FPDR BOARD OF TRUSTEES MATERIALS

April 4, 2023

Table of Contents

(To see a specific document, click on the link below)

Note: There are no handouts for Information Items 1 and 2 of the agenda

This meeting will be held virtually

City of Portland Bureau of Fire and Police Disability and Retirement
Agenda for Regular Meeting – Board of Trustees
Tuesday, April 4, 2023 – 1:00 p.m.

Please note, The Fire and Police Disability and Retirement Board of Trustees are holding this public meeting VIRTUALLY. Meetings going forward will be hybrid which provides for both virtual and limited in-person attendance. Members of the board will elect to attend remotely by video and teleconference, or in-person. FPDR has made several avenues available for the public to listen to the audio broadcast of this meeting, including the City's e-GovPDX YouTube Channel, Channel 30, and www.portlandoregon.gov/video

ADMINISTRATION		
The following consent item(s) are considered to be routine and will be acted upon by the Board in one motion, without discussion, unless a Board member, staff member or the public requests an item be held for discussion.		
	1	Approval of Minutes – January 23, 2023 Meeting
INTRODUCTION OF VISITORS		
Public comments will be heard by electronic communication (internet connection or telephone), or in-person. If you wish to sign up for public comment by electronic communication, please register at the following link: https://us06web.zoom.us/webinar/register/WN_0yqPzKB9Rq-HQeDIS3XcPg ***You will be asked to provide your name, phone number, email address, agenda item number(s) you wish to provide comment on and zip code. After registering, you will receive a confirmation email containing information about joining the electronic/virtual meeting. Individuals will have three minutes to provide public comment unless otherwise stated at the meeting. The deadline to sign up for the April 4, 2023 hybrid board meeting is Monday, April 3, 2023 at 3:00 p.m. Individuals can also provide written testimony to the Board by emailing the FPDR Director Sam Hutchison at sam.hutchison@portlandoregon.gov by March 31, 2023.***		
ACTION ITEMS		
	1	Annual Adjustment Review o Issue: What shall be the FPDR Two 2023 benefit adjustment? o Expected Outcome: Board determines FPDR Two 2023 benefit adjustment.
	2	Milliman Contract Authorization o Issue: Selection Committee recommends contracting with Milliman to provide actuarial services. o Expected Outcome: Board approval of a not-to-exceed amount and contract terms and authorizes FPDR Director to complete contract negotiations and enter into agreement for actuarial services.
INFORMATION ITEMS *The following information items do not require action by the Board and are solely for informational purposes unless a Board member, staff member or the public requests an item be held for discussion.*		
	1	FPDR Strategic Plan
	2	Future Meeting Agenda Items
*Copies of materials supplied to the Board before the meeting, except confidential items and those referred to Executive Session, are available for review by the public on the FPDR website at www.portlandoregon.gov/fpdr or at the FPDR offices located at: 1800 SW First Avenue, Suite 250, Portland, Oregon 97201. **NOTE**: If you have a disability that requires any special materials services or assistance call (503) 823-6823 at least 48 hours before the meeting.*		

FIRE AND POLICE DISABILITY AND RETIREMENT BOARD OF TRUSTEES MEETING	**MINUTES**

This was a hybrid meeting with the option to attend in-person or remotely via a Zoom webinar platform.

Date and Time: January 23, 2023, at 1:00 p.m.; Meeting adjourned at 4:00 p.m.

Board Members Present:
Catherine MacLeod (Citizen Trustee); James Huang (Citizen Trustee); Kyle MacLowry (Fire Trustee); Christopher Kulp (Police Trustee)

Board Members Absent:
Margaret Carter (Board Chair)

Also Present:
Sam Hutchison (FPDR Director); Stacy Jones (FPDR Deputy Director/Finance Manager) Kimberly Mitchell (FPDR Claims Manager); Julie Hall (FPDR Legal Assistant); Lorne Dauenhauer (Outside Legal Counsel); Franco Lucchin (Sr. Deputy City Attorney) Kevin Machiz (Community Member); Del Stevens (Retired Fire Member); Lisa Knight (Active Fire Member); Scott Preppernau (Actuary, Milliman); Gary Deeth, (Actuary, Milliman); OpenSignal PDX

Motions Made and Approved:

- Motion by Trustee MacLowry that was seconded by Trustee Huang and passed (4-0) to approve the November 23, 2022, minutes.
- Motion by Trustee Huang that was seconded by Trustee MacLowry and passed (4-0) to seek further guidance on making the charter or administrative rules more consistent with State statute regarding the definition of spouse.
- Motion by Trustee Huang that was seconded by Trustee Kulp and passed (4-0) to accept the actuarial report and levy analysis.
- Motion by Trustee Kulp that was seconded by Trustee Huang and passed (4-0) to adopt the FY 2023-24 budget.

Motions Made and Failed

- Motion by Trustee Huang requesting FPDR staff draft a proposed scope of service for an actuarial analysis of prefunding the plan. Motion was not seconded by another Trustee.

A text file produced through the closed captioning process for the live broadcast of this board meeting is attached and should not be considered a verbatim transcript.

Fire and Police Disability and Retirement

By________________________________
Sam Hutchison
FPDR Director

Closed Captioning File

[Captioner on standby]

Director Hutchison: Good afternoon. Thank you for bearing with us for this first hybrid meeting. The Trustees present at the meeting are Trustee Huang and Trustee MacLowry, who is not hooked up online, which is fine. We also have Trustees MacLeod and Kulp attending remotely, and Chair Carter will probably be remote when she joins us. We shifted this meeting from a Tuesday to a Monday, which got some schedules out of whack, and I appreciate that. So, Catherine I tend to default to you to run the meeting as we move ahead. Do you have the agenda handy? You're on mute so you'll need to unmute.

Trustee MacLeod: Sam, you cut out at the last minute. I didn't hear what you asked me.

Director Hutchison: I was asking you since Margaret's not here yet if you could run the meeting.

Trustee MacLeod: I can do that. It looks like our first agenda item is approval of the minutes. Is that correct? If so, do any of the trustees have any comments or suggested changes to the prior minutes? Okay, could I have a motion to accept the minutes as prepared?

Trustee MacLowry: I'll make a motion.

Trustee MacLeod: Anyone second?

Trustee Huang: I'll second.

Trustee MacLeod: Alright, all those who approve say aye.

Trustee MacLowry: Aye.

Trustee MacLeod: Aye.

Trustee Kulp: Aye.

Trustee Huang: Aye.

Trustee MacLeod: Opposed? Okay, the minutes are approved as written. Next up is introduction of visitors. So are there any visitors, and I'm not present in the meeting, so it's difficult for me to see. Sam, can you let me know?

Director Hutchison: We have some visitors here. Stacy, do you want to introduce the visitors that will come in later?

Stacy Jones: Today with us, I don't know if anyone can see us, but they'll be introduced later. We have Scott Preppernau and Gary Deeth from Milliman here today to present to the board.

Director Hutchison: Del Stevens is here, Retiree. Do you want to say anything before you come up and speak?

Del Stevens: I'll save it.

Lorne Dauenhauer: I'm Lorne Dauenhauer, Outside Legal Counsel.

Director Hutchison: And Kevin Machiz, you'll be speaking here later, too. We also have Franco Lucchin here, our attorney who's remote, and Kim Mitchell our Disability Manager, she's also remote. You heard from Stacy, she's here in person. So, there we go with the introductions.

Trustee MacLeod: It sounds like we're up to the public comment period and we have somebody speaking, Lisa Knight. Is that correct?

Julie Hall: That's correct. When you're ready, you can unmute yourself and talk.

Lisa Knight: Can you hear me okay?

Trustee MacLeod: Yes.

PUBLIC COMMENT PERIOD

Lisa Knight: Real quick, I just wanted to go over how they changed in PERS at the state level in 2021 language basically stating for same-sex marriage, and how we can change it to FPDR, because as of right now it says "spouse", and even though at the federal level it is legal and they passed the respect for marriage act, I want it changed for FPDR because I also had abortion rights for 50 years and that's been taken away. So, I don't trust it to not go away and if I die after I retire, I'd really love it if my wife got my pension, which is what she's entitled to. So, I looked up, I'm working with State Representative Dacia Grayber, who also a Tualatin Valley firefighter, and I believe it's under senate bill 111 in section 10(1)(a). I'm not a lawyer, so I could be wrong on this, but basically it says, let me find it again. It doesn't specify spouse necessarily. It shall be paid to the beneficiaries designated under ORS 238.390. So, I went to that, and basically that specifies, and this is all for PERS, which I am not on because I am FPDR, but for this purpose a member may designate as a beneficiary any person, or the executor, or administrator of the estate of the member, or a trustee named by the member to execute in express trust and amounts deal with pension, etc. So that's basically my question, how do we change that and how can I be of help to change that if we can for FPDR?

Trustee MacLeod: Okay, thank you. Any comment, Sam, you want to make at this point?

Director Hutchison: Yes, I got to push my unmute button, I apologize. Lisa, I want to thank you very much for sharing this with us. I have a different provision in PERS that passed in 2021 that I think is more pertinent to the language which you have. I'll read this one section from ORS 238 A.230. It specifically says the death benefit to be paid under this section shall be paid for the life of the spouse, and under the section is the PERS death benefit, for the life of the spouse, former spouse, and the language they added was, "or other person who is constitutionally required to be treated in the same manner as a spouse." I think that's a little more direct than the other one that you had, Lisa. So, this is what they have for PERS statute. And a couple things here, I did talk with our attorneys and PERS about this, and PERS says right now, and we agree with that at FPDR and so do the city attorneys, same-sex marriage is protected today under Oregon statutes and under federal statutes, so there's no issue at this point. I think the concern that people have is, should the Supreme Court overturn their prior decision on Obergefell, if I'm pronouncing that right, the 14th amendment that protects same-sex marriages. Should the Supreme Court change that, the challenge becomes what are they changing it to, how are they changing it, and who does it impact? Does it impact at the state level or the federal level? We are an IRS 401-A approved pension plan. we have to pay attention to what the IRS allows to do, and presently the IRS recognizes same-sex marriage under their part of the IRS code.

So, the challenge we have should the Supreme Court do this is we don't know what impact it's going to have on FPDR. We don't know if the wording I read you will uphold or be enough to hold it, because the argument here says constitutionally required. If the federal government says it's not constitutionally required, what does it do to this phrase?

I've spent some time with Franco Lucchin on this and we don't know when it's going to happen. There are no cases that we're aware of working their way through the courts that are against same-sex marriage. When it does hit the Supreme Court, which we think maybe two or three years at the earliest, unless there's some emergency thing happens before then, and then we have to read what their decision is, and then that decision is going to have to ripple down through to the IRS, and ripple down through to Oregon, and it gets pretty crazy, because Oregon still in their constitution, even though it was overturned by a federal judge, still says "man and woman" as a definition of marriage.

So, all of this gets really complicated, depending on what the Supreme Court does, and we don't know what they're going to do or when they're going to do it. But we want to assure Lisa Knight and everybody else in same-sex marriages that they protected today under the state and federal statutes and will continue to be so until the Supreme Court renders a decision. And we don't know when that's going to be and we don't know what the decisions are going to be, the ramifications or that impact. When I heard that Lisa Knight wanted to talk about this, I did a lot of research. What is there we can do and how do we do it? Because right now, we're saying spouse is fully protected. We just don't know what's going to happen at the Supreme Court level. So again, Lisa, I'm not downplaying any of this. I understand your concern. There's a lot of our members that probably have the same concern. I just don't know and neither does the attorney know what we can do to preempt a Supreme Court decision, because we don't know what Supreme Court decision is going to be.

Lisa Knight: Okay.

Director Hutchison: I feel I'm being Mr. Negative, Lisa, and I really don't mean to be. But also we could look at how we change this. Would this require a charter change or administrative rule change? So, we can look at that. I just leave that comment back to Lisa, if you want to talk some more, or anybody else. I'll turn it back over to Catherine.

Lisa Knight: I was just going to say thank you for your time. I just wanted it to be known this is a thing that could very well happen and affect a lot of our members, and I didn't know how to go about I guess making it solid to where I don't have to worry about it, but it does sound like I'm going to have to always have it in the back of my mind, if and when the Supreme Court decides to overturn same-sex marriage. So, I guess we'll just wait.

Director Hutchison: Yes.

Trustee Huang: Sam, just to confirm are you suggesting the city attorney is at this point recommending we do more due diligence around the charter and then see what we can or can't do to make the language more consistent with the Oregon statute that you just referenced?

Director Hutchison: I've already done some preliminary talking with the city attorney's office. if that's something you'd like to do to see if there's any way or bring language similar to this in the FPDR, I can continue that discussion. I don't know if it has to be at the charter level. Obviously, that lends to a lot of complexity. If it could be done at the administrative rule level, that's up to you to do it. If you want to, I could put that on a list and I could meet with Franco and other attorneys and see what we can do.

Trustee Huang: I don't see necessarily a downside to revising the language to be more consistent with state statute. So, to the extent that the Supreme Court strikes or makes any changes in this space, at least the state statute would be updated and impact the language here as well, but certainly I'll defer to the other trustees to see what their thoughts are.

Trustee MacLowry: I'd agree I'd like you to continue your conversations with legal. I spoke to Lisa about this a little bit as well and I did a little bit of reading and I believe the current charter language just refers back to the state language and if we could beef up, strengthen the charter language, I think that's something that would at least be helpful. It seems like it would be helpful and something that would be I think appreciated and if it's stronger, that would be a gesture well-received.

Director Hutchison: We'll take a look. In order to get some direction on this, I just need a motion so to speak, so we have the whole board giving us direction that you want me to work with the City Attorney's office and look into this language further and for the FPDR plan.

Trustee Huang: Sure, a motion that we –

Director Hutchison: Catherine, I'm jumping into your purview of doing it?

Trustee MacLeod: No, I appreciate that. I was wondering if we needed that as, so I'll entertain a motion.

Trustee Huang: I motion that we speak with the city attorney further for guidance to see if we can make the language and charter more consistent with the state statute and what we would need to consider before making the change in our charter.

Trustee MacLowry: I second.

Trustee MacLeod: all those in favor say aye.

Trustee MacLowry: Aye.

Trustee Huang: Aye.

Trustee MacLeod: Aye.

Trustee Kulp: Aye.

Trustee MacLeod: Opposed? Motion carries, thank you.

Director Hutchison: Thank you. We'll work on that, and I'll work with Chair Carter to determine when a good time is to bring it up to you all. It will take us a bit of time. I don't know if we'll have it ready by March but maybe give you an update on that point and go from there. Thank you very much.

Trustee MacLeod: Thank you, Lisa.

Director Hutchison: Thank you for bringing this forward to us.

Lisa Knight: Thanks for listening. I appreciate you all and thanks again.

Trustee MacLeod: That brings us to in-person public comments and Mr. Stevens?

Director Hutchison: Del, you're up.

Julie Hall: Thank you for coming. You have three minutes for public comment and there will be a timer that you can watch, and you'll hear a beep when you have one minute left.

Del Stevens: I'd like to start off by saying the acoustics are not receptive to people testifying, and I missed almost everything that was said. I'll try to watch the video later, but I might have wanted to respond, if I could have heard any progress.

Director Hutchison: Just a moment, Del. There you go.

Del Stevens: Is that better? Can you hear me better? I hope so. I'd like to start out by saying I was a Portland firefighter for 35 years, and I cared very much about the city, and its functioning and its employees and their benefits. I became active because I knew that our original pension system, it was called the old plan, was inadequate. It didn't meet the needs of the members and did not meet the needs of the members' widows.

In 1989, we started a process of pension reform. That's a long time ago now, and probably a lot of the people that are here now were hired after that. So, I guess I'm a link with the past, but I would tell you that I've tried to stay current, and I've tried to stay involved, because there's issues of equity involved, and the city now is more concerned with equity than it ever has been, and I think you're all aware of that. We spent a year in that task force, the mayor's task force working on our pension, trying to arrive at a fair balance between the needs of the members and the obligation of the city. And it was quite a process, it lasted a year. At the end of that process, I was not satisfied that we had reached our goal, and the events later on have shown that to be true. At the time we all voted to accept the task force recommendation, and I was the only one that objected to the fact that we had not reached the goal that was set for us. And I said I will reluctantly vote for this, but I don't believe that it addresses the needs and the concerns of our people. Well, there's a number of people that I have stayed in touch with over the years, and I know that our disabled people and our retired people, you know, they have as much need for justice and for good benefits as the people working, and it's been neglected. It really has. I wish I could tell you all the experiences that I've had. I've had a lot, and I didn't want to get involved in a lot of technicalities today.

I have three issues that I think need to be addressed, and I wanted to start out with, by asking, I thought we had five trustees on the pension board, and I thought a quorum was three. I see you're voting on issues that probably should be held over.

Director Hutchison: They're here remotely. Catherine MacLeod and Christopher Kulp are remote.

Del Stevens: Thank you, Sam. I'm glad we have representation, that's important. About three years ago, we had started a process of reviewing at the pension benefits we have as are constituted now and we decided to form a committee. I was still involved at that time. I'd been retired a long time, but I was still there, and we actually got to the point of putting people's names on the committee. And I don't know if anybody here remembers that, but it would appear to me that the committee idea went away because of the covid, and the fact that we couldn't meet together personally. So, there's been no committee, and I would really like to start by saying the need is still there. That committee needs to be reauthorized. it needs to be constituted with people that are serious and committed to looking at improvements, and then we need to listen to the recommendations that come back from that committee. I'm getting old now. I'm not maybe as sharp as I once was, but I've still got the motivation to see things like this through, and I know several people who are disabled that would like to serve on that committee, and that's one thing I want to do. The first thing here is I want to ask the pension board to reconstitute that committee and solicit informed and involved and caring people to be on that committee, from the fire and the police department. Now, I don't know, do you two trustees represent the fire and police?

Trustee MacLowry: I represent Fire.

Del Stevens: Ok, Kyle MacLowry.

Trustee Huang: I'm a citizen trustee.

Julie Hall: Also present on the call is Christopher Kulp, the Police Trustee and Catherine MacLeod, a Citizen Trustee. Unfortunately, you're out of time. Can we hear the other two issues that you brought up today? I think the first one we heard was that you wanted to reconstitute a committee. What were the other two issues?

Del Stevens: The other two, I'll try to be brief. Resolution 501, and this goes back several years, dealt with changing our disability system, and at that time, Mr. Hutchison, and please don't think I'm being personal, because I'm not. I'm just trying to get the facts out, okay? We removed the language of disability retirement from our pension system, and I'll tell you that was a mistake, because it's still in the state law. And I can read it to you. well, I've got it right here. I'll just open up one of these packets. By the way, I prepared them for the trustees and for the civilian trustees and also for the staff. I've got several other documents here that I was going to refer to. Okay, here's the state law, the current state law that the city is actually in violation of. "the public employees retirement plan or plans must provide at least 80% of the actuarial present value of projected retirement benefits in each of the major categories of retirement benefits available under PERS, namely a service retirement benefit including post-retirement health care and a disability retirement benefit also including post-retirement health care." We don't have a disability retirement anymore. It's gone. and we've lost the benefits when that wording was taken out of our charter. And that's another thing that I would like to speak to. That charter that changed our pension, that charter had been passed by the people. It was voted on by the people. It was changed, unless I'm mistaken, internally by changing the rules. Am I right, Sam?

Director Hutchison: Okay, Resolution 501 was to clean up a rule that referred to a term "disability pension". There has never been a disability pension in the Charter since at least 1990. I don't think there was one before. It was referring to a benefit that did not exist, so we had it removed from one Administrative Rule. It did not change practices; it did not change anything. So that was not a Charter change, it was not a Plan change. It was a clean-up of an Administrative Rule, so it complied with the Charter.

Now, the reference that he's making here I think is going toward the ETOB test, equal to or better than test. Margaret Carter and I are discussing having an ETOB session at the next board meeting in March. At that point I hope we get one of the actuaries that did the ETOB test for PERS, that did our test under that plan, and then also potentially if I can get a PERS representative that's an expert of the ETOB test. Just a quick thing, ETOB test is run and operated by PERS. it's not run and operated by FPDR. The only input we have for the ETOB test is to give them the data they want. We're totally independent from it. So, next meeting if we can get some presenters to talk about what the ETOB test is about, how it's run and how it meets all the state statutes and administrative rules that apply to that test.

Julie Hall: Thank you, Sam. Mr. Stevens, if we could hear your third point. You are out of time, so I'd love to hear your third point and then we do need to move on. Thank you, sir.

Del Stevens: I have one more.

Julie Hall: Let's hear your third one, thank you.

Del Stevens: Alright. Well, I've already read the state law, and that is still in effect. It hasn't been changed and the wording is still there. My retirement is a disability retirement, and it says it right on the top of my page. In my way of thinking that conforms to the State law, and we should not have abandoned that. I'm going to pass out these documents that I brought with me, and one of them that I do want to point out. Does Nancy Hartline still work for the pension board?

Director Hutchison: No.

Del Stevens: Okay, well she wrote a letter to the Board of Trustees, and this is about the tax reporting of our two service-connected death-upon-retirement benefits. And I researched that because the widows were paying taxes on their disability retirement. And they found out that I was right. And they went through a process, they changed their Administrative Rules, and now the widows are receiving a tax-free benefit, just like the member was when he was off on disability. So, I'm just showing that there ought to be some credibility to this process that, people don't always do things right. And not that I'm saying anybody did anything deliberately, they just overlooked things, but it's happened. I have a number of friends who are suffering now. Our economy in this country is in a state of flux. 9.5% inflation. People who are disabled and trying to make a life for themselves, along with the problems that come with old age, they're struggling now. And the pension board can address this, it's something that's within our power to do. And I really ask you from the bottom of my heart to think of these people that have given their lives to the city and are struggling now because their benefits have shrunken. Beyond that - that letter that I'm passing out, Nancy Hartline actually thanked me in the letter for addressing that issue and pointing it out. And I'm trying to do the same thing now, and I hope that you're going to follow through and establish a committee and let the committee address these issues, and let them take them wherever it goes, and find out what is fair and what is legal, because it's not legal now. Thank you.

Trustee MacLeod: Thank you, Mr. Stevens.

Julie Hall: Thank you Mr. Stevens. If you give me the packets, I'll be sure to get those to the trustees.

Trustee MacLeod: It's my understanding the next public comment is going to follow the first action item, is that correct?

Julie Hall: Correct.

Del Stevens: Oh, and by the way. The city of Portland Fire and Police Disability and Retirement Fund has a statement of values, and I'll quote one statement out of there. The statement of value is, "we are committed to diversity and equity in all areas of our operation." Thank you.

Trustee MacLeod: Thank you. I will make a general comment, that I recollect what Mr. Stevens was referring to. I think the last time the ETOB test was presented to the board, we had some discussion of it. I won't go into particulars here, but I think a conclusion of that was that we had thought that a working session to just kind of flesh out where the ETOB test is essentially immaterial because it's a state-prescribed test. There's nothing that FPDR plan can do to change or influence that particular defined test, but if there are concerns about disability benefits in particular, I think we also left it that disability retirement was kind of a concept in name. the benefits can be provided whether or not they're labeled "disability benefits". But without going into particulars here, I recollect that we had thought that perhaps just a working session might be in order. You know, it may take two or three sessions just to try and get clarity on what the issues were, what the concerns were to see if it merited taking any specific, unique action for the FPDR plan. So, I just wanted to leave it at that, acknowledging that that had been an intent several years ago but with covid, that certainly got cast aside, and if we can perhaps next month talk about further, whether or not we could possibly resurrect that.

Del Stevens: If I may say one thing back. I hope that you will support the reconstitution of our committee to look at pension benefits and reform, because that's where it's got to start. Individuals can speak up, but they're not given the credibility that they should be, and it takes a committee with some power and force behind it and credibility, and now is the time.

Trustee MacLeod: Okay, thank you very much, sir. Sam, am I correct that Mr. Machiz's comments are to follow action item one?

Director Hutchison: That's correct, his comments were appropriate to follow this presentation. We'll ask him to come up during the public time after this one.

Trustee MacLeod: Ok, then I think we're ready for the actuarial evaluation and levy adequacy analysis.

ACTION ITEM NO. 1 – ACTUARIAL VALUATION AND LEVY ADEQUACY ANALYSIS

Stacy Jones: Greetings trustees and everyone else. For the record I'm Stacy Jones. I'm the Deputy Director but I'm also the Pension and Finance Manager here at the fund and I'm here just to introduce Scott Preppernau and Gary Deeth, who are from Milliman. They're two of the three actuaries we contract with to do our legally-required biannual plan evaluation, which we use exclusively for financial reporting purposes, but we also ask them to stress test our tax levy every two years, since that is our almost exclusively primary funding source. So, they're here to go through that presentation today and answer any questions you may have. I'll turn it over to them.

Scott Preppernau: Can everyone hear me okay, first of all? If we could advance to the first slide. So as Stacy mentioned, we completed both our biannual actuarial evaluation and the accompanying levy adequacy modeling that we do. We'll get through the details of it in this presentation, and there's a separate full written report of valuation that's in the board materials, so happy to answer on either or both throughout the presentation. In general, the levy adequacy is really meant to be used by interested parties to looks at the magnitude of future potential levy requirements under different assumptions, and we'll show the details of that. If we could move to the next slide.

We last did this two years ago. There are no real material changes to the benefit provisions since our prior work. There are a limited number of assumption changes. When we last did this, it also coincided with the year that we did what's called an experience study, which is an actuarial term for the process of looking at the assumptions to see if they were still fit and updated where they need be. That's usually done best practice through a public pension plan every five to ten years. We didn't do another one of those this time. So, most of the assumptions kind of carry forward from two years ago, but a few key ones are updated. The discount rate, which is really tied to a market bond index as you'll hear in a moment, that gets updated. That affects the results of the present values in our valuation. It doesn't really affect the levy adequacy modeling or the results out of that. We did make a small update to the mortality assumption because the trustees chose two years ago to continue linking this mortality assumption to what PERS does for their police and fire members since that's a much larger, more credible pool to kind of base mortality experience on, which requires a large number to get kind of an appropriate signal for experience on something like mortality. So, that affects both the valuation and the modeling. The update to the real market value, so both what's happened in the last two years to the real market value that goes into the levy, and forward-looking assumptions based on input from the city economist are updated and affect the levy results. It doesn't really affect the valuation. There are more details we'll cover in a little bit but those are the key changes since last time. Next slide, thank you.

In a moment I'll turn it over to Gary to walk through the details of the valuation. As Stacy mentioned, this valuation is really used for the starting point for financial reporting for the city. The June 30, 2022, valuation we completed will be rolled forward or updated to later financial reporting dates, June 30, 2023, and 2024, so this provides the starting point for two years of financial reporting. Unlike most pension plans, the actuarial valuation that we produce for FPDR is not for determining the contribution rate to pre-fund the plan, just given the nature of the pay-as-you-go benefits for the FPDR program under consideration here, it doesn't do that. And so that's both why we use kind of the assumptions that we use and why this has a pretty limited impact on the financial reporting and not on prefunding the system. So, before we get to the end of this, just to kind of summarize big picture, you'll see as we get through, the verdict hasn't changed much since two years ago. So projected benefit payments are pretty similar, the present value of those is quite different, just because the discount rate has changed, and you'll see the effect of that, but the levy adequacy modeling that we'll get to the end, the verdict is still very unlikely that the $2.80 threshold will be violated in the scenarios, given kind of the levers and the moving parts in the modeling. Next slide.

So, by its nature, evaluation is very long-term. So, if you think about it, we're projecting benefits that include current active employees who may work for another 15, 20 years, retire, live 30, 40 years in retirement, so it's very long projection of benefit payments. Assumptions are key to that process. As noted here, the current kind of monthly benefit payments tied into this are about $12 million to $13 million per month, and we project that to increase for the next 14 years in our model, and then ultimately start a slow, gradual decline once all FPDR 2 members are retired essentially. But since it is so long-term, the results are highly dependent on the assumptions that are used in the model, and Gary will walk through the details of that and the final results of the valuation.

Gary Deeth: Could we go to the next slide, please? As Scott covered, we updated the discount rate and mortality. The one other relatively minor assumption is the 27-pay-period adjustment. You may well be aware, the way that the plan works, you look at the 365 days before retirement to come up with the final pay, and depending which month you retire in, that could include 27 pay periods or 26. So we looked at recent experience for how many people are retiring in the 27-pay-period eligible month, which happens relatively infrequently but members are aware of the benefits of retiring in those months, and we updated that to reflect recent experience. On the next slide, we have a bit more detail on that.

So here we have a little bit more detail in the assumptions. You can see the discount rate is tied to a 20-year government bond index, which has moved up and down a bit over the past several years. So, for this valuation, we're at 3.54%, which is quite a bit higher than what we had for the valuation two years ago at 2.21%. So, the impact of an increase in the discount rate is going to be a pretty significant decrease in the present value of liabilities. It doesn't affect the actual cost of the plan really. It's just how the costs are reflected in your GASB reporting. The mortality as Scott mentioned was a minor update just to stay consistent with PERS Police and Fire assumptions, and the 27-pay-period update was we looked and saw about 78% of retirements in the last six years have been in the favorable 27-pay-period months. Our previous assumption was about 65% would occur in those months so we updated that to 75% to get it closer to recent experience without overshooting it. Next slide.

Trustee MacLeod: Yes, can I interrupt just briefly? Would you prefer that we took questions at the end, or should we interrupt you?

Gary Deeth: You're welcome to interrupt with questions.

Trustee MacLeod: Just a quick one, before we leave. Assumption changes, if you could update us on the current inflation assumption. It's been on everyone's mind; the inflation assumption affects the results and other assumptions. Just remind us of what it is and why the change was made to that.

Gary Deeth: That’s a good question. Currently the inflation assumption is 2.25%, which seems strange with it being so high in the last couple of years. But it's intended to be a long-term assumption. So, we still think that that is a reasonable assumption. There are a range of different numbers you could use for that, that would still be reasonable, but we stuck with the assumptions developed in the experience study two years ago.

Trustee MacLeod: Thank you. Are you aware also, is this consistent with the Oregon PERS assumption?

Gary Deeth: Oregon PERS inflation assumption is 2.4%. It's a little higher.

Trustee MacLeod: But still close generally speaking?

Scott Preppernau: Right. And one more point, two years ago when that was updated, part of the rationale was that’s pretty consistent with a long-term fed target of about 2% on their measure translates to something like 2.25% on a CPI measure. So, it was reasonable at the time, still reasonable long-term even though recent inflation has certainly been higher. There are differing opinions about what that's going to mean in the future, but actual effects of recent inflation being higher on benefits and pay and what's come through in the last two years is already reflected in the data and this is a forward-looking assumption, that no one is expecting to be accurate for the next year or two years, but long-term is still reasonable for the purpose of modeling.

Trustee MacLeod: Thank you.

Gary Deeth: As Scott mentioned, benefit provisions, there were no significant changes there. There was a minor item with an arbitration ruling that non-represented members would get the benefits of the 27-pay-period adjustment. That had a small impact but no major planned provision changes. What we had assumed for the COLAs also stayed the same. We did see that the board had chosen 2% COLAs for each of the last two years, whereas the assumption is 2% COLA on pre-October 2013, service and 1.75% beyond that. The long-term assumption, as far as we know, is still reasonable. If the board has direction to update that, we would be happy to but overall, we haven't seen updating that all the way to 2% would have a really material impact on the results and as it stands, is seems like a reasonable approximation of the average experience we've had, where in the recent three or four years it's generally been around 2% or 2%/1.75% and several years before that it was 2% for 2013 before service and 1.25% for the service after that date.

Trustee MacLeod: Thank you. I will stop you here just to mention the other trustees here to see if anyone has any concerns about that. I do agree, I mean I understand what you're saying, the difference in the long-term projected value benefits would be pretty modest to apply just a flat 2% COLA increase. I would assume it would be fairly modest. Since you were saying if we had some interest in it, so I want to open it up to other trustees to see or to reflect on that during the course of the presentation here and discuss at the end whether or not that's something that you feel strongly about one way or the other.

Gary Deeth: The liabilities that we come up with are the present value of the future projected benefit payments. We'll see in a couple slides after this, projected benefit payments are similar to how they were measured two years ago but the liability as Scott mentioned has changed pretty significantly. That's just because of the discount rate. That's just the basis that the plan uses for GASB reporting purposes because the plan is not prefunded. We also use a cost allocation method to reflect how members accrue liabilities or accrue benefits over time. So, if a member is going to work for 30 years and a member is currently 15 years into their career, roughly half of the liability would have at 30 years is reflected as of the current year, and then a portion will be attributed to the next year, which is called the normal cost and there will be a few more portions for the next several years of assumed service. So, we end up with an accrued liability, which is the amount assigned to all past years of service, and normal cost which is the upcoming year, and then for inactive members, all of their liability is recognized in the accrued liability.

Next slide, please. Here we have the model projected benefit payments. For the current valuation they're shown in green bars and the prior valuation is the dotted black line, which is almost exactly the same. There was very slight increase, which is what you'd expect to see as new members enter the plan. They are reflected in the valuation. The valuation only reflects people who are in the plan as of the valuation date. For FPDR, people who joined the plan are in FPDR 3, where most of their benefits are covered by Oregon PERS, so they have a relatively modest effect on the future expected benefit payments. So, this is basically what we would expect to see, and yes, we have benefit payments increasing for about 14 years, decreasing thereafter.

On the next slide, we have the same information, but inflation adjusted. So, this is showing the expected future benefit payments in terms of 2022 dollars, so just reflecting that a dollar today is going to be worth more than $1 next year or the year after because of the effects of inflation. Next slide, please.

Okay, so the results of the valuation. The previous valuation was measured 2.21%, current valuation measured at 3.54%. You can see the impact there on the accrued liability and the normal cost is fairly noticeable, whereas the projected base pay for the next year, that's not affected by the discount rate, so that number increased slightly which is what we'd expect to see. The next slide has a reconciliation of the liability between the two valuations. So, the first line item there is the expected increase. So that would mostly come from the normal cost, the amount assigned to the two years of service for each active member, along with the effects of interest as the benefit payments that are projected to be paid in the future become closer to the current date. Those amounts will have a higher impact on liabilities, and then that will be offset by removing the benefit payments of the last two years. So, the net impact of those three items is the $124 million increase there Then the discount rate is by far the largest line item, so it decreased the liability significantly because the interest rate went up significantly. And then we have more modest changes there for the mortality assumption update, the 27-pay-period update, and the last couple of items there are experience gain/loss items. So that is comparing where we expected the liabilities to be at this valuation date based on the prior valuation, versus where they are now. And so, for the most part, the results followed what we were expecting. The pay increases for continuing active employees were higher than we were expecting, so that increased the liabilities by the $63.9 million there. And then there were a number of other very minor items that in combination increased it by another $25.9 million. I do want to emphasize, the salary item there is for continuing active employees. So, you saw in the prior slide that the actual increase in overall payroll was pretty modest, and that's because the head count, the number of active members decreased. So even though there was a loss on salary of continuing actives, the number of actives who went out had an offsetting impact. Next slide.

Scott Preppernau: I'll pause for a second in case there are any other questions about the valuation before we move on to the kind of forward-looking modeling.

Trustee Kulp: One quick question. On the assumption for mortality, what does that 16 represent?

Gary Deeth: What is the 16? So yes, good question. So, there was a small increase in liabilities for the updates on our mortality assumption, which I realize probably seems a bit strange, because with covid the last couple of years mortality rates have been higher. The reason for that is that the mortality assumption is tied to an assumption set by Oregon PERS, which would last have been updated based on experience through the end of 2020, and Oregon PERS uses for its projection of future mortality improvement data from the Social Security Administration, which would have gone through 2017 for that. The reason for that is just it takes a long time to get a good measure of the rates at which mortality or longevity will increase in the future. So basically, we're seeing a lag effect there, even though you might expect that since there were more deaths, maybe the mortality would have the opposite impact. To the extent that there were more deaths in the last two years, those are reflected in the liabilities and that would be one of the items in the experience gain or loss, of which there were many that offset things in different directions.

Trustee MacLeod: Can I translate what you said there to be that the change in the mortality assumption is for what we expect in the future?

Gary Deeth: Yes.

Trustee MacLeod: Whereas in the plan experience, where it was favorable meaning a reduction of liability, that would have reflected in part higher than expected mortality during the covid years.

Gary Deeth: Yes. The one extra wrinkle there is that overall, mortality rates were higher than expected. So, for the members who did actually die, that would reduce liabilities. We did actually see that overall, there was a small increase in liabilities from mortality experience, which is because the deaths that occurred were mostly at higher ages where the expected future benefit payments are much lower than say somebody who is age 60. So, we saw there were slightly fewer deaths than expected at the early ages, and definitely more deaths than expected at the later ages. So, the net impact on the present value of benefits basis was a slight negative experience there, whereas you would expect favorable experience from a plan perspective.

Scott Preppernau: To echo your point, all of that experience is all baked into the data, the measurement and what we're showing with the 16 is forward-looking, as Trustee MacLeod indicated, and it's very much an open question what if any long-term effects on mortality and future mortality improvement will come out of the covid pandemic, and it's so much so that The Society of Actuaries who studies this every year, they've kind of punted on it right now and said we need to wait and see as data emerges. So that's not explicitly reflected going forward and there's kind of arguments for it moving the needle a little bit one way or the other.

Trustee MacLeod: Thank you. I did have a separate question well, maybe these are unrelated because again, one is experience and one is an assumption change. I was trying to determine how salary changes were going to impact the 27-pay-period assumption? Those seem kind of integrated in a way. The higher the payroll increases, the more the 27-pay-period assumption gets leveraged. So just curious.

Gary Deeth: Those assumptions, they're effectively multiplicative with each other to the extent that salary increases were higher than expected, it's going to multiply the benefit into the extent that we expect the 27-pay-period to be taken more frequently, it's going to multiply the benefit. Overall, you can look at the effects independently because they're not necessarily going to change behavior, or at least we're not modeling there's going to be a change in behavior. But yes, the two impacts do multiply so there is leveraging there.

Trustee MacLeod: Okay, thank you. Any other questions from any of the other trustees before we go on to the levy analysis?

Scott Preppernau: As we move into the levy analysis, ultimately our model has really two big categories of costs that come through in this modeling. One is the pay-as-you-go cost subcomponent as we call it here, and that's really the FPDR 1 and 2 benefits, FPDR 3 death disability and disability related medical benefits, along with the administrative of a and operating expenses for the program. The pre-funded piece is the FPDR 3 charge on FPDR 3 payroll for their participation in Oregon PERS OPSRP tier. That piece has its own moving parts. We talked a lot in the valuation about the moving parts in FPDR. Oregon PERS has its own complexities, but the costs there are a really variable piece that gets set based on assumptions adopted by the PERS board, based on the experience of Oregon PERS including most notably investment return on the Oregon PERS fund. So that's the variable piece, and then also in here is 9% of payroll contribution to the account-based individual account program, IEP in Oregon PERS. So those are the underlying pieces that we'll be modeling here. Next slide, please.

So, during this projection period that we're looking at, we are continuing the transition from the active population being FPDR 2 to FPDR 3. Right now, I think at the valuation day, payroll was roughly 50/50 between those two tiers. So, during this period, the levy is really funding two generations simultaneously. FPDR 1 and 2 members are funded on a pay-as-you-go basis during the retirement years, so that's going to extend through this projection period and beyond, and then you're pre-funding FPDR 3 for their participation in OPSRP. As noted, the disability administration costs are also pay-as-you-going. So, as we see here, and we've seen for prior iterations of this modeling, higher levies and near-term costs are just part of transitioning from a pay-as-you-go system to a pre-funded system. Next slide, please.

Putting one more point on that, the 2006 charter reform that created this transition from FPDR 2 to FPDR 3 changed a few things and what's shown in the blue box is what we refer to as the fundamental cost equation for a pension plan where the cost of a plan is equal to the benefits that are paid, plus the administrative expenses, and then offset by any investment earnings that come from pre-funding the plan. So, when the 2006 charter reform happened, it created an FPDR 3 level of benefits, which is a group with a lower benefit amount, and created the prospect of investment earnings by pre-funding in Oregon PERS. So, both of those things long-term will reduce the cost of the benefits provided, since lower benefits for a new tier and by pre-funding getting investment earnings to help pay part of those benefits. But the time frame over which this happens is the way it was designed, and it's quite slow. It's as new interns come in and is over multiple generations, so those cost savings do accrue very slowly, and we see in the modeling you have higher cost for a period here and then eventually we'll have lower costs. Next slide, please.

Okay, now before we get into the details of the model and the results, it's helpful to bear in mind what a model is and isn't in this case. We can't quantify everything that could possibly happen, but we are focused on the big factors that drive levy variability and the main two are called out here. Changes in the real market value on Portland properties that deviate from the baseline forecast, and then the other big piece of volatility you'll see is what Oregon PERS earns on their investment portfolio. That affects the cost of OPSRP and the FPDR 3 pre-funded part of the benefit. It does work in that several of our scenarios, there's a linkage here you can have scenarios where both of those work against you, both of those work for you in terms of the cost of the plan. And that's built into our model with sort of the correlation between the moving pieces here. Next slide, please.

The starting point for our model is our valuation. Everything we just discussed in the prior section here that all underlies it and then the RMV value provided by the city of about $178.5 billion as of the start of 2022, which was used for the 22-23 fiscal year requests, and then importantly our starting point for growth in that RMV value was informed by the city economist and we actually assumed zero percent for the first year, which isn't fully known yet but is largely baked at the point so assuming zero percent. Then for each year after that, we're going to assume across these 10,000 scenarios that we model a big variety, but they're going to be centered around a median expectation provided by the city economist. So, 2% for the first year, and then 4% is that center point for every other year in the model with significant variation underlying around that. For Oregon PERS, we reflected here for 2022 an estimated year-end return of -0.70%, so a loss for the year, which was the published number at the end of November. It was most recently available at the time we were working with this. We also have variability for all future years for the Oregon PERS return that are centered around a 6.9% long-term assumption on average but have individual years that are well double digits or negative double digits. It's the same kind of model that Oregon PERS uses for their financial modeling on a similar basis. Next slide, please.

As I said, we reflect 10,000 scenarios so you will not see 10,000 different lines on these upcoming charts, but we stacked these in candlestick or box and whisker charts, and I'll spend a moment to explain when we get to them. Next slide.

And then lastly, while we reflect kind of the big movers that we expect to be determining the costs and the levy over this projection period, there are certain things we don't model, including what if property tax law changes and all this kind of shifts one way or another. That's outside the model. What if Oregon PERS benefits or PERS assumptions change? What about certain intricacies in the way compression or delinquency may change over time. Those kinds of things would revise the model but are not built into it. Next slide.

The first actual results we'll see here are the pay-as-you-go costs subcomponent and while it's hard to see at this, this is actually a stacked kind of candlestick chart that show from the fifth percentile and 95th percentile and that the black dot is the median. The reason it's hard to see, there's not that much variability on this piece of the puzzle. The pay-as-you-go costs are predictable. They start at the median dot just under $160 million and the median ends at about $240 million at the end of the projection period. These are the costs for paying the FPDR 1, 2, and 3 benefits that are pay-as-you-go, not the prefunded piece.

Move on to the next slide. This is the pre-funded cost subcomponent that reflects the OPSRP benefits for FPDR 3. These start at $31 million at the first year here and grow over time as FPDR 3 becomes a bigger and bigger a part of the payroll and ultimately is really 100% of the payroll by the end of this modeling period. There's much more dispersion here, because there's volatility associated with the Oregon PERS investment returns that could produce higher or lower returns depending on whether the plan averages something like a 2% return over the next 20 years or something like a 10%, so there's quite a bit of range built into what's shown here. And again, here it's more visible to illustrate the point that the black dots are the median. The top of the little blue bars there are the 90th percentile and the 10th at the bottom and the little wicks above it are another 5%. Even so, this isn't showing every single result out of the model. There's 5% above or below in a given year that are outside of what's shown. Next slide, please.

Total requirements, this is our term for adding those two pieces together. So, I won't spend a lot of time on this but that's the combined shape and you can see where it gets to. It starts $190 million at the median, is near $360 million at the end of this period. Next slide. Those total requirements, we do actually adjust those before we turn these into an RMV amount, and this is where some of the details of the levy come into it and the input from both Stacy and the city economist. There was a decrease to this amount to account for other revenue sources, there's an increase for kind of a net effect of discounts and delinquencies, and an increase for tax compression. All those are things where we got input from the people who know about those things, so that's built in here, and that creates our final levy as a dollar amount. The net effect, it's detailed in the appendix, but the net effect is that, for any given year there's a 7.2% and a 7.7% upward load on those requirements to get to the amount that are going to go into the levy essentially, to account for those. Next slide.

This is that final dollar amount reflecting the compression adjustments and so on, and so a little bit higher than the slide from a couple slides ago, but same general pattern, same general picture. Next slide, please. So then to convert that into the RMV rate, we have an underlying projection of what real market values have grown during this period, and we're going to compare that and particularly take interest in how this compares to the $2.80 per $1,000 limit in the charter. The RMV levels do vary significantly within our model, and you can see detail on that on appendix, and we can certainly answer that in questions if it's helpful. It's also worth noting in the two years since the model, the RMV grew to 12%. When we were doing this two years ago, we were at an earlier stage of the pandemic and also assumed zero percent growth for one year, based on the input at the time and all the uncertainty, and then started to have something a little more normal after that. But as those two years transpired, it actually continued to grow. If we compare the results from two years ago, that helps make it a little less likely that you trespass the $2.80 threshold because despite everything, the RMV still did go up. Next slide, please.

Okay, and so here is kind of the final payoff of all this that developed those final contributions that get compared to the RMV, where the current level of $1.14 per $1,000 at the median level, that grows for a number of years, peaks out in the early 2030s in the $1.43 range, before decreasing by the end of this model to under $1.10 again. More interestingly, at the fifth percentile, those numbers grow and get to about $2 in the highest years before dropping again as the kind of peak descends. But as called out in the right red box, the $2.80 limit is actually exceeded in any of these 10,000 scenarios in less than 1% of the scenarios. We've done this modeling now for 10 or 12 years, and that did not always used to be the case. We used to have scenarios in 2012 and 2014 where more than 5% of scenarios in a given year were trespassing this. So, the growth in RMV and the Oregon PERS returns over the last decade or so has meant this is a lot less likely, based on this starting point to run into a problem the next 20 years with the cap then where we were eight to ten years ago. That's just not because a lot changed with the nature of the ben fits but because a lot changed with the nature of the RMV and the Oregon PERS behind it. So, this is really our last slide to present, but I'm happy to answer questions on this or anything else. I'll pause there.

Trustee Kulp: Just really quick. Chris Kulp here. You had said earlier in the presentation that in about 14 years, we're expecting all FPDR employees to be either retired and most of the payments going forward to PERS. Is that correct?

Scott Preppernau: I may have been a little general as far as not having all retired but that's kind of where the weight, the center of mass if you think about it, where about 16 years since the creation of FPDR 3. Most are retired in our model.

Gary Deeth: Yes, and the thing to note there is most FPDR 2 members will be retired. They'll still be getting benefit payments for another 30 to 40 years.

Trustee Kulp: Right, and so with that and survivorship, do we still see a lot of the finances on the fund, I can't see them transferring to FPDR quite yet. I still see the fund paying the bulk of those survivorship benefits. Is that true? How does that factor in, I guess is my question.

Gary Deeth: So, in the projections, we have the two pieces, the pay-as-you-go portion and the pre-funding. What you're referring to, the FPDR 2 members and their benefit payments, the survivor payments would be in the pay-as-you-go portion, and then the pre-funding for the FPDR 3 members is going to be the prefunded portion, so those are the two separate pieces, one of which is relatively predictable and one of which balloons out to a lot of different possibilities.

Trustee Kulp: That makes sense.

Scott Preppernau: Christopher Kulp, was your question also about FPDR -

[Audio garbling]

Trustee MacLeod: We're not hearing you.

Trustee Kulp: You're breaking up. No, that answers it. I just want to make sure that we're thinking that the fund still has a lot of liabilities and just paying that survivorship. Just clarifying that we're still looking at all that.

Scott Preppernau: Yes, because of the pay-as-you-go nature for FPDR 2, it's going to have a lot of liabilities for those retirees throughout the retirement. I wasn't indicating that that liability goes away in any way when they retire. That's when you get to the inflection point because now these benefits are no longer growing, they're decreasing as one ages in retirement, that's why we see that kind of pattern in the model and it's not a coincidence that the projection changes about the time that FPDR 2 members are by and large retired.

Stacy Jones: If I could just chime in, when the whole active workforce is FPDR 3 in PERS, that's the moment of peak expense and then we start to come down the other side as we start to have mortality in the FPDR 2 population. But it does include benefits to widows and widowers in their modeling. They have assumptions about how many will have surviving spouses and how much those benefits will be, and all those things built in.

Trustee Kulp: Thank you.

Trustee MacLeod: Along that line, just taking us back to the valuation stuff, but picking up on Trustee Kulp's question. I think on slide ten of the valuation slides, you have a chart with green benefits shown. Not this slide, but way back. Slide ten. Is it possible that we could see this with the bars split, stacked but split showing FPDR 1 and 2 versus the OPSRP FPDR 3. It would be nice to see over time, even though the FPDR 3 benefits becoming a greater portion, we're still going to see a substantial amount added to the future for the FPDR 1 and 2 retirees.

Scott Preppernau: Yes, we certainly can create a version of this and share it with the trustee that splits FPDR 1, 2, and 3. FPDR 3 is going to be very, very small on here as you'll see. But you'll see the pattern shifting from the current FPDR 1 retirees, the FPDR 2 and then the shift to where this will be primarily FPDR 2 in the coming years, and the little bit that exists for FPDR 3. We can certainly break that out.

Trustee MacLeod: Perfect, that would be helpful. Thank you. Are there other questions about the report?

Scott Preppernau: Thank you very much. As an action item I think the only thing is to accept the report, unless there's anything beyond what you requested that you'd like from us.

Stacy Jones: I think we need to take public testimony first because we have one person signed up for public testimony on this topic.

Julie Hall: Kevin Machiz is going to give his presentation. You have three minutes for public comment. At the two-minute mark you'll hear a noise, and that means you have one minute left. Thank you.

PUBLIC COMMENT

Kevin Machiz: Thank you. I'm Kevin Machiz. In September and November, I urged the board to request the actuary provide an analysis of a comprehensive actuarial funding policy. I pointed out red flags that came from several sources that had brought up this issue since 2011; the City Auditor, City staff, the public accounting firm that audits the city's financial statements, disclosures on the financial statements themselves and national experts. I'd like to add one more red flag. You may be aware the city has had a credit rating of AAA since 1976. Credit ratings agency Moody's has placed the city on rating under review for downgrade. according to Joseph Manalaes, the Credit Analyst who works at Moody's, FPDR is a central focus of their review. I would like to address questions that came up at previous board meetings as time allows. Turning to the next slide here.

This is the additional red flag that I mentioned that the credit ratings agency Moody's has placed the city on rating under review for downgrade, and that FPDR is the central focus of their review. So, with the remaining time would like to address questions that came up in prior meetings. Turning to the next slide, slide three here. I think many of the questions get back to this concept of negative amortization. The bars in black here are the plan's costs based on the actuarial valuation that you just heard about. It's the sum of one year's service called normal cost and one year of interest on the unfunded liability. The bars in green are the cash contributions that fund the plan. The difference between the two represents negative amortization in red. The point I'm making is kicking the can down the road for future generations to pay for service completed before they were even born in many cases creates an egregious level of intergenerational inequity stretched over multiple decades. Is it getting better over time, staying about the same, or getting worse? Positive amortization indicates that things are getting better. By contrast, zero amortization would indicate that the plan is treading water. Negative amortization indicates that things are getting worse. It was pointed out that a transition began in 2006 when the plan was closed to new hires. The question came up whether the plan had progressed somehow, perhaps as much as halfway towards refunding. No, the plan has engaged in hundreds of millions of dollars of negative amortization. Not only has the plan not made progress towards eliminating the unfunded, accrued liability, it has moved in the opposite direction over the last 16 years. The plan's current funding policy continues to engage in over $50 million of negative amortization in the coming year. Therefore, the unfunded accrued liability is expected to grow under current assumptions.

Turning to the next slide. At the last meeting, there seemed to be an acknowledgment that the cumulative future contributions would be over $8 billion over the remaining life of the plan. The question came up, does it matter if much of the future benefit payments are attributable to the unfunded accrued liability that's past service rather than future service? I think there's two ways to address that question. First is in absolute terms. Future service is going to cost over $2 billion under the current funding policy. I think that $2 billion is a lot of money. Second is to point you to what other public pension plans in the United States are doing here on this chart. Do plans with higher unfunded accrued liabilities engage in less amortization than plans with lower unfunded accrued liabilities? Based on the peer group from public plans data I find the opposite is true. Plans with lower funded ratios tend to amortize a greater percentage of their total accrued liability. In this respect, Portland is an extreme outlier compared to other public pension plans in the United States. Thank you.

Trustee MacLowry: Catherine, you were muted. Were you speaking?

Trustee MacLeod: Apologies. Thank you very much. I was asking Sam and Stacy if they'd like to make any comments at this point.

Stacy Jones: No, but if there are any questions that the board has, I'm here and can answer them to the best of my ability and the actuaries are also here, obviously. So let me know if you have any particular question that you would want me to address.

Trustee Huang: I have one question. Since you did introduce into record Moody's position that the City of Portland is currently under review for downgrade, and you also articulated that FPDR is the central focus. It seems to me that FPDR is what you're suggesting the cause of the potential downgrade. Is that your intention?

Kevin Machiz: So according to that credit rating analysis from Moody's emailed to me, they said that FPDR is a central focus of their review. It happens to be the case; they changed their methodology for how they rate cities at this time and that was what led to a number of cities, which included Portland, being put on rating on review for downgrade. So, 3% of cities were put on rating under review for downgrade and Portland was one of them.

Trustee Huang: But there are no specific facts of what anything that Moody's had shared with you that FPDR is, based on the way that you're your projections show, that FPDR is, in fact, the potential cause of the downgrade, right? I want to make sure that I'm understanding you clearly.

Kevin Machiz: I am just sharing exactly what I was told by Moody's, that FPDR is a central focus of the review.

Trustee Huang: Ok.

Stacy Jones: I feel like I should say for the record that I did speak with the city's debt manager this morning. We'll know tomorrow if Moody's is downgrading the city or not, and we will get an explanation for why so we don't have to speculate too much about what the cause may be. And I can't speak to the perspective of the individual Moody's analyst, but from the city's debt manager said that if the city is downgraded it will be because of a methodology change related to the utility bureau's revenue bonds, and not FPDR. We always go through this process when we have a new Moody's analyst where we have to explain FPDR. It appears to be unfunded from an accounting point of view but it's really 100% funded when you look at the levy piece. That's not to say it's not expensive, but it's totally funded. There's an education piece that happened back in December. This is, now I'm just repeating what the debt manager said. But Moody's will come out with something. That's expected tomorrow, we don't have to speculate.

Trustee Huang: Thank you Stacy, that's the point that I want to make sure I understand whether that inference was in face reasonable related to the rest of the presentation. Thanks for sharing that.

Stacy Jones: We'll have some actual information so neither of us have to speculate about it and try to repeat third hand.

Trustee MacLeod: Any other trustee comments about Mr. Machiz' s response to our earlier questions?

Trustee MacLowry: I have a question and I apologize, Mr. Machiz, I don't have your presentation from the last time, but on the last slide, there was a request for an actuarial review to be done. Is that still a central point? Are you asking to see if we can work on an actuarial review? I don't have the wording in front of me. Can you speak to that? Is that what you're asking for?

Kevin Machiz: Yes, my request this whole time has been that the board request from its actuary an analysis of a comprehensive actuarial funding policy.

Trustee MacLeod: Ok, we could consider making that motion to do that today. I think last time, we deferred on doing that because we wanted to have a full complement of trustees present to make that recommendation. We have four of us today instead of five so we could move forward with that if people would like to consider doing so.

Trustee MacLowry: I would be interested to hear from Sam what is entailed or Stacy, what would be entailed in going forward to request this actuarial review?

Director Hutchison: I think part of it is, we have to get the details of exactly what this review is supposed to show. I don't think we fully understand that yet, what it's supposed to show. Second, will it include a budget and I'm going to tell you it's going to be four or more digits wide to get this kind of review done. You're going to have to approve a budget if we go through with it. That's what we need to do, and we'd have to confirm that Milliman would be the one that conducts it. If they could do it under their agreement or if we would have to contact another actuarial firm to do it because this is a unique thing. Stacy?

Stacy Jones: I just want to make sure that the board would spend money wisely on that kind of a study because, I mean we have the actuaries here today. Nobody can predict things until they run them through. Prefunded plans are obviously cheaper than pay-as-you-go plans. If we were to prefund the remaining benefits owed to FPDR 2, it probably will be cheaper in total after you discount at the present value. I think setting that aside, and all the complexities of switching to a prefunded plan and having an investment board and changing, you know, all those things for a closed plan, is the ironically the intergenerational impacts we are asking the current generation of taxpayers to fund two generations of pension simultaneously. And if we tried to prefund those FPDR 1 and 2 as well, now we have tripled or quadrupled the impact on the current generation, and as Trustee MacLeod said last time, the ship has sailed. No matter what we do from here, the people who are receiving the services are not going to fund it entirely. We have begun that transition, it's just a long transition. If the board wants to look at that, I can tell you, I think, without overstepping too much and, perhaps, Trustee MacLeod would chime in here, that's the result that you would probably get. So, we want to make sure the board before we spend money on something like that, that's something that you want to look at.

Director Hutchison: One last point, this will require a charter change. We're only allowed per the charter to pay-as-you-go for FPDR 1 and 2. So if we wanted to change the type of funding plan, get new funding mechanisms in, that would require a charter change.

Trustee MacLeod: I will weigh in on Stacy's comments. I cannot argue with the concept that setting aside money in advance does a good job of matching the earning of retirement benefits with the year's services provided. But except for a handful of roughly 600 or 700 active FPDR 2 employees who are much closer to retirement, then they are at the beginning their service. I would say they're probably, on average, 2/3 to 3/4 of the way are through their service. Most of their earning of those benefits has already been attributed to prior service, and all of the retirees and inactive members, that's the case. So, there is no way to match for those folks, there's no way to match it to the years when they provided that service. They can't do it anymore. So, the question is really, how much will the added investment earnings reduce the overall long-term costs of the plan? That's a benefit, but there are complexities to that. How would that weigh against burdening further the current generation of taxpayers, because if the two motivations here are the potential to reduce the overall long-term cost of the plan, and to provide some intergenerational taxpayer equity, if you're overloading the current generation of taxpayers, they're already funding the new benefits for service people plus paying for the other retirement benefits. If we accelerate the funding for that, then we're just putting more burden on top of whatever they're doing. And so, at some point, you really have to ask, is it fair to squish all of that into the next 15 to 20 years? Or is it just more equitable to let the FPDR 1 and 2 benefits ride out what they're doing. Prefunding is already happening now for the FPDR 3 folks. So that's really the decision to be made. I have a bias towards the status quo, but I speak only for myself. I guess I would be open to proceeding only as far as getting a quote and a possible timeline for some analysis and specifying further what it might do. That's as far as I would be prepared to go right now with my vote. Does anybody else want to weigh in on that?

Trustee Huang: The only thing I would ask is, given that the speaker has heard comments from the board and Stacy, if you want like a minute to sort of respond to comments back to you, whatever they may have just shared?

Kevin Machiz: Yeah, I mean, I would say for the board please don't speculate about what the analysis would show. The analysis is going to tell you the truth of how much cost savings can be achieved by prefunding the plan, end of story. There's no need to guess what that would be because that's what the output of the analysis would be.

Trustee Huang: Thank you.

Director Hutchison: I think part of the analysis and what's done is going to have to describe mechanisms to make this happen. That's the big issue that we have is the mechanism to make this happen. When you prefund a plan, we have to find that money that should have already been contributed to a prefunded plan. So, do we put out bonds to try to cover it? Do we double or triple the taxes to people so build that up to get a true prefunded plan? That's huge. That's why we're talking about either of those mechanisms requires you to either raise taxes to build up the fund or raise taxes to pay off bonds that the premium and the interest on bonds over time. So, there's a cost up front to save money in the end. And if you're doing an analysis, you have to describe the different ways to do it so you can compare what's going to happen today to save money tomorrow.

Trustee Huang: Yes, and I agree with Trustee MacLeod. While costs should be something we need to keep in mind, I think the question ultimately is that what is the value of this report going to get us and help us consider the next steps? So, I think at this point, I'm in agreement that it probably as far as we can go at this point is really just getting a detail of what do we expect to commission for this research and consider what may be the next steps that we can kind of take once we get the report.

Trustee MacLowry: I guess my question is directed to both of you. Sam, you're saying if you do analysis, you need to have the mechanisms for the cost. And I'm wondering Mr. Machiz, was that your intent as well? Or do you want to demonstrate that there is cost savings to be found by changing in the method that you're talking about?

Kevin Machiz: As I said at the last meeting, I'm not here to advocate for any particular funding policy, right? I showed some illustrative examples using a cursory analysis of what that could look like. But it wasn't my role to say exactly what that should be. Should it be purely through changing a property tax rate or should it be through some combination of that and pension obligation bonds? There are a variety of tools out there for how you'd go about actually implementing it, right, and I think that's what the analysis would actually look at in detail.

Trustee MacLeod: All right. It sounds to me like we're maybe to a point, please chime in, trustees, are we to a point that we want to make a motion to have staff work to outline a proposal for analysis and to secure a bid for actuarial services to prepare that analysis?

Trustee Kulp: One quick comment. I'm always very concerned with what the taxpayers of the city are facing already. And if this is going to add a burden to them outside, we have to think about what the school districts are doing, the services that they're providing are huge. Nobody is questioning that. But if this is going to, I don't see it affecting the fund as much as I see it completely affecting the taxpayers. Yes, there's going to be some savings in the short term. But I just don't think in this current economy, we can put more burden on the backs of the taxpayer who is already seeing huge levies on our tax bill. I don't see a whole lot of value in it. I think we're going down the right path and we're going to make this thing correct here within the next 14 years. I don't see that as being a prolonged amount of time to offset whatever this research is going to cost us. I don't know. I just don't want to put anymore burden on taxpayers this time. That's all.

Trustee MacLeod: Good point. I think if we move forward with just outlining analysis, all we're really approving is to consider what it would cost the plan to secure some information potentially from Milliman to put some numbers on what Mr. Machiz has said here in terms of the accelerated cost to prefund these benefits. And that would have to be considered along with issues like added burden on taxpayers and the practical aspects of how to actually implement the charter changes and setup of investment fund and all of those things in a decision about whether or not it's something even worth pursuing. So, step one would just be to potentially outline a concept or the specifics of what might be valued by an actuarial firm to put some numbers in place of what Mr. Machiz has estimated.

Trustee Huang: In that case, I motion that we vote on whether to proceed with outlining engagement in the unsecure bids on what the cost would be for that engagement.

Stacy Jones: And before we vote, I just asked Milliman since they are current actuaries under contract, a little bit about what's the feasibility of this analysis and what would it look like? And I don't know if you want to hear a few words from them.

Trustee MacLowry: Sure. love to.

Scott Preppernau: Thanks. Again, for the record, Scott Preppernau with Milliman. I wanted to mention that I absolutely agree with the points that Mr. Machiz was making, and I was able to see his September presentation. It's definitely true that a pay-as-you-go system, as it is, it's the highest cost way to fund a pension plan. Prefunding the plan and adding investment earnings like we talked about in our presentation is a subtraction in that fundamental cost equation. It would produce a lower profile for the fund. We're happy to help collaborate with staff on what an analysis would look like and to do that analysis if you want it. We know that's ultimately going to be what it comes out to, and if we can show that under different scenarios and happy to do it. To Trustee Kulp's point, I think the decision point and the appetite for what you would do with that is certainly key, right? We're happy to do the analysis. We're actuaries; we love that. But we want to make sure we're giving you something that's useful and we're meeting your needs. So again, happy to answer questions, happy to spec out what that would look for, but Mr. Machiz is absolutely right. That's a lower cost way to run a plan. That's why you prefund a plan. That's why FPDR and the structure if not unique is certainly very uncommon, and we weren't involved in the 2006 reforms of why the transition at that time was decided to be done at the pace it was. Doing it faster would be cheaper long term. But there is more money now one way or another to have greater savings long term. So, we're happy to help in any way, but that is the fundamental.

Director Hutchison: Would your analysis include the types of ways to get that savings?

Scott Preppernau: So, I think that would have to be, the math is what it is, and then this would really be something where we would want to work with the fund and with budget, people from the city on different ways that this could be done and how that looks like a different profile. So, there's a lot that goes into sort of, again, what's the appetite and what's the mechanism beyond just the math?

Trustee Huang: And I think that makes sense. I don't want to appear that as we're kicking the can down and then making a decision or not making a decision later. I think the question for me is whether this report that we're trying to commission is going to help us make an informed decision as to whether to proceed or not. I think that's for me, that's really the outcome and the value of the RFP for lack of better terms. right? But if the decision, going back to what Trustee Kulp had said, at this point, it just doesn't make sense to add more pressure on the taxpayers. I don't see any value in getting the report because if that's the means of going about funding the plan. So that's why, like I said, I think there's only value to the extent that, you know, this report is going to help us make an informed decision as to how to proceed and when to proceed. So that's my position.

Trustee MacLeod: Ultimately, I think we're going to have to consider that taxpayers today are going to say - why do we have to pay for all the mistakes of 30 years ago and 20 years ago? Why is it only us?

Why is it us for the next 10 years, the next 20 years? Why do we have to bear the full cost of that mistake or that decision? As opposed to just spreading it out on a pay-as-you-go basis over the remaining 30 to 40 years as those benefit payments are made. That essentially stretches out that prior decision, so the pain is borne by not just the current taxpayers but those a decade from now and another decade from now, etc. So, I think that's really the choice even though there might be dollars saved, is it fair to lump that burden on the current set of taxpayers who are already bearing the cost of paying those benefits to those people and prefunding the FPDR 3. I think that's what it comes down to and that would be weighed against cost savings. Is it just such a phenomenal difference in savings and dollars over the long term that you're willing to try and push that through and burden those taxpayers, or not? So again, wasn't exactly certain what the thought process was on making a recommendation to just get a quote and to find the analysis, or if we were prepared to make a decision today about whether or not to proceed at all.

Director Hutchison: Just a point here. You're only going to make a decision if you want us to do an RFP. Not making a decision is leaving the status quo. So, you don't have to actively vote to keep status quo. Status quo stays in place, with the present plan and everything. So, the vote today is just for the RFP or whatever else you want to do. If you don't want to go that route, nothing else has to change. You don't have to vote to keep going status quo.

Trustee MacLeod: Got it. So, we can hopefully hear from the other trustees. Status quo or do we request staff put together some scope of work and possible budget?

Trustee MacLowry: I have one last question. I apologize, I’m not sure exactly who to address it to. I’m not a financial or actuarial person, so if someone could let me know a little bit about the triple a credit rating in terms of how if it was downgraded how that would affect the city's financial. How would it affect the equation we're talking about right now? How does that fold into the calculus of this particular discussion? Anybody?

Stacy Jones: So obviously, you have to pay higher interest if you have a lower credit, it works the same as it does for a person. I’d have to grab the debt manager to get the spread. We have the highest rating right now. If we went down a notch, what's the interest rate spread on that? And do the markets care since this is a methodology change at Moody’s that is driving this? You know, there's going to be many factors in play there. But that's the short answer. Does that help?

Trustee MacLowry: Yes, thank you.

Trustee Kulp: Mr. Machiz, you're clearly a smart individual and thought this through. I guess my last question, I might have missed this because I had some audio issues. If we take the hypothetical 14 years that we've been looking at to be transitioned over to PERS, in your best-case scenario, what time frame would be looking at if we took your suggestions and we moved this over to a prepaid plan? How much would we take off of that 14-year period is my question. Do you have any of that data?

Kevin Machiz: Just to be 100% clear, under the current policy, 14 years from now, you'll have no more folks accruing new benefits. But those benefits haven't been funded so they still need to be paid for. So, under current policy, those benefits don't get paid for until after those folks retire and so that will stretch for as long as they and surviving spouses, for example, live. So many, many years past when they're actually retired. And so, the cursory analysis I presented at the last meeting looked at possibly amortizing the entire unfunded liability over either 15 years or 30 years and looked at different possible return assumptions with the idea being that, if you look at an extreme high return or extreme low return. I don't know exactly what it's going to be, you have to work that out with the actuary, but it's reasonable to say it's going to be somewhere in the middle. And so, when you do that now based on the latest valuation, say a 30-year time frame, you could pay off the entire unfunded liability over a 30-year period by increasing cumulative contributions over that time period by just 2% to 9%, and eliminate every single subsequent contribution if the assumptions play out.

Trustee Kulp: I think that's my question, contributions by whom?

Kevin Machiz: The contributions currently come entirely from property taxes. So, there's no employee contributions.

Trustee Kulp: 2% to 9% is massive. But with that said, I would like to see what it would cost to look at this and have the real numbers in front of us before making a decision whether we actually dive into that data.

Trustee MacLeod: Ok, thank you. Trustee MacLowry?

Trustee MacLowry: I mean, more information is always good. I'm ok with the idea of getting a quote and getting an idea of what the actual cost would be to get the analysis done. I think that seems like an ok first step to me. I understand the point is being made that, what's the point, per se? if we see the barrier in front of us and how they're going to pay for it. I understand that, but if we're just at the point of figuring out, ok, what is the next step going to cost, and what is entailed in the analysis? I think it's ok. I'm ok with going forward to get that information and I think that clearly have to have some further conversations about the rest of it.

Trustee MacLeod: Thank you. Trustee Huang?

Trustee Huang: I'm all for making informed decisions, so I vote for getting a quote as well. At least do more studies to make that decision.

Director Hutchison: Before you vote on it, we need a very specific resolution of what you're looking for me and my staff to be doing and if it involves an RFP, let's go with that because there will be some follow-up as we go along and do this. I need very specific details of what you're doing.

Stacy Jones: And I don't think I would recommend that we issue an RFP because that costs a lot of money just in and of itself. We have an actuary on staff that we have high confidence in. I will say that their contract is ending on March 31st and we're currently in an RFP process for actuarial services because we have hit the limit of how long we can extend our contract with Milliman. Ideally, we'll know who the plan's actuaries will be coming April 1st and I would suggest that the RFP is already out there, and responses are coming in. We can't change it now. But we could when we choose an actuary, we could negotiate as part of the contract, or ask for a quote. Now, with our contract with Milliman we allow for ad hoc analyses. There's a rate we can ask them to do ad hoc analyses and like Scott said, they're happy to do it and give us the sense of how much it would cost. As Scott said, we all know the outlines of the outcome. There's no question of what the outcome will be. But if it's a matter of degree or whatever that the board would like to see then we can certainly have them do that.

Director Hutchison: Following up with that, if we don't go with an RFP but go out and request, whether it's Milliman or a new actuary to add this in, we're going to need a statement of work of exactly what we're expecting them to do before anybody can come up and say, here's what it's going to cost, here's the time it's going to take and here's what's expected of the FPDR staff to join in. I'd like it to be pretty specific as to what you're looking for to bring back to you. The next thing would be is this what it's going to cost to do it, and the next thing would be you want to go that way and finally, we'll go back with a formal investigation with whoever's going to do it. You have a series of steps when you do an RFP, but the first one is, what are you looking for us to be doing? Then we can come back and go over stages and see if we need new approvals as we go through this process.

Trustee Huang: You're asking the trustees to come up with the scope of the work to be done.

Director Hutchison: We will come back with the question, what's our next checkpoint? What do you want us to bring to you at the next checkpoint? That's what I'm looking for, and it needs to be specific. Are we at the point that we want a statement? Because we could help draft a statement work, but do you want that as your next checkpoint? Or do you want an estimate provided by Milliman or another actuarial firm for what they think it would take at that point, based on their assumptions, and go back. It's part of a negotiation that you have with any type of RFP or any type of study. I'm looking for your direction to what do you expect us to bring back to you, and when?

Trustee MacLeod: I think I would be interested in both a proposed scope of work and budget estimate.

Director Hutchison: Yeah.

Trustee MacLeod: In order probably the scope of work, if a budget can't be, you know, and this can be preliminary estimates, but if maybe by the next board meeting you could bring back to us a draft scope of work and some preliminary estimates that you might be able to secure, that would be ideal subject to formal bid estimates after we've had a chance to look at that.

Stacy Jones: I would just say that it will be very hard to do that for the March meeting given that we'll be negotiating and trying to hire an actuary and I prefer that to make it a May topic. Because then we have actuary to talk to and get an estimate. Is that ok?

Trustee MacLeod: It is certainly with me.

Trustee Huang: I would agree because based on what you said before, you are in the process of getting actuary anyway. Let's focus on the scope of the analysis of the work, and once we agree on that scope, you'll likely have an actuary for a later meeting.

Trustee MacLeod: I would also maybe suggest that regardless of the selection of an actuary going forward, I would think that since Milliman have just completed this analysis, they might be a suitable candidate to do this ad hoc prefunding analysis. They've got all the data and assumptions. Unless we're prepared to wait a long time for the next valuation to be prepared, that might be the fastest way to go anyway.

Stacy Jones: We may want to revisit that decision when we know the outcome of that RFP process because then we would no longer be under contract, and we would need a new contract. I definitely see your point.

Trustee MacLeod: I understand.

Trustee MacLowry: Will you know by the March meeting?

Stacy Jones: I would love to, but I am beholden to the city procurement process, which is a terrifying thing for anybody have to utter. So yes, it is my hope and intent and plan that we will know, and if we don't have a final contract that we're in the final stages of contract negotiation at the March meeting.

Trustee Kulp: Real quick, you mentioned opening the charter would be necessary to facilitate something like this. I can only imagine the fees to do that are substantial as well. Do you have any sort of an estimate off the top of your head, I won't hold you to it, that it would cost to implement something to change like this?

Director Hutchison: No, we can bring that up, too, when we start with the statement work and the process of going through changing the charter. I will tell you the cost of an election for changing the charter, we will have to pay it because it's our request to change the charter change. If it came from the city or another area in the city, the city would fund it. But this would come from us so we'd have to fund the election and that's why you would like to piggyback it in on a general election, so our fees are smaller. But I can come back in and walk you through the process of what needed for charter change. I will have to tell you, the city council will have to approve it, because they have to approve any charter change with the exception of what happens with the charter commission, but that process is already completed. The city council has to approve us taking a charter change to the voters.

Stacy Jones: The mechanism for changing the charter is council can refer a charter change or there can be a citizen petition to change the charter and, council is not going to have much interest in this. I don't think I'm speaking out of turn when I say that.

Trustee Kulp: I got to be honest, I'm starting to see less and less value in what we're asking to be put forward. I'm seeing less and less value with what would be needed to do this, and I don't know how we ask the FPDR staff employees to even start down this path to this point. With what we have in place right now I see as being valid. It's going to turn itself around at some point. I can't see doing this for another 15 to 30 years, 2% to 9% burden on taxpayers, plus the costs. I think I'm supporting less and less support in this.

Trustee Huang: The only thing that I would add is that, certainly I hear all sides of arguments but for me though, in order to make sure that we have the ability to make an informed decision that we have all the information necessary to get on record that we did, in fact, consider all aspects of making a decision, including the cost benefit analysis of what the process for going through a change? I still think that we should go through with getting the scope of service drafted and then make a decision whether to proceed or not afterwards. But I do hear you, Trustee Kulp, that it's becoming less and less attractive. I still think that going through the formal process of making that decision based on all the available information in front of us would serve us better in the long run.

Trustee MacLeod: With that, could I have you transition that into a formal motion to proceed, Trustee

Huang?

Trustee Huang: Yes, I make a motion to proceed with asking the staff to draft a proposed scope of service for us to consider in time for our meeting in March.

Trustee MacLeod: May.

Trustee Huang: In May, sorry.

Trustee MacLeod: Would someone like to second that?

Trustee Huang: I guess the motion fails. We stick with status quo.

Trustee MacLeod: All right, looks like it's a status quo for now. Ok, looks like we should move on to action item 2.

Director Hutchison: Yes, I'm on mute. You had talked about just accepting the report from the actuaries.

Trustee MacLeod: Excuse me, that is correct. Can we have a motion to accept the actuarial report and levy analysis as presented to us?

Trustee Huang: I make a motion to accept the actuarial analysis.

Trustee Kulp: I'll second.

Trustee MacLeod: Thank you. All in favor say aye.

Trustee MacLeod: Aye.

Trustee Kulp: Aye.

Trustee Huang: Aye.

Trustee MacLowry: Aye.

Trustee MacLeod: Opposed? The motion passes, thank you.

Stacy Jones: Thank you very much to Scott and Gary from Milliman for the excellent work that they do with me and my team every year or every other year on this analysis and thank you to Mr. Machiz for his very carefully considered comments today. I guess I should be in the middle, let me slide over. Poor cameraman, I'll stay where I am, so the camera guy doesn't have to move. Action item number 2, I'm sure you guys have heard enough about numbers, but we're not going to give you a break, and we're going to start talking about the budget. I know you're all tired so I will try to go fast. And I have, I'm so lucky this year that all of you have been through a budget presentation at this point, so nobody is coming into this totally cold.

ACTION ITEM NO. 2 – ADOPT 2023-2024 BUDGET

So as always, please stop me if you have questions and no need to wait until the end and ask me anything and if I don't know, I'll tell you so and we'll figure it out. So, it is time to adopt our budget for the next fiscal year which will be July 1, 2023, through June 30, 2024. We also put together a five-year forecast every year so that we can kind of, you know, when you're managing your own fund, you need to look further ahead than one year. We, unlike every other bureau in the city, the board has the exclusive authority to adopt the FPDR budget. So, you guys are it. Council, we will go through kind of the rest of the process that the city does, but that's just to include us in the final city budget at the end and to make sure that our budget reflects what it needs to reflect where we intersect with, say, the police bureau and the fire bureau and the office of management and budget. So, what we are asking you to do today is take a look at the staff recommended budget that we put together. Let me know if you want to see any changes and then hopefully approve something. There are additional materials in your book other than this presentation which are some, but not all of the budget office report. I used to work there. I shouldn't give them a hard time. I mean, there's like 100 documents that go in. I’ve given you a sampling of what I think is most useful but let me know if you have any questions about that.

So, moving on to the next slide, Julie. This first slide shows you in the royal blue highlighted column our recommended budget for the next fiscal year with resources up on the top and then requirements or expenses down on the bottom. You will see two extra lines running along the bottom there. The first is the total net of tax anticipation notes because we issue tax anticipation notes every year and then repay them in the same fiscal year and they get double counted and it conflates the size of the budget, so I like to show you the size of the budget with those stripped out. You can see just benefit and administrative expenses running along the bottom. Because we have our own fund, there are expenses that we call fund level requirements, like contingency and some fund transfers and things like that. So that royal blue column, the recommended budget for next year, we have it compared to a couple of different things. The first is it actuals from fiscal year 2021-2022 which ended last June 30. The budget for this year, fiscal year end 2023, our current projection for fiscal year in 2023 because a few things have changed since we adopted this year's budget, and then the recommended budget and in the last column, the change for each line item between what we're projecting for this year and what we're budgeting for next year. So, the only thing that looks a little bit unusual here as compared with previous years is the size of the increase in disability expenses for next year, and that is because we are anticipating that we will have to add a couple of folks to long term disability which we have not had to do in many years. So that's where that is coming from.

A couple of other small things. Property tax growth you'll notice if you look at that top line under resources, is actually slower than total requirement growth which you can see running along the bottom. You can look at total resources or you can look at benefit and administrative expenses, which at first blush doesn't make sense because we fund all of our expenses with our property tax levy. The reason for that is that we still are sitting on some excess fund balance, and I’ll talk about that a little bit more. I’m still trying to spend that money down and give that money back to the taxpayers. You'll also see the miscellaneous revenue is growing a lot in percentage terms but not in dollar terms. I’ll pre-answer a question if I’ll tell you that's interest income and interest rates are obviously going up. And, you know, our overall growth rate for pension expenses, which you will see in the FPDR 1 and 2 pension line under requirements, which is the 4.4%, is a little bit slower than what we normally see during this time when we're phasing in, and when we're still ramping up the size of our pension population as our FPDR 2's retire and phase in to replace FPDR 1's that have a less generous pension benefit. So that's a little slower growth than normal and I’ll talk about that a little more as well. Next slide.

This is horrible, I don't know why I put so many numbers on this. Numbers people love it, but this just shows you the entire five-year forecast. I’ve just added on what we think is going to happen going out through fiscal year 2028, and then also the growth rate from the current year projection to the fiscal year 2028 budget. If you look at that at just the last line on the very, very bottom there with 3.4%, 8.9%, 8%. Really what you're seeing in a nutshell there is inflation plus growth in pension expenses as we continue to phase in the prefunded plan while we still have growth in the pay-as-you-go plan. So, pension expenses are going to grow a lot as we continue that phase-in, and that's why taxes are also going to grow a lot as we continue that phase-in. Next slide.

So that's just the big picture. I'm putting all the numbers in front of you. There obviously are a lot of detail behind those items. It's hundreds of lines long but if you want to see detail behind any item, let me know. I'm going to kind of walk through our expenses, and then I will talk about property taxes, and then I'll talk about significant risks to the five-year forecast and how we manage those risks. I know it's a little backward to start with expenses, but because almost all of our expenses are required by city charter, for us it makes sense to talk about how much money we need and then we'll talk about how we're going to raise those funds. So, this pie chart that we'll start out with shows all of our expenses and the percent of each sort of item as part of the pie. This pie gets, you can't see this, but it gets bigger every year because our expenses increase every year. But the division of the pie, it is changing but it's changing really slowly. But FPDR 3 PERS contributions are growing as a proportion of the pie, which is exactly what you would expect. Disability, administrative, and fund management expenses are declining slightly as pieces of the pie, not because they're not growing, but because they're growing a lot less than pension costs. But the other thing you can see at a glance here by looking at the pie is that almost 90% of our fund expenses are pension related, either for the PERS contribution, for our prefunded folks, or the direct pay-as-you-go payments for our FPDR 1 and 2 folks. The presentation is gone.

Julie Hall: I'm having connectivity issues.

Director Hutchison: We can hand out paper copies for people here. Read what page number you're on.

Stacy Jones: I am on slide 5 now. Is everybody there? It's a table that says major assumptions for expenditures. Ok, sorry, folks at home. I guess we're working on bringing that up. But again, I say this every year, but budgets and forecasts are really just collections of assumptions applied to numbers. I hate to give you a big chart with a lot of numbers in it, but I want to make sure that I'm sharing all of the key assumptions that we then go in and apply. There's a lot of complex models that these go into, but these are the assumptions that I think are the most important for the board to just look at and know where this number is fundamentally coming from at the end of the day. The top table is a collection of inflation assumptions that we primarily get from the city economist. The bottom table are the key assumptions that we develop in house, and I'm not going to read them all to you, but I will call out a few things.

The first is wage growth, which is the first line running across the top. We had a large 5% cost of living adjustment for sworn staff and all city staff last year and expect that again that will occur this July 1st again. And then we see a return to kind of more normal inflation. As you heard the actuaries talking about, is that really going to happen? The actuaries and the city economist think so, so I hope so. And I guess that's where we'll leave that but that's the assumption. The OPSRP public safety rate, so this is down kind of in the middle of that first box you'll see it running across, this is the PERS contribution rate we make on our FPDR 3's and it goes up every two years as PERS works on paying down their unfunded liability, so it will go up next year from, the slide is back, a little bit bigger from 31.72% to next year it will go up to 33.91% and in the out years. Those are projections from the city economists with some input from the PERS actuaries. If we look at retirements which are down in the bottom box, the first line, you can see that we expect next year to be the biggest year in the forecast, fiscal year end 2024 because we have two 27 pay date months next year, one in December and one in June. On deaths, very interesting and sad topic, but deaths which is the second line, you can see that in 2021-2022, we had a lot of deaths, 70. We normally are running between 50 and 60. We had 70 in the year before, so it's the second year of high mortality which doesn't sound like a lot of numbers but in a percentage sense, it's a large impact. So, we do have deaths not returning completely to normal, but declining significantly and being reduced from their high point over the rest of the forecast. The last thing I want to point out on the slide we have some very aggressive hiring in there for fire and police, much more than they have ever done in the past. Not as much as they wanted me to put in, I'll talk about that some more, but be assured that both bureaus are committed to hiring like crazy. I also have to think about the taxpayers. We'll talk about that a little bit as we move along here. We can go next slide, Julie.

All right, so I'm going to spend these next four slides talking through the major categories of our expenses and the first one which is the 70% of our budget currently, is FPDR 1 and 2 direct pay pension benefits. So, this is really about two things; one is economics, and one is demographics. On the economics point, we have that big 5% wage COLA that we expect to see again on July 1, 2023. That is in this high inflation situation, that's going to increase our FPDR 1 costs because they get COLAs equal to the pay increases of active employees, and it's going to make new FPDR 2 retirees even more expensive in relation to the FPDR 1 retirees they are replacing in the pension pool. But demographically, as I just mentioned, the retirees continue to have a higher death rate than usual. We have also experienced, as we expected over the last 18 months, a dip in retirements between the big retirement numbers we had in 2021 and then we do expect another not as big but still large retirement year next year. The higher mortality and the dip in retirements means that our pension population really hasn't changed very much. It's remained essentially level which is not normal, and which is why we see not a lot of growth, not as much as we would normally expect to see at that 4.4%. We only had 23 service retirements last year, and we've only had 43 service retirements so far this year, mostly in July because July of 2022 was a 27 pay date month. We do expect some more this year. And then as you saw in the earlier slide, we're looking at something closer to 75 for next year. If we just apply actuarial modeling, we would predict 58 service retirements next year, but, of course, we know that the 27 pay date months, that folks flock into those. So, we've moved some of that actuarial modeling into next year and assumed some people will delay and wait for that 27 pay date months, and some folks will go early and grab that 27 pay date month.

Moving on to the next slide where we talk about our second biggest expense which is PERS contributions. It's about 20% of our budget now, and by far the fastest growing part of our budget as it should be. This is essentially where we're phasing in that prefunded component and FPDR, we are merely the funding source for those contributions. You know, PERS benefits are not part of our plan in any way, and we don't have any role in administering PERS benefits, but the fund and our tax levy are the source for those contributions so that the general, and the general fund is not, obviously. So, what drives this budget is the number of FPDR 3 members, their pay levels, and PERS rates. And as you have heard from the actuaries today, the pay increases have been a little bit more dramatic than we were expecting. We continue to see more of that as we have a 5% COLA. The Portland Police Association also got a 2% across the board salary increase as part of their contract last time, so we've had some salary growth that was beyond what we were expecting a couple of years ago. PERS rates go up every two years, as I mentioned, but that was definitely predicted. The number of FPDR 3 members is not growing as quickly as we expected last year. Fire has hired more than usual as they planned, but police has had less success in bringing in all the new hires they wanted until about six months ago, when they started to be able to bring in more officers. So, when you put all those things together, we've had some things that were more expensive and some things that were less expensive, but at the end of the day, growth has not been quite as high as we would have expected in PERS contributions. That's mostly because of hiring, we assumed that police would be able to hire a lot more folks than they've been able to hire. But this forecast going forward does assume that we're going to hire 546 new sworn hires over the next five years, which is kind of a mind-boggling number. That would increase the number of PERS covered employees by about 1/3, and then make them about 80% of the active sworn workforce at the end of those five years. Trustee MacLowry and Trustee Kulp will be part of a dwindling group.

Moving on to disability benefits. Disability and funeral benefits are about 3% of our budget, so they are small financially, but I always like to emphasize that this plus retirement workshops and pension estimates are the primary way that the active membership interacts with FPDR during their working lives. There are some interesting things going on in disability benefits that you've already heard a lot about over the last year. This chart breaks the disability benefits into all their different categories. I threw on a couple of extra years of actuals here as compared with the other slides because it is so interesting as it relates to covid. You can see the orange line, which is short-term disability costs, which is where nearly all of our covid expenses for disability are, you can see that it really jumped up in fiscal year end 2021, that is mostly covid impact. The number of claims increased even more than that. The number of claims increased more than 60%. There were over 1100 disability claims in fiscal year end 2021, and fiscal year end 2022. How many active sworn employees did we have during that time? We had 1700 active, sworn employees during that two-year span, including folks who started and retired, and all those things, and we had 1100 claims. That's a very big uptick in disability claim volume, but you've heard Kim talk about that. You can really see that impact in the orange line. I want to mention the yellow line, which is medical costs, and we did talk about this last year but it kind of did the opposite thing and it really dipped, especially in fiscal year end 2022, and that is the impact of hospitals and everyone delaying a lot of medical care during the covid crisis and members weren't able to get the surgeries on time and all of those things, because the covid claims have not been terribly expensive on the medical front, fortunately. Then finally, I just wanted to note on the blue line which I think has triangles, right? That's that small increase in long term disability costs that I mentioned earlier where you can see we're coming down from kind of this low point in the current year and then going up in fiscal year 2024 because we anticipate, unfortunately, we have few people that are not going to be able to go back to work. And that is kind of an overview of disability costs, both in the past and going forward.

Moving on, this slide talks about administrative costs. This is one of the few areas of our budget that has at least some discretionary components. It's about 2% of our budget. I have growth of about 4.8% from the current year which is maybe less than you would expect considering that personnel services are 63% of our administrative costs, and overall personnel services are going up 9%. We have that 5% cost of living adjustment. We built into the budget, and this is all direction from city council on this piece but built in the budget for 2% to 3% merit raises for most but not all staff, plus health benefits increases of about 3 1/2%. When we put all that together, we get about 9% growth in the personnel budget, and some of that increase is also the addition of the new Disability Analyst position that you all added earlier this year where we just have half a year of costs for that position this year, but we'll have a full year of costs for that position next year. Costs for external materials, vendors, and services, so this is everybody that we buy stuff from outside of the city. There are a lot of examples but the largest are professional services for the disability program and the office lease are the two biggest things in there. We have those going up as well. Internal material and service also has a lot of items. This is everything that we buy from within the city. The two largest items in there are the City Attorney's office and the Bureau of Technology Services. Where internal materials and services, our administrative spending is actually going down more than 10% for next year as compared with this year but that's because of the one-time spending on our office move for this year which resulted in some one-time costs with facilities and BTS, because all the equipment had to be moved and reconnected and all of those things. I did want to pause and talk about the move for a minute because you can't see this in the slide, but we downsized our space from about 8,000 square feet to about 5,000 square feet. Is that about right, Sam? And that cut our lease costs by about $50,000 annually going forward and that was made possible by the fact that some folks are going to work from home some of the time and we don't need as much space. So, we've made that ongoing reduction. On top of that, Sam was able to negotiate a five-month rent abatement in the current year, so our rental expenses are much less this year. Otherwise, the growth rate would be a little bit more exciting. But very low costs this year, and that is really all I have to say at this kind of high level about expenses before I talk a little bit about revenue. Are there questions? Ok, I’ll keep on moving.

This is real straight forward since we really only have one real revenue. We do have other revenues, but they're dwarfed in comparison to property taxes. When you think about the fact that that orange slice of the pie, beginning fund balance, is really just leftover property taxes. Only about 1% of our revenues are coming from non-property tax sources. Let me talk about beginning fund balance on this slide for just a minute. So last year at this time, I expected to start the current year that we're in with about $25.3 million in fund balance and we actually wound up with $30 million in fund balance. That was for two reasons. The first was that taxes came in $3.2 million higher than expected, which is a good thing. Delinquencies surprised me, they surprised everybody. Delinquencies were historically low when we had predicted the opposite, that delinquencies would be higher during the pandemic. So, everybody, not just us, but everybody out there got more in tax revenue than they expected to last year. We also spent about $1 million less on disability than we feared because it turns out the worst of last year's covid wave was kind of dying down just as we were adopting the budget, but we didn't know that was going to happen at that time. So, we are spending down about $5 million of that balance this year and then I want to spend down another $5 million of that next year. My target for fund balance is $14 million to $20 million kind of depending on conditions. What's holding us back a little bit is police hiring. They haven't been able to hire enough. we need the money if they can hire, but then if they can't hire, then we're sitting on more money than I want to be sitting on so that's why that's a little bit of a dance with the police bureau around fund balance.

Let me move on and just say a few more words about property taxes. We need 6.1% more in tax revenue next year which, as I mentioned before, is less than our expenditure growth, because we're going to spend down at least $5 million of that fund balance and we don't need to hit the taxpayers up for that piece. I did just want to point out, we're asking for $193.7 million in tax revenue next year which is more than this year, but it's still less than what we asked for two years ago. That's probably all I would say about that slide. I'm not reading the slides to you. I can if you want me to, but you can read them.

Let's talk about the impact on tax rates. The box up there at the top are various assumptions that come from the city economist about how much he expects real market value to grow, how much he expects assessed value to grow, what he expects to happen with compression losses, and discount and delinquency losses. You can see that low number minus 3.7% in fiscal year end 2022 which we average 4% to 4 1/2% in delinquencies, so that's the surprising number that I mentioned before. Underneath that is where we take those numbers and current year taxes apply them into figuring out how much do we then have to levy. That's the required amount to make up for compression and discount and delinquency losses that are estimated at this point. And then we apply that to RMV and AV, which are based on the assumptions that the city economist has made about how those will grow and turn those into a rate. And then that chart at the bottom graphically illustrates that rate. I think everybody on the board knows this, but we care about the RMV rate because that's what the cap and city charter is based on. We care about the AV rate because that's what property tax bills are based on.

So, I do want to point out that 0% real market value growth that Scott from Milliman already mentioned in fiscal year end 2024. I had a long conversation with the city economist asking, are you sure? Are you really sure and how sure are you? That's a very low number, and there was a similar assumption in the past. He does feel quite strongly that the commercial office property values are still bleeding in the impacts of the pandemic, and that those values are going to continue to decline across the city. He's also very concerned about declining housing market prices as interest rates go up. So, he does not want to build in any real market value growth for next year, and then very slow growth for the year after that. But for assessed value, you can see we're kind of going gang busters on that with much higher growth, under normal conditions remember like if nothing else happens, it can only grow 3%. If you're building new things and doing new things, it can grow more. So, there's always the assumption for existing construction and new construction, but on top of that, the city is going to bring some urban renewal areas back into the general tax base and that you can really see with that 9% growth in fiscal year end 2025. That's good for the AV rate, because even as our expenses go up, we will be able to spread our taxes over a bigger base of assessed value taxpayers going forward. That's also why the RMV rate is growing faster than the AV rate, because the city economist is not predicting any increase in RMV at all next year and slow growth the next year but a big increase in the AV rate. The AV rate is growing but not very much; the RMV rate is growing a little bit more.

Before I talk about risks, which is the last thing I want to talk to the board about, I didn't say anything about other revenues. I don't want to give them totally short shrift, since they're only about 1% of the budget but they are primarily interest income and overhead charges from the police bureau when they do third party contract work for other folks, and we get part of the overhead charges, and subrogation revenue on disability claims when other third parties are at fault in accidents that our sworn folks experience.

And that is everything I have to say about property taxes. I'll pause for questions. Last couple of slides, let’s talk about risk which is, of course, very important just to offset things. This is to talk through, what are the things that might cause us to exceed this recommended budget and how should we plan for that risk? And it feels so refreshing to be in kind of a normal or almost normal, well, it feels normal compared to the last two years, risk environment where we still have plenty of risk out there and plenty of things that can go wrong but they're more known risks with less volatility, as I think we move more into this new normal. So, the first risk to put out there is that we do have two 27 pay dates next year in fiscal year end 2024, and that's happened three times before. The first year there were 64 retirements and the second year there were 64 retirements, which is kind of a funny coincidence. But that third year, there were 99. That third year was also fiscal year end 2020, when there were so many other factors. The pandemic and overtime related to protests and wildfires, and all of these things that I think were also incentivizing retirements across the public safety workforce. So, we've budgeted at 73, which is more than you would predict based on actuarial assumptions, but less than that 99 but more than that 64. But it's still a risk, particularly if a lot of folks retire in December. Then we will have higher pension expenses because we'll experience those for half of the year. If a lot of folks retire in June, that's ok, because those will be part of the following year's expenses. Hiring, I mentioned this. It's always a risk, the more folks that we hire, the more we have to pay in PERS contribution costs. Hiring forecasts are tricky, and they have to be negotiated with the police and fire bureaus because we need to match up with them in the budget process. I have never in all my time at the city including even before I came here experienced a year where police didn't plan to hire very aggressively, and I also can't recall a year where we didn't have enough budget to fund that hiring. I think aspirations generally outrun what can be delivered at police. That said, they are in the biggest push I’ve ever seen them in to hire a lot more folks. Even more unusual this year is that fire also wants to hire very aggressively, and Trustee MacLowry may have insight into this. Fire typically runs two 12-person academies a year. They can run three, they've done it before. But they’re hoping to run four if they can get enough budget authority for that over the next couple of years and really staff up more. I think there's actually more risk that fire will be successful because they always have very large applicant pools. That said, they have some logistical challenges around running that many training academies through because they don't send folks to an outside training. They do all of your training in house. So, a little bit more of a challenge. The bottom line is that I budgeted for most but not all of the hopeful hiring. Police thinks they're going to hire 45 more folks than I budgeted for, and fire thinks they're going to hire 13 more folks than I’ve budgeted for. What I tried to do was stay at the high end of realistic rather than all the way out at aspirational because, again, balancing not wanting to have a bunch of fund balance that we don't need. I don't want to take that from the taxpayers earlier than we need it. So, it is a risk they could actually go hire all of these folks as they plan, and then we will have more expenses than I’ve budgeted for.

Last thing on this slide is the Portland Firefighters Association contract. We almost always have an open contract, half the years there's an open contract. This year, it's the PFFA contract that will expire on June 30th. We always budget for the current contract terms to continue, but anything could happen, so we budgeted for just a cost-of-living adjustments at 5% on July 1st for them, and then add inflation in the out years. So, if there are salary increases beyond what we've budgeted for, across the board salary increases are mostly what I’m talking about. If there were bonuses, as there were in the police contract last time, Trustee MacLowry looks to me like I’m crazy, or schedule - he's like in my dreams! The negotiations, we'll know more as we go along, and any reductions in the scheduled hours that firefighters work which have to result in either more overtime or more hiring, would also increase costs.

The next slide is the last risk that I want to mention, of course, because it’s probably going to be part of our lives for forever, is talk about covid, which is at least this year continuing to cause these occasional spikes in our short-term disability costs and continuing to cause little spikes in sworn overtime. Because when a public safety employee is infected or has to quarantine, and the quarantine requirements at fire are more stringent because of the co-habituation situation that you have in a firehouse, then somebody has to pay for them to be off work. That somebody is us, and there needs to be overtime as folks come in to back fill those folks. And to the extent those folks are FPDR 3 members, that increases our PERS contribution costs. The main way covid impacts financially is with disability costs and with overtime. What we're doing now is assuming that we are going to continue to have covid costs at some level but we're budgeting them for about 50% below our peak in fiscal year 2021 and fiscal year 2022. So that seems to be the direction things are going where we're not going to get back, at least not soon, to pre-pandemic levels but that we are not remaining at the peak either. That is what we're doing with those. If there's some new variant that takes us back to the peaks that we were experiencing before, then we didn't budget for that. There is also some impact on property taxes here which plays into the rate that we talked about because that has a longer tail and we're waiting for it to see how it shakes out as it relates to not just covid itself, but lifestyle changes related to covid, like the commercial property values and there's upheaval in the interest rate market because of inflation, which could impact housing prices.

So how do we manage risk? First, we try to budget on the high end of realistic, but again, I’m always aware of wanting to balance what we're asking the taxpayers to fund with what we're going to need. Second, sometimes we will cushion a high-risk budget individually if we know a particular line item has more risk like disability, for example, we'll add a little cushion there. Mostly, we try to make sure that we have enough cash on hand in the form of fund contingency to manage fallout for whatever might go seriously awry. You'll see most operating funds have 10% contingency and we have not felt that's necessary at FPDR. Since 70% of our expenses are monthly pension benefits, those are fairly predictable. So, our standard rate has always been about 7%. We went up to 9% during the pandemic when there was just risk coming at us from everywhere and a lot of unknowns where we couldn't even get our arms around the size of the volatility. But for this year, as I did for the last year, I’m going to recommend that we drop back to our usual 7%, which would be $14 million, and that is enough to kind of cover everything that I mentioned there on the slide. We've gone through and kind of monetized those things. It's enough to cover 20 unbudgeted retirements, additional 3% increases in PFFA contract, all those things and still leave us with $8 million extra for anything crazy that came up. Once we've done that math, I feel really comfortable about going back to our usual 7%, and I do want to remind the board that in the worst-case scenario and anyone who is listening, it's not that we wouldn't be able to pay our expenses. We would borrow money either from another fund at the city, we would have to pay interest, obviously or we would borrow money on the capital markets. We'd obviously have to pay interest as well.

Last slide. The shore is in sight. As always, I like to leave you guys with some overarching budget points, like things that have either come up several times today or been a thread kind of running through the whole discussion. So, first is to just to remind you of something I’m sure painfully aware of. We are living through the highest period of inflation in 40 years. It impacts almost everything in our budget, it impacts benefits, it impacts administrative costs. When will it end? Nobody knows, but it has been slowly improving for the last six months as the Fed tries to bring us for this gentle landing instead of a crash landing. Of course, nobody knows how that will end, but inflation is driving everything up everywhere and we continue to hope and believe that will temper over the next year or two. Second, as we just discussed, covid costs seem to be settling down and becoming more predictable. We're no longer in that anything can happen environment and more into a place where we feel like we have some sense of how much higher costs will be because of covid. But as you've seen, those covid impacts ripple through all kinds of little corners of our budget that you might not think of at first glance, like the overtime. And then the third thing that we've talked about is that we have this continued excess fund balance that I would like to spend down, and that the slower sworn hiring than we expected at the police bureau. Those two things are really softening how much we need to increase taxes next year. We've been very lucky during the pandemic, and I hope budgeted very carefully in that we did have to draw on fund contingency, but not as much as I feared. We did have to draw on it but not as much as we thought and that in combination with those slower PERS contributions has really allowed us to build up some fund balance that we need to kick back to taxpayers now. And that is it for me so first, any more questions? Total silence, all right. It’s good to go last.

Trustee Huang: I have one quick question. I noticed you took into consideration the impact of covid. So, I’m assuming the flu or other respiratory viruses didn't have any material impact this year, right?

Stacy Jones: That's a very interesting question that I don't know the answer to. Kim, are you on the call?

Kim Mitchell: I am.

Stacy Jones: Can you speak to that?

Kim Mitchell: Yes, I can, and the flu hasn't had much impact. Typically, what we will see during this time of year, James, is an increase in pneumonia type claims, but we haven't seen that yet. So far, covid is the thing. The flu hasn't had any impact. It's all been covid related, covid identified type illnesses.

Trustee Huang: Thank you.

Stacy Jones: Any other questions or concerns? Is there anything that the board would like changed? Any item that the board would like to see more detail on? No, ok looks like we're good. Before you guys talk about motions to adopt the budget, which you do need to do since you are the legal authority to adopt the budget, I always want to just say that we may have to make small technical changes. You might remember this from last year, to sync up with the police and fire bureaus and other internal service funds as the mayor and council make their decisions, but I’ll bring anything that is programmatically or financially significant back to the board. It's more often a case we have to add $150 to this thing and that kind of thing.

Trustee MacLeod: Thank you. I thought that was really well done. One thing that jumped out at me when you were talking that correlated back to our earlier conversation, but I don't want to reopen that door. The PERS contribution rates, while stable this year and the next couple of years, are projected to increase by about 5% from fiscal year end 2026 and another 5% for fiscal year end 2028. So, kind of rolling back to the conversation and pressure on current taxpayers to pay for things, these PERS contributions increasing at these rates, that means in the next five years, we're looking at pension contributions going up about 10% of payroll for the FPDR 3 people. So, any other changes of FPDR 1 and 2 funding would be on top of those increases.

Stacy Jones: That is an excellent point, Trustee MacLeod. I used to say a couple of years ago when we started seeing these dramatic increases in the PERS contribution rates, everybody knew that the phase-in in 2006 was going to cost more money. Of course it was, we're going to fund two generations of pensioners at the same time, but nobody I think fully anticipated the degree to which PERS contribution rates were going to go up. That has made the impact to this generation of taxpayers even more significant than anticipated.

Trustee MacLeod: Ok. That was very good, thank you. Any questions or comments? Can I have a motion to accept this budget as presented?

Trustee Kulp: I'll make a motion.

Trustee MacLeod: Thank you. Can I have a second?

Trustee Huang: I'll second.

Trustee MacLeod: Thank you. All those in favor of approving the budget, signify aye.

Trustee Huang: Aye.

Trustee Kulp: Aye.

Trustee MacLowry: Aye.

Trustee MacLeod: Aye. All right, motion passes.

Stacy Jones: All right, thank you all. I think the next item is the summary of expenditures for the board, and you have all already heard enough from me for one day and there's nothing all that significant on there to point out to you. But does anyone have any questions?

Trustee MacLeod: No. Thank you.

INFORMATION ITEMS 2, 3, AND 4 – LEGISLATIVE AND FPDR UPDATES; FUTURE AGENDA ITEMS

Director Hutchison: I'll jump in here really quick. There's a couple of last few things on the agenda. Legislative updates, I'm going to push that off to March. The legislature just started last week. All I can tell you is I've reviewed about 2,000 bills to determine how many are going to impact FPDR and it's pretty amazing. It's awful light this year, maybe eight so far. I expect another 500 more. Again, 2/3 of these bills won't make it to the end. I'll keep you appraised of the significant ones as we go forward. So, I'll give a little more detail in March. Another thing on FPDR updates is I think you've heard a lot that the charter change that was voted approved by the citizens of Portland, and its impact on FPDR. I've been involved with that reading every line of relevant changes and frankly, it's got this much just a very small impact to FPDR and almost all of that directly impacts me as the Director. It changes who can hire and fire me, from the mayor and city council to the city manager. The hiring process goes city manager will make the decision, hire will be vetted with the board, and then the city council has to approve. That's the new path that's essentially the same, but the mayor is not in it. In order to terminate me, you all have to be brought into the discussion. I don't think you have any authority to say yes or no, but it has to be vetted through the board, that won't change, it will just come from the new city manager. But the rest of it still facing all your responsibilities, all the plan design, everything was left intact.

Also, the election of Rene Gonzalez who was voted in to replace Joanne Hardesty. He is the commissioner in charge of the Fire Bureau, Bureau of Emergency Management and the 911 Communications Center, as well as FPDR. So again, he just sees some of the administrative stuff. You as the board still do the policy, the direction, the plan oversight, the rules, the budget. That doesn't change with him coming on board and again, most of that responsibility is me and how I interact with him. I'm small potatoes given what he's got here and the big issues going on with some of the other bureaus. I have not met with him, and I probably won't meet with him for another month or two, which is pretty standard for my commissioner in charge. Their idea is you need to do what you need to do and don't bring it up unless you need any help so that's good. That's where you are with the charter change and the new commissioner. Stacy mentioned the disability analyst. It was posted last week and will close next week. We're a few weeks behind but getting in through some of the hiring bureaucracy gets pretty crazy at the city these days. And then Kim will head up an interview team and we're hoping, keep our fingers crossed here, probably in a month or so, we'll have a decision made and maybe even have the person on board.

Future meeting agenda, so the next meeting is March 21st. It will be another hybrid meeting just like this. We'll discuss the annual benefit adjustment, also known as the COLA next meeting, it will be the first of possibly two discussions. And we'll do, as I mentioned earlier, the presentation of the ETOB test and if I can get the independent actuary here as well as PERS here, that would be good so they can explain what the process is and answer any questions you want to have answered about that. That's pretty much all, I tried to push that through fast. I'd like to thank Julie Hall trying to get this all organized here. We still have our one person here, but we had a team of five or six people at the beginning here trying to get this set up electronically for us. I wanted to thank all of them. I also wanted to thank Lisa Knight, Kevin Machiz, and Del Stevens for coming in to present. It's unique that we've had three people request to meet so we gave them the opportunity to do that. Thank you all very much. I think we're done.

Trustee MacLeod: All right. thank you, everybody, for your attention and focus on a long meeting. I think it was good and we're adjourned. All right, take care.

FIRE AND POLICE DISABILITY AND RETIREMENT
City of Portland, Oregon

1800 SW First Ave., Suite 250, Portland, OR 97201 · (503) 823-6823 · Fax: (503) 823-5166
Samuel Hutchison, Director fpdr@portlandoregon.gov

DATE: March 8, 2023

TO: FPDR Board of Trustees

FROM: Stacy Jones, FPDR Deputy Director/Finance and Pension Manager SJ

RE: FPDR Two Pension COLA for July 1, 2023

Action Item Before the Board

The FPDR Board of Trustees traditionally awards an annual cost-of-living adjustment (COLA) to FPDR Two retirees, survivors, and alternate payees on July 1. This memo provides information to support the Board in making an FPDR Two COLA decision for 2023. The Trustees generally discuss and approve a COLA at the March and/or May Board meeting. At this year's March meeting, the Board may either:

1) Vote to approve an FPDR Two July 1, 2023 COLA percent or methodology, OR
2) Request additional information or analysis from staff, and delay a vote to the May meeting

Board Authority

The Portland City Charter grants the FPDR Board of Trustees sole discretion over the timing and amount of FPDR Two pension COLAs, subject to the limitation that "the percentage rate of change shall not exceed the percentage rate applied to retirement benefits payable to police and fire employees by the Public Employees Retirement System of the State of Oregon." While Oregon Public Employees Retirement System (PERS) police and fire retirees receive a variety of annual COLA percentages based on the timing of their service and the amount of their PERS benefit, the City Attorney's Office has interpreted the Charter language to mean the Board may award *up to* the maximum rate provided by PERS, which is 2%.

Inflation

The consumer price index for urban consumers in the West region (CPI-U West) was 6.25% for calendar year 2022.

Comparison to Last Year

The same consumer price index was 7.65% for calendar year 2021. In light of this historically high inflation, the Board awarded the maximum COLA (2%) to all FPDR Two beneficiaries for July 1, 2022. As macroeconomic conditions remain broadly similar to last year, and the composition of the Board is identical, FPDR staff have assumed the Board may wish to award a 2% COLA again for July 1, 2023. However, the Board may of course consider other options. If the Board would like additional information or analysis to compare alternatives, staff will prepare requested materials for the May Board meeting.

Considerations

Historically, the Trustees have considered many factors in making the annual FPDR Two COLA decision:

- Inflation and the erosion of purchasing power for members and their survivors
- Taxpayer cost
- Risk of the FPDR tax levy hitting the $2.80 cap in City Charter
- Desirability, or not, of maintaining a connection to the PERS COLA methodology
- Economic pressures/context for both taxpayers and beneficiaries

Costs and Impacts of a 2% FPDR Two COLA for July 1, 2023

A 2% COLA award for FPDR Two beneficiaries on July 1, 2023 would result in the following approximate costs to the FPDR Fund and impacts for FPDR Two members, survivors and alternate payees:

FPDR Two	
COLA Percent	2%
Total Beneficiaries[1]	1,822
Median Monthly Increase	$128.01
Range of Individual Monthly Increases	$4.59 - $323.99
FPDR Cost, FY 2023-24[2]	$224,029

Background

As the Board may recall from previous presentations and discussions, the FPDR COLA method and the PERS COLA method were identical until the PERS method was changed by the Oregon Legislature and Oregon Supreme Court. That earlier method (known as "Old PERS") resulted in a 2% COLA whenever inflation exceeded 2%, and also allowed retirees to carry over "excess" in years when inflation exceeded 2%. That carry over could then be "spent down" to bring beneficiary COLAs up to 2% in the relatively infrequent years when inflation was less than 2%.

In 2014, the PERS COLA method changed to a blended rate based both on service timing and individual pension amounts. Those who completed PERS service before October 8, 2013 continued to have their COLAs calculated in accordance with the "Old PERS" methodology, and thus receive 2% each year. Each PERS retiree with service after October 8, 2013 receives an individual COLA rate that is a blend of 0.15%, 1.25%, and the "Old PERS" method, depending on their unique service timing and benefit amount.

Since 2014, the FPDR COLA methodology has always been more generous than the new PERS COLA methodology. The FPDR Board has sometimes selected a modified version of the new PERS COLA method, and sometimes chosen to award the maximum 2% COLA to all beneficiaries. Even when a modified version of the new PERS COLA method has been employed, the FPDR Board has never applied a lower COLA rate to higher pension amounts (as PERS does), and the FPDR Board has sometimes selected a higher rate to apply to periods of service after October 2013 (for example, 1.75% instead of the PERS rate of 1.25%).

July 1, 2023 Pension COLA for FPDR One Beneficiaries

The Board does not have discretion over annual pension COLAs for FPDR One retirees and survivors. FPDR One pensions are a percent of active fire fighter and police officer pay on July 1 each year. Active police officer pay is scheduled to increase by 5% on July 1, 2023; FPDR One Police pensions will grow in concert. Increases for active fire fighter pay on July 1, 2023 are unknown, and therefore FPDR One Fire pension increases are also uncertain. (The Portland Fire Fighters Association contract expires on June 30, 2023 and a successor contract is still under negotiation.) If FPDR One Fire beneficiaries were to receive the same COLA as FPDR One Police beneficiaries on July 1, 2023 (5%), the FY 2023-24 FPDR cost for the FPDR One Fire COLA would be $25,289.

FPDR One		
	Police	Fire
COLA Percent	5%	Unknown
Total Beneficiaries[1]	141	134
Median Monthly Increase	$165.79	Unknown
Range of Individual Monthly Increases	$62.09 - $323.95	Unknown
FPDR Cost, FY 2023-24[3]	$27,871	Unknown

[1] As of March 1, 2023

[2] For simplicity of modeling, assumes no changes to the FPDR Two beneficiary population between now and June 30, 2024 (no new retirements, deaths, or new surviving spouses).

[3] For simplicity of modeling, assumes no changes to the FPDR One Police beneficiary population between now and June 30, 2024 (no deaths or new surviving spouses)

FIRE AND POLICE DISABILITY AND RETIREMENT
City of Portland, Oregon

1800 SW First Ave., Suite 250, Portland, OR 97201 · (503) 823-6823 · Fax: (503) 823-5166
Samuel Hutchison, Director **fpdr@portlandoregon.gov**

DATE: March 8, 2023

TO: FPDR Board of Trustees

FROM: Stacy Jones, FPDR Deputy Director/Finance and Pension Manager SJ

RE: New Actuarial Services Contract

Action Item Before the Board

FPDR staff are asking the Board of Trustees to approve a not-to-exceed amount and the contract terms outlined below for a new actuarial services contract with Milliman, Inc. FPDR staff are also asking the Board to grant the FPDR Director authority to complete contract negotiations within the parameters and amounts discussed below and sign an agreement. This action requires a Board motion and three affirmative votes.

Contract Deliverables and Pricing

	Due Date	Fixed Price in Year 1	Annual Increase for Years 2 - 5		Current Price in Current Contract
Annual Financial Reporting Schedules Under GASB 67/68	August 25 each year	$5,500	CPI-W for West Region		$5,200
Biannual Plan Valuation	January 10 of odd years	$40,000	CPI-W for West Region		$39,000
Biannual Tax Levy Analysis	January 10 of odd years	$16,000	CPI-W for West Region		$15,500
Experience Study	March 31, 2026	$38,000	N/A		$37,500
Domestic Relations Order (DRO) Calculations	Within 30 days of receipt	$900 each	None		$850
Ad-hoc Analyses	Negotiable	$105 - $480/hour	CPI-W for West Region		$195 - $400/hour

Duration and Proposed Not-to-Exceed Amount

The term of the proposed contract is April 1, 2023 – March 31, 2028, with an option to extend for up to five additional years. (FPDR's current actuarial services contract expires on March 31, 2023.) The recommended not-to-exceed (NTE) amount for this five-year contract is $350,000, calculated as follows:

	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28		Total
Projected CPI-W, West Region, from City Economist		2.9%	2.3%	2.1%	2.1%		
Experience Study			$38,000				$38,000
Plan Valuation		$40,000		$41,779			$81,779
Tax Levy Analysis		$16,000		16,712			$32,712
GASB 67/68 Schedules	$ 5,500	$5,660	$5,790	$5,911	$6,035		$28,896
DROs (Estimate = 15/year)	$13,500	$13,500	$13,500	$13,500	$13,500		$67,500
Ad-Hoc Work							
Estimated 10 hrs/year @ Principal Actuary Rate	$4,800	$4,939	$5,053	$5,159	$5,267		$25,218
Estimated 20 hrs/year @ Consulting Actuary Rate	$6,500	$6,689	$6,842	$6,986	$7,133		$34,150
Estimated 15 hrs/year @ Actuarial Analyst Rate	$3,375	$3,473	$3,553	$3,627	$3,704		$17,732
Cushion	$5,000	$5,000	$5,000	$5,000	$5,000		$25,000
Total	**$33,675**	**$90,260**	**$72,738**	**$93,675**	**$35,639**		**$350,986**

This compares with an NTE amount of $615,000 for the previous ten-year contract period, and with actual spending of appropriately $260,000 for the previous five fiscal years (FYE19 – FYE23). Note that of the $350,000 recommended NTE amount for this contract, only $181,387 is for known, certain costs: one experience study, two plan valuations, two levy analyses, and five financial reporting schedules. Price increases for these individual deliverables range from 1.3% to 5.9% over current rates. The remaining recommended NTE amount is for DRO calculations, whose number is unpredictable and uncontrollable, and contingency for any ad-hoc analyses or studies the Board may request over the next five years or CPI values higher than estimated (which would in turn further increase Milliman rates).

The Board is required to approve any contract extensions and/or increases to the not-to-exceed amount.

Firm Selection Process

FPDR published a Request for Proposals through the City of Portland's Procurement web site (Buyspeed) on December 15. The City received five proposals before the submission deadline on

January 31. An evaluation committee comprised of myself, Trustee MacLeod, the City Controller, an FPDR financial analyst, and a member of the City's Minority Evaluator Program scored the proposals in accordance with City rules and the evaluation framework detailed in the RFP. Points were awarded based on each evaluator's assessment of the proposed project team, the proposing firm's capabilities, the proposed project approach & understanding, proposed cost, and corporate responsibility of the proposing firm. Milliman, Inc. earned the most total points in the evaluation process and was also the top choice of each individual evaluator.

Purpose of Contract

Pension plans require actuaries to perform a variety of services, including:

- Calculate the net present value of the Plan's liabilities, and other associated values and measures, in accordance with specific actuarial methods, techniques and standards. Inclusion of this information in both the FPDR annual audit and the City of Portland's Annual Comprehensive Financial Report is legally required.
- Conduct plan experience studies to develop probabilistic assumptions used for a variety of purposes, including developing the budget and calculating the plan valuation. Examples of this are probabilities of member death, retirement, disability, and marriage at different ages, service levels, etc.
- Divide pensions in accordance with divorce-related court orders, which requires longevity modeling for both the member and the alternate payee as well as time-value discounting.
- Provide long-term cost and savings estimates related to plan amendment, design, funding, or other parameters.

In addition, FPDR requires its actuaries to perform a unique service:

- Assess the adequacy of the capped FPDR tax levy to fully fund FPDR plan benefits over 20 year periods in concert with the biannual plan valuation

Finally, FPDR's status as a pay-as-you-go plan means that FPDR does *not* require these actuarial services needed by prefunded plans:

- Calculate a current value for the plan's long-term assets
- Calculate a funded status for the plan
- Calculate a required annual contribution to maintain the funded level of the plan and/or develop a strategy and recommendation to pay down any unfunded liability

Status of Contract Negotiation and Next Steps

Two minor items remain under negotiation with Milliman:

1) FPDR staff are seeking a cap on annual inflationary increases in the contract pricing.

2) FPDR staff are discussing whether a formal tax levy adequacy report, in addition to the usual Board presentation, should be added to the required deliverables.

Assuming Board approval, the next steps are:

- FPDR staff will complete negotiations related to the two items disclosed above
- Milliman will sign the contract and submit additional required documentation, including proof of insurance, business tax registration documents, and EEO certification
- The City Attorney's office will review and approve the contract
- The Chief Procurement Officer will review and sign the contract
- The City Auditor's office will review, sign, and release the contract
- A copy of the fully executed contract will be returned to Milliman with a notice to proceed

City Council is not required to approve the contract.

RESOLUTION NO. 548

WHEREAS, the Board of Trustees of the Fire and Police Disability and Retirement Fund (FPDR) desires an actuarial consultant to provide biannual plan valuations and tax levy adequacy analyses, annual accounting schedules, plan experience studies, domestic relations order calculations, and other general actuarial consultation and advisory services, and

WHEREAS, a bid process through the City's Request for Proposal (RFP) process was conducted and an actuarial consultant was selected by the FPDR Selection Committee; and

WHEREAS, the FPDR Selection Committee selected Milliman Actuarial Services; and

WHEREAS, Milliman has indicated that they are ready, willing and able to act as actuarial consultant and provide services to the Board of Trustees and FPDR staff; and

WHEREAS, a contract between FPDR and Milliman is attached hereto and by this reference made a part hereof.

NOW, THEREFORE, BE IT RESOLVED by the Board of Trustees of the FPDR, that the FPDR Director be and is hereby authorized to select, negotiate, initiate, and enter into a contract with Milliman to provide actuarial consultant and advisory services, valuation services, experience analyses and other general duties for a five (5) year period not to exceed $350,000.

ADOPTED by the Board of Trustees on this 21st day of March 2023.

____

Sam Hutchison, FPDR Director

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CITY OF PORTLAND

CONTRACT FOR GOODS AND SERVICES
for
ACTUARIAL SERVICES

Contract Number: _________

As authorized by the Portland Fire and Police Disability and Retirement Board of Trustees, this Contract is made effective on April 1, 2023 ("Effective Date") by and between the City of Portland ("City"), a municipal corporation of the State of Oregon, and Milliman, Inc. ("Contractor"), by and through their duly authorized representatives. This Contract may refer to the City and Contractor individually as a "Party" or jointly as the "Parties."

The initial Term of this Contract shall be from the Effective Date through March 31, 2028, with the City's option to extend for an additional five years, for a total not to exceed ten years. The total not-to-exceed amount under this Contract for the initial Term shall be $350,000.

Party contacts and Contractor's and City's Project Manager for this Contract are:

For City of Portland:	For Contractor:
Name: Stacy Jones	Name: Scott Preppernau
Title: Deputy Director	Title: Principal & Consulting Actuary
Address: 1800 SW 1st Ave, Suite 250	Address: 1455 SW Broadway, Suite 1600
City, State: Portland, OR	City, State: Portland, OR
e-mail: stacy.jones@portlandoregon.gov	e-mail: scott.preppernau@milliman.com
Copy to: Nicky Almirol-Robbins	Copy to: Matt Larrabee
Procurement Services	Milliman, Inc.
1120 SW 5th Ave.	1455 SW Broadway, Suite 1600
Portland OR 97204	Portland OR 97204

Scope and Consideration

a. Contractor shall perform the Services and provide the Deliverables set forth in the Statement of Work by the due dates specified in the Contract.
b. City agrees to pay Contractor a sum not to exceed $350,000 for accomplishment of the Project.
c. Payments shall be made to Contractor according to the schedule identified in Exhibit A, the Contractor's Price.

Recitals:

WHEREAS, to further its government operations, the City of Portland, Bureau of Fire and Police Disability and Retirement desires to contract for actuarial services to provide biannual plan valuations and tax levy adequacy analyses, annual financial reporting schedules, a plan experience study, domestic relations order calculations, and other general actuarial consultation and advisory services (the "Project"); and

WHEREAS, the City issued Request for Proposal (RFP) 129425 for actuarial services; and

WHEREAS, Contractor, in its Proposal dated January 31, 2023 submitted in response to the City's RFP, represented that it has the knowledge, experience, and expertise in actuarial services for public pension plans required to perform these services; and

WHEREAS, the City selected Contractor based on its Proposal;

THE PARTIES HEREBY AGREE AS FOLLOWS:

SECTION 1 DEFINITIONS

General Definitions. These definitions apply to the entire Contract, subsequent Amendments, and any Change Orders or Task Orders, unless modified in an Amendment. If any definition contains a substantive provision conferring rights and/or obligations upon a Party, then effect shall be given to the substantive provision.

"Acceptance" means the Deliverable demonstrates to the City's satisfaction that the Deliverable conforms to and operates according to the Acceptance Criteria, and if required, has successfully completed Acceptance review, and for Deliverables not requiring Acceptance Testing that the Deliverable conforms to the Acceptance Criteria or the City's Specifications.

"Acceptance Certificate" means a written instrument by which the City notifies Contractor that a Deliverable has been Accepted or Accepted with exceptions, and Acceptance Criteria have been met or waived, in whole or in part.

"Acceptance Criteria" means functionality and performance requirements determined by the City, based upon the Specifications, which must be satisfied prior to City's Acceptance of a Deliverable. City and Contractor shall agree upon written Acceptance Criteria.

"Acceptance Date" means the date on which the City issues an Acceptance Certificate for the Deliverable(s).

"Affiliates" means, for Contractor, any individual, association, partnership, corporation or other entity controlling, controlled by, or under common control. The term "control" means the power to direct or cause the direction of the management and policies of an individual or entity, whether through the ownership of voting securities, by contract, agreement or otherwise.

"Amendment" means a written document required to be signed by both Parties when in any way altering the Master Terms and Conditions of the Contract, Contract amount, or substantially altering a Statement of Work.

"Business Day" means a twenty-four hour day, excluding weekends and City holidays, beginning at midnight and ending at midnight twenty-four hours later.

"Calendar Day" means a twenty-four hour day, including weekdays, weekends and holidays, beginning at midnight and ending at midnight twenty-four hours later.

"Change Order" means a document, agreed and signed by both Parties, that changes an existing Statement of Work or Task Order. Change Orders cannot change Contract amount or Master Terms and Conditions.

"Confidential Information" means any information that is disclosed in written, graphic or machine-recognizable form and is marked or labeled at the time of disclosure as being Confidential or its equivalent, or, if the information is in verbal or visual form, it is identified as Confidential or proprietary at the time of disclosure, or a reasonable time thereafter. Information shall always be considered Confidential Information, whether or not it is marked or identified as such, if it is described by one or more of the following categories: (1) non-public financial, statistical, personnel, human resources data or Personally Identifiable Information as described in the Oregon Consumer Identity Theft Protection Act; (2) business plans, negotiations, or strategies; (3) unannounced pending or future products, services, designs, projects or internal public relations information; (4) trade secrets, as such term is defined by ORS 192.345(2) and the Uniform Trade Secrets Act ORS 646.461 to 646.475; (5) information which is exempt from disclosure per Oregon Public Records Law; (6) attorney/client privileged communications; (7) information which is exempt per federal laws (including but not limited to copyright, HIPPA); and (8) information relating to or embodied by designs, plans, configurations, specifications, programs, or systems including without limitation, data and information systems, any software code and related materials and processes, Customizations, Configurations, Updates, Upgrades; and any Documentation. Confidential Information does not include any information that: is or becomes publicly known through no wrongful or negligent act of the receiving Party; is already lawfully known to the receiving Party without restriction when it is disclosed; is, or subsequently becomes, rightfully and without breach of this Contract or any other agreement between the Parties or of any applicable protective or similar order, in the receiving Party's possession without any obligation restricting disclosure; is independently developed by the receiving Party, as shown by reasonable written documentation, without breach of this Contract; or is explicitly approved for release by written authorization of the disclosing Party.

"Contract" means the Master Terms and Conditions including all exhibits, attachments and schedules and their constituent parts listed in the Order of Precedence or incorporated by reference.

"Contract Price" means the not-to-exceed price agreed upon by the Parties for all Services.

"CPI-U West Region index" means the Consumer Price Index for All Urban Consumers: All Items in West Region (not size or subregion specific), otherwise known as series CUUR0400SAO, as published by the U.S. Bureau of Labor and Industry.

"Deliverable(s)" means the Services, Documentation or documents or tangible work products described in the Statement of Work to be provided to the City by Contractor under this Contract.

"Documentation" means user manuals and other written materials in any form that describe the features or functions of the Deliverables and Services, including but not limited to published specifications, online instructions and help, marketing materials, technical manuals, and operating instructions provided by Contractor to the City, or readily available to the public, or as required to be produced by Contractor subject to the terms of this Contract.

"Defect" means any error, problem, condition, bug, or other partial or complete inability of a Service, Deliverable or component thereof, to operate in accordance with the applicable Specifications.

"Final Acceptance" means the City has determined that all Deliverables have successfully completed Acceptance Testing, which demonstrates to the City's satisfaction that all Deliverables conform to and operate according to the Acceptance Criteria, applicable Documentation, and Contractor's representations; and that for Deliverables not requiring Acceptance Testing, that the Deliverables conform to the Acceptance Criteria or the City's specified requirements.

"Force Majeure Event" means an exceptional and unavoidable occurrence beyond the reasonable control of the affected Party, such as, riots, epidemics, war, government regulations, labor disputes, fire, natural phenomena, or other causes beyond such Party's reasonable control.

"Goods" means materials supplied by Contractor under this Contract.

"Intellectual Property Rights (IPR)" means any patent rights, copyrights, trade secrets, trade names, service marks, trademarks, trade dress, moral rights, know-how and any other similar rights or intangible assets to which rights of ownership accrue, and all registrations, applications, disclosures, renewals, extensions, continuations, or reissues of the foregoing now or hereafter in force.

Key Personnel" means the specific individuals identified in Section 3.12 to fill Key Positions.

"Key Position" means a job position critical to the success of the Project as identified in Section 3.12 of this Contract.

"Key Position" means a job position critical to the success of the Project as identified in Section 3.12 of this Contract.

"Master Terms and Conditions" means the body of text from the preamble through the signature page of this Contract.

"Material Breach" means any breach of this Contract that causes, caused, or may cause substantial harm to the non-breaching Party or substantially deprives the non-breaching Party of the benefit it reasonably expected under this Contract.

"Personally Identifiable Information (PII)" means information that can be used on its own or with other information to identify, contact, or locate a single person, or to identify an individual in context, as described in the Oregon Consumer Identity Theft Protection Act.

"Project" means the overall delivery of the Services including, without limitation, design, development, integration, implementation, testing, support, and any Deliverables any of which Contractor may be providing in whole or in part.

"Proposal" means Contractor's response to the City's RFP referenced on page one of this Contract.

"Services" means ordinary or professional services performed by Contractor under this Contract.

"Statement of Work" (SOW) means the written detailed specifications of the Services(s) to be delivered to the City by Contractor, including any Change Orders or Task Orders subject to the terms and conditions of this Contract.

"Subcontractor" means any person or entity under the control of Contractor, other than an employee of Contractor, utilized by Contractor to perform all or part of this Contract.

"Task Order" means any written request or document issued by the City and signed by both Parties for additional Service(s) to be provided under this Contract. Task Orders shall document the description of Services, price, payment schedule, Project and performance schedule, due dates, milestones and Deliverables.

"Term" means the period of time that this Contract is in effect as stated on page one.

SECTION 2 ORDER OF PRECEDENCE

2.1 Order of Precedence. In the event there is a conflict or ambiguity between the terms and conditions of one portion of this Contract with another portion of this Contract, the conflict or ambiguity will be resolved in accordance with the order of precedence below. This order of precedence designates which portion of the Contract takes precedence over the other for purposes of interpretation. Contractor's hyperlinks contained herein will not supersede or alter the Master Terms and Conditions. For the avoidance of doubt, no other terms and conditions will override the Parties' obligations in the Confidentiality, Indemnification, or Choice of Law provisions in these Master Terms and Conditions. In this Contract the order of precedence shall be:

1. Amendments

2. Master Terms and Conditions
3. Exhibit A, Contractor's Price
4. Change Orders
5. Exhibit B, Statement of Work
6. Exhibit C, City RFP No. 129425 and Addendums
7. Exhibit D, Contractor's Proposal, including any information hyperlinked therein

SECTION 3 GENERAL AND ADMINISTRATIVE PROVISIONS

3.1 Term. This Contract shall begin on the Effective Date and end upon the expiration date set forth on page one of this Contract unless terminated or extended under the applicable Contract provisions.

3.2 Point of Contact. Contractor shall be the sole point of contact for the City with regard to this Contract and the System.

3.2.1 Written Notifications. All notices to, and other written communication between the Parties shall be deemed received five (5) Business Days after being sent by first class mail, or upon receipt when sent by courier services, or by e-mail. All notices and written communications shall be sent to the Parties set forth on page 1 of the Contract, or to such other places as they may designate by like notice from time to time. Each Party shall provide written notice of any changes to the Party's contacts within thirty (30) Calendar Days.

3.3 Changes to Contract.

3.3.1 Amendment of the Contract. Any changes to the provisions of this Contract shall be in the form of an Amendment. No provision of this Contract may be amended unless such Amendment is approved as to form by the City Attorney and executed in writing by authorized representatives of the Parties. If the requirements for Amendment of this Contract as described in this section are not satisfied in full, then such Amendments automatically will be deemed null, void, invalid, non-binding, and of no legal force or effect. The City reserves the right to make administrative changes to the Contract unilaterally, such as extending option years and increasing compensation. An administrative change means a written Contract change that does not affect the substantive rights of the Parties.

3.3.2 Change Orders to a Statement of Work. The City and Contractor can agree to make changes, at any time to a Statement of Work or Task Order in the form of a Change Order. Contractor agrees to timely alter the delivery of Products or Services accordingly. If such changes materially increase or decrease Contractor's obligations, the Parties shall execute an Amendment to the Contract, and if the amount of such adjustment is not calculable as a function of hours or tasks, the Parties shall negotiate in good faith a modified amount.

3.4 Time is of the Essence. The Parties agree that time is of the essence as to the delivery of Deliverables and performance of Services under this Contract. By executing this Contract and accepting the Statement of Work, Contractor agrees that the time limits specified in the Statement of Work are reasonable. By accepting late or otherwise inadequate performance of Contractor's obligations, the City will not waive its rights to require timely performance of Contractor's obligations thereafter.

3.5.1 Late Delivery. In the event that any specified delivery date is not met, Contractor shall be liable for any loss, expense, or damage resulting from delay in delivery or failure to deliver Deliverables or provide Services which is due to any cause except as set forth in Force Majeure. In the event of delay due to any such cause, the City may obtain substitute Services from another source and bill all additional costs directly to Contractor who shall remain financially liable for all additional acquisition costs.

3.5.2 Best Efforts. Contractor shall use best efforts to minimize any delay in the provision of Deliverables or performance of Services. If Contractor anticipates any delay that may prevent timely performance of Contractor's obligations under this Contract, Contractor shall promptly notify the City, including the anticipated length of the delay, the cause of the delay, measures proposed or taken to prevent or minimize the delay, and the timetable for implementation of such measures.

3.6 City Reporting Requirements. The City is required to track certain types of contract data for reporting purposes. Items which the City must report on may include, but are not limited to, Subcontractor utilization, Minority, Women, Emerging Small Business, Service-Disabled Veteran Business Enterprise (D/M/W/ESB/SDVBE) participation and Subcontractor/Supplier Payment. The City will enforce all diversity in workforce and D/M/W/ESB/SDVBE subcontracting commitments made by Contractor in its Proposal.

3.7 Payment. Payment(s) shall be in accordance with the payment schedule set forth in Exhibit A: Contractor's Price.

3.7.1 Payment shall be issued by the City net thirty (30) Calendar Days from receipt of a complete and acceptable invoice from Contractor. Contractor invoices must contain Contractor's name and address; invoice number; date of invoice; Contract number and date; description of Products and/or Services; quantity, unit price, (where appropriate), and total amount; City-required reporting, if any, and the title and phone number of the person to whom payment is to be sent. The City may stipulate how line items are entered on an invoice to ensure compatibility with the City's accounting and financial systems and to facilitate payment to Contractor.

3.7.2 The City makes payments via electronic fund transfers through the Automated Clearing House (ACH) network. To initiate payment of invoices, Contractor shall execute the City's standard ACH Vendor Payment Authorization Agreement. Upon verification of the data provided, the ACH Vendor Payment Authorization Agreement will authorize the City to deposit payment directly into specified Contractor accounts with specified financial institutions. All payments shall be made in United States currency.

3.8 Payment of Taxes/Contractor Shall Withhold. Contractor shall, at its own expense, timely (a) pay all salaries, wages, and other compensation to its employees; (b) withhold, collect, and pay all applicable federal, state, and local income taxes (domestic or foreign), FICA, Medicare, unemployment insurance and any other taxes or charges in connection with its employees; and (c) provide and pay for workers compensation insurance and any statutory or fringe benefits to employees. Contractor shall be solely responsible for all such obligations for its employees. Contractor shall also ensure that any Subcontractor shall comply with the foregoing obligations for its employees. The City shall have no duty to pay or withhold such obligations.

3.9 Records and Audits

3.9.1 Records Retention. Contractor shall maintain current financial records in accordance with Generally Accepted Accounting Principles (GAAP). Contractor agrees to maintain and retain and retain all financial records, supporting documents, statistical records and all other records pertinent to this Contract during the Term of this Contract and for a minimum of six (6) years after the expiration or termination date of this Contract or until the resolution of all audit questions or claims, whichever is longer.

3.9.2 City Audits. The City, either directly or through a designated representative, may conduct financial and performance audits of the billings and Products or Services at any time in the course of the Contract and during the records retention period listed above. Audits shall be conducted in accordance with generally accepted auditing standards as promulgated in Government Auditing Standards by the Comptroller General of the United States Government Accountability Office.

3.9.3 Access to Records. The City may examine, audit and copy Contractor's books, documents, papers, and records relating to this Contract at any time during the records retention period listed above upon reasonable notice. Copies of applicable records shall be made available upon request.

3.10 Overpayment. If an audit discloses that payments to Contractor were in excess of the amount to which Contractor was entitled, then Contractor shall repay the amount of the excess to the City. Under no circumstances will the payment of previous invoices constitute an acceptance of the charges associated with those invoices.

3.11 Independent Contractor. Contractor is independent of the City and, accordingly, this Contract is not entered into as a joint venture, partnership, or agency between the Parties. No employment or agency relationship is or is intended to be created between the City and any individual representing Contractor. Employees of Contractor and any authorized

Subcontractors shall perform their work under this Contract under Contractor's sole control.

3.12 Personnel.

3.12.1 Key Positions and Personnel. For the period of performance until Final Acceptance has been completed, the Parties have identified Key Positions and Key Personnel as set forth in the table below, along with the percentage of their time to be allocated to the City's Project:

Name	Title/Role	% of Time	Company
Scott Preppernau	Primary Consulting Actuary	10% - 20%	Milliman
Gary Deeth	Supporting Actuary	10% - 20%	Milliman
Matt Larrabee	Review Consulting Actuary	5%	Milliman

3.12.2 Substitution of Key Personnel. Contractor shall make no substitutions of Key Personnel unless the substitution is necessitated by law, illness, death, resignation, or termination of employment. Contractor shall notify the City within ten (10) Calendar Days after the occurrence of any of these events.

Any substitutions or replacements of Key Personnel require the written approval of the City. Contractor shall provide the City with the maximum possible period of notice of substitution or replacement of Key Personnel.

For any proposed substitute or replacement of Key Personnel, Contractor shall provide the following information to the City: a detailed explanation of the circumstances necessitating the proposed substitution or replacement, a complete resume for the proposed substitute(s), and any additional information requested by the City. Proposed substitutes or replacements should have qualifications comparable to or better than those of the persons being replaced. No change in Contract prices may occur as a result of substitution or replacement of Key Personnel.

3.12.3 Security Requirements for Personnel. If required by the City, Contractor shall conduct a criminal history/records check of all personnel that will have access to City information, systems, or payments and ensure ongoing security requirements for personnel are maintained.

3.13 Termination. The following conditions apply to termination of this Contract. The City, on thirty (30) Calendar Days' written notice to Contractor, may terminate this Contract for any reason in the City's sole discretion. In the event of such termination, the City shall pay to Contractor the portion of the not-to-exceed price attributable to all Deliverables Accepted or Services performed and Accepted through the effective date of the termination. In the event of termination all of Contractor's Work Product to date shall be delivered to the City, and it will become and remain property of the City. Contractor makes no express or implied warranty and shall have no liability of any type whatsoever with respect to any draft or unfinished work product that is clearly marked as or otherwise clearly indicated to be a draft and delivered to the City pursuant to this clause. The City shall not attribute any such draft/unfinished work as a Contractor Work Product.

3.14 Mutual Agreement. The City and Contractor, by mutual written agreement, may terminate this Contract at any time.

3.15 Material Breach. Either Party may terminate this Contract in the event of a Material Breach of this Contract by the other. Prior to such termination, however, the Party seeking the termination shall give to the other Party written notice to cure the Material Breach and of the Party's intent to terminate. If the Party has not entirely cured the Material Breach within thirty (30) Calendar Days of the notice, then the Party giving the notice shall have the option to: (a) terminate this Contract by giving a written notice of termination, (b) seek any remedies in this Contract, in law, or at equity, to the extent not otherwise limited by the terms of this Contract, or (c) any combination thereof.

3.16 Force Majeure. Either Party may terminate this Contract due to a Force Majeure event as set forth in Section 5.12, Force Majeure.

3.17 Bankruptcy. The City may terminate this Contract if Contractor: (a) becomes insolvent, makes a general assignment for the benefit of creditors; (b) suffers or permits the appointment of a receiver for its business or assets; (c) becomes subject to any proceeding under any bankruptcy or insolvency law whether domestic or foreign, and such proceeding has not been dismissed within a sixty (60) Calendar Day period; or (d) has wound up or liquidated, voluntarily or otherwise.

3.18 Void Assignment. In the event that Contractor assigns its obligations under this Contract to a third party in a manner other than as set forth in Section 5.7, Assignment, the City shall have the option to terminate this Contract without any notice or cure period or further obligation to Contractor or the assignee, and promptly receive a refund for fees paid for Products delivered and/or Services performed by the third party.

3.19 Waiver. No waiver of any breach of this Contract shall be held to be a waiver of any other or subsequent breach of this Contract. The failure of either Party to insist upon any of its rights under this Contract upon one or more occasions, or to exercise any of its rights, shall not be deemed a waiver of such rights on any subsequent occasions.

3.20 Severability. Any section of this Contract which is held or declared void, invalid, illegal or otherwise not fully enforceable shall not affect any other provision of this Contract and the remainder of this Contract shall continue to be binding and of full force and effect. This Contract shall be binding upon and inure to the benefit of the City and its successors and assigns.

3.21 Business Tax Registration. Contractor shall register for a City of Portland business license as required by Chapter 7.02 of the Code of the City of Portland prior to execution of this Contract. Additionally, Contractor shall pay all fees or taxes due under the Business License Law and the Multnomah County Business Income Tax (MCC Chapter 12) during the full Term of this Contract. Failure to be in compliance may result in payments due under this Contract to be withheld to satisfy amount due under the Business License Law and the Multnomah County Business Income Tax Law.

3.22 EEO Certification. Contractor shall be certified as an Equal Employment Opportunity Affirmative Action Employer as prescribed by Chapter 5.33.076 of the Code of the City of Portland and maintain its certification throughout the term of this Contract.

3.23 Non-Discrimination in Benefits. Throughout the term of this Contract, Contractor shall provide and maintain benefits to its employees with domestic partners equivalent to those provided to employees with spouses as prescribed by Chapter 5.33.077 of the Code of the City of Portland.

3.24 Sustainability. Pursuant to the City's Sustainable City Principles, which direct City Bureaus to pursue long-term social equity, environmental quality, and economic vitality through innovative and traditional mechanisms, Contractor is encouraged to incorporate these Principles into its scope of work with the City wherever possible. Therefore, in accordance with the Principles and the City's Sustainable Procurement Policy, it is the policy of the City of Portland to encourage the use of Products or Services that help to minimize the human health and environmental impacts of City operations. Contractor is encouraged to incorporate environmentally preferable Products or Services into its work performance wherever possible. "Environmentally preferable" means Products or Services that have a lesser or reduced effect on human health and the environment when compared with competing products or services that serve the same purpose. This comparison may consider raw materials acquisition, production, manufacturing, packaging, distribution, reuse, operation, maintenance, or disposal of the Product or Service.

3.25 Packaging. All packaging should be minimized to the maximum extent possible without compromising product quality. The City encourages packaging that is reusable, readily recyclable in local recycling programs, is made from recycled materials, and/or is collected by Contractor for reuse/recycling.

3.26 News Releases and Public Announcements. Contractor shall not use the City seal or other representations of the City in its external advertising, marketing, website, or other promotional efforts, nor shall Contractor issue any news release or public announcements pertaining to this Contract or the Project without the express written approval of the City. Such approval may be withheld in the City's sole discretion. Contractor shall not use the City seal without specific written permission from the City Auditor.

3.27 Rule of Construction/Contract Elements/Headings. This Contract has been drafted by the City in the general format by the City as a convenience to the Parties only and shall not, by reason of such action, be construed against the City. Section headings are for ease of reference and convenience only and shall not affect or enter into the interpretation of any portion of this Contract.

3.28 Survival. All obligations relating to Confidential Information; indemnification; publicity; representations and warranties; remedies; proprietary rights; limitation of liability; and obligations to make payments of amounts that become due under this Contract prior to termination or expiration shall survive the termination or expiration of this Contract and shall, to the extent applicable, remain binding and in full force and effect for the purposes of the ongoing business relationship by and between Contractor and the City.

3.29 Access to City Facilities. Contractor agrees that Contractor's physical or remote access to City facilities shall be subject to the security interests and health controls necessary to protect public property, City employees and the public. The City shall not be liable for any delays necessary in granting Contractor access to any portion of the facilities or systems.

SECTION 4 STATUTORY REQUIREMENTS, PUBLIC RECORDS AND CONFIDENTIALITY

4.1 Governing Law and Jurisdiction. This Contract shall be construed according to the laws of the State of Oregon without reference to the conflict of laws' provisions. Any litigation between the City and Contractor arising under this Contract or out of work performed under this Contract shall occur, if in the state courts, in the Multnomah County Circuit Court, and if in the federal courts, in the United States District Court for the District of Oregon. Each Party agrees to waive its right to a trial by jury in any action related to this Contract.

4.2 Public Records Request. Contractor acknowledges that the City of Portland is subject to the Oregon Public Records Act and Federal law. Third persons may claim that the Confidential Information Contractor submitted to the City hereunder may be, by virtue of its possession by the City, a public record and subject to disclosure pursuant to the Oregon Public Records Act. The City's commitments to maintain certain information confidential under this Contract are all subject to the constraints of Oregon and federal laws. All information submitted by Contractor is public record and subject to disclosure pursuant to the Oregon Public Records Act, except such portions for which Contractor requests and meets an exemption from disclosure consistent with federal or Oregon law. Within the limits and discretion allowed by those laws, the City will maintain the confidentiality of information.

4.3 Public Records. The City will retain one (1) copy of any public records for the express purposes of complying with State of Oregon and Portland City Code public records and archiving laws.

4.4 Confidentiality.

4.4.1 Contractor’s Confidential Information. During the term of this Contract, Contractor may disclose to the City, certain Contractor Confidential Information pertaining to Contractor’s business. Contractor shall be required to mark Confidential Information CONFIDENTIAL with a restrictive legend or similar marking. If CONFIDENTIAL is not clearly marked, or the Contractor’s Confidential Information cannot be marked with a restrictive legend or similar marking or is disclosed either orally or by visual presentation, Contractor shall identify the Confidential Information as confidential at the time of disclosure or within a reasonable time thereafter. This Contract itself shall not be considered Confidential Information. Subject to Section 4.2, the City shall: (1) limit disclosure of Contractor Confidential Information to those directors, employees, contractors and agents of the City who need to know the Contractor Confidential Information in connection with the City Project and who have been informed of confidentiality obligations at least as strict as those contained in this Contract, and (2) exercise reasonable care to protect the confidentiality of the Contractor Confidential Information, at least to the same degree of care as the City employs with respect to protecting its own proprietary and confidential information.

4.4.2 City’s Confidential Information. Contractor shall treat as confidential any City Confidential Information that has been made known or available to Contractor or that Contractor has received, learned, heard or observed; or to which Contractor has had access. Contractor shall use City Confidential Information exclusively for the City’s benefit in the performance of this Contract. Except as may be expressly authorized in writing by the City, in no event shall Contractor publish, use, discuss or cause or permit to be disclosed to any other person such City Confidential Information. Contractor shall (1) limit disclosure of the City Confidential Information to those directors, officers, employees, subcontractors and agents of Contractor who need to know the City Confidential Information in connection with the City Project and who have agreed in writing to confidentiality obligations at least as strict as those contained in this Contract, (2) exercise reasonable care to protect the confidentiality of the City Confidential Information, at least to the same degree of care as Contractor employs with respect to protecting its own proprietary and confidential information, and (3) return immediately to the City, upon its request, all materials containing City Confidential Information, in whatever form, that are in Contractor's possession or custody or under its control. Contractor is expressly restricted from and shall not use the Intellectual Property Rights of the City without the City’s prior written consent. Notwithstanding the foregoing, Contractor may retain one copy of the City Confidential Information as necessary to comply with all applicable archival and professional work product documentation standards, subject to Contractor’s continued compliance with its confidentiality obligations herein.

4.4.3 Scope. This Contract shall apply to all City Confidential Information previously received, learned, observed, known by or made available to Contractor. Contractor's confidentiality obligations under this Contract shall survive termination or expiration of this Contract.

4.4.4 Equitable Relief. Contractor acknowledges that unauthorized disclosure of City Confidential Information will result in irreparable harm to the City. In the event of a breach or threatened breach of this Contract, the City may obtain injunctive relief prohibiting the breach, in addition to any other appropriate legal or equitable relief. The Parties agree that, notwithstanding any other section of this Contract, in the event of a breach or a threatened breach of Contract terms related to Confidential Information or Intellectual Property Rights, the non-breaching Party shall be entitled to seek equitable relief to protect its interests, including but not limited to injunctive relief. Nothing stated herein shall be construed to limit any other remedies available to the Parties.

4.4.5 Discovery of Documents. In the event a court of competent jurisdiction orders the release of Confidential Information submitted by one Party, the other Party will, to the extent legally permissible, notify the Party whose Confidential Information is being requested to be disclosed of the request. The Party receiving the request shall allow the other Party to participate in the response at its own expense. Each Party will comply with any effective court order.

SECTION 5 CONTRACTOR PERFORMANCE AND WARRANTIES

5.1 General Warranties. Contractor makes the following warranties:

5.1.1 Capacity. Contractor warrants it has the legal authority and capacity to enter into and perform this Contract.

5.1.2 Authority to Conduct Business. Contractor warrants it is lawfully organized and constituted and duly authorized to operate and do business in all places where it shall be required to do business under this Contract, and that it has obtained or will obtain all necessary licenses and permits required in connection with this Contract.

5.1.3 Disclosure of Litigation. Contractor warrants that as of the Effective Date there are no suits, actions, other proceedings, or reasonable anticipation thereof, in any judicial or quasi-judicial forum that will or may adversely affect Contractor's ability to fulfill its obligations under this Contract. Contractor further warrants that it will immediately notify the City in writing if, during the Term of this Contract, Contractor becomes aware of, or has reasonable anticipation of, any lawsuits, actions, or proceedings in any judicial or quasi-judicial forum that involves Contractor or any Subcontractor and that will or may adversely affect Contractor's ability to fulfill its obligations under this Contract.

5.1.4 Conflict of Interest. Contractor warrants it has no present interest and shall not acquire any interest that would conflict in any manner with its duties and obligations under this Contract.

5.1.5 Compliance with Applicable Law. Contractor warrants it has complied and shall comply with all applicable federal, state, and local laws and regulations of its domicile and wherever performance occurs during the term of this Contract. Contractor warrants it is currently in compliance with all tax laws.

5.1.6 Public Contracts. Contractor shall observe all applicable state and local laws pertaining to public contracts. ORS Chapters 279A and 279B require every public contract to contain certain provisions. To the extent applicable, ORS 279B.220, 279B.230 and 279B.235 are incorporated into this Agreement by reference.

5.1.7 Compliance with Civil Rights Act. Contractor warrants it is in compliance with Title VI of the Civil Rights Act of 1964 and its corresponding regulations as further described at: http://www.portlandoregon.gov/bibs/article/446806

5.1.8 Respectful Workplace Behavior. The City of Portland is committed to a respectful work environment, free of harassment, discrimination and retaliation and other inappropriate conduct. Every individual has a right to work in a professional atmosphere where all individuals are treated with respect and dignity. The City's HR Rule 2.02 covers all employees of the City as well as contractors, vendors or consultants who provide services to the City of Portland. Contractor warrants its compliance with terms and conditions HR 2.02 as further described at: https://www.portlandoregon.gov/citycode/27929

5.2 Compliance with Non-Discrimination Laws and Regulations.

5.2.1 Nondiscrimination. Pursuant to all City, State, and federal non-discrimination and civil rights laws, Contractor, with regard to the work performed by it during this Contract, shall not discriminate on the grounds of race, color, national origin, including limited English proficiency, sex, sexual orientation, gender identity, age, religion or non-religion, disability, marital status, family status, or source of income, including in employment practices, the selection and retention of subcontractors, including procurements of materials and leases of equipment.

5.2.2 Solicitations for Subcontractors, Including Procurements of Materials and Equipment. In all solicitations either by competitive bidding or negotiation made by Contractor for work to be performed under a subcontract, including procurements of materials or leases of equipment, each potential subcontractor or supplier shall be notified by Contractor of Contractor's obligations under this Contract relative to nondiscrimination on the grounds of race, color, national origin, sex, sexual orientation, age, religion, disability, marital status, or family relationships.

5.2.3 Sanctions for Noncompliance. In the event of Contractor's noncompliance with the nondiscrimination provisions of this Contract, the City shall impose such contract sanctions as it or any state or federal agency may determine to be appropriate, including, but not limited to withholding of payments to Contractor under this

Contract until Contractor complies, and/or cancellation, termination, or suspension of this Contract, in whole or in part.

5.2.4 ADA Compliance. Contractor shall comply with the Americans With Disabilities Act (ADA), including any duty the ADA may impose on City or Contractor as a result of the Products, Services or activities requested to be provided for City under this Agreement.

Contractor shall document each ADA request for modification to the Products or Services and Contractor's fulfillment of the request. If Contractor determines that it is unable to promptly fulfill the request for modification under the ADA, Contractor will contact the City contract manager within the same business day, proving reasons why Contractor is unable to fulfill the request for modification and to identify alternate accessibility options that Contractor can perform.

Within 10 Business Days after receipt, City and Contractor shall advise the other Party in writing, and provide the other Party with copies (as applicable) of any notices alleging violation of or noncompliance with the ADA relating to the Agreement, or any governmental or regulatory actions or investigations instituted or threatened regarding noncompliance with the ADA and relating to the Agreement or the programs, Products, Services or activities that Contractor is undertaking for City under this Agreement.

5.2.5 Required Reporting. If any person or class of persons files a complaint with Contractor alleging discrimination under Title VI of the Civil Rights Act of 1964 (race, color, or national origin, including limited English proficiency), Contractor will notify the City of Portland of the complaint and cooperate with any investigation related to the complaint. Notifications shall be sent to Title VI Program Manager, 421 SW 6th Ave, Suite 500, Portland, Oregon 97204, or title6complaints@portlandoregon.gov.

5.3 Service(s) and Deliverables Warranties. Contractor makes the following warranties:

5.3.1 No Third-Party Conflict or Infringement. As of the Effective Date, Contractor warrants the execution and performance of this Contract, shall not contravene the terms of any contracts with third parties or any third-party Intellectual Property Right; and, as of the Effective Date of this Contract, there are no actual or threatened legal actions with respect to the matters in this provision. Contractor agrees to promptly notify the City, in writing, if during the Term of the Contract, a potential third-party conflict or infringement of third-party Intellectual Property Rights arises.

5.3.2 No Encumbrances. All Deliverables provided by Contractor under this Contract shall be transferred to the City free and clear of any and all restrictions of transfer or distribution and free and clear of any and all liens, claims, security interests, liabilities and encumbrances of any kind.

5.3.3 Conformance with Specifications. Contractor warrants that the Deliverables and Services shall operate in conformance with the Specifications.

5.3.4 Compliance with Law. Contractor warrants that the Deliverables conform to all requirements of applicable law, including all applicable health, safety, privacy, data security and environmental laws and regulations.

5.3.5 Industry Standards. Contractor warrants that the Services performed under this Contract will meet the standards of skill and diligence normally employed by persons performing the same or similar services.

5.3.6 Substitution or Modification of Products at No Charge. In the event that Contractor substitutes or modifies the Deliverables, Contractor shall ensure that the new or modified Deliverables shall conform in all aspects to the Specifications. Such substitutions or modifications shall in no way degrade the performance or functionality of the Deliverables and shall not result in additional cost to the City.

5.4 No Waiver of Warranties or Representation. Performance of Services shall not be construed to represent Acceptance nor relieve Contractor from its responsibility under any representation or warranty. If the City makes a payment prior to Final Acceptance, the payment does not grant a waiver of any representation or warranty by Contractor.

5.5 No Third Party to Benefit. This Contract is entered into for the benefit of the City and Contractor. Except as set forth herein, nothing in this Contract shall be construed as giving any benefits, rights, remedies or claims to any other person, firm, corporation or other entity, including, without limitation, the general public or any member thereof, or to authorize anyone not a Party to this Contract to maintain a suit for breach of contract, personal injuries, property damage, or any other relief in law or equity in connection with this Contract.

5.6 Assignment. Neither Party shall assign, transfer, or delegate all or any part of this Contract, or any interest therein, without the other Party's prior written consent, which shall not be unreasonably withheld. For purposes of this Section, the acquisition, merger, consolidation or change in control of Contractor or any assignment by operation of law shall be considered an assignment of this Contract that requires the City’s prior written consent. Notwithstanding the foregoing: (a) in the event that the City’s business needs change or the City enters into an agreement with a provider for outsourcing services, Contractor agrees that the City shall have the right to assign this Contract to a successor of all, substantially all, or specified area(s) of the City’s business, including an outsourcing provider, upon written notice to the other Party, and (b) Contractor may, without the City’s consent, but upon prior written notice to the City, assign its right to payment under this Contract or grant a security interest in such payment to any third party without requiring that the third party be liable for the obligations of Contractor under this Contract. Any attempted assignment or delegation in violation of this Section shall be void.

5.7 Notice of Change in Financial Condition. Contractor must maintain a financial condition commensurate with the requirements of this Contract. If, during the Term of this Contract, Contractor experiences a change in its financial condition which may adversely affect its ability to perform the obligations of this Contract, Contractor shall immediately notify the City in writing. Failure to notify the City of such a change in financial condition is sufficient grounds for terminating this Contract.

5.8 Notice of Change in Ownership. If, during the Term of this Contract, Contractor experiences a change in ownership or control, Contractor shall immediately notify the City in writing. Failure to notify the City of such a change in ownership or control is sufficient grounds for terminating this Contract.

5.9 Subcontractors. Contractor shall not subcontract any work under this Contract without the City's prior written consent. Contractor shall be fully responsible for the acts and omissions of its Subcontractors, including any Affiliates, at all levels, and of their agents and employees. Contractor shall ensure that all applicable provisions of this Contract (including those relating to Insurance, Indemnification, and Confidentiality) are included in all of its subcontracts. The City reserves the right to review any agreements between Contractor and its Subcontractors for Services authorized under this Contract.

All D/M/W/ESB/SDVBE (COBID Certified) Subcontractors/suppliers identified in Contractor's proposals shall be used in their proposed capacity during Contract performance. If Contractor desires to replace any D/M/W/ESB/SDVBE Subcontractors/suppliers under this Contract all substitution requests must have approval from the City's Chief Procurement Officer before such substitutions can be made. In no event shall Contractor subcontract any work, assign any rights, or delegate any obligations under this Contract without the City's prior written consent.

5.10 Flow-down Clauses. Contractor shall include the following clauses, or substantially similar language, in its subcontracts under this Contract:

Section 4.4, Confidentiality
Section 5.3, Compliance with Non-Discrimination Laws and Regulations
Section 6.1, Hold Harmless and Indemnification
Section 6.2, Insurance

5.11 Force Majeure.

5.11.1 In the event that either Party is unable to perform any of its obligations under this Contract due to a Force Majeure Event not the fault of the affected Party, the Party who has been so affected immediately shall give notice to the other Party and shall do everything possible to resume performance. Upon receipt of such notice, the performance obligations affected by the Force Majeure event shall immediately be suspended.

5.11.2 If the period of nonperformance exceeds fifteen (15) Calendar Days from the receipt of notice of the Force Majeure Event, the Party whose ability to perform has not been so affected may, by giving written notice, terminate this Contract or any Statement of Work.

5.11.3 If the period of nonperformance due to a Force Majeure Event does not exceed fifteen (15) Calendar Days, such nonperformance shall automatically extend the Project schedule for a period equal to the duration of such events. Any Warranty Period affected by a Force Majeure Event shall likewise be extended for a period equal to the duration of such event.

5.11.4 If the period of nonperformance due to Force Majeure Event is longer than fifteen (15) Calendar Days, the Parties shall negotiate options for mitigation of the Force Majeure Event.

5.12 Ownership of Property. Subject to the restrictions and limitations contained herein, all work product produced by the Contractor under this Contract is the exclusive property of the City. "Work Product" includes, but is not limited to: research, reports, computer programs, manuals, drawings, recordings, photographs, artwork and any data or information in any form. The Contractor and the City intend that such Work Product shall be deemed "work made for hire" of which the City shall be deemed the author. If for any reason a Work Product is deemed not to be a "work made for hire," the Contractor hereby irrevocably assigns and transfers to the City all right, title and interest in such Work Product, whether arising from copyright, patent, trademark, trade secret, or any other state or federal intellectual property law or doctrines. Contractor shall obtain such interests and execute all documents necessary to fully vest such rights in the City. Contractor waives all rights relating to work product, including any rights arising under 17 USC 106A, or any other rights of authorship, identification or approval, restriction or limitation on use or subsequent modifications. If the Contractor is an architect, the Work Product is the property of the Consultant-Architect, and by execution of this Contract, the Contractor-Architect grants the City an exclusive and irrevocable license to use that Work Product.

Notwithstanding the above, all pre-existing trademarks, services marks, patents, copyrights, trade secrets, and other proprietary rights of Contractor are and will remain the exclusive property of Contractor. Contractor shall retain all rights, title and interest (including, without limitation, all copyrights, patents, service marks, trademarks, trade secret and other intellectual property rights) in and to all technical or internal designs, data, databases, methods, ideas, concepts, know-how, techniques, generic documents and templates ("Tools") that have been previously developed by Contractor, or such Tools developed during the course of the provision of the Services, provided such Tools do not contain and/or are not based upon or derived from any City Confidential Information or proprietary data. Rights and ownership by Contractors of its Tools shall not extend to or include all or any part of City's proprietary data or City Confidential Information. To the extent that Contractor may include in the materials any Tools, Contractor agrees that City shall be deemed to have a non-exclusive, fully paid up perpetual license to make copies of the Tools as part of this engagement for its internal business purposes and provided that such Tools cannot be modified or distributed outside City without the written permission of Contractor or except as otherwise permitted herein.

Contractor's work is prepared solely for the use and benefit of City in accordance with its statutory and regulatory requirements. Contractor recognizes that materials it delivers to City may be public records subject to disclosure to third parties, however, Contractor does not intend to benefit and assumes no duty or liability to any third parties who receive Contractor's work and may include disclaimer language on its work product so stating. City agrees not to remove any such disclaimer language from Contractor's work.

SECTION 6 INDEMNIFICATION, INSURANCE, BONDING, LIQUIDATED DAMAGES

6.1 Hold Harmless and Indemnification.

6.1.1 Subject to the limitation set forth in Section 6.7, Contractor shall indemnify, defend and hold harmless the City of Portland, its officers, agents, and employees, from all third party claims, demands, suits, and actions for all losses, damages, liabilities, costs and expenses (including all reasonable attorneys' fees and costs), resulting from or arising out of the negligent or fraudulent actions, errors, or omissions of Contractor or its officers, employees, Subcontractors, or agents under this Contract.

6.1.2 Infringement Indemnity. Contractor shall indemnify, defend, and hold harmless the City, its directors, officers, employees, and agents from and against any and all third party claims, demands, suits, and actions for any damages, liabilities, losses, costs, and expenses (including reasonable attorney fees, whether or not at trial and/or on appeal), arising out of or in connection with any actual misappropriation, violation, or infringement of any proprietary right or Intellectual Property Right of any person whosoever. The City agrees to notify Contractor of the claim and gives Contractor sole control of the defense of the claim and negotiations for its settlement or compromise.

6.1.3 Contractor shall indemnify, defend, and hold harmless the City against any taxes, premiums, assessments, and other liabilities (including penalties and interest) that the City may be required to pay arising from Deliverables and Services provided by Contractor under this Contract. The City of Portland, as a municipal corporation of the State of Oregon, is a tax-exempt unit of local government under the laws of the State of Oregon and is not liable for any taxes.

6.2 Insurance. Contractor shall not commence work until Contractor has met the insurance requirements in this section and Contractor has provided insurance certificates approved by the City Attorney. Contractor shall acquire insurance issued by insurance companies or financial institutions with an AM Best rating of A- or better and duly licensed, admitted and authorized to do business in the State of Oregon.

6.2.1 Insurance Certificate. As evidence of the required insurance coverage, Contractor shall provide compliant insurance certificates, including required endorsements, to the City prior to execution of the Contract. The certificates shall list the City as certificate holder. Contractor shall maintain continuous, uninterrupted coverage for the Term of this Contract and to provide insurance certificates demonstrating the required coverage for the Term of this Contract. Contractor's failure to maintain insurance as required by this Contract constitutes a Material Breach of this Contract. Contractor must notify the City in writing thirty (30) Calendar Days prior to a cancellation, non-renewal, or material changes to the insurance policy.

6.2.2 Additional Insureds. For commercial general liability coverage, Contractor shall provide City with a blanket additional insured endorsement form that ~~names~~ includes the City of Portland, Oregon, and its officers, agents and employees, as an additional insured. The additional insured endorsement must be attached to the general liability certificate of insurance.

6.2.3 Insurance Costs. Contractor shall be financially responsible for all premiums, deductibles, self-insured retentions, and self-insurance.

6.2.4 Coverage Requirements. Contractor shall comply with the following insurance requirements:

6.2.4.1 Commercial General Liability. Contractor shall acquire commercial general liability ("CGL") and property damage insurance coverage in an amount not less than $2 million per occurrence for damage to property or personal injury arising from Contractor's work under this Contract. The foregoing limits may be met through a combination of primary and excess coverage.

☒ Required and attached ☒ Reduced by Authorized Bureau Director ☐ Waived by Authorized Bureau Director

6.2.4.2 Automobile Liability. Contractor shall acquire automobile liability insurance to cover bodily injury and property damage in an amount not less than $2 million for each accident. The foregoing limits may be met through a combination of primary and excess coverage. Contractor's insurance must cover damages or injuries arising out Contractor's use of any vehicle.

☒ Required and attached ☐ Reduced by Authorized Bureau Director ☐ Waived by Authorized Bureau Director

6.2.4.3 Workers' Compensation. Contractor shall comply with Oregon workers' compensation law, ORS Chapter 656, as it may be amended. If Contractor is required by ORS Chapter 656 to carry workers' compensation insurance, Contractor shall acquire workers' compensation coverage for all subject workers as defined by ORS Chapter 656 and shall maintain a current, valid certificate of workers' compensation insurance on file with the City for the entire period during which work is performed under this Contract. Contractor shall acquire workers compensation coverage in an amount not less than $1 million each accident, $1 million disease each employee, and $1 million disease policy limit.

☒ Required and attached ☐ Proof of exemption (Complete Independent Contractor Certification Statement)

6.2.4.4 Professional Liability. Contractor shall acquire insurance to cover damages caused by negligent acts, errors or omissions related to the professional Services, and performance of duties and responsibilities of the Contractor under this Contract in an amount not less than $1 million per ~~occurrence~~ claim and annual aggregate of $3 million for all claims ~~per occurrence. In lieu of an occurrence-based policy, Contractor may have claims-made policy in an amount not less than $1,000,000 per claim and $3,000,000 annual aggregate, if the~~ Contractor will maintain coverage, acquire an extended reporting period, or tail coverage for not less than three (3) years following the termination or expiration of the Contract.

☒ Required and attached ☐ Reduced by Authorized Bureau Director ☐ Waived by Authorized Bureau Director

6.3 Rolling Estoppel. Unless otherwise notified by Contractor, it shall be understood that the City shall have met all its obligations under this Contract. The City will be conclusively deemed to have fulfilled its obligations, unless it receives written notification of a failure to meet such obligations in the next status report, or within ten (10) Business Days following such failure, whichever is sooner, and Contractor identifies the specific failure in that notification. The City's failure to meet obligations must be described in terms of how it has affected the Project schedule or a specific performance requirement of Contractor.

6.3.1 Contractor is estopped from claiming that a situation has arisen that might otherwise justify changes in Project timetable, the standards of performance under this Contract, or the Contract price, if Contractor knew of that problem and failed to provide notification to the City as set forth above or to include it in the applicable status report to the City's project manager.

6.3.2 In the event Contractor identifies a situation that is impairing Contractor's ability to perform for any reason, Contractor's notification should contain Contractor's suggested solutions to the situation. These suggestions should be in sufficient detail so that the City's Project Manager can make a prompt decision as to the best method of dealing with the problem and continuing the Project in an unimpeded fashion.

6.4 Dispute Resolution. Contractor shall cooperate with the City to ensure that all claims and controversies which arise during this Contract will be resolved as expeditiously as possible in accordance with the following resolution procedure:

6.4.1 Any dispute between the City and Contractor shall be resolved, if possible by the Project Manager or their designee on behalf of the City and Scott Preppernau on behalf of Contractor.

6.4.2 If the Project Manager or the Project Manager's designee and Contractor are unable to resolve any dispute within three (3) Business Days after notice of such dispute is given by either Party to the other, the matter shall be submitted to Samuel Hutchison on behalf of the City and Matt Larrabee on behalf of Contractor for resolution, if possible.

6.4.3 Should any dispute arise between the Parties concerning this Contract that is not resolved by mutual agreement above, it is agreed that such dispute will be submitted to mandatory mediated negotiation prior to any Party's commencing arbitration or litigation. In such an event, the Parties to this Contract agree to participate in good faith in a non-binding mediation process. The mediator shall be selected by mutual agreement of the Parties, but in the absence of such agreement each Party shall select a temporary mediator and those mediators shall jointly select the permanent mediator. All costs of mediation shall be borne equally by the Parties.

6.4.4 Should an equitable solution not result from the foregoing, the City and Contractor shall be free to pursue other remedies allowed under this Contract. Any arbitration shall be conducted under the Commercial Arbitration Rules of the American Arbitration Association. The arbitration shall take place before a panel of three arbitrators. Within 30 days of the commencement of the arbitration, each party shall designate in writing a single neutral and independent arbitrator. The two arbitrators designated by the parties shall then select a third arbitrator. The arbitrators shall have a background in either insurance, actuarial science or law. The arbitrators shall have the authority to permit limited discovery, including depositions, prior to the arbitration hearing and such discovery shall be conducted consistent with the Federal Rules of Civil Procedures. The arbitrators shall have no power or authority to award punitive or exemplary damages. The arbitrators may, in their discretion, award the cost of the arbitration, including reasonable attorney fees, to the prevailing party. Any award made may be confirmed in any court having jurisdiction. Any arbitration shall be confidential, and except as required by law, neither party may disclose the content or results of any arbitration hereunder without the prior written consent of the other party, except that disclosure is permitted to a party's auditors and legal advisors.

6.4.5 Unless ordered by the City to suspend performance of all or any portion of Contractor's Services, Contractor shall proceed with the performance of such Services without any interruption or delay during the pendency of any of the foregoing dispute resolution procedures. During the pendency of any of the foregoing dispute resolution procedures, the City shall continue to make all payments that are not in dispute while having the right to withhold payments that are in dispute.

6.5 <u>Remedies</u>. The remedies provided in this Contract are cumulative and may be exercised concurrently or separately. In the event of any Material Breach by Contractor, which Material Breach shall not have been cured as agreed to between the Parties, the City shall have the ability to pursue the City's rights at law or equity. The exercise of any one remedy shall not constitute an election of one remedy to the exclusion of any other.

6.6 Cost of Cover. In the event of termination of this Contract by the City due to a Material Breach by Contractor, then the City may complete the Project itself, by agreement with another contractor, or by a combination thereof. After termination, in the event the cost of completing the Project exceeds the amount the City would have paid Contractor to complete the Project under this Contract, then Contractor shall pay to the City the amount of the reasonable excess.

6.7 Limitation of Liability. Contractor will perform all services in accordance with applicable professional standards. In the event of any claims arising from services provided by Contractor at any time, the total liability of Contractors, its officers, directors, agents and employees to City shall not exceed five million dollars ($5,000,000). This limit applies regardless of the theory of law under which is claim is brought, including negligence, tort, contract, or otherwise. In no event shall Contractor be liable for lost profits of City or any other type of incidental or consequential damages. The foregoing limitations shall not apply in the event of the intentional fraud or willful misconduct of Contractor.

SIGNATURE PAGE

Contractor represents that Contractor has had the opportunity to consult with its own independently selected attorney in the review of this Contract. Neither Party has relied upon any representations or statements made by the other Party that are not specifically set forth in this Contract.

This Contract constitutes the entire agreement between the City and Contractor and supersedes all prior and contemporaneous proposals and oral and written agreements, between the Parties on this subject, and any different or additional terms on a City purchase order or Contractor quotation or invoice.

The Parties agree that they may execute this Contract and any Amendments to this Contract, by electronic means, including the use of electronic signatures.

This Contract may be signed in two (2) or more counterparts, each of which shall be deemed an original, and which, when taken together, shall constitute one and the same agreement.

IN WITNESS WHEREOF, the Parties hereby cause this Contract to be executed.

CONTRACTOR:

____

Authorized Signature   Date

____

Printed Name and Title

Address: ____________________________________

____

Phone: ____________________________________

Email: ____________________________________

Contract Number: XXXXXXXX

Contract Title: Actuarial Services

CITY OF PORTLAND SIGNATURES

By: ____ Date: _______________

Bureau Director

By: ____ Date: _______________

Chief Procurement Officer

By: N/A Date: ______________
Elected Official

Approved:

By: ______________________________________ Date: ______________
Office of City Auditor

Approved as to Form:

By: ______________________________________ Date: ______________
Office of City Attorney

Exhibit A
Contractor's Price

Product or Service	**Cost**	**Specifications**
Annual GASB 67/68 Calculations with ACFR-Compliant Schedules	$5,500 for June 30, 2023 schedules Cost for future valuations shall increase at the same rate as the annual value of the CPI-U West Region index, measured from a calendar year 2023 base, but shall not exceed 5% per year.	Cost includes: Completion and submission of schedules to the City; Standard correspondence with OMF and external auditor; Communication with and assistance to FPDR and other City staff
Biannual Actuarial Valuation	$40,000 for June 30, 2024 valuation Cost for future valuations shall increase at the same rate as the annual value of the CPI-U West Region index, measured from a calendar year 2023 base, but shall not exceed 5% per year.	Cost includes: Formal written report; Slide deck presentation of results to FPDR Board; In-person delivery of presentation to FPDR Board
Biannual Levy Adequacy Analysis	$16,000 for January 2025 analysis Cost for future valuations shall increase at the same rate as the annual value of the CPI-U West Region index, measured from a calendar year 2023 base, but shall not exceed 5% per year.	Cost includes: Slide deck presentation of results to FPDR Board; Correspondence and communication with FPDR and other City staff; In-person delivery of presentation to FPDR Board
Experience Study	$40,000	Cost includes: Formal written report; Slide deck presentation of results and recommendations to FPDR Board; Review of medical reimbursement claims to establish disability-related medical reimbursement "load" on pension liabilities; In-person delivery of presentation to FPDR Board
Domestic Relations Orders (DRO) calculations	$900 per calculation	Cost includes: Memo outlining the calculated benefit amount for alternate payee (or reduction to member benefit) for the earliest commencement date and each of the following ten years

Other Projects	Billed either: 1) On an hourly basis, using the rates below OR 2) As a fixed fee negotiated between the parties when determining the scope of work. Matt Larrabee: $480/hour Scott Preppernau: $465/hour Gary Deeth: $325/hour Meghan Davison: $225/hour Support/Administrative: $105/hour Hourly billing rates shall increase at the same rate as the annual value of the CPI-U West Region index, measured from a calendar year 2023 base, but shall not exceed 5% per year.	To be agreed upon at time of scope determination

Exhibit B
Statement of Work

SECTION 1 SUMMARY

FPDR requires the services of an independent actuary to prepare schedules required by Governmental Accounting Standards Board (GASB) Statements 67 and 68 for inclusion in both the FPDR Plan financial statements and the City of Portland's Annual Comprehensive Financial Report; to prepare biannual Plan valuations; to provide biannual assessments of the adequacy of the tax levy to continue financing FPDR Plan requirements and Oregon PERS contributions for FPDR Three members, over at least a 20-year period; to conduct a Plan experience study and to develop Plan actuarial assumptions for use in calculating the Plan liability and preparing Plan budgets; to calculate pension divisions in accordance with domestic relations orders; and to perform other actuarial services requested by FPDR staff or the FPDR Board of Trustees.

SECTION 2 SCOPE OF WORK

Contractor shall provide the following Services:

- Prepare actuarial schedules and tables as required by GASB Statements 67 and 68 and in compliance with Annual Comprehensive Financial Reporting (ACFR) standards, for use in the annual FPDR Plan financial statements and the annual City of Portland ACFR.
- Prepare biannual valuations of the FPDR Plan and present the results to FPDR staff and the FPDR Board of Trustees.
- Prepare biannual assessments of the long-term adequacy of the dedicated FPDR property tax levy to fund the Plan's obligations and City contributions to the Oregon PERS Plan for FPDR Three members and present the results to FPDR staff and the FPDR Board of Trustees.
- Complete a plan experience study to develop appropriate plan assumptions with respect to retirement, disability incidence, withdrawal rates, salary growth and other factors for use in calculating the FPDR Plan liability and preparing FPDR budgets and financial forecasts. Present the results and recommendations of the experience study to FPDR staff and the FPDR Board of Trustees.
- Calculate actuarially-determined benefit amounts for alternate payees or members in accordance with the terms of domestic relations orders dividing pensions.
- Perform cost analyses of any proposed changes to the FPDR Plan or administrative rules, as requested by FPDR staff or the FPDR Board of Trustees.
- Provide general actuarial consultation services on any matter relating to the administration of the FPDR Plan.
- Provide other financial and actuarial services as requested by FPDR staff or the FPDR Board of Trustees.

SECTION 3 DELIVERABLES

Deliverables shall be considered those tangible resulting work products that are to be delivered to the City such as reports, draft documents, data, interim findings, drawings, schematics, training, meeting presentations, final drawings, and reports. Unless otherwise specified by the City, the successful Proposer shall prioritize submitting applicable deliverables electronically, and any paper-based deliverables shall be printed double-sided and in bindings or report covers that are fully recyclable, preferably using materials containing post-consumer waste (PCW) recycled content.

The individual Deliverables and their Due Dates are listed in the table below:

Product or Service	**Due Date**	**Description**
GASB 67/68 Calculations with ACFR-Compliant Schedules	August 25 each year	Completed GASB 67/68 memo with all required schedules: Net Pension Liability, Discount Rate, Key Actuarial Assumptions, Changes in Net Pension Liability, Discount Rate Sensitivity Analysis, Schedule of Changes in Pension Liability and Related Ratios, Pension Expense, Deferred Outflows/Inflows, Schedule of Deferred Outflow/Inflows, Net Pension Liability plus Net Deferrals
Biannual Actuarial Valuation	January 10 of odd-numbered years (report and slide deck) Fourth Tuesday in January of odd-numbered years (in-person presentation)	Completed written report and slide deck presentation In-person delivery of presentation to FPDR Board of Trustees
Biannual Levy Adequacy Analysis	January 10 of odd-numbered years (slide deck) Fourth Tuesday in January of odd-numbered years (in-person presentation)	Completed slide deck presentation In-person delivery of presentation to FPDR Board of Trustees
Mortality Tables	Within 30 days of Board acceptance of new mortality assumptions	Excel file with average life expectancy and annual probability of death for various members and beneficiaries at a range of ages
Experience Study	March 31, 2026 Fourth Tuesday in May 2026	Completed written report and slide deck presentation, including recommended assumption changes In-person delivery of presentation to FPDR Board of Trustees

Domestic Relations Orders (DRO) calculations	Within 30 days of receipt of all necessary information from FPDR staff	Completed memo
Other Projects	Negotiated at time of scope determination	

If a due date falls on a non-business day, the deliverable shall be due on the last business day before the due date.

All deliverables and resulting work products from this contract will become the property of the City of Portland. As such, the Contractor grants the City the right to copy and distribute (in any and all media and formats) project deliverables for regulatory, project certification/recognition, program development, public education, and/or for any purposes at the sole discretion of the City of Portland.

SECTION 4 PROJECT MANAGEMENT

5.1 Place of Performance

Generally, Contractor shall perform work at contractor facilities. Contractor will deliver in-person presentations to the FPRD Board of Trustees in Portland City Hall, or another location as directed by the City Project Manager. Otherwise, Contractor shall provide City with services at City locations only when and as directed by the City Project Manager.

4.1 Project Managers

The City's Project Manager will be Stacy Jones. The City may change City's Project Manager from time to time upon written notice to Contractor.
Contact Information: (503) 865-6488 | stacy.jones@portlandoregon.gov

The Contractor's Project Manager will be Scott Preppernau.
Contact Information: (503) 796-2659 | scott.preppernau@milliman.com

From: Kevin Machiz
To: Hutchison, Sam
Subject: FPDR Board Written Public Comment for April 4
Date: Wednesday, March 29, 2023 8:19:11 PM

Director Hutchison,

I am submitting this written public comment in reference to the April 4, 2023 Board Materials, specifically a memo from staff to the FPDR Board of Trustees regarding an actuarial services contract with Milliman under Action Item 2. The memo's description of the contract's purpose is inconsistent with Actuarial Standard of Practice No. 4, *Measuring Pension Obligations and Determining Pension Plan Costs or Contributions* ("ASOP No. 4"), which was adopted by the Actuarial Standards Board in December 2021 and became effective February 15, 2023. ASOP No. 4 states that the actuary should "calculate and disclose a reasonable actuarially determined contribution."

This memo states that the purpose of the contract shall include assessing "the adequacy of the capped FPDR tax levy to fully fund FPDR plan benefits over 20 year periods in concert with the biennial plan valuation." The memo goes on to claim that "FPDR's status as a pay-as-you-go plan means that FPDR does *not* require" actuarial services that would include calculating "a required annual contribution to maintain the funded level of the plan and/or develop a strategy and recommendation to pay down any unfunded liability."

FPDR's Levy Adequacy Analysis and any potential accompanying formal report document on the same subject would meet the definition of a funding valuation under ASOP No. 4. ASOP No. 4 defines a funding valuation as "a measurement of pension obligations or projection of cash flows performed by the actuary intended to be used by the principal to determine plan contributions or to evaluate the adequacy of specified contribution levels to support benefit provisions." The Annual Comprehensive Financial Report of the City of Portland further confirms reliance on this analysis:

> The current levy is $1.20 per $1,000 of taxable real market value. This dedicated property tax levy has been sufficient in all years to meet required annual benefit payments, and its adequacy to make future payments is tested regularly. The most recent levy adequacy analysis, completed as of June 30, 2020 by the FPDR Plan's independent actuary, again confirmed the ability of the tax levy to fully cover future benefits and plan expenses when due under a wide range of most likely scenarios.

ASOP No. 4 directs that "when performing a funding valuation, except where the actuarially determined contribution is based on a prescribed assumption or method set by law, the actuary should also calculate and disclose a reasonable actuarially determined contribution."

ASOP No. 4 defines an actuarially determined contribution as "a potential payment to the plan as determined by the actuary using a contribution allocation procedure. It may or may not be the amount actually paid by the plan sponsor or other contributing entity."

In conclusion, I hope the FPDR Board of Trustees sees the inherent value of transparency as the Actuarial Standards Board did in adopting this newly effective Actuarial Standard of Practice.

Kevin Machiz, CFA, FRM

Opinion’s expressed herein reflect only the author’s

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