



City of Dallas

**Dallas Police and Fire
Pension System and
Employee Retirement Fund:
Funding Soundness
Restoration Plan Update
and Consideration of
Recommendations**

June 18, 2024

Jack Ireland
Chief Financial Officer

Purpose



- Review pension funding requirements of Texas Pension Review Board
- Update Council on current funding status of both City pension systems
- Discuss recommendations to improve the funding soundness of both systems
- Review next steps



Background



- City of Dallas has two* primary employer defined benefit pension plans that provide retirement, disability, and death benefits for permanent City employees
 - Employees' Retirement Fund (ERF) for civilian or non-uniform employees
 - Dallas Police and Fire Pension System (DPFPS) for uniform employees
- Texas Pension Review Board (PRB) is mandated to oversee all Texas public retirement systems based on Chapter 802 of the Texas Government Code
 - PRB's funding guidelines require that actual contributions should be sufficient to cover the normal cost and to amortize the unfunded actuarial accrued liability over as brief a period as possible, but not to exceed 30 years



*Note: DPFPS has a Supplemental Plan for Chiefs which captures additional pay above their highest civil service grade/step. This presentation does not include information regarding the Supplemental Plan.

Background



- Both ERF's and DPFPS's current amortization periods exceed PRB's 30-year requirement
 - As of December 31, 2023, ERF is projected to be fully funded in 51 years
 - As of January 1, 2023, DPFPS is projected to be fully funded in 82 years
- Each board and City is required to formulate and submit Funding Soundness Restoration Plans (FSRP) to comply with 30-year amortization requirements to PRB prior to September 1, 2025 in accordance with Chapter 802 of Texas Government Code
- Additionally in 2017, HB3158 which amended Article 6243 of the Texas Civil Statute mandates that DPFPS board must adopt a funding plan that complies with the 30-year amortization period requirements of Section 802 of the Texas Government Code and submit it to the PRB by November 1, 2024



Acknowledgement of Partners



- Significant number of partners and time has been deployed to formulate a plan for each system that will comply with PRB requirements and will ensure the funding soundness of both DPFPS and ERF, and protect pension benefits for all City employees and retirees
 - Mayor appointed eight-member Ad Hoc Committee on Pensions chaired by MPT Atkins (9 meetings)
 - Study Group including financial and pension industry experts appointed by Mayor (14 meetings)
 - Leadership of DPD and DFR active associations (10 meetings)
 - Leadership of DPD and DFR retiree associations (5 meetings)
 - DPFPS staff and board (approximately 40 meetings with staff)
 - Cheiron – independent actuary selected by PRB and under-contract with DPFPS
 - ERF staff and board (10 meetings with staff)
 - City staff from CMO, BMS, CCO, OGA, ATT
 - City actuary – Deloitte Consulting LLP (13 meetings)
 - City investment consultant – Commerce Street Investments (3 meetings)
 - City financial advisors – Hilltop Securities





Employee Retirement Fund (ERF)



ERF – Facts



- ERF provides retirement, death, and disability benefits for permanent civilian (non-uniform) employees of the City

Established in 1944

ERF active employee headcount – 7,894

Where employees reside:
44% Dallas / 56% Non-Dallas

ERF retiree/beneficiary headcount – 7,914

Where retirees reside:
35% Dallas / 65% Non-Dallas

Governed by Chapter 40A of Dallas City Code

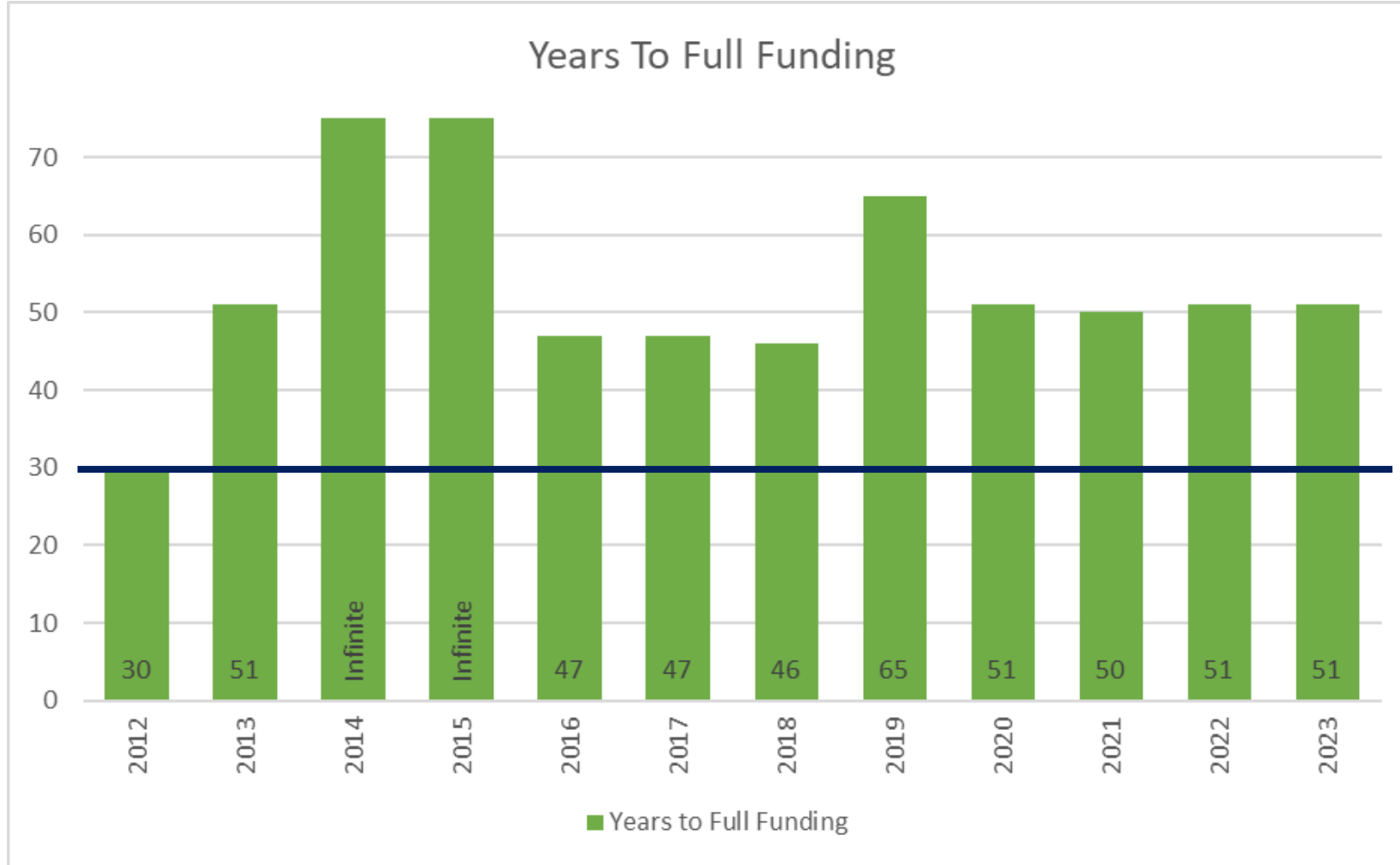
\$60,816 average salary (as of January 2, 2024)

3% Average Merit anticipated in FY25

\$42,789 average annual retirement benefit



ERF – History



As of December 31, 2023, ERF is projected to be fully funded in 51 years.

PRB requires a FSRP be submitted by September 1, 2025 that achieves full-funding within 30-year.

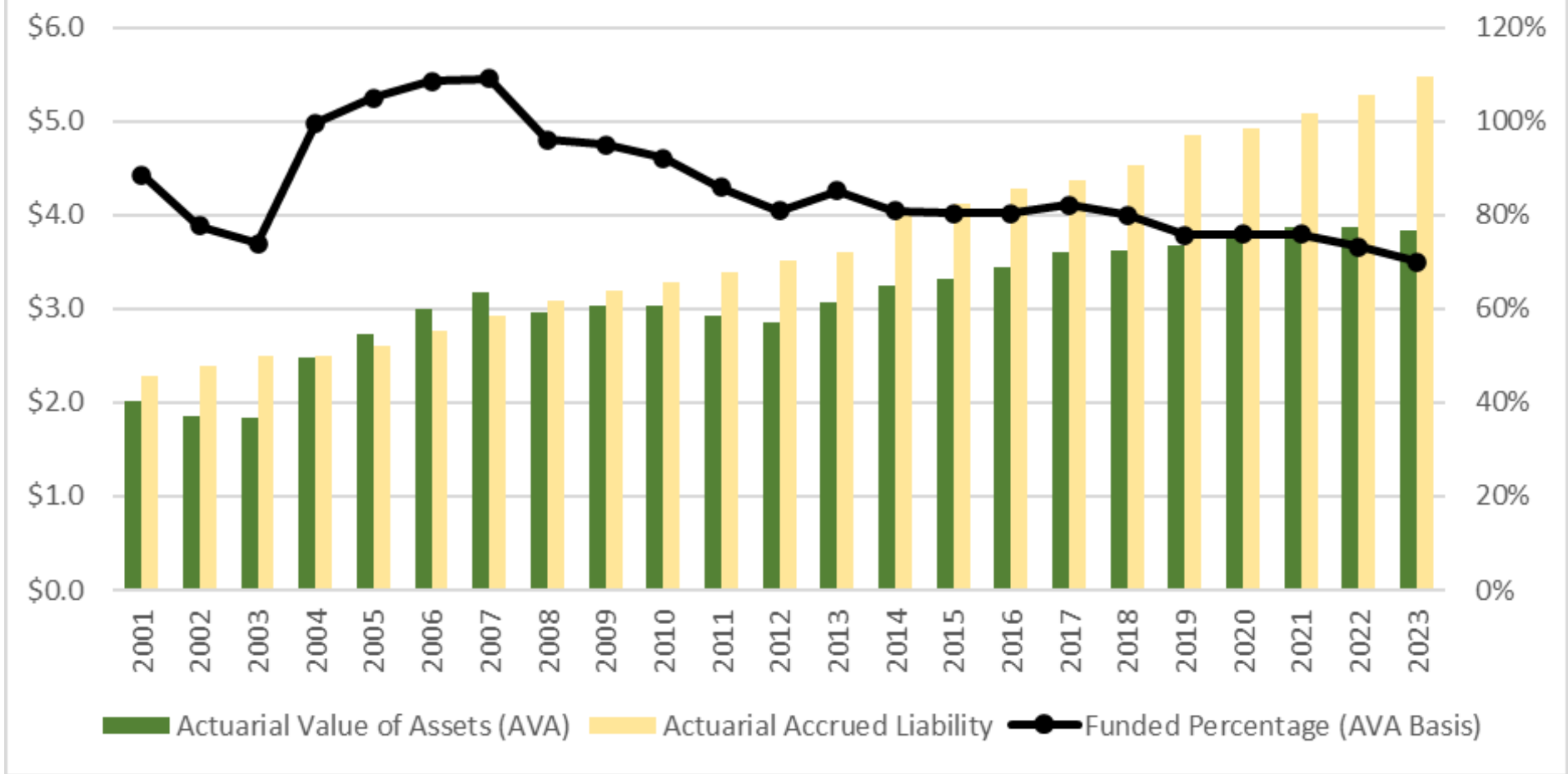
City Council approval of FSRP is needed no later than February 2025 to allow time for election for changes to Chapter 40-A no later than May 2025.



ERF – History



Assets vs Liabilities (\$ Billions)



As of December 31, 2023, ERF is 70.1% funded.

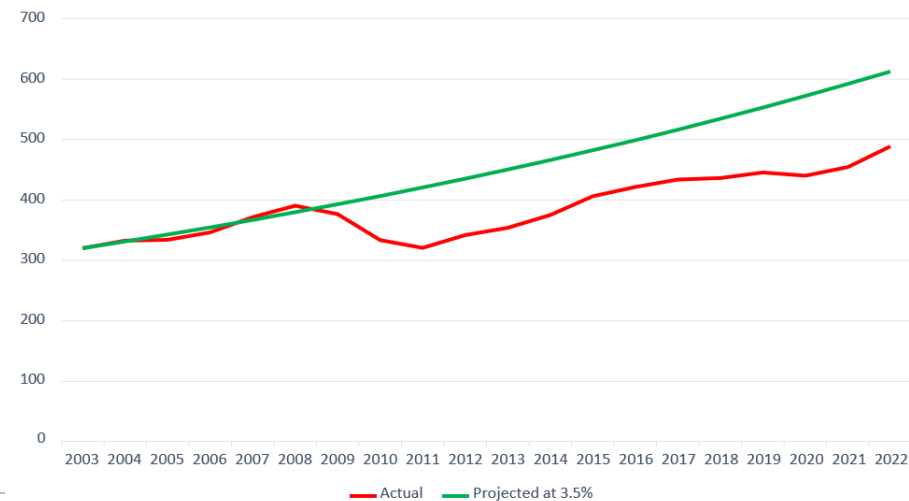
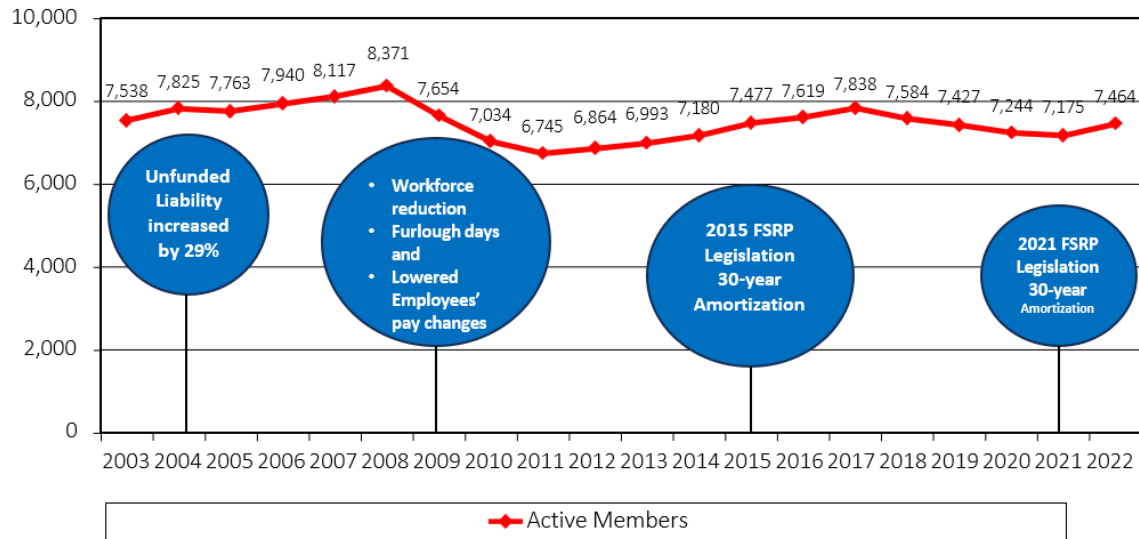


Note: In 2005, City issued \$500 million Pension Obligation Bonds (POB) for ERF. City's annual contribution is reduced annually to account for City's payment of debt service for POB.



What caused the funding challenge?

- Employee and City contribution cap of 36% of pay established in Chapter 40-A prevented needed adjustments to maintain funding
- Actual experience did not meet actuarial assumptions related to number of non-uniform employees and payroll beginning in 2008
 - Active employee count is 907 employees or 11% less in 2022 than it was in 2008
 - Payroll growth assumptions are based on projected number of active employees and changes in pay



ERF – Current Board Recommendation



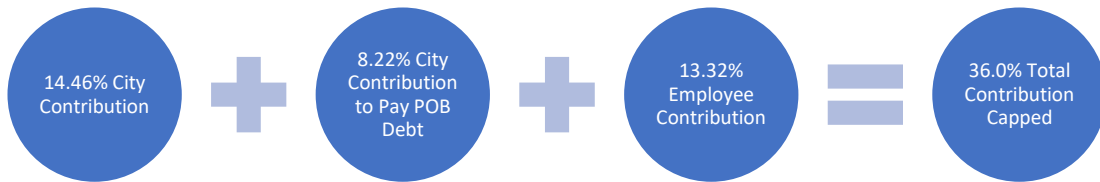
- Remove 36% contribution cap currently in Chapter 40-A of Dallas City Code which limits funding going into ERF (requires General Election)
- Implement Actuarial Determined Contribution (ADC) methodology which adjusts annually to recognize actual experience
 - Use 5-year step-up to transition to ADC
- Maintain contribution rate for Tier B employees at 13.32% but increase rate for Tier A employees by 0.68% from 13.32% to 14.0% since Tier A employees retained benefit structure from prior to 2017
 - Tier A employees will contribute \$16.2 million more over 30-years due to contribution rate increase
 - Tier A employees will have average \$515 annual increase in contributions (each employee will differ based on their actual salary)
- No change to benefit structure
 - See appendix for table of Tier A and Tier B benefits



ERF – Total City Cost



- City’s total cost over 30-years is \$7.9 billion
 - Cost is allocated to all City operating funds including General Fund, Enterprise Funds, and Internal Service Funds
- In FY24 contributions include:



| ERF Contribution Forecast - In Million Dollars | | | | | | |
|---|-------------------|---------------------------------|---------------------------|---------------------------------|-------------------------|------------------------------------|
| City Contribution and POB are allocated to General Fund and Enterprise Funds. | | | | | | |
| Year | City Contribution | Year over Year Increase in City | City Debt Service for POB | Year over Year Increase for POB | Total City Contribution | Year over Year Increase Total City |
| 2024 | \$80.2 | | \$40.1 | | \$120.4 | |
| 2025 | 89.8 | 9.5 | 44.8 | 4.7 | 134.6 | 14.2 |
| 2026 | 99.9 | 10.1 | 46.2 | 1.4 | 146.1 | 11.5 |
| 2027 | 110.3 | 10.5 | 47.6 | 1.4 | 158.0 | 11.9 |
| 2028 | 121.2 | 10.9 | 49.1 | 1.5 | 170.4 | 12.4 |
| 2029 | 132.7 | 11.5 | 50.6 | 1.5 | 183.3 | 13.0 |
| 2030 | 137.0 | 4.3 | 52.2 | 1.6 | 189.2 | 5.8 |
| 2031 | 141.3 | 4.3 | 53.8 | 1.6 | 195.0 | 5.9 |
| 2032 | 145.8 | 4.5 | 55.4 | 1.6 | 201.2 | 6.2 |
| 2033 | 150.4 | 4.6 | 57.1 | 1.7 | 207.4 | 6.2 |
| 2034 | 155.0 | 4.6 | 58.8 | 1.7 | 213.7 | 6.3 |
| 2035 | 159.7 | 4.7 | 60.5 | 1.8 | 220.2 | 6.5 |
| 2036 | 227.1 | 67.4 | 0.0 | -60.5 | 227.1 | 6.8 |
| 2037 | 234.0 | 6.9 | 0.0 | 0.0 | 234.0 | 6.9 |
| 2038 | 241.1 | 7.1 | 0.0 | 0.0 | 241.1 | 7.1 |
| 2039 | 248.5 | 7.3 | 0.0 | 0.0 | 248.5 | 7.3 |
| 2040 | 256.1 | 7.6 | 0.0 | 0.0 | 256.1 | 7.6 |
| 2041 | 264.0 | 7.9 | 0.0 | 0.0 | 264.0 | 7.9 |
| 2042 | 272.2 | 8.2 | 0.0 | 0.0 | 272.2 | 8.2 |
| 2043 | 280.5 | 8.3 | 0.0 | 0.0 | 280.5 | 8.3 |
| 2044 | 289.1 | 8.6 | 0.0 | 0.0 | 289.1 | 8.6 |
| 2045 | 298.1 | 8.9 | 0.0 | 0.0 | 298.1 | 8.9 |
| 2046 | 307.2 | 9.2 | 0.0 | 0.0 | 307.2 | 9.2 |
| 2047 | 316.7 | 9.4 | 0.0 | 0.0 | 316.7 | 9.4 |
| 2048 | 326.3 | 9.7 | 0.0 | 0.0 | 326.3 | 9.7 |
| 2049 | 336.2 | 9.9 | 0.0 | 0.0 | 336.2 | 9.9 |
| 2050 | 346.3 | 10.1 | 0.0 | 0.0 | 346.3 | 10.1 |
| 2051 | 356.6 | 10.3 | 0.0 | 0.0 | 356.6 | 10.3 |
| 2052 | 367.3 | 10.6 | 0.0 | 0.0 | 367.3 | 10.6 |
| 2053 | 378.2 | 10.9 | 0.0 | 0.0 | 378.2 | 10.9 |
| 2054 | 389.3 | 11.2 | 0.0 | 0.0 | 389.3 | 11.2 |
| Total | 7,258.0 | | 616.2 | | 7,874.3 | |



Note: City actuary Deloitte verifies calculations and amounts.



Dallas Police and Fire Pension System (DPFPS)



DPFPS – Facts



- DPFPS provides retirement, death, and disability benefits for uniform police and fire employees of the City

Established in 1916

DPFPS active employee headcount – 5,085
Where employees reside:
18% Dallas / 82% Non-Dallas

DPFPS retiree/beneficiary headcount – 5,289
Where retirees reside:
8% Dallas / 92% Non-Dallas

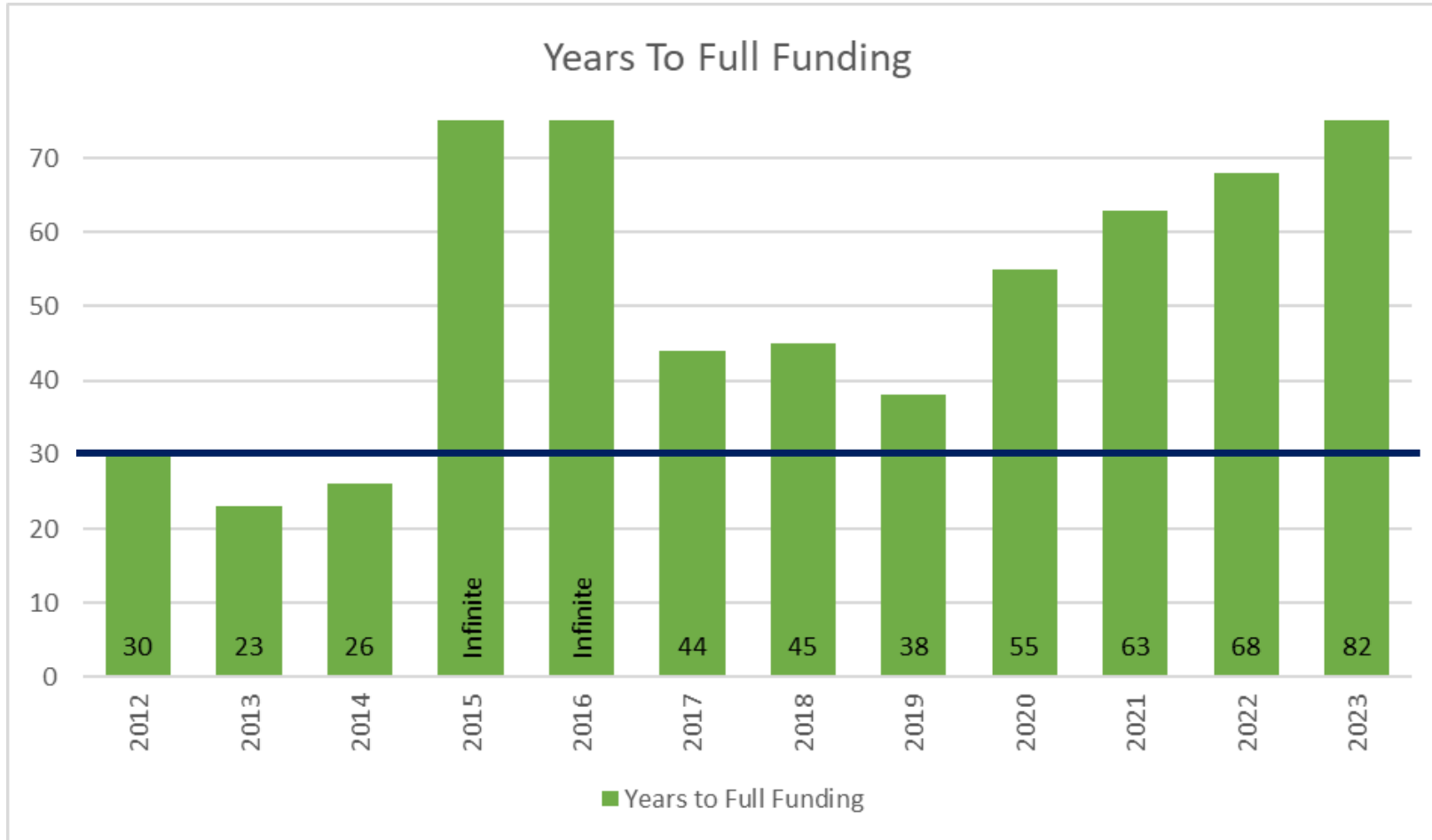
Now governed by Texas Civil Statute, Article 6243 a-1 (amended in 2017 by HB3158)

\$88,740 average salary (as of January 2, 2024)
7.23% Market Adjustment anticipated in FY25

\$51,732 average annual retirement benefit



DPFPS – History



As of January 1, 2023, DPFPS is projected to be fully funded in 82 years.

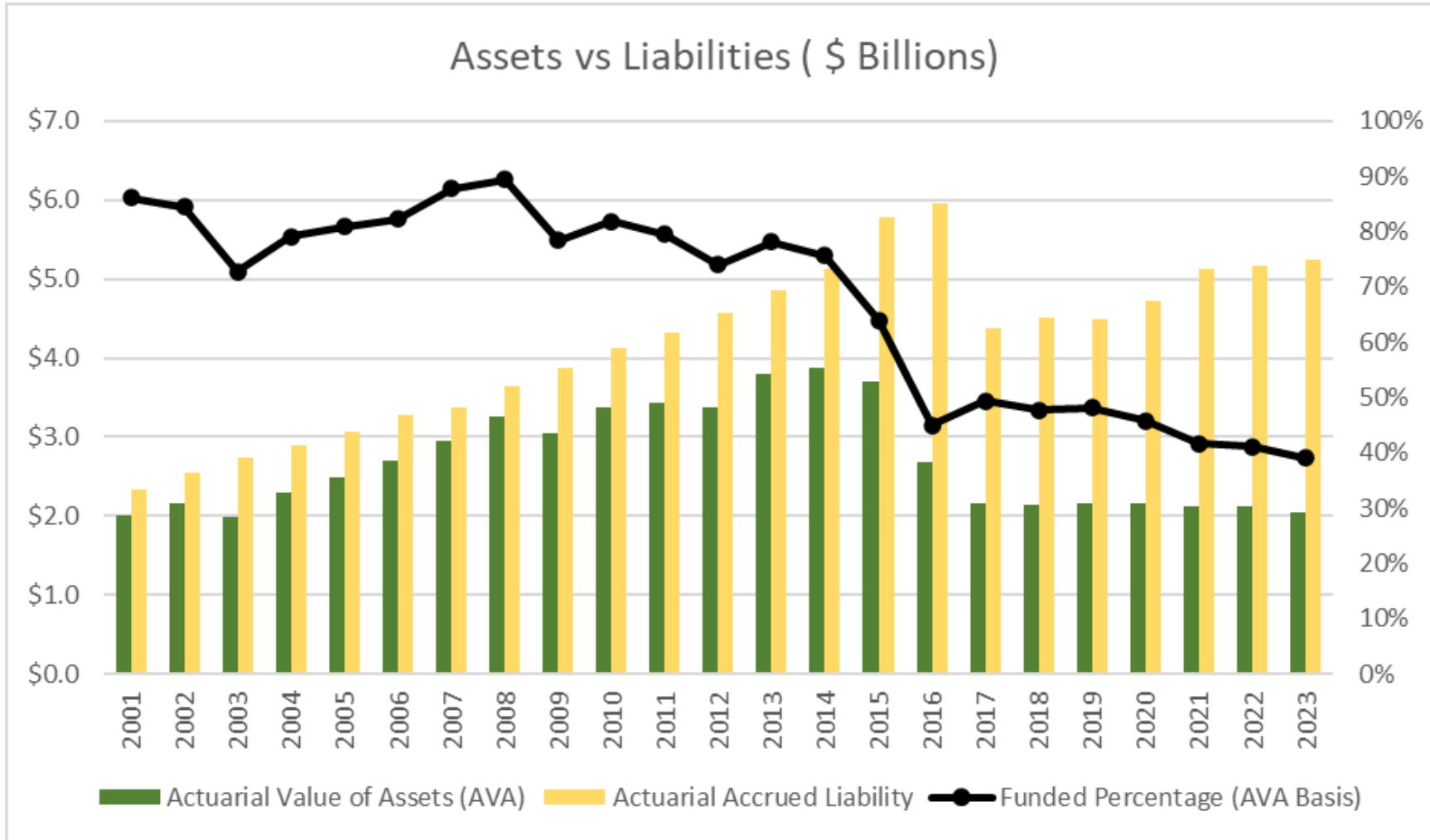
HB3158 requires a funding plan be submitted to PRB by November 1, 2024.

PRB requires a FSRP be submitted by September 1, 2025 that achieves full-funding within 30-year.

City Council approval of FSRP is needed no later than October 2024.



DPFPS – History



As of January 1, 2023,
DPFPS is 39.1%
funded.

HB3158 requires
DPFPS to be 70%
funded in order to
provide COLA.





What caused the funding challenge?

- Poor real estate investments
 - DPFPS invested more than \$1 billion in ill-advised direct real estate investments during 2005-2009 (exacerbated by 2008-2009 real estate decline), much of it with managers who lacked appropriate skills
 - DPFPS had to write down these assets by hundreds of millions of dollars, resulting in the first report of its financial challenges in 2015
- DROP structure and “run-on-the-bank”
 - Pre-2017 DPFPS Board authorized DROP provisions that severely harmed the fund
 - Harmful provisions included (1) floor of 8% interest annually (2) allowing deferral of monthly deposits into DROP after retirement; (3) no limit on time in DROP; (4) allowing active members to take distributions from DROP; and (5) allowing unlimited distributions from DROP
 - DROP balances grew to more than \$1.5 billion or 58% of total assets by 2016
 - As members became worried about the possible closing of access to DROP accounts, a “run-on-the-bank” occurred with more than \$600 million being withdrawn before being closed to withdrawals
 - DROP was closed to withdrawals on December 8, 2016 as a result of actions of the board and a court injunction initiated by Mayor Rawlings



DPFPS – HB3158 Actions



- In response to DPFPS financial challenges, Texas Legislature passed HB3158 in 2017 to address near-term issues and provide bridge to a long-term solution by 2025
- Change of governance – from police and fire and City Council dominated board; to 6 mayoral appointees and 5 trustees elected by the members (including 1 police officer and 1 fire fighter)
- Changes were made to employee contribution rate and City's fixed-rate contributions, and provided 7 years of "floor" for City's contributions
 - Employee contribution rate on average had been 6.5% prior to 2017, and increased to 13.5% as result of HB3158
 - City contribution rate on average had been approximately 30.5%* prior to 2017, and increased to 34.5% of pay plus additional \$13 million annual contribution for 7 years (\$91 million)



*Note: Prior to 2017, City contribution was based on more pay categories.

DPFPS – HB3158 Actions



- Future benefits were reduced for active employees, retirees, and beneficiaries (see appendix for DPFPS benefits)
 - Prior to 2017, DROP accounts had floor of 8% interest annually regardless of actual earnings
 - Prior to 2017, COLA was 4% every year
 - Since 2017, all COLA suspended until DPFPS is stabilized and funding is 70%
- HB3158 reduced the unfunded liability by \$1 billion and increased the funding ratio to 49% with full funding projected for 44 years or about 2061



DPFPS – Independent Actuary



- HB3158 recognized that further efforts would be necessary and mandated an independent actuarial analysis and plan changes be submitted to PRB by November 1, 2024
- Cheiron was selected by PRB and is under-contract with DPFPS as independent actuary (final report due to PRB by October 1, 2024)
- Cheiron made three recommendations:
 1. City's fixed rate contribution needs to transition to an Actuarially Determined Contribution (ADC) that adjusts annually as circumstances change
 - Satisfies HB3158 requirements and accomplishes PRB requirements to be fully-funded in 30-years
 2. Reduce uniform employee contribution rates as funding improves
 - Increases City's cost and does not help achieve full-funding in 30-years
 3. Provide some COLA earlier than HB3158 allows
 - Adds to unfunded liability and increases City's cost, does not help achieve full-funding in 30-years, and goes against provisions of HB3158



DPFPS – PRB Requirements



- PRB requires a Funding Soundness Restoration Plan that will achieve full-funding within 30-years
 - Cheiron's first recommendation is focused on achieving full-funding in 30-years
 - Staff is fully committed to complying with PRB requirement
- PRB does not require the City to reduce employee contribution rate and does not require changes to current COLA methodology
 - Cheiron's second and third recommendation address these areas which are not required by PRB
 - If City chooses to address either of these two recommendations, it is above and beyond what PRB requires



DPFPS – Study Group



- Study Group consisting of local financial experts provided analysis and made three recommendations
 1. Additional fixed contributions
 - City would make contributions in addition to its current annual contributions of 34.5% of regular pay plus \$13 million
 - City's additional contribution amounts would begin with fixed incremental payments that increase by \$20 million per year over the first three years of the plan period (\$20 million in FY25, \$40 million in FY26, and \$60 million in FY27)
 2. Actuarial Determined Contributions (ADC)
 - Beginning in FY28, the City's fixed-rate would be changed to an ADC to achieve full-funding within the required 30-year timeframe
 - ADC should be subject to guardrails to provide the City with greater budget predictability
 - COLA should be provided once DPFPS is 70% funded in compliance with HB3158 limitations
 3. Additional funding by monetizing assets
 - City should begin exploring opportunities to monetize existing assets for the benefit of DPFPS
 - By monetizing assets within the first three years, future contribution cost will be reduced
 - City should work with private-sector firms to maximize value of assets



DPFPS – City Staff Recommendations

Presented to Ad Hoc Committee on May 23, 2024



- ADC methodology with five-year step-up
 - Five-year step up allows City to better manage impact on budget and other needs/priorities of the City
 - Satisfies HB3158 requirements and accomplishes PRB requirements to be fully-funded in 30-years
- No change to employee contribution rates
- Continue compliance with HB3158 that requires 70% funding before ad hoc simple COLA is available
 - HB3158 COLA methodology depends on investment returns, not inflation and consists of five-year average return, minus 5%, with maximum of 4% COLA
 - Modify COLA methodology from being based on rate of return to methodology to be based on CPI not to exceed 1.5%*
 - No cost change to current actuarial modeling
 - Increase COLA to not to exceed 3% contingent on either lump sum contribution or additional revenue stream from the City*



*Note: May require legislative change.

DPFPS – City Staff Recommendations

Presented to Ad Hoc Committee on May 23, 2024



- Offer supplemental pay to bridge 2025 to 2046 (forecast 70% funding threshold)
 - 1% increase added to retiree base in 2025
 - Additional 1% per year as stipend contingent on DPFPS positive returns (not added to base)
- Strengthen City oversight
- Initiate efforts to realize lump sum contribution and/or on-going revenue stream
- Continue work with DPFPS staff towards consensus on plan



DPFPS – Comparison of Recommendations



| Components of Recommendation | City Staff Recommendation | DPFPS Staff Recommendation |
|--|---|---|
| <p>HB3158 – Statutorily required to comply with PRB requirements and achieve full-funding in 30-years</p> | <ul style="list-style-type: none"> • ADC with 5-year step-up (achieves full-funding in 30-years) • Cost - \$11.06 billion over 30-years | <ul style="list-style-type: none"> • ADC with 3-year step-up (achieves full-funding in 30-years) • Cost - \$10.97 billion over 30-years |
| <p>HB3158 COLA – Ad Hoc COLA contingent on being 70% funded with methodology of five-year average rate of return minus 5%, not to exceed 4% (actuarial analysis assumes 1.5% COLA)</p> | <ul style="list-style-type: none"> • Modify current COLA based on CPI not to exceed 1.5% (remains Ad Hoc COLA) • Cost – no additional cost <p>Note: Future opportunity to increase COLA based on CPI not to exceed 3.0% contingent on additional City funding</p> | <ul style="list-style-type: none"> • Modify current COLA to 1.5% automatic • New COLA based on 70% Purchasing Power (Cheiron) • Cost – adds \$412.5 million to City cost |
| <p>Supplemental pay to bridge period until 70% funded (not required)</p> | <ul style="list-style-type: none"> • Supplemental pay - 1% increase to pension base in 2025 • Supplemental pay - 1% per year stipend 2026 until 70% funded contingent on positive return • Cost – adds \$136 million to City’s cost | <ul style="list-style-type: none"> • Supplemental Pay which increases in pay each year (\$5 x year of service x year retired since 2017) • Cost – adds \$233.2 million to City’s cost |



DPFPS – Cost Comparison



- City will contribute approximately \$11.2 billion over 30-year period
- DPFPS recommended changes will require City to contribute over \$11.6 billion over 30-years
- DPFPS recommendation costs \$419 million more over 30-year period than recommended by City staff

| | DPFP Staff Recommendation | Year over Year Increase | City Staff Recommendation | Year over Year Increase | Annual Variance - City & DPFP Recommendations |
|-------|---------------------------|-------------------------|---------------------------|-------------------------|---|
| 2024 | \$ 184,000,000 | | \$ 184,000,000 | | \$ - |
| 2025 | \$ 215,433,000 | \$ 31,433,000 | \$ 202,509,000 | \$ 18,509,000 | \$ 12,924,000 |
| 2026 | \$ 247,449,000 | \$ 32,016,000 | \$ 221,214,000 | \$ 18,705,000 | \$ 26,235,000 |
| 2027 | \$ 280,885,000 | \$ 33,436,000 | \$ 240,683,000 | \$ 19,469,000 | \$ 40,202,000 |
| 2028 | \$ 286,316,000 | \$ 5,431,000 | \$ 261,176,000 | \$ 20,493,000 | \$ 25,140,000 |
| 2029 | \$ 291,926,000 | \$ 5,610,000 | \$ 282,632,000 | \$ 21,456,000 | \$ 9,294,000 |
| 2030 | \$ 297,706,000 | \$ 5,780,000 | \$ 288,274,000 | \$ 5,642,000 | \$ 9,432,000 |
| 2031 | \$ 304,579,000 | \$ 6,873,000 | \$ 294,993,000 | \$ 6,719,000 | \$ 9,586,000 |
| 2032 | \$ 311,599,000 | \$ 7,020,000 | \$ 301,867,000 | \$ 6,874,000 | \$ 9,732,000 |
| 2033 | \$ 318,876,000 | \$ 7,277,000 | \$ 308,971,000 | \$ 7,104,000 | \$ 9,905,000 |
| 2034 | \$ 326,342,000 | \$ 7,466,000 | \$ 316,262,000 | \$ 7,291,000 | \$ 10,080,000 |
| 2035 | \$ 334,018,000 | \$ 7,676,000 | \$ 323,752,000 | \$ 7,490,000 | \$ 10,266,000 |
| 2036 | \$ 341,937,000 | \$ 7,919,000 | \$ 331,457,000 | \$ 7,705,000 | \$ 10,480,000 |
| 2037 | \$ 350,083,000 | \$ 8,146,000 | \$ 339,379,000 | \$ 7,922,000 | \$ 10,704,000 |
| 2038 | \$ 358,397,000 | \$ 8,314,000 | \$ 347,471,000 | \$ 8,092,000 | \$ 10,926,000 |
| 2039 | \$ 366,956,000 | \$ 8,559,000 | \$ 355,791,000 | \$ 8,320,000 | \$ 11,165,000 |
| 2040 | \$ 375,723,000 | \$ 8,767,000 | \$ 364,322,000 | \$ 8,531,000 | \$ 11,401,000 |
| 2041 | \$ 384,807,000 | \$ 9,084,000 | \$ 373,168,000 | \$ 8,846,000 | \$ 11,639,000 |
| 2042 | \$ 394,230,000 | \$ 9,423,000 | \$ 382,337,000 | \$ 9,169,000 | \$ 11,893,000 |
| 2043 | \$ 403,850,000 | \$ 9,620,000 | \$ 391,694,000 | \$ 9,357,000 | \$ 12,156,000 |
| 2044 | \$ 413,855,000 | \$ 10,005,000 | \$ 401,422,000 | \$ 9,728,000 | \$ 12,433,000 |
| 2045 | \$ 424,215,000 | \$ 10,360,000 | \$ 411,491,000 | \$ 10,069,000 | \$ 12,724,000 |
| 2046 | \$ 434,920,000 | \$ 10,705,000 | \$ 421,896,000 | \$ 10,405,000 | \$ 13,024,000 |
| 2047 | \$ 445,792,000 | \$ 10,872,000 | \$ 432,443,000 | \$ 10,547,000 | \$ 13,349,000 |
| 2048 | \$ 456,938,000 | \$ 11,146,000 | \$ 443,254,000 | \$ 10,811,000 | \$ 13,684,000 |
| 2049 | \$ 468,361,000 | \$ 11,423,000 | \$ 454,336,000 | \$ 11,082,000 | \$ 14,025,000 |
| 2050 | \$ 480,070,000 | \$ 11,709,000 | \$ 465,697,000 | \$ 11,361,000 | \$ 14,373,000 |
| 2051 | \$ 492,073,000 | \$ 12,003,000 | \$ 477,337,000 | \$ 11,640,000 | \$ 14,736,000 |
| 2052 | \$ 504,374,000 | \$ 12,301,000 | \$ 489,272,000 | \$ 11,935,000 | \$ 15,102,000 |
| 2053 | \$ 516,983,000 | \$ 12,609,000 | \$ 501,503,000 | \$ 12,231,000 | \$ 15,480,000 |
| 2054 | \$ 529,908,000 | \$ 12,925,000 | \$ 514,041,000 | \$ 12,538,000 | \$ 15,867,000 |
| 2055 | \$ 72,072,000 | \$ (457,836,000) | \$ 71,007,000 | \$ (443,034,000) | \$ 1,065,000 |
| Total | \$ 11,614,673,000 | | \$ 11,195,651,000 | | \$ 419,022,000 |





Budget Impact



General Fund Budget Impact (In Million Dollars)



| | FY25 | FY26 | FY27 | FY28 |
|--|------------------|------------------|------------------|------------------|
| GF Revenues | \$1,914.6 | \$1,995.3 | \$2,076.5 | \$2,160.5 |
| Expenses (salaries, supplies, contracts, etc.) | 1,704.0 | 1,758.9 | 1,815.1 | 1,873.6 |
| DPFPS Pension Expense | 202.5 | 221.2 | 240.7 | 261.2 |
| ERF Pension Expense* | 48.1 | 53.3 | 58.0 | 62.8 |
| GF Expenses | 1,954.6 | 2,033.4 | 2,113.8 | 2,197.6 |
| Surplus/(Shortfall) | (\$40.0) | (\$38.1) | (\$37.3) | (\$37.1) |

*ERF expense listed in table is General Fund only and does not include Enterprise Fund, Internal Service Fund, or Debt Service contribution. See slide 12 for all City cost.





Additional Oversight



Additional Oversight Recommendation



- Additional oversight will ensure City can manage pension contribution increases that become a liability of City – examples include:
 - In addition to Board approval, City approval required for items that substantially increase City's liability including changes to benefits, changes to actuarial assumptions such as discount rate, settling lawsuits, etc.
 - In any year, City contributions (in excess of the baseline 30-year UAL schedule) exceeding +/-5% of payroll from baseline 30-year projection of Normal Cost will be layered and amortized within the ADC model
 - Annually, DPFP and City will separately calculate ADC, and City will make contributions according to DPFP calculation unless a 2% or greater variance exists in which case an average will be used if not resolved through a reconciliation period





Summary of Recommendations and Next Steps



Summary of Recommendations



ERF

- Remove 36% contribution cap currently in Chapter 40-A of Dallas City Code which limits funding going into ERF
- Implement ADC with five-year step-up
- Increase Tier A contribution rate from 13.32% to 14.0%, and maintain contribution rate for Tier B employees at 13.32%
- No change to benefit structure
- Strengthen City oversight

DPFPS

- Implement ADC with five-year step-up
- No change to employee contribution rates
- Continue compliance with HB3158 that requires 70% funding before COLA is available
 - Modify COLA methodology from being based on rate of return to methodology to be based on CPI not to exceed 1.5%
- Offer supplemental pay to bridge 2025 to 2046 (forecast 70% funding threshold)
 - 1% increase added to retiree base in 2025
 - Additional 1% per year as stipend contingent on DPFPS positive returns (not added to base)
- Strengthen City oversight
- Initiate efforts to realize lump sum contribution and/or on-going revenue stream
 - Increase COLA to not to exceed 3% contingent on either lump sum contribution or additional revenue stream from the City



Next Steps



- June 18 – Receive feedback from City Council during pension presentation and discussion
- July – Continue discussion with DPFPS staff
 - Based on June 13, 2024 DPFPS Board discussion, they desire to continue discussion with City
- August 7 – City Council briefing with City staff’s final recommendation for Funding Soundness Restoration Plans (FSRP) for both ERF and DPFPS
- August 14 – City Council action to approve FSRP for DPFPS
- August 14 – City Council action to approve FSRP for ERF and call November 2024 election for changes to Chapter 40-A if necessary





City of Dallas

**Dallas Police and Fire
Pension System and
Employee Retirement Fund:
Funding Soundness
Restoration Plan Update
and Consideration of
Recommendations**

June 18, 2024

Jack Ireland
Chief Financial Officer



Appendix



Actuarial Determined Contribution (ADC) Core Elements



Element #1 – Unfunded Actuarial Liability (UAL)

- Amortize current unfunded liability over 30 years
- Include expected future administrative expenses
- Amortization schedule will be fixed and not change
- Future lump sum contributions will reduce UAL amortization schedule

Element #2 – Normal Cost

- Ongoing City normal cost
- Reflects value of additional accrued liability of active employees in the plan
- Normal Cost can be forecasted for 30 years, but will be affected by pay increases and changes to other actuarial assumptions, such as Discount Rate

Element #3 – Additional Layers for Gains/Losses

- As asset or liability experience deviates from assumptions, or assumptions are changed, new gains or losses emerge
- New amortization layers are added for emerging gains or losses
- Will be amortized to 2055, or over 20 years beginning in 2036
- Cost of additional layers are not yet known





DPFPS Scenarios and Benefits



DPFPS – ADC Scenarios

Cheiron said all scenarios are reasonable and will be acceptable to PRB.



| Fiscal Year | Cheiron Revised Traditional ADC 3/29/24 | | Cheiron Revised 3-Year Step-Up & Step-Down 4/2/24 | | Cheiron Revised 5-Year Step-Up & Step-Down 4/2/24 | | DPFP Staff Recommendation | | City Staff Recommendation | |
|-------------|---|-------------------------|---|-------------------------|---|-------------------------|---------------------------------------|-------------------------|---------------------------------------|-------------------------|
| | | Year over Year Variance | | Year over Year Variance | | Year over Year Variance | Cheiron Revised 3-Year Step-Up 4/2/24 | Year over Year Variance | Cheiron Revised 5-Year Step-Up 4/2/24 | Year over Year Variance |
| 2024 | \$ 184,733,285 | | \$ 184,733,285 | | \$ 184,733,285 | | \$ 184,733,285 | | \$ 184,733,285 | |
| 2025 | \$ 251,429,000 | \$ 66,695,715 | \$ 211,545,000 | \$ 26,811,715 | \$ 203,084,000 | \$ 18,350,715 | \$ 210,645,000 | \$ 25,911,715 | \$ 202,120,000 | \$ 17,386,715 |
| 2026 | \$ 256,948,000 | \$ 5,519,000 | \$ 238,703,000 | \$ 27,158,000 | \$ 222,019,000 | \$ 18,935,000 | \$ 236,859,000 | \$ 26,214,000 | \$ 220,042,000 | \$ 17,922,000 |
| 2027 | \$ 262,749,000 | \$ 5,801,000 | \$ 267,042,000 | \$ 28,339,000 | \$ 241,728,000 | \$ 19,709,000 | \$ 264,207,000 | \$ 27,348,000 | \$ 238,689,000 | \$ 18,647,000 |
| 2028 | \$ 268,804,000 | \$ 6,055,000 | \$ 272,208,000 | \$ 5,166,000 | \$ 262,469,000 | \$ 20,741,000 | \$ 269,303,000 | \$ 5,096,000 | \$ 258,315,000 | \$ 19,626,000 |
| 2029 | \$ 275,029,000 | \$ 6,225,000 | \$ 277,556,000 | \$ 5,348,000 | \$ 284,184,000 | \$ 21,715,000 | \$ 274,577,000 | \$ 5,274,000 | \$ 278,863,000 | \$ 20,548,000 |
| 2030 | \$ 281,433,000 | \$ 6,404,000 | \$ 283,095,000 | \$ 5,539,000 | \$ 289,889,000 | \$ 5,705,000 | \$ 280,042,000 | \$ 5,465,000 | \$ 284,434,000 | \$ 5,571,000 |
| 2031 | \$ 288,000,000 | \$ 6,567,000 | \$ 289,703,000 | \$ 6,608,000 | \$ 296,667,000 | \$ 6,778,000 | \$ 286,574,000 | \$ 6,532,000 | \$ 291,076,000 | \$ 6,642,000 |
| 2032 | \$ 294,722,000 | \$ 6,722,000 | \$ 296,467,000 | \$ 6,764,000 | \$ 303,605,000 | \$ 6,938,000 | \$ 293,260,000 | \$ 6,686,000 | \$ 297,875,000 | \$ 6,799,000 |
| 2033 | \$ 301,667,000 | \$ 6,945,000 | \$ 303,456,000 | \$ 6,989,000 | \$ 310,772,000 | \$ 7,167,000 | \$ 300,168,000 | \$ 6,908,000 | \$ 304,899,000 | \$ 7,024,000 |
| 2034 | \$ 308,796,000 | \$ 7,129,000 | \$ 310,630,000 | \$ 7,174,000 | \$ 318,129,000 | \$ 7,357,000 | \$ 307,260,000 | \$ 7,092,000 | \$ 312,109,000 | \$ 7,210,000 |
| 2035 | \$ 316,113,000 | \$ 7,317,000 | \$ 317,993,000 | \$ 7,363,000 | \$ 325,680,000 | \$ 7,551,000 | \$ 314,539,000 | \$ 7,279,000 | \$ 319,509,000 | \$ 7,400,000 |
| 2036 | \$ 323,647,000 | \$ 7,534,000 | \$ 325,573,000 | \$ 7,580,000 | \$ 333,452,000 | \$ 7,772,000 | \$ 322,033,000 | \$ 7,494,000 | \$ 327,127,000 | \$ 7,618,000 |
| 2037 | \$ 331,388,000 | \$ 7,741,000 | \$ 333,363,000 | \$ 7,790,000 | \$ 341,439,000 | \$ 7,987,000 | \$ 329,734,000 | \$ 7,701,000 | \$ 334,955,000 | \$ 7,828,000 |
| 2038 | \$ 339,295,000 | \$ 7,907,000 | \$ 341,319,000 | \$ 7,956,000 | \$ 349,597,000 | \$ 8,158,000 | \$ 337,600,000 | \$ 7,866,000 | \$ 342,952,000 | \$ 7,997,000 |
| 2039 | \$ 347,425,000 | \$ 8,130,000 | \$ 349,500,000 | \$ 8,181,000 | \$ 357,984,000 | \$ 8,387,000 | \$ 345,687,000 | \$ 8,087,000 | \$ 351,173,000 | \$ 8,221,000 |
| 2040 | \$ 355,761,000 | \$ 8,336,000 | \$ 357,887,000 | \$ 8,387,000 | \$ 366,584,000 | \$ 8,600,000 | \$ 353,980,000 | \$ 8,293,000 | \$ 359,602,000 | \$ 8,429,000 |
| 2041 | \$ 364,405,000 | \$ 8,644,000 | \$ 366,585,000 | \$ 8,698,000 | \$ 375,500,000 | \$ 8,916,000 | \$ 362,580,000 | \$ 8,600,000 | \$ 368,343,000 | \$ 8,741,000 |
| 2042 | \$ 373,366,000 | \$ 8,961,000 | \$ 375,600,000 | \$ 9,015,000 | \$ 384,738,000 | \$ 9,238,000 | \$ 371,495,000 | \$ 8,915,000 | \$ 377,402,000 | \$ 9,059,000 |
| 2043 | \$ 382,512,000 | \$ 9,146,000 | \$ 384,802,000 | \$ 9,202,000 | \$ 394,168,000 | \$ 9,430,000 | \$ 380,594,000 | \$ 9,099,000 | \$ 386,649,000 | \$ 9,247,000 |
| 2044 | \$ 392,021,000 | \$ 9,509,000 | \$ 394,369,000 | \$ 9,567,000 | \$ 403,968,000 | \$ 9,800,000 | \$ 390,055,000 | \$ 9,461,000 | \$ 396,261,000 | \$ 9,612,000 |
| 2045 | \$ 401,862,000 | \$ 9,841,000 | \$ 404,268,000 | \$ 9,899,000 | \$ 414,108,000 | \$ 10,140,000 | \$ 399,847,000 | \$ 9,792,000 | \$ 406,208,000 | \$ 9,947,000 |
| 2046 | \$ 412,031,000 | \$ 10,169,000 | \$ 414,497,000 | \$ 10,229,000 | \$ 424,583,000 | \$ 10,475,000 | \$ 409,965,000 | \$ 10,118,000 | \$ 416,486,000 | \$ 10,278,000 |
| 2047 | \$ 422,331,000 | \$ 10,300,000 | \$ 424,859,000 | \$ 10,362,000 | \$ 435,197,000 | \$ 10,614,000 | \$ 420,214,000 | \$ 10,249,000 | \$ 426,898,000 | \$ 10,412,000 |
| 2048 | \$ 432,889,000 | \$ 10,558,000 | \$ 435,480,000 | \$ 10,621,000 | \$ 446,076,000 | \$ 10,879,000 | \$ 430,719,000 | \$ 10,505,000 | \$ 437,569,000 | \$ 10,671,000 |
| 2049 | \$ 443,712,000 | \$ 10,823,000 | \$ 446,368,000 | \$ 10,888,000 | \$ 457,229,000 | \$ 11,153,000 | \$ 441,488,000 | \$ 10,769,000 | \$ 448,510,000 | \$ 10,941,000 |
| 2050 | \$ 454,805,000 | \$ 11,093,000 | \$ 457,527,000 | \$ 11,159,000 | \$ 440,760,000 | \$ (16,469,000) | \$ 452,525,000 | \$ 11,037,000 | \$ 459,723,000 | \$ 11,213,000 |
| 2051 | \$ 466,174,000 | \$ 11,369,000 | \$ 468,965,000 | \$ 11,438,000 | \$ 423,180,000 | \$ (17,580,000) | \$ 463,838,000 | \$ 11,313,000 | \$ 471,215,000 | \$ 11,492,000 |
| 2052 | \$ 477,829,000 | \$ 11,655,000 | \$ 436,151,000 | \$ (32,814,000) | \$ 404,446,000 | \$ (18,734,000) | \$ 475,433,000 | \$ 11,595,000 | \$ 482,995,000 | \$ 11,780,000 |
| 2053 | \$ 489,775,000 | \$ 11,946,000 | \$ 401,403,000 | \$ (34,748,000) | \$ 384,512,000 | \$ (19,934,000) | \$ 487,320,000 | \$ 11,887,000 | \$ 495,070,000 | \$ 12,075,000 |
| 2054 | \$ 502,019,000 | \$ 12,244,000 | \$ 364,645,000 | \$ (36,758,000) | \$ 363,328,000 | \$ (21,184,000) | \$ 499,503,000 | \$ 12,183,000 | \$ 507,447,000 | \$ 12,377,000 |
| 2055 | \$ 71,007,000 | \$ (431,012,000) | \$ 71,007,000 | \$ (293,638,000) | \$ 71,007,000 | \$ (292,321,000) | \$ 71,007,000 | \$ (428,496,000) | \$ 71,007,000 | \$ (436,440,000) |

When comparing the 5-year step-up and 3-year step-up scenarios, City staff's recommendation is lower annual City contributions in FY25, FY26, FY27, and FY28, but higher contributions beginning in FY29.



DPFPS – Uniform Employee Contributions



- Uniform employees and City both make contributions into DPFPS to support pension benefits
- As result of HB3158, contribution rates increased including required contributions by City
- Once DPFPS is fully-funded, employee contribution rate is scheduled to decrease to 50% of normal cost
- Cheiron suggested as funding improves, grade employee rate down to 50% of normal cost beginning in 2039, and shift more cost to City sooner
- City staff recommends no change to employee contribution rates or HB3158 criteria

| Year (1/1) | City Contribution Rate | Employee Contribution Rate |
|------------|------------------------|----------------------------|
| 2003 | 29% | 6% |
| 2004 | 31% | 7% |
| 2005 | 31% | 6% |
| 2006 | 31% | 6% |
| 2007 | 32% | 6% |
| 2008 | 32% | 6% |
| 2009 | 31% | 6% |
| 2010 | 29% | 5% |
| 2011 | 28% | 5% |
| 2012 | 30% | 6% |
| 2013 | 29% | 7% |
| 2014 | 29% | 8% |
| 2015 | 30% | 7% |
| 2016 | 33% | 7% |
| 2017 | 35% | 9% |
| 2018 | 43% | 14% |
| 2019 | 43% | 14% |
| 2020 | 41% | 14% |
| 2021 | 39% | 14% |
| 2022 | 39% | 14% |



Note: HB3158 established required contribution amounts for the City for FY18 through FY24. The percentage has fluctuated based on salary increases and hiring while still fulfilling the HB3158 required contribution amounts.

DPFPS – Cost of Living Adjustment (COLA) Background



- Prior to HB3158
 - Automatic 4% Simple COLA if hired prior to January 1, 2007
 - Ad Hoc Simple COLA up to 4% if hired after December 31, 2006
 - DROP accounts had guaranteed rate of return, but were not included in COLA calculations
- After HB3158
 - COLA is subject to Board approval and can only be granted if funded percentage greater than 70%
 - 2023 valuation projects first COLA in 2073
 - With revised funding plan, first COLA expected to be paid about 2046
 - Ad Hoc Simple COLA that depends on investment returns (not inflation)
 - 5-year average return minus 5%
 - Maximum of 4%
- Although COLA is ad hoc and not considered substantially automatic, current assumption of annual 1.5% COLA beginning in 2046 adds \$128 million to initial unfunded actuarial liability and increases City’s annual cost

| Year (1/1) | Rate of Return on Market Value of Assets | COLA |
|------------|--|-------|
| 2001 | -7.8% | 4.00% |
| 2002 | -12.3% | 4.00% |
| 2003 | 31.7% | 4.00% |
| 2004 | 14.0% | 4.00% |
| 2005 | 10.8% | 4.00% |
| 2006 | 14.6% | 4.00% |
| 2007 | 8.9% | 4.00% |
| 2008 | -24.8% | 4.00% |
| 2009 | 13.8% | 4.00% |
| 2010 | 10.7% | 4.00% |
| 2011 | -1.8% | 4.00% |
| 2012 | 9.9% | 4.00% |
| 2013 | 7.7% | 4.00% |
| 2014 | -5.4% | 4.00% |
| 2015 | -8.5% | 4.00% |
| 2016 | 6.8% | 4.00% |
| 2017 | 4.7% | 0.00% |
| 2018 | 2.1% | 0.00% |
| 2019 | 6.3% | 0.00% |
| 2020 | -0.4% | 0.00% |
| 2021 | 17.0% | 0.00% |
| 2022 | -11.5% | 0.00% |



DPFPS – HB3158 Actions



- HB3158 enacted in 2017 impacted existing employees, retirees, beneficiaries, and future employees – major changes are summarized below

| Summary Plan Provisions Before and After HB 3158 (2017) | | | |
|---|-------------------------|--|---|
| | Plan Provision | Plans Before HB 3158 (prior to 9-1-2017) | Plans After HB 3158 (after 8-31-2017) |
| 1 | Normal Retirement Age | Start date before 3/1/11: 50; Start date on or after 3/1/11: 55 | All participants: 58 |
| 2 | Benefit Multiplier | Start date before 3/1/11: 3% per year Start date on or after 3/1/11: 2% first 20 years, 2.5% next 5 years, 3% thereafter | All participants: 2.5% for all service after 8-31-2017 Note: further reductions in the multiplier apply to all types of retirement. Start date before 3/1/11: 3% for service prior to 9/1/17 Start date on or after 3/1/11: 2.5% from start date |
| 3 | Average Computation Pay | State date before 3/1/11: 36-month averaging period Start date on or after 3/1/11: 60-month averaging period | All participants: 60-month averaging period for service after 8/31/2017 Start date before 3/1/2011: 36-month averaging period for service prior to 9/1/17 State date on of after 3/1/2011: 60-month averaging period from start date |
| 4 | Maximum Benefit | Start date before 3/1/11: 96% of computation pay Start date on or after 3/1/2011: 90% of average computation pay | All participants: 90% of computation pay |



DPFPS – HB3158 Changes



- Continuation of major changes are summarized below

| Summary Plan Provisions Before and After HB 3158 (2017) | | | |
|---|------------------------|--|--|
| | Plan Provision | Plans Before HB 3158 (prior to 9-1-2017) | Plans After HB 3158 (after 8-31-2017) |
| 5 | COLA | <p>Start date before 1/1/07 : 4.0% simple COLA on base benefit</p> <p>Start date on or after 1/1/07 : Ad hoc COLA not to exceed 4.0% simple COLA on base benefit</p> | <p>All participants: Ad hoc COLA not to exceed 4.0% simple COLA on base benefit; granting of COLA dependent on reaching certain financial benchmarks. Ad hoc COLA may not be granted until funding reaches 70% and is then subject to Board approval.</p> |
| 6 | Supplemental Benefit | <p>Start date prior to 3/1/2011: Greater of 3% of base benefit or \$75 per month; applied to members benefit at age 55 if requirements met</p> | <p>All participants: Eliminated prospectively; frozen for those for whom the supplement was already granted.</p> |
| 7 | DROP | Various provisions | <p>All participants: significant modifications to every aspect of DROP eliminating the value of DROP.</p> |
| 8 | Employee Contributions | 8.5% for non-DROP active participants; 4.0% for DROP active participants | <p>All participants: Increase to 13.5% effective 9/1/17</p> |





ERF Benefits





DALLAS EMPLOYEES' RETIREMENT FUND BENEFIT CHANGES FOR NEW HIRES

Preliminary Normal Cost Rate (NC%) as of 12/31/2015

20.36%

As of 12/31/2023
18.58%
(10% reduction)

Study # and Description of Benefit Modification

Decrease in
NC%

Percentage
Decrease

| Study # and Description of Benefit Modification | Decrease in NC% | Percentage Decrease |
|--|-----------------|---------------------|
| 1. Age 65 with 5 years of service Normal Retirement and | 4.90% | 24.1% |
| 2. CPI COLA, with maximum of 3.00% (valued as 2.50% COLA) | 0.62% | 3.0% |
| 3. Average Monthly Earnings period changed from 3 to 5 years | 0.62% | 3.0% |
| 4. Normal Form of payment changed to life only annuity | 1.00% | 4.9% |
| 5. Elimination of \$125 health supplement | 0.70% | 3.4% |
| 6. <u>Benefit multiplier changed from 2.75% to 2.50%</u> | <u>1.58%</u> | <u>7.8%</u> |
| 7. Combination of all prior Scenarios | 7.91% | 38.9% |

\$2.15 billion in savings through 2055

ERF - Dallas ERF Provides Two Tiers of Benefits



TIER A BENEFITS

PLAN ENTRY - By or Before December 31, 2016

MULTIPLIER - 2.75%

NORMAL RETIREMENT - Age 60

SERVICE RETIREMENT - 30 Years of Service

RULE OF 78 - Unreduced

FINAL AVERAGE PAY - Best of 3 Years
or Last 36 Months

HEALTH BENEFIT SUPPLEMENT - Max \$125

MAXIMUM RETIREE COLA - 5%

RESTRICTED PRIOR SERVICE CREDIT - No
unless Returning after Forfeiting Contributions

LIFE - Not Reduced

JOINT & HALF BENEFIT - Not Reduced

JOINT & FULL BENEFIT - Reduced

TIER B BENEFITS

PLAN ENTRY - After December 31, 2016

MULTIPLIER - 2.50%

NORMAL RETIREMENT - Age 65
with 5 Years Service

SERVICE RETIREMENT - 40 Years of Service

RULE OF 80 - Reduced Before Age 65

FINAL AVERAGE PAY - Best of 5 Years
or Last 60 Months

HEALTH BENEFIT SUPPLEMENT - None

MAXIMUM RETIREE COLA - 3%

RESTRICTED PRIOR SERVICE CREDIT - Yes

LIFE - Not Reduced

JOINT & HALF BENEFIT - Reduced

JOINT & FULL BENEFIT - Reduced

**ERF significantly
reduced
employee
benefits in 2017.**



Discount Rates and Return on Investments



Texas PRB Plans with Assets Over \$100M, Sorted by Discount Rate



| Plan | Discount Rate | Funded Ratio* | Plan | Discount Rate | Funded Ratio* | Plano Retirement Security Plan | Discount Rate | Funded Ratio* |
|---|---------------|---------------|--|---------------|---------------|--|---------------|---------------|
| El Paso Police Pension Fund | 7.75% | 81.8% | Fort Worth Employees' Retirement Fund | 7.00% | 54.8% | Houston Firefighters' Relief & Retirement Fund | 7.00% | 95.4% |
| El Paso Firemen's Pension Fund | 7.75% | 82.6% | Law Enforcement & Custodial Officer Supplemental Retirement Fund | 7.00% | 58.6% | Austin Employees' Retirement System | 6.75% | 64.1% |
| Beaumont Firemen's Relief & Retirement Fund | 7.50% | 55.4% | Houston Municipal Employees Pension System | 7.00% | 65.8% | DART Employees' Defined Benefit Retirement Plan & Trust | 6.75% | 84.5% |
| Lubbock Fire Pension Fund | 7.50% | 70.8% | Employees Retirement System of Texas | 7.00% | 68.9% | Denton Firemen's Relief & Retirement Fund | 6.75% | 88.8% |
| Texas Emergency Services Retirement System | 7.50% | 84.3% | San Antonio Metropolitan Transit Retirement Plan | 7.00% | 71.0% | Texas Municipal Retirement System | 6.75% | 89.7% |
| Texas County & District Retirement System | 7.50% | 88.6% | Lower Colorado River Authority Retirement Plan | 7.00% | 74.4% | JPS Pension Plan - Tarrant County Hospital District | 6.75% | 96.8% |
| Amarillo Firemen's Relief & Retirement Fund | 7.50% | 94.8% | University Health System Pension Plan | 7.00% | 77.0% | Plano Retirement Security Plan | 6.75% | 103.0% |
| Laredo Firefighters Retirement System | 7.40% | 59.1% | Teacher Retirement System of Texas | 7.00% | 79.0% | Retirement Plan for Citizens Medical Center | 6.75% | 115.4% |
| Austin Fire Fighters Relief & Retirement Fund | 7.30% | 86.9% | Dallas/Fort Worth Airport Board Retirement Plan | 7.00% | 84.5% | Dallas Police & Fire Pension System-Combined Plan | 6.50% | 41.1% |
| Austin Police Retirement System | 7.25% | 60.1% | Judicial Retirement System of Texas Plan Two | 7.00% | 86.2% | Houston MTA Non-Union Pension Plan | 6.25% | 64.5% |
| Dallas Employees' Retirement Fund | 7.25% | 73.3% | Dallas/Fort Worth Airport Board DPS Retirement Plan | 7.00% | 87.2% | Houston MTA Workers Union Pension Plan | 6.25% | 70.5% |
| City of El Paso Employees Retirement Trust | 7.25% | 80.9% | Houston Police Officers' Pension System | 7.00% | 87.5% | Dallas County Hospital District Retirement Income Plan | 6.00% | 73.3% |
| San Antonio Fire & Police Pension Fund | 7.25% | 88.6% | CPS Energy Pension Plan | 7.00% | 87.6% | Port of Houston Authority Retirement Plan | 6.00% | 89.4% |
| Corpus Christi Fire Fighters' Retirement System | 7.15% | 63.0% | Irving Firemen's Relief & Retirement Fund | 7.00% | 90.8% | Harris County Hospital District Pension Plan | 5.75% | 76.1% |

*Funded Ratio as of FY22

Note 1: For plan funding purposes, the Discount Rate is equal to the Long-Term Expected Rate of Return on Asset assumption.

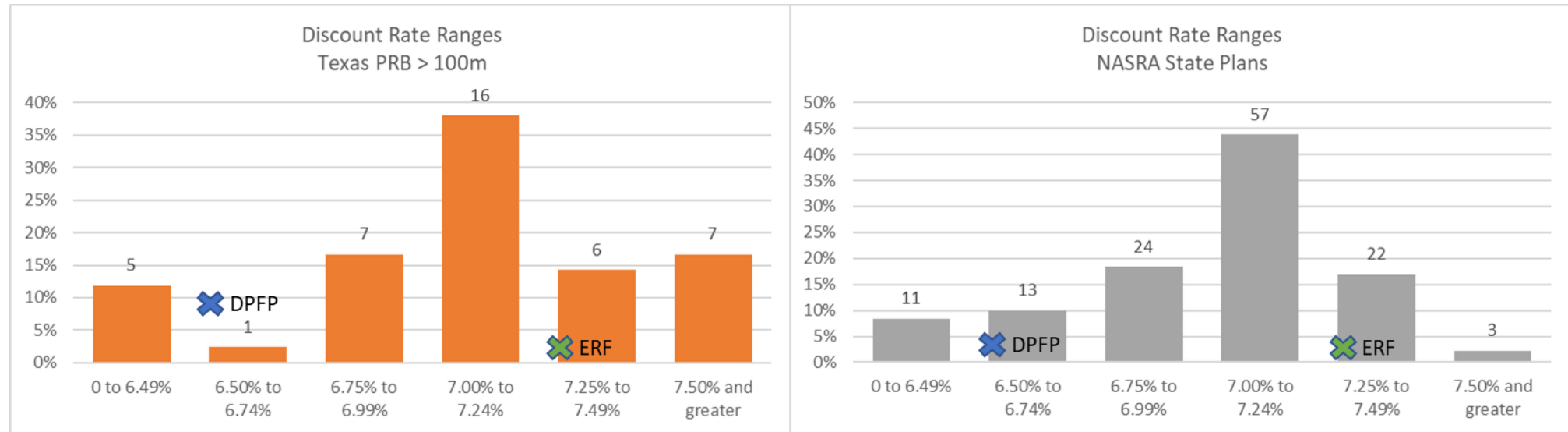
Note 2: For DPFP, 6.5% discount rate adds approximately \$450M to the Unfunded Actuarial Liability compared to a 7.25% discount rate.



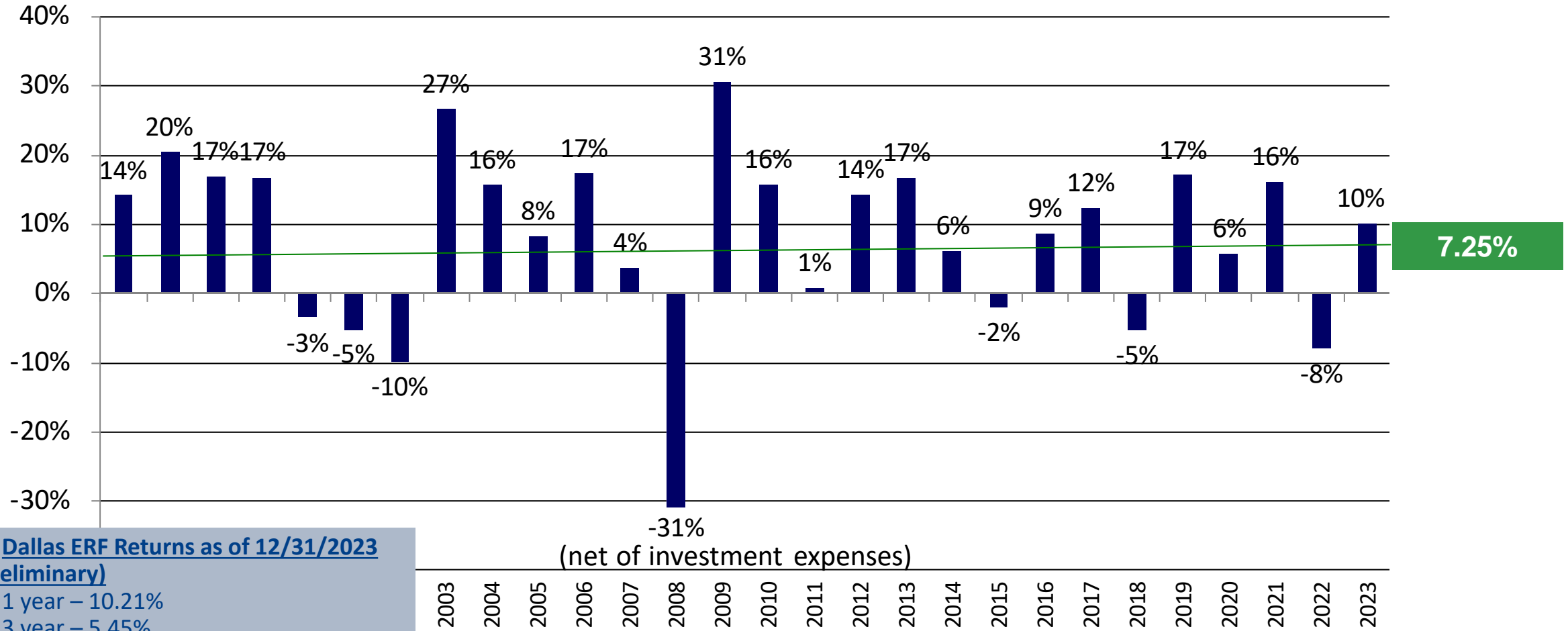


Peer Discount Rate Distribution

Out of 42 Plans in Texas with over \$100 million in Assets, DPFP has the 6th lowest Discount Rate Assumption. ERF is tied for 10th highest (with 4 other plans at 7.25%). The distribution for NASRA State Plans is similar.



ERF - Long Term Investment Performance - 25 Year History

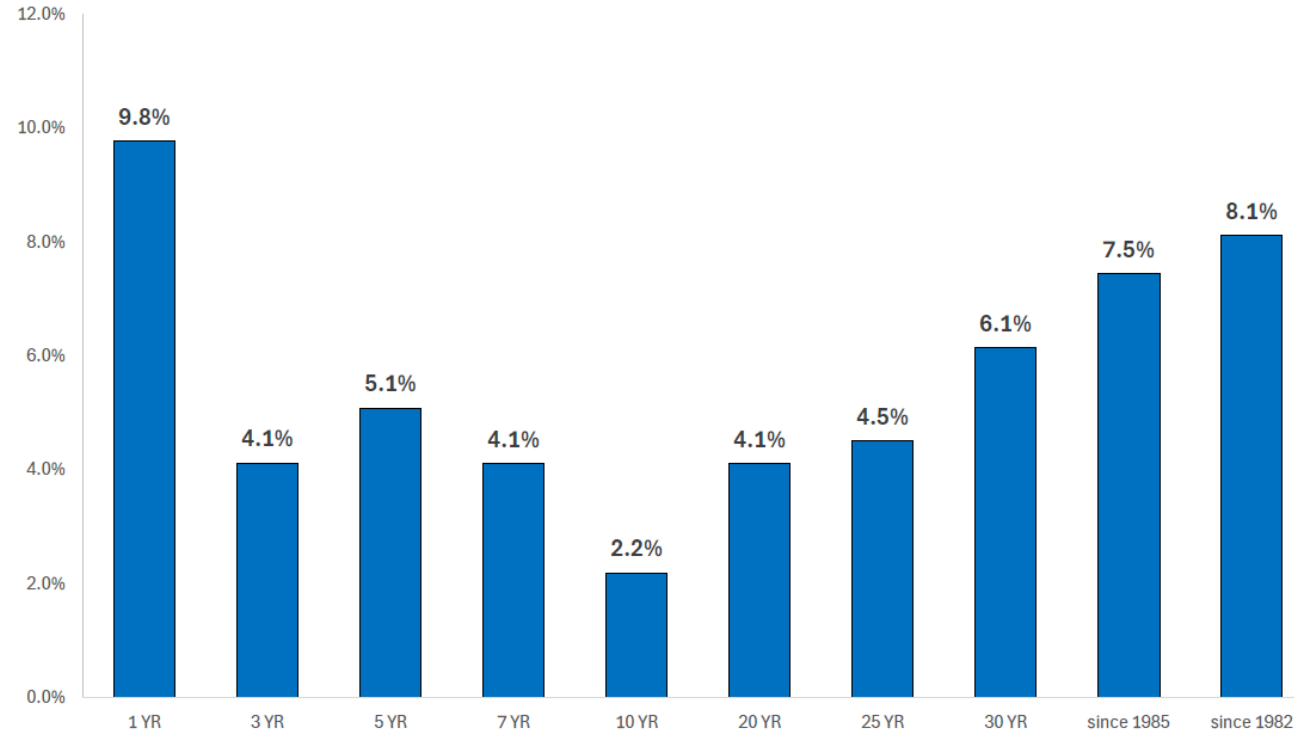


- [Dallas ERF Returns as of 12/31/2023 \(preliminary\)](#)
- 1 year – 10.21%
- 3 year – 5.45%
- 5 year – 7.72%
- 7 year – 6.65%
- Since inception (1/1/1985) – 8.70%

DPFPS – Investment Returns



DPFP Estimated Trailing Net Returns - as of 12/31/23



Source: Meketa Investment Group, Q4 223 Private Market Return estimated based on changes to NAV that have been reported to date. As is standard practice, Private Market returns are on a one-quarter lag.



DPFP and ERF vs. returns of largest Texas cities (Provided by Commerce Street Investments)



| Data as of 12/31/22 | 3-Year | 5-Year | 10-Year |
|----------------------------|--------|--------|---------|
| Dallas Police and Fire | 1.5% | 2.8% | 2.0% |
| DPFP ex Private Markets | 2.3% | 3.5% | 4.9% |
| Dallas ERF | 3.9% | 4.7% | 6.6% |
| Houston MEPS* | 13.1% | 11.1% | 10.2% |
| Houston Firefighters* | 11.0% | 9.4% | 8.7% |
| Houston Police* | 9.6% | 9.1% | 8.4% |
| Texas County & District RS | 8.3% | 7.8% | 8.3% |
| Austin Fire | 5.8% | 5.9% | 7.2% |
| San Antonio Fire & Police | 4.3% | 4.6% | 6.6% |
| Austin Police | 5.1% | 5.7% | 6.3% |
| Austin ERS | 1.9% | 3.7% | 6.0% |

Source: Texas Pension Review Board. <https://data.prb.texas.gov/plans/index.html> and <https://publicplansdata.org/public-plans-database/browse-data/>

*Plans with fiscal years ending 6/30/22

DPFP and ERF vs. national and Texas returns for similar sized funds (Provided by Commerce Street Investments)



| Data as of 12/31/22 | 3-Year | 5-Year | 10-Year |
|--------------------------|--------|--------|---------|
| Dallas Police and Fire | 1.5% | 2.8% | 2.0% |
| DPFP ex Private Markets | 2.3% | 3.5% | 4.9% |
| Dallas ERF | 3.9% | 4.7% | 6.7% |
| National Bottom Quartile | 3.8% | 4.6% | 6.6% |
| National Average | 4.6% | 5.5% | 7.1% |
| National Top Quartile | 5.8% | 6.0% | 7.7% |
| Texas Average* | 4.1% | 5.1% | 6.1% |
| Texas Top Quartile* | 4.9% | 5.8% | 7.0% |
| Texas Top Decile* | 6.7% | 6.7% | 7.7% |

Source: <https://publicplansdata.org/public-plans-database/browse-data/>

National quartile rankings provided by Meketa

*Quartile rankings only taken from Texas Plans with fiscal years ending 12/31



Additional Funding Strategies



Additional Funding Strategies for Policy Discussion



- Staff recommendations as presented will be incorporated into City's operating budget
 - Adjustments and/or reductions will be recommended through budget process for how to cover the pension recommendations
- Staff has been asked to research four additional strategies for additional City funding
 1. Monetize assets
 2. Issue Pension Obligation Bonds (POB)
 3. Shift 0.25% of sales tax rate from DART to City
 4. Increase property tax rate with voter approval (tax ratification election)



Additional Funding Strategies for Policy Discussion



1. Monetize assets

- Staff identified 10 initial properties to consider for monetization
- May to September 2024 – engage consultants to value the property and develop recommendations
- October to December 2024 – present findings to GPFM and City Council
- Beginning in January 2025 – implement direction from City Council
- Proceeds from monetization efforts would be transferred to DPFP as lump sum contributions that would reduce City's initial 30-year UAL amortization schedule and create additional financial capacity for City
- Will require change to current City resolution that directs proceeds from sale of properties to be used for major maintenance of City facilities





2. Issue Pension Obligation Bonds (POB)

- Financial capacity exists to issue \$400 million POB between 2025 and 2029 with additional financial capacity growth in future years
- Bond Counsel has been asked to confirm that voter-approval is required, and that debt service can be paid from the property tax interest and sinking fund
- Consider seeking voter-approval and issuing POB debt once certain triggers are met
 - Seeking recommendation from financial advisors on appropriate triggers
- Proceeds from POB debt issuance would be transferred to DPFP as lump sum contributions that would reduce City's initial 30-year UAL amortization schedule and create additional financial capacity for City



Additional Funding Strategies for Policy Discussion



3. Shift 0.25% of sales tax rate from DART to City

- Current sales tax rate is 8.25% with 6.25% going to the State and the 2% local option being allocated to the City (1%) and DART (1%)
- In FY23, 1% resulted in \$425.5 million for the City (0.25% equals \$106.4 million)
- Other DART member cities expressed interest in reallocation of sales tax rate from DART to their City
- Reducing the 1% allocated to DART would at a minimum require DART board approval and may require State legislative and/or voter approval
- For the City's 1% allocation to increase, voter-approval would be required
- Reallocation of 0.25% of sales tax would provide over \$100 million recurring revenue that could allow for increased contributions to DFPF



Additional Funding Strategies for Policy Discussion



4. Increase property tax rate with voter approval (tax ratification election)

- Staff will recommend a budget that increases City's contribution to DPF to ensure full-funding in 30-years in accordance with PRB requirements
- As an alternative, City Council could consider a separate budget package for additional DPF contributions that is supported by a property tax rate increase that exceeds the 3.5% cap (2019 SB2) which would require voter-approval
- November 2024 election must be called by City Council no later than August 14, 2024
- Each 1.0¢ property tax rate generates approximately \$20 million revenue
- Increased property tax rate could be recurring revenue that could allow for increased contributions to DPF

