

FPDR Recommended Budget

FY 2020-21

January 28, 2020

Forecast Summary

Five-Year Forecast Summary (\$ Millions)									
	FYE19 Actuals	FYE20 Adopted Budget	FYE20 Project	FYE21 Recomm- ended Budget	FYE22 Forecast	FYE23 Forecast	FYE24 Forecast	FYE25 Forecast	FYE20 Project- FYE25 Change
Resources									
Property Taxes	\$155.58	\$156.34	\$156.44	\$165.88	\$185.36	\$197.77	\$213.11	\$227.29	45.29%
Tax Anticipation Notes	36.53	52.90	26.73	42.00	50.40	53.50	56.30	59.70	123.38%
Miscellaneous	2.78	3.55	2.91	2.95	3.31	3.45	3.83	3.99	37.06%
Cash Transfers	-	0.75	-	0.75	0.75	0.75	0.75	0.75	N/A
Beginning Fund Balance	11.85	17.49	19.57	16.90	11.50	12.00	12.50	13.20	-32.56%
Total Resources	\$206.74	\$231.04	\$205.66	\$228.48	\$251.32	\$267.47	\$286.49	\$304.93	48.27%
Requirements									
Retirement Benefits	\$139.66	\$153.13	\$150.24	\$161.88	\$175.44	\$187.64	\$202.71	\$216.49	44.10%
Disability & Death Benefits	6.59	7.18	7.18	7.23	7.38	7.43	7.67	7.86	9.45%
Administration & Delivery	3.59	4.06	4.10	4.21	4.33	4.58	4.74	4.95	20.82%
Fund-Level Requirements	37.33	66.67	27.24	55.17	64.16	67.82	71.37	75.63	177.68%
Ending Fund Balance	19.57	-	16.90	-	-	-	-	-	N/A
Total Requirements	\$206.74	\$231.04	\$205.66	\$228.48	\$251.32	\$267.47	\$286.49	\$304.93	48.27%
Total Net of TANs	\$170.21	\$178.14	\$178.93	\$186.48	\$200.92	\$213.97	\$230.19	\$245.23	37.06%
Change as a %				4.2%	7.7%	6.5%	7.6%	6.5%	6.5%

FY 2020-21 Budget Compared to Last Two Years

	FY 2018-19 Actuals	FY 2019-20 Adopted Budget	FY 2019-20 Current Projection	FY 2020-21 Recommended Budget	Change (Current Proj to Budget)
Resources					
Property Taxes	\$155.58	\$156.34	\$156.44	\$165.88	6.03%
Tax Anticipation Notes	36.53	52.90	26.73	42.00	57.15%
Miscellaneous	2.78	3.55	2.91	2.95	1.41%
Cash Transfers	-	0.75	-	0.75	0.00%
Beginning Fund Balance	11.85	17.49	19.57	16.90	-13.68%
Total Resources	\$206.74	\$231.04	\$205.66	\$228.48	11.1%
Requirements					
FPDR 1 & 2 Pensions	\$124.15	\$131.68	\$129.35	\$137.48	6.28%
FPDR 3 PERS Contributions	15.52	21.45	20.89	24.40	16.81%
Disability & Death Benefits	6.59	7.18	7.18	7.23	0.57%
Administration & Delivery	3.59	4.06	4.10	4.21	2.65%
Fund-Level Requirements	37.33	66.67	27.24	55.17	102.57%
Ending Fund Balance	19.57	-	16.90	-	-100.00%
Total Requirements	\$206.74	\$231.04	\$205.66	\$228.48	11.10%
Total Net of TANs	\$170.21	\$178.14	\$178.93	\$186.48	4.22%

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

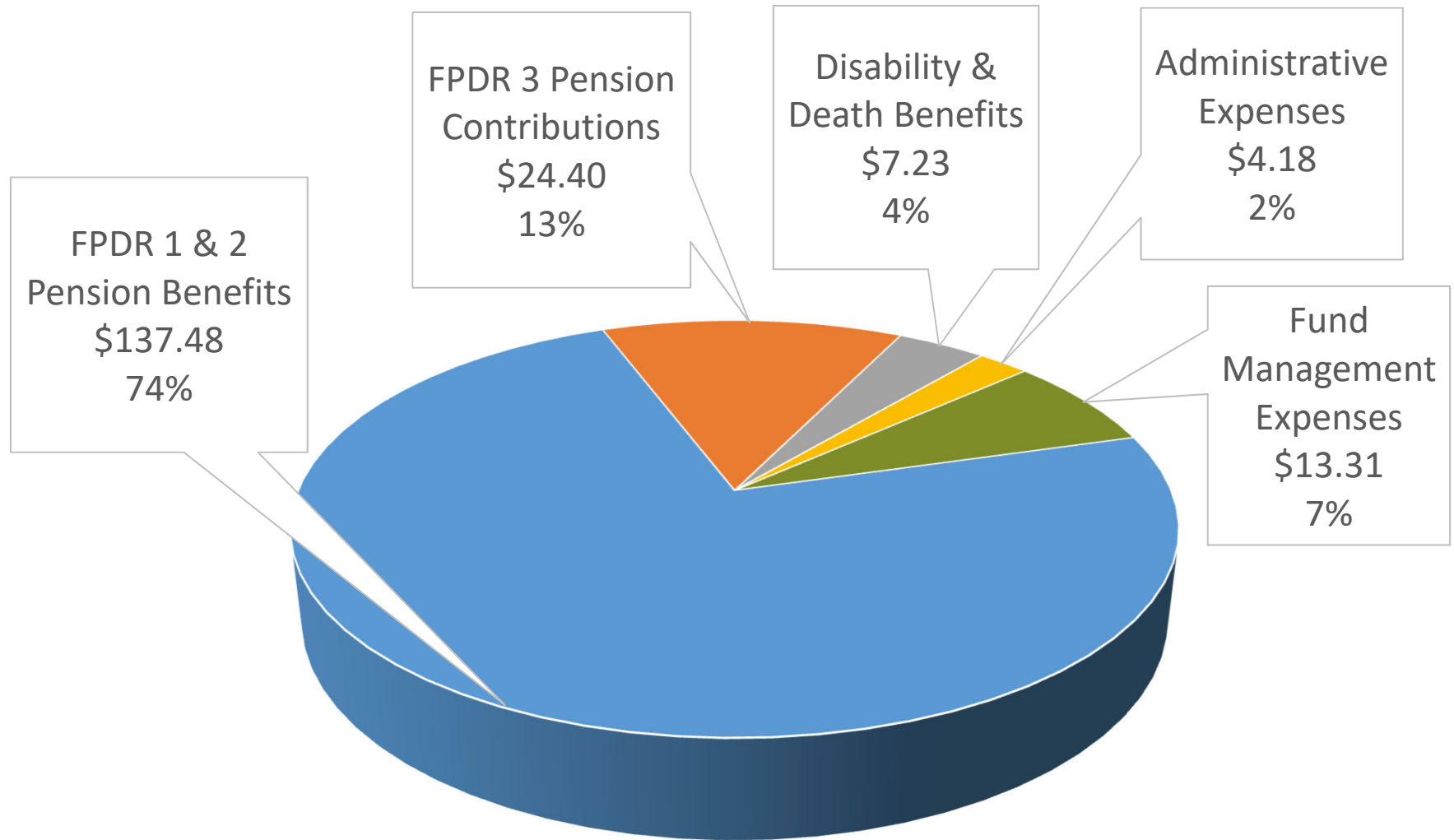
RMV grew only 2.0% this year, compared with last year's projection of 5.0%

➤ Result: RMV rate grows a little faster

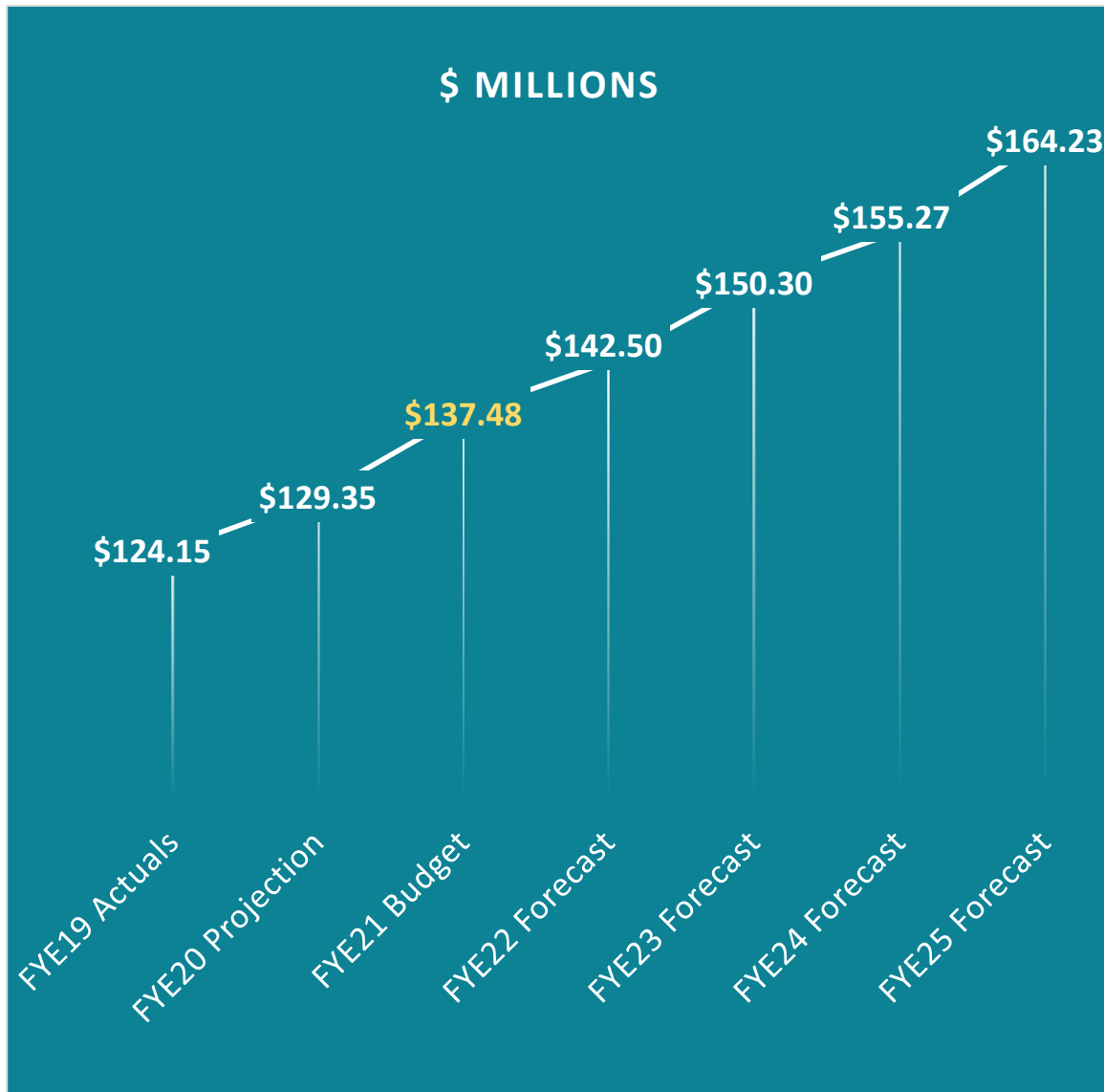
AV grew 4.6%, compared with last year's projection of 3.5%

➤ Result: AV rate grows more slowly

FY 2020-21 Expense Overview (\$ Millions)



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



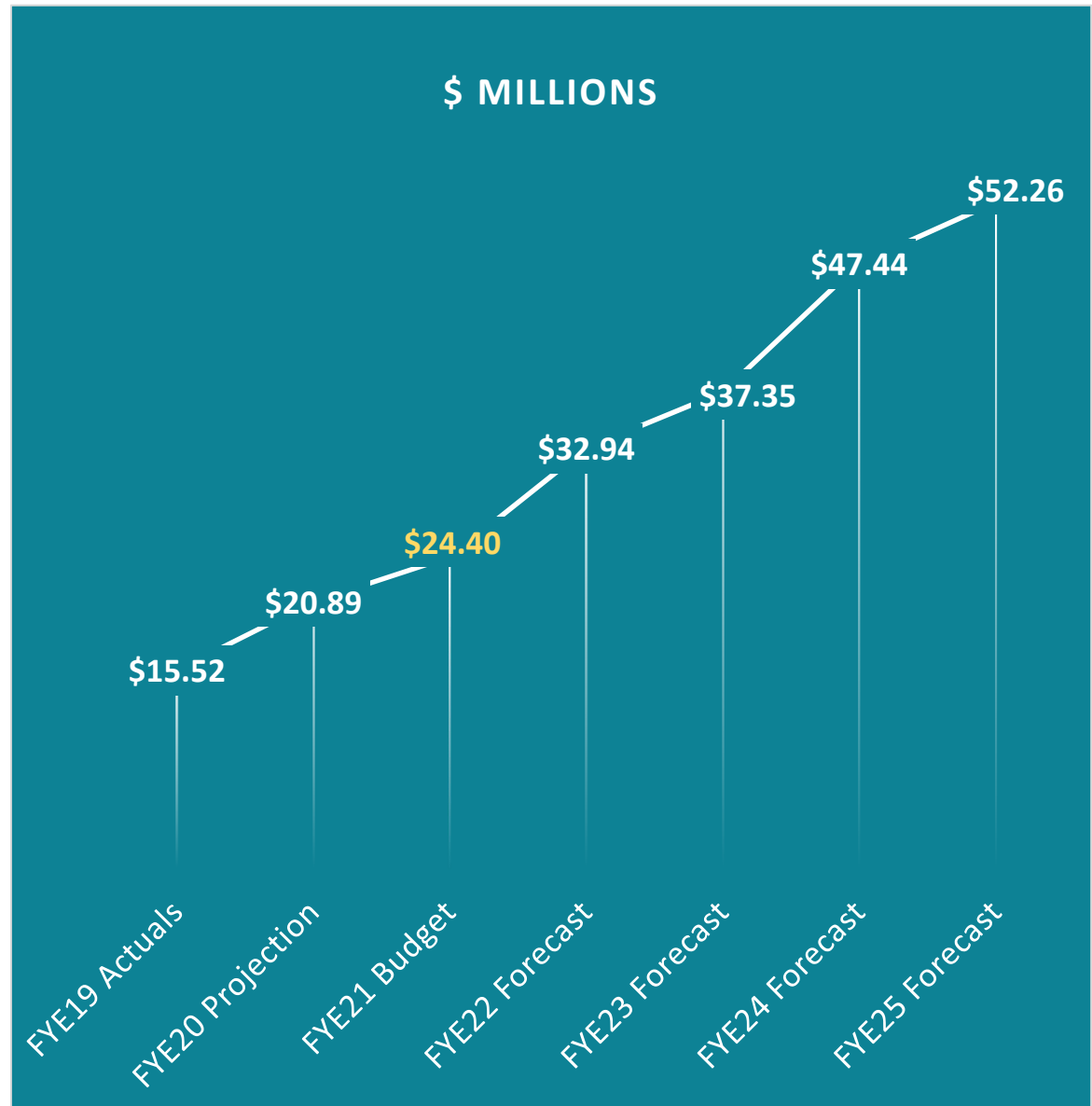
Fastest growing part of the budget: will more than double over next five years

- Hiring
- Increasing PERS rates
- Wage growth



PERS Rates:

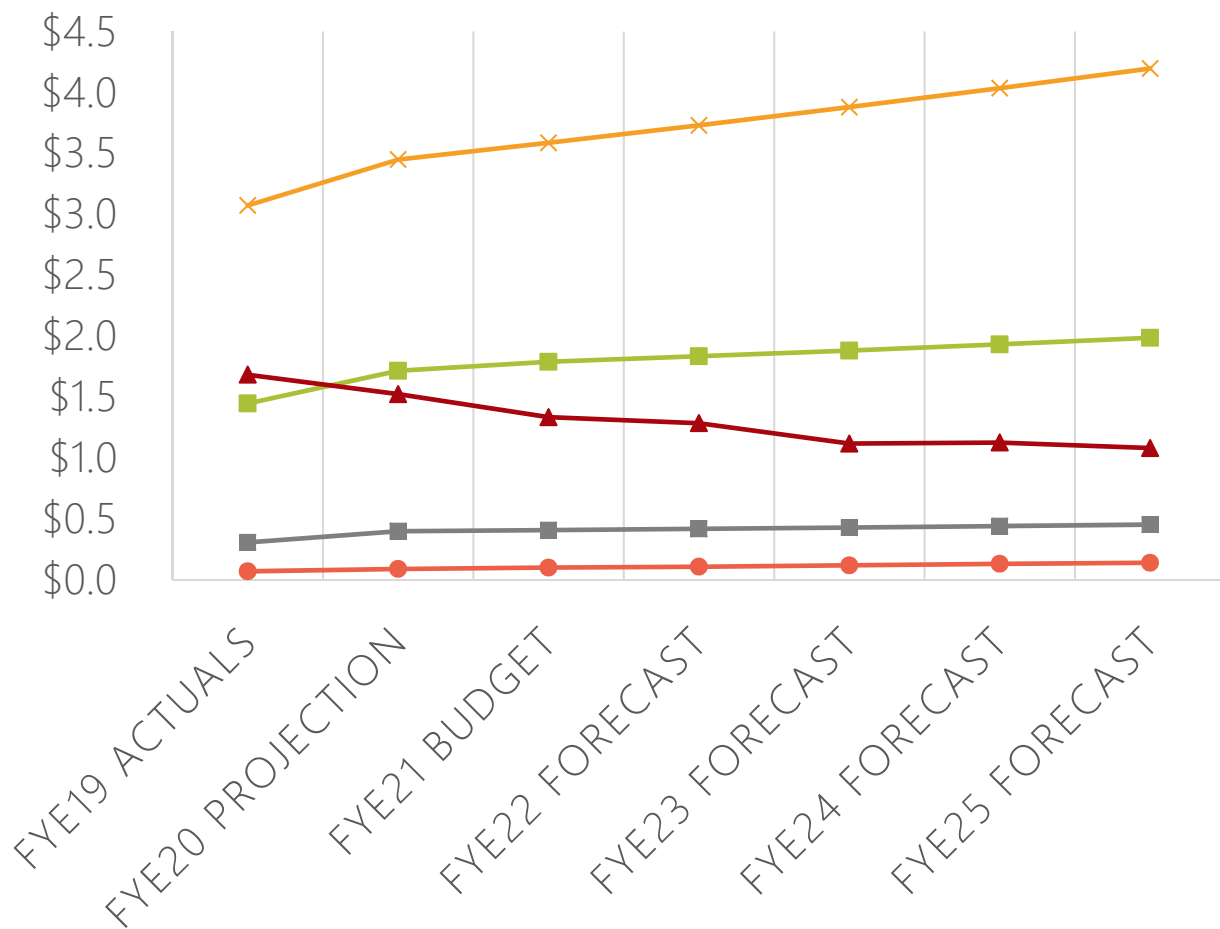
- For next year = 29.16%, same as this year
- Beyond that, projected to grow to 34%, then 38%
- Good 2019 investment returns and PERS legislative reforms (if sustained in court) may soften that growth



Benefits: FPDR Disability Benefits

- Short-Term Disability
- ▲ Long-Term Disability
- ✕ Medical Payments & Voc Rehab
- Return to Work Subsidies
- Funeral Benefits

\$ Millions



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



Wage replacement for short-term disability:

- ↑ 4.3%
- COLAs plus cushion
- Volatile

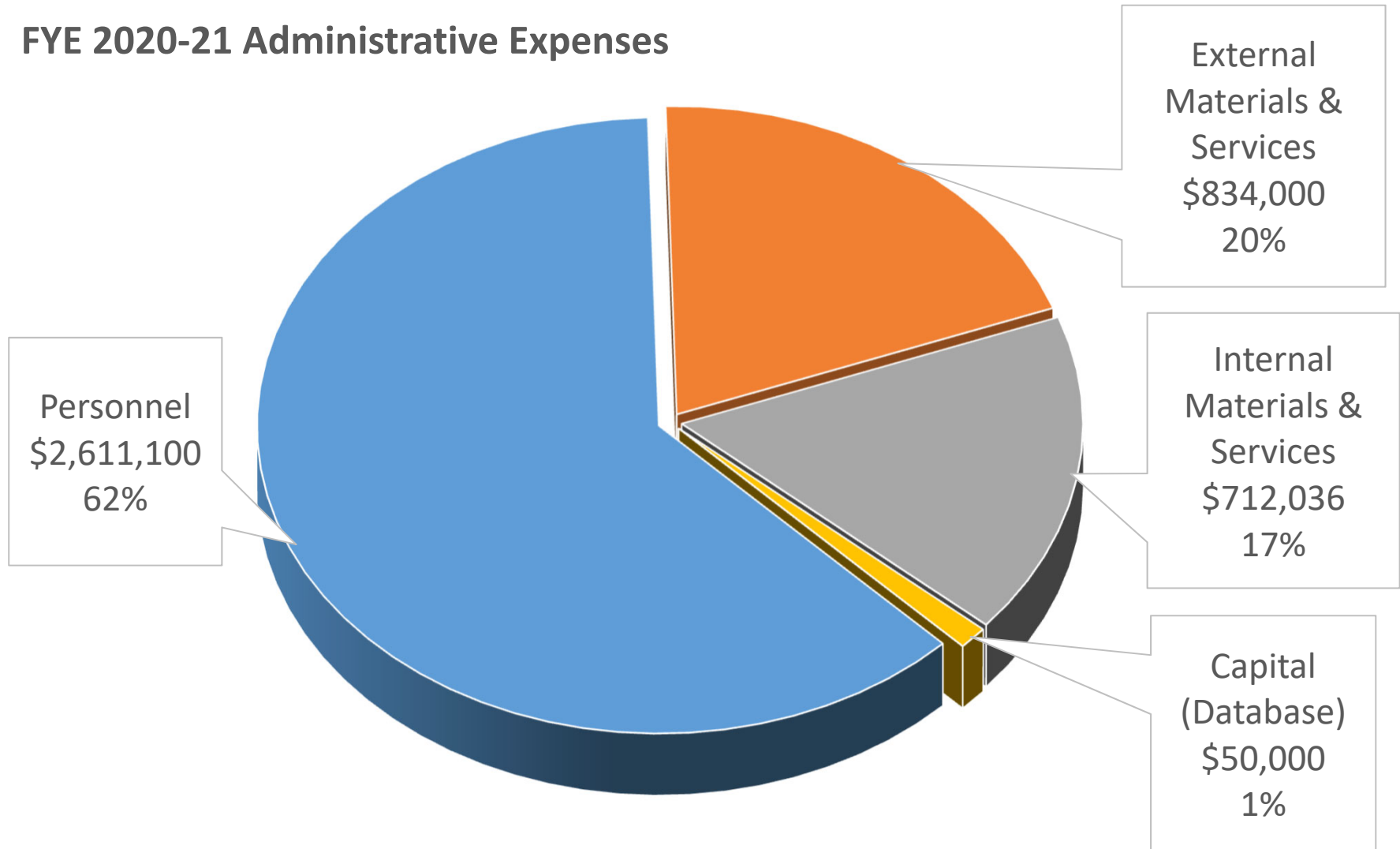


Wage replacement for long-term disability:

- ↓ 12.4%
- 10 move to pension over forecast period
- None projected to start


Administration: Operating the Plan

FYE 2020-21 Administrative Expenses




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
-  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:  2.5% for next year
- Largest items are office lease and professional services, such as actuaries

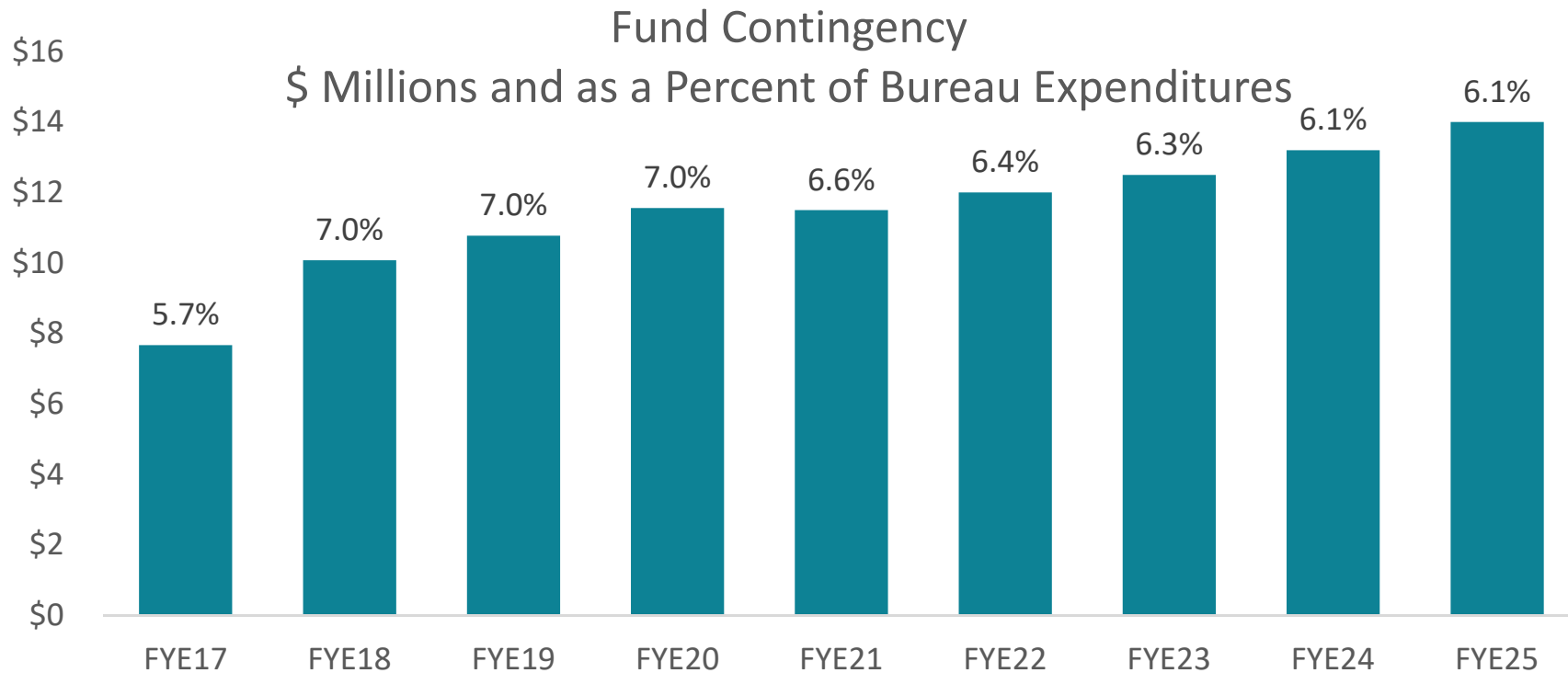
Internal Materials and Service:

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

Capital (Database Programming)

- Very small budget;  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:

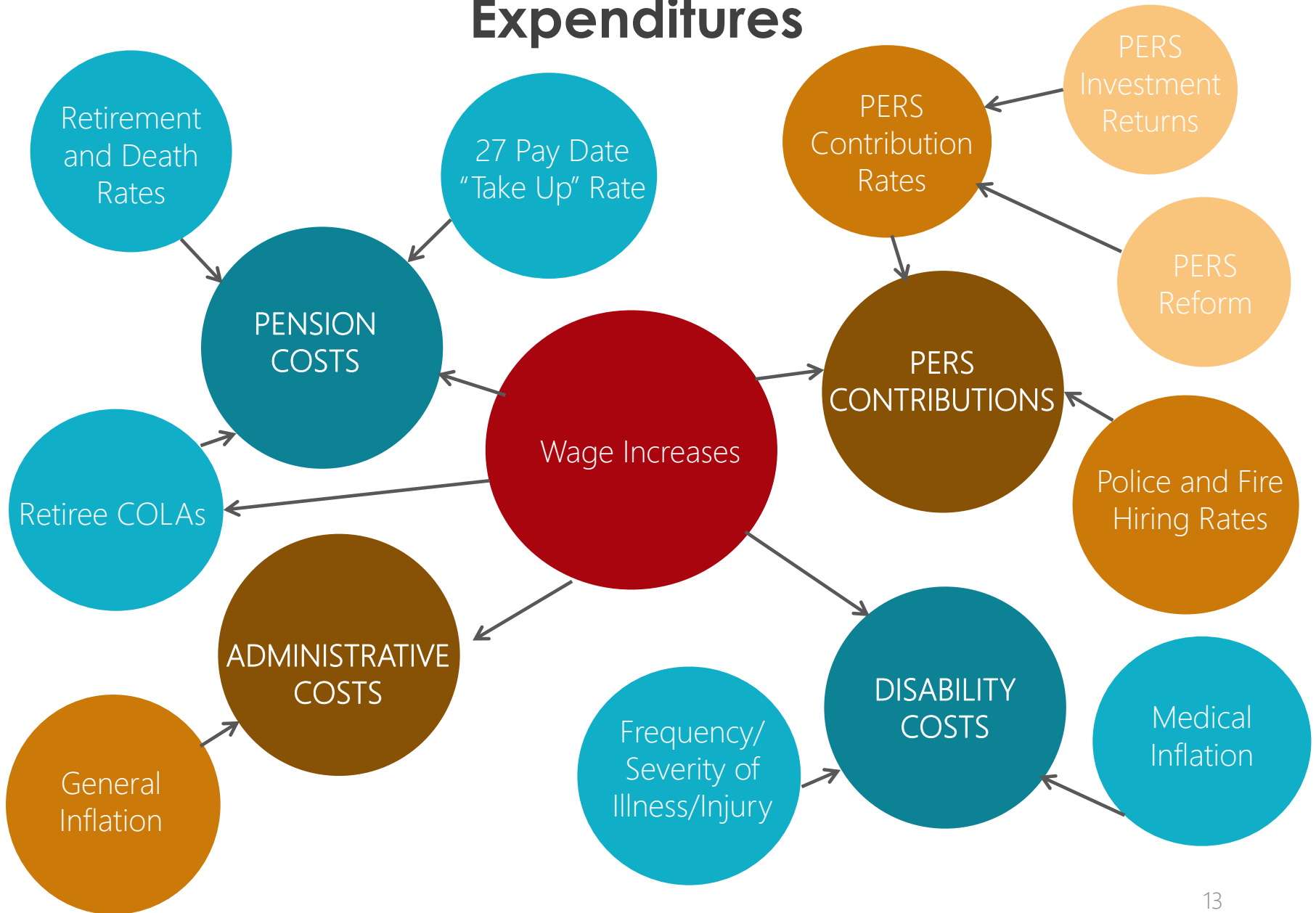
- Interest and debt issuance cost \$500K - \$900K per year
- However, costs are offset by arbitrage earnings; expected to continue next year



Must pay General Fund overhead for citywide services

- Examples are Emergency Management, Human Resources
- \$135K for FY 2020-21

Major Assumptions: Expenditures



Major Assumptions: Expenditures

Inflation Assumptions						
	FYE20	FYE21	FYE22	FYE23	FYE24	FYE25
Wages	3.90%	2.90%	2.60%	2.50%	2.70%	2.80%
Medical	4.20%	4.00%	4.00%	4.00%	4.00%	4.00%
PERS Contribution Rates						
Tier 1 & Tier 2*	27.86%	27.86%	33.00%	33.00%	40.00%	40.00%
OPSRP General*	21.53%	21.53%	27.00%	27.00%	33.00%	33.00%
OPSRP Public Safety*	29.16%	29.16%	34.00%	34.00%	38.00%	38.00%
External Materials & Services	3.60%	2.60%	2.60%	2.60%	2.60%	2.60%
Internal Materials & Services	3.00%	3.10%	2.60%	2.70%	2.60%	2.60%

*Includes 9% Individual Account Program "pick up" for OPSRP Public Safety and 6% for Tier I/II/OPSRP General

Other Assumptions						
	FYE20	FYE21	FYE22	FYE23	FYE24	FYE25
FPDR 2 Service Retirements	54	49	48	51	62	65
Deaths, Members & Beneficiaries	66	56	57	57	57	57
Pension COLAs						
FPDR 1, Fire	3.90%	2.90%	2.60%	2.50%	2.70%	2.80%
FPDR 1, Police	7.02%	2.90%	2.60%	2.50%	2.70%	2.80%
FPDR 2, Average Among Members	2.00%	2.00%	1.96%	1.96%	1.95%	1.94%
Percent of Sworn Workforce, FPDR 3	46.0%	50.6%	55.6%	59.8%	64.1%	68.0%
Bureau Hiring Projections						
Fire Bureau	24	24	12	24	24	24
Police Bureau	80	80	70	70	48	40

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

27 PAY DATES FOR NONREPS

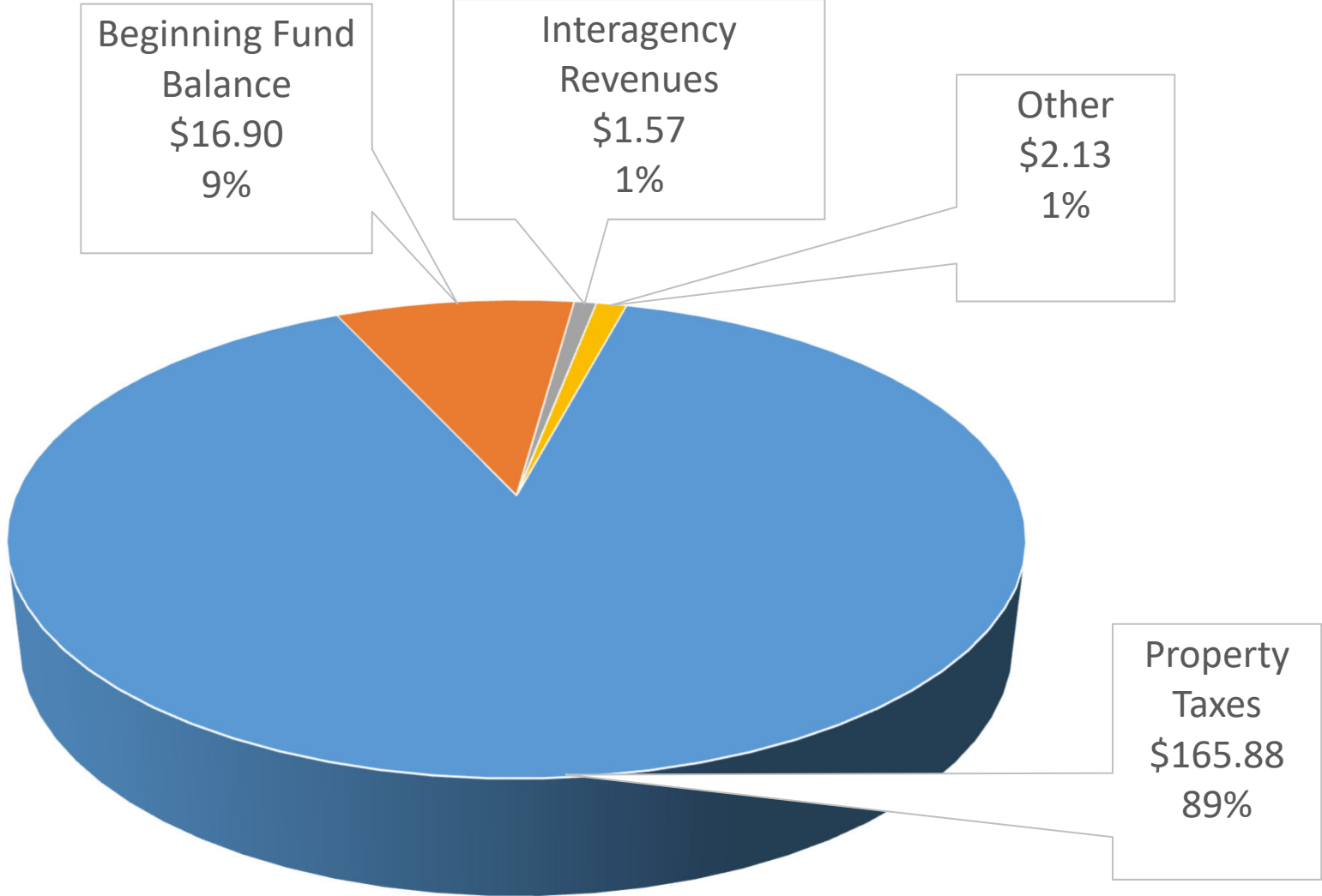
- › Arbitration scheduled for February
- › If unions prevail, FPDR benefit expenses will be higher

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

FY 2020-21 Revenue Overview (\$ Millions)



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:	RMV rate:
\$2.67 current	\$1.10 current
\$2.73 for FYE20	\$1.13 for FYE20
\$3.30 by FYE25	\$1.31 by FYE25

Other Revenue

Non-property tax revenues are only about 2% of all revenues, or \$3.7 M



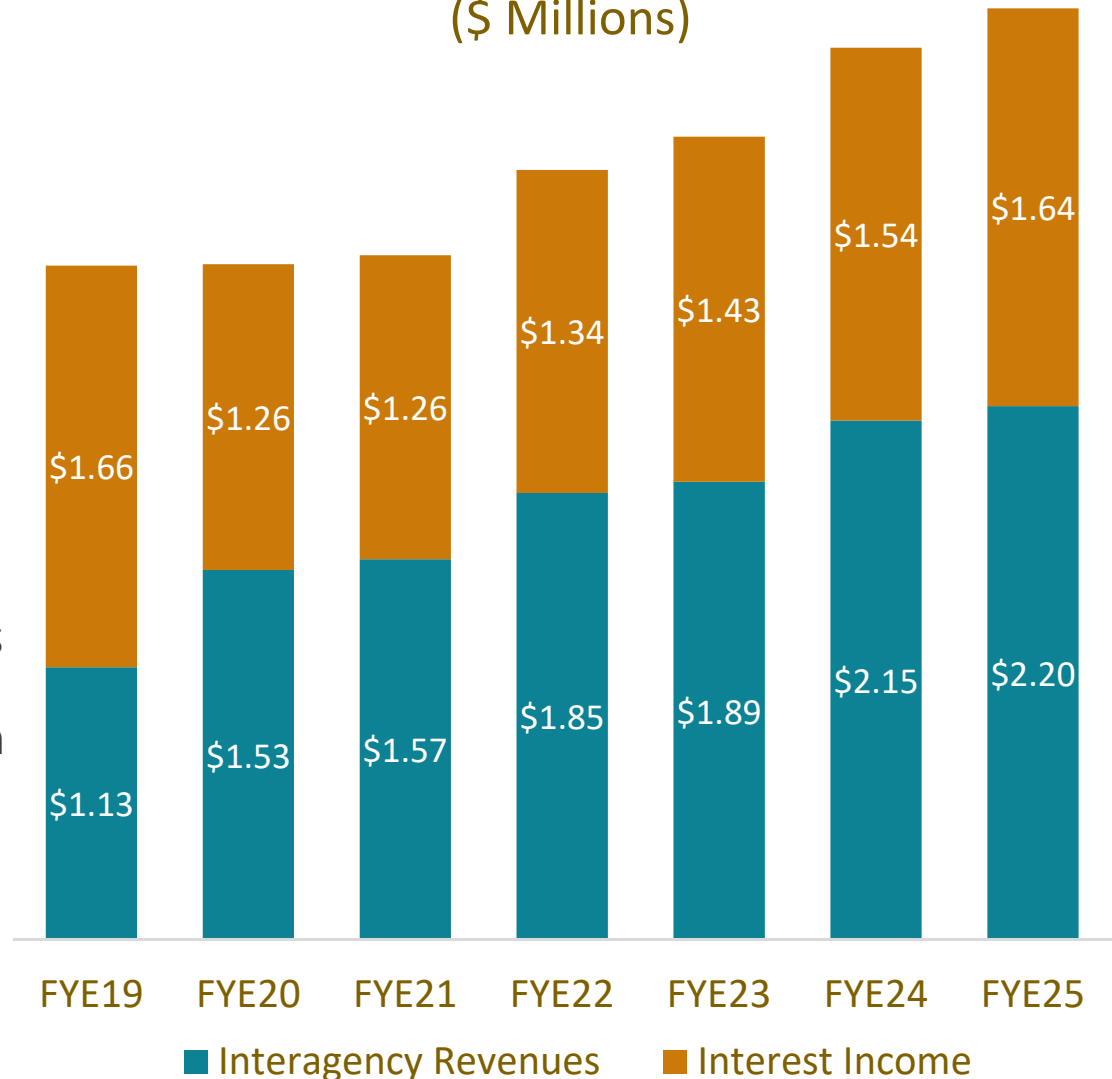
Of that \$3.7 M, \$2.8 M comes from interest income and overhead charges on third-party Police work

- 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

Primary Non-Property Tax Revenues
(\$ Millions)



Major Assumptions: Revenues

PROPERTY TAX ASSUMPTIONS					
	FYE21	FYE22	FYE23	FYE24	FYE25
RMV Growth	4.0%	4.0%	4.0%	4.0%	4.0%
AV Growth	3.5%	3.3%	3.2%	3.2%	3.0%
Compression	-4.5%	-4.4%	-4.4%	-4.4%	-4.4%
Discounts/Delinquencies	-4.3%	-4.3%	-4.4%	-4.3%	-4.3%

INTEREST INCOME ASSUMPTIONS							
\$ Millions	FYE19 Actuals	FYE20	FYE21	FYE22	FYE23	FYE24	FYE25
Average Cash Balance	\$67.4	\$61.6	\$67.9	\$76.3	\$81.5	\$88.0	\$93.9
Forecast Interest Rate	2.14%	2.05%	1.85%	1.75%	1.75%	1.75%	1.75%
Interest Income	\$1.54	\$1.26	\$1.26	\$1.34	\$1.43	\$1.54	\$1.64

POLICE INTERAGENCY REVENUE ASSUMPTIONS							
\$ Millions	FYE19 Actuals	FYE20	FYE21	FYE22	FYE23	FYE24	FYE25
Police Secondary Wages	\$3.80	\$4.48	\$4.68	\$4.80	\$4.92	\$5.05	\$5.19
Pension & Disability Overhead Charge	28.43%	32.62%	32.62%	37.46%	37.46%	41.46%	41.46%
Revenue to FPDR	\$1.08	\$1.48	\$1.53	\$1.80	\$1.84	\$2.09	\$2.15

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

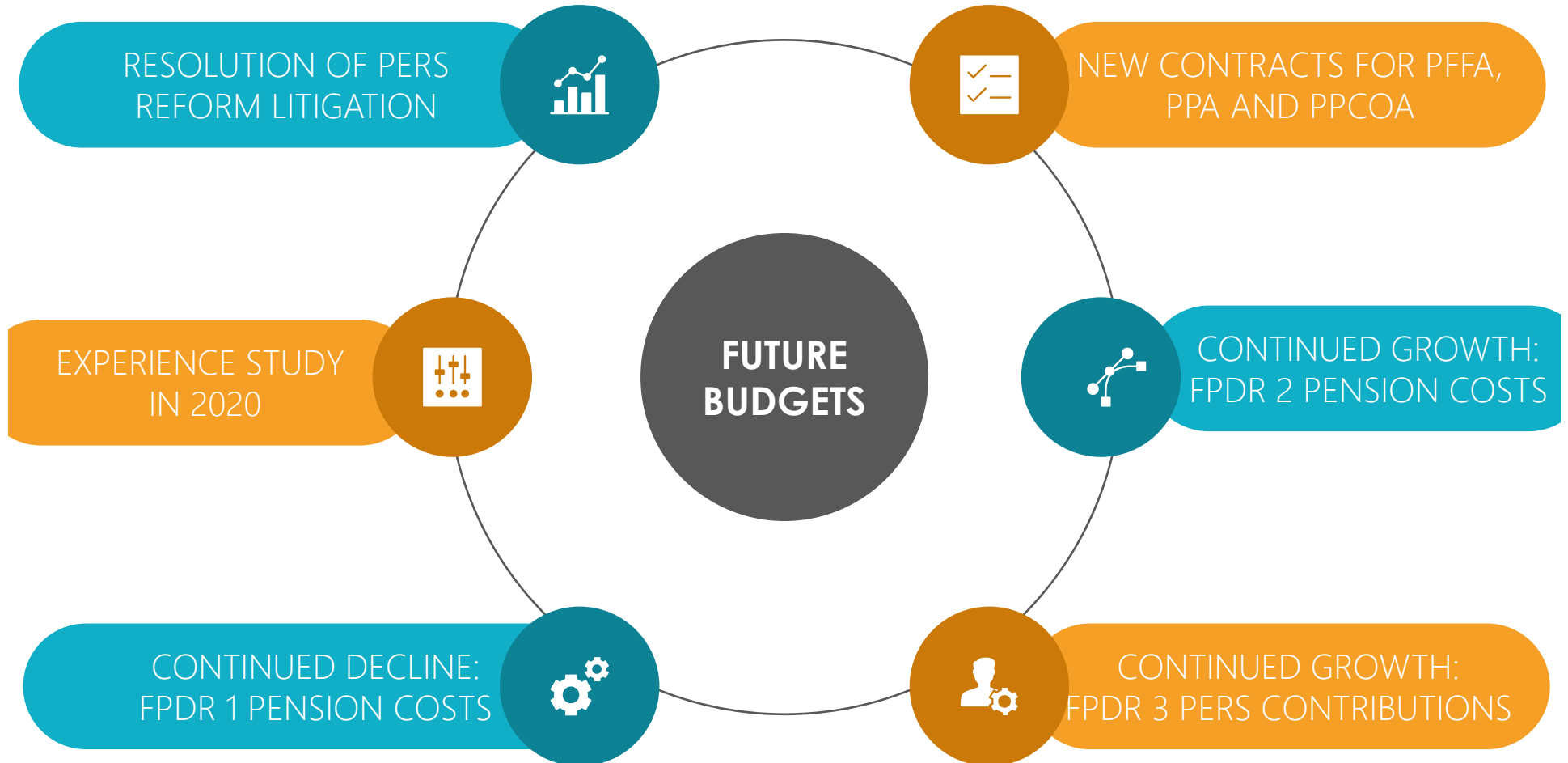
- Disability costs growing only with inflation (or less)
- Administrative costs growing only with inflation
- FPDR 1 pension costs declining 3.5% for FY 2020-21, as beneficiaries pass away



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?

Coming Up: To the Outyears and Beyond





Questions?

Changes?

Future Technical Adjustments



Motion to Adopt