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). The FPDR Fund (Fund 800) is the primary operating and financing fund for these purposes. The FPDR Reserve Fund (Fund 801) is required to be maintained at $0.75 million and is for use in the event the FPDR Fund becomes depleted to the extent it cannot meet current requirements. Both funds are established and defined by Chapter 5 of the Portland City Charter.

Plan Overview

FPDR Plan benefits are defined in Chapter 5 of the 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 FPDR pension and disability 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 in excess of usual inflationary factors such as wage increases. 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 expenses thus fall into four general categories: direct FPDR pension payments to retirees originally hired before 2007; PERS contribution payments for those hired after 2006 and still working; direct disability benefit payments to employees who cannot work because of an injury or illness, medical care costs associated with service-connected disabilities, and funeral benefits; and administrative expenses. Total FPDR FYE24 requirements are budgeted at $259.1 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 magnifies the size of the budget, FYE24 requirements are $220.3 million. For the FYE24 budget, 69% of bureau requirements are for FPDR plan pension benefits, 19% for PERS contributions made on behalf of FPDR Three members, 3% 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 FYE24 are $205.2 million.

Over the five-year forecast extending through FYE28, total bureau expenses are estimated at $1.205 billion, with annual growth ranging from 4.8% to 8.4% per year and total growth over the five-year period of 42.2%. Net of the FPDR Reserve Fund and annual TAN issues, total requirements are projected to be $1.302 billion for FYE23 – FYE28, with annual growth as high as 9.0% and total growth over the five-year period of 42.6%.

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 1.2% of total revenues (net of TANS) in the FYE24 budget, or $2.4 million, and just $17.7 million over the entire FYE24-28 forecast. The remainder of resources needed to fund the expenditures discussed below derive from property taxes, of which $1.191 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 $1.11. The assessed value (AV) rate, on which property owners actually pay taxes, is currently $2.72 per $1,000 of AV. FPDR plans to use roughly $10.0 million in excess fund balance to reduce its tax need for FYE24. That, in combination with the fact that new hiring at the Police Bureau has been slower than planned, means that a tax increase of just 5.6%, or $28.9 million, is necessary for FYE24 – a bit less than FPDR's typical annual growth rate of 6% to 7% during this period of financing two generations of retirees simultaneously. As a consequence, the RMV rate is projected to climb to $1.18 and the AV rate to $2.77 for FYE24. After that, both rates will continue rising and reach an estimated $1.46 for RMV and $3.31 for AV by the end of the five-year forecast period in FYE28. 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 model simulates thousands of possible scenarios and incorporates widely variant possibilities in terms of real market value growth, PERS investment returns and contribution requirements, and other factors. The most recent analysis, using data as of June 30, 2022, 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 FYE42. At the median probability, the levy rate is expected to peak at $1.43 in 2031 – 2033.

Revenue Assumptions

Property Taxes

More than 98% of bureau resources come from the dedicated FPDR property tax levy. Property tax revenues need to be increased to $193.7 million for FYE24, 5.6% and $10.2 million more than budgeted in FYE23. However, this growth rate is less than the expenditure growth rate for FYE24 FPDR, and total tax revenue need remains lower than two years ago, in FYE22. This is partly because new hiring at the Police Bureau has not proceeded as quickly as planned, which has reduced PERS contribution costs as compared with prior forecasts, and partly because FPDR expects to have excess fund balance in FYE24. Both of these factors lessen FPDR’s need for new tax revenues in FYE24. The fund is expected to close FYE23 with an ending fund balance of $24.2 million, the second year in a row with fund balance exceeding historically typical levels. Some of the excess fund balance results from the aforementioned slow hiring at the Police Bureau, but the primary cause is the large fund contingency levels established during the first two years of the COVID pandemic. These funds will be returned to the taxpayers in FYE24 through slower growth in the FPDR tax levy than would otherwise have been the case. FPDR management’s target ending fund balance is between $14 million and $20 million, a level to which the fund is expected to return in the outyears of the forecast.

Property taxes will rise at a more rapid rate for FYE25 – FYE28 and are planned to reach $277.3 million by the end of the forecast period, a 51.9% 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.

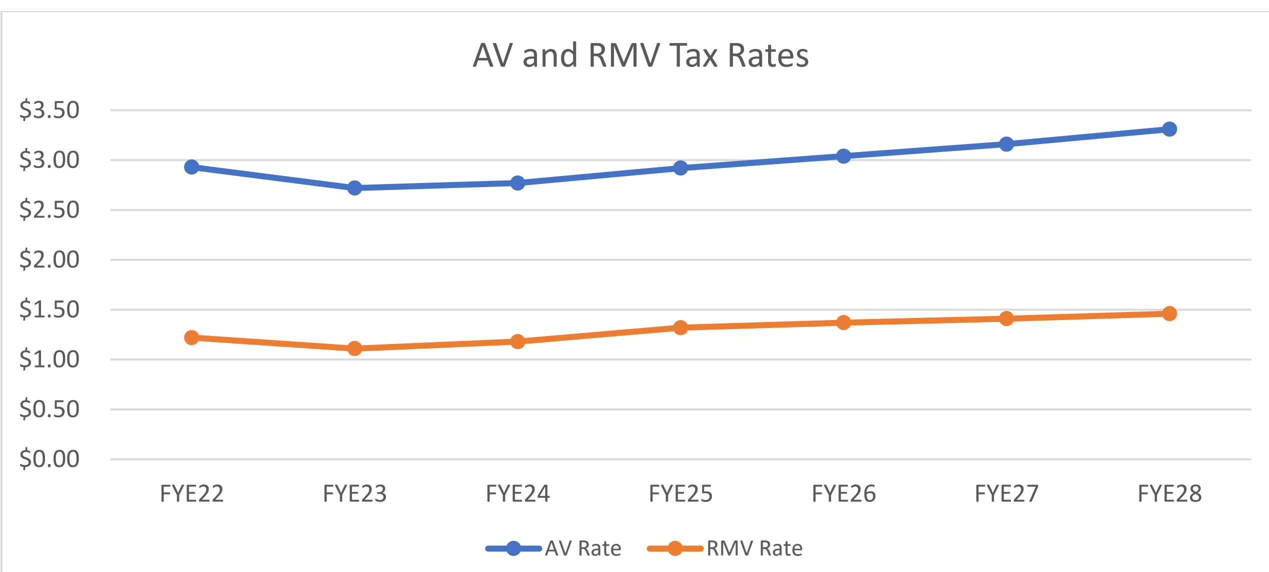
FPDR FYE 2024-28 Five Year Plan

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. His assumptions are listed below, and compared to actual results from FYE22, in the table below:

PROPERTY TAX ASSUMPTIONS (DOLLARS IN THOUSANDS)							
	FYE22 Actuals	**FYE23**	**FYE24**	**FYE25**	**FYE26**	**FYE27**	**FYE28**
RMV Growth	5.0%	7.0%	0.0%	2.0%	4.0%	4.0%	4.0%
AV Growth	5.5%	4.5%	4.1%	9.0%	3.1%	3.1%	3.1%
Compression	-4.8%	-4.3%	-4.7%	-4.7%	-4.7%	-4.7%	-4.7%
Discounts/Delinquencies	-3.7%	-4.4%	-4.3%	-4.1%	-4.0%	-4.0%	-4.0%
Current Year Taxes Required	**$187,408**	**$181,345**	**$191,571**	**$220,436**	**$237,202**	**$254,486**	**$274,336**
Discounts/Delinquencies	$7,183	$7,183	$8,608	$9,499	$9,883	$10,604	$11,431
Taxes Imposed	$194,591	$194,591	$189,692	$229,935	$247,086	$265,089	$285,767
Compression Loss	$9,718	$9,718	$8,448	$11,340	$12,186	$13,074	$14,093
Taxes Extended	**$204,308**	**$204,308**	**$198,140**	**$241,275**	**$259,271**	**$278,163**	**$299,860**

These assumptions result in the following projected AV and RMV tax rates for FYE24 – 28, as compared with projected rates for FYE23 and actual rates for FYE22:

FPDR PROPERTY TAX RATES							
	FYE22 Actuals	**FYE23**	**FYE24**	**FYE25**	**FYE26**	**FYE27**	**FYE28**
AV Tax Rate	$2.93	$2.72	$2.77	$2.92	$3.04	$3.16	$3.31
Effective RMV Tax Rate	$1.22	$1.11	$1.18	$1.33	$1.37	$1.41	$1.46



The levy has been a stable resource throughout the pandemic and associated economic downturn. Property tax delinquencies were 4.6% in FYE21 and just 3.7% in FYE22, at or below their historic level of 4.0% to 4.5%. Property tax compression losses have not increased either, as initially feared when some permanent property tax levies were increased to account for potentially higher delinquency rates. In FYE22 property taxes came in 1.7% ($3.2 million) over budget, and property tax collections are on target for FYE23.

Tax Anticipation Notes (TANs)

Unlike the General Fund, but like many governmental funds whose primary revenue source is property taxes, the FPDR Fund borrows money to cover its cash flow shortfall between the start of the fiscal year on July 1 and the receipt of most property tax payments in mid-November. FPDR borrows these funds by issuing tax-exempt notes (short-term bonds) in July of each year. FPDR plans to borrow $38 million in FYE24 and as much as $54 million by the final year of the forecast in FYE28. As expenses grow each year, more must be borrowed to prevent a negative cash position before mid-November. Within arbitrage rebate limits allowed by the Internal Revenue Service, FPDR generally earns more interest on the borrowed funds than it pays to the note holders and for debt issuance costs. FPDR expects to pay 2.25% in interest on its July 2023 TAN issue, a significant increase from the 2022 borrowing rate of 1.89%. However, the City Investment Officer also expects to earn 2.5% on the City investment pool in FYE24, where FPDR will deposit the TAN proceeds while they are spent down. Therefore, FPDR will likely earn a positive arbitrage return on the 2023 TAN issue, as in the past. The FPDR Fund borrows under the “working capital” arbitrage exception rule, which means FPDR management must demonstrate when it repays the notes that it borrowed no more than required for expenses, plus an allowance for working capital equal to 5% of the prior year’s fund expenditures.

Other Revenues

As noted above under Plan Overview, non-property tax revenues are just $2.4 million of projected revenue in FYE24, and only $17.7 million over the entire FYE24-28 forecast. FPDR does not require revenues beyond what can be raised from the dedicated property tax levy to meet its requirements over the forecast period. However, FPDR management obviously pursues other appropriate revenue sources in order to reduce the taxpayer burden. With the exception of interest income, these minor sources of miscellaneous revenue are expected to remain stable or grow slightly over the forecast period. Interest income is projected to increase significantly as both interest rates and fund balance grow. FPDR relies on the City Investment Officer for interest rate forecasts. Interest rates are projected to more than double over the forecast period. Together with FPDR’s projected fund balance over the five-year plan period, those interest rate assumptions are shown below:

INTEREST INCOME ASSUMPTIONS							
$ Millions	FYE22 Actuals	FYE23	FYE24	FYE25	FYE26	FYE27	FYE28
Average Cash Balance	$70.9	$62.4	$73.4	$80.9	$87.5	$93.9	$100.9
Forecast Interest Rate	0.61%	1.35%	2.50%	3.50%	3.50%	3.50%	3.50%
Interest Income	$0.42	$0.84	$1.84	$2.83	$3.06	$3.29	$3.53

Expenditure Assumptions

FPDR forecasts $1.205 billion in bureau expenditures (all costs except fund-level requirements like contingency, debt service, etc.) during the five-year forecast period. Bureau expenditures are expected to grow 47.2%, or $89.3 million, between FYE23 and FYE28. This growth rate, which was planned as part of the 2006 City Charter reforms that placed new sworn hires in the prefunded PERS plan, will of course require increases in the dedicated FPDR tax levy (see above). Fortunately, the tax levy has room under its cap to accommodate this growth. Nevertheless, the tax increases will burden the current generation of taxpayers and increase compression on other permanent property tax levies in Multnomah County for the next 10 to 15 years.

For the most part, FPDR cannot legally reduce its service levels to restrain expenditure. Nearly 98%, or $1.179 billion, of bureau expenditures 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 70% of planned bureau expenditures over the next five years. PERS contributions, while still only 25% of budgeted bureau expenditures for FYE24-28, are the fastest-growing component. On top of wage and PERS contribution rate growth, each year a larger percentage of the sworn workforce is comprised of FPDR Three members enrolled in PERS. Disability and death benefit expenses comprise just 3% of planned bureau expenditures over the forecast period. However, disability expenses have been significantly higher than usual since FYE21, primarily because of COVID infections and exposures in the sworn workforce. They are expected to decline from their peak in FYE22 and FYE23, but the forecast assumes disability expenses remain above pre-pandemic levels (after adjusting for wage and medical cost inflation) through FYE28.

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

Inflation Assumptions						
	FYE23	FYE24	FYE25	FYE26	FYE27	FYE28
Wages	5.00%	5.00%	2.90%	2.30%	2.10%	2.10%
Medical	3.80%	3.60%	3.60%	3.50%	3.50%	3.50%
PERS Contribution Rates						
Tier 1 & Tier 2*	28.35%	29.60%	29.60%	34.60%	34.60%	39.60%
OPSRP General*	24.36%	26.12%	26.12%	31.12%	31.12%	36.12%
OPSRP Public Safety*	31.72%	33.91%	33.91%	38.91%	38.91%	43.91%
External Materials & Services	3.75%	3.00%	2.60%	2.60%	2.50%	2.50%
Internal Materials & Services	3.75%	2.80%	2.50%	2.40%	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 Actuals	FYE23	FYE24	FYE25	FYE26	FYE27	FYE28
FPDR 2 Service Retirements	23	59	73	61	63	63	61
Deaths, Members & Beneficiaries	70	59	59	60	61	62	63
Pension COLAs							
FPDR One, Fire	5.00%	5.00%	5.00%	2.90%	2.30%	2.10%	2.10%
FPDR One, Police	5.00%	5.00%	5.00%	2.90%	2.30%	2.10%	2.10%
FPDR Two	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Percent of Sworn Workforce, FPDR Three	50.9%	55.6%	63.2%	67.3%	71.6%	75.8%	79.8%
Bureau Hiring Projections							
Fire Bureau	36	27	56	24	23	26	26
Police Bureau	44	62	93	67	50	47	45

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.)

Pension amounts for new retirees grow with wage increases because FPDR Two pension benefits are based partly on final salary. In addition, FPDR One pension benefits are a percent of active duty pay. The forecast assumes that sworn wage increases are limited to annual inflationary COLAs. 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. 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 FYE23 and FYE24 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). The final forecast assumes 546 new hires over the next five years, which would increase the number of PERS-covered employees 37.5% and make them approximately 80% of the sworn workforce by FYE28. 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 inflationary wage COLAs. This forecast assumes annual wage growth in excess of COLAs (real wage growth) for PERS-covered employees of 5.0% at Police and 4.0% at Fire. Finally, the PERS Board continues to raise contribution rates every two years to reduce PERS' unfunded liability. The PERS contribution rate projection detailed in the table above was developed by the City Economist. Rates for the City's public safety employees are forecast to grow from 31.72% currently to 43.91% by FYE28.

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. New short-term disability claims are on track to return to pre-pandemic levels in FYE23 (350 or so annually) after increasing dramatically in FYE21 and FYE22 to more than 500 claims each year, as a result of COVID exposures and infections in the sworn workforce. Nevertheless, the forecast assumes that claim volume will remain about one-third above the historic level for the next five years, as COVID remains a persistent force. 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 often adjusts this number for the budget year based on staff knowledge of specific claims. For FYE24, FPDR expects to move three employees from short-term to long-term disability, more than usual. As discussed above, the forecast assumes wage growth is limited to annual COLAs equal to inflation. Medical inflation is projected to continue to slow, from about 4.0% in the past to 3.6% in FYE24 and 3.5% by FYE26, 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 Board and Portland City Council have authority over the number and type of positions. After adding one Analyst I in the fall 2022 budget monitoring process, FPDR now has 18 positions: 13 nonrepresented and 5 represented (by the District Council of Trade Unions). Personnel expenses are projected to increase for wage COLAs based on inflation, including a second unusually large 5.0% wage COLA on July 1, 2023 (following an identical 5.0% COLA last year). In addition, merit-based wage increases of up to 3.0% annually are assumed for most nonrepresented staff, along with annual step increases for the one represented employee not currently at the top step of their wage scale. Health insurance benefits are budgeted to increase by 3.5% to 3.6% per year for the FYE24-28 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. 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. FPDR downsized and relocated its physical office in the spring of 2022, a move made possible by new hybrid in-person/remote work schedules for most FPDR staff. The move required additional one-time services from the Bureaus of Facilities and Technology Services in FYE22 and FYE23. Facilities and Technology service costs are expected to return to normal levels for FYE24 and beyond. No other changes to internal service levels are anticipated. 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. FPDR's new smaller office created $125,804 in lease savings in FYE23, partially because of the smaller lease and partially because FPDR was able to negotiate five months of rent abatement for the new lease. Going forward, the new lease will save approximately $50,000 per year. 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 tends to budget a bit more than actually planned for capital since the small, single-item budget means that even a minor unanticipated expense can cause over-expenditure in a major object category.

The table below lists FYE22 actual costs, FYE23 projected costs, and the FYE24 budget for each of FPDR's administrative expense.

FPDR FYE 2024-28 Five Year Plan

Administration & Operations: Budget Detail

	FYE22 Actuals	FYE23 Projection	FYE24 Budget	Change: FYE23 to FYE24
Personnel Services	$2,607,227	$2,732,192	$2,979,029	9.0%
External Materials & Services				
Computer Consulting	$ 139,970	$ 70,026	$ 67,760	-3.2%
Legal Services	31,596	66,100	68,100	3.0%
Audit Services	26,691	32,700	33,700	3.1%
Actuarial Services	10,300	91,800	42,895	-53.3%
Professional Services - Disability Program	193,133	265,700	274,300	3.2%
Other Professional Services	120,936	55,400	57,100	3.1%
Repair and Maintenance Services	2,266	3,600	3,700	2.8%
Miscellaneous Services	56,507	12,000	12,400	3.3%
Computer and Office Supplies	15,531	18,600	19,200	3.2%
Minor Equipment and Tools	3,647	1,100	1,100	0.0%
Education, Subscriptions and Dues	7,316	14,900	15,300	2.7%
Travel - Local	1,222	750	800	6.7%
Travel - Out of Town	1,464	5,000	5,200	N/A
Office Rent	229,735	103,931	188,485	81.4%
Miscellaneous	818	620	600	-3.2%
Total External M&S	$841,131	$742,227	$790,640	6.5%
Internal Materials & Services				
Fleet	$189	$129	$-	-100.0%
Printing & Distribution	41,736	38,378	47,117	22.8%
Facilities Services	96,670	123,661	9,402	-92.4%
Technology Services	181,324	275,366	232,258	-15.7%
Risk Management	30,659	36,211	42,000	16%
City Attorney	289,676	316,174	337,646	6.8%
Government Relations	10,000	10,000	10,000	0.0%
Bureau of Revenue & Financial Services	36,617	49,010	58,284	18.9%
Fire & Police Bureaus	135,130	154,000	163,800	6.4%
Total Internal M&S	$822,001	$1,002,929	$900,507	-10.2%
Capital	$39,780	$30,929	$55,093	78.1%
Total Admin & Delivery	$4,310,140	$4,508,276	$4,725,269	4.8%
Staff: Full-Time Equivalents (FTE)	17	18	18	0.0%

Risks to the Forecast and Contingency

The key risks to the FPDR FYE28-27 Forecast relate to delinquency and compression rates for property taxes, future COVID waves, the presence of two 27 pay date retirement months in FYE24, the potential for more hiring at both the Police and Fire Bureaus, and the open labor contract for the Portland Fire Fighters Association.

Property Tax Delinquency and Compression Rates (Medium Risk)

- After reaching a high point of 4.6% in FYE21, property tax delinquencies dropped considerably and unexpectedly for FYE22, to 3.7%. The delinquency rate is not yet known for this year, but this forecast assumes a return to the historic delinquency level of 4.0% - 4.4% in FYE23 and beyond.
- Measure 5/50 compression has not increased notably during the pandemic. The forecast assumes compression losses continue to remain stable at 4.7% or 4.8%, after dipping in the current year to 4.3%.
- If actual tax delinquency or compression rates prove higher than estimated, FPDR will not collect enough of the property taxes the bureau is entirely dependent upon to cover expenses. Each additional 1% in delinquency and/or compressions losses results in a loss of roughly $1.9 million in property tax revenue for FPDR. Tax shortfalls would also negatively impact interest income.

Continued COVID-Related Costs at FYE21 and FYE22 Levels (Medium Risk)

- FPDR received hundreds of COVID disability claims during winter COVID spikes in both FYE21 and FYE22, as well as many vaccine side effect claims in FYE22. As a result FPDR spent approximately $1.0 million more on disability benefits than typical. Smaller waves have recurred in FYE23, increasing disability expenses again in the current year although to a lesser degree.
- Public safety staff away from work for COVID infection, quarantine, or vaccine side effects also increase overtime spending, which in turn increases the PERS contributions FPDR must make on that overtime for FPDR Three members.
- Last year in this forecast, FPDR assumed a return to pre-pandemic disability claim volume and overtime levels at the Fire and Police Bureaus. This year, the forecast reflects the more modest assumptions that the number of annual claims will remain about 50% higher than before the pandemic, and that overtime levels at both bureaus will remain slightly elevated. Thus, the forecast predicts continued COVID-related spending for at least the next five years, but at lower levels than seen during FYE21 and FYE22. Should a new and serious

variant emerge that assumption may prove too aggressive. If overtime is $5.0 million more than planned, FPDR's bill for PERS contributions on the share of that overtime worked by FPDR Three members would be roughly $1.1 million. If disability expenses returned to FYE21 or FYE22 levels, the fund could expect another $0.5 million in unbudgeted benefit costs.

Two 27 Pay Date Months in FYE24 (Medium Risk)

- If more FPDR Two members retire than assumed, FPDR pension costs will be more than forecast.
- The greatest risk for unbudgeted retirements is in FYE24, when there will be two advantageous 27 pay date retirement months (December 2023 and June 2024). The bureau has budgeted for 73 retirements in FYE24. There have been three other years with two 27 pay date months thus far; in those years, 64 to 99 members retired from active service. However, the year with 99 retirement was FYE21, when COVID, protests, and wildfires likely also played a role in driving up public safety retirements.
- An additional 20 retirements in December 2023 would cost the fund approximately $0.9 million in FYE24, and more in outyears.

Public Safety Hiring (Low Risk)

- FPDR's five-year forecast is based on 155 new hires at Fire and 302 new hires at Police between FYE22 and the last year of the forecast (FYE28). That hiring is front-loaded, with 56 new hires at Fire and 113 new hires at Police budgeted between now and the end of FYE24.
- As aggressive as this budget and hiring plan are, both the Police and Fire Bureaus have even greater hiring aspirations. The Police Bureau's goal is to hire more than 100 new officers annually for the new few years. The Fire Bureau hopes to hire 12 more fire fighters than included in the FPDR FYE24 budget.
- If the Police and Fire Bureaus are successful in hiring at their goal rates, FPDR will have to pay more PERS contributions than budgeted.
- An additional 45 hires in FYE24 would increase FYE24 PERS contributions by an estimated $0.9 million and more in the outyears of the forecast.
- However, given that the Police Bureau has never hired more than 83 officers in a single year, it is equally plausible that Police hiring will be lower than presumed in the FPDR forecast. Additional hiring at the Fire Bureau is more probable as they have historically had large applicant pools; however, hiring and training more than 24 fire fighters a year remains a logistical challenge for the bureau.

Open Portland Fire Fighter Association Contract (High Risk)

- The Portland Fire Fighter Association (PFFA) labor contract – which covers all Fire FPDR members except the Fire Chief, Division Chiefs, and Deputy Chiefs – will expire on June 30, 2023.
- The FPDR forecast assumes a 5.0% COLA on July 1, 2023 and future wage COLAs equal to inflation for PFFA members. This is consistent with the current contract terms.
- Salary increases beyond this level, other compensation increases (such as bonuses), and/or reductions in weekly scheduled hours could result in higher FPDR benefit costs in several categories:
  - Since FPDR One pensions are a percent of active duty pay, additional salary increases would increase FPDR One Fire pensions more than forecast
  - Since final pay is a key component of the FPDR Two pension calculation, additional salary increases and/or bonuses would increase future FPDR Two Fire pensions more than forecast
  - Since PERS contributions are made on total compensation, additional salary increases and/or bonuses would increase Fire PERS contributions for FPDR Three members
  - Since disability pay is a percent of wages, additional salary increases (but not bonuses) would increase all Fire disability benefits for wage replacement
  - Since funeral benefits are a percent of wages, additional salary increases (but not bonuses) would increase future Fire funeral benefits
  - Since reductions in weekly scheduled hours require additional staffing or more overtime, such reductions would increase Fire PERS contributions
- Additionally, if one-time bonuses were included in the new PFFA contract, this would incentivize Fire FPDR Two retirements one year later (because of the one-time increase in final pay). This would also increase FPDR Two pension costs beyond those included in the forecast for that year.

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.
- 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 macroeconomic factors (an influx of federal government stimulus spending, labor shortages, supply chain issues, etc.)

PERS Contribution Rates in Outyears

- PERS contribution rates are known for FYE24 and FYE25, but beyond that they have been estimated by the City Economist with input from the PERS actuaries.
- 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 expenses

Fund Contingency

While many operating funds maintain a standard 10% contingency line item, FPDR has found it unnecessary to maintain such a high level of contingency given the relatively predictable nature of monthly pension payments, which make up nearly three-fourths of bureau expenditures (FPDR spending less fund transfers and debt service). FPDR fund contingency for FYE24-28 has been set at 7% of total bureau expenditures. After increasing fund contingency to 9% of bureau expenditures amidst the general economic uncertainty brought on by the pandemic, FPDR returned to the fund to this historically typical 7% contingency level in FYE23. For FYE24, fund contingency is $14.0 million, which is 7% of $205.2 million in budgeted bureau expenditures (after rounding). Approximate monetization of the risks outlined above totals just $5.9 million, which leaves $8.1 million of the contingency total for other unforeseen events and emergencies. FPDR management believes this is a prudent contingency level for FYE24.