

Analysis By: Kezia Wanner

**BUREAU OF FIRE & POLICE DISABILITY & RETIREMENT**

All Funds Budget Summary	Adopted FY 2012-13	Request Base FY 2013-14	Decision Pkgs FY 2013-14	Request Total FY 2013-14	Percent Change
<b>Resources</b>					
Budgeted Beginning Fund Balance	\$ 14,677,817	\$ 14,504,338	\$0	\$ 14,504,338	-1.2%
Taxes	112,072,367	117,336,842	2,863,427	120,200,269	7.3%
Interagency Revenue	360,200	542,200	0	542,200	50.5%
Fund Transfers - Revenue	752,152	750,000	0	750,000	-0.3%
Bond and Note Proceeds	25,211,000	27,372,000	0	27,372,000	8.6%
Miscellaneous Sources	1,508,000	430,000	0	430,000	-71.5%
General Fund Discretionary	0	0	0	0	na
<b>Total Resources</b>	<b>\$154,581,536</b>	<b>\$160,935,380</b>	<b>\$2,863,427</b>	<b>\$163,798,807</b>	<b>6.0%</b>
<b>Expenditures</b>					
Personnel Services	\$ 1,774,413	\$ 1,941,974	\$0	\$ 1,941,974	9.4%
External Materials and Services	108,427,421	112,803,085	0	112,803,085	4.0%
Internal Materials and Services	6,666,947	5,740,736	2,863,427	8,604,163	29.1%
Capital Outlay	95,500	30,000	0	30,000	-68.6%
Debt Service	25,516,569	27,705,886	0	27,705,886	8.6%
Fund Transfers - Expense	821,534	859,699	0	859,699	4.6%
Contingency	11,279,152	11,854,000	0	11,854,000	5.1%
<b>Total Requirements</b>	<b>\$154,581,536</b>	<b>\$160,935,380</b>	<b>\$2,863,427</b>	<b>\$163,798,807</b>	<b>6.0%</b>
<b>Total Bureau FTE</b>	16.2	16.2	0	16.2	<b>0.0%</b>

Percent Change is the change from FY 2012-13 Adopted Budget to FY 2013-14 Total Requested Budget.

**Key Issues****FPDR Levy Adequacy**

FPDR funds the pensions of the City's sworn fire and police members. The FPDR system funds all pension expenses for members hired before January 1, 2007, under a pay-as-you-go system in which pension costs for FPDR 1 and 2 members are funded through property taxes to pay FPDR pension costs incurred annually. Employee pension costs for those hired after January 1, 2007, are funded under the Public Employees Retirement System (PERS), which is a pre-paid plan. The two plans operating concurrently have the effect of increasing pension costs for the City in the short term, but in years beyond 2036-37 when FPDR 2 pension costs are expected to peak, the costs will ultimately be completely shifted over to PERS system payments. FPDR, at the point that FPDR 1 and 2 payment obligations cease, will no longer be responsible to manage the pensions for the City's sworn police and fire employees, as all pensions will be funded under the PERS system. FPDR disability costs, however, will continue, and the FPDR property tax levy will continue to fund PERS contributions.

The FPDR Levy is limited to property tax revenues of \$2.80 per \$1,000 of Real Market Value (RMV). To gauge the sustainability of the FPDR Fund, FPDR contracts with an outside actuarial firm to provide periodic actuarial projections. The projections are subject to variability, the factors of greatest influence being real estate values and returns on PERS investments. The recent actuarial study, as of June 2012,

showed a 5-10% possibility of pension expenditures exceeding the levy cap of \$2.80 in fiscal years 2028 through 2032. The actuarial analysis horizon ended in 2032, but it is likely that the peak period for expenditures would extend through 2036, at which point the FPDR 2 pension expense is projected to decline. In addition, known PERS costs are expected to peak in 2030 at the time FPDR Tier 2 pension costs are also nearing their peak; the PERS cost spike is due to the end of the 20-year amortization period of the investment losses resulting from the 2008 market crash. It is unknown if PERS will elect to amortize the costs over a 30-year period, but if that occurred, it would smooth future PERS cost increases. It would also extend the 2008 amortization costs into the period of peak FPDR expense, further heightening the peak.

Although there is a small likelihood of hitting or exceeding the levy cap, City decision makers need to consider this risk, and consider options to respond to that possibility. There are two primary options that Council could pursue: one would be funding FPDR costs directly with General Fund resources, although that is unlikely given the magnitude of the financial burden estimated at an average of \$10 million annually during the peak years of 2028-2032, the other option is that the City could sell Pension Obligations Bonds (POBS). The latter would provide a funding source for the costs that were above the FPDR Levy revenue in the peak years, and FPDR would then repay the POBS in the post-peak years.

There are other proactive measures that could be taken to manage the costs prior to the expected FPDR expense peak, and these primarily include state legislation that changes the current pension program(s). Currently there are bills before the Legislature that would change the pension program for new hires. Two of the bills would lower PERS OPSRP costs by changing the final average salary and normal retirement age, upon which pension payments are based. Another bill would create a contribution-only program and eliminate the investment risks.

The CBO recommends that FDPR brief Council upon the completion of each levy adequacy analysis regarding FPDR Levy sustainability, in a separate forum from the Council Budget work sessions. The work sessions do not allow for adequate time, and therefore do not allow for the depth of discussion that this issue warrants.

### **Risk to the Forecast**

Some of the current and future risks that could affect the FPDR Fund and/or the City's General Fund include the following:

- Legal Challenges – FPDR has several unresolved legal challenges. Additionally, one issue that may result in a legal challenge but is currently a grievance, is the Fire and Police unions' challenge to the 2012 Charter change that defined a member's final pay period as 365 days. This reform changed the final pay period calculation in which a member's final pay period could have included 27 pay periods, which had the unintentional effect of creating a material financial incentive for Fire and Police members to retire during one of these advantageous months. The change in final pay calculation had the effect of lowering pension costs and therefore factored into lower risks of hitting the Levy cap. The grievance is not a financial risk currently to FPDR, but poses a risk to the City's General Fund. If the grievance is settled in favor of the unions, it might have the effect of increasing sworn final pay, and there would be increased costs to FPDR.

- PERS Reform – Elements of PERS reform have the possibility of affecting the fund. Senate Bill 471 stipulates that PERS Offset Payment would be 1) limited to only in-state retirees and no longer provided to the out-of-state members, 2) effective January 2014, and 3) retroactively applied to all pensioners. This could have the effect of reducing the FPDR obligation by \$1.2 million annually. Another reform is the possibility of capping PERS COLA rates at 1%, which would apply a limit to some FPDR benefit increases; the estimated savings to FPDR is \$750,000 in the first year, and double that amount in the following year.
- Fund Solvency issues – a sustained depressed housing market that suppresses RMV would increase the likelihood of the pension expenses exceeding the revenues, capped at \$2.80 per \$1,000 of RMV, as would a low rate of returns on PERS investments. Another variable and somewhat of a risk is if actual retirements occur differently than what is projected.

## Decision Package Analysis & Recommendations

**Match Add Back Package: Police Bureau, \$1,266,357, 0.00 FTE**

**Match Add Back Package: Fire Bureau, \$1,400,000, 0.00 FTE**

Both Police and Fire Bureaus have submitted add back packages that include restoration of sworn positions in FY 2013-14. As a result of their requests, the bureaus have increased IA funding which would be received from FPDR to fund the restored sworn members' pension costs. These two FPDR packages are reactive to City Council's decisions to restore the Police and Fire positions.

The two FPDR requests are to match the IA funding associate with the Police and Fire Bureau FY 2013-14 requests for position restoration. The CBO will adjust its recommendation to mirror Council's decisions regarding restoration of positions in the Police and Fire Bureaus.

*CBO Recommendation: \$2,666,357*

**OMF IA Add Backs, DR\_01, \$13,126. 0.00 FTE**

As per budget direction, the Office of Management and Finance (OMF) internal service funds were asked to submit 90% of their current service level (CSL) budgets as their base and add packages to restore funding up to 100% of CSL. Bureaus were directed to match the OMF add-back packages with a single decision package. The table below outlines the total requested add-backs by service provider.

EBS	1,965
Facilities	299
Risk	953
BTS	7,996
BIBS	1,913
<b>FPDR/ OMF IA Adds</b>	<b>13,126</b>

In response to add-backs recommended in the OMF budget analysis, the CBO recommends \$565 in levy increases to fund these packages. A full discussion of all of the OMF packages may be found in the OMF budget analysis.

*CBO Recommendation: \$565*

**City of Portland**  
 Decision Package Recommendations  
 (Includes Contingency and Ending Balance)

	Bureau Priority	Bureau Requested					CBO 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
<b>Bureau of Fire &amp; Police Disability &amp; Retirement</b>											
<i>Bureau Adds</i>											
DR_01 - OMF IA Add Backs	NA	0.00	0	0	13,126	13,126	0.00	0	0	565	565
DR_02 - Match Add Back Package: Police Bureau	NA	0.00	0	0	1,250,301	1,250,301	0.00	0	0	1,250,301	1,250,301
DR_03 - Match Add Back Package: Fire Bureau	NA	0.00	0	0	1,600,000	1,600,000	0.00	0	0	1,600,000	1,600,000
<i>Total Bureau Adds</i>		<i>0.00</i>	<i>0</i>	<i>0</i>	<i>2,863,427</i>	<i>2,863,427</i>	<i>0.00</i>	<i>0</i>	<i>0</i>	<i>2,850,866</i>	<i>2,850,866</i>
<b>Total Bureau of Fire &amp; Police Disability &amp; Retirement</b>		<b>0.00</b>	<b>0</b>	<b>0</b>	<b>2,863,427</b>	<b>2,863,427</b>	<b>0.00</b>	<b>0</b>	<b>0</b>	<b>2,850,866</b>	<b>2,850,866</b>

