the
agency head is aware of the necessity for the furlough and provide a written explanation of why the 15
business day requirement was not met.

3. An agency head shall include all of the following in the furlough plan:
   a. The proposed scope of the furlough plan, which shall be either agency-wide or limited to:
      i. Agency operations in one or more geographic areas,
      ii. One or more organizational units of the agency,
      iii. One or more funding sources,
      iv. One or more job classes,
      v. One or more class series, or
      vi. Any combination of the above.
   b. If the furlough will not be conducted on an agency-wide basis, each affected:
      i. Geographic location,
      ii. Organizational unit,
      iii. Funding source,
      iv. Job class, and
      v. Class series.
   c. For each affected geographical location, organizational unit, funding source, job class, and class series
      specified in the furlough plan, the total number of employees scheduled for furlough;
   d. If requesting any exceptions within the scope of the furlough under subsection (C)(6), the total
      number of employees within the scope of the furlough, the number of employees for whom an
      exception is requested, and the reason for the request;
   e. The procedures for notifying employees of the furlough; and
   f. The procedures for notifying employees of restoration of funding and when to return to work.

4. The Director shall review and provide written notification of approval, modification, or denial of an
agency’s furlough plan within 10 business days of receipt.

5. Upon approval of the Director to conduct a suspension of funding furlough, an agency head:
   a. Shall freeze all personnel actions except for those actions that would accomplish, or assist in
      accomplishing the purpose of the furlough;
   b. May place employees on furlough indefinitely until the reason for the furlough is abated;
   c. Shall notify affected employees of the furlough and that while on furlough, an employee:
      i. Shall not report to work or work from any location until notified to return to work; and
ii. Will not receive pay for any unused and unforfeited annual leave, should the employee resign or be terminated, until funding is restored;

d. May cancel or rescind any approved paid or unpaid leave in progress or scheduled for an employee who is designated for furlough and shall notify the affected employee in writing of the cancellation of the approved leave for the duration of the furlough. If the previously approved leave was scheduled to extend beyond the furlough, the employee may return to paid leave status, if available, following the furlough period; and

e. Shall notify employees upon restoration of funding and when to return to work.

F. Suspension of funding furlough - failure to pass state budget.

If the state fails to pass a budget and funds are not appropriated for the following fiscal year, the Director may authorize an agency head to implement a suspension of funding furlough. Upon such notification by the Director, an agency head:

1. Shall freeze all personnel actions except for those actions that would accomplish, or assist in accomplishing the purpose of the furlough;

2. Unless an exception has been authorized as provided in subsection (F)(4), shall place all employees on furlough indefinitely until the reason for the furlough is abated;

3. Shall require all employees to be subject to the furlough in the same manner;

4. May establish exceptions when only a portion of the employees in a particular class are necessary to perform mission critical services;

5. Shall notify affected employees of the furlough and that while on furlough, an employee:
   a. Shall not report to work or work from any location until notified to return to work; and
   b. Will not receive pay for any unused and unforfeited annual leave, should the employee resign or be terminated, until funding is restored;

6. Shall cancel or rescind any approved paid or unpaid leave in progress or scheduled for an employee who is designated for furlough and shall notify the affected employee in writing of the cancellation of the approved leave for the duration of the furlough. If the previously approved leave was scheduled to extend beyond the furlough, the employee may return to paid leave status, if available, following the furlough period; and

7. Shall notify employees upon restoration of funding and when to return to work.

G. Employee request for review.

1. An employee may submit a request for review of the employee’s placement on furlough. The employee shall make the request for review in writing to the agency head no later than three business days after the employee’s receipt of a furlough notice. The employee shall limit the request for review to the determination resulting in the employee’s furlough and include a proposed resolution.
2. The agency head shall provide a written response to the employee with a final decision within:
a. Five business days after receipt of the request if a reduction of funding furlough, or
b. Fifteen business days after the employee returns to work if a suspension of funding furlough.
3. A request for review shall not delay implementation of the furlough.

R2-5A-C602. Leave Without Pay

A. Approval. All leave without pay requires a written request by an employee in advance, including the reason for the employee’s request, and approval by the agency head.

B. Use of leave. Except for military leave, an agency head shall not grant leave without pay in excess of 80 consecutive hours until all annual leave earned for working on a day on which a state holiday is observed, all accrued annual leave and, if the leave without pay is for medical reasons, sick leave are exhausted.

C. Return to work.

1. An employee who returns to work after an authorized period of leave without pay of 80 consecutive hours or less shall return to the same position occupied at the start of the leave without pay.

2. Except as provided in subsection (C)(4), an employee who returns to work after a period of leave without pay in excess of 80 consecutive hours may return to a position in the class held at the start of the leave without pay, if a position is available and funded, and if the leave without pay is terminated in one of the following ways:
   a. Expiration of its term and the employee’s return to work;
   b. Rescission of the leave without pay by the agency head before its scheduled expiration due to an unforeseen need that results in an insufficient number of employees available to provide service and for which:
      i. The agency head provides written notice of the rescission to the employee’s last known address at least 15 days before the date the employee is directed to return to work; or
      ii. If circumstances beyond the agency’s control do not permit at least a 15-day notice, the agency head provides notice as soon as possible after becoming aware of the need for the employee to return to work; or
   c. Curtailment of the leave without pay before its scheduled expiration date upon request of the employee and with approval of the agency head.

3. An agency head may consider the failure or inability of an employee to return to work on the first work day after an approved leave without pay as a resignation.

4. An employee returning to work from leave without pay granted:
   a. For industrial illness or injury for up to six months shall return to the position occupied at the start of the leave without pay. If this position or a position in the same class is not available and funded, the
agency head shall conduct a layoff or, if the employee is covered, a reduction in force in accordance with Subchapter B.

b. As military leave is subject to the provisions of the USERRA regulations incorporated by reference in R2-5A-D603.

c. As FMLA leave is subject to the provisions of the FMLA regulations incorporated by reference in R2-5A-D601.

D. Insurance benefits continuation. An employee who is on leave without pay may continue to participate in the employee insurance plans as follows:

1. Health benefit plan participation.
   a. An employee who is on FMLA leave is eligible to continue to participate in the health benefit plan for the duration of the FMLA leave by paying the employee premium/contribution. An agency head may recover the state’s portion of premium/contributions paid to maintain health coverage for an employee if the employee fails to return from FMLA leave under certain circumstances, in accordance with FMLA regulations incorporated by reference in R2-5A-D601.

   b. An employee who is on leave without pay for a health-related reason that is not an industrial illness or injury and who either does not meet FMLA eligibility requirements or has exhausted FMLA leave and remains absent from work may continue to participate in the health benefit plan by paying both the state and employee premium/contribution. Authority to continue participation in the health benefit plan shall terminate on the earliest of:
      i. Receipt of long-term disability benefits for which there is eligibility to continue health benefit plan participation under a state-sponsored retirement plan,
      ii. A determination of eligibility for Medicare coverage, or
      iii. 30 months after the incapacity began.

   c. An employee who is on leave without pay for reasons other than those outlined in subsection (D)(1)(a), (b), or R2-5A-D602 pertaining to industrial leave, may continue to participate in the health benefit plan for a maximum of six months by paying both the state and employee premiums/contributions.

2. Life insurance plan participation.
   a. An employee who is on FMLA leave continues to participate in the Basic Life and Accidental Death and Dismemberment Insurance Plan and may continue to participate in the supplemental life and dependent life insurance coverage by paying the full premium/contribution.

   b. An employee who is on leave without pay for a health-related reason that is not an industrial illness or injury and who either does not meet FMLA eligibility requirements or has exhausted FMLA leave and remains absent from work may continue to participate in the basic life insurance plan by paying
the state premium/contribution. An employee who elects to continue to participate in the basic plan may also continue any supplemental or dependent life coverage that is in force at the beginning of the leave without pay by continuing to pay the premium/contribution. Authority to continue in the life insurance plan shall terminate in accordance with the time limits specified in subsection (D)(1)(b).

c. An employee who is on leave without pay for reasons other than those outlined in subsection (D)(1)(a), (b), or R2-5A-D602 pertaining to industrial leave, may continue to participate in the basic life insurance plan by paying the state premium/contribution. An employee who elects to continue to participate in the basic plan may also continue any supplemental or dependent life coverage that is in force at the beginning of the leave without pay by continuing to pay the premium/contribution. Authority to continue in the life insurance plan shall be available for a maximum of six months.

3. Termination of insurance. The insurance coverage of an individual on leave without pay who fails to pay insurance premiums/contributions when due shall terminate at 11:59 p.m. on the last day of the period covered by the last premium/contribution paid.

PART D. LEAVE THAT COULD BE EITHER PAID OR UNPAID

R2-5A-D601. Family and Medical Leave Act (FMLA) Leave

A. General. All state agencies are responsible for complying with the federal Family and Medical Leave Act (FMLA) of 1993 and all applicable revisions. FMLA Regulations, 29 CFR 825.100 through 29 CFR 825.800 (July 2012), are incorporated by this reference and on file with the Department and available from the U.S. Government Printing Office, 732 North Capitol Street N.W., Washington, D.C. 20401. This incorporation by reference contains no future editions or amendments. Any interference with, restraint of, or denial of an employee’s rights provided by the FMLA is strictly prohibited.

B. Eligible employee.

1. An eligible employee for the purposes of the FMLA is an employee who:
   a. Is an employee of the state of Arizona;
   b. Has been employed by the state of Arizona for at least 12 months; and
   c. Worked for at least 1,250 hours of service during the 12 months immediately preceding commencement of the leave.

2. An agency head shall not extend FMLA benefits to an ineligible employee.

C. Situations covered by the FMLA. A state agency shall grant an eligible employee FMLA leave when the employee takes leave for one or more of the following reasons:

1. The birth of a child or placement of a child with the employee for adoption or foster care, provided the leave concludes within 12 months of the birth or placement.

2. To care for the employee’s spouse, child or parent with a serious health condition.
3. The employee is unable to work because of the employee’s own serious health condition.

4. Any qualifying exigency arising out of the fact that the employee’s spouse, child or parent is a covered military member on active duty or call to active duty status in support of a contingency operation.

5. To care for a covered servicemember with a serious injury or illness when the covered servicemember is the employee’s spouse, child, parent or next of kin.

D. Amount of FMLA leave.

1. An employee who takes FMLA leave for any of the situations described in subsections (C)(1), (2), (3) or (4) may take a maximum of 12 workweeks of leave during any rolling 12-month period, measured backward from the first day of each approved period of FMLA leave.

2. An employee who takes FMLA leave for the situation described in subsection (C)(5) may take up to 26 workweeks of leave in a single 12-month period.

3. During a 12-month period, an eligible employee is able to take no more than 12 workweeks of leave for any of the situations described in subsections (C)(1), (2), (3) or (4) and a combined total of 26 workweeks of leave if the leave includes the situation described in subsection (C)(5).

4. If a husband and wife are both state employees, the husband and wife are limited in the amount of FMLA leave taken to a combined total of:
   a. 12 workweeks of leave for the birth and care of a newborn child, placement of a child for adoption or foster care, or to care for a parent who has a serious health condition.
   b. 26 workweeks of leave to care for a covered servicemember with a serious injury or illness.

E. Designation of FMLA leave. An employee need not specifically request FMLA leave to be placed on FMLA leave. If an eligible employee takes leave for any reason covered by the FMLA and has not already exhausted the employee’s available FMLA leave, the agency head shall designate the employee’s leave as FMLA leave.

F. Use of paid leave. Except for portions of industrial leave, an employee on FMLA leave shall be required to use the employee’s available paid leave while on FMLA leave as follows and in the following order:

1. Sick leave or, as applicable, family sick leave subject to the provisions of R2-5A-B603.

2. Compensatory leave subject to the provisions of R2-5A-B607.

3. Annual leave subject to the provisions of R2-5A-B602.

4. Leave without pay subject to the provisions of R2-5A-C602.

G. Insurance benefits continuation. An employee who is using leave with pay remains eligible for continued participation in the employee insurance plans and the employee’s share of premiums/contributions is paid through payroll deduction. An employee who is on leave without pay while on FMLA leave may continue to participate in the employee insurance plans as follows:

1. Health benefit plan participation. An employee is eligible to continue to participate in the health benefit plan for the duration of the FMLA leave by paying the employee premium/contribution. An agency head
may recover the state’s portion of premium/contributions paid to maintain health coverage for an employee if the employee fails to return from FMLA leave under certain circumstances, in accordance with FMLA regulations incorporated by reference in subsection (A).

2. Life insurance plan participation. An employee continues to participate in the Basic Life and Accidental Death and Dismemberment Insurance Plan and may continue to participate in the supplemental life and dependent life insurance coverage by paying the full premium/contribution.

3. Termination of insurance. The insurance coverage of an employee on leave without pay who fails to pay insurance premiums/contributions when due shall terminate at 11:59 p.m. on the last day of the period covered by the last premium/contribution paid.

H. Return from FMLA leave. An agency head shall restore an employee returning from FMLA leave to the employee’s original job, or to an equivalent job with equivalent pay, benefits, and other terms and conditions of employment. The provisions of the FMLA, not the provisions of R2-5A-C602(C), shall govern return to work from leave without pay granted to complete an FMLA-qualified leave.

I. Employee responsibilities. An employee is required to adhere to the employing agency’s call-in procedures, give the agency 30 days’ notice in the event of a foreseeable leave, provide requested documentation, and periodic updates of the employee’s status and intent to return to work as requested by the agency.

J. Agency rights. Nothing in the FMLA or this rule should be construed as limiting an agency’s right to manage, discipline or terminate an employee, including an employee’s failure to comply with the agency’s request for appropriate documentation to substantiate the employee’s need for the leave. However, an employee’s use of FMLA leave cannot be considered as a negative factor in any employment decision.

K. Conflict. If there is a conflict between the provisions of these rules and the FMLA, the provisions of the FMLA govern.

R2-5A-D602. Industrial Leave

A. Use of leave.

1. An agency head shall place an employee who sustains a job-related illness or injury that is compensable under the Workers’ Compensation Law, A.R.S. Title 23, Chapter 6 on sick leave.

2. If an employee who is on leave under the Worker’s Compensation laws meets Family and Medical Leave Act (FMLA) eligibility requirements and the leave qualifies for FMLA leave, an agency head shall count it as FMLA leave. An agency head shall apply industrial leave and FMLA concurrently.

3. An employee shall use leave in an amount necessary to receive total payments (leave payments plus Workers’ Compensation payments) that do not exceed the gross salary of the employee.

4. If an employee exhausts all sick leave, compensatory leave and annual leave, an agency head shall place the employee on leave without pay.
B. Payments. If an employee receives a retroactive Workers’ Compensation payment for any period of industrial illness or injury for which leave payments were received, the employee shall reimburse the agency for Workers’ Compensation payments that exceed 100% of the employee’s base pay before the illness or injury, and the agency head shall restore the equivalent value of leave to the employee’s appropriate leave account.

C. Light duty. If an employee has a job-related illness or injury that impairs performance on the former job, the agency head shall make every effort to place the employee in a suitable position within the agency, including a light duty assignment.

D. Restriction. An agency head shall not grant sick leave or leave without pay to an employee who fails to accept compensation available under the industrial injury and disease provisions of A.R.S. §§ 23-901 to 23-1091.

E. Insurance benefits continuation. An employee who is using leave with pay in accordance with subsection (A) remains eligible for continued participation in the employee insurance plans and the employee’s share of premiums/contributions is paid through payroll deduction. An employee who is on leave without pay due to an industrial illness or injury may continue to participate in the employee insurance plans as follows:

1. Health benefit plan participation.
   a. An employee may continue to participate in the health benefit plan for a maximum of six months from the date of illness or injury by paying the employee premium/contribution.
   b. At the end of the six-month period, an employee who remains on leave without pay due to industrial illness or injury may continue to participate in the health benefit plan by paying both the state and employee premiums/contributions, until the employee returns to work or is determined to be eligible for Medicare coverage or Long-term Disability, whichever occurs first.

2. Life insurance plan participation. An employee who is on leave without pay continues to participate in the basic life and accidental death and dismemberment insurance plan without cost for six months after the month in which the illness or injury occurs. During this six-month period, the employee may continue supplemental life and dependent life coverages that were in effect at the start of the leave by paying the applicable premium/contribution.

3. Termination of insurance. The insurance coverage of an employee on leave without pay who fails to pay insurance premiums/contributions when due shall terminate at 11:59 p.m. on the last day of the period covered by the last premium/contribution paid.

F. Accrual of leave. An employee shall continue to receive full leave accrual as long as the employee uses two or more hours of paid leave each day.

R2-5A-D603. Military Leave

An employee who requests absence with pay on military leave under A.R.S. § 26-168, 26-171, or 38-610 shall submit a copy of the orders for duty with the request for military leave. An employee may be absent with pay for military purposes for up to thirty days in any two consecutive federal fiscal years. All state agencies are

R2-5A-D604. Victim Leave
An employee who is a victim of a juvenile offense or a crime and who requests absence from work to attend court-related proceedings under A.R.S. § 8-420 or 13-4439 shall submit a copy of the form provided to the employee by the law enforcement agency or a copy of the information the law enforcement agency provided to the employee with the request for victim leave. An employee shall use the employee’s available sick leave, compensatory leave or annual leave for such absence. If an employee exhausts all sick leave, compensatory leave and annual leave, an agency head shall place the employee on leave without pay.

ARTICLE 7. PERFORMANCE MANAGEMENT

R2-5A-701. General
A. Performance management system. The Director shall establish a performance management system to evaluate the job performance of state employees. The performance management system established by the Director shall contain performance rating levels and shall contain numerical points to apply to each performance rating level established.

B. Administration. The Director shall develop an administrative manual and training on the performance management system.

C. Exceptions. The performance management system may be used:
   1. As determined by the appointing authority for the agency head, to evaluate the job performance of the agency head.
   2. As determined by the agency head, to evaluate the job performance of:
      a. Each deputy director, or equivalent, of the agency.
      b. Each assistant director, or equivalent, of the agency.

R2-5A-702. Performance Management Process
A. Performance plan. For the purposes of this subsection, “performance plan” means a document prepared by an employee’s supervisor that outlines what is expected of the employee and how the employee’s performance will be measured. Subject to review by agency management, a supervisor:
1. Shall administer a performance plan for each employee within 30 days of becoming the employee’s supervisor.

2. May modify a performance plan at any time during a performance period.

3. Shall modify a performance plan when significant responsibilities or expectations are added to or removed from a position.

4. Shall notify the affected employee of any modifications made to a performance plan under subsection (A)(2) or (3).

B. Performance evaluation requirements.

1. Informal evaluation. A supervisor shall:
   a. Monitor and evaluate an employee’s performance throughout the rating period,
   b. Provide feedback to the employee on a regular basis, and
   c. Attempt to correct inadequate performance where possible and appropriate.

2. Formal evaluation. A supervisor shall:
   a. Formally evaluate, document and rate the performance of each employee at least annually.
   b. Submit the evaluation to agency management for review prior to the evaluation being administered to the employee.

3. Covered probationary employees. Prior to granting a covered probationary employee permanent status, a supervisor shall evaluate a probationary employee at least once prior to the end of the employee’s probationary period.

C. Responsibilities.

1. An employee shall comply with the performance plan established by the supervisor.

2. A supervisor shall comply with performance evaluation requirements.

3. An agency head shall ensure that all performance evaluations are completed as required by this Section.

ARTICLE 8. DISCIPLINARY ACTIONS

R2-5A-801. General

A. Authority. An agency head has the primary authority and responsibility for managing the conduct of all employees within an agency. A covered employee may be disciplined only for cause. An agency head shall discipline a covered employee in accordance with this Article and the rules in Subchapter B of this Chapter. An uncovered employee serves at the pleasure of the appointing authority and may be dismissed at will. Except for an employee who is in a position listed in A.R.S. § 41-742(F), any action that involves a suspension greater than 80 working hours, an involuntary demotion, or a dismissal requires review by the Director prior to the agency head administering such action.
B. Level of discipline.
   1. If an agency head deems it necessary to discipline an employee, the agency head may determine the level of discipline to be imposed, up to and including dismissal, subject to review by the Director, if applicable.
   2. In determining the level of discipline to be imposed, the agency head may consider the following factors:
      a. Consistent application of rules and standards,
         i. Unless otherwise prescribed by statute, the agency head need only consider those cases decided under the administration of the current agency head. Decisions in cases prior to the administration of the current agency head are not binding upon the current agency head and are not relevant in determining consistent application of rules and standards.
         ii. In determining consistent application of rules and standards, the disciplinary actions imposed by one agency may not be binding upon any other agency and may not be used for comparison purposes in hearings wherein the consistent application of rules and standards is at issue.
      b. Prior knowledge of rules and standards,
      c. The severity of the infraction,
      d. The repeated nature of violations,
      e. Prior corrective or disciplinary actions,
      f. Previous oral discussions,
      g. The employee’s past work record,
      h. The effect on agency operations,
         i. The potential of the violations for causing damage to persons or property.

C. Limitations.
   1. Except as otherwise provided by statute or rule, suspensions shall not exceed a total of 30 working days during any 12-month period. The 12-month period begins with the first day of the first suspension.
   2. An employee who is involuntarily demoted must possess the qualifications for the position and:
      a. A covered employee who has attained permanent status may be involuntarily demoted only to a regular position in the covered service.
      b. An uncovered employee may be involuntarily demoted only to a position in the uncovered service.

D. Review by Director.
   1. Letters of reprimand and suspensions without pay of 80 working hours or less are not subject to review by the Director.
   2. Prior to imposing a suspension greater than 80 working hours, an involuntary demotion, or dismissal, the agency head shall submit the proposed action to the Director for review as prescribed in R2-5A-802, unless the employee is in a position listed in A.R.S. § 41-742(F). If the employee is in a position listed in A.R.S. § 41-742(F), a review by the Director is not required.
**R2-5A-802. Procedures for Review by the Director**
A. Prior to administering any action requiring review by the Director, the agency head shall submit the proposed letter to the Director prior to the date the agency head intends to issue the letter to the employee.

B. The Director shall review the agency head's proposed action and provide notification of concurrence or recommend modification to the proposed action.

C. When the agency head administers the action to an employee, the agency head shall also send a copy of the employee's letter to the Director. If the agency head determines that no action will be taken, the agency head shall notify the Director.

**R2-5A-803. Employee Request for Review of Disciplinary Action**
A. A covered employee who is issued a disciplinary action may have grievance or appeal rights, as applicable.

B. An uncovered employee does not have grievance rights or the right of appeal to a state merit board or council.

C. A covered employee who files a complaint on a disciplinary action alleging discrimination or harassment is precluded from also filing a grievance through the agency's grievance procedure on the same disciplinary action that is the subject of the employee's complaint.

**ARTICLE 9. COMPLAINTS**

**R2-5A-901. Complaint System**
A. General. Each agency head shall:

1. Adopt a procedure to address employee complaints concerning discrimination or harassment in compliance with this rule.

2. Designate an employee of the agency to serve as the agency’s complaint coordinator, who shall be responsible for receiving complaints, determining applicability under the complaint system, investigating or assigning the complaint to the appropriate individual within the agency for review or investigation, and tracking the processing of complaints.

B. Matters subject to the complaint system. The adopted complaint procedure shall require the complainant to file the complaint with the agency complaint coordinator within 180 days of the action giving rise to the complaint and to clearly outline the allegations to be addressed, including whether the basis of the complaint is based on:

1. Unlawful discrimination based on race, color, religion, sex (including pregnancy), age, national origin, genetic information or on the basis of a disability.

2. Allegation of sexual harassment or other form of harassment.

3. Retaliation for filing a complaint.
4. Retaliation or intimidation for exercising any right under state or federal law.

C. Preparation. A complainant shall not be allowed the use of state time or state property to prepare a complaint, prepare for a meeting with agency management or to meet with a representative. Subject to supervisory approval, a complainant may request available compensatory or annual leave for this purpose.

D. Multiple complaints. Multiple complaints by an employee may be consolidated into a single complaint. Separate complaints filed by two or more employees regarding the same issue or issues may be consolidated into a group complaint. Employees having a common complaint may submit one group complaint, identifying one complainant as the selected spokesperson for the group. Employees who choose to file a group complaint are prohibited from filing separate complaints on the same issue.

E. Amendments. Once a complaint is submitted to the agency complaint coordinator, it may not be amended. If additional documentation is submitted by the complainant after the initiation of the complaint, the reviewing or investigating official may remand the complaint to the complainant for reconsideration and resubmission.

F. Approval. Each agency will submit its proposed complaint procedure and any subsequent changes to the Director for approval.

R2-5A-902. Complaint Procedures

A. Content. Each agency complaint procedure shall include as a minimum that:

1. The agency head be notified of all verbal or written complaints of discrimination or harassment reported by an employee immediately upon receipt of a complaint.

2. Employees who are told or otherwise become aware that discrimination or harassment is occurring must immediately report the allegation or complaint to the agency’s complaint coordinator.

3. The complaint include all facts and circumstances involved in the alleged violation, including:

   a. Description of the incident(s),
   b. Name(s) of individual(s) involved,
   c. Name(s) of witness(es),
   d. The date(s) the discrimination or harassment occurred (if known),
   e. Resolution sought,
   f. Federal or state law alleged to have been violated.

4. The agency complaint coordinator shall acknowledge receipt of the complaint in writing to the complainant not later than five business days after receipt of the written complaint.

5. The agency complaint coordinator shall initiate an investigation into the alleged complaint or assign the complaint to the appropriate individual within the agency for review or investigation within 10 business days and the review or investigation shall be completed within 60 business days of receipt of the written complaint. If extenuating circumstances exist, an extension shall be requested through the agency complaint coordinator.
6. Barring resolution of the complaint by agreement of the parties, the agency complaint coordinator shall forward a written recommendation to the agency head, or designee, within 10 business days of completion of the review or investigation.

7. The agency head, or designee, shall review the findings and recommendations and issue a decision in writing to the complainant.

8. A statement advising that retaliation against an employee for filing a complaint in good faith will not be tolerated or permitted.

9. A statement specifying that a grievance filed by a covered employee under R2-5B-403 that includes an allegation of discrimination or harassment shall be reviewed or investigated under the provisions of this Article, and not the grievance system.

B. Review by Director.

1. An employee, other than a Department of Administration employee, who is not satisfied with the agency head’s response to a complaint alleging discrimination or harassment, may elevate the complaint to the Director within five business days after the receipt of the agency head’s response. The Director will furnish a copy of the final decision to the agency head and the complainant within 20 business days following receipt of the complaint by the Director. The 20 business days may be extended by the Director with the concurrence of the complainant. The decision of the Director is the final step in the complaint procedure.

2. A complainant who is a Department of Administration employee and who is not satisfied with the Director’s decision on a complaint alleging discrimination or harassment may resubmit the complaint to the Director within five business days after receipt of the Director’s decision. The Director will appoint an individual who is not an employee of the Department of Administration and who serves in a position that is assigned to manage an agency’s employee relations or investigations work unit to investigate the resubmitted complaint. The investigator shall conduct an investigation and furnish a copy of the findings and final decision to the Director and the complainant within 20 business days following receipt of the complaint by the investigator. The 20 business days may be extended by the investigator with the concurrence of the complainant. The decision of the investigator is the final step in the complaint procedure.

3. The response will refer the employee to the appropriate entity if the employee is dissatisfied with the final step of the complaint procedure.
ARTICLE 10. SEPARATIONS

R2-5A-1001. Voluntary Separation

A. Resignation. An employee may terminate employment with the state by submitting a written resignation to the agency head. An employee should submit a resignation at least 10 business days prior to the effective date of the resignation. If an employee resigns orally, the agency head shall confirm the resignation in writing. An agency head may refuse to accept a resignation and separate the employee pursuant to R2-5A-1002.

B. Job abandonment. An agency head may consider an employee to have voluntarily resigned from employment with the agency when the employee is absent from duty for three consecutive workdays or equivalent without proper authorization.

R2-5A-1002. Involuntary Separation

A. General. An agency head may terminate an employee as deemed necessary to meet the needs of the agency and in keeping with federal and state laws and regulations. A covered employee may be dismissed only for cause. An agency head shall dismiss a covered employee in accordance with Article 8 and the rules in Subchapter B of this Chapter.

B. Staff reduction. At times, a staff reduction is necessary due to lack of work, lack of funds, economic slowdowns, technological or structural changes in the agency’s operations, or because a staff reduction is determined to be necessary to ensure the financial health and viability of the agency.

1. Except for an employee who is in a position listed in A.R.S. § 41-742(F), a staff reduction of an uncovered employee requires review by the Director prior to the agency head administering such action.

2. An agency head shall conduct staff reductions of covered employees in accordance with Subchapter B, Article 6, Reduction in Force.
PSPRS Personnel Operational Guidelines

ADMINISTRATION

The Board of Trustees
The “Board of Trustees” is a group of seven (7) people appointed pursuant to A.R.S. § 38-848, who act as trustees of the System. The Board of Trustees is responsible for investing and protecting the funds of the System, as well as administering the System’s operations. The Board of Trustees’ responsibilities are described in A.R.S. § 38-848 and the System’s Governance Manual.

The Administrator
The Administrator is employed by and serves at the pleasure of the Board of Trustees. He or she shall attend all Board of Trustees meetings, serve as the head of the System’s Administrative Office, and perform such duties as the Board of Trustees shall, from time to time, direct. The Administrator’s salary shall be set by the Board of Trustees pursuant to A.R.S. Section 38-848.N, O. The Administrator’s responsibilities are described in A.R.S. § 38-848.L and the Governance Manual.

The Assistant/Deputy Administrator(s)
The Administrator has the authority to delegate duties to one or more Assistant/Deputy Administrators, as set forth in the PSPRS Governance Manual.

Administrative Office Personnel
The System’s principal headquarters and office is situated at 3010 East Camelback Road, Suite 200, Phoenix, Arizona (the “Premises” or “Office”). The Office shall be staffed by only those job classifications that are recommended by the Administrator and approved by the Board of Trustees. The Administrator may hire temporary or part-time employees without approval of the Board of Trustees.

Upon review/approval by the Arizona Department of Administration (ADOA) as applicable, the Administrator shall have authority to hire, classify, reclassify, promote, demote, or terminate employees. The Administrator shall administer salaries of PSPRS employees in accordance with the Compensation Guidelines established by ADOA.
Subject:
Employee Complaint Process – Allegations of Unlawful Discrimination or Harassment  

Effective:  
05/22/2007

Section:  
Operational Guidelines

Revised:  
10/16/2014

Supersedes:  
6/01/2013

Review Date:  
05/01/2016

This policy does not create a contract for employment between any Public Safety Personnel Retirement System employee and the System. Nothing in this policy changes the fact that all Public Safety Personnel Retirement System employees are uncovered and as such are at-will employees that serve at the pleasure of the appointing authority.

Scope:
This policy applies to all PSPRS employees.

Authority:
A.R.S. § 41-1401 et seq., Arizona Civil Rights Act (ACRA)  
Civil Rights Act of 1991, as amended  
R2-5A-104, Prohibition Against Discrimination, Harassment and Retaliation  
R2-5A-501, Standards of Conduct  
R2-5A-901, Complaint System  
R2-5A-902, Complaint Procedures  
Title VII of the Civil Rights Act of 1964, as amended

Definitions:
“PSPRS Complaint Coordinator” means the HR Manager within the Agency, who is responsible for receiving complaints, determining applicability under the complaint system, investigating or assigning the complaint to the appropriate individual within the agency for review or investigation, and tracking the processing of complaints.  
“Department” means the Public Safety Personnel Retirement System.  
“Disability” refers to:  
• A physical or mental impairment that substantially limits a major life function of an individual;  
• Having a history of such an impairment; or  
• Being regarded as having such impairment.  
“Discrimination” includes, but is not limited to:  
• Preferential treatment of one individual or group over another similarly situated individual or group because of the individual’s or group’s race, color, religion, sex, pregnancy, age, national origin, genetic information or disability;  
• Sexual harassment;  
• Harassment of any individual because of the individual’s race, color, religion, sex, pregnancy, age, national origin, genetic information or disability; and
• Failing or refusing to provide a reasonable accommodation to a qualified person with a disability.

“Discrimination because of disability” refers to:
• Treating an individual with a disability less favorably than a similarly situated person without a disability;
• Favoring a person with one disability over a person with a different disability; and
• Refusing to provide a reasonable accommodation which is necessary to enable a qualified individual with a disability to perform the essential functions of his or her job.

“Harassment because of race, color, religion, sex, pregnancy, national origin, age, genetic information or disability” involves unwelcome and unsolicited conduct which is predicated upon an individual’s race, color, religion, sex, pregnancy, national origin, age, genetic information or disability when (1) submission to the conduct is made either explicitly or implicitly a term or condition of employment; (2) submission to or rejection of such conduct by an employee is used as a basis for an employment decision affecting the employee; or (3) the conduct has the purpose or effect of substantially interfering with an employee’s work performance and creating a hostile, intimidating or otherwise offensive working environment. Prohibited harassment includes, but is not limited to:
• Derogatory comments, epithets or slurs directed at an individual because of that individual’s race, color, religion, sex, pregnancy, national origin, age, genetic information and/or disability;
• Posting or circulating written or graphic materials, including but not limited to, cartoons, pictures, posters, or calendars containing derogatory comments, epithets or slurs based upon an individual’s race, color, religion, sex, pregnancy, national origin, age, genetic information and/or disability; and
• Abusive or derogatory remarks or conduct targeted at identifiable groups which are identified based upon their race, color, religion, sex, pregnancy, national origin, age, genetic information and/or disability.

“Sexual Harassment” means unwelcome and unsolicited conduct of a sexual nature when (1) submission to the conduct is made either explicitly or implicitly a term or condition of employment; (2) submission to or rejection of such conduct by an employee is used as a basis for an employment decision affecting the employee; or (3) the conduct has the purpose or effect of substantially interfering with an employee’s work performance and creating a hostile, intimidating or otherwise offensive working environment. Examples of conduct that can violate this policy include, but are not limited to:
• Explicit sexual behavior by a supervisor, manager, co-worker, visitor, client or other entity with whom the employee interacts during the course of employment
• Implicit request for sex
• Direct or indirect pressure for dates or sexual activity
• Pinching, patting or other unwelcome touching
• Leering or gawking
• Posting or circulating of sexually graphic materials including, but not limited to, cartoons, pictures, posters or calendars
• Sexually derogatory comments, including slurs, jokes and other inappropriate remarks
• Reprisals or threats after a negative response to sexual advances
• Unwelcome sexual advances
• Conditioning favorable terms and conditions of employment upon a positive response to abusive remarks or conduct targeted at only one sex, even if the context of the abusive remarks is not sexual
Policy:

The Public Safety Personnel Retirement System (PSPRS) is committed to the prohibition against unlawful discrimination, harassment and retaliation in the workplace. It is the policy of the PSPRS that all PSPRS employees shall comply with all federal and state anti-discrimination laws. PSPRS and its employees shall not unlawfully discriminate against any individual with regard to the terms and conditions of employment, including hiring, pay, leave, insurance benefits, retention, and rehiring. All allegations of discrimination will be promptly investigated, and any employee who engages in conduct in violation of this policy may be disciplined or separated from state employment.

Equal Employment Opportunity. The PSPRS shall provide equal employment opportunity for all individuals regardless of race, color, national origin, religion, age, disability, genetic information, sex, pregnancy, military or veteran status, or any other status protected by federal law, state law, or regulation. It is the policy of the PSPRS that all individuals are treated in a fair and non-discriminatory manner throughout the application and employment process.

Harassment Prohibited. Harassment of a sexual nature or harassment based on race, color, national origin, religion, age, disability, genetic information, sex, pregnancy, military or veteran status, or any other status protected by federal law, state law, or regulation is prohibited. The PSPRS prohibits the unlawful harassment of any employee in the course of the employee’s work by supervisors, coworkers, or third parties, such as vendors or customers. Any PSPRS employee who engages in unlawful harassment may be disciplined or separated from state employment.

Protection from Retaliation. The PSPRS does not permit or tolerate retaliation against anyone for raising a concern about, assisting in an investigation of, or filing a complaint in good faith concerning unlawful discrimination or harassment. Any PSPRS employee found to have engaged in retaliation against another individual for reporting or assisting in the investigation of any allegation of unlawful discrimination may be disciplined or separated from state employment.

It is responsibility of all PSPRS employees to promptly bring any allegation of unlawful discrimination, harassment or retaliation to the attention of the Department. Any complaint alleging unlawful discrimination, harassment or retaliation must be submitted in accordance with the procedures described in this policy.

This policy does not affect other rights and remedies under federal and state statutes prohibiting employment discrimination. Employees who believe that they have been subjected to discrimination because of their race, color, religion, sex, pregnancy, age, national origin, genetic information or disability may also file charges of employment discrimination with the Arizona Attorney General’s Civil Rights Division and with the Equal Employment Opportunity Commission. Charges filed with the Arizona Civil Rights Division must be filed within 180 days following the most recent act of discrimination; charges filed with the Equal Employment Opportunity Commission must be filed within 300 days following the most recent act of discrimination. The filing of an internal complaint of discrimination pursuant to this policy will not impact those statutes of limitations. No employee of this Department who elects to file a charge with either the Arizona Attorney General’s Civil Rights Division or the Equal Employment Opportunity Commission, or who testifies in an investigation by either of those agencies, will be retaliated against or denied internal rights or remedies on account of that charge filing or testimony.
Matters Subject to the Complaint Procedure:

This procedure shall be used by an employee to file a complaint with the PSPRS Complaint Coordinator within 180 days of the action giving rise to the complaint and to clearly outline the allegations to be addressed, including whether the basis of the complaint is based on:

1. Unlawful discrimination based on race, color, religion, sex (including pregnancy), age, national origin, genetic information or on the basis of a disability.
2. Allegation of sexual harassment or other form of harassment.
3. Retaliation for filing a complaint.
4. Retaliation or intimidation for exercising any right under state or federal law.

Preparation

A complainant shall not be allowed the use of state time or state property to prepare a complaint, prepare for a meeting with agency management or to meet with a representative. Subject to supervisory approval and the operational needs of the unit, a complainant may request available compensatory or annual leave for this purpose.

Multiple complaints

Multiple complaints by an employee may be consolidated into a single complaint. Separate complaints filed by two or more employees regarding the same issue or issues may be consolidated into a group complaint. Employees having a common complaint may submit one group complaint, identifying one complainant as the selected spokesperson for the group. Employees who choose to file a group complaint are prohibited from filing separate complaints on the same issue.

Amendments

Once a complaint is submitted to the PSPRS Complaint Coordinator, it may not be amended. If additional documentation is submitted by the complainant after the initiation of the complaint, the reviewing or investigating official may remand the complaint to the complainant for reconsideration and resubmission.

Complaint Procedure:

An employee, who has an allegation of or becomes aware of a situation involving unlawful discrimination, harassment or retaliation, shall report the allegation or complaint by submitting an Employee Complaint Form to the PSPRS Complaint Coordinator. The PSPRS Complaint Coordinator can be reached at 602-255-5575 ext. 2047 or 3010 E Camelback Rd. Suite 200 Phoenix, AZ 85016.

The complaint shall include all facts and circumstances involved in the alleged violation, including the following information:

1. Description of the incident(s),
2. Name(s) of individual(s) involved,
3. Name(s) of witness(es),
4. The date(s) the discrimination or harassment occurred (if known),
5. Resolution sought,
6. Federal or state law alleged to have been violated.
The PSPRS Complaint Coordinator shall:
1. Notify the Administrator of the complaint upon receipt of the complaint.
2. Acknowledge receipt of the complaint in writing to the complainant not later than five business days after receipt of the written complaint.
3. Initiate an investigation into the alleged complaint or assign the complaint to a qualified individual within the agency for review or investigation within 10 business days. The review or investigation shall be completed within 60 business days of receipt of the written complaint. If extenuating circumstances exist, an extension shall be requested through the PSPRS Complaint Coordinator.
4. Forward a written recommendation to the Administrator within 10 business days of completion of the review or investigation barring resolution of the complaint by agreement of the parties.

The Administrator or designee shall review the findings and recommendations and issue a decision in writing to the complainant. A copy of the response shall be provided to the PSPRS Complaint Coordinator.

Review by Director of the Arizona Department of Administration (ADOA)
If the complainant is not satisfied with the Administrator’s decision on a complaint alleging unlawful discrimination, harassment or retaliation, he/she may elevate the complaint to the Director of the Department of Administration (ADOA) within 5 business days after receipt of the Administrator’s decision. The ADOA Director will furnish a copy of the ADOA Director’s decision to the Administrator and the complainant within 20 business days following receipt of the complaint by the ADOA Director. The 20 business days may be extended by the ADOA Director with the concurrence of the complainant. The decision of the ADOA Director is the final step in the complaint procedure. The ADOA Director’s response will refer the employee to the appropriate entity if the employee is dissatisfied with the final step of the complaint procedure.

Related Forms:
- PSPRS Employee Complaint Form

Corresponding Policies:
None
Subject: Tuition Reimbursement & Professional Development Program

Effective: 05/22/2007

Section: Operational Guidelines

Revised: 05/01/2015

Supersedes: 05/22/2007

Review Date: 05/01/2016

Authority:

A.A.C. R2-5A-405, Tuition Reimbursement for Education

Definition(s):

“Administrator” means the Administrator of PSPRS hired by the Board of Trustees authorized by A.R.S.§38-848.

“Degree Course” means a course or class that is not a requirement or associated with an essential job function of a PSPRS position, but is a course or class required for completion of degree.

“Directly Work-related course” means a course or class that can be directly associated with an essential job function of a PSPRS position, but would not be a required course or class for that position.

“Employee” means a PSPRS employee who is employed in a full-time capacity and who has completed 6 months of State employment.

“Job necessary course” means a course or class that is a requirement for fulfilling the essential functions of PSPRS position.

“Program” means Tuition Reimbursement & Professional Development Program established by PSPRS.

“System” means the Public Safety Personnel Retirement System (PSPRS).

General Policy

It is the policy of the System to assist employees in developing their abilities to perform their jobs or qualify for subsequent career paths with the System or other State positions. The purpose and intent of this policy is to establish a tuition reimbursement, professional development program. This program is subject to budget constraints. Any exception to this policy requires approval from the Administrator.

Program Parameters: Tuition Reimbursement

Employees must have received a performance rating of “Meets Expectations” or better in review proceeding request for participation.

The System will reimburse a percentage of tuition and registration costs for courses taken at an accredited University and/or Community College. This includes coursework in Undergraduate, Graduate and Postgraduate studies. The percentage of reimbursable tuition costs is based on the courses relevance to the employee’s current position:

- Job necessary course: The System will reimburse 100% of tuition and registration costs subject to limitations set forth in this policy, for courses in a degree that are a direct requirement for continued employment in a position. Approved position classification description should reflect such a degree requirement.
Directly work-related course: The System will reimburse 75% of tuition and registration costs subject to limitations set forth in this policy, for courses that demonstrate a direct relation to essential duties/responsibilities within the position for the employee. Employee’s supervisor in consultation with HR will determine the work relatedness of the course.

Degree Course: The System will reimburse 50% of tuition and registration costs subject to limitations set forth in this policy, for degree courses that do not meet job necessity or that do not demonstrate a direct relation to the employee’s essential duties/responsibilities, but rather are a requirement of the degree in which the employee is seeking to attain.

Limitations on Receiving Reimbursement
Reimbursement is limited to no more than 12 credit hours per fiscal year, with a maximum reimbursement amount not to exceed $5,250 per calendar year.

Employees will only be reimbursed after providing evidence of successful completion of course requirements and proof of payment. Courses taken that are paid with federal or state grants, veteran’s educational assistance or private and public scholarships are not eligible for reimbursement. Successful completion requires at least a “C” grade or above and a “B” grade or above for graduate studies. Grades received below these levels are not eligible for reimbursement and payment will not be made for retaking a course.

If an employee voluntarily terminates less than twelve months after reimbursement of coursework, the employee will be required to repay expenses on a pro-rated basis.

Example:
Employee is reimbursed $2,000 for tuition and registration. Employee terminates employment 10 weeks after completion of the reimbursed coursework. The debt will be calculated as follows:
- Employee obligation is 52 weeks
- Employee has meet 10 weeks of the obligation
- 10 divided by 52 equals 19.2% of the obligation is met
- $2,000 multiplied by .192 equals $384, which is the dollar amount the employee has satisfied
- $2,000 minus $384 equals $1,616, which represents the amount to be repaid by the employee to the System for terminating employment within the twelve month period.

Unless an exception is authorized by the Administrator, the employee shall be responsible for and agrees to repay the System, the pro-rated costs. The amount to be repaid will be deducted from the employee’s last paycheck. Any portion of the amount to be repaid not covered by the deduction from the last paycheck shall be paid by the employee to the System and must be received no later than five (5) working days after the last day of employment. This does not apply to amounts paid for job necessary courses.

In the event the System involuntarily terminates an employee, the employee will not be held liable for reimbursement for prior coursework.

The employee’s commitment to the System after completing his or her coursework or obtaining his or her degree does not constitute a contract of employment between the System and the employee.

Program Parameters: Professional Development
Employees must have received a performance rating of “Meets Expectations” or better in the review preceding the request for participation. Additionally, eligibility is limited to those employees who have been employed with the System for at least 6 months.

As an employee with the State of Arizona, PSPRS employees are afforded opportunities to enhance their professional development through courses offered through the Arizona Learning Center. In addition to these development opportunities, the System also supports professional development through other avenues of training opportunities (i.e. offsite conferences, seminars, etc.) as well as those courses required to maintain certain accreditations including but not limited to:

- Certified Employee Benefit Specialist (CEBS)
- Certified Internal Auditor (CIA)
- Chartered Financial Analyst (CFA)
- Certified Public Accountant (CPA)

Additionally, the System will pay for initial application/registration fees and for each subsequent level test required for the certification that are approved and that have been determined to be relevant to the employee’s position. The employee is responsible for any books, study guides, study classes and workbooks associated with preparation for each certification test. If the employee fails to pass any test for certification, the employee is responsible for payment on any subsequent attempts.

**Procedure**

Because reimbursements and professional development fees are subject to available budgeted funds, employees should make informal requests of anticipated costs to their immediate manager prior to each budget review cycle. Each department must ensure that prior to approval of the System’s fiscal year operation budget; budget requests include all anticipated costs associated with the program over the fiscal year.

**Tuition Reimbursement Procedure**

If budgeted monies are approved for the program, prior to the start of each semester, employees must submit an official request to their supervisor for reimbursement using the Tuition Reimbursement Request Form/Tuition Assistance Agreement. The employee needs only complete the section titled “Request for Course Approval.” The employee should submit the course description from the course catalog and current fee schedule with the application. Once approved by the employee’s supervisor and the Administrator, the form is forwarded to Human Resources.

Upon completion of the course, the employee shall submit to Human Resources sufficient documentation of final course grade, and receipt of tuition payment. Additionally, the employee will also complete the section titled “Request for Assistance” on original Tuition Reimbursement Request Form/Tuition Assistance Agreement.

**Work Schedules**

All course work should be scheduled after the employee’s work day. However, with the approval of the employee’s supervisor, an Alternative Work Schedule may be utilized. Exceptions will be made on an individual basis. Employees may use vacation time for courses they are allowed to take during work hours, or the time may be made up during the same work week.

For non-exempt employees covered by the overtime provisions of the FLSA, time spent in educational courses is not considered hours worked for purposes of calculating overtime, unless such course work is job necessary.
Professional Development Procedures
If budgeted monies are approved for the program, prior to the start of the development course, employees must submit an official request to their supervisor for participation using the PSPRS Professional Development Request. The employee should submit the course description from the course catalog and Program fee with the request. Once approved by the employee’s supervisor, the form along with any necessary invoicing material shall be forwarded to the Finance Department for proper processing of payment. Upon completion of development course, any supplemental travel or per diem reimbursements will be paid in accordance with established travel/meal policies.

Related Forms:
PSPRS Tuition Reimbursement Form

Corresponding Policies:
None
### General Policy

It is the policy of the System that employees shall comply with all applicable State and Federal Laws regarding personal investments including but not limited to SEC laws, regulations and commission rules concerning non-public information. Employees shall disclose through proper procedure all personal securities transactions as well as any interest in or direct relationship to, any proposed non-public investment. Employees are prohibited from investing in any System non-public investments, after the System has begun its review of the investment opportunity or committed to the investment.

### Procedure

#### Personal securities transactions

Prior to any personal securities transactions, a written pre-clearance is required from the Deputy Chief Investment Officer(s) or the Chief Investment Officer. The clearance approval must include a proposed transaction date and a notation that the System is not trading or planning trades of the same securities within the seven (7) business days after the employee’s proposed trade date. Pre-clearance approval for the Deputy Chief Investment Officer(s) personal securities transactions must be completed by the Chief Investment Officer and pre-clearance approval for the Chief Investment Officer must be completed by the Deputy Chief Investment Officer(s).

Once approved, the written pre-clearance with proper clearance approval must be filed with the Internal Audit/Compliance Officer.
On a quarterly basis, employees shall disclose to the Internal Audit/Compliance Officer, all personal securities transactions completed within that quarter. These reports must be submitted no later than 30 days after the end of the quarter.

**Non-public Investment Disclosure**
Employees shall disclose in writing to the Administrator and the Internal Audit/Compliance Officer any and all interest in or direct relationship to any proposed non-public investment prior to the PSPRS investment commitment.

**Related Forms:**
- *Personal Investment Quarterly Reporting Form*

**Corresponding Policies:**
None
Subject: Attendance & Reporting Time

Effective: 05/22/2007

Section: Operational Guidelines

Revised: 05/01/2015

Supersedes: 05/22/2007

Review Date: 05/01/2006

Authority:
A.A.C. R2-5A-404, Overtime
A.A.C R2-5A-502, Hours of Work

Definition(s):
“Administrator” means the Administrator of PSPRS hired by the Board of Trustees authorized by A.R.S. §38-848.
“Exempt employee” means a System employee who is employed in a position that is not entitled to overtime compensation under the FLSA.
“Nonexempt employee” means a System employee who is employed in a position that is entitled to overtime compensation under the FLSA.
“System” means the Public Safety Personnel Retirement System.
“Workweek” means the fixed seven consecutive calendar days that begins on Saturday 12:00am and ends Friday at 11:59pm.

General Policy

All employees are expected to report to work on time and as scheduled. Any deviation from scheduled work requires supervisor approval. Frequent absences and/or tardiness is detrimental to an employee’s job growth potential. In addition, absences and tardiness force other employees to assume additional duties and an uneven distribution of workload. Finally, it is the responsibility of the employee to ensure that their time record is accurate, complete and submitted in accordance with established deadlines. Excessive absences and/or tardiness, falsification or intentional misrepresentation of hours worked or paid time off may result in disciplinary action up to and including termination.

Meals and Breaks

Nonexempt employee work schedules include a 30 minute break for unpaid lunch. Unpaid lunch breaks taken in excess of 30 minutes requires a makeup of the time during the workweek, or the utilization of annual leave. If no annual leave is available, paid time will be reduced accordingly. Nonexempt employees, who are on their scheduled unpaid lunch, must be relieved of all duties and responsibilities associated with their position.

All employees are granted incidental time during the course of the day to attend to personal needs. However, supervisors have the authority to monitor and respond to excessive use of this privilege.
Overtime/Compensatory time

The system complies with the FLSA, State laws and the Arizona Personnel System Rules governing overtime and compensatory time eligibility for nonexempt and exempt employees. Nonexempt employees must have prior approval from their immediate supervisor before working non-mandated overtime.

Nonexempt employees, who wish to use accrued compensatory time, must seek prior approval from their immediate supervisor.

Reporting Time

Exempt and nonexempt employees must report their workweek hours utilizing the System approved timekeeping system.

Payroll time sheets are due by 5pm Thursday of each 2nd week of the pay period. All timesheets must be signed by the employee and submitted for supervisor approval. Supervisors must have timesheets approved in the system by 5pm of last day of the pay period.

Employees out of the office on the day timesheets are due shall contact their supervisor and have the supervisor turn in a payroll time sheet for the employee in their absence.

All requests for leave and/or overtime should be submitted and approved at least 10-days in advance, or as directed by department managers. When planning for time away from work, employees must ensure they have accounted for their scheduled leave. If the employee is utilizing sick or annual leave, they must ensure they have sufficient balances for use. (see A.A.C. R2-5A-B602 and A.A.C. R2-5A-B603). Failure to properly account for leave used will result in disciplinary action up to and including dismissal.

“Making-up” Time

Nonexempt employees may “make-up” short absences from work, without utilizing accrued leave (either sick or annual). Employees must have prior approval from the immediate supervisor, and such approval shall not negatively impact the System’s business operations. Approval for “make-up” time is limited to the following:

- Time away cannot be part of a routinely scheduled appointment or commitment of the employee. An Alternative Work Schedule should be considered in this situation.

- “Make-up” time must be made up during the regular workweek in which the employee was absent from work.
Subject: Alternative Work Schedules  
Effective: 05/22/2007

Section: Operational Guidelines  
Revised: 05/01/2015

Supersedes: 05/22/2007  
Review Date: 05/01/2016

Authority:  
A.A.C R2-5A-502, Hours of Work  
A.A.C R2-5A-B601, Holidays

Definition(s):  
“Administrator” means the Administrator of PSPRS hired by the Board of Trustees authorized by A.R.S. §38-848.  
“Alternate work schedule” means a work schedule that deviates from traditional 8 hour Monday-Friday 8:00 a.m. to 5:00 p.m. scheduling. Examples include flex-time or compressed workweek.  
“Compressed workweek” means an arrangement that enables an employee to work longer days in exchange for a shorter day or day off each workweek. Examples of a compressed workweek schedule: four ten hour days with no work on the fifth day; or a four and on-half day workweek where 40 hours are worked in four and one-half days.  
“Employee” means a full-time employee of the System.  
“Flex-time” means an arrangement that may include a consistent daily schedule with individualized starting and ending times that are the same throughout the workweek or varying daily schedules which may include a consistent 8 hour day or varying schedules of more or less than 8 hours. Total weekly hours must account for 40 hours each workweek.  
“System” means the Public Safety Personnel Retirement System.  
“Workweek” means the fixed seven consecutive calendar days that begins on Saturday 12:00am and ends Friday at 11:59pm.

General Policy

All employees are expected to report to work on time and as scheduled. The System does understand the need for deviation from the traditional 40 hour workweek of Monday-Friday 8:00 a.m. to 5:00 p.m. and supports the use of alternative work schedules such as flex-time or a compressed workweek. The availability of an alternative schedule is not intended to change the System’s regular hours of operation, nor does it alter the responsibility or diminish the authority of department supervisors to establish and adjust work schedules. This type of scheduling is intended to bolster staff morale and retention while maintaining and enhancing the System’s operations and delivery of superior customer service. All proposed requests must be approved by an employee’s immediate supervisor, Administrator and or/Assistant/Deputy Administrator and Human Resources.
Application and Approval Process

All requests for proposed flex-time or compressed workweek must be made in writing utilizing the proper System approved request document. Requests are accepted year-round. An employees’ request for alternative work schedule will be reviewed on a case by case basis by the employee’s immediate Supervisor, Administrator and or/Assistant/Deputy Administrator and Human Resources and a decision will be made based on:

Organizational Need

- Some positions may be more accommodating to an Alternative Work Schedule than others, due to the needs of each specific department. This should not deter supervisors from approving or establishing flexible work schedules for positions where such scheduling is possible. When multiple requests from a department are presented, a method for equitable allowance will be developed by the department manager.
- Schedules shall not adversely affect the services/operations provided by the employee’s department.
- Flex-time schedules must not cause or contribute to the need for additional staff or for other staff to work additional hours.

Performance

- Employees must not have any ongoing disciplinary or performance issues. If an employee has been previously reviewed through the normal performance review procedures, that employee must have received a “meets expectations” in last performance evaluation.

Timing of Request

- Request must be made at least 10 working days prior to the requested effective date.

Approved Schedules

Once approved, employees maintain the alternative work schedule until the needs of the organization change, or the employee requests a return to the normal schedule or a new alternative work schedule. Requests for a new alternative work schedule will be reviewed and approved in same manner as all requests.

If an employee receives a performance rating of “Below Expectations” or “Unacceptable” during their approved alternative work schedule, they can continue to remain on the alternative work schedule if approved by their supervisor.

Employees on alternative work schedules may be required to attend System and/or departmental and/or training functions that occur outside of their approved alternate schedule when deemed necessary by supervisor.

Holidays

If a holiday is observed on an employee’s scheduled workday that exceeds eight (8) hours, the employee may, at the option of their supervisor either: use annual leave or compensation leave, if available for all time in excess of the allowed 8-hour holiday, or adjust their work hours that work week (i.e. flex), or be required to alter their schedule to 5 8-hour days for the work week. The supervisor must pre-approve which option will be utilized.

If a holiday is observed on a day the employee is not scheduled to work, and providing that the employee is not on a leave without pay (LWOP) on the employee’s work days immediately preceding or following the holiday, the employee will receive holiday leave, not to exceed the allowed 8-hours.

Changes to an approved schedule can be made at the discretion of the System. The decision rendered is final.
Related Forms:
  Alternate Work Schedule Application Form

Corresponding Policies:
  None
Subject: Alcohol & Drug-free Workplace

Effective: 05/22/2007

Section: Operational Guidelines

Revised: 05/01/2015

Supersedes: 05/22/2007

Review Date: 05/01/2016

Authority:
A.A.C R2-5A-501, Standards of Conduct
A.A.C. R2-5A-504, Alcohol and Drug-free Workplace

Definition(s):
“Administrator” means the Administrator of PSPRS hired by the Board of Trustees authorized by A.R.S. §38-848.
“Alcohol” means ethanol, isopropanol, or methanol.
“Employee” means any System employee.
“Reasonably suspected” means the System’s suspicion that an employee is impaired because of use of prohibited substances outlined in this policy. Reasonable suspicion may arise when:

- An employee sustains or causes another person to sustain an on-the-job injury;
- An employee causes damage to System property or causes or threatens to cause the System to incur any financial loss or damage;
- An employee appears to be under the influence of drugs or alcohol or otherwise appears physically, mentally, or emotionally impaired;
- An employee is involved in an incident in which they violated safety protocol or acted irrationally, carelessly or unreasonably;
- When the System has a reasonable suspicion that an employee’s job performance has been affected by the use of drugs or alcohol and that such use may adversely affect job performance or the work environment

“System” means the Public Safety Personnel Retirement System.

General Policy

The System explicitly prohibits the use, possession, solicitation for, or sale of alcohol, illegal drugs, unauthorized drugs, inhalants or other unauthorized controlled substance on System premises or other state worksites or during employees working hours. The presence of any detectable amount of these prohibited substances in the employee's system while at work, on the System’s premises or other state worksites, or while on company business, or any violation of this established policy will result in appropriate disciplinary action, up to and including termination.

The System reserves the right to require drug and/or alcohol testing for any employee reasonably suspected to be under the influence of drugs or alcohol.
To determine whether any employee is using drugs or alcohol in violation of this policy, the System will contact a qualified laboratory to collect samples of the employee’s urine, blood, breath, saliva, hair or other substance, and submit such samples for testing in their Lab.

Employees may not refuse or defer any requested testing by the System. Any refusal or requested deferral by an employee will result in appropriate disciplinary action, up to and including termination from system employment.

**Sampling and Testing**

Sampling and testing may be performed immediately before, during, or after regular business hours. The System will pay employees their regular wages for whatever time they spend providing a sample. The System will also pay the actual cost of testing. An employee suspected of being under the influence and who is directed to be tested shall be transported by either the employee’s supervisor or HR to the testing facility.

All Sampling and Testing will conform to the following sequence and conditions:

- All Samples will be subjected to an initial screening process (the “Initial Screen”). A portion of the sample will be maintained separately for a “Second Screen.”
- Those Initial Screen Samples which score less than the screening levels established by the Lab for the presence of drugs will be considered to be a “Negative Test” for drugs, and no further testing for drugs will be done on those samples.
- Those Initial Screen Samples which score higher than the screening levels established by the Lab for the presence of drugs will be considered to be a “Positive Test” for drugs. A Positive Test on an Initial Screen will be tested a second time (the “Second Screen”) to confirm the accuracy of the Initial Screen by an independent Lab by use of a different chemical process than was used in the Initial Screen. The test on the Second Screen shall be a chromatographic technique such as gas chromatography-mass spectrometry or another comparably reliable analytical method.
- Those Initial Screen Samples which show a blood alcohol level of 0.05% or less will be considered to be a “Negative Test” for alcohol and no further Testing for alcohol will be done on those Samples. Those Initial Screen Samples which show a blood alcohol level higher than 0.05% will be considered to be a “Positive Test” for alcohol.
- Sampling and testing will be conducted in a manner sufficient to reasonably protect the personal privacy of each person sampled and tested, as well as ensure the System’s security interests and testing accuracy.

The collection of Samples must be performed under reasonable, sanitary, and relatively painless conditions and in accordance with the following procedures:

- Each person sampled must provide reliable proof of his/her identity to the person conducting the sampling.
- At the time of sampling, the System will designate the type of sample sought (e.g., blood, urine, breath, hair, tissue, etc.).
- Testing shall be conducted by a qualified lab on State contract, which is defined as a lab approved or certified by the U.S. Department of Health and Human Services, College of American Pathologists, or Arizona Department of Health Services.
- Samples will be labeled to reasonably preclude the possibility of misidentification of the person tested in relation to the test results provided.
- Sample collection, storage, and transportation to the place of testing shall be performed in a manner reasonably designed to preclude the possibility of Sample contamination, adulteration, or misidentification.
An employee shall have the opportunity to provide notification of any information that may be considered relevant to the test, including the identification of currently or recently used prescription or non-prescription drugs or other relevant medical information.

Prescribed medications that do not affect an employee’s job performance or violate any safety rules but result in a positive test will not be deemed to be a positive test if:

- The prescription is in the name of the employee;
- The date of the prescription is within one year of date of the sample giving rise to the subject test;
- The prescription was legally issued by a medical professional licensed to practice medicine in the U.S.; and
- The medication was taken at the prescribed level.

Should an employee’s ability to perform their normal job duties be impaired as a result of taking prescribed medications for which they have a current prescription, the System may assign that employee different duties or arrange for transportation home if at the discretion of the Administrator or his/her designee, either or both actions are in the best interest of the employee and/or the System.

**Notice of Confirmed Positive Test**

Upon the System’s receipt of a positive test for alcohol or for drugs, the Administrator or his/her designee will provide a written notice to the employee containing the results of the positive test and the employment action being taken. The employee has the right, upon request, to obtain a copy of the written Positive Test results pertaining to that individual from the System.

All communications received by the System relevant to any testing shall be considered confidential medical information which may not be disclosed, except:

- In response to a properly issued subpoena, or order of any court or arbitrator;
- To the tested employee or any other person designated in writing by that employee;
- In a proceeding related to an action taken by the System or employee under this policy; and
- To individuals designated by the System to receive, adjudicate and/or evaluate test results or hear and consider the explanation of the employee about same, including any professional retained by the System for such purpose, such as the System’s legal counsel and medical advisors.

**Consequences of Violation**

The System may take adverse employment action against any employee who obtains or scores positive for drugs or alcohol on any test of that employee’s sample, if found in violation of any provisions of this policy, or in the event an employee adulterates a sample or otherwise attempts to invalidate or actually invalidates a sample or test. The System may institute any disciplinary action, which may include, but is not limited to, any of the following:

- Termination of employment;
- Suspension of the affected employee, with or without pay, for a designated period of time;
- In consultation with ADOA, any other adverse employment action of the System’s election.
Subject: Acceptable Use of Electronic Equipment and Communications

Effective: 05/22/2007

Section: Operational Guidelines

Revised: 05/01/2015

Supersedes: 05/22/2007

Review Date: 05/01/2016

Authority:

A.A.C R2-5A-501, Standards of Conduct

Definition(s):

“Electronic Equipment” means any and all forms of System owned/leased computer-related hardware, software, and tools including but not limited to

- Personal computers
- Laptops
- Cell phones
- Office phones
- Storage devices
- Switches
- Routers
- Printers
- Operating software
- Application software

“Electronic Communications” means the use of System owned/leased voice, data and video networks in the communicating, posting or accessing information or material.

“Employee” means any System employee.

“System” means the Public Safety Personnel Retirement System.

General Policy

As a necessary tool to complete job functions, the System provides to employees access to electronic equipment. Additionally, employees regularly produce electronic communications utilizing this electronic equipment. As such, the system has adopted this acceptable use policy to set guidelines for employees on proper use and access. The System reserves the right to monitor all electronic communications and access to electronic equipment to ensure they are used primarily for System business. Employees have no personal privacy right in any matter while utilizing this electronic equipment, whether sent, received, created, downloaded or uploaded and regardless of whether a personal access code is used.

An employee’s occasional and reasonable personal use of the System’s electronic equipment and electronic communications is permitted provided such use does not interfere with the performance of the employee’s work duties and responsibilities, excessively uses system resources (i.e. paper for printing, electronic storage space, etc.), or subject the System to internal or external network security threats or disruptions. Employees may use the
System’s internet services for personal use, outside of scheduled hours of work, provided that such use is consistent with professional conduct and is not for the purpose of furthering any personal business or enterprise.

Violation of this acceptable use policy or abuse of permissible personal use of electronic equipment or electronic communications will result in appropriate disciplinary action up to and including termination.

Employee Responsibilities and Acceptable Use

All employees are responsible for the material they send or display utilizing the System’s electronic equipment/communications resources. Employees shall not use the System’s resources to view, download, save, receive, print, or send material related to or including:

- Offensive content, including pornographic material
- Promoting discrimination on the basis of race, age, religion, national origin, disability, pregnancy, sex, genetic information or any other group protected by Local, State and Federal law.
- Threatening or violent behavior
- Illegal activities
- Gambling
- Sending unsolicited mass mailings from the System’s email services or company machines
- Material protected under copyright laws, the System’s contractual agreements and licenses to programs and applications
- Dispersing system data to the System’s customers or clients without authorization
- Files which may cause disruption to System programs, applications or network
- Tampering with any employee’s username, title, return address, or any similar company designation in order to misrepresent the employee, other employees or the company to others
Subject: Standards of Conduct

Effective: 05/22/2007

Section: Operational Guidelines

Revised: 05/01/2015

Supersedes: 05/22/2007

Review Date: 05/01/2016

Authority:

A.A.C R2-5A-501, Standards of Conduct

Definition(s):

“Employee” means any System employee.

“System” means the Public Safety Personnel Retirement System.

General Policy

System employees are expected to maintain high standards of work performance and professional conduct. Employees covered by this policy are employed to fulfill certain duties and expectations that support the mission and values of the System and are expected to conduct themselves in an appropriate manner. The following list of unacceptable conduct is intended to illustrate the minimum expectations of all System employees and should not be seen as an all-inclusive list. An employee’s avoidance of these activities will be to everyone’s benefit as well as the benefit to the System. If an employee has any questions concerning any work or safety rule, or any of the unacceptable and prohibited activities listed, they are invited to discuss the issue with their immediate supervisor. Employees in violation of this policy may be subject to disciplinary action, up to and including termination.

Unacceptable Conduct

- Willful violation of any System policy or State Personnel Rule or any deliberate action that is extreme in nature and is obviously detrimental to the System’s efforts to operate smoothly and efficiently or for the benefit of the members.

- Possession, storage, manufacture or use of firearms, deadly weapons, ammunition or explosives on the Premises or while an employee is on System business. Possessing firearms or weapons or anything that could be construed as a weapon on System property or at System-sponsored events endangers the well-being of all employees and is strictly forbidden. This includes any item that is legal to own, but is used or threatened to be used as a weapon against another person.

- Engaging in criminal conduct, making threats of intimidation or violence, stalking, fighting, horseplay, or engaging in any verbal or physical conduct of a violent nature which has the purpose or effect of creating or provoking a dangerous, unsafe, intimidating, or violent working environment. Such conduct is prohibited while on the Premises or when representing the System in connection with System business.
• Intentionally or negligently damaging System property or the property of any member, employee, vendor, or contractor.

• Theft of System property or property owned by System members, vendors or contractors or property owned by fellow employees; unauthorized possession or removal of any System property, including documents and files, from the Premises without prior permission from management; unauthorized use of System equipment or property for personal reasons; using System equipment for profit; and taking any work related or System-related documents, agreements, files, or other proprietary property out of the office without the express consent of the employee’s manager or supervisor.

• Dishonesty; willful falsification or misrepresentation on an application for employment or promotion or on other documents related to the employee’s work; lying about sick or personal leave; and falsifying or altering System work papers or documents or one’s reason for a leave of absence or other data requested by the System.

• Providing confidential or proprietary System information to third parties without the express consent of management.

• Engaging in malicious gossip and/or the spreading of rumors or activity designed to create discord and lack of harmony among System personnel, interfering with other employees in the pursuit of their work or willfully restricting work output or encouraging others to do the same.

• Making disparaging remarks about the System, its management or staff or its members, participating employers, vendors, advisors, partners or contractors.

• Engaging in immoral or indecent conduct on System time or at the Premises, including, without limitation, using System computers or other equipment to gamble, receive, send, download, create, modify and/or view pornographic images or engage in correspondence concerning gambling or pornographic or sexual topics, or anything that could be offensive to others.

• PSPRS prohibits solicitation, distribution and posting of materials by an employee or non-employee. Any exceptions to posting or distribution of materials require approval from an Assistant/Deputy Administrator and Human Resources.

• Acting rudely, making obscene gestures, using abusive language, or acting with indifference to any System employee or third party while on the Premises or while engaging in system business.

• Failure to immediately report damage to, or an accident involving System personnel or equipment.

• Failure to follow accepted dress code and to maintain a neat and clean appearance, including any extreme departure from accepted conventional modes of dress or personal grooming. Accepted dress code standard is business casual. Exceptions include casual days, which include Fridays and those additional days approved by the Administrator and/or Assistant/Deputy Administrator. Acceptable dress on casual days include jeans, Capri-pants, logo and/or screen printed sweatshirts and t-shirts, and tennis shoes as long as they are in good repair, clean and in good taste and appropriate for an office environment.
Subject: Leave-Payment of Annual Leave to a Non-Separating Employee

Effective: 10/01/2014

Section: Operational Guidelines

Revised:

Supersedes:

Review Date: 05/01/2016

Authority:

A.R.S. § 41-741 and 41-743
R2-5A-B602, Annual Leave

Definitions:

“Employee” means any PSPRS eligible to accrue and use annual leave.

“Hardship” means a severe, unforeseen financial emergency to the employee resulting from a sudden and unanticipated event arising as a result of events beyond the control of the employee.

“Non-separating employee” means the employee has no immediate plans to separate employment from Arizona state government.

“Similarly situated employees” means employees who perform the same or similar work and occupy positions with the same or similar duties and responsibilities and/or work within the same section/unit or geographical location and who may either:

- Request the payment of annual leave for substantially similar reasons; or,
- Have the same or similar annual leave balances.

Note: For employee-initiated requests, similarly situated employees only include those non-separating employees who requested payment of annual leave.

Policy:

Subject to funding availability, a non-separating employee may request, or agency management may initiate, the payment of a portion of an employee’s accumulated and unused annual leave. This policy provides written standards and procedures that provide for equal consideration of all similarly situated employees.

Any annual leave hours approved for payment will be paid at the employee’s current rate of pay. Unless the request is due to hardship, the payment, if approved, will be paid on the next regular payroll cycle. If the employee’s request is due to hardship, Human Resources in coordination with the General Accounting Office will process the payment as soon as possible. Donated annual leave received from other employees shall not be paid out under this policy. Donated annual leave must be used or, if the recipient employee recovers before using all the leave or the need for the leave is otherwise abated, the unused donated leave shall be returned to the donating employee(s).
An employee who receives payment for annual leave, whether employee- or management-initiated, may not “buy back” the leave at a later date for the purpose of restoring the annual leave hours to the employee’s leave balance.

**Requirements:**
Similarly situated employees shall be provided equal consideration regardless of whether the request for payment is initiated by the employee or agency management.

*If an employee requests payment of annual leave, the employee:*
- May request annual leave for any reason.
- Shall indicate the total number of hours for which payment is requested. The request must be in whole hours, not fraction of an hour. Requests submitted for fractions of an hour will be reduced to the nearest whole number.
- May request payment for annual leave once per fiscal year and no more than once in a 12-month period.
- Must have a minimum of forty (40) hours of annual leave within the past twelve (12) month immediately prior to submitting the request (for example, if the employee submits the request for payment November 1, 2014, the employee must have used at least 40 hours of annual leave between November 1, 2013, and October 31, 2014).
- May not submit a request for payment that would result in reducing the employee’s annual leave balance below forty (40) hours, after the payment.

*If agency management initiates the payment of annual leave to an employee:*
- Payment of annual leave may be made at any time, with notice to the employee.
- If the payment would result in reducing the employee’s annual leave balance below 320 hours, the employee’s concurrence is required.

**Procedure:**

*If an employee initiates request for payment:*
- Employee completes Request for Payment of Annual Leave form
- Employee submits request to Manager who reviews the request for completeness and recommend approval or denial of request.
- Manager forwards the request for appropriate approval from Administrator.
- Administrator in consultation with Human Resources reviews request for compliance with this policy including ensuring that all similarly situated employees have been provided equal consideration, and, if approval is granted, Human Resources determines if sufficient funding is available. If funding is available, Human Resources, forwards the request to Finance & Accounting for payroll processing.
- Finance & Accounting ensures all used annual leave has been deducted from the employee’s annual leave balance, ensures the number of hours of annual leave payment requested includes only accumulated and unused leave, and processes the payment request.
- Human Resources shall retain the original request, distribute copies to: the employee, and the employee’s Manager. If, at any level, the employee’s request is disapproved, the request shall be returned to the employee with a statement explaining the reason(s) for the disapproval.
If management initiates request for payment:

- Manager considers all similarly situated employees in their department and completes a Request for Payment of Annual Leave form for each employee for whom payment of annual is proposed including the number of hours of annual leave to be paid for each employee, with justification statement and supporting documentation, and calculates the estimated cost (gross) of the payment for each employee. If payment will reduce the employee’s annual leave balance to below 320 the employee’s written concurrence shall be obtained prior to forwarding the request for approval.
- Manager forwards the request for appropriate approval from the Administrator.
- Administrator in consultation with Human Resources reviews request for compliance with this policy including ensuring that all similarly situated employees have been provided equal consideration, and, if approval is granted, Human Resources determines if sufficient funding is available. If funding is available, Human Resources, forwards the request to Finance & Accounting for payroll processing.
- Finance & Accounting ensures all used annual leave has been deducted from the employee’s annual leave balance, ensures the number of hours of annual leave payment requested includes only accumulated and unused leave, and processes the payment request.
- Human Resources shall retain the original request, distribute copies to: the employee, and the employee’s Manager.

Other:

Payments of annual leave are taxable as income.

Payments of annual leave are subject to Arizona State Retirement System (ASRS) retirement contributions as follows:

- If the request is employee-initiated, contributions are not withheld;
- If the payment is management-initiated, contributions are withheld.

Related Forms:

Request for Payment of Annual Leave Form

Corresponding Policies:

None
**Subject:** Leave-Donation of Annual Leave  
**Effective:** 10/01/2014  
**Section:** Operational Guidelines  
**Revised:**  
**Supersedes:**  
**Review Date:** 05/01/2016

**Authority:**

A.R.S. § 41-748, Transfer of accumulated annual leave; definitions

R2-5A-B602(F), Donation of Annual Leave

**Definitions:**

“Disability that is caused by pregnancy or childbirth” means, as certified by a licensed health care practitioner:

- An employee is unable to work due to the employee’s pregnancy, childbirth, or medical care associated with the pregnancy or childbirth; or
- A member of the employee’s immediate family requires assistance to perform regular daily activities due to the immediate family member’s pregnancy, childbirth, or medical care associated with the pregnancy or childbirth.

“Donor” and “donating employee” have the same meaning and mean an employee who is eligible to donate leave to another individual and does so in writing.

“Employee” means any uncovered employee eligible to accrue and use annual and sick leave.

“Extended” means a period of at least three consecutive weeks.

“Immediate family” means an employee's parent, spouse, or child, whether natural, adopted, foster or step. [A.R.S. § 41-748(B)(1)]

“Medical certification” means a written statement completed by a duly licensed doctor of medicine or health care provider from whom the State will accept certification of the existence of a seriously incapacitating and extended illness or injury, or a disability caused by pregnancy or childbirth. The statement is to include the anticipated date of recovery.

“Recipient employee” means an employee who is eligible to receive donation of annual leave by meeting the defined criteria.

“Same family” means an employee's spouse, natural child, adopted child, foster child, stepchild, natural parent, stepparent, adoptive parent, grandparent, grandchild, brother, sister, sister-in-law, brother-in-law, son-in-law, daughter-in-law, mother-in-law, father-in-law, aunt, uncle, nephew or niece. [A.R.S. § 41-748(B)(2)]

“Seriously incapacitating” means, as certified by a licensed health care practitioner:

- An extended illness or injury that involves in-patient care; or
- An illness, injury, pregnancy, or childbirth that involves continuing treatment, which confines the employee or immediate family member to home or bed for an extended period.
Policy:

An employee may donate annual leave to another employee in the same agency. An employee may donate leave to an employee in another agency if the employees are members of the same family. Annual leave donations may occur only if the employee to whom the leave is donated has exhausted all available leave balances (i.e., sick leave, compensatory leave, and annual leave) and either:

- Has a seriously incapacitating and extended illness or injury or a disability caused by pregnancy or childbirth. Or;
- A member of the employee’s immediate family has a seriously incapacitating and extended illness or injury or a disability caused by pregnancy or childbirth.

Information regarding an employee’s need for donation of annual leave may be circulated or posted on bulletin boards by Human Resources. Information notices are limited to identifying the employee with the need for leave and should refer prospective donors to Human Resources.

Donation of annual leave is voluntary and confidential. There shall be no suggestion or pressure on any employee to donate or not donate leave. Donor information is confidential and shall not be released to the employee requesting donations.

Eligibility

To receive donation of annual leave

An employee who has exhausted all available leave balances is eligible to receive donations of annual leave if, as certified by a licensed health care practitioner:

- The employee is unable to work due to:
  - A seriously incapacitating and extended illness or injury, or;
  - A seriously incapacitating and extended disability that is caused by pregnancy or childbirth; or
- The employee needs to care for a member of the employee’s immediate family who has:
  - A seriously incapacitating and extended illness or injury, or;
  - A seriously incapacitating and extended disability that is caused by pregnancy or childbirth.

An employee may submit a request to receive donation of annual leave either before the commencement of the employee’s leave or during the leave, provided the employee meets or will meet eligibility requirements. An employee need not have been on the leave for three weeks prior to submitting a request to receive annual leave donations.

To donate annual leave

An employee may donate annual leave to another employee who has exhausted all available leave balances if:

- The recipient employee is:
  - Employed in the same agency as the donating employee; or
  - Employed in another agency if the employees are members of the same family.
- The donating and receive employees must be eligible to accrue and use annual and sick leave.

Exhaustion of available leave

Before using donated annual leave, a recipient employee:
With a qualifying illness, injury or disability caused by pregnancy or childbirth shall exhaust all available sick leave, compensatory leave, and annual leave; or

Whose immediate family member has a qualifying illness, injury, or disability caused by pregnancy or childbirth shall exhaust sick leave granted in accordance with R2-5A-B603(A)(4), if available, and all available compensatory leave and annual leave.

Medical Documentation

An employee who requests donation of annual leave is required to provide a statement from the attending health care practitioner, on an appropriate form or the practitioner's letterhead, verifying:

- The date the illness or injury commenced and the date the employee became unable to work, if different;
- That the illness and/or injury are seriously incapacitating and extended; and,
- The anticipated date the employee may return to work.

Computation of Donated Annual Leave

Donated annual leave is increased or reduced proportionally by the difference in the salaries of the donating employees and the recipient employee.

Use of Donated Annual Leave

If an employee is approved for donation of annual leave, donations of annual leave may be used by the recipient employee starting with the pay period in which the donating employee's written donation is received by Human Resources.

A recipient employee becomes ineligible for annual leave donations if the employee recovers and returns to work, is determined eligible for Long-Term Disability benefits, separates from state employment, is on leave for six consecutive months, or if the need for the leave is otherwise abated. A recipient employee may use a maximum of six consecutive months of leave for each qualifying occurrence unless the recipient employee applies for Long-Term Disability (LTD) by the end of the fifth month of the employee's leave, in which case the recipient employee may continue to use donated annual leave for up to 60 additional days or until LTD benefit payments begin, whichever is sooner.

Return to Work

Part-time Basis

A recipient employee released to return to work less than full-time may continue to receive and use donated annual leave until released for full-time work. The recipient employee shall submit medical documentation substantiating the partial medical release to the employee's supervisor. The supervisor shall forward the medical documentation to Human Resources. If approved, the recipient employee may continue to receive partial annual leave transfer payments while released to work part-time.

Modified Duty

A recipient employee released to return to work with restrictions/limitations as certified by the attending licensed health care provider and:

- If no modified duty assignment consistent with the restrictions stipulated is available, the employee will continue to remain eligible for donated annual leave.
- If a modified duty assignment is available but the employee declines the modified duty, the employee shall cease to be eligible for donated annual leave.

Full-time Basis
A recipient employee released to return to work full-time, even if the employee may require leave on an intermittent basis, such as for follow-up appointments, is no longer eligible for donations of annual leave.

Procedure:

- The employee requesting donated annual leave will complete the Request to Receive Donation of Annual Leave Form, which is available through Human Resources, and submit the request to the employee's immediate supervisor, along with a statement from the licensed health care provider certifying the seriously incapacitating and extended illness or injury, or seriously incapacitating and extended disability that is caused by pregnancy or childbirth. If the employee is unable to complete and sign the form, a spouse, parent, or supervisor may sign on the employee's behalf.
- The supervisor shall forward the request to Human Resources.
- Human Resources will review the information. If the request cannot be approved, Human Resources will inform the employee of the reason.
- If the employee is eligible, Human Resources will inform the Finance & Accounting Department that transfer of annual leave is authorized.
- Following confirmation of eligibility, Human Resources will send an information email informing PSPRS employees of the recipient employee’s need for donations of annual leave.
- A PSPRS employee may donate one or more hours of annual leave to another PSPRS employee who has been approved to receive donations of annual leave by sending a signed authorization to Human Resources. Once an employee donates annual leave, the donating employee may not request to have the donated leave returned. Leave donations are returned to donating employees only in cases where the recipient employee has unused donated leave, as described below.
- Human Resources will inform the Finance & Accounting Department of donations made by employees and will maintain donation documents for the official file.
- The Finance & Accounting Department deducts annual leave from donating employees’ leave balances and posts donations of leave to the recipient employee’s leave balances and payroll record through HRIS. The Finance & Accounting Department will ensure that all annual leave is applied on a proportional basis and any unused annual leave is returned on a proportional basis.
- If the recipient employee recovers prior to using all leave donated, is approved for Long-Term Disability, separates from state employment, or the need for the leave is otherwise abated, all unused leave donated to the recipient is returned to the donors on a pro-rata basis.

Related Forms:

Request to Receive Donation of Annual Leave Form
Donation of Annual Leave Form

Contact:

If you have any questions related to this policy, please contact the Human Resources Office.
RECEIPT OF MANUAL


This Personnel Manual as well as the Statewide Employee handbook are important documents intended to help each employee become acquainted with the System and employment in the State Personnel System. These documents should serve as a guide; it is not the final word in all cases. Individual circumstances may call for individual attention.

Incorporation by Reference

The Board of Trustees has adopted other policies and procedures not specified in this Manual, or the Statewide Employee handbook including the System’s Governance, Code of Ethics, the terms of which are hereby specifically incorporated into this Manual by this reference as if such Codes were stated in their entirety herein.

Acknowledgement

Please read the following statements and sign below to indicate your receipt and acknowledgment of the Manual and Statewide Employee Handbook. By signing below, you are acknowledging:

- I have received and read a copy of the Manual and Statewide Employee Handbook. I understand that the policies, rules, and benefits described in it are subject to change at the discretion of the System at any time.
- I further understand that my employment is terminable at will, either by myself or the System, regardless of the length of my employment or the granting of benefits of any kind, including but not limited to profit sharing benefits which provide for vesting based upon length of employment.
- I understand that no contract of employment other than “at will” has been expressed or implied, and that no circumstances arising out of my employment will alter my “at will” employment relationship unless expressed in writing, with the understanding specifically set forth and signed by myself and the Administrator.
- I am aware that during the course of my employment confidential information will be made available to me, i.e., member information and other related information. I understand that this information is critical to the success of the System and must not be disseminated or used outside of the System’s premises. In the event of termination of employment, whether voluntary or involuntary, I hereby agree not to utilize or exploit this information with any other individual or company or for private, personal, or business use. I shall sign a separate agreement regarding this matter if requested by the Administrator.
- I understand that my signature below indicates that I have read and understand the above statements.
- The signed original of this document is the property of the System and will become part of my personnel file.

___________________________________   ___________________________
Employee’s Printed Name     Employee’s Position

___________________________________   ___________________________
Employee’s Signature      Date
HB2007       ASRS; POLITICAL SUBDIVISION PLANS; ADJUSTMENTS

An employee of a political subdivision who was previously a member of another public employee retirement system and who receives or is eligible to receive retirement benefits from that system is ineligible to receive service credit from the Arizona State Retirement System (ASRS) for the same period of employment. ASRS employers are permitted to correct a contributions error by making payment adjustments through the employer's payroll reporting if the adjustment is made within the same fiscal year and the employer obtains written consent from the employee. AS SIGNED BY GOVERNOR.

Sponsor: Rep. Kavanagh

HB2190       CORP; ACCIDENTAL DISABILITY; DEFINITION

For the purpose of the Corrections Officer Retirement Plan, the definition of "accidental disability" is modified to mean a physical or mental condition that the local board finds totally and permanently prevents an employee from performing a reasonable range of duties within the employee's department, and that was incurred in the performance of the employee's duties. AS SIGNED BY GOVERNOR.

Sponsor: Rep. Payne
Numerous changes relating to public retirement systems. The Public Safety Personnel Retirement System (PSPRS) Board is required to establish a deferred compensation plan in which a PSPRS member may voluntarily participate, and plan provisions are specified. An active member of the Elected Officials' Defined Contribution Retirement System (EODCRS) or Public Safety Personnel Defined Contribution Retirement Plan (PSPDCRP) who volunteers or is ordered to perform military service is permitted to receive years of service for up to 60 months of military service as provided by federal law. The member's employer is required to make employer contributions and the member is required to make member contributions. Provides a process for paying contributions and crediting service. For deaths occurring from and after January 1, 2014 for the EODCRS or from and after July 1, 2017 for the PSPDCRP, in the case of a member who dies while performing qualified military service, the survivors of the member are entitled to any benefits, other than benefit accruals relating to the period of qualified military service, provided under the EODCRS or PSPDCRP as though the member resumed and then terminated employment on account of death. The provisions relating to defined contribution retirement plans are retroactive to the dates these death benefits are valid. Credited service provisions for military service members of the Arizona State Retirement System and PSPRS are extended to a member who served in any military reserve unit of any branch of the U.S. Armed Forces. AS SIGNED BY GOVERNOR.

Sponsor: Rep. Blackman

Various changes to statutes governing the Elected Officials Retirement Plan (EORP), the Corrections Officer Retirement Plan (CORP), and the Public Safety Personnel Retirement System (PSPRS). Retroactive to July 20, 2011, an active elected official who became a member of EORP before January 1, 2012, or an active member who became a member of PSPRS or CORP before January 1, 2012, is permitted to redeem any amount of eligible prior service without having to have accrued any minimum amount of credited service in the plan. Retroactive to July 1, 2017, for PSPRS or CORP members enrolled before July 1, 2017, the discount rate is the assumed rate of return that is prescribed by the PSPRS Board. By June 30, 2019, the PSPRS Board is authorized to choose to require interest to be paid on monies returned to members of a retirement plan or system under the jurisdiction of the board for the period of time between the transaction until a date to be determined by the PSPRS Board, but not later than the effective date of this legislation. Emergency clause. AS SIGNED BY GOVERNOR.

Sponsor: Sen. Livingston
SB1186  MUNICIPALITIES; PENSION FUND; TRANSFER

A municipality that maintains a fire fighters' relief and pension fund for past and/or present volunteer and/or part-time firefighters, is permitted to elect to transfer excess monies from the fund to the Public Safety Personnel Retirement System (PSPRS) to be applied to any past or present unfunded liability. Before transferring any monies to the PSPRS, the municipality is required to determine by actuarial procedures the amount necessary to fully fund any benefits accrued for part-time or volunteer firefighters as of the date of the proposed transfer. AS SIGNED BY GOVERNOR.

Sponsor: Sen. Pratt

SB1213  ASRS; RETURN TO WORK

An Arizona State Retirement System (ASRS) employer is not required to pay contributions at an alternate contribution rate on behalf of a retired member that returns to work with the employer in a position that is currently filled by an employee who is an active ASRS member and for which the employer is currently required to pay and is paying contributions on behalf of the active member in that same position. An ASRS employer is permitted to pay contributions at an alternate contribution rate for a retired member who meets the requirements for an exemption. For contributions made beginning July 1, 2019, if ASRS and the employer determine that the "alternative" contribution rate does not apply to a member for whom the employer has paid contributions at the alternate contribution rate, the employer is permitted to request an employer credit, not including interest, for those contributions within 90 days after the end of the fiscal year in which the contributions were paid. If ASRS determines that an employer credit is not feasible, ASRS is required to issue a refund to an employer in a form determined by ASRS. For the purpose of the Elected Officials’ Retirement Plan, any pension payments received by a member, who retired on or after July 1, 2009, while holding the same office from which the member retired within one full term after the date of retirement are considered overpayments and are subject to repayment up to the maximum of only the amount received during that term. For the purpose of the Public Safety Personnel Retirement System (PSPRS) and the Corrections Officer Retirement Plan (CORP), any pension payments received by the retired member who retired on or after July 1, 2009 during a period of reemployment are considered overpayments, with some exceptions. If the PSPRS Board determines that the retired member’s reemployment during the 12-month period and the failure of the employer or local board to suspend the member’s pension were not intentional, the pension payments received by the retired member after reemployment are subject to repayment up to only the amount received between the date of the member’s reemployment and the expiration of the 12-month period. If a retired PSPRS or CORP member who retired on or after July 1, 2009 and who is reemployed terminates employment, the retired member may be subsequently reemployed with the same employer and resume receiving pension payments after a period of 12 months, less the period of time the member was not reemployed with the same employer after retirement, if at least 60 days of the 12 months are consecutive. AS SIGNED BY GOVERNOR.

Sponsor: Sen. Livingston
54th Legislature: First Regular Session

Public Safety Personnel Retirement System

2019 ARIZONA
LEGISLATIVE WRAP-UP
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Summary of Arizona’s 2019 Legislative Session
The 54th Legislature – First Regular Session

The first regular session of the 54th Legislature adjourned “Sine Die” on May 28, 2019 at 12:58 a.m. after 135 days in session. Although the goal is to end the session in 100 days, the average length since 2008 has been 123 days. Only twice during that period has the legislature met the 100 day goal. A total of 1,318 bills and 100 memorials and resolutions were introduced. 331 of those bills gained the approval of both chambers and made it to the Governor’s desk. Of those 331 bills, Governor Doug Ducey signed 320 into law and vetoed 11.

State of the State Address
On the first day of the legislative session, Governor Ducey gave his 2019 State of the State entitled “Things that Matter” to a joint session of the Arizona Legislature. As expected, water was at the top of his list of “things that matter.” Governor Ducey called for the Legislature to ratify the drought contingency plan in the first weeks of the legislative session as a step toward securing Arizona’s water future. He stated that all parties will need to make sacrifices and applauded the leadership of all involved in helping to get the plan passed.

Education was another top priority expressed in the State of the State. Governor Ducey recalled the school shootings over the past 20 years and called on the legislature to pass the Safe Arizona Schools Plan to enhance the safety of Arizona schools. His plan includes a police officer at every school that needs one, more school counselors, improved background checks and the STOP order that gets guns out of the hands that are a lethal threat, while still protecting citizen’s 2nd amendment rights. Governor Ducey also promised to fulfill the 20 percent teacher pay raise by 2020. Additionally, he wants to enhance the Arizona Teacher Academy which helps students who want to become teachers in Arizona graduate debt free if they pursue teaching careers here in Arizona. Governor Ducey called for additional investment in Career and Technical Education, which prepares students for jobs when they graduate and helps Arizona’s workforce be more competitive. He stated that there are currently more jobs available in Arizona than there are people to fill them.

Addressing those workforce needs and getting people to work in Arizona lead to Governor Ducey calling for universal recognition of occupational licenses. Governor Ducey stated that 100,000 people will move to Arizona this year. “Workers don’t lose their skills simply because they move to Arizona.” he stated, “and if people want to work, let them work!” He called to eliminate daunting and usually unnecessary hurdles put in place by government.

He ended his speech encouraging people to work together to accomplish all that needs to be done in the upcoming legislative session.

The Executive Budget
Governor Doug Ducey released his proposed FY 2020 state budget January 18th which provided funding for his priorities as they were laid out in his State of the State. His budget assumed a FY 2019 ending cash balance of $854 million and left FY 2020 with a year-end cash balance of $109 million. His priorities are outlined below:
Fiscal Issues
Governor Ducey proposed a deposit of $542 million be made into the Budget Stabilization Fund, also known as the Rainy-Day Fund. This would require the statutory cap on deposits to be raised and would bring the fund to $1 billion. This was one of Governor Ducey’s top budget priorities for the year as he wanted to better prepare the state if an economic downturn occurs.

Education
The Governor emphasized that 50% of all new discretionary spending in FY 2020 would go to K-12 and higher education funding. He proposed adding $269.9 million of which about two-thirds would go to K-12, those details are as follows:

- Continue the 20% teacher pay raise plan began in FY 2019.
- Continue restoration of direct additional assistance.
- Include more high-performing schools in the Results Based Funding formula.
- Create a new incentive program for career and technical education to address workforce needs.
- Add resources for school safety needs.
- Proactively fund new school construction and renewal of existing school buildings.

In the higher education area, he looked to expand the Arizona Teacher Academy, which incentivizes new teachers to stay and teach in Arizona. He also provided funds to certain community colleges to expand workforce training programs.

Natural Resources
The proposed executive budget would have added $30 million for conservation efforts dedicated to the drought contingency plan.

Public Safety
The largest proposed investments in public safety was the funding of public safety personnel salary increases. $35.5 million would go to fund 5% to 15% raises for correctional officers. $21.5 million would go to state troopers for a 10% pay increase. In addition the Governor would add 42 new trooper positions, 12 of who would be dedicated to nighttime patrols in southern Arizona. He also took a moment to point out that the highway patrol trooper budget is and will remain funded by the new Public Safety Fee of $32 per vehicle.

In 2017 in an effort to reduce recidivism, Governor Ducey began a pre-release workforce training program, known as second chance centers. His FY 2020 budget proposed funds to build on that effort by implementing a computer programming academy for inmates coming close to release.

Health and Welfare
The Governor proposed to repeal the 2017 enrollment cap in the KidsCare program, thus protecting 26,000 children. He also added $56 million in new federal funding for childcare for the working poor and foster parents. He would do that in the current fiscal year and beyond. He also proposed additional resources for the Department of Child Safety and for a new child support enforcement system.
Governor Ducey addressed the demands of Adult Protective Services using federal funds. In addition, he proposed raises for employees at the Arizona State Hospital, established a Prenatal Care Telemedicine program, and funded a veteran’s suicide prevention program.

The Legislative Budget

The Legislative budget was an historic $11.8 billion in spending with investments in key areas such as education, public safety, and infrastructure with an immense emphasis on rural Arizona. Getting to the legislative budget was not without hurdles, especially in the Senate. Initially, there was a group of Republicans who were off the budget for a variety of reasons. Senator JD Mesnard wanted a tax conformity and reform plan than went further than what was included in the budget, Senator Michelle Ugenti-Rita wanted the repeal of the Highway Safety Fee of $32 on each vehicle registration, and Senators Paul Boyer and Heather Carter wanted an extension on the civil statute of limitations of child sex abuse. In the end, three of the four Republicans who were holding out had their issues addressed and agreed to vote for the budget. Education continued to be a focus of the budget but rural Arizona was one of the biggest winners in this year’s legislative budget.

Here are a few highlights from the FY 2020 budget deal:

K-12 Education
- $165 million to fully fund 20 percent teacher pay raises by school year 2020
- $136 million to speed up the restoration of District and Charter Additional Assistance
- $88 million for school building renewal
- $76 million for new school construction
- $30 million in new dollars for results based funding
- $20 million to hire more school counselors and police officers on campus
- $10 million to grow Career and Technical Education programs at public high schools

Higher Education
- $35 million in funding for Arizona’s three public universities, ASU, U of A and NAU
- $15 million to expand the Arizona Teachers Academy
- $15 million to expand the Pima Community College Aviation Technology Center
- $14.2 million for rural community colleges
- $6 million over three years for STEM programming at Maricopa and Pima Community Colleges

Public Safety
- $74.7 million to provide raises to public safety personnel including:
  - $40.6 million for Correctional Officer pay increases
  - $21.5 million for State Troopers at the Department of Public Safety
  - $5.5 million for caseworker raises at the Department of Child Safety
  - $3.2 million for Youth Correctional Officers at the Department of Juvenile Corrections
  - $2.8 million for public safety personnel at the Department of Health Services.
  - $11 million to hire 48 new state troopers
$4 million for Department of Public Safety vehicle replacement
$1 million for 10 additional healthcare monitoring staff at the Department of Corrections
$1 million for additional Arizona Peace Officer Standards and Training Board training
Repeal of the $32 VLT fee over two years

**Infrastructure & Economic Development**
- $130 million over three years to expand Interstate 17
- $95.3 million for targeted priority infrastructure projects
- $3 million to expand broadband services in underserved rural areas
- $2.2 million for the arts
- $1.1 million to promote tourism
- $700,000 for a Mariposa Port of Entry Cold Inspection Facility
- Repeal of the cost-sharing shift of the Department of Juvenile Corrections for all counties except Maricopa and Pima counties, though their cost-sharing was suspended for FY 2020
- $3 million to the twelve smaller counties to help offset the costs of their elected official retirement plan contributions

**Health & Welfare**
- $56 million in federal funds for childcare subsidies for low-income, working families
- $15 million deposit into the Housing Trust Fund to prevent and alleviate homelessness
- $13 million for new developmental disability provider funding
- $7 million in provider funding for elderly in-home and nursing care through Arizona Long Term Care System Provider Funding
- $2.4 million to expand the kinship stipend to all kinship caregivers
- $2 million for Alzheimer’s research
- $1.6 million to eliminate the KidsCare freeze, protecting coverage for over 6,000 Arizona kids
- $1.6 million for suicide prevention for Arizona’s military and veteran population
- $1.5 million for rural hospitals
- $1 million to reimburse family caregivers for 50% of their qualifying expenses
- $1 million for prenatal equipment at rural Arizona hospitals
- $1 million for Arizona food banks

**Natural Resources**
- $20 million to the Temporary Groundwater and Irrigation Efficiency Projects fund to rehabilitate wells and infrastructure in Pinal County for the withdrawal and efficient delivery of groundwater irrigation
- $20 million to promptly reimburse local Arizona fire districts for combating wildfires
- $2.6 million for Nogales wastewater treatment infrastructure
- $2 million for the eradication of the Salt Cedar, a non-native invasive species that poses environmental and fire risks
• $1 million to increase funds for the Forestry Hazardous Vegetation Removal, for a total of $3 million annually, to remove vegetation that poses fire risks to property and life
• $1.2 million to replace a pedestrian viewing bridge at Tonto Natural Bridge State Park
• $1 million for a forestry fire training center in Snowflake, Arizona
• $750,000 for a Mount Lemmon Fire District Water line
• $700,000 for upgrades to the Great Western Trail for Off Highway Vehicles

Tax Conformity
• Reduces income brackets from five to four
• For single filers, the standard deduction increases from $5,312 to $12,000.
• For married filers, the standard deduction increases from $10,613 to $24,000.
• Gives a new child tax credit of $100
• Gives a charitable tax subtraction of 25 percent.

A bill that appropriated $2.5 million for the Family Health Pilot Program accompanied the budget. This bill required the Department of Health Services to distribute the funds to a non-profit organization. The organization would implement a statewide program to help direct and provide support services to encourage healthy childbirth, support childbirth as an alternative to abortion, promote family formation, aid successful parenting, and increase families economic self-sufficiency. The Center for Arizona Policy advocated for the bill and modeled it after a program in Texas. However, Senators Kate Brophy McGee and Heather Carter joined the Democratic members in opposing the bill. Senators Brophy McGee and Carter wanted to include funding for the 2-1-1 system, which helps connect families with social services they need. As a result the bill died on the Senate floor.

Senator Mesnard was a “no” vote on every budget bill except for the criminal justice, higher education, and the K12 funding bills. His opposition was due to his dislike for the state’s newly passed tax conformity and reform plan, as explained above.

**Another year, another scandal**

You may recall that in 2018 the legislature saw the expulsion of then Representative Don Shooter. Rep. Shooter was expelled amid accusations of sexual harassment. This session began in a similar way with an ethics investigation into Representative David Stringer with much more disturbing allegations. As evidence began to mount in the ethics investigation Rep. Stinger resigned. Replacing Rep. Stringer was former Senate President Steve Pierce. Rep. Pierce has already indicated that he will not seek re-election to the seat in 2020.
The budget was not the only tough issue addressed by the Legislature this year. This session there were multiple contentious legislative issues discussed. Below are some of the key legislative proposals that were taken into consideration this session:

**Drought Contingency Plan**
Water has been a concern around the capitol for as long as we can remember. However, with this year’s drought contingency plan (DCP) and the deadlines it moved water to the forefront of everyone’s mind. The Legislature had until January 31st to pass a drought contingency plan or risk having the federal government, in the form of the US Bureau of Reclamation, step in to allocate Arizona’s water. That plan was created as a result of what was called the DCP Steering Committee and allows Arizona to join six other western states and Mexico in signing onto an interstate water agreement designed to conserve water in the Colorado River. That committee was made up of legislators, developers, municipalities, tribes, farmers, and of course the state itself. The different positions and needs represented on the committee resulted in complicated negotiations and high tensions at times. Ultimately, the mutual dislike for the federal government taking over the issue pushed them to a resolution.

In true capitol fashion the DCP was passed and signed by the Governor not a minute before the January 31st deadline. Negotiations went on for over a year while Lake Mead was at just 39 percent capacity and Lake Powell at just 40 percent. After the DCP was ratified some users began to rely on groundwater more while others were paid to give up their water rights. This plan will be in place until 2027 and came with a $37 million price tag with $30 million of that going to payments for water and the other $7 million for the drilling of wells.

Although the needed legislation was passed and signed into Arizona law, there were still many pieces that needed to fall into place before the entire agreement was final. On March 19th representatives from the seven Colorado River states signed onto a letter asking Congress to pass the federal portions of the DCP into law. On that day US Bureau of Reclamation Commissioner Brenda Burman officially declared the DCP done. H.R. 2030, the federal counterpart to the Drought Contingency Plan made its way through Congress and was signed by President Trump on April 16th.

In addition to signing the Drought Contingency Plan, Governor Ducey created the Governor’s Water Augmentation, Innovation and Conservation Council via Executive Order. The Council is charged with investigating long-term water augmentation strategies, additional water conservation opportunities, funding, and infrastructure needs to help secure Arizona’s water future.

The Pinal County farmer and agriculture community still had some concerns about the funding for the groundwater infrastructure. The federal government had promised the Pinal County farmers $20 million to develop the infrastructure needed to tap into groundwater. The Drought Contingency Plan would allow for those federal funds to be allotted for infrastructure projects but the Pinal County farmers felt that the federal government is notoriously slow in administering USDA programs, with an average of two years to complete the process, and the work on this infrastructure needs to be started prior to that. Pinal County farmers worked with rural legislators, spearheaded by Representative David Cook, to have the state fund the initial upfront costs and to
then be repaid when federal funding starts coming in. The budget included $20 million to the Temporary Groundwater and Irrigation Efficiency Projects fund to rehabilitate wells and build the necessary infrastructure in Pinal County for the implementation and compliance with the DCP.

**Peer-to-Peer**

New innovations are often met with new regulations, although most industries put up a fight first. This was the case with autonomous vehicles, Air BnB, and Uber and Lyft. This is not so true with peer-to-peer car sharing apps, or as some would like to call them, car renting apps. Among the numerous battles that took place over the last few months was a battle between Senator David Livingston and Representative Travis Grantham over the ability to tax and regulate car-sharing apps such as Turo. Rep. Grantham’s legislation, HB 2559 looked to treat these peer-to-peer apps as a new industry, creating an entirely new chapter in law without imposing any of the taxes traditional rental car companies pay. Rep. Livingston’s measure, SB 1305 aimed to do the opposite, treating these car-sharing companies like traditional rental car companies, taxes and all. The two legislators were ultimately able to agree on the need to clarify insurance requirements and create some type of safety baseline, but did not find any other common ground.

Rep. Grantham’s measure faced fierce opposition from airports, Enterprise Rent-A-Car, and tourism entities from across the state. Many tourism efforts around the state are funded by various taxes and fees associated with traditional rental car companies. The argument here is that any business shifted from companies such as Enterprise to companies like Turo would mean a huge dip in the collection of those taxes resulting in a burden on the Arizona tourism industry. Rep. Grantham and his proponent argued that those rental car taxes were designed mostly to be imposed on out-of-state visitors who come to Arizona and rent vehicles for their various activities. They say that those using car-sharing apps are people who live in Arizona and may only need a vehicle for a few days here and there. They also pointed out that the app does not actually rent out the vehicles, but instead acts as a broker between the car owner and the car renter. Rep. Grantham conceded on taxes a bit with an amendment that allowed municipalities to tax peer-to-peer rental companies. Turo said they were open to negotiating fees and taxes but wanted to be treated as a new industry just like Uber and Lyft were.

After a week of multiple striker-everything amendments in multiple committees (six in one week in fact), House and Senate Leadership stepped in and took over negotiations. Despite this effort neither bill advanced to the finish line this session. We expect the battle to continue next year.

**Vaping**

Another issue that became contentious this legislative session was vaping. Senator Heather Carter and Representative John Allen introduced dueling bills, which were resurrected through the use of strike-everything amendments (6 on committee agendas in one week). Sen. Carter expressed concern about an epidemic of youth vaping occurring in our schools and her proposals were an attempt to address that epidemic. She classified vaping products or electronic smoking devices as tobacco products. Her bill version would allow cities and towns to adopt their own ordinances regulating these products. The vaping industry was concerned that the classification of them as tobacco products was intended to allow for taxation of the products and claimed they were a healthier option than tobacco that helps people quit smoking cigarettes. Sen. Carter’s proposal
passed out of the Senate unanimously. However, the bill hit a wall in the House with Speaker Bowers not putting the bill up for a final vote.

Representative Allen’s proposal, which was supported by the vaping industry, raised the age at which someone could purchase tobacco to 21 years old, overrode existing local regulations and pre-empted local governments from any regulations dealing with the sale or marketing of the products. The local governments, schools, healthcare advocates and the existing tobacco industry representatives were all opposed to this measure, though for varying reasons depending on the group. The bill made it through the House floor debate but did not receive a vote by the entire body because the proponents were unable to secure the necessary votes for the measure to pass.

Each side will likely be back next legislative session with new proposals to duel it out again.

Repeal of alternative lifestyle statutes
Since 1991 Arizona law has controlled how schools can teach about HIV and AIDS. These provisions made it illegal to teach any course that “promotes a homosexual lifestyle”, prohibited anything that “portrays homosexuality as a positive alternative life-style” and prohibited the teaching of safe sex methods for those in homosexual relationships. These provisions were challenged in federal court at the beginning of 2019. The challengers claimed the state statute “facially discriminates against non-heterosexual students on the basis of sexual orientation and places them in an expressly disfavored class.” Attorney General Mark Brnovich announced that he would not defend the State in this case and State Superintendent of Public Instruction Kathy Hoffman called for a repeal of these statutes after her election. Attorney General Brnovich sent a letter to the Legislature telling them they were able to still pursue representation in the case if they wanted to defend the statutes. However, instead the Legislature swiftly moved to repeal the provisions from statute. Representative TJ Shope sponsored an amendment on SB1346 schools; menu of assessments; AIDS instruction to repeal these prohibitions. The measure passed out of both chambers with overwhelming support. Only five conservative members in the House and ten members of the Senate opposed the bill. Legislators of the LGBTQ caucus all expressed their gratitude to the members of the Legislature for this repeal and their swift action to end the discriminatory practices.

Texting while driving
For the last ten years various legislators have attempted to ban texting while driving in Arizona. On April 22, Governor Ducey signed such a bill into law. The bill prohibits the following while driving:

- Holding a cellphone in any way while talking on it,
- Writing, sending or reading any text-based communication, including text message, instant message or email, and
- Watching any kind of video or recording a video.

The bill still allows:

- Swiping a phone screen to accept or make a call,
- Talking on the phone through the use of an earpiece, headset or wrist device,
- Using talk-to-text,
- Using a GPS system,
• Using a handheld cellphone while stopped at a traffic light of stop sign, and
• Using a cellphone to call 911.

Emergency personnel and those witnessing a crime or those in need of emergency help are exempted. Although law enforcement can only give a warning before January 1, 2021, starting then they can issue a primary citation – which means a violation can be the reason for the stop.

With the Arizona move, only Missouri and Montana have not enacted some type of ban.

**Child Sex Abuse Statute of Limitations**

One of the issues of the legislative session that became key, especially in the final weeks of session, was the question of extending the statute of limitations for the survivors of child sex abuse to be able to pursue civil litigation against their perpetrators or the institutions that may have covered up or facilitated that abuse. Arizona did not have a specific statute for this type of claim. Senator Paul Boyer introduced SB1255 which would have given a victim of child sex abuse seven years from when they disclosed their abuse to a medical professional or law enforcement to pursue a civil claim. Senator Eddie Farnsworth, Chairman of the Senate Judiciary committee, was not supportive of the proposal saying it took all statutes of limitations away and that it opened up litigation against potentially innocent individuals. He offered to Senator Boyer an extension of the statute of limitation from the current 20 to 25 years of age. Senator Boyer and the survivor community could not agree on this version of the bill.

Senator Heather Carter agreed to allow one of her bills to be used as a strike everything amendment in House Appropriations where Representative Regina Cobb agreed to run the amendment. That amendment would have raised the age to 30 years old and include a twelve-month window for time barred victims to come forward to pursue civil litigation regardless of age. The reason the survivor community believes that the window was essential to the legislation was because research had showed that the average age a survivor discloses their abuse is not until their late 40’s, making an increase to age 25 or 30 years old without any other provisions basically a feel good measure that truly didn’t do anything. Additionally, in other states that included a window for older victims to come forward, there have been perpetrators who were still abusing children discovered and removed from the environment where they were able to continue to prey on children. That bill did not receive a vote in the Appropriations committee, and therefore died.

Senator Boyer did not waiver in his commitment to the issue and after the House Appropriations committee announced he would not be supporting a budget without the legislature at least voting on the measure. Senator Carter joined him in that pledge, and the Senate Democrats later joined them. When it became clear that a budget would not be possible without addressing this issue, House leadership decided they would introduce their own version of the measure. Representative TJ Shope sponsored HB2746, which changed the civil statutes of limitations for child sex abuse from two years after majority to twelve years after majority, which is 30 years old. It also revived claims for anyone who was currently over 20 years old but less than 30 years old. However, for the reasons mentioned above, Senators Boyer and Carter, along with the survivor community were opposed the legislation. The bill was only heard in the House Rules committee where testimony was not taken. The bill passed out of Rules but did not have the necessary support for a floor vote.
Eventually, House and Senate leadership came to the realization they were not going to be able to peel off any of the Senate Democratic members or break the pledge between Senators Boyer and Carter. On Saturday of the Memorial Day weekend a meeting was facilitated between the survivor community, Senators Eddie Farnsworth, Paul Boyer and Heather Carter to determine if an agreement could be reached.

As a result, an amendment was added on Representative Walter Blackman’s HB2466. This amendment changed the civil statute of limitations from age 20 to age 30. Additionally, it gave until December 31, 2020 for survivors of any age to come forward to pursue civil litigation against their perpetrators or the institutions that knowingly covered up or enabled the abuse to happen. It raised the standard of proof for that window from the preponderance of evidence to clear and convincing, as well as, required that if an institution was the party being sued, the victim would need to prove they had notice. This bill passed unanimously out of both the House and Senate and was signed by Governor Ducey. In addition, Governor Ducey signed the bill within minutes of the bill reaching his desk. Additionally, Governor Ducey announced the formation of Justice for Victims of Child Sex Abuse Task Force. The task force will be dedicated to providing recommendations to the state for further reforms to ensure victims are entitled to safety, healing, justice and restitution.

**Per diem**

A last-minute issue arose at the end of session during the budget process. That issue was the question of increasing legislators per diem. Currently, Maricopa County legislators receive $35 per day for subsistence during a regular or special session and non-Maricopa County legislators receive $60 per day. If the legislative session goes beyond 120 days, the per diem drops to $10 for Maricopa County legislators and $20 for non-Maricopa County legislators. HB2760/SB1558 legislators; mileage rate; distance changed that per diem from the set rate and tied it to the federal per diem rate for Maricopa County as set by the United States General Services Administration. Under this new per diem, Maricopa County legislators would make 50% of the federal per diem rate, about $93 per day and non-Maricopa County legislators would get 100% of the federal per diem rate, which is currently at about $185 a day. Additionally, if the session were to go longer than 120 days, each member of the Legislature would be paid 50% of their set per diem rate.

This bill progressed through the process in the Senate, however it hit a few snags in the House. Although the bill received bi-partisan support in the House Appropriations committee, it initially failed in House Rules with Representatives Kern and Petersen voting against the bill with a majority of the Democrats on the committee. This caused several members to say they were off the budget if the entire chamber did not vote on this measure. The bill was reconsidered in House Rules where it passed the second time with Representative Petersen absent from the committee hearing. The bill passed out with bipartisan support. The vote in the Senate 22-7-1 and the House was 37-23. Ultimately, Governor Ducey vetoed the bill. In his explanation, he stated that he is willing to work on this issue and recognizes that an increase may be appropriate, but that it should start with the beginning of the next legislature, in 2021.

**Occupational License Reciprocity**
Governor Ducey made reciprocity for occupational licenses a central point in his State of the State speech. According to the Governor, 100,000 people are projected to move to Arizona this year and he would like to make their job pursuit easier. To that end, Representative Warren Petersen introduced and was able to get passed HB 2569. This new law requires a regulating entity to issue an occupational license or certificate to someone who has established residency in Arizona and has that same license or certificate in another state, provided that person is in good standing and the previous state has the equal practice requirements. The “universal” license is only valid in Arizona and does not affect any states in which Arizona has an interstate compact. This measure, which passed on nearly party-line votes made Arizona the first state in the nation to allow for this type of broad recognition.

VLT Repeal
During last year’s budget fight in order to find funding for the 20% teacher pay raise by 2020, the funding for public safety was moved to a new fund. The Highway Safety Fund was established, and the Director was given the authority to create a vehicle license fee to cover 110% of the public safety needs. During the discussions about this fund, it was estimated that this new fee would come to $18 per vehicle. However, after the budget passed and session was over, the Director implemented a $32 vehicle license fee for every person’s vehicle registration. This lead several legislators, the business community (especially those with fleets), and overall community to be surprised by how high the fee was. At the beginning of this session, there were several pieces of legislation to either repeal this new fee and the Director’s authority to create it, or to cap the fee at the $18, which was originally disclosed. Governor Ducey stated early on that he was not willing to repeal the fee and the $32 level was necessary to provide the funding needed for public safety. However, when budget time came around Senator Michelle Ugenti-Rita’s demand of it being repealed was met. The highway safety fee will be repealed on July 1, 2021, instead of phasing it out over five years, which they had originally proposed to get other Republican members support of the budget.
Every year several resolutions are introduced that would refer an issue to the ballot on which the people will vote. This year was no exception. And as often happens in the first year of the legislative term, none of those resolutions made it through the process. Undoubtedly, the 2020 legislative session will see legislative referrals actually make it to the ballot.

In addition to legislative referrals, Arizona is one of 19 states with some sort of direct initiative process. It is a well-used tool in Arizona. Various groups have already filed their petitions with the Secretary of State and are out collecting signatures. Among the issues more likely to be on the ballot in 2020 are:

- **Voters’ Right to Know Amendment** – this proposed Constitutional amendment attempts to track the “original source” of major contributions for elections. In essence it seeks to uncover dark money.

- **Arizona Fair Lending Act** – this proposed statutory change would limit interest and fees charged on a car title loan to 36% and require licensing and other oversight of the title loan industry.

- Although not yet filed, there will certainly be a measure to legalize the adult recreational use of marijuana. Currently Arizona law allows for the medical use.

**Education funding** is another key area that needs to be addressed in the upcoming legislative session or it will be done so through another voter initiative. Senators Sylvia Allen and Kate Brophy McGee have both been working diligently to try and address this area. In a Prop 301 extension bill this legislative session, there was a proposal to increase the state sales tax from six-tenths of a penny to a penny on every dollar. The funding would go to education funding. However, this proposal ran into opposition from the Arizona Educators Association (AEA). The AEA claimed the tax proposal did not provide enough funding and was using a regressive tax to fund education, sales tax only. They have vowed to oppose anything that was not a combination of the sales tax with either an income or property tax increase. Legislators will continue to work on this issue with the stakeholders. The AEA and others will likely be working on another income tax increase proposal over the interim.
Although each year the legislature grapples with some fairly weighty and important issues, each year they also grapple with some not so weighty and important issues. We call those issues the lighter side of the session. Below are some examples:

**Kindness wins the day**
Freshman legislator Jennifer Longdon is in a wheelchair as a result of a random drive-by shooting. During the course of the legislative session she apparently commented there was no physical access for her to the House floor Speaker’s chair as it was a custom for freshmen legislators to take a picture in. On the last night of the session, Speaker Rusty Bowers corrected that problem and invited her to sit with him at the dais as the Speaker Pro Tempore. In that role she called votes and ran the floor action for a bit. During her time in the chair, a motion was made to sine die, and she called the question to the body and approved it. This sent staff and the lobbying community into a tailspin as there was still outstanding measure that needed to be voted on. Before long Speaker Bowers called the motion back. It is not all about politics at times.

**What to choose when you are thirsty?**
It appears this year that Arizona got state drink envy. 28 states have a state drink. Somehow Arizona managed to exist and prosper for 107 years without one. But now you can make that count 29 states. On behalf of a teenage constituent, Rep. Warren Petersen introduced and successfully passed HB 2692, which made lemonade the state drink of Arizona. At one point Sen. Victoria Steele attempted to amend the bill to change lemonade to margarita. That effort failed, but was met with support from the viewing gallery (mostly lobbyists).

19 states tout milk as their state drink, plus Rhode Island, which prefers coffee milk. Alabama and Virginia are the only states with an alcohol state drink, both choosing whiskey. And the Maine state drink is moxie. We had to look that one up. Moxie is a brand of carbonated beverage that was among the first to be mass-produced. And yes, the use of the word “moxie” to mean determined stems from the drink.

**Almonds don’t lactate. Seriously**
Apparently, consumers are very confused when buying almond and other nondairy milks. Or so says Rep. David Cook. So, he introduced HB 2604. The bill would prohibit a person from misrepresenting a product as meat, poultry or milk if it is not derived from livestock, poultry or dairy milk.

Saying that “almonds don’t lactate” Rep. Cook emphasized that words matter to the consumer. Other legislators wondered how far this could go pointing out that there are products like coconut milk, hot dogs, or even peanut butter.

Alas, the bill did not make it through the process and failed on a floor vote in the House. Not to worry, we understand that the Food and Drug Administration is taking up the issue…..and the chant.

**Blow dry freedom**
Those who want to earn their living washing, drying, and styling hair may now do so in Arizona free of the requirement to be licensed as a cosmetologist. Sen. Michelle Ugenti-Rita introduced SB 1401 to deregulate those who provide the limited services offered in the emerging blow dry bar market. The bill did bring some opposition from cosmetologists who felt that even with the
limited services covered, there are health and safety issues that need to be addressed in order to protect the public. Regardless, Governor Ducey signed the bill into law.

**Everybody was Kung-Fu fighting**

What do automatic firearms, sawed-off shotguns, grenades, IED’s, and nunchucks all have in common? They are prohibited weapons in Arizona. Well that is until Governor Ducey signed a law this year taking them off of the list. Karate instructors around the state rejoiced that people could no longer be arrested for carrying their nunchucks to training. Reportedly, nunchucks were added to the prohibited weapons list in response to the Kung FU movie craze of the 1970’s. We kid you not.

**They are just postcards, but someone cares…. don’t they?**

Every session there are dozens of memorials and resolutions introduced. For the most part, these have no legal meaning and are used to recognize someone or something or to urge an action. Below are some of what we saw this year:

- April of this year was proclaimed “Jazz Appreciation Month” in Arizona.
- The legislature condemned motorcycling profiling and encouraged law enforcement to collaborate with the motorcycle community to end it.
- Some don’t get a month, they just get a week. April 14 – 20, 2019 was designated “Arizona Water Professionals Appreciation Week.”
- Arizona let it be known that we support the US-Taiwan bilateral trade agreement. Oh and that we support the Governor taking a trip to Taiwan.
- The legislature recognized the tremendous contributions of the scientific community.
- And last, but not least, it is important to have an Athletic Training month. For Arizona, that was March 2019.

One of the favorite uses of memorials is to urge the federal government to take action. This year they did it seven times, urging such things as uranium remediation, opposing the national monument designation of part of the Gila River, opposing wilderness area designation without local consent, urging the state to achieve American Viticultural Area designation, urging the EPA to require Method 9 certification training during the winter months, asking the federal government to accurately calculate and pay a tax on federal land, and urging ratification of the USMCA.

**Quotes**

“We know that whether you make your living as a plumber, a barber, a nurse or anything else, you don’t lose your skills simply because you pack up a U-Haul truck and make the decision to move to Arizona.

- Governor Doug Ducey on his occupational licensing reciprocity bill.

“They’re not talking to us”

- House Minority Leader Charlene Fernandez on being left out of the budget process.

“If you want to get high regularly, what state do you move to? Colorado. If you want to sexually abuse children, what state do you move to? Arizona”
- Sen. Paul Boyer arguing for an extension of the civil statute of limitations against child predators.

“I’m grateful that the House will not be forced to take action against one of our members and we can begin to put this matter behind us.”

- Speaker of the House, Rusty Bowers commenting on the resignation of David Stringer.
PSPRS had three pieces of priority legislation this legislative session. Those three bills and results of those bills are described in more detail below:

**HB 2422: Public Retirement Systems (Rep Blackman)**

**Summary:**
This bill is the PSRPS administrative bill and makes numerous technical changes, conforms to federal regulations to maintain IRS tax-exempt status and makes other non-substantive and non-controversial item for the public retirement systems under the PSPRS umbrella. Some of the main provisions are explained below:

1. The PSPRS Board is required to establish a deferred compensation plan in which a PSPRS member may voluntarily participate and plan provisions are specified.
2. Codifies in statute military leave and contribution provisions as dictated by the federal Uniform Services Employment and Reemployment Rights Act of 1994 (USERRA) and IRS rules, including clarifying that reservists qualify for this coverage. Applies to PSPRS, CORP and EORP defined benefit and defined contribution participants.
3. Clarifies that time in deferred retirement (DROP and reverse DROP) is counted as time towards members’ post-employment cancer insurance coverage. Members receive 5 months of cancer insurance coverage per each year of credited service.
4. Stipulates that members in the CORP defined contribution plan have 90 days to elect the percentage of their contribution amount, which is the same period of time PSPRS defined contribution members have.

**Action:**
This was one of the PSPRS priority bills for the legislative session. We secured the sponsor for the legislation, worked on drafting of the language and amendments, met with legislators and the Governor’s office to ensure the bill’s success. Governor Ducey signed this bill on March 26th.

**SB 1146: PSPRS; EORP; CORP; Modifications (Sen Livingston)**

This bill was the SB1609 rollback bill that rolled back all the provisions of the original 2011 pension reform measures that affected active employees, which made those original changes only for employees hired after the effective date of the bill. This bill makes various changes to statutes governing the Elected Officials Retirement Plan (EORP), the Corrections Officer Retirement Plan (CORP), and the Public Safety Personnel Retirement System (PSPRS). This bill had five main changes:

1. **Contributory DROP:** The bill eliminated the requirement for members who did not have 20 years of service as of the effective date of SB1609 to have the employee pay contributions during their DROP time, which had not been required previously. Additionally, since this change was retroactive back to January 1, 2012, all employees who were currently in the DROP program and were impacted by those provisions are entitled to a refund of their contributions. Members are entitled to the difference in the rate of returns if they had previously exited their DROP period.
2. **Contributory DROP interest earned on accounts:** SB1609 had changed the interest earned on the DROP accounts from the assumed rate of return to a smoothed rate of the
actual rate of return over a seven-year period. This bill takes the interest earned back to the assumed rate of return.

3. **Service Purchases:** Retroactive to July 20, 2011, an active elected official who became a member of EORP before January 1, 2012, or an active member who became a member of PSPRS or CORP before January 1, 2012, is permitted to redeem any amount of eligible prior service without having to have accrued any minimum amount of credited service in the plan. SB1609 had capped this at only being able to purchase up to 60 months (5 years) of prior service. The caps and criteria of an employee having to work five years prior to being eligible to purchase service still applies for all member hired after January 1, 2012.

4. **Discount Rate used to determine Actual Present Value for a service purchase:**
   Retroactive to July 1, 2017, for PSPRS or CORP members enrolled before July 1, 2017, the discount rate is the assumed rate of return that is prescribed by the PSPRS Board. SB1609 had changed it to the lesser of the assumed rate of return or the yield on a 10-year Treasury Note plus two percent. This lesser of discount rate is still utilized for any employees hired after July 1, 2017.

5. **Interest to be applied to refunds:** By June 30, 2019, the PSPRS Board is authorized to choose to require interest to be paid on monies returned to members of a retirement plan or system under the jurisdiction of the board for the period of time between the transaction until a date to be determined by the PSPRS Board, but not later than the effective date of this legislation.

**Action:**
This bill was the main priority legislatively for PSPRS this legislative session to avoid further costly litigation. During the interim, the PSPRS Board was notified of the intent of litigation by member representatives on the provisions of this bill. The Arizona Attorney General’s office had already settled litigation on some of the provisions. Due to the decisions in the Supreme Court cases of *Fields, Hall* and *Parker*, the PSPRS decided they would voluntarily roll back the provisions of the 2011 pension reform known as SB 1609 that affected active members. We met with stakeholders to walk through the bill, the reasonings for it and the fiscal impact of the bill. We worked with legislative council on the drafting of the legislation, testified in committee and met with legislators to ensure it’s passage, which it did so unanimously. We also worked with the Governor’s office to ensure their understanding of the bill prior to session, as well as when the bill was on the Governor’s desk. Governor Ducey signed the bill on April 1st and the Board immediately started rolling back some of the provisions. Due to the emergency clause on the bill, it was effective immediately upon the Governor’s signature.

**Summary:**
This bill was a bill that was germane to the return to work issues that PSPRS needed to address and we therefore amended on to the bill. Below are the main provisions of the bill.

1. The bill stipulates an Arizona State Retirement System (ASRS) employer is not required to pay contributions at an alternate contribution rate on behalf of a retired member that returns to work with the employer in a position that is currently filled by an employee who is an active ASRS member and for which the employer is currently required to pay
and is paying contributions on behalf of the active member in that same position. An ASRS employer is permitted to pay contributions at an alternate contribution rate for a retired member who meets the requirements for an exemption. For contributions made beginning July 1, 2019, if ASRS and the employer determine that the "alternative" contribution rate does not apply to a member for whom the employer has paid contributions at the alternate contribution rate, the employer is permitted to request an employer credit, not including interest, for those contributions within 90 days after the end of the fiscal year in which the contributions were paid. If ASRS determines that an employer credit is not feasible, ASRS is required to issue a refund to an employer in a form determined by ASRS.

2. For the purpose of the Elected Officials’ Retirement Plan, any pension payments received by a member, who retired on or after July 1, 2009, while holding the same office from which the member retired within one full term after the date of retirement are considered overpayments and are subject to repayment up to the maximum of only the amount received during that term.

3. For the purpose of the Public Safety Personnel Retirement System (PSPRS) and the Corrections Officer Retirement Plan (CORP), any pension payments received by the retired member who retired on or after July 1, 2009 during a period of reemployment are considered overpayments, with some exceptions. If the PSPRS Board determines that the retired member’s reemployment during the 12-month period and the failure of the employer or local board to suspend the member’s pension were not intentional, the pension payments received by the retired member after reemployment are subject to repayment up to only the amount received between the date of the member’s reemployment and the expiration of the 12-month period. If a retired PSPRS or CORP member who retired on or after July 1, 2009 and who is reemployed terminates employment, the retired member may be subsequently reemployed with the same employer and resume receiving pension payments after a period of 12 months, less the period of time the member was not reemployed with the same employer after retirement, if at least 60 days of the 12 months are consecutive.

4. Required that for the return to work statutes to be applied in CORP the employee would have to return to work for the same employer in which they had retired. If the employee found employment with a separate employer, the return to work statutes are not triggered.

**Action:**
The PSPRS gave us this issue in the middle of the legislative session to address. Therefore, we did not have a stand-alone bill on the issue. However, Senator Livingston had a germane bill he allowed us to amend on to after we met with him to describe the issue. We then met with House Majority Staff, Representative Kavanagh (chair of the House Government committee) and Representative Blackman to run the committee amendment. We met with members of the committee to ensure the amendment was adopted. After committee, we felt the return to work statutes in CORP should only be applied if the employer returned to work with the employer from which they retired. We met with Representative Kavanagh who agreed to sponsor the floor amendment. We met with members in both the House and Senate to ensure passage of the bill. Additionally, we met with Jenny Thomsen in the Governor’s office. Governor Ducey signed the bill on June 27th and the effective date of the provisions is August 27th, which is the general effective date.
Other bills of interest that we tracked, monitored and worked to ensure were workable for PSPRS are described below:

**HB 2190: CORP; Accidental Disability; Definition (Rep. Payne)**

**Summary:**
This bill clarified that for the purpose of the Corrections Officer Retirement Plan, the definition of "accidental disability" is modified to mean a physical or mental condition that the local board finds totally and permanently prevents an employee from performing a reasonable range of duties within the employee's department, and that was incurred in the performance of the employee's duties. This is the same definition that is in the PSPRS statutes.

**Action:**
The PSPRS Board took a position of support on this bill. I testified in committees in support and also explained the fiscal impact of the bill. We participated in stakeholder meetings to get to the final language of the bill which removed language that an employee had to be offered a position of similar pay and benefits. Governor Ducey signed the bill on June 7th and becomes effective as of August 27th, which is the general effective date of legislation.

**HB 2088: PSPRS; Normal Retirement; Employee Contributions (Rep. Chavez)**

**Summary:**
This bill would have stipulated that for the Public Safety Personnel Retirement System, the definition of "normal retirement date" for an employee who becomes a member on or after July 1, 2017, is modified to eliminate the requirement that the employee be at least 55 years of age to retire after 15 years of credited service. The separate calculations for employee contribution rates that applied to employees hired on or after July 1, 2017 are deleted.

**Action:**
This bill would have undone the pension reform efforts of 2016. I met with the sponsor of the legislation to explain the concerns with the bill. We also met with House Majority Staff and Rep Kavanagh, the chairman of the House Government committee, asking for the bill to not be heard in committee, which it was not.

**HB 2346: Retirement Systems; Investment Fees; Disclosures (Rep. Salman)**

**Summary:**
This bill would require each "alternative investment manager" (defined) that receives capital commitments for an "alternative investment vehicle" (defined) from the governing board of a public retirement system is required to file a disclosure on each alternative investment vehicle at least annually with the State Treasurer. The disclosure must include a list of specified information, including the fees and expenses incurred, and compensation for the alternative

**Action:**
This bill would have made it where several of our contracted alternative investment managers would likely be unwilling to continue to work with PSPRS or the deals in which are all stipulated to in our contracts would become less profitable for PSPRS. I met with the sponsor to discuss the intent of the bill and extend an invitation for her to come to PSPRS to get a better understanding of the current system. We also asked for this bill to not be heard in the House Government committee, which it was not. PSPRS is committed to working with the sponsors and others on this issue over the interim.

**HB 2429/ SB 1293: Approp; EORP Contributions; Counties (Rep Thorpe)**

**Summary:**
In each of FY2019-20 through FY2042-43, $3 million is appropriated from the general fund to the Department of Administration for distribution to with a population of less than 350,000 persons to supplement the normal cost of the Elected Officials’ Retirement Plan, plus an amount to amortize the unfunded accrued liability of EORP. The counties may use these monies only for required employer contributions to EORP.

**Action:**
This bill failed to pass the House, however funding for the twelve smaller counties in the amount of $3 million for the next 26 years was included in the final legislative budget and was signed by Governor Ducey.

**HB 2677: JLAC; Auditor General (Rep Kern)**

**Summary:**
This bill makes various changes relating to audits of public agencies. The Auditor General is required to conduct annual, instead of at least biennial, financial and compliance audits of financial transactions and accounts kept by or for all state agencies subject to the federal single audit requirements. All officers of any state agency, board, commission, department, program or committee or any political subdivision and all contractors that contract with the state are required to afford reasonable and needed facilities for Auditor General staff and make records available in the form and at the time prescribed. Based on information provided by the Auditor General, for any legislative measure that requires the Auditor General to perform a special audit, the Joint Legislative Budget Committee staff is required to notify all members of the Legislature as soon as practicable of the cost to conduct a special audit. Modifies the list of factors a committee of reference must consider when determining the need for continuation or termination of an agency. Deletes the requirement for community college district expenditure reporting to be done by fund and to include a reconciliation of expenditures to the expenditure limitation report.

**Action:**
This bill was vetoed by Governor Ducey on June 7th due to his concerns with unintended consequences.
**HB 2741: Contracting; Investments; Prohibition; Border Wall (Rep Bolding)**
This bill makes it that within 180 days after the effective date of this legislation, the "public funds" (defined as the Arizona State Retirement System, the Elected Officials' Retirement Plan, the Public Safety Personnel Retirement System and the Corrections Officer Retirement Plan) are required to make a reasonable effort to identify all "scrutinized companies" (defined as any company that has a contract with the federal government to build a wall along the U.S.-Mexico border) and compile a scrutinized companies list, which the public funds must update monthly. The state is prohibited from contracting with a scrutinized company for any product or service, and the public funds are required to sell, redeem, divest or withdraw all publicly traded securities of a scrutinized company.

**Action:**
This bill was never heard in committee.

**SB 1135: Public Records; Responses (Sen Bowie)**

**Summary:**
This bill stipulates that access to a public record is deemed denied if a custodian fails to respond to a request for production of a public record within 10 business days after receiving the request. The methods by which a custodian may respond are specified, including providing the record, notifying the requesting person that the request is under review or is denied, and notifying the requesting person that the public body does not maintain the record and directing the person to the public body that maintains the record.

**Action:**
This bill was never heard in committee.

**SB 1164: Ombudsman-Citizens Aide; Executive Session: Access (Sen D Farnsworth)**

**Summary:**
This bill clarified that the Ombudsman-Citizens Aide, when investigating alleged violations of open meeting law, would have been added to the list of persons who are permitted to review minutes and discussions made at executive sessions.

**Action:**
Governor Ducey vetoed this bill on April 30th stating that statute vests the power to investigate and enforce open meeting law violations with the Attorney General and the county attorneys and he believed the legislation is unnecessary.

**SB 1167: Israel Boycott Divestments (Sen Boyer)**

**Summary:**
Various changes to statutes prohibiting a public entity from entering into a contract with a company that does business in Israel. Applies the prohibition only to companies that engage in
for-profit activity and that have ten or more full-time employees, and only to contracts with a value of $100,000 or more. Declares that the prohibition does not apply to a boycott prohibited by federal code or regulations.

**Action:**
P3 worked with PSPRS staff and Senator Boyer to amend the existing statute’s definition of a company to ensure we were not having to do due diligence on companies that were not investable by the pension system. This will reduce the amount of due diligence being done on staff for companies that couldn’t even be considered as an investment opportunity to begin with but still upholds the original intent of the legislation. Governor Ducey signed this bill on April 16th.

**SB 1186: Municipalities; Pension Fund; Transfer (Sen Pratt)**

**Summary:**
This bill stipulates that a municipality that maintains a fire fighters' relief and pension fund for past and/or present volunteer and/or part-time firefighters, is permitted to elect to transfer excess monies from the fund to the Public Safety Personnel Retirement System (PSPRS) to be applied to any past or present unfunded liability. Before transferring any monies to the PSPRS, the municipality is required to determine by actuarial procedures the amount necessary to fully fund any benefits accrued for part-time or volunteer firefighters as of the date of the proposed transfer.

**Action:**
We testified in committee as a resource due to technical questions about the bill. Governor Ducey signed this bill on May 7th.

**SB 1452: PSPRS; Normal Retirement; Age (Sen Rios)**

**Summary:**
This bill would have stated that an employee who becomes a member of the Public Safety Personnel Retirement System on or after July 1, 2017, the "normal retirement date" is changed to the first day of the calendar month immediately following the employee's completion of 15 years of credited service if the employee is at least 54 years of age, reduced from 55. Retroactive to July 1, 2017.

**Action:**
This bill was never heard in committee.

**SB 1482: State Agencies; Fee Increase; Limit (Sen Mesnard)**

**Summary:**
This bill states that except with prior review by or annual reporting to the Joint Legislative Budget Committee, state agencies are prohibited from increasing a fee in an amount that exceeds the percentage of change in the average consumer price index as published by the U.S.
Department of Labor between the figure for the latest calendar year and the calendar year in which the last fee increase occurred.

*Action:* Governor Ducey signed this bill on June 7th.

There were also several provisions included in the budget of interest to PSPRS, which are listed below:

*HB2747/SB1528 General Appropriations Act*

- Supplemental appropriation; elected officials retirement adjustment; fiscal year 2018-2019: The sum of $287,800 is appropriated from the state general fund in fiscal year 2018-2019 for elected official’s retirement contribution rate adjustments. The joint legislative budget committee staff shall determine, and the department of administration shall allocate to each agency or department an amount for the retirement adjustment. The joint legislative budget committee staff shall also determine, and the department of administration shall allocate adjustments, as necessary, in expenditure authority to allow implementation of the elected officials retirement adjustment. The amount includes state funding for elected official’s retirement adjustments for the portion of superior court judges' salaries paid by the state.

- Appropriations; PSPRS; fiscal years 2019-2020 through 2025-2026; pension liability; city of Prescott: The sum of $1,000,000 is appropriated from the state general fund in each of fiscal years 2019-2020, 2020-2021, 2021-2022, 2022-2023, 2023-2024, 2024-2025 and 2025-2026 to the public safety personnel retirement system to be deposited in the employer account of the Prescott fire department group to offset increased pension liability.

- Appropriations; operating adjustments: Elected officials retirement adjustments $287,800: The amount appropriated is for elected officials retirement contribution rate adjustments in fiscal year 2019-2020. The joint legislative budget committee staff shall determine, and the department of administration shall allocate to each agency or department an amount for the retirement adjustment. The joint legislative budget committee staff shall also determine, and the department of administration shall allocate adjustments, as necessary, in expenditure authority to allow implementation of the elected officials retirement adjustment. The amount includes state funding for elected official’s retirement adjustments for the portion of superior court judges' salaries paid by the state.

- Agency retirement adjustments $4,000,000: The amount appropriated is for agency retirement adjustments in fiscal year 2019-2020. The joint legislative budget committee staff shall determine, and the department of administration shall allocate to each agency or department an amount for the agency retirement. The joint legislative budget committee staff shall also determine, and the department of administration shall allocate adjustments, as necessary, in expenditure authority to allow implementation of the agency retirement adjustments.

- Correctional officer retirement adjustments $(3,710,100): The amount appropriated is for correctional officer retirement adjustments in fiscal year 2019-2020.
The joint legislative budget committee staff shall determine, and the department of administration shall allocate to each agency or department an amount for the correctional officer retirement adjustments. This amount is a reduction because CORP’s employer contribution rate has decreased.

- Information technology pro rata adjustments $1,967,700: The amount appropriated is for information technology pro rata adjustments in fiscal year 2019-2020. These adjustments reflect an increase in the information technology prorated amount from .30 percent to .43 percent as prescribed in the fiscal year 2019-2020 budget procedures budget reconciliation bill. The joint legislative budget committee staff shall determine, and the department of administration shall allocate to each agency or department an amount for the pro rata adjustment. The joint legislative budget committee staff shall also determine and the department of administration shall allocate adjustments, as necessary, in expenditure authority to allow implementation of the information technology pro rata adjustments.

**HB2751/SB1550 Budget Procedures BRB**

PSPRS reporting requirements
The reports by the public safety personnel retirement system that are due by December 31 of each year pursuant to sections 38-803, 38-832, 38-840.01, 38-848, 38-848.02, 38-866 and 38-883, Arizona Revised Statutes, are due on or before December 1 of each year in 2019 and 2020.
June 18, 2019

VIA EMAIL

Mr. David DeJonge  
Deputy Administrator  
Public Safety Personnel Retirement System  
PO Box 17670  
Phoenix, AZ  85011-0670

Re:  PSPRS Studies Requested at May 2019 Education Session

Dear Dave,

As requested at the May 2019 Education Session, we have prepared two impact studies on the Public Safety Personnel Retirement System plan. This letter outlines the studies and the attached exhibits summarize our results.

Our first study was to review the impact of the assumed annual investment rate of return on plan liabilities. Exhibit 1 shows the impact of the baseline contribution results from the July 1, 2018 valuation along with six alternative scenarios under different assumed returns. The recommendation from the prior actuary as part of the 2017 experience review was to consider a move to 7.30% assumption for the July 1, 2019 valuation. We have included this rate along with a wide range of alternatives for your consideration as you review this assumption.

Our second study was to review the impact of the estimated 2018/2019 return on the July 1, 2019 valuation results. Through April 2019, the market value return for the Fund was approximately 4.5%. Exhibit 2 shows the impact of various annual market returns on our estimated July 1, 2019 valuation results, prior to any assumption or method changes.

Note that our results are estimated based on our preliminary transition of actuarial valuation results, based on the July 1, 2018 valuation report prepared by the prior actuary. Currently we have been able to come close to matching results for the total plan, but are awaiting additional details so that we can more closely match different breakouts (e.g., status, tier, employer). For purposes of these exhibits, we have reflected only our preliminary Tier 1 and Tier 2 pension liabilities, since that is the largest grouping and one that we are comfortable with the reasonableness of the conclusions. We can revisit these studies once our transition is complete, but we do not anticipate the results to change significantly.

The undersigned are familiar with the immediate and long-term aspects of pension valuations and meet the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. All of the sections of this letter are considered an integral part of the actuarial opinions.
If there are any questions, concerns or comments about any of the information provided herein, please contact us.

Respectively submitted,

Bradley R. Heinrichs, FSA, EA, MAAA  

Jason L. Franken, FSA, EA, MAAA
Exhibit 1
Arizona Public Safety Personnel Retirement System
Impact of Investment Return Changes on Employer Contributions (as of 7/1/2018)

<table>
<thead>
<tr>
<th>Contribution ($) millions</th>
<th>Baseline</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
<th>Scenario 5</th>
<th>Scenario 6</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Employer Normal Cost</td>
<td>212.3</td>
<td>223.3</td>
<td>248.6</td>
<td>296.0</td>
<td>350.9</td>
<td>414.7</td>
<td>489.0</td>
</tr>
<tr>
<td>- Employer Amortization</td>
<td>601.3</td>
<td>617.3</td>
<td>643.2</td>
<td>687.7</td>
<td>733.9</td>
<td>782.2</td>
<td>833.0</td>
</tr>
<tr>
<td>- Total Employer Cost</td>
<td>813.6</td>
<td>840.6</td>
<td>891.8</td>
<td>983.7</td>
<td>1,084.8</td>
<td>1,196.9</td>
<td>1,322.0</td>
</tr>
<tr>
<td>- Change from Baseline</td>
<td>27.0</td>
<td>78.2</td>
<td>170.1</td>
<td>271.2</td>
<td>383.3</td>
<td>508.4</td>
<td></td>
</tr>
</tbody>
</table>

| Contribution (% of pay)   |          |            |            |            |            |            |            |
| - Employer Normal Cost    | 14.7%    | 15.4%      | 17.2%      | 20.4%      | 24.2%      | 28.6%      | 33.8%      |
| - Employer Amortization   | 37.7%    | 38.7%      | 40.3%      | 43.1%      | 46.0%      | 49.0%      | 52.2%      |
| - Total Employer Cost     | 52.4%    | 54.1%      | 57.5%      | 63.5%      | 70.2%      | 77.6%      | 86.0%      |
| - Change from Baseline    | 1.7%     | 3.4%       | 6.0%       | 6.7%       | 7.4%       | 8.4%       |            |

Assumed Investment Return
- 7.40%  7.30%  7.00%  6.50%  6.00%  5.50%  5.00%

NOTES
- Exhibit shows the impact of various investment return assumptions on employer contribution levels.
  - "Baseline" are the results are presented in the 7/1/2018 valuation report prepared by GRS
  - Scenarios reflect the investment return assumptions shown as well as a move to PUB-S mortality tables.

- Note that results are based on the 7/1/2018 valuation results and reflect our preliminary transition of the valuation. The results above are estimates based on the current state of our transition and, while reasonable, could change once the transition is completed. Given this, we are showing only Tier 1 and 2 Pension results, since they are the largest group and our match is close to the prior actuary.

6/18/2019
# Exhibit 2

**Arizona Public Safety Personnel Retirement System**

**Impact of Actual 2018/2019 Investment Return on Employer Contributions**

### Funded Status ($ millions)

<table>
<thead>
<tr>
<th></th>
<th>7/1/2018</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
<th>Scenario 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Actuarial Accrued Liability</td>
<td>16,275.3</td>
<td>16,964.7</td>
<td>16,964.7</td>
<td>16,964.7</td>
<td>16,964.7</td>
<td>16,964.7</td>
</tr>
<tr>
<td>- Actuarial Value of Assets</td>
<td>7,446.7</td>
<td>8,136.8</td>
<td>8,099.0</td>
<td>8,061.6</td>
<td>8,023.7</td>
<td>7,985.8</td>
</tr>
<tr>
<td>- Unfunded Accrued Liability</td>
<td>8,828.6</td>
<td>8,827.9</td>
<td>8,865.7</td>
<td>8,903.1</td>
<td>8,941.0</td>
<td>8,978.9</td>
</tr>
</tbody>
</table>

### Contribution ($ millions)

<table>
<thead>
<tr>
<th></th>
<th>7/1/2018</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
<th>Scenario 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Employer Normal Cost</td>
<td>212.3</td>
<td>208.1</td>
<td>208.1</td>
<td>208.1</td>
<td>208.1</td>
<td>208.1</td>
</tr>
<tr>
<td>- Employer Amortization</td>
<td>601.3</td>
<td>619.5</td>
<td>622.2</td>
<td>624.8</td>
<td>627.4</td>
<td>630.1</td>
</tr>
<tr>
<td>- Total Employer Cost</td>
<td>813.6</td>
<td>827.6</td>
<td>830.3</td>
<td>832.9</td>
<td>835.5</td>
<td>838.2</td>
</tr>
</tbody>
</table>

### Contribution (% of pay)

<table>
<thead>
<tr>
<th></th>
<th>7/1/2018</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
<th>Scenario 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Employer Normal Cost</td>
<td>14.7%</td>
<td>14.6%</td>
<td>14.6%</td>
<td>14.6%</td>
<td>14.6%</td>
<td>14.6%</td>
</tr>
<tr>
<td>- Employer Amortization</td>
<td>37.7%</td>
<td>39.4%</td>
<td>39.5%</td>
<td>39.7%</td>
<td>39.9%</td>
<td>40.0%</td>
</tr>
<tr>
<td>- Total Employer Cost</td>
<td>52.4%</td>
<td>54.0%</td>
<td>54.1%</td>
<td>54.3%</td>
<td>54.5%</td>
<td>54.6%</td>
</tr>
</tbody>
</table>

### 2018 / 2019 Return (Market Value)

<table>
<thead>
<tr>
<th></th>
<th>7/1/2018</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
<th>Scenario 5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8.65%</td>
<td>5.05%</td>
<td>1.50%</td>
<td>-2.10%</td>
<td>-5.70%</td>
<td></td>
</tr>
</tbody>
</table>

### 2018 / 2019 Return (Actuarial Value)

<table>
<thead>
<tr>
<th></th>
<th>7/1/2018</th>
<th>Scenario 1</th>
<th>Scenario 2</th>
<th>Scenario 3</th>
<th>Scenario 4</th>
<th>Scenario 5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7.00%</td>
<td>6.50%</td>
<td>6.00%</td>
<td>5.50%</td>
<td>5.00%</td>
<td></td>
</tr>
</tbody>
</table>

### NOTES

- Exhibit shows the impact of various actual investment returns through 6/30/2019 on employer contribution levels.
- “7/1/2018” are the actual results from the actuarial report prepared by GRS.
- Scenarios reflect the market value returns (and resulting actuarial value returns) shown.
- No assumption or method changes are reflected in the 7/1/2019 estimates.

- Note that results are based on the 7/1/2018 valuation results and reflect our preliminary transition of the valuation. The results above are estimates based on the current state of our transition and, while reasonable, could change once the transition is completed. Given this, we are showing only Tier 1 and 2 Pension results, since they are the largest group and our match is close to the prior actuary.