

**DENTON FIREMEN'S RELIEF AND RETIREMENT FUND  
PO BOX 2375  
DENTON, TX 76201**

Date: May 9, 2017

To: Honorable Mayor and Members of the Denton City Council

From: Derek Oswald, Chairman of the Denton Firemen's Relief and Retirement Fund

Copy: Todd Hileman, City Manager  
Bryan Langley, Deputy City Manager  
Jon Fortune, Assistant City Manager  
Robin Paulsgrove, Fire Chief  
Denton Firemen's Relief and Retirement Fund Board Members

Subject: Funding Policy for the Denton Firemen's Relief and Retirement Fund (DFRRF)

As you know, the current Meet and Confer contract with the Denton Firefighters Association includes a provision related to the funding methodology for the DFRRF. Specifically, Article 12 of the agreement states:

"Each successive year of the Agreement, the City shall continue to apply the same contribution level, including any increase or decrease, toward the Firemen's Retirement and Relief Fund to match the City's actual contribution rate to the Texas Municipal Retirement System for that calendar year."

In our judgement, this funding arrangement has proved to be beneficial to both the City of Denton and the DFRRF. The City has been able to accurately predict its pension costs, and the DFRRF has received similar treatment to the other City of Denton employees that are in the Texas Municipal Retirement System (TMRS).

While this funding methodology has worked well over the past few years, this arrangement now needs to be modified due to changing demographics and the current investment climate. The primary reason for this change is that the City's TMRS contribution is declining as a percentage of payroll due to growth in the municipal workforce. In addition, the recently updated DFRRF actuarial study is recognizing the investment reality of lower returns over time.

The DFRRF needs a contribution from the City which is decoupled and independent of TMRS. This funding arrangement should be based upon the unique actuarial and workforce demands of the Fire Department instead of amount which is tied to TMRS.

Due to these issues, the DFRRF Board voted in favor of a revised funding methodology on May 9, 2017. Specifically, the Board is requesting that the pension funding formula be based on the following considerations:

- 1) The DFRRF will develop and adopt a funding policy which achieves a 100% funding ratio over a closed 25 year amortization period.

- 2) Based on this goal, an actuarial analysis will be performed every two years, and the City's contribution rate required to achieve this objective will be calculated.
- 3) No benefit enhancements will be approved by the Board unless the 100% funding ratio has been achieved, or if the funding ratio is less than 100%, the Board has received the written consent of the City Council.
- 4) The investment rate of return assumption will be conservatively estimated depending upon investment expectations (currently 6.75%).
- 5) If the performance of the DFRRF exceeds expectations, the initial rate of contributions as a percentage of payroll by the City of Denton will not be reduced until the amortization period is 20 years or less. In other words, any actuarial gains will be used to pay down unfunded liabilities rather than reducing the contribution rate during the first 5 years of the amortization period.
- 6) The City of Denton will have the right to review the actuarial estimates and actuarial valuation report, and if the City finds these estimates to be unreasonable, it may request changes to the funding agreement.
- 7) Future City contribution rates will be calculated to achieve the above specific actuarial benchmarks and may increase or decrease based on actual results of the DFRRF plan.

According to the DFRRF actuarial firm, Rudd and Wisdom, Inc., the City would need to contribute 18.5% of payroll to amortize the current unfunded liability over a 25 year period. Over the past twelve months (April 1, 2016 to March 31, 2017), the City's contribution rate into the DFRRF has averaged 17.43%, or \$2.8 million. If the rate was increased to the 18.5% as proposed, this would represent approximately \$173,152 in additional costs to the City on annual basis.

However, if the City were to add six additional firefighters in 2018 and nine more in 2021 for planned service enhancements, the actuary estimates that the contribution rate would be 18%, about \$92,322 more than the current contribution on an annual basis. Therefore, the City's total contribution is expected to be between 18% and 18.5% of payroll for the next several years, or between \$92,322 to \$173,152 more than what is currently contributed on an annual basis depending upon growth and actuarial experience.

While this cost is higher than what is currently paid, the DFRRF Board believes that this funding arrangement will benefit the firefighters and City jointly by providing a reasonable and sustainable plan to reduce liabilities over time. By working as partners, the DFRRF and City will deliver a competitive retirement program for firefighters while protecting the long-term financial future of the taxpayers in our community. As such, the DFRRF respectfully requests that the City of Denton amend the Meet and Confer agreement with the Firefighter Association to allow for the contribution arrangement outlined above.

I very much appreciate your consideration, and I would be glad to meet with you or management to discuss this request in further detail.

Respectfully,

Derek Oswald  
Chairman, Denton Firemen's Relief and Retirement Fund