BILL ANALYSIS

Senate Research Center
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C.S.S.B. 1527
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Finance
3/19/2025
Committee Report (Substituted)

AUTHOR'S / SPONSOR'S STATEMENT OF INTENT

Before 2017, the statute governing the Dallas Police and Fire Pension System (DPFPS), Article 6243a-1, Revised Statutes, allowed unsustainable benefits to be approved by the pension board, including a guaranteed interest rate on deferred retirement option plan (DROP) accounts, and annual cost of living adjustments (COLAs) for retirees. DPFPS also made several bad investments. These factors, as well as a run-on-the-bank for withdrawal of DROP funds, contributed to the near failure of the DPFPS.

As a result of this near failure, in 2017, the state legislature passed H.B. 3158 to save DPFPS from collapse. H.B. 3158 increased the city's required contributions and increased the employee contribution rate. H.B. 3158 also changed DPFPS' governing structure and reduced certain benefits, such as suspending COLAs until the DPFPS is restored to 70 percent funding. At that time, it was understood that a long-term funding strategy would be needed in 2025.

As of January 1, 2023, DPFPS had $3.2 billion in unfunded liability, was only 39 percent funded, and it would require 82 years before being fully funded. DPFPS hired an independent actuary (Cheiron) to make recommendations for a long-term funding strategy. Cheiron provided a preliminary report in November 2023 and a final report in February 2024.

The City of Dallas—its taxpayers—contribute a significant amount to DPFPS to finance the benefits of this fund. Dallas City Council is committed to public safety and to fully funding DPFPS within 30 years and demonstrated its commitment to funding DPFPS by approving a Funding Soundness Restoration Plan on September 11, 2024, which provides for a five-year step-up of contributions to the implementation of an actuarially determined contribution (ADC) rate model rather than continuing to use a fixed rate contribution model. The ADC model with a five-year step-up is consistent with Cheiron's recommendation. In September 2024, the city increased its fiscal year 2024–2025 budget by over $18 million to a total of over $202 million for the year and began the increased contributions on October 1, 2024.

This bill addresses three important and necessary changes:

1. Resolves DPFPS funding issues and fully funds DPFPS within 30 years by increasing the city's contributions. This bill does not cost the state anything.

This bill changes the city's contributions under Section 4.02 from a fixed rate contribution model to a five-year step-up of contributions to the implementation of an ADC rate model.

The city's plan will increase the city's contributions by more than $3.5 billion over 30 years, requiring $10.9 billion dollars in contributions from the city over 30 years based on the new ADC rate model rather than $7.4 billion over 30 years based on the old fixed rate contribution model.

Although DPFPS is only 39 percent funded, the city's funding plan would achieve 100 percent funding in 30 years instead of taking 82 years as previously forecast.

2. Provides some guardrails around DPFPS to prevent DPFPS from increasing its unfunded liability and increasing the cost to the city and its taxpayers.

An ADC model of contributions is a risk to the city and its taxpayers, a risk the city is willing to take. However, to manage the risk to the city and its taxpayers under an ADC, the following actions must be approved by the board and the city council if the action increases the pension system's liability:

- settlement of any lawsuit;
- any proposed increase to benefits; and
- any changes to actuarial assumptions, including the current discount rate.

3. Makes any plan or rule adopted under this article, including the DPFPS plan, unenforceable, and changes the city's contribution as required under this article.

Under this article, the city's contributions can be changed in three ways:

- 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, by at least a two-thirds vote of all trustees of the board, and the city, provided that a change made in accordance with this subdivision may not increase the period required to amortize the unfunded actuarial accrued liability of the fund.

DPFPS' board adopted a separate plan on August 8, 2024, without joint agreement from the city, that would implement an ADC rate model with a three-year step-up, and a model that would add a partial COLA each year (annual change in CPI-U multiplied by DPFPS' funded ratio on a market value basis with the annual COLA capped at 1.5 percent) even though the fund is only 39 percent funded, which would increase the fund's unfunded liability.

DPFPS' proposed plan would add an additional $600 million cost to the city and taxpayers over 30 years.

This plan would hinder the city's ability to (1) focus on public safety recruiting and retention and (2) take care of Dallas residents, which is unnecessary because the city's plan fully funds DPFPS while balancing the needs of Dallas' public safety goals, pension funding commitments, and caring for their residents.

DPFPS' plan does not take into consideration that the city's revenue is restricted by the 3.5 percent state-mandated property tax revenue cap or take into consideration the other priorities of the city such as pay increases for police and fire active employees and increasing the number of police officers in the city.

This bill is needed to:

1. Comply with state law and fully fund the DPFPS within 30 years by increasing the city's contributions by going from a fixed rate contribution model to a five-year step-up of contributions to the implementation of an ADC rate model.

2. Put some guardrails around DPFPS to prevent DPFPS from increasing its unfunded liability.

3. Prioritize public safety in Dallas, balance the needs of residents, and provide the city flexibility with its meet and confer agreement.

(Original Author's/Sponsor's Statement of Intent)

C.S.S.B. 1527 amends current law relating to the administration of, contributions to, and benefits under the public retirement systems for police and firefighters in certain municipalities.

RULEMAKING AUTHORITY

Rulemaking authority previously granted to the State Pension Review Board is rescinded in SECTION 6 (Section 2.025, V.T.C.S) of this bill.

SECTION BY SECTION ANALYSIS

SECTION 1. Amends Section 2.01, Article 6243a-1, Revised Statutes, by adding Subdivision (3-a), to define "actuarially determined contribution rate."

SECTION 2. Amends Article 6243a-1, Revised Statutes, by adding Section 2.026, as follows:

> Sec. 2.026. ADMINISTRATIVE REQUIREMENTS. (a) Provides that, as a public retirement system within the meaning of Section 802.001 (Definitions), Government Code, the pension system for police and firefighters in certain cities (pension system) is subject to and must comply with Chapter 802 (Administrative Requirements), Government Code.
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> > (b) Provides that any plan or rule adopted under former Section 2.025 (Independent Actuarial Analysis and Legislative Recommendations) of Article 6243a-1 (Pension System for Police Officers and Firefighters in Certain Cities) is prohibited from being implemented and is unenforceable.

SECTION 3. Amends Article 6243a-1, Revised Statutes, by adding Section 3.014, as follows:

> Sec. 3.014. CITY AND BOARD APPROVAL REQUIRED FOR CERTAIN ACTIONS. Requires that the following actions, notwithstanding any other provision of this article, be approved by the State Pension Review Board (PRB) and the city council if, as a result of taking the action, the action will result in an increase in the pension system's liabilities:
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> > (1) the settlement of any lawsuit by PRB;
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> > (2) any proposed increase to benefits by PRB, including any adjustment under Section 6.12 of this article; and
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> > (3) any changes to actuarial assumptions under Section 2.02 (Actuarial Assumptions) of this article, including the current discount rate.

SECTION 4. Amends Section 4.02, Article 6243a-1, Revised Statutes, by amending Subsection (d) and adding Subsections (d-1), (e-1), (f), (g), (h), and (h-1), as follows:

> (d) Requires the city, subject to Section 4.025 (City or Member Contributions if No Unfunded Actuarial Liabilities) of this article, to make contributions to the pension system biweekly using an actuarially determined contribution rate with a five-year step-up period beginning October 2024. Provides that, subject to Subsections (e-1) and (f) of this section, the actuarially determined contribution rate for any given city fiscal year is the sum of the following as determined in the actuarial valuation for the plan year preceding the fiscal year:
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> > (1) an established 30-year closed amortization amount with five-year step-up and no step-down for the unfunded actuarial accrued liability and administrative expenses, determined based on the January 1, 2023, actuarial valuation, as shown in a certain fixed dollar schedule, divided by the members' projected aggregate computation pay for each city fiscal year;

(2) normal cost; and

(3) subject to Subsection (d-1) of this section, new amortization layers as necessary to amortize the difference between the expected remaining balance of all previous years' layers and the actual unfunded actuarial accrued liability for the given valuation.

Deletes existing text requiring the city, subject to Section 4.025 of this article, to make contributions to the pension system biweekly in an amount equal to the sum of the greater of certain computations and, except as provided by Subsection (e) (relating to the requirement that the city pay through the last biweekly pay period that ends after December 31, 2024) of this section, an amount equal to 1/26th of $13 million.

(d-1) Requires that new amortization layers, for purposes of Subsection (d)(3) of this section, be amortized over a closed amortization period of 20 years or until January 1, 2053, whichever is later. Authorizes the outstanding layers, if the actuarial assets of the fund exceed the actuarial liabilities for a given valuation, to be collapsed into a single layer with a closed amortization period of 20 years or until January 2, 2053, whichever is later.

(e-1) Requires the pension system's qualified actuary and the city's actuary, before July 1 of each year, to respectively calculate and recommend an actuarially determined contribution rate for the following city fiscal year. Provides that, if the difference between the recommended rates is:

(1) three percent or less, the actuarially determined contribution rate is required to be the rate recommended by the pension system's qualified actuary; or

(2) greater than three percent, PRB and the city council shall engage in a 30-day reconciliation period:

(A) during which, if the pension system's qualified actuary and the city's actuary reconcile their respective calculations, the reconciled rate is required to be the actuarially determined contribution rate; or

(B) at the conclusion of which, if the pension system's qualified actuary and the city's actuary do not reconcile their respective calculations, the average of the rates recommended by each actuary under this section is required to be the actuarially determined contribution rate.

(f) Provides that, if in any plan year the actuarially determined contribution rate, excluding the amounts provided under Subsection (d)(1) of this section, is outside of the minimum or maximum rates shown in a certain schedule, the difference between the actuarially determined contribution rate and the minimum or maximum, as applicable, will be amortized over a closed period of 20 years or until January 1, 2053, whichever is later. Sets forth the required schedule for minimum and maximum rates.

(g) Authorizes the city council, if the city council determines that the fund is projected to be fully funded in over 30 years, in its sole discretion, to waive the requirements of Subsection (f) of this section. Authorizes PRB to recommend to the city council that the city council waive the requirements of Subsection (f) of this section.

(h) Prohibits the city contribution amount, notwithstanding Subsection (d) or any other provision of this section, for the city's fiscal years ending September 30, 2025, through September 30, 2029, under any circumstances from exceeding the sum of:

(1) the applicable fixed dollar amount under Subsection (d)(1) of this section; and

(2) the maximum percentage provided under Subsection (f) of this section multiplied by the members' projected aggregate computation pay for the applicable city fiscal year.

(h-1) Provides that this subsection and Subsection (h) of this section expire October 1, 2029.

SECTION 5. Makes application of Section 3.014, Article 6243a-1, Revised Statutes, as added by this Act, prospective.

SECTION 6. Repealer: Section 2.025 (Independent Actuarial Analysis and Legislative Recommendations), V.T.C.S.

Repealer: Section 4.02(e) (relating to the requirement that the city pay a contribution amount only through the last biweekly pay period that ends after December 31, 2024), V.T.C.S.

SECTION 7. Effective date: upon passage or September 1, 2025.