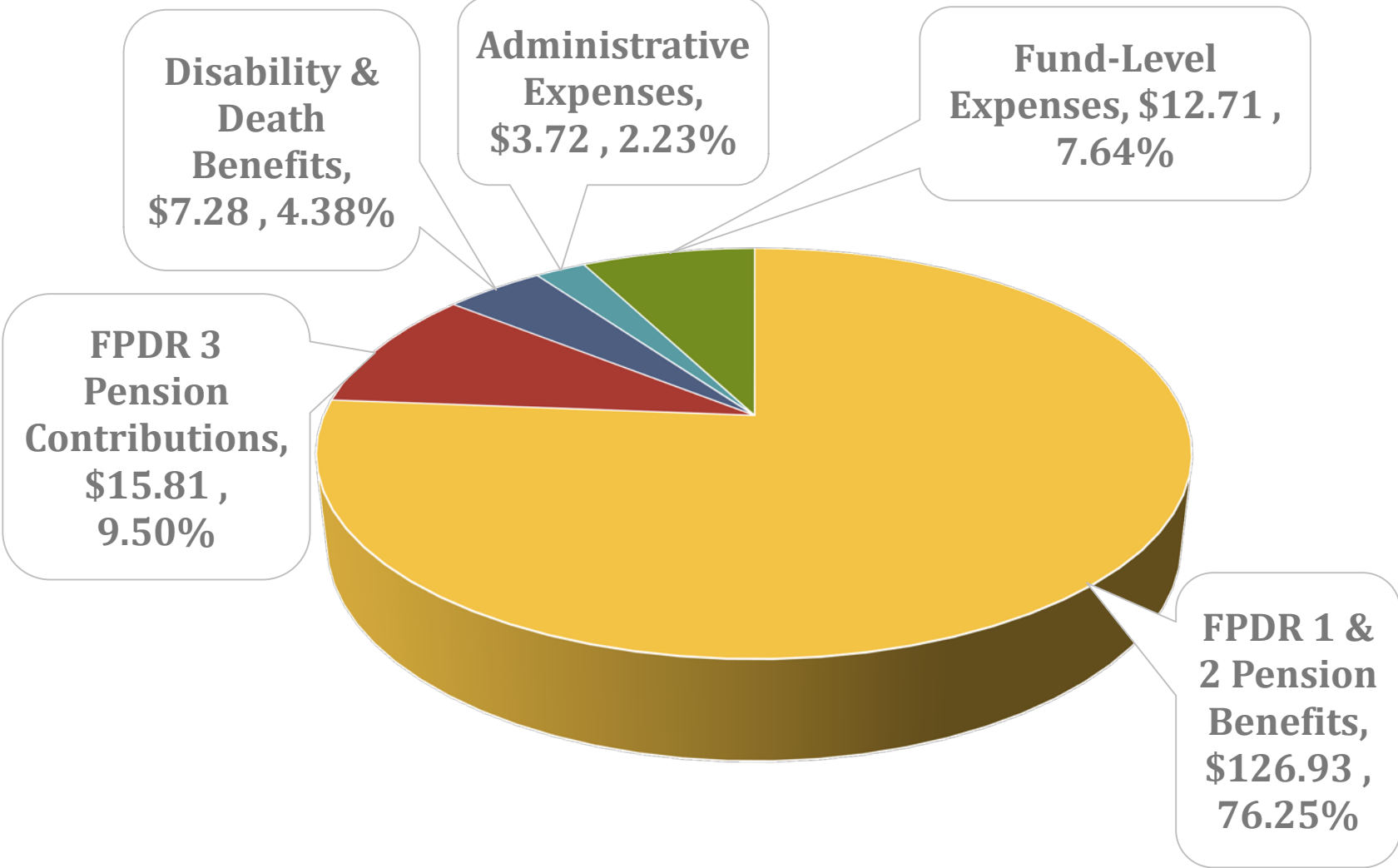




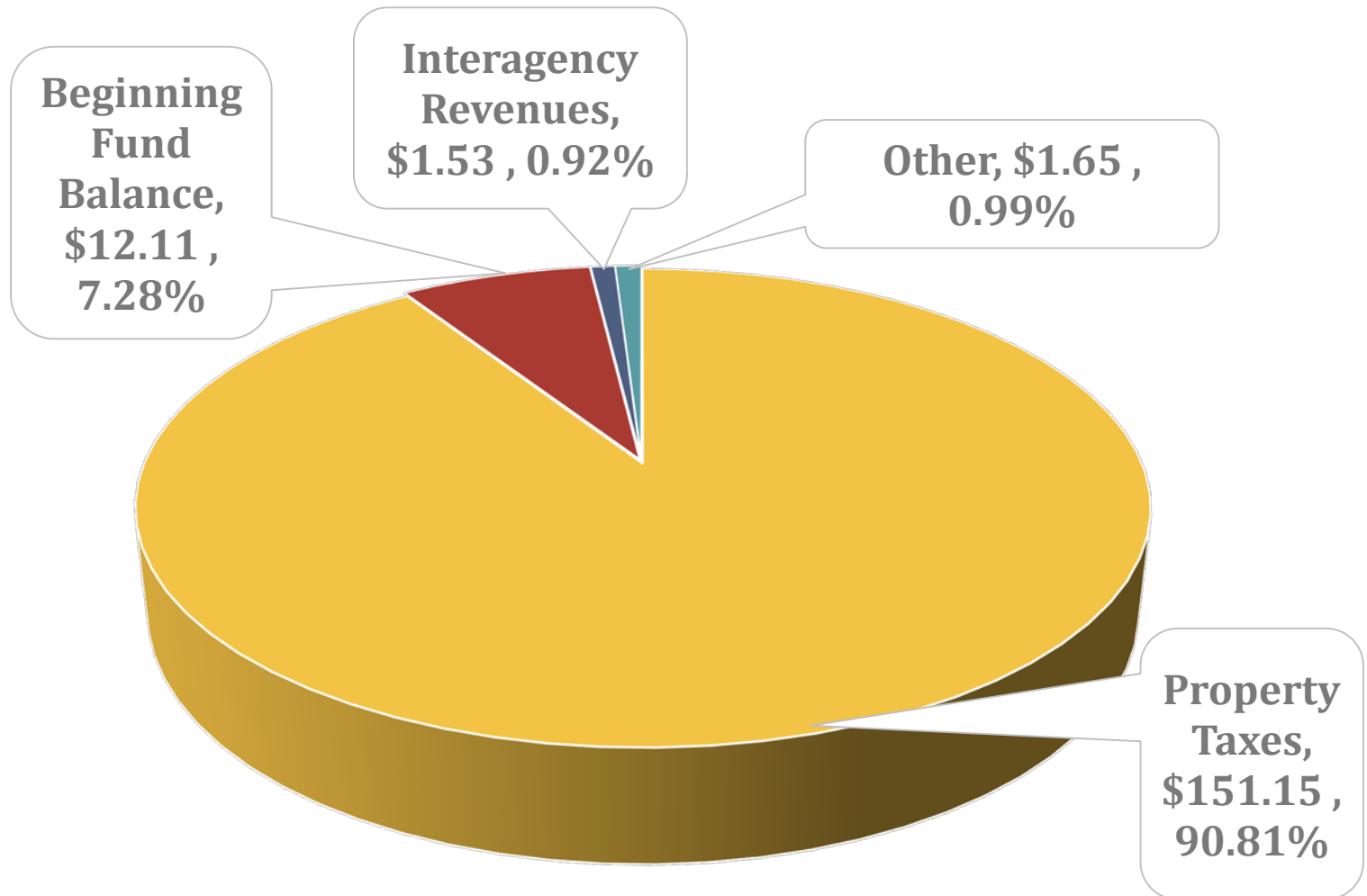
FPDR FY 2018-19 Recommended Budget

January 23, 2018
FPDR Finance Staff

FY 2018-19 Budgeted Expenses (\$ Millions)



FY 2018-19 Budgeted Resources (\$ Millions)



Five-Year Forecast Summary (\$ Millions)

	FYE17 Actuals	FYE18 Budget	FYE18 Projection	FYE19 Budget	FYE20 Forecast	FYE21 Forecast	FYE22 Forecast	FYE23 Forecast	FYE18 Project- FYE23 Change
Resources									
Property Taxes	\$128.20	\$144.27	\$143.57	\$151.15	\$165.68	\$176.09	\$189.81	\$200.52	39.7%
Tax Anticipation Notes	29.13	44.31	36.23	57.70	62.50	66.50	71.70	75.80	109.2%
Miscellaneous	1.89	2.02	2.26	2.43	3.13	3.53	3.97	4.13	82.7%
Cash Transfers	-	0.75	-	0.75	0.75	0.75	0.75	0.75	N/A
Beginning Fund Balance	13.63	9.06	9.79	12.11	10.76	11.66	12.42	13.39	36.8%
Total Resources	\$172.85	\$200.41	\$191.85	\$224.15	\$242.82	\$258.53	\$278.65	\$294.58	53.5%
Requirements									
Retirement Benefits	\$123.50	\$133.92	\$132.80	\$142.74	\$155.09	\$165.57	\$178.94	\$189.54	42.7%
Disability & Death Benefits	6.53	7.14	6.65	7.28	7.55	7.75	8.08	8.27	24.4%
Administration & Delivery	3.35	3.52	3.55	3.72	3.90	4.08	4.22	4.42	24.5%
Fund-Level Requirements	29.68	55.83	36.74	70.41	76.29	81.13	87.40	92.35	151.4%
Ending Fund Balance	9.79	-	12.11	-	-	-	-	-	N/A
Total Requirements	\$172.85	\$200.41	\$191.85	\$224.15	\$242.82	\$258.53	\$278.65	\$294.58	53.5%
Total Net of TANs	\$143.48	\$155.63	\$155.28	\$165.61	\$179.17	\$190.80	\$205.63	\$217.39	40.0%

Significant Forecast Factors: Ongoing

Funding Two Generations of Pensions Is Expensive

- Phasing in pre-funded plan (PERS) to replace pay-as-you-go plans (FPDR One & Two) means funding the pensions of two generations simultaneously
- Costs will continue to increase until mid 2030s, when transition peaks: Workforce all FPDR Three; FPDR Two members all retired
- Future taxpayers will benefit from transition to less expensive prefunded plan; current taxpayers bear costs

But Continued RMV Growth is Keeping Tax Rate Low

- While FPDR costs are growing dramatically, the FPDR RMV tax rate has actually declined: from \$1.55 five years ago to \$1.13 now
- Rate expected to remain under \$1.25 throughout forecast
- Consequence of substantial RMV growth: 72% last five years

Significant Forecast Factors: New This Year

Higher PERS Rates in Outyears: \$13.0 M Over 5 Years

- Contribution rate for FPDR Three Members remains 24.46% next year
- 30.0% projected for FYE20 & FYE21 (up from 27.5% previously)
- 35.0% projected for FYE22 & FYE23 (up from 30.0% previously)

Higher Wage COLA for July 2018: \$3.6 M Over 5 years

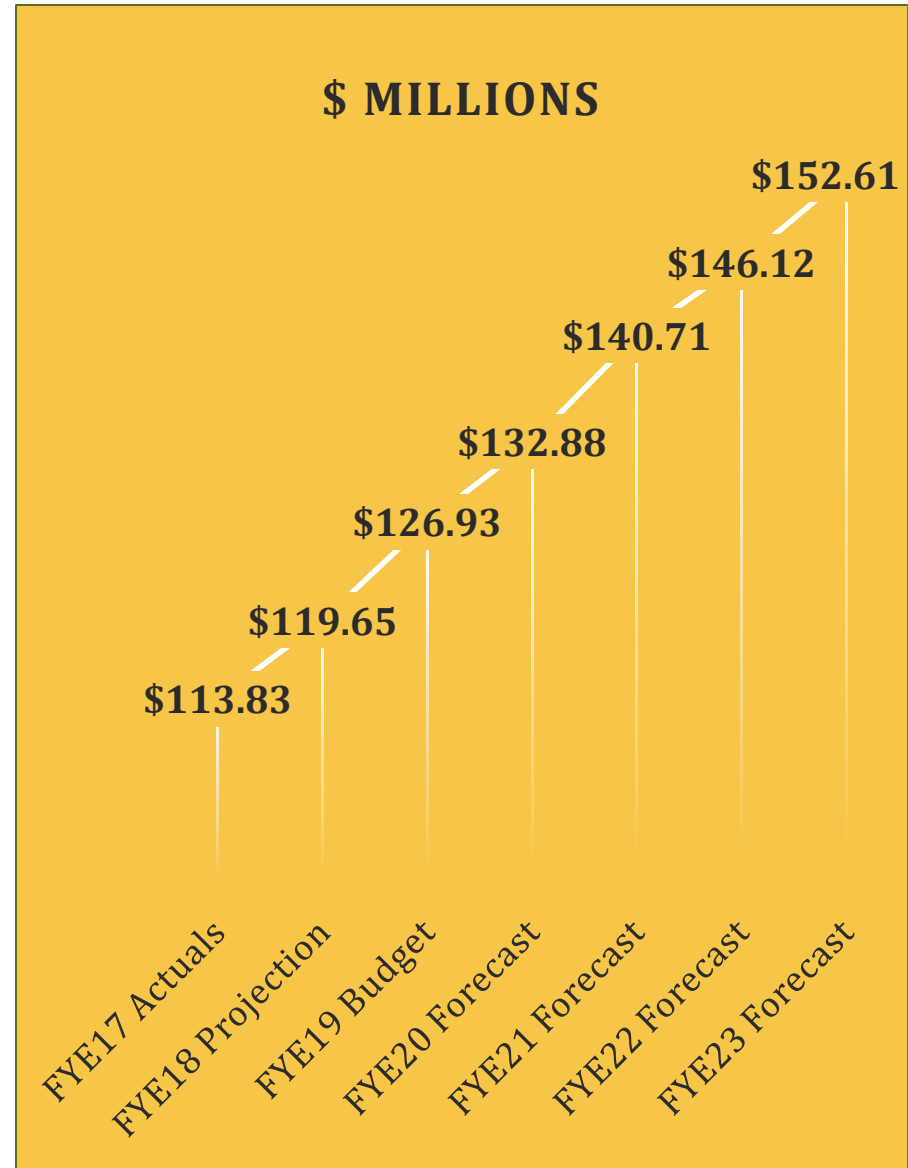
- CPI-W expected to be 3.8% (up from 2.7% previously)
- Since increase is in first year, impact compounded over entire forecast

Higher PFFA Longevity Pay: \$1.4 M Over 5 Years

- Retroactive COLAS were anticipated in past forecasts, but longevity pay increase (1% for roughly 2/3 of workforce) is new this year
- Because increase occurs now, impact compounded over entire forecast
- FPDR impact muted by minimal increase in PERS contribution costs, because most FPDR 3 members do not yet receive longevity pay

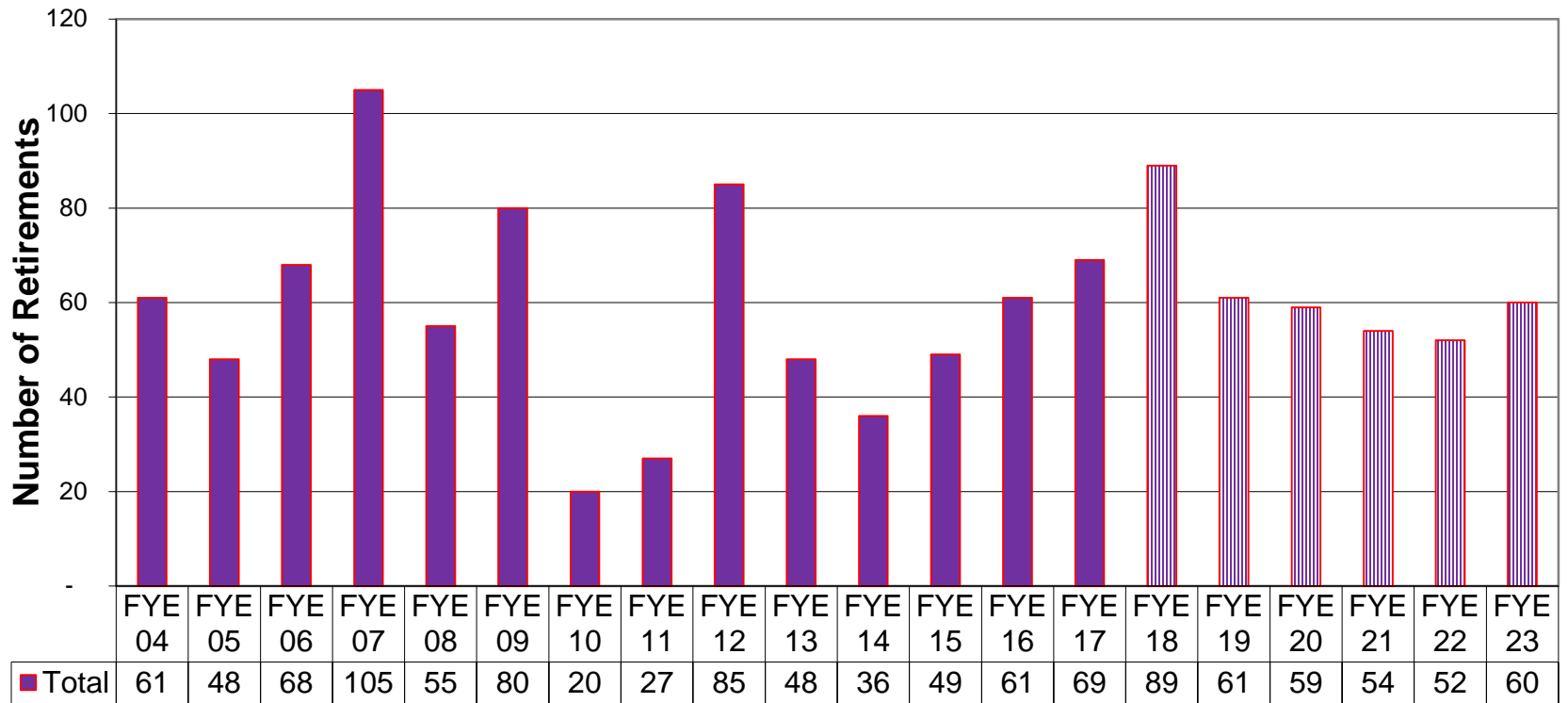
FPDR 1 & 2 Pension Benefits

- Growth of 6.1% next year
- FPDR Two pensions increasing:
 - As more members retire
 - With higher final pay – even after accounting for inflation
- FPDR One pensions are decreasing
 - High pension COLAs recently, but
 - High death rate (avg age 83.6)
- Pension budget is generally based on actuarial assumptions, except:
 - 20 “cushion” retirements
 - Assumes all new retirees have 27 pay date pension calculation



FPDR 2 Retirements: History & Projections

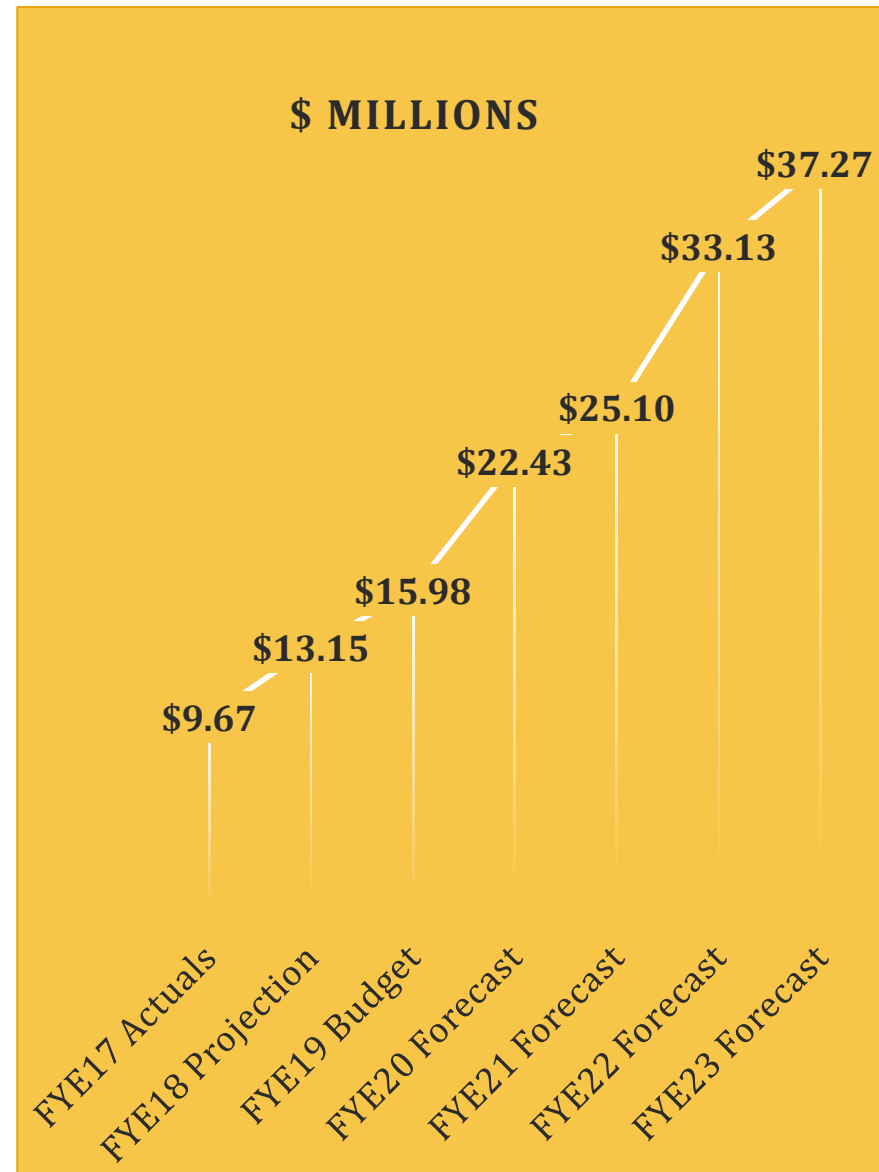
FPDR 2 Retirements, Total
Actuals (FYE 04-17), FYE18 Projection & Five-Year Forecast (FYE 19-23)
Includes Service, Disability and Vested Retirements



Fiscal Year Ending

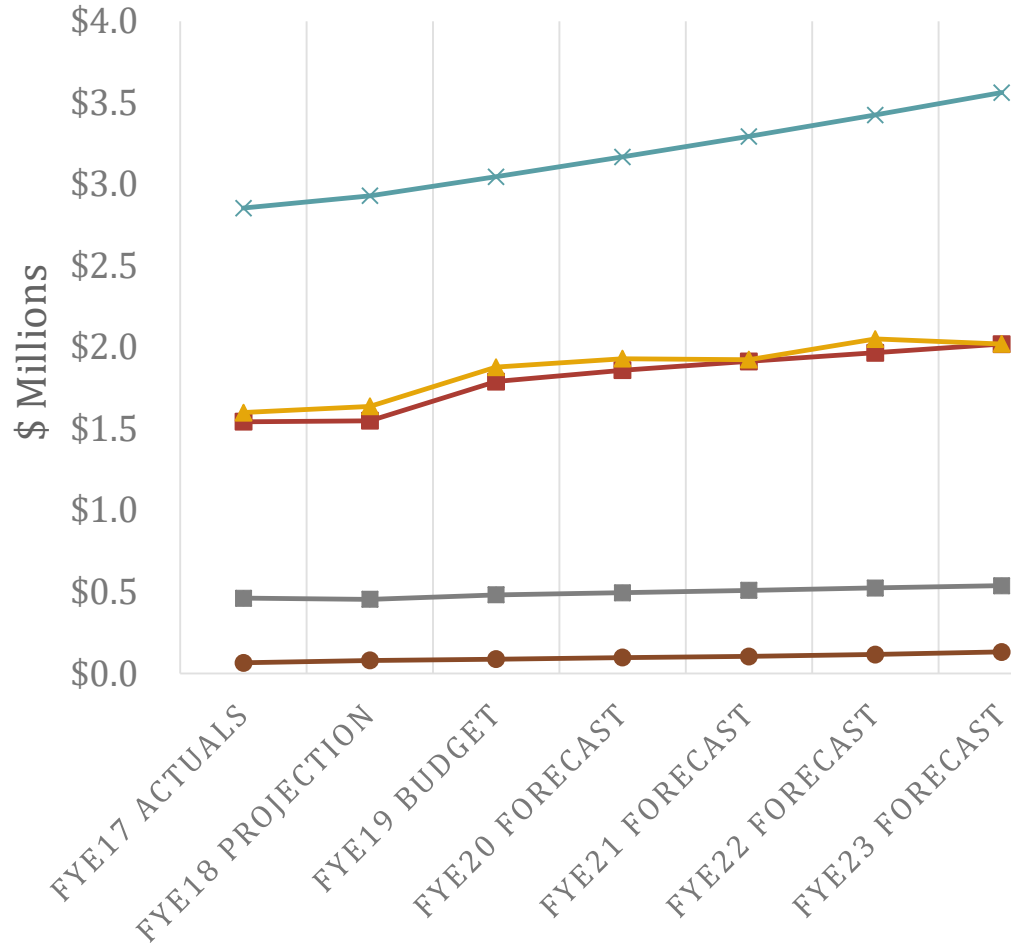
FPDR 3 Pension Contributions

- Still less than 10% of total budget, but will grow by 22% next year and 183% over five years
- Growth factors:
 - Increasing numbers, plus beginning to spread through ranks
 - PERS contribution rate increases and wage increases above inflation
- 40% of workforce is now FPDR Three, expected to be 60% by end of forecast
- FPDR Budget increasingly vulnerable to PERS contribution rate changes



Disability & Death Benefits

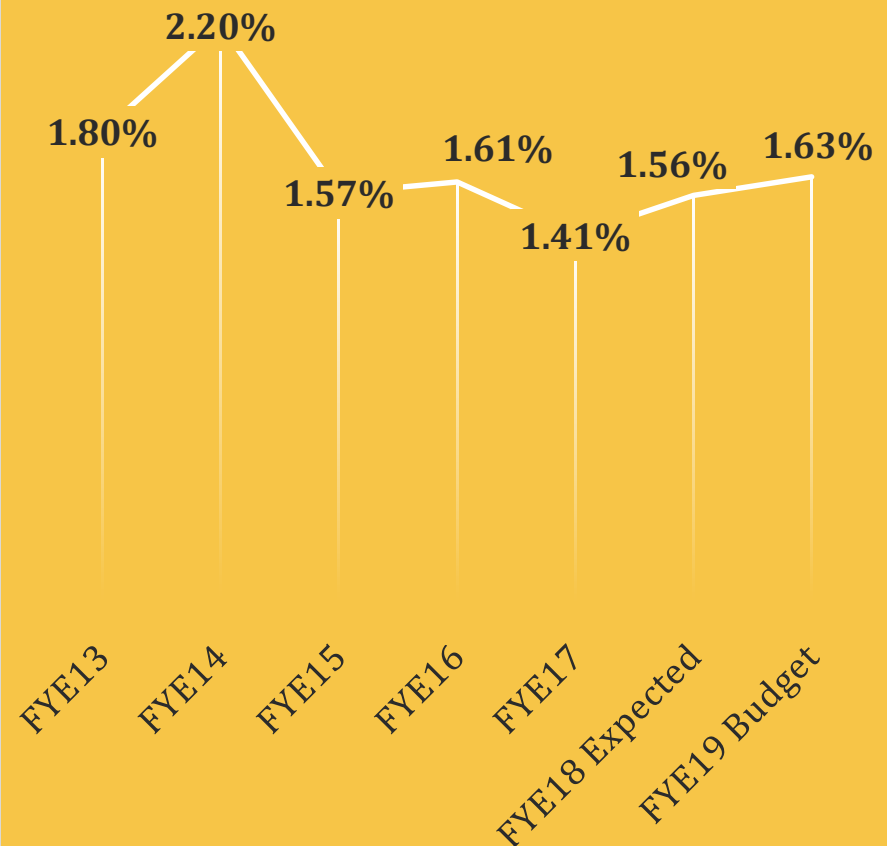
- Projected to grow almost 10% next year
- Medical benefits are largest component, but most of next year's increase comes from wage replacement
 - Largely because of wage growth
 - Partly because of potential increase in long-term disability recipients next year
- After years of declining, disability costs must eventually "bottom out" and begin to grow with wage and medical inflation



Administrative Costs

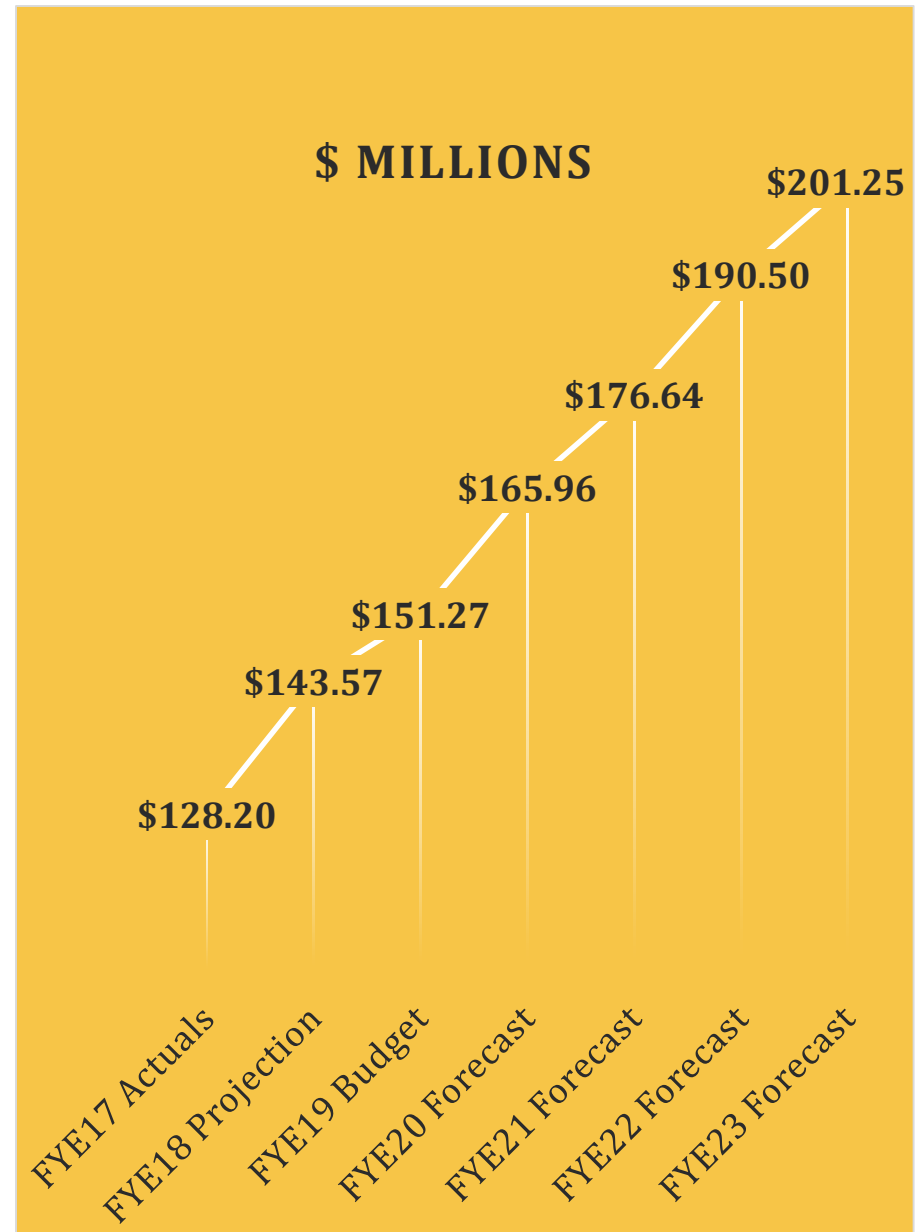
- Goal is to keep administrative costs under 3% of budget
- \$3.7 M for FY 2018-19, 4.7% higher than FY 2017-18
- Components:
 - 61% Personnel: Growing by 6.6% with wage and health benefit inflation
 - 20% External Materials & Services: Growing by 17.5% next year because of quirks in actuarial costs and rent
 - 18% Internal Materials & Services: Declining by 3.6%
 - 1% Capital: Declining by almost 60% after this year's database enhancements

ADMINISTRATIVE COST AS PERCENT OF TOTAL BUDGET

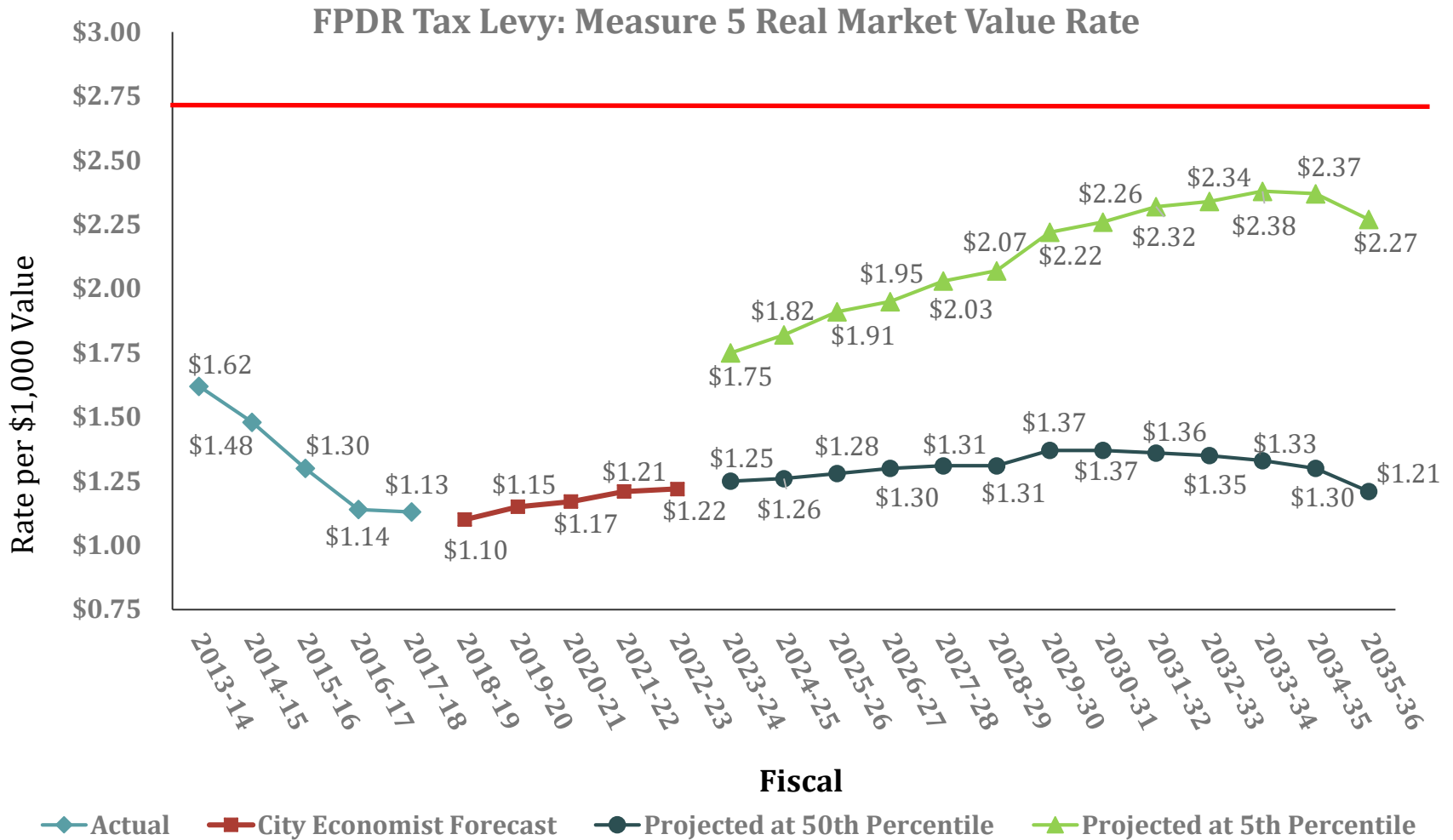


Property Taxes

- Increase in step with expenses, since taxes are 98% of fund resources
- Tax growth next year is 5.4%, less than 7.0% growth in fund requirements, because of high beginning fund balance
- Owner of home with median assessed value will see increase in tax bill of *roughly*:
 - \$28 next year
 - \$165 over entire forecast period



Impact on Tax Rate

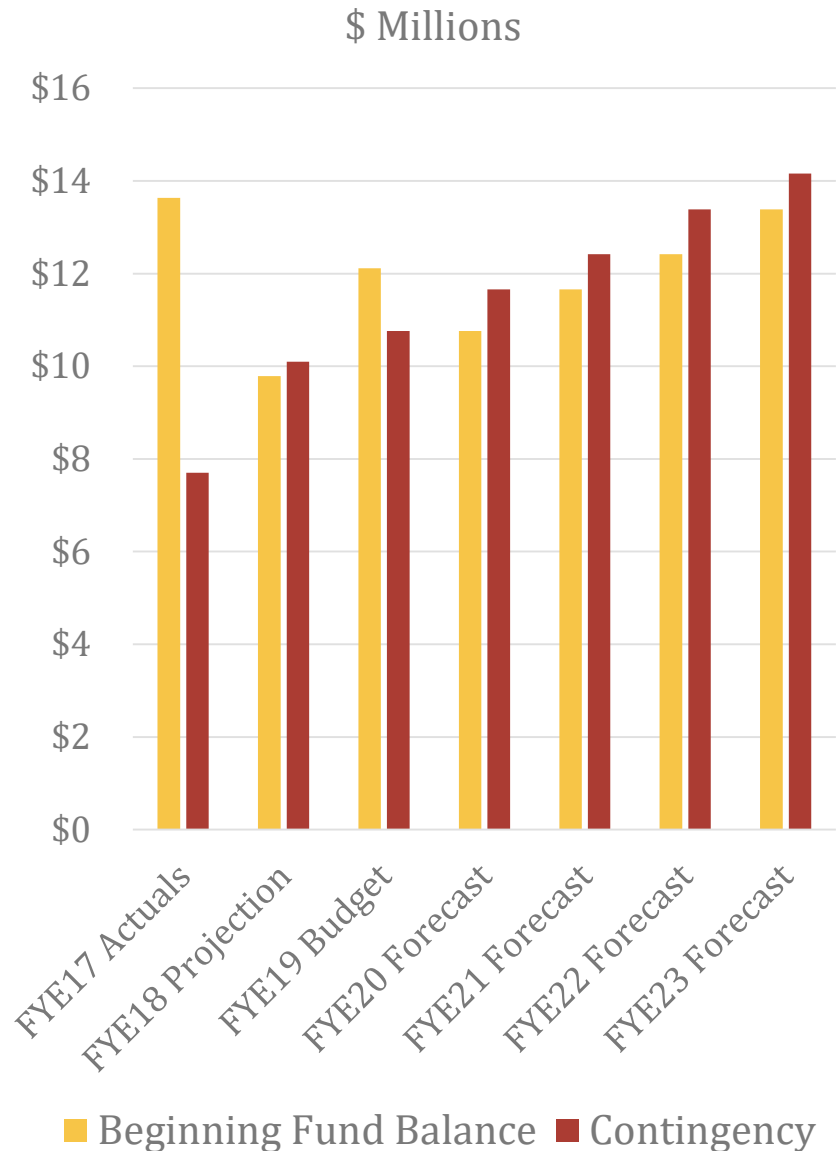


Other Revenue

- **Interagency Revenues (\$1.29 M, 0.77%)**
 - Police & Fire receive wage reimbursement and an overhead rate for contract services; pension and disability portion of overhead rate is passed to FPDR
 - Forecast to drop 11% next year because of continuing Police staff shortages; projected to recover in FY 19-20 as officers currently in training are deployed
- **Reserve Fund Transfer (\$0.75 M, 0.45%)**
 - Always budget in case it is needed for cash flow; if transfer is executed it must be repaid within same fiscal year
- **Interest Income (\$1.07 M, 0.64%)**
 - Expected to grow 37% next year and 116% over five-year forecast period
 - Combination of rising interest rates and growing fund balance
- **Subrogation and Interim Recovery (\$0.07 M, 0.05%)**
 - Payments from third parties when at fault in disability claims, variable
 - Members repay interim disability benefits when claims denied/withdrawn

Fund Balance & Contingency

- Recovering from FY 2017-18 beginning fund balance drop, as intended
- FY 2018-19 beginning fund balance will actually be more than originally planned
 - Fewer retirements than expected in September 2017 = lower pension expenses
 - Lower short-term disability benefit costs than budgeted
- Contingency level set at 7% of bureau requirements
 - Average risk levels over next five years



Risks to the Forecast

Police Hiring


- Forecast assumes 24 more hires this year (56 already), and 50 more next year
- With only 35 vacancies now, forecast assumes Police are approved to over hire
- If not approved, PERS contributions on new hires will be less than budgeted
- If approved to over hire more than 40, PERS contributions could exceed budget

Uncertain PERS Rates in Outyears

- Rate known for FY 2018-19 and likely to be close to forecast for next biennium
- Uncertainty re-enters forecast in FY 2021-22; also, legislative plans unclear

Future Wage Increases and Retirement Rates

- Wage growth increases FPDR costs in nearly all benefit types. Two wage risks:
 - CPI-W growth could remain high, rather than spiking for just one year
 - Wage increases above COLA could be included in future labor contracts
- Higher retirement rates increase expenses for FPDR 2 pensions and FPDR 3 PERS contributions: accelerates transition from pay-as-you-go to prefunded

- 
- A decorative vertical bar on the left side of the slide, featuring a golden-yellow background with various 3D-rendered financial symbols such as dollar signs, percentages, and numbers.
- Questions
 - Changes
 - Subsequent Adjustments
 - Motion to Approve the Budget