FPDR Recommended Budget

FY 2020-21

January 28, 2020
### Forecast Summary

#### Five-Year Forecast Summary ($ Millions)

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<td>48.27%</td>
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<td><strong>Total Net of TANs</strong></td>
<td>$170.21</td>
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<td>$213.97</td>
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**Change as a %**

4.2% 7.7% 6.5% 7.6% 6.5% 6.5%
## FY 2020-21 Budget Compared to Last Two Years

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<td>-13.68%</td>
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<tbody>
<tr>
<td>FPDR 1 &amp; 2 Pensions</td>
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<td>$131.68</td>
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<td>FPDR 3 PERS Contributions</td>
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<td>20.89</td>
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<td>Disability &amp; Death Benefits</td>
<td>6.59</td>
<td>7.18</td>
<td>7.18</td>
<td>7.23</td>
<td>0.57%</td>
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<td>Administration &amp; Delivery</td>
<td>3.59</td>
<td>4.06</td>
<td>4.10</td>
<td>4.21</td>
<td>2.65%</td>
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<td>Fund-Level Requirements</td>
<td>37.33</td>
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<td>27.24</td>
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<td>102.57%</td>
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<tr>
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<td>19.57</td>
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<td>16.90</td>
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<td>-100.00%</td>
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<td><strong>$178.93</strong></td>
<td><strong>$186.48</strong></td>
<td><strong>4.22%</strong></td>
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Different This Year

**NO SWORN LABOR CONTRACTS IN PLACE FOR BUDGET YEAR**
Do not know what the provisions of PFFA, PPA and PPCOA contracts will be for FYE21 and beyond

**HIGHER FUND BALANCE**
$7.7 M more in fund balance than last year, which means FPDR doesn’t need to raise FY 2020-21 property taxes as much

**SLOWER RMV GROWTH; FASTER AV GROWTH**
RMV grew only 2.0% this year, compared with last year’s projection of 5.0%  
- Result: RMV rate grows a little faster

AV grew 4.6%, compared with last year’s projection of 3.5%  
- Result: AV rate grows more slowly
FY 2020-21 Expense Overview ($ Millions)

- FPDR 1 & 2 Pension Benefits: $137.48 (74%)
- FPDR 3 Pension Contributions: $24.40 (13%)
- Disability & Death Benefits: $7.23 (4%)
- Administrative Expenses: $4.18 (2%)
- Fund Management Expenses: $13.31 (7%)

LOREM IPSUM

FPDR
Benefits: FPDR One and Two Pension Payments

Continued growth of about 6% per year overall

FPDR One benefits $3.5%
- Mortality

FPDR Two benefits $7.7%
- New retirees
- Low mortality
- Wage growth above COLA = higher pensions for new retirees

27% growth over five-year forecast period
Benefits: FPDR One And Two Pension Payments

FPDR Pension Budget Assumptions: A Closer Look

Retirement probabilities based on age and bureau.
- Age 50: Police members have 50% probability of retiring; Fire members 25%
- Age 51-58: Police members twice as likely to retire in early 50s than late 50s; Fire members spread evenly through 50s
- Age 59-65: Virtually all Police members retire by 65; Fire members by 60
- No cushion added because retirements well below actuarial projections this year

Death probabilities primarily based on age and gender. For example:
- Age 75: men have 2.3% probability and women 1.9% of dying before age 76
- Age 85: men have 6.7% probability and women 5.8% of dying before age 86
- Age 100: men have 29.2% probability and women 26.9% of dying before age 101

Assumptions for new retirees:
- Average years of service, pay, and Oregon residency of retirement-eligible pool
- All get 27 pay dates
- 80% choose 25% survivor benefit and 20% the 50% survivor benefit

Miscellaneous assumptions, such as:
- 80% of members have surviving spouses at death
Benefits: PERS Contributions

↑ 17% for next year

Fastest growing part of the budget: will more than double over next five years
- Hiring
- Increasing PERS rates
- Wage growth

PERS Rates:
- For next year = 29.16%, same as this year
- Beyond that, projected to grow to 34%, then 38%
- Good 2019 investment returns and PERS legislative reforms (if sustained in court) may soften that growth
**Benefits: FPDR Disability Benefits**

- **Medical payments:**
  - Largest component
  - Medical inflation is high, ↑ 4% each year
  - Volatile

- **Wage replacement for short-term disability:**
  - ↑ 4.3%
  - COLAs plus cushion
  - Volatile

- **Wage replacement for long-term disability:**
  - ↓ 12.4%
  - 10 move to pension over forecast period
  - None projected to start
Administration: Operating the Plan

FYE 2020-21 Administrative Expenses

- Personnel: $2,611,100 (62%)
- External Materials & Services: $834,000 (20%)
- Internal Materials & Services: $712,036 (17%)
- Capital (Database): $50,000 (1%)
Administration: Operating the Plan

Personnel:
- 17 positions: 1 Director; 2 managers; 6 disability claims staff; 4 office/legal/IT/HR staff; 3 finance/accounting staff; 1 pension coordinator
- Up 4.7% for next year:
  - 2.9% wage COLA and 4.0% health insurance growth (projected)
  - New salary ranges for nonrepresented staff mean most are eligible for merit raises next year

External Materials and Services:
- What we buy from vendors, both goods and services
- Growing with inflation: Up 2.5% for next year
- Largest items are office lease and professional services, such as actuaries

Internal Materials and Service:
- What we buy from other City bureaus, both goods and services
- Growing by a bit more than inflation: Up 3.2% for next year
- Largest items are City Attorney’s office and City Technology Services

Capital (Database Programming)
- Very small budget; Down 50% for next year as pension estimate module wraps up
Maintaining the Fund

Must maintain our own fund contingency, typically 6% to 7% of total bureau expenditures.

Must manage our own cash flow, one aspect of which is issuing TANs each year:
- Interest and debt issuance cost $500K - $900K per year
- However, costs are offset by arbitrage earnings; expected to continue next year

Must pay General Fund overhead for citywide services:
- Examples are Emergency Management, Human Resources
- $135K for FY 2020-21
Major Assumptions: Expenditures

- Retirement and Death Rates
- 27 Pay Date "Take Up" Rate
- PERS Investment Returns
- PERS Contribution Rates
- PERS Reform
- Police and Fire Hiring Rates
- PERS Contributions
- Medical Inflation
- General Inflation
- Disability Costs
- Frequency/Severity of Illness/Injury
- Administrative Costs
- Retiree COLAs
- Wage Increases
- Pension Costs
# Major Assumptions: Expenditures

## Inflation Assumptions

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<th>FYE20</th>
<th>FYE21</th>
<th>FYE22</th>
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<tr>
<td><strong>Wages</strong></td>
<td>3.90%</td>
<td>2.90%</td>
<td>2.60%</td>
<td>2.50%</td>
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<td><strong>Medical</strong></td>
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<td>Tier 1 &amp; Tier 2*</td>
<td>27.86%</td>
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<td>Internal Materials &amp; Services</td>
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*Includes 9% Individual Account Program "pick up" for OPSRP Public Safety and 6% for Tier I/II/OPSRP General

## Other Assumptions

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<td>2.70%</td>
<td>2.80%</td>
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<td>FPDR 2, Average Among Members</td>
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<td>1.96%</td>
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<td>1.95%</td>
<td>1.94%</td>
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<td>Percent of Sworn Workforce, FPDR 3</td>
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<td>50.6%</td>
<td>55.6%</td>
<td>59.8%</td>
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<td>70</td>
<td>48</td>
<td>40</td>
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Risks to Expenditures

**UPSIDE RISKS**

**PERS REFORM AND INVESTMENT RETURNS**
› If PERS cost saving reforms are upheld by Oregon Supreme Court, growth in contribution rates will likely be slower than forecast
› Good 2019 investment returns may also slow growth in contribution rates

**POLICE BUREAU HIRING**
› Forecast assumes 70 – 80 officers hired each year through FYE23
› Police has hired an average of 34 officers annually for last ten years
› Slower hiring would mean lower PERS contribution costs than currently forecast

**DOWNSIDE RISKS**

**OPEN PFFA CONTRACT**
› Arbitration scheduled for April
› Have not yet seen City or PFFA “last best offers”
› If final contract includes wage increases beyond COLA, or additional hiring, FPDR benefit expenses will be higher

**EXPIRING PPA CONTRACT**
› If new contract includes wage increases beyond COLA, or additional hiring, FPDR benefit expenses will be higher

**COULD GO EITHER WAY...**

**MOST OTHER THINGS**
› CPI-West Region (basis for wage COLAs) could be higher or lower
› Could be more or fewer deaths
› Could be more or fewer retirements
› Overtime, premium pay, and/or promotion rates for FPDR Threes could be higher or lower
› Marriage rates, survivor benefit selections, and tax offset eligibility could be higher or lower
› Medical inflation could be higher or lower
› There could be more or fewer total disability claims; and claims could be more or less expensive

**27 PAY DATES FOR NONREPS**
› Arbitration scheduled for February
› If unions prevail, FPDR benefit expenses will be higher
FY 2020-21 Revenue Overview ($ Millions)

- Property Taxes: $165.88 (89%)
- Beginning Fund Balance: $16.90 (9%)
- Interagency Revenues: $1.57 (1%)
- Other: $2.13 (1%)
Property Taxes

Property taxes each year = Expense requirements - Beginning fund balance - Other revenues

Increase more or less in step with expenses, but can swing with changes in fund balance and other revenues

Growing 6.0% for next year compared to total expenditure growth of 7.2%
- $7.7 M more in fund balance

AV rate:
- $2.67 current
- $2.73 for FYE20
- $3.30 by FYE25

RMV rate:
- $1.10 current
- $1.13 for FYE20
- $1.31 by FYE25
Non-property tax revenues are only about 2% of all revenues, or $3.7 M

Of that $3.7 M, $2.8 M comes from interest income and overhead charges on third-party Police work
  • Interest income flat for next year: fund balance growing, but interest rates expected to drop from 2.22% to 1.85%
  • Almost all overhead charges are from Police, 2.9% next year as wages grow; increased third party work not anticipated given staffing shortages

Subrogation and other miscellaneous revenues are small, expected to grow with medical or regular inflation
## Major Assumptions: Revenues

### PROPERTY TAX ASSUMPTIONS

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<tr>
<th></th>
<th>FYE21</th>
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<th>FYE23</th>
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<td>RMV Growth</td>
<td>4.0%</td>
<td>4.0%</td>
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<tr>
<td>AV Growth</td>
<td>3.5%</td>
<td>3.3%</td>
<td>3.2%</td>
<td>3.2%</td>
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<tr>
<td>Compression</td>
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<td>-4.4%</td>
<td>-4.4%</td>
<td>-4.4%</td>
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<tr>
<td>Discounts/Delinquencies</td>
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### INTEREST INCOME ASSUMPTIONS

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<th>FYE19 Actuals</th>
<th>FYE20</th>
<th>FYE21</th>
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<tr>
<td>Interest Income</td>
<td>$1.54</td>
<td>$1.26</td>
<td>$1.26</td>
<td>$1.34</td>
<td>$1.43</td>
<td>$1.54</td>
<td>$1.64</td>
</tr>
</tbody>
</table>

### POLICE INTERAGENCY REVENUE ASSUMPTIONS

<table>
<thead>
<tr>
<th></th>
<th>FYE19 Actuals</th>
<th>FYE20</th>
<th>FYE21</th>
<th>FYE22</th>
<th>FYE23</th>
<th>FYE24</th>
<th>FYE25</th>
</tr>
</thead>
<tbody>
<tr>
<td>Police Secondary Wages</td>
<td>$3.80</td>
<td>$4.48</td>
<td>$4.68</td>
<td>$4.80</td>
<td>$4.92</td>
<td>$5.05</td>
<td>$5.19</td>
</tr>
<tr>
<td>Pension &amp; Disability Overhead Charge</td>
<td>28.43%</td>
<td>32.62%</td>
<td>32.62%</td>
<td>37.46%</td>
<td>37.46%</td>
<td>41.46%</td>
<td>41.46%</td>
</tr>
<tr>
<td>Revenue to FPDR</td>
<td>$1.08</td>
<td>$1.48</td>
<td>$1.53</td>
<td>$1.80</td>
<td>$1.84</td>
<td>$2.09</td>
<td>$2.15</td>
</tr>
</tbody>
</table>
### Risks to Revenues

#### PROPERTY TAXES

**COMPRESSION LOSSES**
- Property tax compression is notoriously difficult to predict and has many moving parts
- If under-estimated, FPDR will not collect enough property taxes

**DELINQUENCIES**
- Typically move with the business cycle, so macroeconomic assumptions come into play
- If more property owners than expected can’t pay taxes, FPDR will not collect enough property taxes

**DISCOUNTS**
- Early payment discounts on property tax bills
- Utilization rate for discounts is fairly stable

#### OTHER

**INTEREST RATES**
- Could be higher or lower than forecast, increasing or decreasing interest income

**FUND BALANCE**
- Could be higher or lower than forecast
  - Fewer or more resources to start the year
  - Increases or decreases interest income

**POLICE BUREAU THIRD PARTY WORK**
- When Police is under-staffed, they can take on less third-party work
Key Budget Take-Aways

PENSION COSTS CONTINUE TO GROW AS PREDICTED
- FPDR 2 pension costs growing 7.7% for FY 2020-21, as pool of retirees and final pay grows
- PERS contribution costs growing 16.9% for FY 2020-21, as number of PERS employees, pay and PERS contribution rates increase

MOST OTHER COSTS ARE STABLE
- Disability costs growing only with inflation (or less)
- Administrative costs growing only with inflation
- FPDR 1 pension costs declining 3.5% for FY 2020-21, as beneficiaries pass away

MORE UNCERTAINTY THAN USUAL
- Indeterminate wage growth, in both FYE21 and beyond, because of open labor contracts
- Legal issues make PERS rates in outyears hard to predict
- Can Police Bureau hire as fast as projected?

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Coming Up:
To the Outyears and Beyond

- Resolution of PERS Reform Litigation
- Experience Study in 2020
- Continued Decline: FPDR 1 Pension Costs
- Continued Growth: FPDR 2 Pension Costs
- Continued Growth: FPDR 3 PERS Contributions
- New Contracts for PFFA, PPA and PPCOA
Questions?
Changes?
Future Technical Adjustments

Motion to Adopt