Fire and Police Disability and Retirement
City of Portland

Five-Year Forecast

FYE 2021-25

Five-Year Forecast Summary ($ Millions)	FYE20 Adopted Budget	FYE20 Projection	FYE21 Recomm-ended Budget	FYE22 Forecast	FYE23 Forecast	FYE24 Forecast	FYE25 Forecast	FYE20 Project-FYE25 Change
Resources								
Property Taxes	$156.34	$156.44	$165.88	$185.36	$197.77	$213.11	$227.29	45.29%
Tax Anticipation Notes	52.90	26.73	42.00	50.40	53.50	56.30	59.70	123.38%
Miscellaneous	3.55	2.91	2.95	3.31	3.45	3.83	3.99	37.06%
Cash Transfers	0.75	0.00	0.75	0.75	0.75	0.75	0.75	N/A
Beginning Fund Balance	17.49	19.57	16.90	11.50	12.00	12.50	13.20	-32.56%
Total Resources	231.04	205.66	228.48	251.32	267.47	286.49	304.93	48.27%
Requirements								
Retirement Benefits	$153.13	$150.24	$161.88	$175.44	$187.64	$202.71	$216.49	44.10%
Disability & Death Benefits	7.18	7.18	7.23	7.38	7.43	7.67	7.86	9.45%
Administration & Delivery	4.06	4.10	4.21	4.33	4.58	4.74	4.95	20.82%
Fund-Level Requirements	66.67	27.24	55.17	64.16	67.82	71.37	75.63	177.68%
Ending Fund Balance	0.00	16.90	0.00	0.00	0.00	0.00	0.00	N/A
Total Requirements	231.04	205.66	228.48	251.32	267.47	286.49	304.93	48.27%
Total Net of TANs	$178.14	$178.93	$186.48	$200.92	$213.97	$230.19	$245.23	37.06%
Change as a Percent			**4.2%**	**7.7%**	**6.5%**	**7.6%**	**6.5%**	**6.5%**

Plan Overview

The Bureau of Fire & Police Disability & Retirement (FPDR) administers a defined benefit retirement plan for sworn members of the Portland Police Bureau (Police) and Portland Fire & Rescue (Fire) hired before 2007 (FPDR One and Two members), as well as a disability plan for all sworn members with at least six months of service. The FPDR disability plan is both the workers' compensation substitute plan for the City's sworn workforce, and a nonservice disability plan for sworn employees with at least ten years of service. These benefits are defined in Chapter 5 of the City of Portland's Charter, which serves as FPDR's legal plan document. Fire and Police employees sworn after December 31, 2006 (FPDR Three members) are enrolled in the Oregon Public Employee Retirement System (PERS) pension plan but still covered by FPDR's disability plan. In addition to paying for its own plan benefits, the FPDR Fund pays the PERS contributions on behalf of FPDR Three members by reimbursing the Fire and Police Bureaus for PERS expenses. This means the FPDR Fund is financing two generations of pensions simultaneously, with pay-as-you-go pension payments to FPDR One and FPDR Two members during their retirement years and prefunded pension contributions for FPDR Three members during their working lives. As this transition is phased in, FPDR costs will grow far in excess of inflation. Expenses are projected to peak in the early to mid 2030s when the entire sworn workforce is comprised of FPDR Three members and most FPDR Two retirees are still living. After this point, mortality in the FPDR Two population will begin to reduce costs.

Total FPDR FYE21 requirements are $228.5 million. Net of tax anticipation notes (TANs), which are issued and repaid within the same fiscal year and whose inclusion therefore inflates the size of the budget, FYE21 requirements are $186.5 million. Total budgeted bureau expenditures (which excludes fund-level requirements such as contingency, TANs, and General Fund overhead) for FYE21 are $173.3 million. For the FYE21 budget, 74% of bureau requirements are for FPDR plan pension benefits, 13% for PERS contributions made on behalf of members hired after December 31, 2006, 4% for FPDR plan disability benefits, 2% for program administration, and 7% for fund-level requirements. Over the five-year forecast extending through FYE25, total bureau expenses are estimated at $1.005 billion and total requirements net of the annual TAN issue are projected to be $1.077 billion.

FPDR is funded almost exclusively from a dedicated property tax levy. Smaller sources of income include interest earnings on fund balance, a pension and disability overhead charge on contracted Police and Fire work (passed through the Police and Fire Bureaus), subrogation revenue on disability claims, and – if needed – a transfer from the FPDR Reserve Fund. The FPDR Reserve Fund is not included in this five-year forecast, but is required by City Charter to be funded at exactly $0.75 million on July 1 and June 30 of each year. In between, the FPDR Fund may borrow from it interest-free. Interest earnings on the FPDR Reserve Fund balance are booked directly to the FPDR Fund. Non-property tax revenues comprise just 2.0% of total revenues (net of TANS) in the FYE21 budget, or $3.7 million, and just $21.4 million over the entire FYE21-25 forecast. The remainder of resources needed to fund the expenditures discussed below derive from property taxes, of which $989.4 million will be required over the same five-year period.

FPDR's dedicated property tax levy is capped by the City Charter at $2.80 per $1,000 of real market value (RMV). The current RMV rate is $1.10, and is expected to rise to $1.13 for FYE21 and to $1.32 by the end of the five-year forecast period. In concert with the legally required biannual plan valuation, FPDR contracts with an independent actuarial firm to model the RMV tax rate over a 20-year period. The most recent analysis, using data as of June 30, 2018, predicts an approximately 1% probability that the $2.80 cap will be insufficient to fund FPDR spending in any year between now and FYE38.

Revenue Assumptions

Approximately 98% of bureau resources derive from the dedicated FPDR property tax levy. Interest income, subrogation revenue, overpayment collections, and revenue from an FPDR overhead charge assessed when third parties contract with the Police and Fire Bureaus for sworn services make up the remainder. Since property taxes must fund nearly all FPDR expenses, generally tax revenues increase in step with those expenses, with adjustments for increases or decreases in beginning fund balance for the year. Overall expenditure growth for FYE21 is 7.2%, but property tax revenues only need to grow 6.0% for FYE21 because beginning fund balance increased by $7.7 million. The increase in fund balance was anticipated, and derives primarily from two factors: a one-time $3.0 M prior year property tax payment from Comcast, plus $3.0 million in underspending in the FYE19 pension budget. By FYE25, annual tax collections are expected to rise to $227.3 million – an increase of 45.3% over the life of the forecast – to meet growing benefit expenses.

FPDR must levy more taxes than are actually required, since not all taxes will be collected due to discounts, delinquencies, and compression under Measure 5/50 tax limits. FPDR relies on the City Economist to calculate an amount that will offset these losses. In FYE21 the tax levy will be "grossed up" by 9.4% to ensure the levy produces $163.5 million in current year tax revenues.

RMV growth finally slowed in FYE20, increasing by only 2.1% from FYE19. This compares to average growth of more than 12% per year in the previous five years. On the other hand, AV growth for FYE20 was considerably higher than usual at 4.6%, helped out by new construction added to property tax rolls during the fiscal year. The AV rate is currently $2.67, and is projected to rise to $2.73 for FYE21 and to $3.30 by the end of the forecast. The City Economist expects slightly higher RMV growth and slightly lower AV growth over the forecast period; property tax assumptions are detailed below.

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%
RMV Total (Millions)	$158,885	$165,240	$171,850	$178,724	$185,872
AV Total (Millions)	$65,483	$67,644	$69,809	$72,043	$74,204
Current Year Taxes Required (Thousands)	$163,510	$182,846	$194,967	$210,120	$224,070
Discounts/Delinquencies (Thousands)	$7,370	$8,273	$8,942	$9,470	$10,099
Taxes Imposed (Thousands)	$170,880	$191,119	$203,910	$219,590	$234,169
Compression Loss (Thousands)	$8,052	$8,796	$9,385	$10,107	$10,778
Taxes Extended (Thousands)	$178,932	$199,915	$213,295	$229,697	$244,947
AV Tax Rate	$2.7325	$2.9554	$3.0554	$3.1883	$3.3010
Effective RMV Tax Rate	$1.1262	$1.2098	$1.2412	$1.2852	$1.3178

FYE21 interest income on fund balance is projected to be similar to FYE20, despite the fact that FPDR expects to have an average daily cash balance of $67.9 million in FYE21 as compared with $61.6 million thus far in FYE20. This is because the City Investment Officer expects interest rates to decline during the five-year forecast period. Interest in the City Treasury pool, where FPDR Fund cash is held in accordance with City Charter requirements, has been running about 2.22% thus far in FYE20 and the City Investment Officer expects that rate to drop to 2.05% by the end of the current fiscal year, then to 1.85% for FYE21, and finally to 1.75% for outyears of the forecast.

When police officer or fire fighter services are contracted out to third parties – most notably TriMet – the third party reimburses the City for wages, benefits, and general overhead, as well as an FPDR-specific overhead rate intended to compensate the City for pension and disability benefits. FPDR overhead is calculated as a pension rate plus a disability rate, charged on all wages earned by the sworn employees while they are performing third-party work. The pension rate is the current sworn contribution rate for the Oregon Public System Retirement Program (OPSRP) tier, including the 9% contribution to the Individual Account Program (IAP). The disability rate is a rolling three-year average of FPDR service-connected disability expenses divided by sworn payroll. Overhead charges therefore move in relation to increases in these rates; wage growth; and the amount of third-party work performed by the Police and Fire bureaus. For FYE21 FPDR expects this revenue to increase 2.9% to $1.57 million due to wage growth. The pension overhead rate remains the same in FYE21 as FYE20 at 29.16%, and the disability rate is expected to remain stable as well at about 3.5%. Nearly all overheard revenue derives from third-party Police Bureau, rather than Fire Bureau, work. The level of Police work has rebounded somewhat in recent years but the bureau’s ability to take on additional third-party contracts continues to be hamstrung by low staffing levels. Additional increases in this secondary work are not anticipated over the forecast period.

Other minor revenues are subrogation, received when third parties with the ability to pay are at fault in disability claims; recovery of benefit overpayments; vendor refunds; and various very small miscellaneous revenues. For the most part, these revenues are projected to simply grow with inflation.

Revenue Risks to Forecast

The primary revenue risk to the forecast is that property tax compression, discount, or delinquency assumptions are too low, which would lead to under-collection of property tax revenues. Since FPDR is almost entirely dependent on property tax revenues to cover its expenses, a significant shortfall in this area would necessitate unplanned short-term borrowing, either from capital markets or another City fund. Such a shortfall would also negatively impact interest income. Risks in revenue categories other than property taxes are not significant for the forecast as a whole. FPDR maintains enough in annual fund contingency to cover the loss of all other revenues if necessary.

Expenditure Assumptions

Of the $1.005 billion in bureau expenditures during the five-year forecast period, 98% are nondiscretionary plan benefits mandated by City Charter. Plan benefits fall into three categories: FPDR pension benefits, PERS contributions, and FPDR disability/death benefits. Of the three, FPDR pension benefits are by far the largest, making up 74.6% of planned bureau expenditures over the next five years. PERS contributions, while still only 19% of budgeted bureau expenditures in FYE21, are the fastest-growing component. Each year a larger percentage of the sworn workforce is comprised of FPDR Three members enrolled in PERS, and FPDR Three members have begun to promote into higher paying job classifications at both bureaus. In addition, PERS contribution rates have increased steadily for many years – a trend that is expected to continue for the foreseeable future.

The most significant assumptions underlying the expenditure forecast are listed in the tables below.

Inflation Assumptions					
	FYE21	FYE22	FYE23	FYE24	FYE25
Wages	2.9%	2.6%	2.5%	2.7%	2.8%
Medical	4.0%	4.0%	4.0%	4.0%	4.0%
PERS Contribution Rates					
Tier 1 & Tier 2*	27.9%	33.0%	33.0%	40.0%	40.0%
OPSRP General*	21.5%	27.0%	27.0%	33.0%	33.0%
OPSRP Public Safety*	29.2%	34.0%	34.0%	38.0%	38.0%
External Materials & Services	2.6%	2.6%	2.6%	2.6%	2.6%
Internal Materials & Services	3.1%	2.6%	2.7%	2.6%	2.6%
*Includes 9% Individual Account Program "pick up" for OPSRP Public Safety and 6% for Tier I/II/OPSRP General					

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

Direct Pension Benefits

The most significant assumptions underlying the forecast for FPDR One and Two pension payments relate to retirement rates, death rates, pension amounts for new retirees, and annual cost-of-living adjustments (COLAs) for existing retirees. Retirement rate and timing assumptions are based on actuarial probabilities developed during a FYE09-13 experience study of the FPDR Plan conducted by an independent actuarial firm. Each retirement-eligible member is assigned a retirement probability in each year of the forecast, based on their age and years of service. FPDR sometimes adds a “cushion” of additional retirements to the actuarial forecast. However, it appears likely there will be fewer actual retirements than forecast for FYE20, which should provide a comfortable margin in the pension budget for FYE21. Therefore, no cushion retirements were added this year. Death rate and timing assumptions are based on probabilities derived from mortality data through June 30, 2018 for the similar (but larger) pool of sworn PERS retirees; a death probability is assigned to each beneficiary in each year of the forecast based. It is assumed that 80% of retirees are married at death, for purposes of forecasting survivor benefits. A new experience study covering the period FYE14-19 will be complete by summer 2020 and FPDR will update actuarial assumptions based on that study beginning with the FYE22 budget.

Pension amounts for new retirees are based on averages of the actual pay and years of service in the pool of retirement-eligible members, as well as a historical average for the accrual rate. (The accrual rate is the third component of the pension formula, and determines the survivor benefit at the member's death.) Per City Charter, COLAs for FPDR One retirees and widow/ers are equal to increases in active duty pay, which current labor contracts require to equal increases in the Consumer Price Index for the West Region (CPI-West). This forecast relies on the City Economist's projection for the CPI-West. COLAs for FPDR Two retirees and widow/ers are at the discretion of the FPDR Board, up to a maximum of 2.0%. The forecast assumes a 2.0% FPDR Two COLA on July 1, 2020 to be conservative. Beyond that, the projection is based on a service-blending methodology employed by the FPDR Board in three of the last four years. The method is similar to the manner in which PERS COLAs are calculated and results in an average COLA of 1.96% on July 1, 2021, declining to 1.94% by July 1, 2024.

PERS Contributions

The PERS contribution budget depends on the number of working FPDR 3 members, their pay levels, and PERS contribution rates. The number of current FPDR 3 members is known, but the total projected number over the forecast period is reliant on hiring projections. Hiring projections are based partly on actuarially predicted retirement rates (also derived from the FYE09-13 experience study) and partly on bureau staffing plans, and are developed in close consultation with the Police and Fire Bureaus. Actual hiring rates will vary based on actual retirements, the Fire and Police Bureaus' capacity to hire and train new hires, the success of bureau recruitment efforts, and the state of the overall employment market. This forecast assumes the Police Bureau hires and retains 70 to 80 new officers in each of the next three fiscal years, as the bureau continues to implement aggressive recruitment and hiring plans to fill new positions added by City Council and to replace retirees. However, it should be noted that 57 is the most officers the Police Bureau has hired and retained in any single year over the last decade. It remains to be seen if the bureau can hire at the rapid clip assumed in this forecast. Police hiring returns to more routine levels in FYE24 and FYE25 (40 to 48 per year). The Fire Bureau is projected to hire at their typical rate, with 24 new fire fighters added in most years.

Sworn pay is budgeted to increase only with annual growth in the CPI-West. Overtime rates, the percent of employees with premium/specialty pays, and the overall size of the sworn workforce are presumed to remain the same over the forecast period. The forecast does assume a promotional "drift" factor of 1% of total wages to account for movement through the pay steps for police officers and fire fighters, as well as the increasing promotion rates and specialty pay rates of FPDR Three members as they spread through the ranks of both bureaus.

PERS contribution rates for the public safety OPSRP tier – the tier FPDR 3 members participate in – are set biannually. The rate is 29.16% for FYE20 and FYE21: 20.16% for the defined benefit portion of the PERS benefit and 9% for the defined contribution portion (known as the IAP). After that the rate is estimated. This forecast uses the City Economist's projection of 34.00% for FYE22 and FYE23 and 38.00% for FYE24 and FYE25. It is important to note that these projections do not reflect the PERS reforms enacted by the 2019 Oregon Legislature. The City Budget Office chose not to build potential savings from those reforms into PERS contribution rate projections until ongoing litigation related to the reforms is resolved. The projected rates also do not reflect PERS 2019 investment returns. Please see "Expenditure Risks to the Forecast" below for more information.

Disability Benefits

Disability benefits are comprised of medical costs; wage replacement while members are unable to work; wage subsidies to incentivize the Police and Fire Bureaus to keep members working in modified duty positions when possible; funeral benefits; and vocational rehabilitation expenses. Medical costs make up about half of total disability benefit expenses, with most of the remainder in wage replacement. Therefore, the two most important assumptions in the disability benefit budget are wage growth and medical inflation. As discussed above the forecast assumes wage growth is limited to annual growth in the CPI-West. Medical inflation is estimated at 4% for the life of the forecast, again based on guidance from the City Economist. The forecast presumes that all members currently on long-term disability continue in that status until retirement, and that no new additional members suffer a long-term disability. (In recent years, the rate of new long-term disability recipients has been less than one per year.) For short-term disability costs, the number of total claims and large claims, as well as the mix of pay rates for members receiving temporary wage replacement, is projected to be similar to the current year. However short-term wage replacement costs in FYE20 have been running approximately 20% above FYE19. Starting from this higher base yields higher costs in future years, which may or may not materialize. Both medical benefits and wage replacement costs for short-term disability are highly volatile. Return-to-work wage subsidies are expected to remain steady, with growth equal to or less than wage COLAs. Funeral benefits are projected using the same mortality models built into the pension budget. Although a very small portion of the budget, they are growing rapidly as more FPDR Two members (who are entitled to a more generous funeral budget than FPDR One members) pass away.

Administrative Expenses

Administrative expenses include all general operating expenses for the bureau: staff, office space, information technology and legal services, and various other goods and services. The largest component of administrative expenses is personnel costs. Staff salaries and benefits are set by the City compensation plan and policies, but the bureau Director and FPDR Board have authority over the number and type of positions. FPDR currently has 17 employees: 13 nonrepresented and 4 represented (by the District Council of Trade Unions). The personnel budget includes a 2.9% wage COLA on July 1, 2020 for all staff and annual COLAs of 2.5% to 2.8% thereafter, based on the City Economist's forecast of the CPI-West. It also assumes annual 4.0% increases in employee health benefit costs for the forecast period, likewise based on the City Economist's forecast for health benefit cost increases. The City implemented a new compensation plan for nonrepresented positions last year. As a result, all of FPDR's nonrepresented employees are eligible for merit-based pay increases as well as COLAs in FYE21. The personnel budget includes enough funds for the maximum merit raise (4.1%) for all nonrepresented employees, although the City's new merit raise policy makes it likely most employees will receive smaller raises. All 4 of FPDR's represented employees are currently at the top of their pay scales and eligible only for annual COLAs. As mentioned above, PERS contribution rates for FYE21 are known and remain the same as in FYE20. A slight majority of FPDR employees (10) are in the OPSRP General tier, with a contribution rate of 21.53% for the budget year, including the individual account program contribution. The remainder are in PERS Tier I or II, with a contribution rate of 27.86%. Beyond FYE21, this forecast relies on the City Economist's projection for City PERS rates, which rise to as much as 40% by FYE25.

Spending on materials and services (both external and internal) is budgeted to grow by about 2.8% for FYE21, similar to the general inflation rate. Most costs for internal materials and services – those services and goods procured from other City bureaus – are based on rates set by the bureaus providing the service. Next year's budget assumes no changes in FPDR internal services or inventory, with one exception. For the first time FPDR's FYE21 budget will include interagency charges from the City Office of Government Relations, in the amount of $10,000. Nearly all of the City's non-General Fund bureaus are charged additional amounts by Government Relations for their services, and the two bureaus have agreed that FPDR should be included in the billing system. Costs for goods and services procured from external vendors are estimated based on past experience, known upcoming purchases, contract provisions where they exist (such as for the office lease), and a general external materials/services inflation factor provided by the City Economist. Capital spending is limited to upgrades to FPDR's database, which is used to make all benefit payments and to track member and beneficiary information. The forecast assumes FYE21 capital spending will drop by half from the current year as the database's new pension estimate module is completed. Beyond that capital database spending is expected to decline to a more routine level.

The table below lists FYE19 actual costs, FYE20 projected costs, and the FYE21 recommended budget for each of FPDR's administrative expenses.

Administration & Delivery: Budget Detail				
	FYE19 Actuals	FYE20 Projection	FYE21 Recommended Budget	Change: FYE20 to FYE21
Personnel Services	$ 2,155,633	$ 2,494,600	$ 2,611,100	4.7%
External Materials & Services				
Computer Consulting	$ 75,151	$ 68,015	$ 69,800	2.6%
Legal Services	49,652	60,500	62,100	2.6%
Audit Services	26,333	29,900	30,700	2.7%
Actuarial Services	64,939	89,000	89,000	0.0%
Professional Services - Disability Program	164,120	240,800	248,300	3.1%
Other Professional Services	53,173	50,700	52,000	2.6%
Repair and Maintenance Services	30,583	3,300	3,400	3.0%
Miscellaneous Services	17,335	8,700	8,900	2.3%
Computer and Office Supplies	15,591	17,200	17,600	2.3%
Minor Equipment and Tools	2,339	1,100	1,100	0.0%
Education, Subscriptions and Dues	14,028	13,600	14,000	2.9%
Travel - Local	677	600	600	0.0%
Travel - Out of Town	1,148	5,500	5,600	1.8%
Office Rent	210,354	224,500	230,300	2.6%
Miscellaneous	3,252	600	600	0.0%
Total External M&S	$ 728,675	$ 814,015	$ 834,000	2.5%
Internal Materials & Services				
Fleet	$ 142	$ 260	$ 259	-0.4%
Printing & Distribution	35,739	42,226	38,090	-9.8%
Facilities Services	12,519	1,666	1,702	2.2%
Technology Services	181,287	160,440	150,273	-6.3%
Risk Management	35,106	34,144	30,559	-10%
City Attorney	259,711	272,670	294,366	8.0%
Government Relations			10,000	100.0%
Bureau of Revenue & Financial Services	30,204	48,448	50,518	4.3%
Fire & Police Bureaus	124,529	130,100	136,269	4.7%
Total Internal M&S	$ 679,237	$ 689,954	$ 712,036	3.2%
Capital	$ 25,731	$ 100,000	$ 50,000	-50.0%
Total Admin & Delivery	$ 3,589,276	$ 4,098,569	$ 4,207,136	2.6%
Staff: Full-Time Equivalents (FTE)	17.00	17.00	17.00	0.0%

Labor Contracts

Unusually, all three of the labor contracts governing sworn wages at the City are unresolved for the upcoming budget year. This presents a notable risk for the FPDR expenditure budget. The Portland Fire Fighters Association (PFFA) contract expired on June 30, 2019 and agreement on a successor contract has not been reached. PFFA and the City declared impasse in the fall of 2019 and labor arbitration proceedings are scheduled for April 2020. Neither party has yet submitted the "last best offers" the arbitrator will choose between. In the absence of those, FPDR's budget assumes that PFFA members will receive wage increases equal to the annual growth in the CPI-West each July 1, including a retroactive wage increase to July 1, 2019, and that contract changes (such as new shift schedules or leave accrual rates) will not require substantial additional hiring.

Both the Portland Police Association contract and the Portland Police Commanding Officers Association contract will expire on June 30, 2020. Negotiations are underway but new contract terms are still unknown. As with the PFFA contract, FPDR's budget assumes wage increases equal to the annual growth in the CPI-West each July 1 and no new positions at the Police Bureau. However, it is unlikely the Police Bureau has the capacity to hire beyond the 70 to 80 officers annually that are already accounted for in this budget, even if contract changes result in higher staffing levels.

Negotiated salary increases beyond an annual COLA for any or all of these labor contracts pose a risk to the budget and outyears of the forecast. Sworn pay increases result in FPDR benefit increases in nearly all categories: FPDR One retirees and beneficiaries receives annual pension COLAs equal to active duty wage increases; higher wages result in higher final pay and thus higher pensions for new FPDR Two retirees; and PERS contributions for FPDR Three members, disability payments to cover lost time from work, and FPDR Two and Three funeral benefits are all a percentage of current pay. In addition, any change to the contracts that results in a larger sworn workforce represents a risk to the forecast (in the short- and long-term at the Fire Bureau and in the long-term at the Police Bureau), as additional sworn employees will increase PERS contribution expenses and disability costs.

PERS Contribution Rates in Outyears

PERS contribution rates are known for FYE21 and cannot be changed, but rates in future years are based on the City Economist's projection as of September 2019. (See the "Other Assumptions" table on page 6 of this document for details.) That projection does not include potential savings from either the PERS reforms enacted by the 2017 Oregon Legislature or 2019 PERS investment returns, meaning that this portion of the budget is home to a notable "upside" risk (meaning that costs are more likely to be lower than budgeted than higher). Rates may very well be lower than forecast if PERS 2019 investment returns exceeded assumptions (as they almost certainly did), and if the recent PERS cost saving reforms are allowed to go into effect over the next several years. Those reforms have been challenged in the Oregon Supreme Court, but a decision is expected within the next several months.

Police Bureau Hiring Rates

As discussed above under Expenditure Assumptions, this forecast assumes very aggressive police officer hiring for the next three to four years. There are approximately 100 vacant officer positions currently and about 134 more officer retirements are anticipated through FYE23. To maintain and ideally grow staffing levels the Police Bureau hopes to hire 70 – 80 officers per year in 2020 – 2023. This forecast reflects that plan. However, this is a much faster hiring rate than the bureau has sustained in the past. Over the last decade, an average of 34 officers have been hired annually. If Police Bureau hiring is closer to this pace than the planned rate, PERS contribution costs will be lower than budgeted. This is a second area of upside risk for the FPDR forecast and like the upside risk associated with future PERS contribution rates, it impacts the PERS contribution portion of the budget.

Retirement and Death Rates

If more members retire than predicted, pension costs will be higher than forecast. In FYE19 actual service retirements (64) were much more than projected for the FYE19 budget (50). However, this year only 10 members have retired thus far, making it unlikely the number of FYE20 service retirements will reach the actuarial projection of 54. This more closely matches the pattern seen before FYE19 of members working longer and to older ages. In addition, retirements can deviate significantly from actuarial predictions due to changes in the secondary employment labor market (many FPDR members are only in their 50s at retirement and plan to seek a second job), stock market returns (which impact other retirement savings), labor contract changes or uncertainty, changes in bureau leadership, and – probably most importantly – the timing of 27 pay date lookback months. The most likely explanation for lower retirement levels thus far in FYE20 is the fact that there are no 27 pay date retirement months this year. The absence of a settled PFFA contract is probably a factor as well. FYE21 has one 27 pay date retirement month, in August 2020, by which time the PFFA contract will also be resolved. That may result in a spike in Fire retirements in FYE21. On the other hand, the PPA contract may not be resolved on time, which could depress Police retirements in August 2020. While the presence of a 27 pay date month in FYE21 makes it nearly certain there will be more retirements in FYE21 than FYE20, it is difficult to judge if retirements will exceed or fall short of the actuarial projection of 49 service retirements. The retirement probability model will also be updated by FPDR's actuaries this summer following the FYE14-19 experience study, and implemented beginning with the FYE22 budget year.

A lower death rate than modeled for this forecast also represents a risk to the pension budget, but mortality patterns have proved fairly predictable, based as they are on professionally and regularly adjusted mortality tables and the experience of the larger pool of PERS sworn retirees. Likewise, higher pension benefits for new retirees than budgeted – because of higher final pay or more years of service than assumed – is also a risk, but these can only vary within the known parameters of the pay and service years of retirement-eligible members, which limits the degree to which the budget could vary from actual experience.

Wage and Pension COLAs

As mentioned above, this forecast assumes annual increases in sworn pay equal to annual growth in the CPI-West. FPDR uses the City Economist's projection for this index. Wage COLAs are the single largest source of variability risk in the FPDR forecast because they impact nearly all expenses. If the projection is too low the cost of nearly all FPDR benefits, and most likely salaries for FPDR staff as well, will be higher than forecast. Fortunately it is unusual for actual wage COLAs to be meaningfully different from the City Economist's forecast, particularly in the short run. As discussed in the Expenditure Assumptions section of this document, the forecast assumes the Board awards a 2% FPDR 2 pension COLA on July 1, 2020, but then returns to the COLA methodology used by the FPDR Board in three of the last four years. That methodology yields an average annual COLA of 1.95% to 1.97% during the forecast period, which means there is limited upward financial exposure should the Board choose 2% in all years.

Other

Other factors that would increase the FYE21 budget or outyear forecast, but to a smaller degree than those mentioned above, are:

- More sworn overtime than assumed
- Faster promotion rates or premium pay assignment rates in the FPDR Three population than predicted
- More new retirees selecting the lowest survivor benefit, or establishing eligibility for the additional state offset benefit, than forecast
- More newly deceased retirees with surviving spouses than expected, or more newly deceased retirees with higher survivor benefits than expected
- Higher than projected medical cost inflation
- More disability claims than forecast
- More catastrophic and/or expensive disability claims than forecast
- A disproportionate share of disability claims from higher paid employees
- Higher than projected inflation in the cost of administrative services and supplies purchased for bureau operations
- Unforeseen information technology (IT) expenses, or higher costs for planned expenses