Bureau of Fire and Police Disability and Retirement

City of Portland

FPDR Fund (Fund 800) and FPDR Reserve Fund (Fund 801)

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 Fund is also the funding source for contributions to the Oregon Public Employee Retirement (PERS) pension plan for Fire and Police employees sworn after December 31, 2006 (FPDR Three members).

Plan Overview

FPDR Plan benefits are defined in Chapter 5 of the City of Portland Charter, which serves as FPDR's legal plan document. In addition to providing a formula-based pension for Fire and Police employees hired before 2007, City Charter establishes the FPDR disability plan. The disability plan is both a workers' compensation substitute plan for the City's sworn workforce and a nonservice disability plan for sworn employees with at least five years of service. Fire and Police employees sworn after December 31, 2006 are enrolled in the Oregon 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 careers. As this transition is phased in, FPDR costs will grow far in excess of inflation. Expenses (on an inflation-adjusted basis) 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.

FPDR FYE 2023-27 Five Year Plan

Total FPDR FYE23 requirements are budgeted at $256.8 million. Net of the FPDR Reserve Fund and tax anticipation notes (TANs), which are issued and repaid within the same fiscal year and whose inclusion therefore inflates the size of the budget, FYE23 requirements are $210.3 million. For the FYE23 budget, 71% of bureau requirements are for FPDR plan pension benefits, 16% for PERS contributions made on behalf of FPDR Three members, 4% for FPDR plan disability benefits, 2% for program administration, and 7% for fund-level requirements. Total budgeted bureau expenditures (which excludes fund-level requirements such as contingency, TANs, and General Fund overhead) for FYE23 are $195.1 million.

Over the five-year forecast extending through FYE27, total bureau expenses are estimated at $1.129 billion, with annual growth ranging from 6.1% to 8.6% per year and total growth over the five-year period of 41.2%. Net of the FPDR Reserve Fund and annual TAN issues, total requirements are projected to be $1.214 billion for FYE23 – FYE27, with annual growth as high as 8.9% and total growth of over the five-year period of 38.6%.

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), and subrogation revenue on disability claims. The FPDR Reserve Fund 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 credited directly to the FPDR Fund. Non-property tax revenues comprise just 0.4% of total revenues (net of TANS) in the FYE23 budget, or $0.8 million, and just $5.3 million over the entire FYE23-27 forecast. The remainder of resources needed to fund the expenditures discussed below derive from property taxes, of which $1.119 billion 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 $1.26. The assessed value (AV) rate, on which property owners actually pay taxes, is currently $3.01 per $1,000 of AV. FPDR plans to lower its tax levy slightly in FYE23 and use excess fund balance to finance FYE23 expenditure growth. As a consequence, the RMV rate is projected to dip to $1.15 and the AV rate to $2.75 for FYE23. After that, both rates will resume rising, reaching an estimated $1.37 for RMV and $3.20 for AV by the end of the five-year forecast period in FYE27. 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, 2020, predicts there is less than a 1% probability that the $2.80 cap will be insufficient to fund FPDR spending in any year between now and FYE40.

Revenue Assumptions

More than 99% of bureau resources come from the dedicated FPDR property tax levy. Property tax revenues derived from the current year levy will actually drop from an estimated $189.4 million in FYE22 to $181.3 million for FYE23, a 4.3% decline. (Additional tax proceeds are expected as late payments for prior year tax levies.) FPDR Fund beginning fund balance for FYE22 was originally projected to be the lowest in many years because of additional FYE21 spending. FYE21 costs were unexpectedly high because of a record-breaking number of new retirees, unusually high disability benefit costs caused by a winter COVID surge, and additional PERS contributions on overtime related to civic protests, pandemic staffing shortages, and wildfires. Fortunately, FPDR ultimately needed to draw just $3.5 million from fund contingency to cover these extra costs, with the result that ending fund balance for FYE21 (and hence beginning fund balance for FYE22) came in at $14.5 million rather than the previously projected $8.0 million. Moreover, it now appears that the bureau will not need to draw on FYE23 fund contingency, which was set conservatively at $16.1 million to mitigate for ongoing pandemic and retirement risk. The combination of these two factors means that FPDR is now projecting a large ending fund balance of $25.2 million for FYE22. This excess fund balance will make it unnecessary to increase the FPDR property tax levy for FYE23 despite growth in expenses. Property taxes will begin rising again in FYE24, and are forecast to reach $255.9 million by the end of the forecast period, a 35.1% increase over current tax revenue levels. The increase is necessary to meet rapidly growing benefit expenses, mostly caused by the ongoing transition from a pay-as-you-go pension plan (FPDR) to a pre-funded pension plan (PERS). That transition requires exponential annual cost increases while pensions for two generations of retirees are funded simultaneously.

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 the amount that will offset these losses, which are listed below:

PROPERTY TAX ASSUMPTIONS (DOLLARS IN THOUSANDS)						
	FYE22	FYE23	FYE24	FYE25	FYE26	FYE27
RMV Growth	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%
AV Growth	5.5%	3.5%	3.3%	8.3%	4.6%	3.1%
Compression	-4.7%	-4.8%	-4.8%	-4.8%	-4.8%	-4.8%
Discounts/Delinquencies	-5.3%	-4.3%	-4.0%	-3.6%	-3.6%	-3.6%
RMV Total	$166,899,005	$173,574,965	$180,517,964	$187,738,682	$195,248,229	$203,058,159
AV Total	$69,746,148	$72,187,264	$74,569,443	$80,758,707	$84,473,608	$87,092,290
Current Year Taxes Required	$189,398	$181,345	$204,388	$223,955	$241,371	$255,949
Discounts/Delinquencies	$10,508	$8,049	$8,516	$8,362	$9,012	$9,556
Taxes Imposed	$199,906	$189,395	$212,904	$232,317	$250,383	$265,506
Compression Loss	$9,954	$9,458	$10,632	$11,602	$12,504	$13,259
Taxes Extended	$209,860	$198,853	$223,536	$243,919	$262,887	$278,765
AV Tax Rate	$3.0089	$2.7547	$2.9977	$3.0203	$3.1121	$3.2008
Effective RMV Tax Rate	$1.2574	$1.1456	$1.2383	$1.2992	$1.3464	$1.3728

The levy has been a stable resource throughout the pandemic and associated economic downturn. Property tax delinquencies were 4.6% in FYE21and are projected to be 5.3% in FYE22, just slightly higher than their historic level of 4.0% to 4.5%. Property tax compression losses have not increased as initially feared. In FYE21 property taxes came in $2.2 million (1.4%) over budget, and property tax collections are on target for FYE22.

As noted above under Plan Overview, non-property tax revenues are just $0.8 million of projected revenue in FYE23, and only $5.3 million over the entire FYE23-27 forecast. This is a drop from historic levels. Interest income on fund balance and overhead charges collected when the Police and Fire Bureaus contract their services out to third parties makes up nearly all of FPDR's non-property tax revenue. Interest revenue declined in FYE22 when interest rates fell to less than 1%. Since then, interest rates have fallen even further, to about 0.5%. FPDR relies on the City Investment Officer for interest rate forecasts. Together with FPDR's projected fund balance over the five-year plan period, those interest rate assumptions are shown below:

INTEREST INCOME ASSUMPTIONS							
$ Millions	**FYE21 Actuals**	**FYE22**	**FYE23**	**FYE24**	**FYE25**	**FYE26**	**FYE27**
Average Cash Balance	$55.0	$66.9	$68.2	$77.5	$84.7	$91.4	$96.9
Forecast Interest Rate	0.93%	0.43%	0.40%	0.55%	0.55%	0.55%	0.55%
Interest Income	$0.51	$0.28	$0.27	$0.43	$0.47	$0.50	$0.53

In FYE21, the Police Bureau canceled their largest third-party contract, with TriMet to provide Transit Police. Since then, overhead charges collected on sworn services provided to external organizations has dropped by more than half, from around $1.2 million annually to an anticipated $393,900 in FYE23. FPDR expects to collect just $2.3 million from this revenue source over the FYE23-27 forecast period. Projected overhead charges to be received from the Police Bureau (which provides the vast majority of this revenue source) are detailed below, along with actual revenues from the last three years:

POLICE INTERAGENCY REVENUE ASSUMPTIONS									
$ Millions	FYE19 Actuals	FYE20 Actuals	FYE21 Actuals	FYE22	FYE23	FYE24	FYE25	FYE26	FYE27
Police Wages on Contracted Work	$3.80	$3.97	$1.13	$0.93	$0.98	$1.01	$1.03	$1.06	$1.08
Pension & Disability Overhead Charge	28.43%	32.62%	32.29%	34.72%	34.72%	39.00%	39.00%	44.00%	44.00%
Overhead Revenue to FPDR	$1.08	$1.29	$0.37	$0.32	$0.34	$0.39	$0.40	$0.46	$0.47

Expenditure Assumptions

Of the $1.129 billion in bureau expenditures during the five-year forecast period, 98% or $1.105 billion 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 72% of planned bureau expenditures over the next five years. PERS contributions, while still only 22% of budgeted bureau expenditures for FYE23-27, are the fastest-growing component. Each year a larger percentage of the sworn workforce is comprised of FPDR Three members enrolled in PERS. Disability and death benefit expenses have been significantly higher than usual in the prior and current fiscal years (FYE21 and FYE22), primarily because of COVID infections and exposures in the sworn workforce, but are expected to return to normal and grow only with wage inflation beginning in FYE23.

Although the FPDR property tax levy will actually drop for FYE23 as compared with FYE22 (because of the large projected beginning fund balance for FYE23) expenditure growth will force increases in the FPDR property tax levy over the FYE23-27 forecast period. Please see the Revenue Assumptions section above for a detailed property tax levy forecast. FPDR does not expect any funding gaps between the revenue that can be raised from the levy and anticipated FPDR benefit costs over the five-year plan period.

The most significant assumptions underlying the expenditure forecast are listed in the two following tables:

Inflation Assumptions						
	FYE22	FYE23	FYE24	FYE25	FYE26	FYE27
Wages	1.60%	5.00%	2.75%	2.50%	2.25%	2.25%
Medical	3.90%	3.80%	3.80%	3.70%	3.60%	3.60%
PERS Contribution Rates						
Tier 1 & Tier 2*	28.35%	28.35%	33.00%	33.00%	38.00%	38.00%
OPSRP General*	24.36%	24.36%	29.00%	29.00%	33.00%	33.00%
OPSRP Public Safety*	31.72%	31.72%	36.00%	36.00%	41.00%	41.00%
External Materials & Services	2.50%	3.75%	2.75%	2.50%	2.40%	2.40%
Internal Materials & Services	2.50%	3.75%	2.75%	2.50%	2.40%	2.40%
*Includes 9% Individual Account Program "pick up" for OPSRP Public Safety and 6% for Tier I/II/OPSRP General						

Other Assumptions						
	FYE22	FYE23	FYE24	FYE25	FYE26	FYE27
FPDR 2 Service Retirements	58	44	61	64	65	65
Deaths, Members & Beneficiaries	60	60	61	61	62	63
Pension COLAs						
FPDR One, Fire	1.60%	5.00%	2.75%	2.50%	2.25%	2.25%
FPDR One, Police	0.00%	6.68%	2.75%	2.50%	2.25%	2.25%
FPDR Two	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Percent of Sworn Workforce, FPDR Three	52.9%	57.6%	62.1%	66.6%	71.1%	75.5%
Bureau Hiring Projections						
Fire Bureau	32	32	24	24	24	24
Police Bureau	46	54	52	51	50	48

FPDR Pension Benefits

Key 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. Retirements and deaths are generally predicted using actuarial models developed by an independent actuarial firm, which are based primarily on data collected in periodic FPDR Plan Experience Studies. The last such study was based on data for the period July 1, 2014 – June 30, 2019. Current actuarial assumptions used in budget development are enumerated in Appendix C of the most recent plan valuation, which can be found at https://www.portland.gov/fpdr/budget-reports. Each active duty FPDR member is assigned a probability of retirement in each year, based on age and service time. Each FPDR member is also assigned a probability of death in each year; these probabilities are based on the experience of the larger and more statistically valid Oregon PERS sworn population, which is assumed to be similar to the FPDR population. These probabilities are summed to arrive at an estimated total for retirements and deaths in any given fiscal year, although FPDR management often adjusts retirement projections in the budget year to account for known short-term factors, such as the timing of 27 pay date months. (In 27 pay date months the City's biweekly pay structure produces 27 pay dates – rather than the usual 26 – in the period for calculating final pay, a critical component of the FPDR Two pension calculation.)

After a record-breaking 106 retirements in FYE22, the forecast assumes retirements will drop significantly in FYE22 and FYE23. The retirement eligible pool was much reduced by FYE21 retirements and there will be just one 27 pay date month in FYE22-23. FPDR beneficiary deaths were higher than typical in FYE21, most likely because of the COVID pandemic. However, they are predicted to return to the customary level of about 60 annually for this forecast. Pension amounts for new retirees grow with wage increases because FPDR Two pension benefits are based partly on final salary. The forecast assumes that sworn wage increases are limited to annual inflationary COLAs. The upcoming 5% wage COLA on July 1, 2022 for all sworn employees, and an anticipated retroactive 1.6% pension COLA for Police employees, will increase new FPDR Two pension amounts more than usual in FYE23 and FYE24. FPDR One pension benefits are a percent of active duty pay, which will result in pension COLAs for FPDR One beneficiaries of 5.0% - 6.68% on July 1, 2022. For the remainder of the forecast period, lower FPDR One pension COLAs are predicted based on the assumption that inflation, and therefore wage COLAs, will decrease. The FPDR Two pension COLA is awarded at the discretion of the FPDR Board of Trustees but cannot exceed the maximum pension COLA given by Oregon PERS (currently 2.0%). To be conservative, the five-year plan assumes a 2.0% COLA for FPDR Two pension benefits each year.

PERS Contributions

The PERS contribution budget depends on the number of working FPDR 3 members, their pay levels, and PERS contribution rates. Growth in this budget category is exponential: in addition to increases resulting from wage inflation, the number of PERS-covered employees grows each year as FPDR-covered employees retire and are replaced by new hires. Secondly, this population is still maturing; as compared with the total sworn population, a larger proportion of PERS-covered employees are still at the police officer or fire fighter rank (and at lower pay levels on those pay scales), ineligible for longevity pay, and less likely to have attained premium and specialty pay assignments. As they move through pay steps, promote into higher paying classifications, receive specialty pay assignments, and begin to earn longevity pay, their pay grows above and beyond simple wage COLAs. Finally, the PERS Board continues to raise contribution rates every two years to reduce PERS' unfunded liability. The number of current FPDR 3 members is known, but the total projected number over the forecast period is reliant on hiring projections. All new hires will be FPDR Three members. Projected hiring over the forecast period is detailed in the table above. Hiring projections for FYE22 and FYE23 are developed collaboratively with the Police and Fire Bureaus. Beyond that, hiring projections are based on FPDR's actuarial model for retirements (and assumes that all retirees are replaced with new hires). Please note that the hiring projections above do not include 50 retired FPDR Two members the Police Bureau hopes to re-hire in FYE22 and FYE23, as re-hires do not produce additional FPDR costs. FPDR Three member pay, on which PERS contributions are calculated, is forecast to grow with wage COLAs, plus an additional 5.0% at Police and 4.0% at Fire for salary increases beyond COLA. Overtime rates are assumed to return their usual levels for the entire life of the forecast, after spiking in FYE21 as a result of protests, wildfires, and the pandemic. The PERS contribution rate projection, also in the table above, was developed by the City Economist. Rates are forecast to grow from 31.72% currently to 41.00% by FYE27.

Disability and Funeral 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. The most important assumptions in the disability benefit budget are claim volume, wage growth and medical inflation. The number of new short-term disability claims is assumed to return to the historic average of 350 – 400 per year after increasing dramatically in both the prior and current fiscal year (FYE21 and FYE22) as a result of COVID exposures and infections in the sworn workforce. The number of members who transition from short-term to long-term disability is based primarily on actuarial probability from the most recent FPDR Plan Experience Study, although FPDR staff often adjust this number for the budget year based on their knowledge of specific claims. As discussed above, the forecast assumes wage growth is limited to annual COLAs equal to inflation. Medical inflation is projected to decline slowly over the life of the forecast, from about 4.0% now to 3.6% in FYE27, based on guidance from the City Economist. Medical costs for large claims (those with more than $50,000 in lifetime medical expenses) are based on a three-year average of expenses for such claims. 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. Wage subsidies and vocational rehabilitation expenses are based on historical averages and, in the case of wage subsidies, projected sworn wage increases.

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 FPDR Director and 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). Personnel expenses are projected to increase for wage COLAs based on inflation, including an unusually large 5.0% wage COLA on July 1, 2022, and a 1.6% wage COLA for represented staff retroactive to July 1, 2021. In addition, merit-based wage increases of 2.0% annually are assumed for all nonrepresented staff. All represented staff are currently at the top step of their wage scale. Health insurance benefits are budgeted to increase by 3.6% to 3.8% per year for the FYE23-27 forecast period, based on a projection provided by the City Economist. PERS contribution rates are predicted to increase as described in the table above and are also provided by the City Economist. FPDR staff are all general service, but are a mix of Tier 1/2 and OPSRP General service employees.

Spending on administrative materials and services (both external and internal) is projected based on a variety of factors. 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 and/or materials. Next year's budget assumes no changes in these service levels or inventory. FPDR's largest internally procured goods and services are legal services provided by the City Attorney's office, liaison services provided by two sworn employees at the Fire and Police Bureaus, and computer/telecommunications equipment and services purchased from the Bureau of Technology Services. Costs for externally procured goods and services are estimated based on past experience, known upcoming purchases, contract provisions where they exist, and a general external materials/services inflation factor provided by the City Economist. The largest of these items are professional services for the disability program and the office lease, which will expire in the spring of 2022. FPDR plans to downsize and relocate its physical office in the spring of 2022, a move made possible by planned hybrid in-person/remote work schedules for most FPDR staff in the future. This change which will result in at least $50,000 in annual lease savings, although the final amount is not yet known. Capital spending is limited to programming and other improvements to FPDR's database, which is used to process all benefit payments and to track member and beneficiary information.

FPDR FYE 2023-27 Five Year Plan

The table below lists FYE21 actual costs, FYE22 projected costs, and the FYE23 budget for each of FPDR's administrative expense.

Administration & Delivery: Budget Detail				
	FYE21 Actuals	FYE22 Projection	FYE23 Budget	Change: FYE22 to FYE23
Personnel Services	$ 2,447,180	$ 2,619,482	$ 2,889,429	10.3%
External Materials & Services				
Computer Consulting	$ 40,040	$ 35,100	$ 55,129	57.1%
Legal Services	33,865	63,700	66,100	3.8%
Audit Services	29,150	31,500	32,700	3.8%
Actuarial Services	98,200	29,200	89,000	204.8%
Professional Services - Disability Program	216,373	256,000	265,700	3.8%
Other Professional Services	34,393	53,400	55,400	3.7%
Repair and Maintenance Services	2,341	3,500	3,600	2.9%
Miscellaneous Services	15,090	9,100	12,000	31.9%
Computer and Office Supplies	19,782	18,000	18,600	3.3%
Minor Equipment and Tools	-	1,100	1,100	0.0%
Education, Subscriptions and Dues	7,827	14,400	14,900	3.5%
Travel - Local	590	600	750	25.0%
Travel - Out of Town	-	1,500	5,000	N/A
Office Rent	204,424	236,300	185,000	-21.7%
Miscellaneous	413	600	620	3.3%
Total External M&S	$ 702,487	$ 754,000	$ 805,599	6.8%
Internal Materials & Services				
Fleet	$ -	$ 189	$ 129	-31.7%
Printing & Distribution	30,926	43,868	38,378	-12.5%
Facilities Services	4,479	1,762	1,697	-3.7%
Technology Services	166,293	168,195	188,774	12.2%
Risk Management	30,226	30,659	35,961	17%
City Attorney	276,158	289,676	316,174	9.1%
Government Relations	10,000	10,000	10,000	0.0%
Bureau of Revenue & Financial Services	31,309	42,562	48,135	13.1%
Fire & Police Bureaus	143,606	144,900	153,100	5.7%
Total Internal M&S	$ 692,997	$ 731,811	$ 792,348	8.3%
Capital	$ -	$ 30,000	$ 35,000	16.7%
Total Admin & Delivery	$ 3,842,665	$ 4,135,293	$ 4,522,377	9.4%
Staff: Full-Time Equivalents (FTE)	17	17	17	0.0%

Revenue and Expenditure Risks

The key risks to the FPDR FYE23-27 Forecast relate to property tax collections, the potential for additional COVID waves, Police hiring and retirement rates, sworn labor contracts, PERS contribution rates, and inflation.

Property Tax Delinquency and Compression Rates (Medium Risk)

- After increasing to 4.6% in the prior year (FYE21) and an estimated 5.3% in the current year (FYE22), the forecast assumes a return to the historic delinquency level of 4.0% - 4.5% in FYE23 and beyond. If delinquencies are higher than projected, FPDR will not collect enough property tax revenue.
- Measure 5/50 compression has not increased notably during the pandemic. The forecast assumes compression losses continue to remain stable at roughly 4.8%. If compression losses are higher than forecast, FPDR will not collect enough property tax revenue.
- Since FPDR is almost entirely dependent on property tax revenues to cover its expenses, a significant shortfall would necessitate unplanned short-term borrowing, either from capital markets or another City fund. Such a shortfall would also negatively impact interest income.

Additional COVID Waves

- FPDR received a surge of hundreds of COVID disability claims in the winter of FYE21, which was the primary cause of a 24.4% increase in disability benefit expenses for FYE21. FPDR is currently experiencing a second surge of COVID claims which will likely drive up FYE22 disability costs as well.
- Sworn staff away from work for COVID infection or quarantine increases overtime spending, which in turn increases the PERS contributions FPDR must make on that overtime for FPDR Three members.
- The FPDR five-year forecast is based on a return to pre-pandemic disability claim volume and overtime levels at the Fire and Police Bureaus. Additional COVID waves in future years could sicken Fire and Police personnel or require them to quarantine. In that case, FPDR would likely spend more on short-term disability benefits and PERS contributions than forecast.

Police Retirements

- Fire retirement rates have been low and predictable for many years and are chiefly impacted by the timing of 27 pay date months, wage COLAs, and other pay increases.
- Police retirement rates have been higher and more volatile, particularly over the last two years, and are impacted by a wider range of factors.

- The forecast assumes modest Police retirement levels through FYE23, since the retirement-eligible pool of Police members was depleted by FYE21 retirements, there is only one 27 pay date month in FYE22 and FYE23 combined, and the upcoming 5.0% wage COLA incentivizes waiting until FYE24 to retire.
- If more FPDR Two members retire than assumed, FPDR pension costs will be more than forecast.
- In particular, the return of the retire/rehire program at the Police Bureau, and talk of creating a retire/rehire program at the Fire Bureau, may incentivize FPDR Two retirements

Police Hiring

- FPDR's five-year forecast is based on 160 new hires at Fire and 301 new hires at Police between the current year (FYE22) and the last year of the forecast (FYE27). This does not include 50 Police retire/rehires anticipated in FYE22 and FYE23, as retire/rehires do not directly impact FPDR expenditures.
- Given the volume of sworn vacancies at the Police Bureau, it is possible more new police officers will be sworn than included in this forecast. Available funds, political decisions, the labor market, and the logistical ability of the Police Bureau to hire in volume are other factors that may contribute to or mitigate for this risk.
- The forecast for Fire hiring includes an uncommonly high rate of 32 in both FYE22 and FYE23, with means there is less risk the Fire Bureau will hire more new sworn employees than predicted.
- If more or faster hiring than projected occurs at the Police Bureau, or if there are fewer retire/rehires and more new hires than predicted, FPDR will have to pay more PERS contributions than budgeted.

Open Portland Police Association (PPA) Contract

- A letter of agreement extending the previous PPA contract, which covers a majority of active duty FPDR members, expired on June 30, 2021.
- The FPDR forecast assumes a 1.6% COLA retroactive to July 1, 2021, a 5.0% COLA on July 1, 2022 and future wage COLAs equal to inflation for PPA members.
- Salary increases beyond this, or other compensation increases (such as bonuses), would result in higher FPDR benefit costs in several categories:
    - Since FPDR One pensions are a percent of active duty pay, all Police FPDR One pensions would increase
    - Since final pay is a key component of the FPDR Two pension, future Police FPDR Two pensions would increase
    - Since PERS contributions are made on total compensation, Police PERS contributions for FPDR Three members would increase

  - Since disability pay is a percent of wages, all Police disability benefits for wage replacement would increase
  - Since funeral benefits are a percent of wages, future Police funeral benefits would increase
- If one-time bonuses are ultimately included in the new PPA contract, this will incentivize FPDR Two retirements one year later (because of the one-time increase in final pay). This would increase FPDR Two pension costs beyond those included in the forecast.

Inflation

- Inflation in FPDR's five-year financial plan is based on a forecast provided by the City Economist
- If this forecast is too low, nearly all FPDR benefits will be more expensive than forecast. This is because wage COLAs are tied to inflation, and wage increases drive up the cost of most FPDR benefits (as explained above under "Open PPA Contract").
- If this forecast is too low, many FPDR administrative expenses, including FPDR staff salaries, will also be more expensive than forecast.
- Inflation is unusually difficult to predict in the current environment, for causes that can be mostly attributed to the pandemic and associated economic downturn (an influx of federal government stimulus spending, labor shortages, supply chain issues, etc.)

PERS Contribution Rates in Outyears

- PERS contribution rates are known for FYE23, but beyond that they have been estimated by the City Economist.
- PERS contribution rates are influenced by a wide variety of factors, but annual PERS investment returns are a notable source of contribution rate risk because of their volatility and importance to the PERS unfunded liability calculation.
- If the stock market underperforms and PERS investment returns fall short of expectations, PERS contributions rates will likely be set higher than forecast, which will increase FPDR spending on PERS contributions for FPDR Three members.

Other

Other factors that would increase expenses, but to a smaller degree, are:

- Fewer deaths than projected using the mortality tables and assumptions recommended by the FPDR actuaries
- Faster promotion rates or more premium pay assignments 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 catastrophic and/or expensive disability claims than forecast
- A disproportionate share of disability claims from higher paid employees
- Unforeseen information technology (IT) expenses, or higher costs for already planned IT expenses

Fund Contingency

- FPDR fund contingency for FYE23-27 has been set at 7% of total bureau expenditures (FPDR spending less fund transfers and debt service). After increasing fund contingency to 9% of bureau expenditures for FYE22 amidst the general economic uncertainty brought on by the pandemic, this represents a return to historic contingency levels for the fund.
- For FYE23, fund contingency is $14.0 million.
- FPDR management believes this amount is sufficient to manage the risks outlined above. For example, $14.0 million is enough to cover:
    - 20 additional retirements, on top of the 20 already included as cushion in the pension budget, for a cost of roughly $1.9 million
    - PERS contribution on $10,000 bonuses to all Police FPDR Three members, for a cost of approximately $1.3 million
    - An additional $3.0 million in potential other costs related to the new PPA contract
    - Disability costs associated with another COVID surge, similar to the winter FYE21 surge, for costs of about $1.5 million
    - About $6.0 million in other costs that may materialize as a result of the risks described above or unforeseen circumstances

Bureau of Fire & Police Disability & Retirement, Funds 800 & 801

Resources	CY Estimate	FY 2022-23 Plan	FY 2023-24 Plan	FY 2024-25 Plan	FY 2025-26 Plan	FY 2026-27 Plan
Beginning Fund Balance	$ 15,217,675	$ 25,979,006	$ 14,750,000	$ 14,750,000	$ 16,750,000	$ 17,750,000
Taxes	191,287,841	183,485,461	206,437,986	226,265,469	243,900,802	258,679,441
Licenses & Permits	-	-	-	-	-	-
Charges for Services	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Interagency Revenue	368,200	393,900	445,500	457,200	518,900	530,700
Fund Transfers - Revenue	-	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Bond & Note Proceeds	38,542,500	45,000,000	47,731,669	51,849,970	56,165,233	59,578,821
Miscellaneous	385,300	414,100	571,700	616,200	657,800	692,500
General Fund Discretionary & Overhead	-	-	-	-	-	-
Resource Total	$ 245,801,516	$ 256,772,467	$ 271,436,855	$ 295,438,839	$ 319,492,735	$ 338,731,462

Expenditures	CY Estimate	FY 2022-23 Plan	FY 2023-24 Plan	FY 2024-25 Plan	FY 2025-26 Plan	FY 2026-27 Plan
Personnel	$ 2,619,482	$ 2,889,430	$ 2,908,735	$ 3,054,138	$ 3,256,071	$ 3,387,035
External Materials and Services	149,940,300	158,135,999	161,645,573	172,633,796	179,401,420	184,689,743
Internal Materials and Services	28,425,741	34,059,948	42,375,610	49,098,970	60,840,430	70,212,490
Capital Outlay	30,000	35,000	35,000	35,000	35,000	45,000
Debt Service	38,655,007	45,254,207	48,081,837	52,223,335	56,562,814	59,996,694
Fund Transfers - Expense	151,980	1,647,883	1,640,100	1,643,600	1,647,000	1,650,500
Contingency	25,979,006	14,750,000	14,750,000	16,750,000	17,750,000	18,750,000
Debt Service Reserves	-	-	-	-	-	-
Expense Total	$ 245,801,516	$ 256,772,467	$ 271,436,855	$ 295,438,839	$ 319,492,735	$ 338,731,462
Planned FTE Total	17	17	17	17	17	17