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.

<u>INFORMATION ITEMS 2, 3, AND 4 – LEGISLATIVE AND FPDR UPDATES; FUTURE AGENDA ITEMS</u>

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.