Memorandum

CITY OF DALLAS

DATE August 30, 2024

TO Honorable Mayor and Members of the City Council

SUBJECT **Follow-up to City Council Questions Regarding Pensions**

This memorandum serves to transmit all written responses that have previously been provided and remaining questions regarding the Dallas Police and Fire Pension System (DPFPS) and the Employee Retirement Fund (ERF).

- Responses 1-21 – provided June 5
- Responses 22-46 – provided June 17
- Responses 47-64 – provided August 6
- Response 65-70 – provided today, August 30

If you have additional questions, please let me know.

Service First, Now!

Jack Ireland
Chief Financial Officer

[Attachment]

c: Kimberly Bizor Tolbert, City Manager (I)
Tammy Palomino, City Attorney
Mark Swann, City Auditor
Bilierae Johnson, City Secretary
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Dallas Police and Fire Pension System (DPFPS) and Employee Retirement Fund (ERF)
First Set of Responses to City Council Questions – June 5, 2024

1. Does a reduced pension have a consequence on the status of the fund?

Benefits already earned cannot be reduced. Only future benefits can be reduced. Reducing employee benefits will reduce the long-term unfunded liability of the fund and improve the funding status. City management does not recommend any reduction to DPFP benefits.

2. Can the City recommend using an objective third party to calculate the Actuarial Defined Contribution (ADC) as referenced on page 17 of the Dallas Police and Fire Pension System: Funding Soundness Restoration Plan Update and Consideration of Recommendations presented May 23, 2024, vs. defaulting to the Dallas Police & Fire Pension Fund's calculation (DPFPF)?

Staff has recommended that we do not automatically accept a DPFP calculated ADC each year. Rather, we have recommended that actuaries for both the City and DPFP calculate the ADC separately. If there is no more than a 2% variance in the two required contribution amounts, then the City would accept the DPFP calculation. If a variance of more than 2% exists, then a negotiation period should ensue. If an agreement is not reached, then the two ADCs should be averaged for the amount to be used for that given year.

3. What are the numbers of active uniform police and fire eligible for retirement?

As of March 2024, there were 5,270 active police and fire uniform employees. Of these, 1,333 or 25% were eligible to retire. This data changes daily as employees are hired and leave the employment with the City.

4. If the city were to issue Pension Obligation Bonds today (assumption: that voters have approved issuance) what would it look like compared to the DPFPF returns (understanding that bond rates fluctuate; can be presented as a range)? In other words, would it make financial sense?

According to the City's financial advisors and other industry experts, the current market conditions are not optimal for issuing Pension Obligation Bonds at this time. If the City decides to issue POB, we will work with our financial advisors to define a recommendation for an interest rate to use as the trigger for when we should actually issue the debt. DPFP's current actuarial assumption related to rate of return is 6.5%.

5. Are all actuarial assumptions based on a 6.5% rate of return? If the plan doesn't achieve this rate of return, especially in earlier years, please discuss the impact on future city contributions?

The actuarial assumption for rate of return for DPFP is 6.5% and for ERF is 7.25%. One benefit of using an ADC model is that actual asset and liability experience is recognized and factored into the next ADC calculation. Cheiron has proposed that actual experience that deviates from the actuarial assumptions will be amortized to 2055, or over 20 years beginning in 2036.

Deloitte has calculated that DPFP's January 1, 2023, unfunded actuarial accrued liability would decrease by approximately $450 million if they used 7.25% discount rate instead of 6.5%.

6. Is it true that providing more dollars earlier in the 30 years would reduce the total cost of the pension to City of Dallas taxpayers?

Yes, increased funding in earlier years does reduce the total over-all cost to the City over the course of the 30-years.

7. If the city reorganized its budget (and some departments) for FY25 to pay the traditional plan, would there be a long-term cost savings to Dallas taxpayers?

More funding earlier does reduce the long-term cost. The traditional ADC model requires approximately $67 million more in FY25 than contributed in FY24. In FY25, the traditional ADC cost is $251.4 million while the 5-year step-up ADC is $202.1 million. Therefore, an additional $49.3 million in reductions would be needed to fund the traditional ADC model in FY25.

8. Is it true that retirees of DPD and DFR haven't had a cost-of-living adjustment since 2016?

In compliance with 2017 HB3158, no COLA has been provided to DPD or DFR retirees since that state law was enacted. HB3158 requires that DPFP be 70% funded before COLAs may be offered. Prior to HB 3158, DPD and DFR retirees received automatic 4% COLA every year if hired prior to January 1, 2007, or an ad hoc COLA up to 4% if hired after December 31, 2006. This does not include the guaranteed return on DROP accounts.

9. Is the proposed 13th check for retirees' equivalent to the other 12 checks they receive in a year?

The City staff recommendation for supplemental pay from 2026 to 2045 is for a 1% stipend each year subject to DPFP having a rate of return greater than 0%, not the value of one of the retirees' monthly checks. Providing a stipend equal to the monthly pension benefit would be an 8.33% stipend.

10. Could the city reduce the benefit of ERF COLA to match the DPFP and shift the city's pension contribution dollars emanating from the general fund from ERF pension contribution to DPFP to support an equal COLA?

Reducing future benefits of the ERF plan would reduce the City's cost. Any savings to the General Fund could be redirected to another General Fund expense such as DPFP pension cost. ERF savings to Enterprise Funds could not be redirected to DPFP pension cost.

11. In the traditional ADC funding plan and 5-year step up funding plan, what is the largest expected city contribution and in what year?

The highest annual contribution for the City over the 30-year schedules is: Traditional ADC is $502.0 million in 2054 and 5-year step-up ADC is $507.4 million in 2054. In both scenarios, the City's cost drops to $71.0 million in 2055. However, it is important to remember this assumes that all actuarial assumptions are met. Actual experience that deviates from the actuarial assumptions will either increase or decrease these amounts.

12. If the city adopted the 5-year step up funding plan, each year an additional $18-$20m in cuts to the budget would be needed. Please outline proposed cuts.

Proposed cuts for FY25, FY26, FY27, FY28, and FY29 are not available currently. A balanced budget for FY25 and FY26 will be presented to the City Council on August 13.

13. The independent actuary, Cheiron, recommended reducing the employee contribution for the DPFP. This seems contrary to the funding needs of the plan, but yet they included it, noting that the contribution is high compared to other plans and could impact recruiting and retention. Has there been consideration of requiring a look-back period of 5 years to address this issue as a possible plan change?

No additional consideration has been given to this recommendation made by Cheiron. It is not a priority for the DPFP Board or staff.

14. It was stated that board members appointed to DPFP have a fiduciary responsibility to the plan, not the city. Do board members of the DFW Airport board, ERF board, and DART board have a fiduciary responsibility to the organizations they serve as board members or to the city?

Board members of DPFP, ERF, DFW, and DART have a fiduciary responsibility to the boards they serve.

15. Staff is suggesting Dallas retain authority to approve items like discount rate, settling lawsuits, etc…. Does the city have this authority with DFW Airport board, ERF board, or DART board?

The governance for DPFP, ERF, DFW, and DART are all different. Additional oversight is recommended for DPFP since the City makes contributions to this system out of the City's General Fund. The City does not make contributions to DFW or DART out of the City's General Fund. Regarding ERF, certain changes are already required to be approved by the Board, the City Council, and voters within the City of Dallas.

16. Specifically, what assumptions or methods of calculation are driving the city's calculation of the ADC to be so different than the DPFP's calculation that a governance rule is proposed?

There are not currently significant differences in the ADC calculations. However, staff is recommending additional oversight when it comes to ADC calculation since that calculation becomes an automatic cost to the City of Dallas. The City has the responsibility to verify and agree to payments that we are making. It is not recommended that we simply take their calculation and pay whatever amount that they request. City staff has proposed a process for oversight of the ADC calculation.

17. If the issuance of pension obligation bonds requires voter approval, could that be sent to the voters in November 2024 or May 2025, even if the current environment is not favorable for the issuance, and hold that authority for a year or two as the market changes and adjusts?

Yes, and that is what staff would recommend. Based on conversations with bond counsel and financial advisors this is an appropriate strategy and has been used in other cities/states. City staff recommends seeking voter approval and setting in place certain triggers for when we would actually issue the debt.

18. Is the staff recommendation for a supplemental check of 1% of annual pay for retirees for 2025 only or intended to occur every year until the plan is 70% funded?

City staff recommendation for supplemental pay is a 1% increase to the retiree base pension benefit in 2025 for individuals retired by 12/31/24, and 1% stipend (not added to base) for each year 2026-2045 as long as DPFP has a rate of return greater than 0%. DPFP is currently projected to be 70% funded in 2046.

19. What is the cost of a 1% COLA over 30 years?

Below is the 30-year schedule for adding a 1% Cost of Living Adjustment (COLA) to the base pension benefit for current retirees. For example, this would be the cost to add 1% COLA in 2025. It effects their pension benefits every year going forward. The cost is amortized over the 30-year period.

	1% COLA in 2025 if retired by 12/31/24
2024	
2025	$ 301,000
2026	$ 579,000
2027	$ 872,000
2028	$ 1,182,000
2029	$ 1,507,000
2030	$ 1,542,000
2031	$ 1,579,000
2032	$ 1,616,000
2033	$ 1,654,000
2034	$ 1,694,000
2035	$ 1,737,000
2036	$ 1,779,000
2037	$ 1,822,000
2038	$ 1,867,000
2039	$ 1,913,000
2040	$ 1,960,000
2041	$ 2,009,000
2042	$ 2,059,000
2043	$ 2,109,000
2044	$ 2,162,000
2045	$ 2,215,000
2046	$ 2,270,000
2047	$ 2,327,000
2048	$ 2,385,000
2049	$ 2,445,000
2050	$ 2,506,000
2051	$ 2,569,000
2052	$ 2,633,000
2053	$ 2,698,000
2054	$ 2,766,000

20. What is the total annual dollar amount needed to fund a 1% supplemental payment to the pension retirees?

Cheiron was asked to model providing a 1% stipend every year until DPFP is 70% funded. The below schedule assumes 1% stipend each year from 2025 through 2046 which is when DPFP is forecast to reach 70% funding. City staff's recommendation was to provide this stipend annually 2025-2046 contingent on DPFP having returns greater than 0%. The cost of each annual 1% stipend is amortized over the 30-year period.

	1% per year (not added to base), if DPFP has positive return
2024	
2025	$ 588,000
2026	$ 957,000
2027	$ 1,344,000
2028	$ 1,752,000
2029	$ 2,178,000
2030	$ 2,211,000
2031	$ 2,250,000
2032	$ 2,286,000
2033	$ 2,325,000
2034	$ 2,364,000
2035	$ 2,409,000
2036	$ 2,451,000
2037	$ 2,499,000
2038	$ 2,547,000
2039	$ 2,598,000
2040	$ 2,649,000
2041	$ 2,703,000
2042	$ 2,760,000
2043	$ 2,817,000
2044	$ 2,877,000
2045	$ 2,943,000
2046	$ 3,012,000
2047	$ 3,087,000
2048	$ 3,165,000
2049	$ 3,243,000
2050	$ 3,327,000
2051	$ 3,408,000
2052	$ 3,495,000
2053	$ 3,582,000
2054	$ 3,672,000

21. Please provide the cost for the Immediate Partial COLA scenario provided by Cheiron.

Cheiron presented multiple options for implementing COLAs, one was “Immediate Partial COLA”. In this scenario, retirees would be eligible for a COLA before DPFP is 70% funded. Continue to use 5-year average return minus 5% with a maximum of 4%. But in this option, a partial COLA would be provided before DPFP is 70% funded. The partial COLA would use the funding percentage and multiple it by the calculated COLA. For example, if the calculated COLA is 1.5% and the funding status is 40%, then the COLA would be 40% of 1.5% or 0.48% COLA for that particular year.

Fiscal Year	Cost of Immediate Partial COLA Scenario
Year	
2024	
2025	$ 4,152,000
2026	$ 6,257,000
2027	$ 8,450,000
2028	$ 10,757,000
2029	$ 13,152,000
2030	$ 13,304,000
2031	$ 13,465,000
2032	$ 13,593,000
2033	$ 13,750,000
2034	$ 13,892,000
2035	$ 14,048,000
2036	$ 14,238,000
2037	$ 14,445,000
2038	$ 14,627,000
2039	$ 14,842,000
2040	$ 15,034,000
2041	$ 15,223,000
2042	$ 15,450,000
2043	$ 15,695,000
2044	$ 15,983,000
2045	$ 16,306,000
2046	$ 16,649,000
2047	$ 17,126,000
2048	$ 17,617,000
2049	$ 18,120,000
2050	$ 14,845,000
2051	$ 11,397,000
2052	$ 7,766,000
2053	$ 3,945,000
2054	$ (72,000)
2055	$ -

Dallas Police and Fire Pension System (DPFPS) and Employee Retirement Fund (ERF)
Second Set of Responses to City Council Questions – June 17, 2024

22. In 2054, the cost of DPFPS pension increases from approximately $184 million to over $500 million according to staff's recommendation for a five-year step-up ADC with other staff recommendations included. How will the City be able to fund DPFPS expense of over $500 million from the General Fund budget?

In FY24, DPFPS contribution from the City is $184 million which is 10% of the total General Fund expense of $1.84 billion. Based on City staff's recommendations for the funding soundness of DPFPS, the City's contribution does increase to over $500 million in 30-years. If we assume that the General Fund increases by 3% per year, then the total General Fund will be approximately $4.5 billion in 2054. At that time, the DPFPS contribution would be 12% of the total General Fund.

23. Is there any quantitative information or other research on the impact of not having/discontinuing a Cost-of-Living Adjustment (COLA)?

There is research that supports the claim that discontinuing or not providing a COLA will erode the value of pension benefits over time and may influence retirement timing and benefit claiming decisions for public sector retirees. However, direct impacts are not conclusively quantified.

24. What are the city's options with regard to issuing POBs with a call provision to allow negotiating better rates in the future

Based on research of the City's financial advisors at Hilltop Securities, it is estimated that taxable Pension Obligation Bonds at this time would have a true interest cost between 5.55% and 5.7%. Preliminary discussion indicates that the City would be better served to not issue POB until true interest cost would be 4% or less. Call provisions are available at or after about 10 years. The City could benefit from issuing POB through multiple tranches to better manage market fluctuations.

25. How would the removal/reduction of a COLA for ERF change the need for an increased ERF contribution?

Reducing or removing ERF benefits would reduce City contribution requirements. Reductions were modeled to reduce Tier A multiplier and future COLA to be the same as Tier B multiplier and future COLA. The modeling showed a savings of approximately $300 million over 30-years. This information was part of the June 6 presentation by the ERF Executive Director at the Ad Hoc Committee on Pensions meeting.

26. How would a property/asset be designated for sale for pension funding versus development/redevelopment? How is that decision made?

Currently, there is a City Council resolution from prior to 1980 that directs the proceeds from the sale of surplus property to be used for major maintenance of City facilities. This resolution could be revised to establish guidelines for the use of future proceeds. Currently, GPFM Committee is being updated on the progress of evaluating 10 specific properties. Once City staff have completed their work, proposals will be brought through GPFM to the City Council for action. Ultimately, it will be up to the City Council on how to use the proceeds.

27. What level of commitment is there to ensure that civilian employees get a similar COLA to our sworn officers? How can the city justify not providing a COLA to one class of employees while providing it to another?

The two City sponsored pension systems have very different histories and current funding. The contribution rates from the DPFPS and ERF employees have never been the same. The contribution rates from the City have never been the same. The benefit structures have never been the same. The current funding status of the two funds is different with DPFPS being at 39% funded while ERF is 70% funded.

The current COLA provisions that require DPFPS to be 70% funded were put in place in 2017 by the State Legislature to ensure DPFPS solvency.

Different COLA for groups of employees is not unprecedented. For example, DPFPS granted 4% COLA every year prior to 2017. During that same time period, ERF COLA was an average of 2.52%. Additionally, COLA for active employees is frequently at different amounts. For example, in FY25 uniform employees are anticipated to receive 7.23% adjustments plus Step increases while non-uniform merit increase is currently projected to be average of 3%.

28. Will the staff recommendations for COLA pension benefits of the ERF be scaled back to ensure parity with DPFP plan?

No. See response to the above question for additional information.

29. If a property/asset was sold by the city, would the proceeds be given to DPFP and amortized over the remaining years of unfunded liability, or would it be used for current year ADC? Is this determined by policy or each time an asset is sold? Who makes that determination?

The conversation between Cheiron, DPFPS staff, and City staff is that any lump sum payment from the City into the fund would not be used for that year's ADC contribution, but rather that the lump sum would be used to reduce the 30-year amortization schedule for the initial Unfunded Actuarial Accrued Liability. This will result in reduction for all remaining years of the original 30-year term.

30. If a revenue stream was added to the city, would it be dedicated/restricted to pension funding or simply added to the general fund? How could it be restricted for pension obligations?

Typically, General Fund revenues are not restricted or earmarked for a specific General Fund purpose. However, once an additional revenue stream is identified, City staff will make a recommendation to the City Council and seek City Council's direction and approval.

31. If it is true that earlier funding is less expensive in the long-term, why is the staff proposal to ramp up over the first 5 years?

A five-year step-up is recommended by City staff because it has a lower year-over-year cost increase and provides the City more flexibility to manage other budget constraints as the City transitions to the ADC. Cheiron stated that the five-year step-up model is "reasonable" and that it would be "acceptable to the PRB".

32. Has a strategic analysis been done to understand the impact a pension plan with no COLA for twenty more years would have on the ability of DPD/DFR to be competitive with other police and fire departments in recruiting and retention?

No, this analysis has not been conducted. However, every individual makes employment decisions based on different factors. Compensation including pay and benefits are obviously considered as individuals make their employment decisions. Most recently, the City has made significant increases in pay to improve our recruitment and retention efforts. Additionally, retention pay has been introduced within the police department. Regarding pension, ensuring the long-term financial soundness of the plan is critically important. Further review of the benefit structure including COLA is still needed after DPFPS is first set on a course to be fully-funded in 30-years in compliance with Texas PRB requirements.

33. Please provide information on the history of investment returns for DPFP and ERF. If there is a comparison chart in a previously presented document, please direct me to it.

Both DPFPS and ERF have provided the information in previous presentations to the Ad Hoc Committee on Pensions, however, the June 6 presentation by Commerce Street Investments provided DPFPS and ERF returns compared to other benchmarks. Those charts are included as slides 51-52 in the appendix of the June 17 City Council presentation. They are pasted below for your convenience.

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/publicplans-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

34. If there was a voter referendum on adding a COLA and the associated costs to the plan, would the city's tax rate reduce a commensurate amount so there would be no increase in the total tax rate for property owners or would there be a total revenue increase beyond the large increases we've seen year over year?

City staff will recommend a balanced biennial budget for FY25 and FY26 using existing revenue streams and within the current property tax rate as limited by SB2. The tax rate is anticipated to be reduced in FY25 as a result of SB2's 3.5% cap on revenue from reappraisal. Through a General Election, voters can authorize exceeding the 3.5% revenue cap which could be requested solely for the increased contributions to DPFPS pension. At this time, it is not known if that would be an actual tax rate increase above the current rate, or would the City still be required to lower the overall tax rate because of the State Law requirements. Regardless, the voter approved tax rate would generate more revenue than the City would receive without the election to exceed the revenue cap.

35. There is a large difference in the funded percent of the ERF plan and DPFP. Please outline the history of plan changes and pension bonds used to support either plan. If the history shows the city has provided pension bonds to ensure a higher funded amount for ERF but not DPFP, why should DPFP retirees and plan members be penalized for COLA because the city didn't also provide pension bonds to the plan to keep their plan funded at 70% or higher?

Pension Obligation Bonds were issued in 2005 in the amount of $500 million for ERF. Annually, as the City's contribution to ERF is determined, the City receives a credit for the debt service payment (principal + interest) that is being paid for POB. In FY24 for example, the City's contribution to ERF is a total of 22.68% of pay. This is split between 14.46% that is transferred to ERF as part of the City's bi-weekly payroll and 8.22% that is the credit for the City's POB debt service. In FY24, the City's contribution to DPFPS is 34.5% of pay + $13 million. HB3158 required an additional payment from the City to DPFPS in the amount of $13 million for 7 years for a total of $92 million. Even with the debt service payment for POB, the City contributes more to DPFPS as a percent of pay than what the City contributes to ERF. As stated in FY24, the City's contribution to ERF was a total of 22.68% of pay and to DPFPS was a total of 34.5% of pay + $13 million.

36. What action would be needed so that city council could vote on the mayor's appointees before they are appointed to the Dallas Police & Fire Pension System (DPFPS) board?

Texas Revised Civil Statutes, Article 6243a-1, governs DPFPS and provides that the DPFPS board consists of 11 trustees, six of whom are "appointed by the mayor, in consultation with the city council." By this language, state law requires the mayor to notify city council of his DPFPS board appointees and ask for feedback about the DPFPS board appointee; but the statute does not require city council approval of the mayor's appointees. Legislative action would be required to amend Article 6243a-1 to add a city council approval requirement.

37. What is the time frame for a full council vote, or will council have a vote?

Staff's original goal was to have city council vote on a combined Article 6243a-1 / Texas Government Code Chapter 802 C funding soundness restoration plan for DPFPS before city council's July 2024 recess. We are currently scheduled to brief the full council on staff recommendations on June 18, 2024. We plan to have a final briefing to full council on August 7 and have an action item on the city council's August 14, 2024, voting agenda. However, the funding soundness restoration plan is not due to the Pension Review Board until November 1, 2024, which allows for additional time if city council chooses to delay taking action.

38. What is the plan if the city and pension fund cannot agree on steps forward?

Article 6243a-1 requires the DPFPS board to adopt a plan by November 1, 2024, that complies with the state's funding and amortization period requirements under Texas Government Code (TGC) Chapter 802. Article 6243a-1 is silent regarding the city's approval of the board's plan under Article 6243a-1 but specifies in Section 4.02 that any change to the city's contributions to the pension system may only be made by the legislature, by a majority vote of the voters of the city, or in accordance with a written agreement entered into between the pension system and the city. As such, it is the city's position that DPFPS cannot increase the amount of the city's contribution through a plan submitted to the Pension Review Board without the city's consent. That position is consistent with conversations the city has had with Pension Review Board representatives who agree with the city that any action by DPFPS that attempts to increase the city's funding responsibilities will not bind the city without the city's consent. If consensus is not reached, the city will file its own plan with the Pension Review Board and the state legislature may take up the issue in 2025. If DPFPS submits a plan that the city is not agreeable to and attempts to unilaterally increase the amount of the city's contribution, the city may seek judicial relief by filing a writ of mandamus, which is a petition in court seeking an order to require DPFPS to comply with its statutory obligations.

Additionally, the DPFPS has also triggered TGC Chapter 802 C, which states that the DPFPS and the city shall jointly formulate a funding soundness restoration plan (FSRP) by September 1, 2025, because DPFPS's expected funding period has exceeded 30 years for three consecutive years. The intent has been to submit one joint plan that complies with both the Article 6243a-1 and TGC Chapter 802 C requirements by November 1, 2024.

39. If the city was able to reduce the DART sales tax amount, could the dollars be dedicated/earmarked to ERF and DPFP pension and not able to be used for other purposes if there is an unfunded pension liability?

Although typically general fund revenues are not "earmarked", this could be something for the City Council to consider as a policy decision. If additional revenue streams become available, City staff will make recommendations to the City Council for their consideration.

40. Provie a list of other pension funds, what their funding percentage is, and what is their COLA policy.

Deloitte Consulting LLP provided the following response. The table below summarizes the COLA provisions, funded ratio, and Long-Term Rate of Return ("LTROR") on Assets assumption for the largest plans in Texas. In general, if a plan raises their LTROR assumption, the liability decreases (and funded ratio increases).

(green)	Funded Ratio > 90%
(blue)	Funded Ratio Between 70% and 90%
(yellow)	Funded Ratio Between 50% and 70%
(red)	Funded Ratio < 50%

20 Largest Systems in Texas

Plan	Most Recent Funded Ratio	Long-Term Rate of Return Assumption	COLA Provisions
Austin - Employees	64%	6.75%	**Ad Hoc**, based on actuary's recommendation up to 6%, subject to plan meeting various funding metrics
Austin - Fire	87%	7.30%	**Ad Hoc**, CPI-U, subject to plan meeting various funding metrics
Austin - Police	60%	7.25%	**Ad Hoc**, based on actuary's recommendation up to 6%
CPS Energy	88%	7.00%	**Automatic**, 50% of CPI, maximum 5%
Dallas - Employees	73%	7.25%	**Automatic**, CPI, maximum 5%/3%
Dallas - Police & Fire	39%	6.50%	**Ad Hoc** - five-year average return less 5.00%, maximum 4%, only payable when Funded Ratio > 70%
Dallas County Hospital District	73%	6.00%	**No COLA**
El Paso - Employees	81%	7.25%	**No COLA**
El Paso - Police	81%	7.75%	**Automatic**, 3% (Tier 1) **No COLA** (Tier 2)
Employees Retirement System of Texas	69%	7.00%	**No COLA**, but ad hoc COLA will be granted for January 2025
Fort Worth - Employees, Fire & Police	55%	7.00%	**Combo**: Tier 1 - 2% or Conditional Ad Hoc COLA if retired before 1/1/2021, Variable if retired after 1/1/2021, depending on various funding metrics. **No COLA**: Tier 2
Harris County Hospital District	76%	5.75%	**No COLA**
Houston - Employees	66%	7.00%	**Automatic**, 50% of five-year average return less 5%, maximum 2%
Houston - Fire	95%	7.00%	**Automatic**, five-year average return less 4.75%, maximum 4%
Houston - Police	89%	7.00%	**Automatic**, five-year average return less 5.00%, maximum 4%
Law Enforcement & Custodial Officer	59%	7.00%	**No COLA**
San Antonio - Police & Fire	89%	7.25%	**Automatic**, 75% of CPI, plus ad hoc 13th/14th check depending on investment returns
Teacher Retirement System of Texas	79%	7.00%	**No COLA**, but ad hoc COLA was paid in 2013, 2019, and 2021
Texas County & District Retirement System	89%	7.50%	**Ad Hoc COLAs** can be elected by participating employers
Texas Municipal Retirement System	90%	6.75%	**Varies by City**

41. Are there any other comparable pension funds below 70% funded liability with automatic COLAs? The Deloitte COLA Discussion presentation from May 23, 2024, lists Texas pension systems, but are there any comparable sized cities in the US where this is the case?

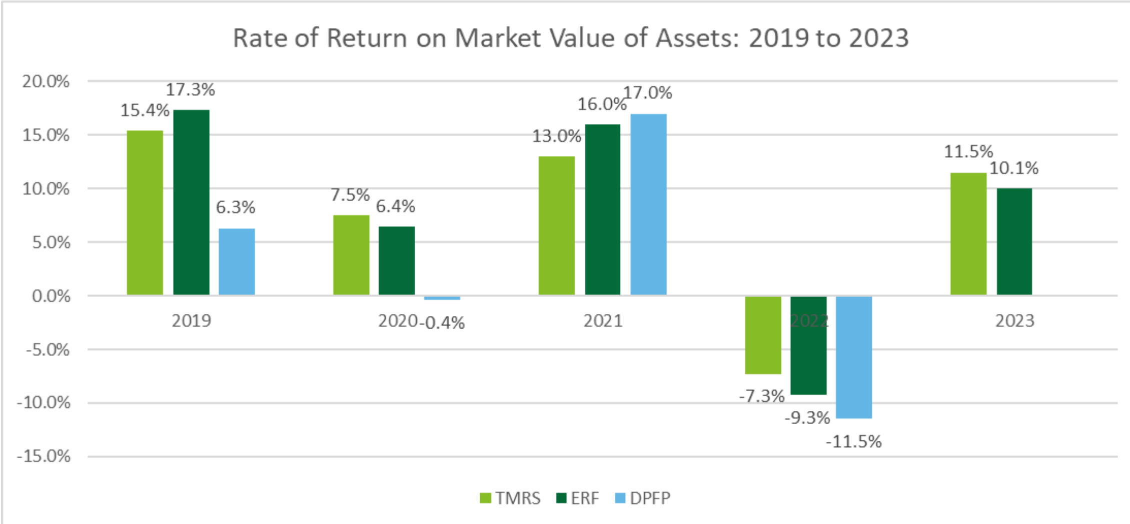
Deloitte Consulting LLP provided the following response. The table below summarizes the COLA provisions, funded ratio, and Long-Term Rate of Return on Assets assumption for the ten largest cities in the US. In general, if a plan raises their LTROR assumption, the liability decreases (and funded ratio increases).

Funded Ratio > 90%
Funded Ratio Between 70% and 90%
Funded Ratio Between 50% and 70%
Funded Ratio < 50%

Plan	Most Recent Funded Ratio	Long-Term Rate of Return Assumption	COLA Provisions
New York - Employees	91%	7.00%	**Automatic** - 50% of CPI, minimum 1%, maximum 3%, applied to the first $18,000 in annual benefits only, begins at age 62/5 years since commencement or age 55/10 years since commencement
New York - Police	94%	7.00%	
New York - Fire	78%	7.00%	
Los Angeles - Employees	74%	7.00%	**Ad Hoc** - CPI, maximum 3%/2% for Tiers 1&1E / 3
Los Angeles - Police & Fire	95%	7.00%	**Ad Hoc** - CPI, no maximum for Tiers 1-2, maximum 3% for Tiers 3-6
Chicago - Employees	23%	6.75%	**Automatic** – Tier 1: 3%, Tier 2/3: 50% of CPI, maximum 3%, Beginning at age 65/57
Chicago - Police	25%	6.75%	**Automatic** – Tier 1: 3% beginning at 55. Tier 2: 50% of CPI, maximum 3%, beginning at age 60
Chicago - Fire	19%	6.75%	
Houston - Employees	66%	7.00%	**Automatic**, 50% of five-year average return less 5%, maximum 2%. **No COLA** – Group D members who terminated prior to 2017.
Houston - Police	89%	7.00%	**Automatic**, five-year average return less 5.00%, maximum 4%, beginning at age 55
Houston - Fire	95%	7.00%	**Automatic**, five-year average return less 4.75%, maximum 4%, beginning at age 55
Phoenix - Employees	71%	7.00%	**No COLA** - Tier 3 (Hired after 2016) **Ad Hoc**, tied to investment performance - Tier 1 and 2
Philadelphia - Employees, Police, Fire	61%	7.35%	**No COLA**. There is a "Pension Adjustment Fund" tied to investment returns which can be used at discretion of board for COLA, 13th check, or other improvements.
San Antonio - Employees	87% (TMRS)	6.75%	**No COLA**. Participate in TMRS
San Antonio - Police & Fire	89%	7.25%	**Automatic**, 75% of CPI, plus ad hoc 13th/14th check depending on investment returns
San Diego, Employees, Police, Fire	75%	6.50%	**Ad Hoc** - CPI, maximum 2%
Dallas - Employees	73%	7.25%	**Automatic**, CPI, maximum 5%/3%
Dallas - Police & Fire	39%	6.50%	**Ad Hoc** - five-year average return less 5.00%, maximum 4%, only payable when Funded Ratio > 70%
Jacksonville - Employees, Police, Fire (Pre-2017 Hire)	54%	6.50%	**Automatic**, 3%
Jacksonville - Employees, Police, Fire (Post-2017 Hire)	N/A - DC Plan	N/A - DC Plan	New Hires after 2017 participate in a DC Plan

42. What is the performance of the Texas Municipal Retirement System fund vs. each Dallas employee pension fund (ERF and DPFPF) for the past five years? If the City of Dallas wanted to change to having employees/active sworn and unsworn Police & Fire join the TMRS, the process would be for new hires only. What would happen with the existing funds if new hires were directed either to TMRS or a 401(k) plan?

Deloitte Consulting LLP provided the following response. The graph below shows the Rate of Return on Market Value of Assets for 2019 through 2023 (note that 2023 is unavailable for DPFP). The 4-year average return from 2019-2022 was 6.8% for TMRS, 7.1% for ERF, and 2.3% for DPFP.



If new hires were directed to TMRS or a 401(k), there are several considerations for the existing fund:

- The ADC would still need to be paid on the legacy liability
- The plan would not receive employee contributions from new hires who would be in TMRS/401(k)
- The Long-Term Rate of Return on assets, as well as the asset allocation, would need to be revisited due to the shortening duration of plan benefits (and the plan must ensure it has significant cash on hand to cover annual benefit payments)

There are three components of the City's ADC for DPFP and ERF for current employees and retirees**.** We have outlined the impact on the ADC if new hires did not enter the pension plan but rather entered a 401(k) or TMRS:

Component of ADC	**City Costs – Legacy Pension Plan**	**City Costs – New Hires**
1. Amortization Payments on Initial UAL	Unaffected, as the Unfunded Actuarial Accrued Liability (UAL) is unchanged since current employees/retirees are unaffected	N/A
2. Ongoing Employer Normal Cost plus Admin Expenses	Lower, as there is no Normal Cost for new hires (but there still Normal Cost for current employees until they retire)	Would need to contribute for the 401(k) / TMRS for new hires
3. New Amortization Bases for Emerging Demographic Experience, Asset Experience, or Assumption Change Gains/Losses	Affected by changes to plan demographics or asset strategy	N/A

In #2, the "Employer Portion of Pension Normal Cost" is approximately 6% for both DPFP and ERF. Therefore, if the replacement plan for New Hires is more than 6% of Payroll, there would be additional costs to the City compared to Status Quo.

43. Do other pension funds make COLA conditioned upon pension plan performance?

Deloitte Consulting LLP provided the following response.

- Austin and Fort Worth has ad hoc COLAs tied to the plan meeting various funding metrics
- Houston has automatic COLA tied to five-year investment return
- Phoenix has ad hoc COLA tied to investment performance via a "Pension Equalization Reserve", but only for employees hired before 2016.
- Philadelphia does not have COLA but does have a "Pension Adjustment Fund" which can provide for ad hoc benefit increases or 13th check based on investment performance.
- San Antonio has the potential for a 13th or 14th check based on investment performance.

Other Plans may choose to grant ad hoc COLAs if the plan is financially sound (e.g., Employee Retirement System of Texas will provide a COLA in 2025).

44. When is the 10-year Net Investment Returns vs. Discount Rate on Texas pensions for FY 2023 expected to be available?

Deloitte Consulting LLP provided the following response. This would be a question for the Texas PRB. We would expect this to be available once every plan has finalized their FY2023 valuations. For reference, here is link to information through FY2022. https://data.prb.texas.gov/comparison/Huge-2022.html

45. Please provide examples of Texas pension plans that have used a traditional ADC funding plan, 3 year step up, and 5 year step up for their pension funding plan.

Deloitte Consulting LLP provided the following response.
Of the 20 largest plans in Texas, the following use an ADC Approach. It does not appear that any utilized a step-up period before contributing the full ADC.

Plan	ADC Approach
Austin – Police	Traditional ADC, Beginning January 1, 2022, with a contribution rate corridor of +/- 5% of Payroll on new amortization bases for emerging gains or losses. When ADC was adopted, City's contribution increased approximately $9 million, or 5% of payroll from the prior year.
CPS Energy	Traditional ADC (additional details not available)
Dallas County Hospital District	Traditional ADC (additional details not available)
Houston – Employees	Traditional ADC, Beginning July 1, 2016, with a contribution rate corridor of +/- 5% of Payroll from baseline 30-year projections. When ADC was adopted, City's contribution increased approximately $17M, $28M, $10M or 10%, 4%, 1% of payroll from the prior year for the Employees, Fire, and Police plans respectively.
Houston – Fire	
Houston – Police	
Harris County Hospital District	Traditional ADC (additional details not available)
Texas County & District Retirement System	Traditional ADC (additional details not available)
TMRS	Each City is required to pay their ADC

46. What is the process to convert the ERF pension into a matching, portable retirement savings account for active employees?

Deloitte Consulting LLP provided the following response. If the City were to establish a DC plan, there are several ways to do so. In each case, the City must continue to pay the ADC on the legacy pension plans, plus DC contributions for DC participants.

Option	Considerations
1. Close Pension Plan, Freeze Ongoing Accruals, All Members begin accruing in DC Plan	Generally, has not been done before by other states; may be significant employee backlash
2. Close Pension Plan to new entrants; all new hires must participate in DC Plan	Has been done by several states
3. New hires have choice between DC Plan and existing DB Plan	Has been done by several states. Least impactful, as new hires may still elect DB Plan

For any of these options, the City can explore allowing employees the option to 'cash out' accrued pension benefit into a DC balance. The City would need to check with City Attorneys / ERF. There are various cash flow considerations/potential drawbacks to this approach.

Options 2 and 3 are projected to be costlier than Status Quo for the following reasons:

- The existing UAL still needs to be paid off, following a similar schedule as the proposed ADC approach from ERF.
- The "Employer Portion of Pension Normal Cost", currently ~6% of payroll, represents the cost of an additional year of pension benefit accrual. Any annual employer DC contribution that is greater than 6% of payroll is an additional cost to the City compared to status quo.

Option 1 may be closer to cost-neutral for the City, depending on the level of the employer DC Contributions. While the same two bullets above apply, there is additional savings in Option 1 due to a decrease in the Liability from freezing the plan for future accruals / salary increases for current employees.

This article from the National Public Pension Coalition outlines some reasons against converting public employees to a DC Plan:

- The study found that costs have increased for states when they made the switch, using Michigan and West Virginia as examples. Closing the plan to new hires shuts off a source of plan funding.
- There are recruitment/retention issues, using Palm Beach, Florida and Alaska as examples.
- 401(k)'s without mandatory Employee/Employer contributions can lead to Americans being under-prepared for retirement.

47. What are DPFP's legacy investments?

Response researched and provided by Deloitte Consulting. Based on information that is part of DPFPS's [January Board Meeting], Legacy Assets make up 19% of the portfolio ($365M) as of 12/31/23. They are shown on page 45 in yellow:

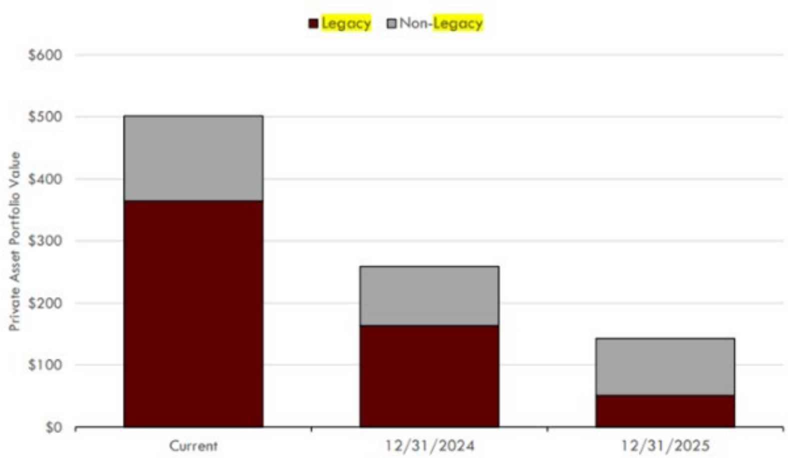
Page 49 (of the January Board meeting material) shows their plan to wind down the Legacy Assets by 12/31/24 and 12/31/25:

2024 01 11 Board Meeting - REGULAR AGENDA 2024 01

Private Market Holdings as of 12/31/23

		Market Value ($M) 12/31/2023	Exposure %
Private Equity	$	217.8	11.3%
Huff Alternative		0.2	0.0%
Huff Energy		151.7	7.9%
Industry Ventures		8.8	0.5%
Lone Star CRA		51.7	2.7%
Lone Star Growth Capital		0.0	0.0%
Lone Star Opportunity Fund V		4.0	0.2%
Lone Star North TX Op. Fund		1.4	0.1%
Private Debt	$	3.8	0.2%
Highland Crusader		0.4	0.0%
Riverstone		3.4	0.2%
Real Assets	$	279.7	14.5%
Natural Resource	$	95.1	4.9%
BTG Pactual		11.8	0.6%
Hancock		83.3	4.3%
Infrastructure	$	25.3	1.3%
TRG AIRRO I		18.7	1.0%
TRG AIRRO II		6.3	0.3%
JPM Global Maritime		0.3	0.0%
Real Estate	$	159.3	8.3%
AEW Capital Management		130.7	6.8%
Clarion Partners		28.6	1.5%
RE Opportunistic Funds		0.0	0.0%
Total Private Markets	$	501.3	26.0%
Legacy Assets	$	364.7	18.9%

In Millions



	Current	12/31/2024	12/31/2025
Legacy NAV (M)	$365	$163	$56
% of Private Portfolio	73%	57%	33%
% of DPFP Portfolio	19%	8%	2%

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48. If fund performance thresholds are not met and the City preferred to manage pension funds (either or both funds) going forward to deliver better returns, what would that process be? This is with the understanding that the City would make a distribution to the fund(s) which would then make a distribution to applicable members.

Yes, sponsoring employers may manage the investment of pension plan assets. Nothing in the Internal Revenue Code or other applicable guidance would prevent that. Implementing such amendments would require state legislative changes for the Dallas Police & Fire Pension System (DPFPS) and Dallas City Code Section 40A changes for the Employees' Retirement Fund (ERF), which would require approval by city council and by a majority vote of the voters voting at a general or special election.

49. What is the average pension benefit for each fund? What is the number of retiree/beneficiaries for each fund?

Based on information provided to the Ad Hoc Committee on Pensions since September 2023, the average annual pension benefit, and the number of retiree/beneficiaries for each fund is listed below:

- ERF: $42,789 average pension; approximately 7,900 retirees/beneficiaries
- DPFPS: $51,732 average pension; approximately 5,300 retirees/beneficiaries

50. What total amount was withdrawn from DPFP as part of the "run on the bank" when retirees withdrew from DROP accounts? How many retirees withdrew funds?

DPFPS provided the following response. $610 million was withdrawn from DROP balances in 2016. DPFP does not have data on the number of retirees who withdrew funds.

51. What is the total amount of money that remains in DROP accounts? How many retirees have DROP accounts?

DPFPS provided the following response.

- The present value of the DROP balances to be paid to retirees/beneficiaries over their expected lifetime is $913 million.
- 2,601 (Regular Plan) and 67 (Supplemental Plan) retirees and beneficiaries have DROP annuities.

52. How many police and fire retirees still have DROP accounts? What is the average value?

DPFPS provided the following response. The statistics on DROP participation are disclosed annually on the last page of the DPFP Annual Comprehensive Financial Report. (included below)

At 12-31-2022, 230 active members had DROP accounts. These accounts cannot be withdrawn, and the balances are converted to a stream of payments over their expected lifetime when they retire.

2,613 retirees/beneficiaries have DROP accounts in the Regular Plan. In addition, there are 67 retirees/beneficiaries with DROP accounts in the Supplemental Plan; many of these retirees/beneficiaries may also be counted in the number of members/beneficiaries with DROP accounts in the Regular Plan.

The average present value of the retirees/beneficiaries DROP balance is $325,260 in the Regular Plan and $89,552 in the Supplemental Plan. The average DROP balance for active members is $42,174.

HB 3158 required the DROP balances for retirees and beneficiaries to be converted to a stream of payments and paid over the person's expected lifetime.

DALLAS POLICE & FIRE PENSION SYSTEM

DROP Participation

Consolidated Plans* (Dollars in Millions)

	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Active - DROP Participants										
Beginning of year	276	320	383	483	626	1,102	1,338	1,399	1,434	1,446
Entrants	14	26	11	15	15	17	36	121	107	155
Withdrawals	(60)	(70)	(74)	(115)	(158)	(493)	(272)	(182)	(142)	(167)
End of year	230	276	320	383	483	626	1,102	1,338	1,399	1,434
DROP balance at December 31	$ 97	$ 113	$ 135	$ 154	$ 192	$ 242	$ 358	$ 479	$ 461	$ 441

Retirees and Beneficiaries - DROP Participants										
Beginning of year	9	10	11	16	16	1,876	2,085	1,971	1,855	1,718
Additions	4	-	-	-	3	-	204	168	170	190
Closures	(1)	(1)	(1)	(5)	(3)	(1,860)	(413)	(54)	(54)	(53)
End of year	12	9	10	11	16	16	1,876	2,085	1,971	1,855
DROP balance at December 31	$ 1	$ 1	$ 1	$ 1	$ 2	$ 2	$ 703	$ 1,038	$ 962	$ 858

Total DROP participants	**242**	**285**	**330**	**394**	**499**	**642**	**2,978**	**3,423**	**3,370**	**3,289**

Due to confidentiality issues arising from the small number of members in the Supplemental Plan, data from the Combined Pension Plan and Supplemental Plan is presented on a consolidated basis.

Combined Pension Plan

Retirees and Beneficiaries - DROP Annuities										
Beginning of year	2,518	2,425	2,342	2,186	1,978	-	-	-	-	-
Additions	118	128	109	173	216	1,978	-	-	-	-
Closures	(35)	(35)	(26)	(17)	(8)	-	-	-	-	-
End of year	2,601	2,518	2,425	2,342	2,186	1,978	-	-	-	-
Present Value of Annuities at December 31	$ 846	$ 864	$ 870	$ 880	$ 829	$ 810	-	-	-	-

Supplemental Plan

Retirees and Beneficiaries - DROP Annuities										
Beginning of year	68	65	66	57	55	-	-	-	-	-
Additions	-	4	2	9	2	55	-	-	-	-
Closures	(1)	(1)	(3)	-	-	-	-	-	-	-
End of year	67	68	65	66	57	55	-	-	-	-
Present Value of Annuities at December 31	$ 6	$ 6	$ 7	$ 7	$ 4	$ 7	-	-	-	-

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53. Could city property/assets be turned over to the DPFP system to allow them to sell it instead of the city?

No. Generally, pursuant to Texas Local Government Code Chapters 272 and 253, the disposition (sale or exchange) of available municipal property requires public notice and bidding where the property must be offered for sale to the public unless the intended sale qualifies as a direct sale exception under Chapters 272, 253, or other law. Currently, there is no statutory exception to permit a direct sale or turnover of available city property to an entity like the DPFPS to allow them to sell the property instead of the city. The city could, however, manage the sale of available city property and by an amendment of Ordinance No. 15680 (11-16-77), city council could direct the proceeds of available city property to the DPFPS. (Note: available city property means property that, because of its character, is not limited by law as to where the sale proceeds can be directed).

54. Are all actuarial assumptions based on hiring and retention goals? If yes, isn't it important to acknowledge we haven't met hiring or retention goals in more than 7 years? Please outline what the number of sworn officers for police and fire is for each year of the next 30 years.

ERF provided the following response. ERF's actuarial assumptions are based on active employee's current headcount and that the estimated headcount of 7,900 will remain the same in the future. In addition, ERF assumes that the payroll growth will continue to be 3%. Reducing either of these assumptions will require greater contribution rates.

DPFP provided the following response. The Actuary does not project the number of sworn officers each year. To complete the actuarial valuation, the actuary has assumptions for salary increases, payroll growth, and retirements. All these factors feed into their projection of contributions and liabilities; however, they do not develop a specific number of employees from those assumptions. The salary projections include information on meet-and-confer agreements. DPFP's actuary prepares an experience study every five years to determine how closely actual experience matches the assumptions. The salary increases, payroll growth, withdrawal rates before retirement, and retirement rates all feed into the valuation, and the assumptions are below. In 2017, the City staff developed a "Hiring Plan" estimate that included the number of police officers and firefighters for 20 years. The number of employees has been used as a reference point since that time. The City staff has not updated that projection.

55. What are the average service years for ERF and DPFP members?

ERF provided the following response. ERF membership is divided into two Tiers (A & B). Tier B was implemented as of January 1, 2017. The period of the following average years of service provided is January 1, 2017, to December 31, 2023: Tier A Members Average Tenure is 22.5 years of service and Tier B Members Average Tenure is 3.7 years of service.

DPFPS provided the following response. For DPFP, as of 12-31-2023, the average service of active members is 12.6 years.

56. What is the mean benefit for a 13th check to retirees as proposed by city staff?

DPFPS provided the following response. The mean 13th check proposed by the City for a retiree would equal $422.60 per year. The DPFP calculation is an estimate that considers averages of both benefits and service time, so it is less precise. Still, the estimate is an average of $870.56 annually for the first year.

57. Is it legal for the city council to make a plan change and reduce ERF COLA for tier A and B employees/retirees?

Yes, the city council can make changes to ERF COLA provided that COLA is changed prospectively only. Any change to COLA may prompt a legal challenge, but courts have thus far rejected legal challenges to a plan's prospective changes to COLA. There is a pending lawsuit challenging the state legislature's 2017 change to COLA in the DPFPS statute. That challenge has been unsuccessful so far.

Further, implementing amendments to ERF COLA would require changes to Dallas City Code Section 40A, which would require approval by city council and by a majority vote of the voters voting at a general or special election.

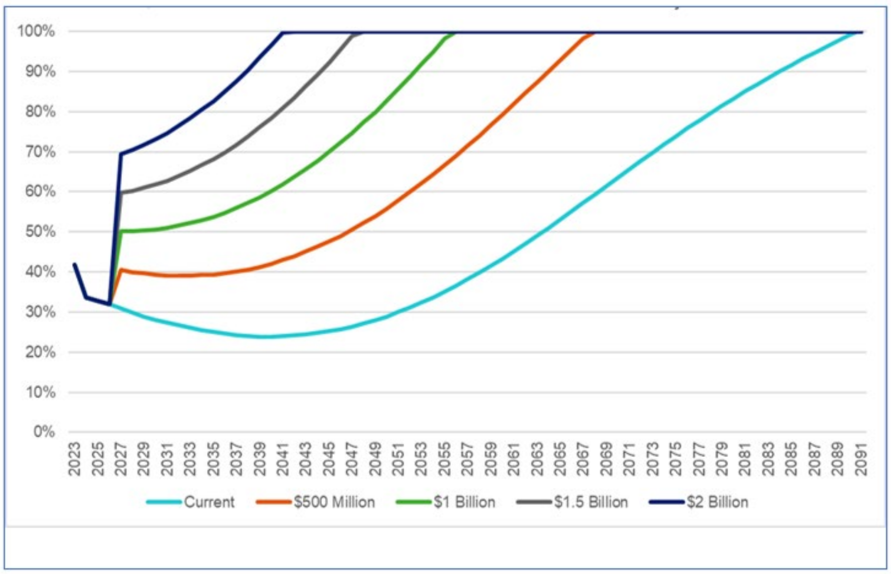
58. If there is a lawsuit being appealed by ERF, could they ask the Pension Review Board for an extension in their 30-year funding plan until that is decided?

No. Texas Government Code Chapter 802.2015(e) requires ERF and the city to submit a joint 30-year funding soundness restoration plan. Texas' Pension Review Board does not have authority to enter orders or decisions that suspend or contradict state law requirements.

59. Can a stipend or COLA be given to certain members of DPFP and not others? For example, can stipends or COLAs be limited to only DPFP members that have not or do not have DROP accounts?

Yes, with a legislative amendment to the DPFPS statute, the DPFPS statute could provide for a stipend or COLA to some members and not others.

60. Provide various scenarios of how different amounts of cash infusion will have a positive impact on the Unfunded Liability.



On December 14, 2023, the Ad Hoc Committee on Pensions was briefed by Bill Quinn, John Stephens, and Rob Walters who are industry and financial experts that were asked by the Mayor to provide analysis and recommendations. As part of their presentation, they showed how significant one-time cash infusions would benefit DPFPS' funding status. Below is a graphic from their presentation. The information in their presentation was based on the Actuarial Valuation of January 1, 2022. They provided scenarios assuming $500 million, $1 billion, $1.5 billion, and $2 billion cash infusions during 2025. In each scenario with increasing amounts of cash infusion, the fund achieves 70% funding status and 100% funding status than without the cash infusion. The line showing current status assumes that we continue making our current level of contributions. There is not a line on the below chart that shows City staff's recommendation and the impact of the ADC. Staff's recommendation moves the 70% funding status up to 2046 and moves up the full-funding status to 2055.

61. What is the impact a $1 million payment from the sale of assets or otherwise to the pension obligation?

The DPFPS Unfunded Actuarial Accrued Liability as of January 1, 2023, was reported to be $3.2 billion. While amounts such as $1 million would benefit the fund, it will require much more significant amounts to change the funding status. Please see the previous question and response. You will see the impact of adding amounts between $500 million and $2 billion and the positive impact those amounts would have.

62. Has an analysis been done to show the costs and benefits of converting the ERF, including as a way to attract talent that is not interested in a 20-year career with one employer?

No. However, staff will consider this during FY 2024-25.

63. Is it correct that Houston's police and fire pension has a 4% COLA, and its civilian pension has a 2% COLA while police and fire pension has a 0% COLA for the next 20+ years and the civilian pension has a 5% and 3% COLA, depending on hire date? If yes, how do you rectify the difference and how will the city be able to maintain hiring and retention for police and fire?

On May 23, 2024, Deloitte Consulting LLP briefed the Ad Hoc Committee on Pensions regarding Cost-of-Living Adjustments (COLA) and provided comparative information. The table on the right is from Deloitte's presentation and notes provisions for Houston COLAs. At this time, Houston police and fire can receive a COLA based on a formula with a maximum of 4%. Houston general retirees may receive a COLA maximum of 2%. However, it appears that there was a period of time when Houston police and fire COLAs were suspended due to financial hardships of the plan while non-uniform retirees' COLA continued.

Yes, it is accurate that Dallas ERF retirees may receive a COLA up to either 3% or 5% based on their employment date, while DPFPS retirees currently have COLA suspended due to financial hardship of the plan.

Obviously, this is a very complex issue, however, the two plans have very different histories. Contributions from the employees and from the City have been different for the two plans. Retirement eligibility has been different for the two plans. Benefits are different for the two plans. Historical COLAs are different for the two plans. Compensation for active employees has been different for uniform and non-uniform. Therefore, current COLAs are not comparable.

Houston (Fire and Police)

- *Current Funded Ratios: 96%/89% (Fire/Police)*
- **Prior to 2017**: Automatic COLA (3% for Fire, 80% of CPI-U, range of [2.4, 8.0%], for Police)
- **2017**: COLAs suspended for all retirees under age 70 for 2017-2020 due to financial hardships for the Plans
- **After 2020**: COLA remains automatic, but is tied to five-year average returns less 4.75%/5.00% (Fire/Police), with a maximum of 4%, payable to age 55+ only

Houston (General)

- *Current Funded Ratio: 69%*
- COLA have always been automatic
- **Prior to 2017**: Members hired before 1/1/05 received 3% COLA; members hired between 1/1/05 and 1/1/08 received 2% COLA; members hired after 1/1/08 receive no COLA.
- **2017**: All employees* (including those hired after 1/1/08) receive 50% of the five-year average return less 5.00%, with a maximum of 2%.

* Group D members who terminated prior to 2017 are not eligible for COLA

Through Meet and Confer agreements, the Police and Fire associations have been vocal about what they are seeking in the way of hiring and retention and it is pay for active employees.

64. Is it true the ERF COLA is considered automatic every year up to 5% and 3%, depending on the class, and the DPFP is not eligible for a COLA for more than 20 years, estimated to be 2046 or 2047?

ERF retirees' COLA are considered automatic based on certain criteria and are provided at 3% and 5% based on the retirees hire date. DPFPS retirees will be eligible for a COLA when the fund achieves 70% funded as agreed to with the State Legislature and enacted in 2017 HB3158. The City Manager's recommendation is to add a 1% COLA in 2025 for DPFP and allow for a 1% stipend from 2026 until the fund achieves 70% funding as long as the return on investment is greater than zero. These recommended supplemental payment features are above and beyond what HB3158 and the PRB requires.

Dallas Police and Fire Pension System (DPFPS) and Employee Retirement Fund (ERF)
Fourth Set of Responses to City Council Questions – August 30, 2024

65. Has a strategy for paying COLA been developed with regard to DROP Members? I understand that there are varying degrees of DROP, but if a member has taken a substantial distribution and is/can manage it privately, why would the City support the fund pay a COLA?

DPFPS has indicated legal concern over differentiating between retirees' benefits including COLA based on whether they participated in DROP or not.

66. What is the annual cost to the City to provide a 1% stipend in each year (2025-2046) for DPFP?

Based on current retiree assumptions and not increasing the base pension, a one-time 1% stipend would cost approximately $2.6 million in the near-term. However, this amount will increase in future years depending on other actuarial assumptions.

67. Please identify the amount of ARPA funds that remain. What are the budgeted amounts, encumbered amounts, and unencumbered amounts? Is there any amount identified that could be reallocated?

At the request of the City Council, we provided a quarterly report to the Government Performance and Financial Management Committee on August 26, 2024. The first table below shows the status of funds that were originally allocated in ARPA totaling $355 million. The second table below shows the status of funds that we have reallocated to a separate multi-year fund after using ARPA funds for DFR payroll. By reallocating the funds, we are able to continue the projects that were originally allocated within ARPA.

As noted in the GPFM committee, we have identified $5.8 million that is available to be reallocated to a new use. These funds are available from interest earnings and a FEMA reimbursement. The City Manager (I) has recommended that these funds be incorporated into the FY 2024-25 budget and used for street maintenance. A budget amendment reflecting this will be discussed on Wednesday, September 4 during the budget workshop.

Staff will report to GPFM each quarter and continue to identify funds that can be reprogrammed.

ARPA (SLFRF) Program (Fund FC18)

	Department	Budget	Total Encumbered	Total Spent	Encumbered + Spent	Total Unencumbered
1	Budget & Management Services - BMS	$5,280,627	$2,645,689	$2,227,683	$4,873,372	$407,255
2	Building Services - BSD	21,165,000	855,243	18,865,488	19,720,731	1,444,269
3	Court & Detention Services - CTS	6,620,750	455,694	4,364,386	4,820,080	1,800,670
4	Dallas Fire Department - DFD	34,011,375	8,612,525	22,763,463	31,375,988	2,635,387
5	Dallas Fire Department - DFD (Fire Public Safety)	151,970,707	-	151,970,707	151,970,707	-
6	Dallas Police Department - DPD	54,867,177	7,025,468	47,441,849	54,467,317	399,860
7	Information and Technology - DSV	15,000,000	1,635,144	8,327,682	9,962,826	5,037,174
8	Integrated Public Safety Solutions Officer - IPS	200,000	-	195,030	195,030	4,970
9	Library - LIB	250,000	-	250,000	250,000	-
10	Communications - MGT/COM	253,846	-	252,194	252,194	1,652
11	Office of Community Services - MGT/OCC	20,256,605	14,165,820	5,843,705	20,009,524	247,081
12	Office of Equity & Inclusion - MGT/OEI	500,000	30,658	469,342	500,000	-
13	Office of Emergency Management - MGT/OEM	1,855,168	-	1,855,167	1,855,167	0
14	Environmental Quality & Sustainability - MGT/OEQ	241,942	-	219,990	219,990	21,952
15	Office of Governmental Affairs - MGT/OGA	107,131	15,369	91,762	107,131	-
16	Office of Homeless Solutions - MGT/OHS	1,599,391	-	1,599,391	1,599,391	0
17	Small Business Center - MGT/SBC	20,000	-	20,000	20,000	-
18	Dallas Park & Recreation - PKR	4,494,210	-	2,259,746	2,259,746	2,234,464
19	Office of Procurement - POM	1,866,099	70,206	1,769,373	1,839,579	26,520
20	Department of Transportation - TRN	34,866,863	7,794,926	19,780,223	27,575,149	7,291,714
Total - reflects 3rd Quarter report to US Treasury		$355,426,891	$43,306,744	$290,567,180	$333,873,924	$21,552,967
21	Budget & Management Services -BMS - Unbudgeted Interest Earnings					5,000,000
22	Office of Emergency Management MGT/OEM - FEMA Reimbursement					807,570
Total		$355,426,891	$43,306,744	$290,567,180	$333,873,924	$27,360,537

Note: The chart above reflects expenditures and encumbrances recorded in the City's financial system of record. The totals do not include commitments that have not yet been recorded in the system, such as amounts recently approved by City Council.

ARPA Redevelopment Fund (Fund 0A72)

	Department	Budget	Total Encumbered	Total Spent	Encumbered + Spent	Total Unencumbered
1	Attorneys Office - ATT	$50,000	$1,515	$3,431	$4,946	$45,054
2	Budget & Management Services - BMS	1,738,601	0	0	0	1,738,601
3	Building Services - BSD	14,059,542	109,400	0	109,400	13,950,142
4	Code Compliance - CCS	1,200,000	0	0	0	1,200,000
5	Dallas Fire Department - DFD	3,237,908	0	0	0	3,237,908
6	Dallas Water Utility - DWU	37,426,891	12,935,840	15,567,394	28,503,234	8,923,657
7	Housing - HOU	23,450,000	1,383,686	4,845,447	6,229,133	17,220,867
8	Library - LIB	240,000	0	0	0	240,000
9	Office of Bond & Construction - OBM	5,000,000	1,027,755	89,705	1,117,460	3,882,540
10	Communications - MGT/COM	746,154	0	271,833	271,833	474,321
11	Mayor and City Council - MGT/MCC	16,000,000	3,373,361	932,778	4,306,139	11,693,861
12	Office of Community Services - MGT/OCC	7,612,768	374,655	525,202	899,857	6,712,911
13	Office of Equity & Inclusion - MGT/OEI*	22,113,793	263,449	1,173,074	1,436,523	20,677,270
14	Environmental Quality & Sustainability - MGT/OEQ	1,758,058	533,528	2,785	536,313	1,221,745
15	Office of Governmental Affairs - MGT/OGA	142,869	7,685	5,533	13,218	129,651
16	Office of Homeless Solutions - MGT/OHS	6,158,240	516,008	20,178	536,186	5,622,054
17	Small Business Center - MGT/SBC	830,000	0	102,384	102,384	727,616
18	Office of Arts and Culture - OCA	125,000	6,000	19,000	25,000	100,000
19	Department of Public Works - PBW	15,966,000	1,531,696	14,433,871	15,965,567	433
20	Office of Procurement - POM	1,459,936	9,880	194,484	204,364	1,255,572
Total		$159,315,760	$22,074,457	$38,187,099	$60,261,556	$99,054,204

Note: The chart above reflects expenditures and encumbrances recorded in the City's financial system of record. The totals do not include commitments that have not yet been recorded in the system, such as amounts recently approved by City Council.
**Reflects project recommended for reprogramming.*

68. Please explore further the details for stronger fund governance requirements, such as settlement negotiations, discount rate reductions and others as referenced on page 17 of the Dallas Police and Fire Pension System: Funding Soundness Restoration Plan Update and Consideration of Recommendations presented May 23, 2024.

City staff has recommended three concepts in regards to adding oversight for both DPFPS and ERF. The below table shows language consistent with changes made to Chapter 40-A for ERF. DPFPS continues to not support any type of additional oversight.

Oversight Concept	Recommended Language from Changes to Chapter 40-A
Provide oversight of expenses that will increase DPFPS unfunded liability and increase cost to City	Changes to the actuarial assumptions, including, but not limited to, the discount rate, that increases the retirement fund liability must be approved prospectively by the board and the city council. Settlement of any lawsuit by the retirement fund that increases the retirement fund liability must be approved prospectively by the board and the city council.
Establish guardrails to mitigate year-over-year cost increases	After the applicable phase-in period defined, if in any fiscal year the actuarially determined contribution rate (excluding the January 1, 2025 unfunded actuarially accrued liability 30-year amortization schedule) exceeds plus or minus five percent of the actuarially determined contribution rate (excluding the January 1, 2025 unfunded actuarially accrued liability 30-year amortization schedule) specified by the January 1, 2025 actuarial valuation, the excess amount will be amortized over a period of 20 years or until January 1, 2055, whichever is later. If the city council determines that the fund is projected to be fully funded in over 30 years, the city council may, in its sole discretion, waive this paragraph. The board may make a recommendation to city council requesting that city council waive this paragraph.
Establish process for managing differences in ADC calculations	Annually, the fund and the city will each calculate an actuarially determined contribution rate for the following fiscal year. The city will accept the rate that is determined by the fund's actuary and presented to the board, except, if the difference between the rates that are calculated by the actuaries of the city and the fund is greater than three percent, the fund and the city shall engage in a 30-day reconciliation period. If, within such period, the actuaries of the city and the fund reconcile the results of their respective calculations of the actuarially determined contribution rate for the applicable fiscal year, the rate that was calculated by the fund's actuary shall be accepted by the city and the fund. If no such resolution is reached within the 30-day reconciliation period, an average of the rates, determined by the actuaries of the city and the fund, will be used to determine the city's contribution for the upcoming fiscal year.

69. What is the total cost to fully fund the pension in 30 years in the five different scenarios originally provided by Cheiron?

Based on scenarios that Cheiron provided, below is the cost to fully-fund DPFPS in 30-years for each scenario. City staff has recommended the 5-year step-up scenario because it provides a phase-in approach that is more manageable from a budget perspective than the other four scenarios.

- Traditional ADC - $11.1 billion
- 3-year step up and step down - $10.8 billion
- 5-year step up and step down - $10.8 billion
- 3-year step up - $11.0 billion
- 5-year step up - $11.1 billion

70. Provide a budget comparison scenario for year 2031 between the adoption of the traditional ADC which levels the costs evenly over 30 years, versus the 5 year step up?

Based on the original scenarios provided by Cheiron, the Traditional ADC scenario has a cost of $288.0 million in 2031 compared to the 5-year step up scenario which has a cost of $291.1 million in 2031.