Financial Planning recommendations are subject to revision based on new information that becomes available during the budget process, either from the budget forums, meetings with Commissioners, or the Council budget work sessions.

FINANCIAL PLANNING DIVISION ANALYSIS
FY 2012-13 Budget

Fire & Police Disability and Retirement (revised April 5, 2012)

Analysis by: Kezia Wanner

I. Overview

Budget Summary	Revised FY 2010-11	Revised FY 2011-12	Request Base FY 2012-13	Request Total FY 2012-13	Percent Change
Resources					
Budgeted Beginning Fund Balance	9,543,144	17,755,428	14,677,817	14,677,817	-17.3%
Taxes	109,330,290	105,700,575	112,608,749	112,565,141	6.5%
Interagency Revenue	7,200	142,000	360,200	360,200	153.7%
Fund Transfers - Revenue	751,678	753,970	750,000	750,000	-0.5%
Bond and Note Proceeds	32,450,000	26,799,000	25,211,000	25,211,000	-5.9%
Miscellaneous Sources	475,000	1,337,927	1,508,000	1,508,000	12.7%
Total Resources	**$152,557,312**	**$152,488,900**	**$155,115,766**	**$155,072,158**	**1.7%**
Expenditures					
Personnel Services	1,636,867	1,718,200	1,874,871	1,831,263	6.6%
External Materials and Services	103,173,727	106,606,111	108,848,530	108,848,530	2.1%
Internal Materials and Services	4,028,860	5,925,724	6,640,252	6,640,252	12.1%
Capital Outlay	20,000	275,000	95,500	95,500	-65.3%
Debt Service	32,844,224	27,012,042	25,518,079	25,518,079	-5.5%
Fund Transfers - Expense	1,133,671	1,087,008	821,534	821,534	-24.4%
Contingency	9,719,963	9,864,815	11,317,000	11,317,000	14.7%
Total Requirements	**$152,557,312**	**$152,488,900**	**$155,115,766**	**$155,072,158**	**1.7%**
Total Bureau FTE	16.70	16.70	16.20	16.20	**-3.0%**

Percent Change is the change from FY 2011-12 Revised Budget to FY 2012-13 Total Requested Budget.

II. Key Issues

Retirement Trends

In September 2008, the bureau changed the way it calculates retirement benefits by basing it on the received pay, rather than earned pay, for the prior 12 month period before an employee retires. This has the inadvertent impact of creating a financial incentive for people to retire in months when the prior 12 month period includes 27 pay periods, as opposed to the typical 26 pay periods. These 27 pay period lookbacks, as they are called, occur twice in FY 2011-12 – in July 2011 and June 2012. In FY 2012-13, there is one 27 pay period lookback in December 2012. The effect of this is that retirements have largely coincided with these 27 pay period look back dates in the past, and that is expected to continue. As an illustration, almost all of the 45 police and fire retirements that have occurred in the current fiscal year occurred in July 2011.

The bureau is budgeting for a projected 95 FPDR 2 retirements for FY 2012-13, which is based upon current year actuarial estimates, 10 retirements not from active service, and a cushion of 10 retirements. The number assumes that 50% of Police and 37% of Fire employees who are eligible to retire in the current fiscal year will do so, which amounts to a projected 47 Police retirees and 38 Fire retirees from active service, including 5 additional retirements per bureau as a cushion.

The effect of the incentive created by the 27 pay period lookback phenomena has been to introduce an additional cause of spikes in Police and Fire retirements. This creates challenges for the Police and Fire Bureaus in planning for the associated costs for retirements. As opposed to being able to base projections on historical patterns, the tendency is now for bureaus to attempt to predict how many eligible retirees may take advantage of these specific points on the calendar, which has proven to produce inaccurate under and over budgeting for retirement costs for Police and Fire. Although retirements are, by nature, highly unpredictable there are two current factors further complicating retirement predictability in addition to the 27 pay period lookback incentive; these include 1) general economic uncertainties and, 2) the upcoming union bargaining, which may involve pay increases for Portland Fire and Rescue sworn employees. Both factors may motivate sworn employees to remain in the workforce longer than they might otherwise do so.

Pension Formula Recalculation

The FPDR Board found that the staff had been calculating pension benefits in a way that was inconsistent with the existing language of the City Charter that governs the fund. The FPDR Board then corrected the calculation in two separate actions in May 2007 and September 2008, changing the calculation methodology to bring pension calculations in line with charter which resulted in lower pension benefits for some members. The Police Association filed an unfair labor complaint stating that the changes to pensions were made without negotiations, which they claim violates the current contract terms; the Employment Relations Board and the Oregon Court of Appeals have ruled in favor of the union and stated that the dispute is arbitrable. There have been 260 police and fire sworn employees who have retired since the changes occurred, and if the current legal challenges are ruled in favor of police and fire unions, the financial award may be significant.

FPD notes this as an outstanding issue to watch as the financial risk may be one that is incurred by the City's General Fund. The magnitude of the risk is not known at this time, as the outcome may be the result of collective bargaining.

Recovery of State Tax Offset Benefit Overpayments

In 2008 the bureau identified and corrected for overpayments to pensioners for additional tax offset pension benefits. The bureau is currently implementing a recovery program for $2.8 million in overpayments that occurred between 1991 and 2008. FPDR estimates they will collect $2.3 million of collections by July 1, 2013 and expects the program to receive nearly all repayments by end of FY 2013-14. The recovery program consists of permanent actuarial reductions to FPDR 1 payees who were overpaid and holding back benefit adjustments from FPDR 2 payees until their recovery is complete. Payees also had the option to make lump-sum repayment for the overpayment.

FPD recommends revisiting the issue at fiscal year end 2012-13 to evaluate the success of the repayment program.

Probability of Reaching Taxation Cap

The FPDR Levy is funded by property taxes at a maximum rate of $2.80 per $1,000 of real market value (RMV). Two recent measures which have significantly impacted property taxation, and therefore the FPDR Levy, are Measures 5 and 50. Voters passed Measure 5, which, starting in 1990-91, limited property tax collection for local governments, excluding voter-approved general obligation bonds, to $10 per $1,000 of RMV. In 1997, Measure 50 "rolled back" taxable property values to 90% of the 1995-96 values and established that the assessed value not grow by more than 3% annually, which had the effect of creating a large gap between the assessed value and RMV when RMV's rose much more than 3% per year during the housing boom.

In order to gauge the likelihood of the Fund reaching the $2.80 funding cap, FPDR asked its outside actuary to expand on its most recent levy adequacy analysis, which is conducted every two years. Under the current funding model, in which the Fund covers FPDR 1 & FPDR 2 pensioners, as well as FPDR 3 (which is PERS OPSRP), modeling shows an approximate 5+% probability of reaching the $2.80 RMV levy cap in the last seven years of the projection period of 2010-2029, and rising to almost a 10% probability in the final year of the projection period. The idea of removing the OPSRP pension obligations has been raised as a way to completely avoid any risk of reaching the levy funding cap. To remove the FPDR 3 pension contributions from the FPDR levy would reduce the probability of reaching the funding cap during the twenty-year projection period, but the costs related to the OPSRP pensions would shift elsewhere, likely the General Fund.

The issue was discussed as a possible charter change on the FPDR Board of Trustees February 28, 2012 work session agenda. The proposal to shift OPSRP costs from the FPDR Levy to the General Fund would 1) allay any concern among FPDR Tier 1 and 2 retirees as they would be ensured the Levy could support their pension payments, 2) benefit taxpayers as they would see a reduction to their property taxes (approximately $22 annually on a $220,000 home in the near term increasing to approximately $300 annually in 2029), but 3) pose a risk to City of Portland General Fund bureaus due to potential funding cuts. Extrapolating from the fact that 55% of the General Fund supports public safety functions, if new obligations (for instance, the FPDR OPSRP employee costs) to the General Fund materialize, there would need to be reductions across the General Fund to balance. If the cuts were taken proportionally to the current allocation of the General Fund resources, 55% of the reductions would be borne by the Police and Fire Bureaus. To illustrate how this would manifest in real dollars, the actuarial study estimates that 2029 costs for the OPSRP employees will reach $68 million; if that amount were apportioned across General Fund bureaus per the current allocation structure, public safety bureaus would have to absorb a collective reduction of $37.4 million.

If pension costs exceed the FPDR levy cap, there are limited options available to the City of Portland to cover the excess costs. One option is to directly allocate General Fund resources, as mentioned above. Another option that has been discussed is issuing pension obligation bonds (POBS) and investing the proceeds with PERS to satisfy some or all of the FPDR 3 contribution costs for the period of time the risk is greatest to exceed the $2.80 levy cap. At the point when the peak of retirement costs has passed, the FPDR levy would then begin repayment of costs to the General Fund. Considerations that need to be weighed regarding this approach include 1) the effect on the City's General Fund as it bears ultimate liability for debt issuance; 2) debt issuance costs would be passed on to taxpayers through the FPDR Levy, which is funded by property tax and; 3) POBS issuance would use some increment of the City's borrowing capacity and could limit the City's future borrowing capacity for other projects/purposes. Another risk, however slight, is that the General Fund might not fully recover borrowing costs.

FPD notes that there is no short-term action needed regarding this issue, specifically committing the General Fund to absorb a cost burden that may not materialize. There are many external variables and uncertainties that affect the likelihood of the expenditures reaching the funding cap to predict with any confidence what will occur in ten to fifteen years. It is an issue the City should continue to monitor and should evaluate taking future action at the point there is a greater certainty of the risk of exceeding the property tax cap coming to fruition.

City of Portland

Decision Package Recommendations

(Includes Contingency and Ending Balance)

	Bureau Priority	Bureau Requested					FPD Analyst Recommendations				
		FTE	Gen Fund Ongoing	Gen Fund 1-Time	Other Revenues	Total Expenses	FTE	Gen Fund Ongoing	Gen Fund 1-Time	Other Revenues	Total Expenses
Bureau of Fire & Police Disability & Retirement											
Reductions											
DR_01 - Eliminate Program Coordinator Position	01	(0.50)	0	0	(43,608)	(43,608)	(0.50)	0	0	(43,608)	(43,608)
Total Reductions		*(0.50)*	*0*	*0*	*(43,608)*	*(43,608)*	*(0.50)*	*0*	*0*	*(43,608)*	*(43,608)*
Total Bureau of Fire & Police Disability & Retiremen		**(0.50)**	**0**	**0**	**(43,608)**	**(43,608)**	**(0.50)**	**0**	**0**	**(43,608)**	**(43,608)**

Summary by Decision Package Type										
Total Reductions	*(0.50)*	*0*	*0*	*(43,608)*	*(43,608)*	*(0.50)*	*0*	*0*	*(43,608)*	*(43,608)*
Total Unfunded Ongoing	*0.00*	*0*	*0*	*0*	*0*	*0.00*	*0*	*0*	*0*	*0*
Total Bureau Adds	*0.00*	*0*	*0*	*0*	*0*	*0.00*	*0*	*0*	*0*	*0*
Total Realignments	*0.00*	*0*	*0*	*0*	*0*	*0.00*	*0*	*0*	*0*	*0*
Grand Total	**(0.50)**	**0**	**0**	**(43,608)**	**(43,608)**	**(0.50)**	**0**	**0**	**(43,608)**	**(43,608)**

III. Decision Package Analysis & Recommendations

Reduction Packages

Eliminate Program Coordinator Position /DR_01 ($43,608) (0.50) FTE, Bureau Priority #1
FPDR is eliminating a position that was hired in FY 2008-09 to administer provisions of the Pension Protection Act of 2006. The program was implemented successfully. The position was reduced to 0.50 FTE in FY 2010-11 with responsibilities changed to implement new Medicare reporting requirements; this effort was also successfully implemented so the position is no longer needed. The reduction will reduce the FPDR tax levy. FPD recommends this strategic reduction as it is projected to have no service impact.

FPD Recommendation: ($43,608) (0.50) FTE

IV. Capital Improvement Plan Analysis & Recommendations

Capital Plan Summary	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	5-Year Total
Acquisitions	$95,500	$30,000	$30,000	$18,750	$15,000	**$189,250**
Capital Plan Total	**$95,500**	**$30,000**	**$30,000**	**$18,750**	**$15,000**	**$189,250**

FoxPro Database
The single capital project that is in the FPDR forecast is their new FoxPro database platform migration. This database is used to administer benefits, track beneficiary information, and make payments. The technology is a SQL server database with web user interface. The new database is expected to be operational in fall of 2012. The out year costs are for system operations and maintenance.

V. Performance and Accountability

Customer Service Improvements
The bureau included an annual customer service survey along with its annual newsletter, to its members in 2010. The rate of returns was not as good as past years, and the bureau speculated it was due to not mailing it separately. The bureau intends to mail the 2012 survey separately in hopes of receiving a higher level of response. Some of the results to key questions are below:

- 94% of the respondents to the 2010 survey rated FPDR retirement process as excellent
- 90% said that the information received was timely and easy to understand
- 18% said that they visited the FPDR website on PortlandOnline in the past year
- 67% of those who filed a disability claim with FPDR in the past year rated the service received by FPDR as excellent, 24% rated the service as satisfactory.

Performance Measures

The below table shows the FPDR's general performance trends.

Measure Title	FY 2009-10 Actuals	FY 2010-11 Actuals	FY 2011-12 target	FY 2012-13 target	Trends*
Administrative Costs as % of bureau budget	1.74%	1.89%	2.04%	1.91%	stable
Number of retirements from active service	20	22	85	56	↑150%
Number of pension estimates	207	256	256	256	stable
Number of FPDR 1 & 2 pension recipients	1,871	1,882	1,952	1,985	stable
Number of pre-retirement workshop participants	50	56	42	42	↓25%
% of workshop participants who rated workshops helpful	100%	100%	100%	100%	stable
% of pension estimates processed within one week	80%	79%	84%	84%	↑6.3%
Number of new no-time loss claims	139	121	125	125	stable
Number of new time-loss claims	155	165	172	172	↑4.2%
Number of members on short-term disability	253	227	227	227	stable
Number of medical bills	6336	5657	6002	6002	↑6.1%
Number of long-term disability recipients	100	92	83	70	↓22%
Medical cost savings	1,190,224	1,157,980	1,082,178	1,184,985	stable
Savings as a percent of total medical costs	29.6%	32.9%	38.1%	38.1%	↑5%
% of disability claims decisions in 90 days	99%	98%	91%	91%	↓7%
% of disability claims decisions in 60 days	95%	86%	91%	91%	↑7%
% of disability claims decisions in 30 days	75%	70%	67%	67%	stable
% member whose final pay was 99% or more of last estimate	92%	94%	100%	100%	↑6%

*percentage change from 2010-11 actuals to 2012-13 target