



City of Denton

City Hall
215 E. McKinney Street
Denton, Texas
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AGENDA INFORMATION SHEET

DEPARTMENT: City Manager's Office

CM/ DCM/ ACM: Bryan Langley

DATE: December 5, 2017

SUBJECT

Consider adoption of an ordinance of the City of Denton, Texas approving an agreed amendment to Article 12 of the existing Meet and Confer Agreement between the City of Denton and the Denton Fire Fighters Association, relating to the funding of fire pensions; and providing an effective date.

BACKGROUND

The City of Denton participates in the Texas Municipal Retirement System (TMRS) and Denton Firemen's Relief and Retirement Fund (DFRRF) pension plans. The DFRRF plan covers firefighters in the Denton Fire Department, and the TMRS plan covers all other City of Denton employees with the exception of temporary positions.

As we have discussed with Council in the past, the TMRS plan experienced actuarial issues in 2008, and as a result, the City increased its contribution rate to the plan over time. There was, however, no increase in benefits provided in the plan. Instead, the increase in contributions was intended to reduce liabilities and improve the overall financial health of the plan. An overview of the TMRS and DFRRF plans and their respective financial condition was presented to the City Council in February 2017, and a copy of this presentation is included as Exhibit 2. Additionally, a copy of the latest DFRRF actuarial report is included as Exhibit 3.

Due to the increases in the TMRS contribution rate, the Firefighters Association requested that the same contribution rate given to TMRS be provided to the DFRRF. In 2010, the City agreed to this arrangement, and 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."

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. Additionally, the DFRRF needs a contribution from the City which is decoupled and independent of TMRS. The funding methodology should be based upon the unique workforce demands of the Fire Department which will achieve financial objectives over time.

Due to these factors, the DFRRF Board and the Denton Firefighters Association requested that the City consider entering into an agreement to modify the funding formula. These requests are included as Exhibits 4 and 5.

Based on these requests, staff has been working with our outside legal counsel, Alan Ozuna, to draft an agreement, and we believe we have achieved language which will satisfy the interests of all parties. Below are the central points for the proposed agreement.

- 1) The DFRRF will develop and adopt a funding policy which achieves a 100% funding ratio over a closed 25 year amortization period.
- 2) The City will increase its current contribution rate to the DFRRF to 18.5% effective with the first pay period beginning after the agreement is approved. Each subsequent year of the agreement, the City's contribution rate will be adjusted to the rate needed to amortize the unfunded liabilities over the 25 year closed period.
- 3) No benefit enhancements will be approved by the Board during the term of this agreement which expires on September 30, 2019.
- 4) The investment rate of return assumption will be conservatively estimated depending upon investment expectations (currently 6.75%).
- 5) The DFRRF will commission an actuarial analysis every two years, and the City Council will be provided a formal opportunity to approve the report. If the report is approved by Council, the City's contribution rate will be adjusted to achieve the above mentioned actuarial goals. If the City Council does not approve the report, however, the City and DFRRF mutually agree to discuss potential changes which would satisfy any deficiency.
- 6) If the deficiency cannot be corrected, the report will not be approved by the City Council, but the City's contribution would not be less than the contribution rate to TMRS or the minimum rate established by law.

In discussing a potential agreement with the Association, the members were concerned about receiving a contribution rate below that of TMRS – a benefit which was already agreed to in the current meet and confer agreement. Additionally, the Association was concerned about the possibility of agreeing to never increase benefits perpetually in the future. Both of these issues have been addressed in the proposed agreement by a) including language that the rate would not be less than TMRS, and b) stating that the terms are tied to the meet and confer agreement which expires on September 30, 2019.

The Association formally ratified the proposed agreement on November 18th and the DFRRF Board approved the agreement on November 15th. Staff believes the proposed agreement meets all of the City Council goals and provides the Association and Board with assurances on how contributions will be addressed should there be a dispute.

RECOMMENDATION

Staff recommends approval of the attached ordinance.

STRATEGIC PLAN RELATIONSHIP

The City of Denton's Strategic Plan is an action-oriented road map that will help the City achieve its vision. The foundation for the plan is the five long-term Key Focus Areas (KFA): Organizational Excellence; Public Infrastructure; Economic Development; Safe, Livable, and Family-Friendly Community; and Sustainability and Environmental Stewardship. While individual items may support multiple KFAs, this specific City Council agenda item contributes most directly to the following KFA and goal:

Related Key Focus Area: Organizational Excellence

Related Goal: 1.1 Manage financial resources in a responsible manner

EXHIBITS

1. Agenda Information Sheet
2. TMRS and DFRRF Overview
3. DFRRF Actuarial Valuation
4. Funding Request Letter
5. Denton Firemen's Relief and Retirement Fund
6. Ordinance and Meet and Confer Agreement

Respectfully submitted:
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Deputy City Manager