



**City of Dallas**

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

**August 7, 2024**

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Chief Financial Officer

# Purpose



- Review pension funding requirements of Texas Pension Review Board (PRB)
- Discuss Employee Retirement Fund (ERF)
  - Funding status
  - Recommendations
  - Next steps
- Discuss Dallas Police and Fire Pension System (DPFPS)
  - Funding status
  - Recommendations
  - Additional policy considerations
  - Next Steps



# PRB Requirements



- 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.

# PRB Requirements



- 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
- HB3158 (2017) 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
- 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

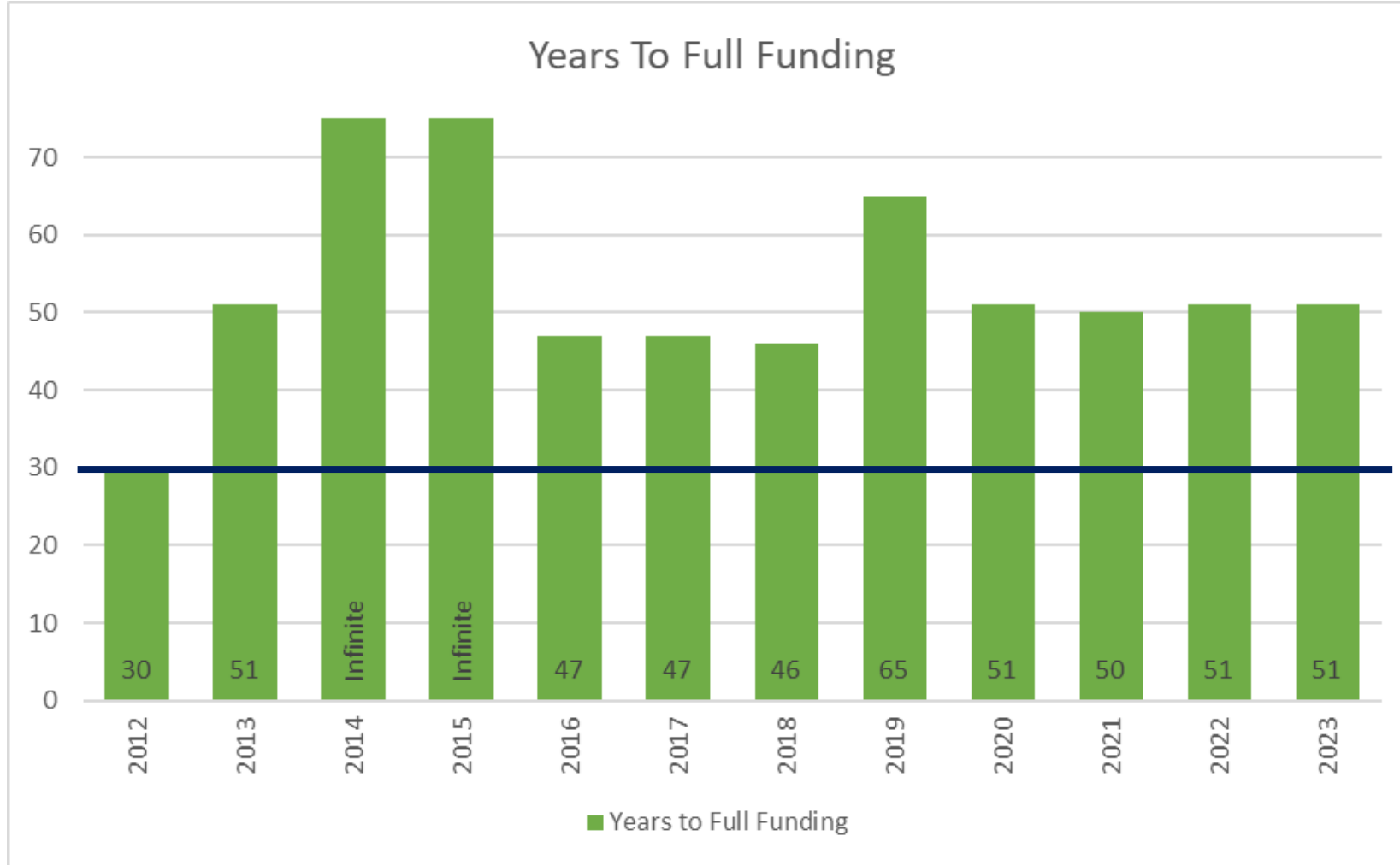




# Employee Retirement Fund (ERF)



# ERF – Funding Status



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

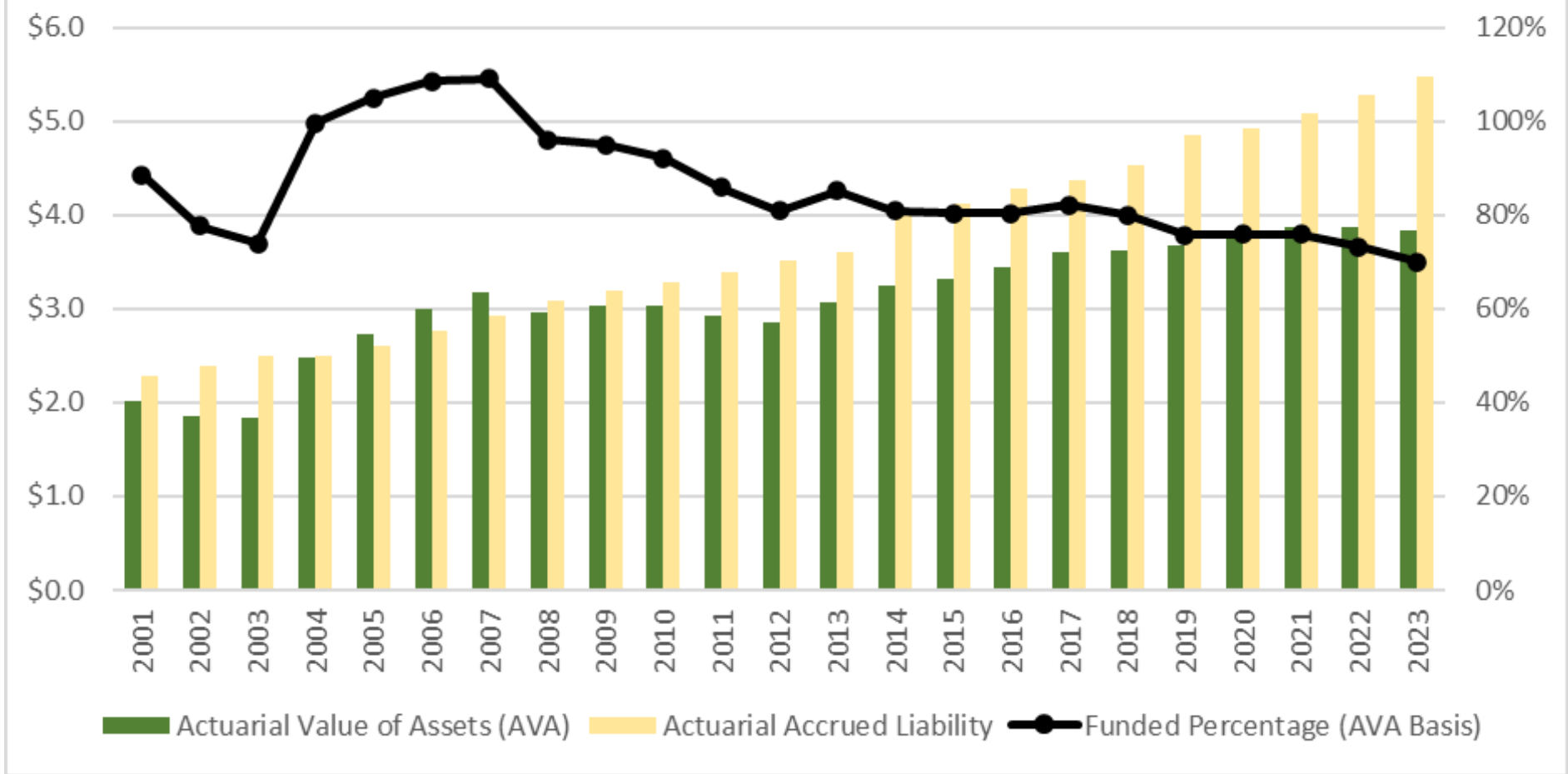
PRB requires a FSRP be submitted by September 1, 2025 that achieves full-funding within 30-year.



# ERF – Funding Status



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.

# ERF – Recommendations



- 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







- Additional oversight will ensure City can manage pension contribution increases that become a liability of City
  - Include City approval requirement for items that substantially increase City's liability including changes to benefits, changes to actuarial assumptions, settling lawsuits, etc.
  - Include guardrail of +/- 5% to mitigate unexpected year over year cost increases
  - Include process for City to review Board's annual ADC calculation, and resolve differences when a 2% or greater variance exists



# 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
  - Pension Obligation (POB) Debt Service cost is paid by property tax Debt Service fund with reimbursements from Enterprise Funds and Internal Service Funds

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
<b>Total</b>	<b>7,258.0</b>		<b>616.2</b>		<b>7,874.3</b>	



Note: City actuary Deloitte verifies calculations and amounts.

# ERF – Next Steps



- August 7 – City Council briefing
- August 14 – City Council action to approve funding plan for ERF and call an election for November 2024 for changes to Chapter 40-A
- September 11 – City Council action to approve Funding Soundness Restoration Plan to submit to Pension Review Board

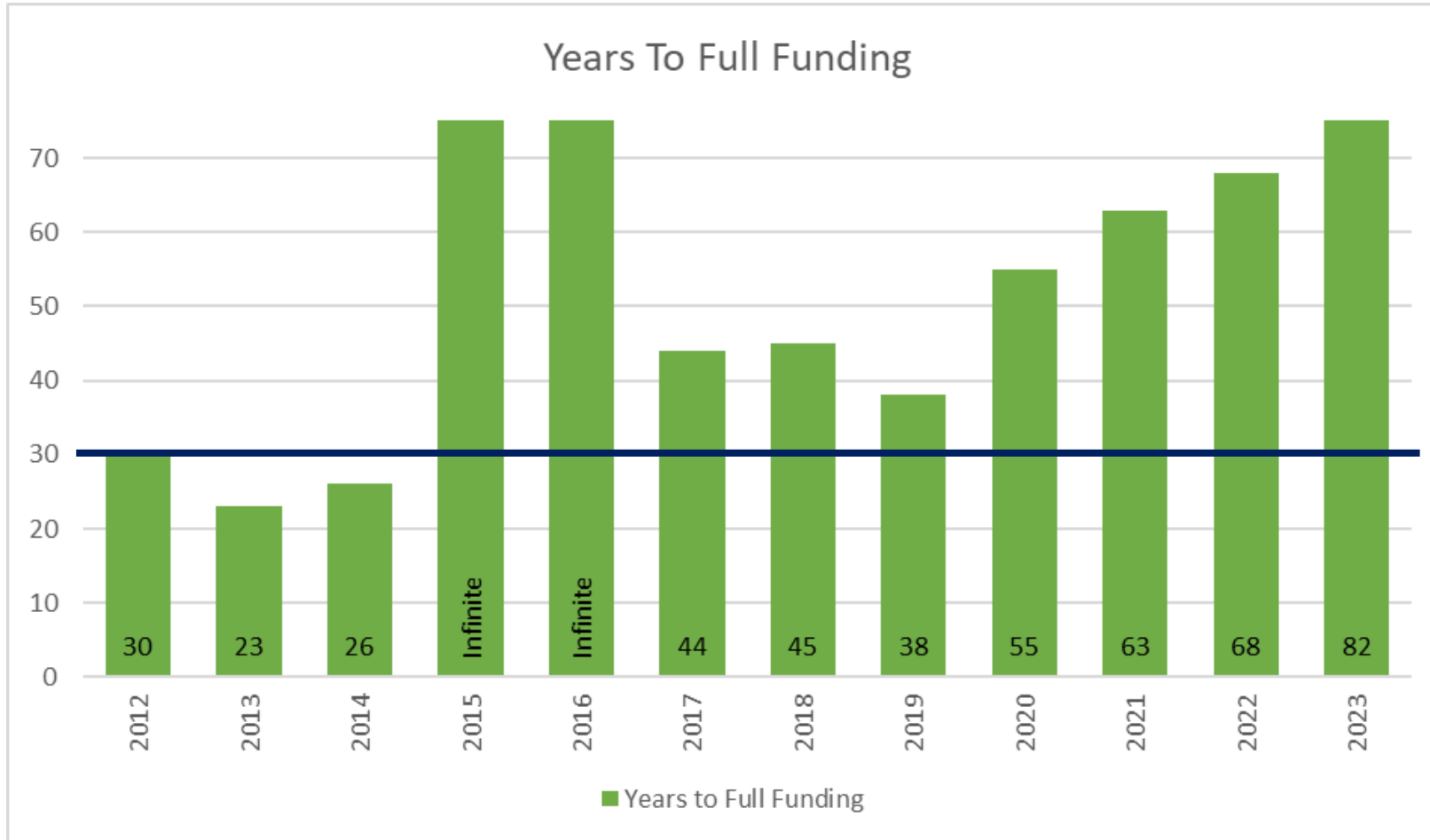




# Dallas Police and Fire Pension System (DPFPS)



# DPFPS – Funding Status



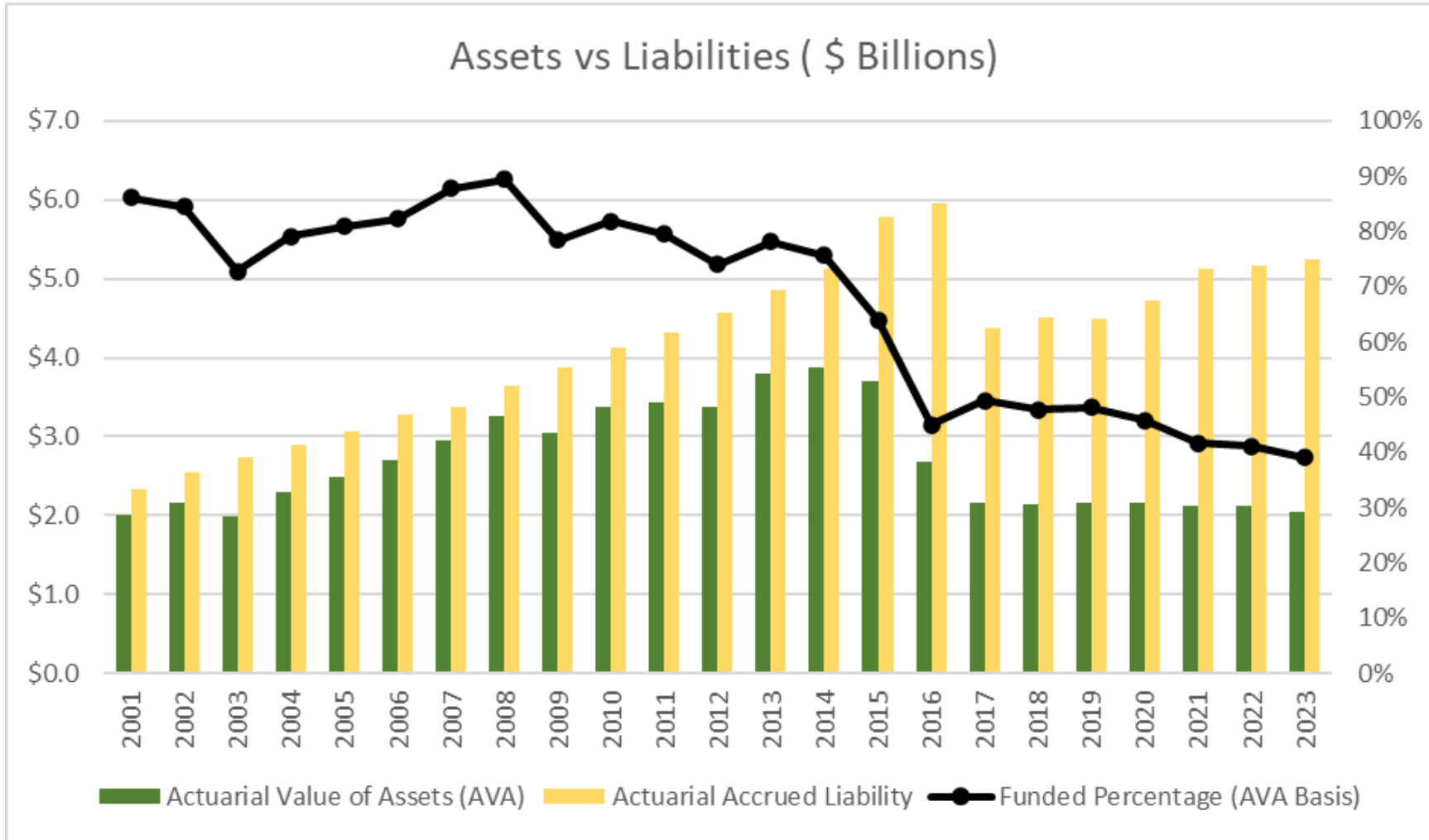
As of January 1, 2023, DPFPS is projected to be fully funded in 82 years.

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.



# DPFPS – Funding Status



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

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



# DPFPS – HB3158 Actions



- Texas Legislature passed HB3158 in 2017 to address DPFPS financial solvency, 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
- Future benefits were reduced for active employees, retirees, and beneficiaries
  - 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 requires a plan be submitted to PRB by November 1, 2024 that achieves full-funding in 30-years, but does not require any change to benefits



# DPFPS – City Staff Recommendations



- Implement Actuarial Determined Contribution (ADC) methodology which adjusts annually to recognize actual experience, and include 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
- No change to benefit structure as outlined in HB3158





# DPFPS – City Staff Recommendations



- Continue requirement to be 70% funded before ad hoc simple COLA is available as outlined in HB3158
  - HB3158 COLA methodology depends on investment returns, not inflation, and is based on five-year average return, minus 5%, with maximum of 4%
  - Modify COLA methodology from being based on investment returns to CPI not to exceed 1.75%\*
    - 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\*
- Offer supplemental pay to bridge 2025 to 2046 (forecast 70% funding threshold)
  - Supplemental pay before achieving 70% funding is above and beyond HB3158 requirements
  - 1% increase added to retiree base in 2025
  - Additional 1% per year as stipend contingent on DPFPS positive returns (not added to base)



\*Note: May require legislative change.

# DPFPS – City Staff Recommendations



- Additional oversight will ensure City can manage pension contribution increases that become a liability of City
  - Include City approval requirement for items that substantially increase City's liability including changes to benefits, changes to actuarial assumptions, settling lawsuits, etc.
  - Include guardrail of +/- 5% to mitigate unexpected year over year cost increases
  - Include process for City to review Board's annual ADC calculation, and resolve differences when a 2% or greater variance exists



# DPFPS – Comparison of Recommendations



Components of Recommendation	City Staff Recommendation	DPFPS Staff Recommendation
HB3158 – Statutorily required to comply with PRB requirements and achieve full-funding in 30-years	<ul style="list-style-type: none"> <li>• ADC with 5-year step-up (achieves full-funding in 30-years)</li> <li>• Cost - \$11.06 billion over 30-years</li> </ul>	<ul style="list-style-type: none"> <li>• ADC with 3-year step-up (achieves full-funding in 30-years)</li> <li>• Cost - \$10.97 billion over 30-years</li> </ul>
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)	<ul style="list-style-type: none"> <li>• Modify current COLA based on CPI not to exceed 1.75% (remains Ad Hoc COLA)</li> <li>• Cost – no additional cost</li> </ul> <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"> <li>• Modify current COLA to 1.5% automatic</li> <li>• New COLA based on 70% Purchasing Power (Cheiron)</li> <li>• Cost – adds \$412.5 million to City cost</li> </ul>
Supplemental pay to bridge period until 70% funded (not required)	<ul style="list-style-type: none"> <li>• Supplemental pay - 1% increase to pension base in 2025</li> <li>• Supplemental pay - 1% per year stipend 2026 until 70% funded contingent on positive return</li> <li>• Cost – adds \$136 million to City's cost</li> </ul>	<ul style="list-style-type: none"> <li>• Supplemental Pay which increases in pay each year (\$5 x year of service x year retired since 2017)</li> <li>• Cost – adds \$233.2 million to City's cost</li> </ul>
Governance	<ul style="list-style-type: none"> <li>• Add City oversight to better manage City's liability, mitigate year over year increases, and ensure fiduciary responsibility</li> </ul>	<ul style="list-style-type: none"> <li>• No additional oversight</li> </ul>
Total Cost Impact over 30-years (\$419 million variance)	<ul style="list-style-type: none"> <li>• \$11.06 billion + \$136 million = \$11.2 billion</li> </ul>	<ul style="list-style-type: none"> <li>• \$10.97 billion + \$412.5 million + \$233.2 million = \$11.6 billion</li> </ul>

# 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



# DPFPS – Additional Policy Considerations



- FSRP 30-year funding plan must be actuarially sound, reasonable, and based on existing revenues, not on unknown or potential resources
- However, the plan may express future intentions that are not required to achieve full-funding over 30-years
- Three policy considerations may yield additional resources for DPFPS ADC and/or additional supplemental pay (stipends/COLA)
  1. Monetize assets
  2. Issue Pension Obligation Bonds (POB)
  3. On-going revenues contingent on changes in State Law



# DPFPS – Next Steps



- August 7 – City Council briefing
- August 8 to August 29 – Continue discussion with DPFPS staff
- August 22 – Ad Hoc Committee on Pensions to discuss policy considerations that could benefit DPFPS
- September 4 – Additional City Council briefing if necessary
- September 11 – City Council action to approve Funding Soundness Restoration Plan to submit to Pension Review Board





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