FPDR Recommended Budget

FY 2020-21

January 28, 2020
# Forecast Summary

## Five-Year Forecast Summary ($ Millions)

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<td>19.57</td>
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<td>16.90</td>
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<tr>
<td><strong>Total Requirements</strong></td>
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<td>$231.04</td>
<td>$205.66</td>
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<td>$251.32</td>
<td>$267.47</td>
<td>$286.49</td>
<td>$304.93</td>
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<tr>
<td><strong>Total Net of TANs</strong></td>
<td>$170.21</td>
<td>$178.14</td>
<td>$178.93</td>
<td>$186.48</td>
<td>$200.92</td>
<td>$213.97</td>
<td>$230.19</td>
<td>$245.23</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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<tbody>
<tr>
<td>Property Taxes</td>
<td>$155.58</td>
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<td>$156.44</td>
<td>$165.88</td>
<td>6.03%</td>
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<td>Miscellaneous</td>
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<td>Cash Transfers</td>
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<tr>
<td>Beginning Fund Balance</td>
<td>11.85</td>
<td>17.49</td>
<td>19.57</td>
<td>16.90</td>
<td>-13.68%</td>
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<td><strong>Total Resources</strong></td>
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<td><strong>$205.66</strong></td>
<td><strong>$228.48</strong></td>
<td><strong>11.1%</strong></td>
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<tbody>
<tr>
<td>FPDR 1 &amp; 2 Pensions</td>
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<td>FPDR 3 PERS Contributions</td>
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<td>21.45</td>
<td>20.89</td>
<td>24.40</td>
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<td>0.57%</td>
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<tr>
<td>Administration &amp; Delivery</td>
<td>3.59</td>
<td>4.06</td>
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<tr>
<td>Fund-Level Requirements</td>
<td>37.33</td>
<td>66.67</td>
<td>27.24</td>
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<td>102.57%</td>
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<tr>
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<td>-100.00%</td>
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<tr>
<td><strong>Total Requirements</strong></td>
<td><strong>$206.74</strong></td>
<td><strong>$231.04</strong></td>
<td><strong>$205.66</strong></td>
<td><strong>$228.48</strong></td>
<td><strong>11.10%</strong></td>
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| Total Net of TANs              | $170.21             | $178.14                   | $178.93                     | $186.48                       | 4.68%                         |
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%)
Benefits: FPDR One and Two Pension Payments

- **FPDR One benefits**: 3.5%
  - Mortality

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

**Continued growth of about 6% per year overall**

<table>
<thead>
<tr>
<th>Year</th>
<th>FYE19 Actuals</th>
<th>FYE20 Projection</th>
<th>FYE21 Budget</th>
<th>FYE22 Forecast</th>
<th>FYE23 Forecast</th>
<th>FYE24 Forecast</th>
<th>FYE25 Forecast</th>
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<tbody>
<tr>
<td></td>
<td>$124.15</td>
<td>$129.35</td>
<td>$137.48</td>
<td>$142.50</td>
<td>$150.30</td>
<td>$155.27</td>
<td>$164.23</td>
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</table>

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
• ↑ 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

- PENSION COSTS
  - Retirement and Death Rates
  - 27 Pay Date "Take Up" Rate
  - Wage Increases

- PERS CONTRIBUTIONS
  - PERS Contribution Rates
  - Police and Fire Hiring Rates
  - PERS Reform

- ADMINISTRATIVE COSTS
  - Retiree COLAs

- DISABILITY COSTS
  - Frequency/Severity of Illness/Injury
  - Medical Inflation

- General Inflation

- Investment Returns
**Major Assumptions: Expenditures**

### Inflation Assumptions

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<th>FYE20</th>
<th>FYE21</th>
<th>FYE22</th>
<th>FYE23</th>
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<tr>
<td>Wages</td>
<td>3.90%</td>
<td>2.90%</td>
<td>2.60%</td>
<td>2.50%</td>
<td>2.70%</td>
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<td>Medical</td>
<td>4.00%</td>
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<td>4.00%</td>
<td>4.00%</td>
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<td>PERS Contribution Rates</td>
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<td>Tier 1 &amp; Tier 2*</td>
<td>27.86%</td>
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<td>OPSRP General*</td>
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<td>OPSRP Public Safety*</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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<th>FYE20</th>
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<td>FPDR 1, Fire</td>
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<td>2.80%</td>
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<td>FPDR 2, Average Among Members</td>
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<td>1.96%</td>
<td>1.96%</td>
<td>1.95%</td>
<td>1.94%</td>
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<tr>
<td>Percent of Sworn Workforce, FPDR 3</td>
<td>46.0%</td>
<td>50.6%</td>
<td>55.6%</td>
<td>59.8%</td>
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<td>80</td>
<td>70</td>
<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.
FY 2020-21 Revenue Overview ($ Millions)

- **Beginning Fund Balance**: $16.90 (9%)
- **Interagency Revenues**: $1.57 (1%)
- **Other**: $2.13 (1%)
- **Property Taxes**: $165.88 (89%)
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 is 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, up 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>
<th>FYE22</th>
<th>FYE23</th>
<th>FYE24</th>
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<tr>
<td>RMV Growth</td>
<td>4.0%</td>
<td>4.0%</td>
<td>4.0%</td>
<td>4.0%</td>
<td>4.0%</td>
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<tr>
<td>AV Growth</td>
<td>3.5%</td>
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<td>3.2%</td>
<td>3.2%</td>
<td>3.0%</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>
<td>-4.3%</td>
<td>-4.3%</td>
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<td>-4.3%</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>Average Cash Balance</td>
<td>$67.4</td>
<td>$61.6</td>
<td>$67.9</td>
<td>$76.3</td>
<td>$81.5</td>
<td>$88.0</td>
<td>$93.9</td>
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<tr>
<td>Forecast Interest Rate</td>
<td>2.14%</td>
<td>2.05%</td>
<td>1.85%</td>
<td>1.75%</td>
<td>1.75%</td>
<td>1.75%</td>
<td>1.75%</td>
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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

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

DELINQUENCYES
› 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

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

Changes?
Future Technical Adjustments Motion to Adopt