

AGENDA



Date: October 6, 2022

The supplemental meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, October 13, 2022, in the Second Floor Board Room at 4100 Harry Hines Boulevard, Dallas, Texas and via telephone conference for audio at 214-271-5080 access code 588694 or Toll-Free (US & CAN): 1-800-201-5203 and Zoom meeting for visual <https://us02web.zoom.us/j/88582012044?pwd=VjZTY2RzMIN3aUpEYIBCb1VDUk5ldz09> Passcode: 549550.** Items of the following agenda will be presented to the Board:

A. CONSENT AGENDA

Approval of Minutes

Regular meeting of September 8, 2022

B. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

Initial Reading and discussion of the 2023 Budget

The term "possible action" in the wording of any Agenda item contained herein serves as notice that the Board may, as permitted by Texas Government Code, Section 551, in its discretion, dispose of any item by any action in the following non-exclusive list: approval, disapproval, deferral, table, take no action, and receive and file. At the discretion of the Board, items on this agenda may be considered at times other than in the order indicated in this agenda.

At any point during the consideration of the above items, the Board may go into Closed Executive Session as per Texas Government Code, Section 551.071 for consultation with attorneys, Section 551.072 for real estate matters, Section 551.074 for personnel matters, and Section 551.078 for review of medical records.

**Dallas Police and Fire Pension System
Thursday, September 8, 2022
8:30 a.m.
4100 Harry Hines Blvd., Suite 100
Second Floor Board Room Dallas, TX**

Supplemental meeting, Nicholas A. Merrick, Chairman, presiding:

ROLL CALL

Board Members

Present at 8:30 a.m. Nicholas A. Merrick, William F. Quinn, Armando Garza, Nancy Rocha, Anthony R. Scavuzzo, Marcus Smith

Present at 8:32 a.m. Kenneth Haben, Steve Idoux (by telephone)

Present at 8:35 a.m. Mark Malveaux (by telephone)

Absent: Michael Brown

Staff

Kelly Gottschalk, Josh Mond, Brenda Barnes, Ryan Wagner (by telephone), John Holt, Akshay Patel, Michael Yan, Milissa Romero Cynthia Thomas (by telephone)

Others

Leandro Festino, Aaron Lally, David Harper, David Elliston

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The Supplemental meeting was called to order and recessed at 8:30 a.m.

The Supplemental meeting was reconvened at 9:59 a.m.

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A. CONSENT AGENDA

Approval of Minutes

Regular meeting of August 11, 2022

After discussion, Mr. Garza made a motion to approve the minutes of the meeting of August 11, 2022. Mr. Haben seconded the motion, which was unanimously approved by the Board.

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**Supplemental Board Meeting
Thursday, September 8, 2022**

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Garza and a second by Mr. Quinn, the meeting was adjourned at 10:00 a.m.

Nicholas A. Merrick
Chairman

ATTEST:

Kelly Gottschalk
Secretary

DRAFT



DISCUSSION SHEET

Supplemental

ITEM B

Topic: Initial Reading and Discussion of the 2023 Budget

Discussion: Attached is the budget proposal for Calendar Year 2023.

The budget has been prepared in total for both the Combined Pension Plan and the Supplemental Plan. Total expenses are then allocated to the Supplemental Plan based upon the Group Trust allocation reported by JPMorgan.

Significant changes from the prior year budget and the projected 2022 actual expenses are explained in the comments accompanying the proposed budget.

Staff

Recommendation: **Direct** staff to revise the proposed budget based on the direction of the Board and bring the revised proposed budget to the Board at the November 10, 2022 Board meeting for consideration for adoption. **Authorize** forwarding the 2023 proposed budget to the City of Dallas for comment and the posting of the proposed budget to www.dfp.org for member review prior to the November meeting.

Supplemental Board Meeting– Thursday, October 13, 2022

**DALLAS POLICE AND FIRE PENSION SYSTEM
OPERATING BUDGET SUMMARY
FOR THE YEAR 2023**

Expense Type	2022 Budget	2022 Projected Actual	2023 Budget	Variances		Variances	
				2023	2022	2023	2022
				Budget vs	Budget	Budget vs	Proj. Act.
				\$	%	\$	%
Administrative Expenses	6,159,334	5,392,753	6,190,265	30,931	0.5%	797,512	14.8%
Investment Expenses	14,044,000	12,240,743	10,770,886	(3,273,114)	(23.3%)	(1,469,857)	(12.0%)
Professional Expenses	1,533,477	1,181,258	1,277,050	(256,427)	(16.7%)	95,792	8.1%
Total	\$ 21,736,811	\$ 18,814,754	\$ 18,238,201	\$ (3,498,610)	(16.1%)	\$ (576,553)	(3.1%)

Dallas Police & Fire Pension System Operating Budget Calendar Year 2023							
Description	2022 Budget	2022 Projected Actual*	2023 Proposed Budget	\$ Change 2023 Prop. Bud. vs. 2022 Bud.	% Change 2023 Prop. Bud. vs. 2022 Bud.	\$ Change 2023 Prop. Bud. vs. 2022 Proj. Actual	% Change 2023 Prop. Bud. vs. 2022 Proj. Actual
Administrative Expenses							
1 Salaries and benefits	3,935,546	3,456,216	3,709,489	(226,057)	(5.7%)	253,273	7.3%
2 Employment Expense	25,610	10,892	46,350	20,740	81.0%	35,458	325.5%
3 Memberships and dues	19,487	18,095	20,201	714	3.7%	2,106	11.6%
4 Staff meetings	500	-	500	-	0.0%	500	100.0%
5 Employee service recognition	5,080	1,500	5,000	(80)	(1.6%)	3,500	233.3%
6 Member educational programs	2,750	500	3,350	600	21.8%	2,850	570.0%
7 Board meetings	6,420	2,822	4,420	(2,000)	(31.2%)	1,598	56.6%
8 Conference registration/materials - Board	11,650	129	12,000	350	3.0%	11,871	9202.3%
9 Travel - Board	21,500	1,453	22,000	500	2.3%	20,547	1414.1%
10 Conference/training registration/materials - Staff	37,750	7,567	33,200	(4,550)	(12.1%)	25,633	338.7%
11 Travel - Staff	42,950	20,547	44,700	1,750	4.1%	24,153	117.6%
12 Liability insurance	664,899	740,493	888,533	223,634	33.6%	148,040	20.0%
13 Communications (phone/internet)	29,835	18,801	21,180	(8,655)	(29.0%)	2,379	12.7%
14 Information technology projects	250,000	74,445	190,000	(60,000)	(24.0%)	115,555	155.2%
15 IT subscriptions/services/licenses	212,300	187,076	239,860	27,560	13.0%	52,784	28.2%
16 IT software/hardware	25,000	21,753	25,000	-	0.0%	3,247	14.9%
17 Building expenses	420,413	415,431	459,697	39,284	9.3%	44,266	10.7%
18 Repairs and maintenance	88,576	74,531	94,582	6,006	6.8%	20,051	26.9%
19 Office supplies	24,475	22,001	28,475	4,000	16.3%	6,474	29.4%
20 Leased equipment	24,000	21,755	25,000	1,000	4.2%	3,245	14.9%
21 Postage	29,650	26,270	29,746	96	0.3%	3,476	13.2%
22 Printing	4,100	3,712	4,350	250	6.1%	638	17.2%
23 Subscriptions	2,396	971	2,506	110	4.6%	1,535	158.1%
24 Records storage	1,500	1,518	2,179	679	45.3%	661	43.5%
25 Administrative contingency reserve	12,000	122	12,000	-	0.0%	11,878	9736.1%
27 Depreciation Expense	240,947	240,947	240,947	-	0.0%	-	0.0%
28 Bank fees	20,000	23,206	25,000	5,000	25.0%	1,794	7.7%
Investment Expenses							
29 Investment management fees	12,440,000	9,572,288	9,375,000	(3,065,000)	(24.6%)	(197,288)	(2.1%)
30 Investment consultant and reporting	345,000	342,381	455,000	110,000	31.9%	112,619	32.9%
31 Bank custodian services	235,000	220,680	235,000	-	0.0%	14,320	6.5%
32 Other portfolio operating expenses (legal, valuation, tax)	981,500	2,065,418	644,500	(337,000)	(34.3%)	(1,420,918)	(68.8%)
33 Investment due diligence	42,500	39,976	61,386	18,886	44.4%	21,410	53.6%
Professional Services Expenses							
34 Actuarial services	158,250	96,223	159,500	1,250	0.8%	63,277	65.8%
35 Accounting services	60,770	59,000	61,950	1,180	1.9%	2,950	5.0%
36 Independent audit	103,000	109,000	115,000	12,000	11.7%	6,000	5.5%

Dallas Police & Fire Pension System Operating Budget Calendar Year 2023							
Description	2022 Budget	2022 Projected Actual*	2023 Proposed Budget	\$ Change 2023 Prop. Bud. vs. 2022 Bud.	% Change 2023 Prop. Bud. vs. 2022 Bud.	\$ Change 2023 Prop. Bud. vs. 2022 Proj. Actual	% Change 2023 Prop. Bud. vs. 2022 Proj. Actual
37 Legal fees	515,000	444,707	180,000	(335,000)	(65.0%)	(264,707)	(59.5%)
38 Legislative consultants	126,000	126,000	159,000	33,000	26.2%	33,000	26.2%
39 Public relations	100,000	17,499	-	(100,000)	(100.0%)	(17,499)	(100.0%)
40 Pension administration software & WMS	292,000	244,204	292,000	-	0.0%	47,796	19.6%
41 Business continuity	18,000	17,608	14,000	(4,000)	(22.2%)	(3,608)	(20.5%)
42 Network security review	10,000	-	-	(10,000)	(100.0%)	-	100.0%
43 Network security monitoring	100,000	27,117	180,000	80,000	80.0%	152,883	563.8%
44 Disability medical evaluations	12,000	-	16,250	4,250	35.4%	16,250	100.0%
45 Elections	20,000	17,546	15,250	(4,750)	(23.8%)	(2,296)	(13.1%)
46 Miscellaneous professional services	18,457	22,354	84,100	65,643	355.7%	61,746	276.2%
Total Budget	21,736,811	18,814,754	18,238,201	(3,498,610)	(16.1%)	(576,553)	(3.1%)
Less: Investment management fees	12,440,000	9,572,288	9,375,000	(3,065,000)	(24.6%)	(197,288)	(2.1%)
Adjusted Budget Total	9,296,811	9,242,466	8,863,201	(433,610)	(4.7%)	(379,265)	(4.1%)

SUPPLEMENTAL BUDGET

Total Budget (from above)	21,736,811	18,814,754	18,238,201	(3,498,610)	(16.1%)	(576,553)	(3.1%)
Less: Allocation to Supplemental Plan Budget**	228,014	160,114	155,207	(72,807)	(31.9%)	(4,906)	(3.1%)
Total Combined Pension Plan Budget	21,508,797	18,654,640	18,082,994	(3,425,803)	(15.9%)	(571,647)	(3.1%)

* Projected based on 7/31/21 YTD annualized or estimated

** Allocation to Supplemental is based on JPM allocation between accounts as of 7/31/22 of .0085%

_____ 0.85% per JPM Unitization report as of 7/31/22

Significant Budget Changes - 2023
Budget Changes (>5% and \$25K)
SORTED BY THE \$ CHANGE FROM 2022 BUDGET TO 2023 BUDGET

		2022	2022	2023	\$ Change	% Change	\$ Change	% Change	
	Item	Budget	Projected Actual**	Budget	2023 Budget vs. 2022 Bud.	2023 Budget vs. 2022 Bud.	2023 Budget vs. 2022 Proj. Act.	2023 Budget vs. 2022 Proj. Act.	Explanation
	INCREASES:								
1	Liability insurance	664,899	740,493	888,533	223,634	33.6%	148,040	20.0%	Expecting significant premium increases across all lines of insurance, specifically cyber and fiduciary. Additionally, the 2022 budget did not fully reflect the renewal premiums actually incurred in 2022.
2	Investment consultant and reporting	345,000	342,381	455,000	110,000	31.9%	112,619	32.9%	Budgeting \$75K for possible private markets services along with \$35K for SB322.
3	Network security monitoring	100,000	27,117	180,000	80,000	80.0%	152,883	563.8%	Cyber Security planning and remediation is a top focus. A vCISO has now been engaged to assist in prioritizing projects. The 2023 budget represents a full year of vCISO services.
4	Miscellaneous professional services	18,457	22,354	84,100	65,643	355.7%	61,746	276.2%	Increased budget for contract Communications consultant rather than full time staff employee.
5	Building expenses	420,413	415,431	459,697	39,284	9.3%	44,266	10.7%	Increase driven by expected increases in utilities and services (security, janitorial, HVAC, elevator, etc.)
6	Legislative consultants	126,000	126,000	159,000	33,000	26.2%	33,000	26.2%	Legislature will be in session in 2023. Fees are increased during a legislative session.
7	IT subscriptions/services/licenses	212,300	187,076	239,860	27,560	13.0%	52,784	28.2%	Adding additional and upgraded licenses for VMWare support and Network Health Monitoring.
	REDUCTIONS:								
8	Investment management fees	12,440,000	9,572,288	9,375,000	(3,065,000)	(24.6%)	(197,288)	(2.1%)	Declines in fee schedules (Private Equity), rates and the decrease in market value of the portfolio are driving the decrease in management fees.
9	Other portfolio operating expenses (legal, valuation, tax)	981,500	2,065,418	644,500	(337,000)	(34.3%)	(1,420,918)	(68.8%)	The settlement of the Lone Star case should result in lower expenses.
10	Legal fees	515,000	444,707	180,000	(335,000)	(65.0%)	(264,707)	(59.5%)	Expected expenses based on current status of cases.
11	Salaries and benefits	3,935,546	3,456,216	3,709,489	(226,057)	(5.7%)	253,273	7.3%	Reducing expected headcount by two (from 25 to 23) partially offset by budgeted salary and benefit cost increases.
12	Public relations	100,000	17,499	0	(100,000)	(100.0%)	(17,499)	(100.0%)	No public relations projects planned for 2023.
13	Information technology projects	250,000	74,445	190,000	(60,000)	(24.0%)	115,555	155.2%	Focus for 2023 continues to be on cyber security remediation for insurance requirements. Some budget dollars reallocated to Network Security Monitoring.

** Projected based on 7/31/22 YTD annualized or estimated

Significant Budget Changes - 2023
Budget Changes (>5% and \$25K)
SORTED BY THE \$ CHANGE FROM 2022 PROJECTED ACTUAL TO 2023 BUDGET

		2022	2022	2023	\$ Change	% Change	\$ Change	% Change	
	Item	Budget	Projected Actual**	Budget	2023 Budget vs. 2022 Bud.	2023 Budget vs. 2022 Bud.	2023 Budget vs. 2022 Proj. Act.	2023 Budget vs. 2022 Proj. Act.	Explanation
	INCREASES:								
1	Salaries and benefits	3,935,546	3,456,216	3,709,489	(226,057)	(5.7%)	253,273	7.3%	2022 Projected actual is less due to staff vacancies. We hope to be fully staffed again in 2023.
2	Network security monitoring	100,000	27,117	180,000	80,000	80.0%	152,883	563.8%	Cyber Security planning and remediation is a top focus. A vCISO has now been engaged to assist in prioritizing projects. The 2023 budget represents a full year of vCISO services.
3	Liability insurance	664,899	740,493	888,533	223,634	33.6%	148,040	20.0%	Expecting significant premium increases across all lines of insurance, specifically cyber and fiduciary.
4	Information technology projects	250,000	74,445	190,000	(60,000)	(24.0%)	115,555	155.2%	Projects originally planned for 2022 were deferred to focus on cyber security remediation for insurance requirements. 2023 projects will be focused on cyber security.
5	Investment consultant and reporting	345,000	342,381	455,000	110,000	31.9%	112,619	32.9%	2023 Budget includes \$75K for possible private markets services along with \$35K for SB322.
6	Actuarial services	158,250	96,223	159,500	1,250	0.8%	63,277	65.8%	Budgeting additional \$75k for specialized work related to board requests, member issues and other items.
7	Miscellaneous professional services	18,457	22,354	84,100	65,643	355.7%	61,746	276.2%	Budgeting for contract Communications consultant rather than full time staff.
8	IT subscriptions/services/licenses	212,300	187,076	239,860	27,560	13.0%	52,784	28.2%	Additional and upgraded licenses for VMWare support and Network Health Monitoring.
9	Pension administration software & WMS	292,000	244,204	292,000	0	0.0%	47,796	19.6%	Budgeting for possible PG and WMS enhancements, as well as price increases - 4%.
10	Building expenses	420,413	415,431	459,697	39,284	9.3%	44,266	10.7%	Increase driven by expected increases in utilities and services (security, janitorial, HVAC, elevator, etc.)
11	Travel - Staff	42,950	20,547	44,700	1,750	4.1%	24,153	117.6%	Limited staff travel in 2022. Expecting a return to a more normal level in 2023.
12	Employment Expense	25,610	10,892	46,350	20,740	81.0%	35,458	325.5%	Agency fees for potential new hires.
13	Legislative consultants	126,000	126,000	159,000	33,000	26.2%	33,000	26.2%	Legislature will be in session in 2023. Fees are increased during a legislative session.
14	Conference/training registration/materials - Staff	37,750	7,567	33,200	(4,550)	(12.1%)	25,633	338.7%	Limited staff conference attendance in 2022. Expect increased attendance to return to a more normal level in 2023.
	REDUCTIONS:								
15	Other portfolio operating expenses (legal, valuation, tax)	981,500	2,065,418	644,500	(337,000)	(34.3%)	(1,420,918)	(68.8%)	The settlement of the Lone Star case should result in lower expenses.
16	Legal fees	515,000	444,707	180,000	(335,000)	(65.0%)	(264,707)	(59.5%)	Actual costs of some open cases have been less than expected.

