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: May 23, 2023, at 1:00 p.m.; Meeting adjourned at 3:03 p.m.

Board Members Present:
Catherine MacLeod (Acting Chair); Kyle MacLowry (Fire Trustee); Christopher Kulp (Police Trustee)

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); Aeron Riordon (Actuary, Independent Actuaries, Inc.); Jake Winship (Actuarial Manager, Oregon Public Employees Retirement System); Del Stevens (Retired Portland Firefighter); Kevin Machiz, (Portland Resident); OpenSignal PDX

Motions Made and Approved:

- Motion by Trustee Kulp that was seconded by Trustee MacLowry and passed (3-0) to approve the April 4, 2023, minutes.
- Motion by Trustee MacLowry that was seconded by Trustee Kulp and passed (3-0) to approve the use of Tax Anticipation Notes (TANs)

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: Catherine, we're ready. Can you hear me?

Trustee MacLeod: I can. Can you hear me?

Director Hutchison: Yes, ok so we're ready to go.

Trustee MacLeod: Alright then, I'm going to call to order the May 23, 2023, meeting of the Board of Trustees of the Fire and Police Disability and Retirement Fund. Let's being with consent items on the calendar if that's correct. The only consent item I see is approval of the minutes from the April 4, 2023, meeting. Does anyone have questions or comments they'd like to make about those minutes? I'm not hearing any. I need a motion to accept the minutes as presented.

Trustee Kulp: I'll make a motion.

Trustee MacLeod: Ok, and do I have a second?

Trustee MacLowry: Can you hear me? Here we go, ok that seems to be a little better. I second.

Trustee MacLeod: Alright then, all in favor of accepting the minutes, say aye. Aye.

Trustee Kulp: Aye.

Trustee MacLowry: Aye.

Trustee MacLeod: Prior minutes are accepted. Let's move on to introduction of visitors. Do people just want to go around the room or online, you'll know better than I who's present.

Director Hutchison: Lorne, do you want to start?

[In-person attendees introduced themselves off camera]

Director Hutchison: That's everybody in the room except for me, Sam, Director. We've got online Franco.

Franco Lucchin: Franco Lucchin, Senior Deputy City Attorney, Counsel for FPDR.

Trustee MacLeod: Welcome, everyone. Sam, correct me if I'm wrong but I think this is the time for in-person public comments and that we have a couple.

Director Hutchison: Correct, we do. The first person will be Del Stevens, and then followed by Kevin Machiz.

Trustee MacLowry: Welcome, Del.

Julie Hall: Good afternoon Mr. Stevens, you have three minutes for public comment, and you'll see the counter on the Zoom team meeting if you'd like to watch that. Thank you.

PUBLIC COMMENT PERIOD – DEL STEVENS

Del Stevens: The audio is a little bit vague for me. I, maybe I have a disability, I'm not sure. But I'm having trouble understanding the volume and the actual wording.

Director Hutchison: [off mic] Is it too loud?

Del Stevens: It's not too loud, it's just not distinct. It's blurred. Has anybody else noticed this also? Maybe it's an individual problem. I'm sorry. I'm trying to follow closely, though. I would like to start by saying that I'm pleased to be here today. I've been retired 21 years, but I have a lot of affection for the Fire Bureau, and I have tried to follow the issues that the members, both active and retired, are still concerned with. And one of the issues was, about two years ago there was a proposal to have a committee that would examine benefits for our retired members, and that never actually occurred. The proposal was talked about, but because of the fact of the COVID epidemic that started, we had no more public meetings. And I just would like to find out if that proposal was active then, is it supported now, and should we not appoint a committee and carry on with that process?

Trustee MacLeod: Okay, thank you. I'm going to make a general comment here that we're a bit at a disadvantage today in that we're without a Committee Chair, and another committee, another trustee on the board. So, I think that makes discussion about any non-ongoing administrative topic a little bit more troublesome, and I'm personally not as comfortable having discussions about meaty issues, potentially, with a reduced board present. So just with that general comment, would other trustees like to respond to Del's comment initially about his interest in creating that committee that got sidetracked?

Trustee MacLowry: I guess my only comment would be, I think that committee, or at least the idea for that committee, was formed prior to my time as a trustee, and maybe if it did get derailed it would be worth getting historical information on the idea of having a committee to examine the benefits is reasonable, but I don't have the history personally in my position. It might be worthwhile either at the next meeting or some point between now and the next meeting getting some of that history.

Director Hutchison: Okay. A couple months ago I had sent you all the board a big packet of information which included the background information of all the board meeting minutes on the prior discussions for the committee or the task force. So, you should have that there, if you need me to resend it, let me know. It has quite a bit of background and discussion on that topic and on what happened and what had been discussed. So, nothing outside of the board meetings - it was not discussed outside the board meetings.

Trustee MacLowry: I'll check my emails, thanks.

Director Hutchison: Email me back or give me a call and I'll resend the email. It was a pretty heavy amount of information, but I wanted to make sure you got the full and complete meeting minutes of everything that was discussed for probably about four or five board meetings.

Trustee MacLeod: Trustee Kulp, do you have any thoughts?

Trustee Kulp: I do not. I did receive the email and I did review it. I'll look at it again before I speak more intelligently on it.

Trustee MacLeod: I might add a couple more comments. At the time that discussion I think had initially surfaced relating to a prior presentation of the equal to or better than test results from several years ago, and discussion about the concepts of service versus disability retirement and the fact that they both are not defined in this plan, whereas they are maybe in the PERS plans. And there were generalized questions about overall retirement benefits relating to tier two PERS and I'm aware of some questions about non-spouse beneficiaries, etc., for retirement. So those were kind of the miscellaneous things that had been bandied about. I would be happy to suggest we put this in as a future board meeting agenda topic, preferably for when we have a full board so that we can get others' perspectives on it besides the three of us. And get some leadership from the chair that is more familiar with the city and the charter, and those kinds of issues more so than I may be. So that would be my first thought is that we put it in as a future agenda topic. And that also, I would prefer this board of trustees which is really more administrative in nature, doesn't try and take the full burden of anticipating what a few members, albeit one set of them regularly participating in this, and have a strong interest, but maybe the other solicitation you made to get the police and fire employees and/or retiree groups to participate and maybe do some of the legwork on issues of concern or suggestions or those kinds of things. Meaning I'd like it to not just be a committee of this couple board members and a couple of retirees, but we need to understand that any discussions we had, if they were intended to go anywhere productive, should have some broader membership involvement.

Any other thoughts along those lines? Okay. Thank you, Mr. Stevens, for your comments, and do we want to make any recommendation to include this as a future board agenda topic?

Del Stevens: I would like to make another comment. If in fact it is agreed upon to establish a task force, I would ask that you include some retired members who have an interest and a background, because there's a lot of retired members that are struggling right now. As you're aware, the inflation rate is over 9%, and the COLA that we're allowed as a retired member is only 2%. Our members are losing their buying power, and particularly it hits widows harder because they have already ended up with only half of what their member was receiving. And so, to me it's a very important issue, and I hope that the board will want to address it and will want to include some divergent viewpoints, because equity, as I noted in your past minutes, is considered in everything you do. And certainly, retired members deserve equity as well. Thank you very much.

Trustee MacLeod: Points well made. Thank you.

Julie Hall: Thank you, Mr. Stevens. Mr. Machiz, if you're ready to give your testimony? Thank you, Mr. Machiz, you have three minutes.

PUBLIC COMMENT PERIOD CONTINUED – KEVIN MACHIZ

Kevin Machiz: Thank you, I'm Kevin Machiz and I'm here to address questions that came up at the April 4 board meeting regarding Actuarial Standard Of Practice number four (ASOP #4). My public comment for that meeting notified the board of an inconsistency between ASOP #4 and a memo from staff describing a proposed contract with value in excess of $300,000. Specifically, any levy adequacy analysis would constitute a funding valuation as defined by ASOP #4. In response, a seeming chorus of voices reassured board members that I had somehow misinterpreted ASOP #4 and declared that a levy adequacy analysis would not meet the definition of a funding valuation. These declarations glaringly omitted any reference to the actual definition that could be found in ASOP #4. The definition of a funding valuation is one sentence long and it does not provide any loopholes through which a levy adequacy analysis could escape. Instead, it was insinuated that my views on an unrelated policy somehow biased me and led to my alleged misinterpretation. First, I object to that type of insinuation. It was unreasonable, unfair, and irrelevant to the decision that was before the board. I hope that going forward everyone in these meetings can leave all personal comments at the door and stick to discussing policy. Second, since it was brought up, I'll address the possibility that my conclusion regarding ASOP #4 was incorrect due to some bias. I can tell you this is impossible. How can I be so confident of this? I have spoken to three actuarial experts in public plans that agreed the levy adequacy analysis would meet the definition of a funding valuation. One of them submitted a request for guidance from a member through the Actuarial Board for Counseling and Discipline. The guidance was that the levy adequacy analysis indeed appeared to be a funding valuation as defined by ASOP #4. Therefore, ASOP #4 would impact future funding valuations. I quickly notified your actuaries at Milliman on April 27th. Consequently, when performing a funding valuation, the actuaries should also calculate and disclose a reasonable contribution. I hope it's now clear the board was being presented with mistaken facts leading up to its decision. Finally, I don't view what transpired at the last meeting to be an isolated incident. I have observed a pattern regarding what's tolerated at these meetings, and I hope everyone who attends will do what they can to ensure these meetings embrace a culture of transparency.

Trustee MacLeod: Thank you. I'm sorry you felt that the style in the room was not open to receiving comments. I hadn't felt that myself personally, but I apologize if you felt that way from either members of the board or from others who were presenting. I did not feel like we received information that was biased in terms of the understanding of the actuarial standards of practice number four, but if you have received information from other actuaries to the contrary, and you have provided that to the Milliman actuaries and you can share that information with us, we'd be happy to receive that and take that into consideration.

Kevin Machiz: To be clear, only actuaries can submit those requests for guidance, and I'm not a member of any of the five -

Trustee MacLeod: That's not what I meant. You indicated you had reached out to three other actuaries, and that they had provided you their opinions and one in fact had reached out to the actual board of discipline and requested some guidance with respect to that. If you can share the specifics of that information with us that you'd like us to take into account, that would be helpful. And did you receive a response from Milliman when you provided them that feedback?

Director Hutchison: I'd like to follow up a comment. If you have questions or concerns with what is happening, what Milliman has done or the board, please route those through me and I will dispense it out. Milliman is employed by us, and we contract them, so we need to be in control over the contract and what is done, because with the time you spend with them gets billed to us, and they have to defend stuff, and we have to be part of that defense, we have to be part of the understanding of what the issue is. That should be coming through us since we're the contractor for Milliman.

Trustee MacLeod: And that makes sense. Really my questions to the presenter here about this information that he requested and obtained, if you can provide that to FPDR staff so they can review that and disseminate that to us as well, that would be helpful.

Kevin Machiz: Everything I have I just shared in my public comment. That's exactly what I have.

Trustee MacLeod: What I'm trying to get at, those are your statements about what you've done. I'm looking for documentation that’s relating to that.

Kevin Machiz: I don't have documentation. I'm not an actuary. I'm not a member of any of the five actuarial organizations, and only one of those members can submit a request for guidance.

Trustee MacLeod: I appreciate that. I simply meant that you said you spoke with people and shared that information with others, and I was just looking for specifics about who those individuals were and what their comments were specifically. Otherwise, it's just vague information that you're telling us, which is contrary to information we received in formal comments at the last meeting. So, I just have to put everything in perspective. Did any of the other trustees have comments offer questions about this?

Trustee Kulp: I don't recall any personal attacks on you at any time or anybody referring to you as being biased. I think I was very open to the information you gave. You’re obviously very intelligent, you spoke intelligently on the topic, but nobody had any sort of personal attacks on you or referred to you as being biased, what have you. I don't know where that information came from. I don’t recall any of that.

Trustee MacLowry: I would second that. And I apologize if it came across as not a fair shake, you're not getting good – not being experts in actuarial practices, you brought up some information and we asked for clarification from our experts, and it's contrary to what the information you just were talking about in your public comment. So, I would second what Catherine had said, if there is any information that you received from talking to those three actuaries that you brought to the light of Milliman, I would like to be able to evaluate that as well. I don't have the ability to take the information you just presented and really put it through the filter of knowledge of actuarial skills and practices. It's not what I do. I'm a firefighter. So, I'm happy to continue to look into the information and the accusations that you're presenting, but we need some sort of concrete information to look at so I know what it is you're asserting so we can then move forward. If that makes sense.

Kevin Machiz: Yeah. What I would say is I'm not an authority on this matter. The actual board for counseling and discipline is the authority.

Trustee MacLowry: I'm not an authority either. But I'm happy to take some more information if you can provide it to me, or to us, to the board.

Kevin Machiz: I don't have anything else to provide. You'd have to go to that ABCD to get that.

Trustee MacLowry: Thank you.

Trustee MacLeod: Thank you. Are there any other public comments at this time?

Julie Hall: There will be more public comment after the ETOB presentation. At this moment we're finished.

Trustee MacLeod: I think we're ready to move to the action items, and the first one is the discussion of the Equal To Or Better than test results. And I'll turn that back over to Sam.

ACTION ITEM NO. ONE – DISCUSSION OF EQUAL TO OR BETTER (ETOB) TEST RESULTS

Director Hutchison: I'd like to introduce Aeron Riordon from Independent Actuaries and Jake Winship from PERS. They're both here to answer the questions and go over the questions and answers they had sent out to you that are in the board handbook. So, I'm going to turn the meeting over to them.

Jake Winship: Thank you. Good afternoon. My name is Jake Winship, I represent Oregon PERS, and we contracted the analysis of Equal To Or Better than, but my colleague performed the analysis, and he will take the lead in this discussion, and I will support however I can.

Aeron Riordon: Thank you, Jake. Board, I'm glad to be here. My name is Aeron Riordon, and I work with the Lake Oswego firm called Independent Actuaries Incorporated and we were hired by PERS to perform the Equal To Or Better than test. I was provided a list of questions from Sam Hutchison, and I prepared written comments, those have been entered into the record. I thought maybe a good way to go about this would be to step through each of the questions and

I'll read it and then read my answer, and if there's any additional questions, we can go into that. I may have misunderstood the intent of the questions, so this is your opportunity to get some more details if needed.

We'll start with some questions that were from Trustee MacLowry. In the letter from Jake Winship, this test was part of the PERS board procedures, I guess. And the second-to-last paragraph regarding the two-step process, it appears the first step which compares a pay-as-you-go system to a prepaid pension system, in addition to a 2.8% versus a 2% defined benefit FPDR will never fail the Equal To Or Better Than test. And this is a letter from Jake to the members of the PERS board from July 22nd, talking about the in-process testing. So, my comment is in the two-step process, our first step is a comparison between the PERS full formula benefit and an employer plan with a defined benefit design, like Portland's. The Oregon Administrative Rules (OARs), the rules state that whether the benefits are provided by trust should not be part of the determination. And that's where I'm addressing the pay as you go versus a prepaid pension system. I agree if all other provisions are equal, a plan with a 2.8% benefit would never fail the ETOB test when compared with the PERS full formula 2% benefit. So, I don't know if that answered your question.

Trustee MacLowry: Can you clarify, it says that whether the benefits provided by trust. What is that referring to? What does that mean?

Aeron Riordon: So, there are two main ways of providing benefits to retirees. One would be that you set aside money ahead of time in trust, and that money is protected, and it's only used for the purpose of paying benefits when those people retire.

Trustee MacLowry: The prepaid system.

Aeron Riordon: Exactly. So, the pay-as-you-go system would be where there are no assets set aside ahead of time, and simply from the general assets, benefits are paid as they come due. So, part of the ETOB test, part of the rules state that the manner in which the benefits are funded, are paid for, is not part of the consideration.

Trustee MacLowry: Okay.

Trustee MacLeod: Before we go on to the next question, just a couple clarifying things about this first one. In addition to the formula, so the 2.8% versus 2.0% per year of service, there are other things that go into the benefit for comparability. That would include the salary or compensation applied to that and whether there's maximum years of service. So, in looking at this, I presume that those are not issues, or were those, I take it those were taken into consideration is what I want to say. If one plan were a final five-year compensation average applied versus the other one that was a final single year compensation applied, or if one had a maximum years of service of 20 years and the other had 30 years, those could create a different result from this.

Aeron Riordon: Yes, I agree. There are any number of plan features which affect the value of the benefit, and we did compare and take into consideration all of the plan features with the exception of some certain features which are specifically excluded from consideration. That would be something like the Social Security adjustments, and a few other things that are specifically excluded from the test.

Trustee MacLeod: Okay.

Trustee MacLowry: I want to make sure I understand Catherine's point. Excuse me, Trustee MacLeod. If you're doing a sideways comparison, it doesn't matter if they're the full level of pension, side by side is side by side. The one doing PERS is full pension, and five-year comparison will be for both sides, unless I'm not understanding exactly what Trustee MacLeod just was saying.

Trustee MacLeod: I’ll clarify. What I was trying to say was yes, on the surface if you have one plan with a benefit formula of 2.8% per year of service, times compensation as the benefit and the other is 2.0%, 2.8% is obviously higher. So as this question answers, it will obviously not fail if the only difference between the plan one is was 2.8% per year of service and the other is 2.0%. But the other things that can come into play are the age at which that benefit is payable, the compensation that's applied to that per year of service benefit. And if one of the plans had a maximum year of service credit and the other one didn't, for example, those were the kinds of things, so strictly 2.8% versus 2.0% I would agree on the surface, 2.8% is bigger. But I'm just trying to get into the discussion that there are other variables, and have it addressed that those were all taken into account.

Trustee MacLowry: Okay.

Aeron Riordon: Should I continue with the next slide? The next part, please say more about the discussion surrounding the implicit subsidy associated with post-retirement medical benefits. This is still part of the comments in the letter from Jake to the PERS board. So, I'll read the reply first. An implicit subsidy exists when retirees are allowed to remain on the active health plan, even if they pay the full premium amount. This is because the premium itself does not represent the full cost of covering these retirees. Since they're older than the active population, retirees can be expected to generate higher medical claims than the average claims of the mostly active employee population. If an employer pays a large percentage of the premium amount for active employees, the employer is considered to be providing an implicit benefit to the retirees, because payment of premiums related to the act of employees subsidizes the cost of covering retirees. The only retiree medical benefit provided under PERS is a $60 monthly stipend applied to PERS sponsored Medicare supplemental insurance. The value of the PERS benefit is quite small compared to the implicit benefit provided to FPDR retirees. Since we determined that the FPDR benefits were substantially more valuable than PERS without considering any implicit subsidy, we have not reflected any consideration of implicit subsidy in our comparison between PERS and FPDR. So that was a lot of words, but basically, we're saying that without considering this additional benefit, this implicit subsidy, we already found that the FPDR retirement benefits were more valuable.

Trustee MacLowry: Would you not take into consideration when the health plans are being renewed each year through the city, that they know the retirees are on their health plan and they are assuming that risk through the premiums that are generated each year?

Jake Winship: And if I may, my understanding of this is, yes, that is taken into consideration. This is actually related to any selection associated with the retiree benefit, so presumably we would anticipate because it is a relatively substantial benefit, that members in relatively poor health that would incur higher than expected costs, there would be a benefit to them by having this availability; there's basically an optionality. Rather than attempt to quantify the value of that option for a poor health retiree to receive this subsidy, we directed Independent Actuaries to disregard it. So essentially, we were treating that option value as zero, which is more conservative. So, the value without any sort of option value to select that is already well in excess of the PERS health insurance plan that would be available. Therefore, we did not need to quantify that. It was already well in excess with the Portland FPDR plan in comparison to PERS, if that helps clarify.

Trustee MacLowry: Yeah, thank you.

Trustee MacLeod: So, let me just say it in different words. Had you valued this implicit subsidy benefit, the gap between the FPDR value benefit would have been even greater than the PERS value benefit. Is that what you're saying?

Jake Winship: That's my belief.

Trustee MacLeod: Okay. Thank you.

Aeron Riordon: I can confirm that. That's true.

Trustee MacLeod: Okay.

Aeron Riordon: Moving on, the next bullet, the following paragraph in the letter talks about the employee pickup. The question is, do I assume it that is not relevant to FPDR as only step one of the process was utilized? And that's correct. And the discussion of the employee pickup, it's only relevant for plans with mandatory employee contributions. It is a term that has a specific U.S. federal taxation meaning, and it would be considered an employer provided benefit. For FPDR, mandatory employee contributions only applied prior to 7-1-1990, and there are only five employees in the census, which was provided to us with a date of hire prior to that. So, we did not investigate whether FPDR mandatory employee contributions should be considered pickup contributions. And again, that is only something that would have increased the value of the FPDR benefits since that would be considered an employer provided benefit.

Trustee MacLowry: And I think as you read that, the connotation for me for employer pickup is IAP related. My language, that's 6% is an employer pickup, so I was understanding that in a different context.

Aeron Riordon: I see. That makes sense. We weren't comparing to IAP. Let's move on. So now the questions are specifically about our reports that was provided, and in the methodology section, which is in the report that is different page number. It's page 2 of the report in case you're looking in the report itself. Define level of service retirement. I assume it is promotion related but not sure how they compare classifications. So, in our report the term "service retirement" does not relate to promotions, rather it means retirement from service after attaining required age and service. The other kind of retirement that is considered under the ETOB test is a retirement due to disability. So, I did hear some comments earlier from Ms. Macleod and maybe that's why there's a question about this particular term. In the test we only considered two kinds of retirement. One is retirement from active service, after you've reached whatever the requirements are, and the other is retirement due to disability.

Trustee MacLowry: Makes sense.

Aeron Riordon: Moving on. Please explain what if any additional actuarial assumptions were used.

Trustee MacLowry: In bullet four.

Aeron Riordon: Yes, in the letter from Jake to the PERS board, we discussed some additional actuarial, sorry not in the letter, in our report, that we might develop some actuarial assumptions which were not specifically listed in the Oregon rules. Because FPDR is directly comparable to PERS, there are no assumptions needed for comparison of different types of benefits. In some cases where detail was not available, we made assumptions that would err on the side of increasing the value of the PERS benefits. As an example, since the FPDR consideration of unused sick leave and the determination of pension benefits was not directly addressed in the SPD or valuation reports we received, we made the conservative assumption FPDR are retirement and disability benefits do not consider unused sick leave. So, in general, we did not have to make any assumptions when comparing PERS and FPDR. But when we did, it would be something like this where it was again, an assumption that would not change the outcome of the test. If we had assumed the opposite, that would have made it more likely that - sorry, the FPDR benefits would be, I'm getting turned around, it would increase the value of the FPDR benefit if we assume the sick leave was reflected.

Can we give a brief summary of the full formula calculation method? The PERS full formula method of calculating retirement and disability benefit whether tier 1, tier 2, or OPSRP, is determined by multiplying a percentage, 2% for tier 1 and tier 2, and 1.8% for OPSRP by years of service by average monthly compensation, and the average monthly compensation is based on the final three years of employment. So that is the benefit that we were comparing.

Trustee MacLowry: The defined benefit.

Aeron Riordon: Yep. The question is, where is Social Security represented on the balance of the scale with this methodology? To my knowledge, all other Oregon firefighters calculate Social Security into their retirement. And the response is simply that the ETOB test states that we may not consider Social Security benefits or participation.

Trustee MacLowry: So, I understand that is directed by that statute, that just, it seems sensible that that's something every other firefighter or police officer in the state is counting as part of their retirement, that could be somehow folded into the valuation? Or at least the comparison? But I guess I understand that that's what the statement is in the administrative rule.

Jake Winship: I may speak to that a little bit. That was part of PERS direction to independent actuaries, that wasn't an item mentioned, and we did have discussion. From PERS perspective, each individual employer may elect to participate in Social Security or not at their discretion. So, our treatment in other contexts as well is to make the assumption that the alternative selected by an employer would be the same should they be a member of PERS as it is not in PERS. Therefore, if they have the election to be part of PERS and not participate in Social Security. If they were required, the wording would be different, but because we have that, the OAR specifically includes, pardon me, excludes consideration of Social Security benefits and participation in that program. So that's direction from our legal department at PERS.

Trustee MacLowry: That holds for all ETOB tests around the state, not just Portland?

Jake Winship: That is correct. Every plan subject to ETOB evaluation is subject to the same rules.

Trustee MacLowry: May I make sure I'm understanding your comment about that again correctly? Are you saying that the interpretation is that an organization's decision to be part of PERS versus their own program such as FPDR would not be determined based on whether or not, I'm going to say it differently. Their decision whether or not to participate in Social Security benefits would be independent of their decision to participate in PERS or another program?

Jake Winship: That's correct. Because -

Trustee MacLeod: So, it is out of the consideration, you're saying you have assumed for purposes of this test that that's a separate decision that would not be impacted by their decision to be in PERS or another program.

Jake Winship: That is correct. And just to avoid ambiguity, that's why the administrative rule was modified to explicitly exclude consideration of Social Security benefits. But that is the reasoning behind it, that because a plan can participate in PERS, and simultaneously not participate in Social Security, we did not wish to value the option selected.

Trustee MacLeod: Thank you for clarifying.

Aeron Riordon: Moving on, the next question is about bullets nine and 10 from our report, and I'll read those two bullets. This is talking about the methodology we used in the test. Our comparison does not value the transfer of investment risk and mortality risk between employee and employer, inherent in the plan design differences of defined benefit and defined contribution plans. And bullet 10, our comparison does not include increases to retirement benefits under certain statutes of Oregon. So, bullet nine is not applicable to the comparison between PERS and FPDR because both plans use a defined benefit design. In a defined contribution plan, the employee typically bears all investment risk. While the value of this risk could be considered in comparison of benefits provided by plans of differing design, defined benefit versus defined contribution, the subjectivity of such a consideration makes its inclusion in the ETOB test problematic. So, because PERS is a defined benefit design, and FPDR is also, bullet nine doesn't really apply. That would be talking about the value of investment risk or mortality risk and trying to compare a defined contribution design plan with something that's defined benefit like PERS.

Trustee MacLowry: Can we drill down on this one for a moment?

Aeron Riordon: Yeah.

Trustee MacLowry: Correct me if I'm wrong, I'm not an expert, but the defined contribution is a part of the PERS pension. Am I correct?

Aeron Riordon: It is a part of certain types of the plan, but those parts of the PERS plan were not considered. So, I think maybe you're thinking of the individual account plan.

Trustee MacLowry: I am, most definitely.

Aeron Riordon: And that's not part of our testing.

Trustee MacLowry: I'd like to drill down on that decision a little bit if I could, because it doesn't make any sense to me. I guess the wording here is that, inclusion of that is problematic, and as I understand it, this sort of trying to figure out, I guess what the value of someone's IAP in 25 to 30 years is problematic, but isn't that sort of part of the job description as an actuary, to try to project something like that, that could then be part of the value of a pension for someone who is in PERS? Whether it's tier 2 or tier 3?

Aeron Riordon: And I am afraid this is another case where the Oregon rules actually state that only the full formula money match and the formula plus annuity and OPSRP benefits are part of the testing.

Trustee MacLowry: So, you are restricted by the ORS, or the rules for the testing is to only do the defined benefit portions.

Aeron Riordon: Only the defined benefit portion of PERS. But there are some employers that have defined contribution designs.

Trustee MacLowry: Okay, thanks.

Aeron Riordon: So, bullet 10, which was talking about increases that retirement benefits, that is a rule that requires police and fire pension benefit increases to match some PERS benefit increases for participants who pay Oregon personal income tax, and those increases are also explicitly excluded from the test.

So, moving on in the report. Paragraph three and four, and this is in the test result section, it says both paragraphs three and four seem to dismiss the disability portion of the FPDR benefit. And this is one where it might be helpful to talk about the question, I'm not sure if I answered it in the way that you're expecting. So, paragraph three says, only the benefits provided under FPDR 2 are relevant to the ETOB test, since no members of FPDR 1 are active as of the testing date, December 31st, 2020, and members of FPDR 3 are covered by OPSRP, with additional benefits provided by the City of Portland and are by definition receiving benefits Equal To Or Better than those provided by PERS. So that's what our paragraph three says, and I've tried to restate that here. I'm not sure, I believe members of FPDR 3, the additional benefits are additional disability benefits, so since they're already receiving OPSRP benefits, the additional benefits mean they'll pass automatically. So, we're only looking at FPDR 2. And we do discuss disability benefits, and the table, which is following these two paragraphs, we discuss a side-by-side comparison of the disability benefits between FPDR 2 and PERS. Please let me know if that wasn't what you were getting at.

Trustee MacLowry: Maybe we'll get back to it, thanks.

Aeron Riordon: Okay. The next question, under covered compensation, what bonus is being referred to in addition to salary? And in our comparison, the bonus refers to any increase in salary rates due to premium pay. So, in general, I believe bonuses are not considered in the FPDR benefits, but when we refer to bonus, that's what we're talking about, increases due to premium pay.

Trustee MacLowry: Premium pay is part of FPDR salary.

Aeron Riordon: Right.

Trustee MacLowry: I was just clarifying bonus because I didn't know your terminology.

Aeron Riordon: Thank you. Over pages 102 and 103, where as IAP added comparison, we discussed that, the Oregon Administrative Rule actually specifically excludes the IAP.

Trustee MacLowry: And this may not be the time for this, maybe something for further discussion with the board, but it does seem that, and I understand you were doing exactly what you were contracted to do, but as far as the value to the membership who are receiving these benefits, to leave out the IAP almost renders this test, without being harsh, almost meaningless in a sense because that is such a large and viable portion of someone's pension. And I'm thinking more about the people in OPSRP, I'm more in tune with that one, I'm not as familiar request the PERS tier 2 version, but it is something that goes back to the FPDR reform of 2006 and 2007. There's a lot of discussion of how that portion of the pension was going to be the added piece that would make it worthwhile for the police and fire to move out of FPDR into OPSRP as their pension. So that is just something I wanted to touch on for the record. It can be discussed later, but it was something that I noticed and was very curious as to why it was not part of this test, and I'm understanding now it's the way that it was structured and a way that you are governed by the restrictions of the administrative rules. So, I just wanted to put that out there. Thank you.

Aeron Riordon: The next set of questions were questions that were from the FPDR staff. Question one, walk through the test requirements, namely that total FPDR benefits be at least 100% of the value of total PERS benefits. I'll stop there and answer. So, when considering the aggregate retirement disability and post-retirement healthcare, the employer benefit must be shown to be more valuable than PERS, and I provide the rule. So, in the test we look at all of the benefits, the retirement and disability and post-retirement healthcare, and when you consider those categories, the aggregate benefit must be at least 100% of what is provided by PERS. The FPDR service retirement benefits must be at least 80% of the value of PERS service retirement benefits.

Trustee MacLowry: I'm sorry, can I interrupt? Just back to that last point. Talking about the aggregate retirement disability and post-retirement healthcare, how is the disability folded into that equation?

Aeron Riordon: When we do the testing, we didn't do this when we were comparing FPDR and PERS, but we would have assumptions about how often a person becomes disabled, and how often a person becomes retired, and what benefits are due to them at that time.

Trustee MacLowry: But you didn't do that for this test?

Aeron Riordon: Correct.

Trustee MacLowry: Okay. Thank you.

Aeron Riordon: So, there are two main categories of PERS, sorry of retirement benefit, that are considered in this test. One is a retirement from active service with post-retirement healthcare, and the other benefit is the retirement due to disability with post-retirement healthcare. So, when only considering the retirement from active service with healthcare, those benefits provided by the employer must be at least 80% of the value of that provided by PERS. And then the last part of this question is asking about benefits for retirement with disability and the question - Is FPDR benefits for retirement after disability be at least 80% of the value of the equivalent PERS benefit? So, this is saying that when you look at the disability benefit with post-retirement medical, those benefits must be at least 80% of the value of that provided by PERS. So, all together, when you add them all up, must be 100% if you're looking at just service retirement, it has to be at least 80% if you're looking at just disability retirement, it has to be at least 80%. And our side-by-side comparison showed that in each of the above areas, FPDR is unambiguously more valuable.

Trustee MacLeod: Is that 80% analysis minimum benefit analysis, is that on a per-member basis, or is that for the plan as a whole?

Aeron Riordon: That's a great question. It is not on a per-member basis, it is all members considered together.

Trustee MacLeod: Okay.

Aeron Riordon: And when we talk about those members, the next question will touch on this a little bit. The next question says, explain the testing process in a bit of detail. For example, do they take a subset of PERS employees and pretend they're FPDR employees to calculate the benefits that person would receive if covered by FPDR, and then compare that to the real PERS benefits? So, the Oregon Administrative Rules state that a hypothetical member data should be used. And we have used a hypothetical census, which is based on the PERS Police Officer and Firefighter data used, and the 12-31-2020 PERS valuation. Because our side-by-side comparison revealed that the only PERS provisions which might be more valuable than FPDR are the amount of overtime and used sick leave and vacation time that are reflected in retirement and disability benefits, we only used the hypothetical data to evaluate the significance of these differences in the plan provisions. For example, based on the hypothetical census, we estimated the average Police Officer and Firefighter amount of overtime pay that would be considered under PERS and we applied a corresponding reduction to FPDR benefits because of the fact that overtime pay is not considered.

Moving on, what does the test include and exclude? For example, does it consider taxability of benefits, post-retirement healthcare benefits, level, and type of plan funding? So, in my answer I point out that a couple of those are specifically excluded, through the rules, the taxability of benefits is excluded, and the way the plan is funded is excluded. Post-retirement healthcare benefits are included. But one way that you can see a quick listing of what we have included and excluded for consideration is in our report. In the methodology section, we list the items that were considered. We considered the level of service retirement and disability benefits, so that would be the percentage. Early retirement subsidies, the definition of the covered compensation, mandatory employee contributions, the normal form of payment, and optional forms of payment that are available, Cost-of-Living Adjustments, and then the amount of explicit and implicit post-retirement medical benefits. So, this is from our report, and it is page two of the report. But I believe that was probably, if you're looking at the aggregate provided in your questions, Mr. MacLowry, page 100 out of 352.

Trustee MacLowry: Got it, thank you.

Trustee MacLeod: Just to clarify again, in your example of your discussion of the things that the OAR require not be considered in the testing, you talk about taxation of benefits. So again, in the FPDR plan, benefits paid at retirement for those who left service due to disability, if they are taxed under the FPDR plan but are not taxed through PERS, that differential would be ignored. Correct?

Aeron Riordon: Yes. That's correct.

Trustee MacLeod: Okay. Thank you for clarifying.

Aeron Riordon: Moving on to the next question, do you require FPDR to have the same benefit features as PERS? And the answer is no. The test considers the actuarial present value of benefits, not individual planned features. So, we do look at the plan as a whole, but as I mentioned before, when comparing side by side, there were only three types of features that could potentially be more valuable under PERS.

The next question, how do you compare FPDR pension benefits and PERS pension benefits when they're not exactly equivalent? For example, FPDR pensions have a higher accrual rate, 2.8%, than PERS. But FPDR final pay does not include overtime, whereas PERS final pay does. Another example is the fact that the PERS pension is a hybrid benefit, part defined benefit and part defined contribution, which is inherently riskier for the employee. How do you conduct these apples-to-oranges comparisons? As I've mentioned a couple times now, we actually exclude the comparison soon between the IAP, so that removes that difficulty, but I'll just read part of my answer. A side-by-side comparison of just the accrual rate is very simple to qualify. This benefit is 140% more valuable, 2.8% divided by 2%. Other plan features such as the value of the normal form of benefit of payment of benefits, are also quantifiable using actuarial techniques. So, there are some plan designs which have a different form of payment, and we have some specialized actuarial software that will allow us to compare the relative value of different forms of payment.

I'll keep going with the questions. Additional questions, how does FPDR participate in testing? Does FPDR have any influence as to how the test is conducted? Can FPDR review the test results before they are presented to the PERS board? The test is performed by an actuary retained by the board, that's me. And we provide the report to PERS, so I don't believe FPDR can review the test results before they are presented to the board. The question about how FPDR participates in the testing, that is at first limited to providing any additional information that is deemed necessary by the actuary.

The question, if FPDR failed an ETOB test, who would it impact? Would there be any impact to FPDR members already retired, or just those FPDR members still working? The answer is that if they failed the test, I'm sorry. If the plan were amended to comply with the Equal To Or Better than requirement, it states the amendment would be retroactive to the valuation date. So, the most recent valuation date is 12-31-2020, and there would be no impact to any FPDR member who retired before this date, only actively employed members accruing benefits as of the date would be affected. So, if you failed the ETOB test, you have an option to amend the plan to increase benefits, but that would only affect people who were actively accruing it at the time of the test.

Question, what are the options if FPDR were to ever fail an ETOB test? If the board were to deny FPDR's petition for exemption from participating in PERS, they could choose to participate in PERS or could amend the plan, and the amended plan would again be tested for Equal To Or Better than status. Question, who has the authority to change the ETOB test requirements? And for that I would refer you to the PERS board and the Oregon Secretary of State for questions about that process.

Jake Winship: And I'll just follow up a little bit because we welcome any insight that you had. So, if board members or the board as a whole feels that it's appropriate to amend the procedures and the rules governing the ETOB process, I would recommend submitting a letter to that effect with any proposals to the PERS board and our staff will forward and incorporate that into the regular procedures of our board alterations. Statute, as I understand it, requires this certification, which again as Aeron mentioned, is very much an up or down vote for each individual plan. It either passes ETOB and thus qualifies to be exempt from participation in PERS, or it does not. And he went into some of the options if it does not qualify for this exemption. But obviously if there are any inadequacies, if there are concerns expressed by the board, I perceive that would receive some due weight and would receive some due weight, and PERS would direct agency staff to make appropriate amendments to reflect those concerns.

Trustee MacLowry: I can say for myself, I appreciate that, and I appreciate the time of both of you for coming down and explaining these things. I think it's incumbent upon me certainly to understand this the best I possibly can, being this is the first time through the ETOB test as a trustee. It's very interesting. One thing that sticks out to me at the end of this discussion, on page 104 the last thing, I remember at a meeting in March, I think, when we first talked about this, Director Hutchison saying the valuation came at 140% or so of the PERS value. And it said at the end, the benefits provided by the City are at least 140% the value of those provided by PERS, which is essentially this exact same ratio that was talked about earlier with your side-by-side comparison of just the accrual rate is simple to qualify. They seem to be basically the same. All these different things were folded in, actuarial assumptions, this implicit benefit, around 140%. I just wanted to point that out. It seems interesting that essentially may be the foundational bottom line to this whole test.

Aeron Riordon: I would agree, a large part just relies on that percentage that's available, the accrual rate. However, it was a coincidence that it's the same number.

Jake Winship: And my understanding, and perhaps you could speak to this a bit more, Aeron, the actual comparison, if that's divided into components, both the service retirement portion was well in excess of 100% as well as the disability portion being well in excess of 100% of comparable PERS. My understanding is that the relative value of the retirement portion was more than 100%, but less than 140%. And the relative value of the disability portion was greater than 140%, and as he mentioned, the 140% was kind of a coincidence. Is that more or less correct?

Aeron Riordon: I'd have to look at the details of our testing to confirm that. But they were both well above 100%, I would agree with that.

Trustee MacLeod: I'd like to add my thanks and appreciation to your discussion of the test in detail and responding to these individual questions. I think it's been very helpful to us, and we've heard prior comments in the past, but this has been very thorough in terms of the review of the nitty gritty of what is included, what's not included, and specifically what the requirements are, because that's been a bit of a confounding part in the past, when a logical comparison might say, why aren't Social Security benefits, or why aren't taxation of certain benefits taken into consideration? It's important for us to understand that for purposes of this mandated requirement to test, there's rules for how it's being conducted and you're following the rules. So, I really appreciate, again, the IAP portion of the plan is another example. So, I really appreciate the clarification of those things, and that makes it a separate matter should the plan members feel that there are issues relating to the comparability of their plan benefits to other PERS members that concern them, than that is a separate matter apart from this test and its results. I want to thank you for all the clarifications and the quality of the test. Do we need to accept the results of this test formally to make a motion to do that? Or has that been done already?

Director Hutchison: Catherine, just one last question. When is the next ETOB test scheduled?

Trustee MacLowry: No less than 12 years.

Jake Winship: Yes. Current statute says that ETOB evaluation must be performed at least every 12 years. So that would require that to take place on or before 2034.

Director Hutchison: Thank you.

Trustee MacLeod: Thank you. And again, Jake, go back to a comment you made there toward the end about, if FPDR felt that there were aspects to the testing requirements themselves that were of concern to us, things that should be included that aren't, are you saying that you feel that these are things that have any realistic possibility of change at the PERS level, or are we one of many, many voices and it's not likely that this is going to get revisited?

Jake Winship: I would say it's somewhere in between those. There are currently nine police and fire plans that are exempt from PERS participation. So obviously that's a small universe, and Portland FPDR is the largest of those nine plans. Certainly concerns, especially as a board that would be identified and addressed to the PERS board, and/or the Secretary of State would be taken seriously and considered, but I have no guarantee they would be adopted. But they would certainly be reviewed and given appropriate consideration.

Trustee MacLeod: Thank you. All right, any other questions? Back to my original comment, Sam, do with need to make a formal motion to accept the results of the test, or is it just administrative in nature?

Director Hutchison: This is just administrative for your information only, so no need to accept a report.

Trustee MacLeod: Okay. Thank you again, I thought that was a very helpful.

Aeron Riordon: It's been a pleasure.

Jake Winship: Thank you.

Julie Hall: Now that the ETOB presentation is over, Del Stevens has comments to make. Do you want to come on up? Okay, have you three minutes and I'll start the timer momentarily.

PUBLIC COMMENT FOR ACTION ITEM NO. ONE – DEL STEVENS

Del Stevens: Thank you for taking a question from the floor. I'm not exactly sure how to phrase this without making an accusation, but if in fact Portland does pass the Equal To Or Better than test, how do you account for the fact that disabled people in Portland are required to pay IRS income taxes? And disabled people under PERS are relieved of that burden. It's an extreme hardship for disabled people to pay upwards of 30% of their disability income out in federal taxes. Was that taken into account when you did your Equal To Or Better than study?

Director Hutchison: Del, we'll have them come up and answer your questions later.

Del Stevens: Anyway, I am concerned with equity for our retired members. I'm in contact with a lot of them, and I know that a lot of them are suffering hardships. As I said before, the buying power of a disability pension is decreasing every year with our inflation rate. I understand how the COLA was established; I was part of the committee in 1989 that created our tier 2 pension plan. However, it's not equitable today, and our members are in fact impaired from the disproportionate tax that they have to pay on their pension. And I don't understand why that is not part of the Equal To Or Better than test. Could somebody from PERS respond to that, please?

Aeron Riordon: I'll address the first part of the citizen's comment, and that is that the taxation of the benefit is not considered. And I understand that there are many people where the taxation of a benefit like that would be a burden, however, that's not part of the comparison in the test.

Jake Winship: I would just echo that, and just concede that perhaps the rules established for the conduct of ETOB are not perfect, but they are those which govern the process. And that process was followed and part of that is that the taxation is not considered. One of the challenges philosophically, and again, this is my opinion and perhaps I should withhold it, there are challenges with assessing the impact of taxation that require additional assumptions. Nevertheless, the ETOB guidance does explicitly exclude that consideration.

Director Hutchison: Again, thank you very much for the follow-up answers.

Stacy Jones: Chair Macleod, are we ready for the next item?

Trustee MacLeod: Yes, we can move on to Tax Anticipation Notes.

ACTION ITEM NO. TWO – TAX ANTICIPATION NOTES (TANs)

Stacy Jones: Just to state for the record again, My name is Stacy Jones and I'm the FPDR Pension and Finance Manager. I Believe this is the Only Action Item before the board today. Sorry, I keep looking up, otherwise I feel like I'm staring at Trustee MacLowry. It's right up there and also to the sides, I'm kind of pivoting around. I believe in is our only action item today. This is our routine annual tax anticipation note issue, which the board always authorizes at their May meeting for borrowing in July or August. All three of you here today, you've done this at least once, so hopefully you have some vague memory of this. I bet Trustee Macleod has more than a vague memory, she's gone through this process many times. But just to refresh everyone's memory, we rely pretty much, I know you all know this, pretty much entirely on our property tax revenue to fund all of our benefits and administrative expenses. And our fiscal year starts on July 1st, but we don't get the majority of our property tax revenue until mid-November, when those first payments and those folks who are taking the option of paying in full when those payments start rolling in. So, we are faced with the problem of funding our expenses from July 1st through mid-November. So, every year we borrow money to bridge that gap by issuing something called Tax Anticipation Notes, or what we lovingly refer to as TANs, notes are just short-term bonds, and we will pay them off in January after we have the majority of our tax revenue. So many, many, many, many local and state governments issue TANs, there's a well-developed market for them, and they're tax exempt of course, which means those who buy them get to keep their interest earnings tax-free, which in turn means we get charged less interest for issuing them. In addition to just being necessary from a cash flow perspective, let me also remind the board that every year at least until this year, it has also been financially advantageous for the fund to issue TANs, and that is because we've always paid less interest on the TANs than we have earned on the funds in the City investment pool. And Trustee Macleod has heard me fret about this for years, every year I say that's always the case, but this year it might not be the case. I feel like I'm crying wolf because it turns out we always do come up with positive arbitrage. Well, this year is the first year at least that I know of where that did not happen. We paid 1.9% interest on our TANs, and for the six months we had those funds, we earned 1.2%. This would be on an annual basis. So, I think that's the first time, it's the first time I'm aware of where we wound up not coming out ahead on the deal. It could have been worse, we took the advice of debt management and went with a private TANs placement with a private bank last year and took advantage of kind of a lag in interest rates between those two markets, between the banking markets and the municipal bond market. It would have been even worse if we had borrowed on the municipal bond market like we normally do, but all the same, we did wind up in that situation this year. I do think this is an anomaly. I don't think it's the new normal. This has really brought on by the very unprecedented interest rate environment that we've been in for the last couple years. But I do want to let the board know I wouldn't be surprised if that same situation repeated this year, and this is something that we're obviously going to be watching very closely. So for that reason, I am going to recommend repayment again in January. It used to be that we would hold the money as long as we could and pay it in June, because we were making money. Well, now I'm really glad we repaid the funds in January since we were losing money and I want to make sure we repay again in January this year. So that is the plan. But whether it does or doesn't come out ahead financially for us, it is still necessary from a cash flow perspective, because we have to cover our expenses between mid-August which is when we're going to run out of fund balance, and November 15th.

A couple more things, just to say before I take your questions, we do plan to issue notes on the public municipal bond market this year. We're not seeing that sort of reverse split between the public bond and the private bank loan rates that we were seeing last year. So, we are pretty confident that issuing public notes will be less expensive, even after we consider that they're more administrative expenses associated with that, because we have to get a Moody's rating and we need closer involvement of bond council and all those things cost money. But even considering that we're confident it will be cheaper to go to the public municipal bond market this year. We're planning to issue in August and repay in January, as I just said. And let me talk about the dollar amounts. So, we budgeted for $38 million, and that is the borrowing amount I'm asking the board to authorize today. We just completed our preliminary cash flow projections, and I think our low point on November 14th is going to be about negative $30 million. And I'm going to borrow that extra, again, within the allowances the IRS permits. So, I'm thinking that we're going to borrow $33 to $34 million, but I'd like you to authorize the full $38 million so I have some flexibility, because we won't finalize that amount until June, and of course the board wouldn't meet again until July. But we need a final amount in June so we can go through the whole preliminary offering statement process with bond council and get a rating from Moody's in July. So, we will continue to fine tune that amount, but right now I think it's going to be in the $33 to $34 million range, and just for context we issued $28 million last year in Tax Anticipation Notes. Any questions that I can answer? No? I see Trustee Kulp shaking his head. All right, I do need a resolution. I need the board to formally authorize Sam and I to borrow this money. I believe have you a resolution in your materials.

Trustee MacLeod: Number 549, do I have a motion to accept resolution 549 as presented?

Trustee MacLowry: I'll make a motion to accept resolution number 549 as written.

Trustee Kulp: I will second it.

Trustee MacLeod: Those in favor say aye? Aye.

Trustee Kulp: Aye.

Trustee MacLowry: Aye.

Trustee MacLeod: Thank you, Stacy.

INFORMATION ITEM NO. ONE – SUMMARY OF EXPENDITURES

Stacy Jones: Thank you very much. Now moving on to I think update and information items, I believe the expenditure report is up first, so I may as well just stay up here. The report in front of you, if you're looking at a physical paper copy notice it's been folded, because we're at that point in the fiscal year where we try to save your eyesight and put it on slightly bigger paper. But we, this goes through March, which was the month that had closed when we prepared this for you, so we could send it out to you two weeks earlier, April is closed now. The most unusual thing that's going on, and I think I've mentioned this before, is that we have not, you don't see any expenses on this report for PERS contribution reimbursements to police and fire, and those would be down under internal materials and services. And their FPDR 3 pension contributions, you can see we have a budget of about $33 million and we have spent zero dollars, but we do have that money flowing out in May know. They finally, police and fire billed us, I think they mentioned they've been consolidating administrative back house functions and there's been a little bit of a delay, a lot bit of a delay, in getting those billings to us. But when we got them, they why pretty much correct and we didn't have to make too many changes to them so that was a positive improvement. So, we've got about $23 million of those reimbursements now, and the next time you see this report you'll see that those are gone. The only other thing I might mention, if you look at miscellaneous revenue, you'll see we've got quite a bit more than we budgeted. And that is interesting come on fund balance, but it's connected to the PERS contribution delay, and that we have been sitting on that $33 million in PERS contributions which we're happy to pay as soon as they bill us, but we are collecting the interest for a little bit longer on that money than we had anticipated, and then in addition to that, interest rates have been higher than we budgeted for as well. Those are the only things I would point out. Are there any questions about the expenditure report?

Trustee MacLeod: It's nice timing they left those billings for so long, because it helped offset the other -

Stacy Jones: I know, we should thank them. The first time we had a negative spread, police and fire helped us out by not getting their billings to us

Trustee MacLeod: Any questions? Okay. Thank you.

INFORMATION ITEM NO. TWO – LEGISLATIVE UPDATES

Director Hutchison: Okay, I've got a few informational items to go through. The first one is a legislative update. This legislative session, there were not a whole lot of bills that would directly impact FPDR. The legislature is still in session and will be potentially through June 25th.

I don't know if you've been paying attention to the news, but the Republicans in the Senate have not participated in the Senate itself, so there's been no quorum since May 10th. And it looks like they're going to remain out until probably the week of June 20th before they come in and then they're only going to come in and do budget bills. Any policy bills or other bills out in the system that require Senate approval will likely not get that approval this year.

There is one bill that I was excited about that did get passed and has been signed into law by the Governor, and that's House bill 3111. This bill exempts from public disclosure personal information of employees and retirees maintained by a retirement system operated by a local government, that includes FPDR. This bill provides FPDR retirees with the same protection of confidential information that PERS retirees receive. Prior to this bill, our retirees did not have their personal information such as date of birth, addresses, email addresses, telephone numbers and the like protected. Fortunately, over the past several years we have received only a couple of minor requests for some of that information on an individual basis, and we've given the information that we felt was not confidential and refused to give the balance of that information, and fortunately no one challenged us on that. We were also very fortunate that there was not a what I would call massive data request. The city gets that often, PERS gets that often. If we had gotten that data request where they wanted all this information on all retirees, we would have refused to send that information, but more likely than not, we would have lost the appeal and would have been required by the State statute and State regulations to have released that information. This has been bothering me for eight years. I've been trying to work with our government relations office and some other people in the legislature to get this wording put into a bill. A couple of years ago it got close, but the bill never progressed, and this year it progressed and was considered a high priority. Thanks to the League of Oregon Cities, because this not only impacted us, but it also impacted other cities, that's a big plus for saving our retirees' confidential information.

INFORMATION ITEM NO. THREE – FPDR UPDATES

Director Hutchison: We have 2 vacant board positions. The board chair is the designee of the mayor, so it's in his court to select his designee. The mayor's office and Commissioner Gonzalez's office have started a search for possible designees to serve as Board chair. A couple of names were mentioned; one person withdrew, and the other person was unfortunately a former Police Officer and per the charter, the mayor's designee cannot be a member or former member of the FPDR plan. I checked with them late last week, they're still in the process of identifying people. I am appreciative of the mayor's office this year because they jumped on this within a week of being told of the vacancy and have been working on it. In the past this has sometimes taken four or five months before any action was taken. James Huang's position is available, citizen trustee, this one has to be nominated by the mayor and approved by Council, but it isn't a delegate of the mayor, it's a different position. And I want to thank Catherine and James, both have given me some names and we're trying to wait to see if people are interested. If they are, I'll pass those names on to the mayor's office for final consideration moving forward with that, and their only requirement is they have to be living in the city limits of Portland. So, we're moving ahead on those. We'll just keep our fingers crossed that we can get some names and get some people in here as quickly as possible.

The FPDR strategic plan, I wanted to thank all of you for going through the interviews with me and discussions. Pregame, who was interviewing both the staff, the fire and police liaisons, the fire and police chief, the union presidents, as well as a lot of active duty FPDR 2 members and FPDR 3 members as well as retirees, all those interviews have been done. They've accumulated a lot of good input and recommendations. So, we're now in the process of beginning to put all those recommendations and information together to create a strategic plan. We're still on track for completing that by the end of June, and we'll share that with you and go over it with you in the July board meeting.

Trustee MacLowry: Quick question there, Sam.

Director Hutchison: Yes.

Trustee MacLowry: Will there be any information from the survey and the information they gathered from their interviews coming forth to the Board to review?

Director Hutchison: I'll talk with them and confirm but would like to share this at a high level with people. They intentionally do it at a high level so that there's no way anybody in FPDR and the City can trace particular comments back to individuals. Anonymity is extremely important to do this. Yes, we'll talk about that in July, both of what we learned during the surveys as well as what we've put together in the actual plan itself.

The next part is the janitorial contract. When we moved into our building last July, as part of the lease approval by City Council, we were required to seek out a janitorial service that uses union employees. The janitorial service used by our landlord is not union, so we were told we have to go out and find our own. In addition to that requirement, if we find our own, we have to find a vendor who is part of the Oregon Forward program, which is one designed to get vendors that help disadvantaged people get jobs. So, we have the two requirements, it has to be non-union, I mean, excuse me, union employees, and part of Oregon Forward. Fortunately, we started negotiations with a firm that met both those requirements. We were going back and forth for quite a while. Then it came to November, and they pulled out. They had a couple of requirements in there to do that they did not want to comply with, so they pulled out. So that put us back to ground zero, and again, we have these two requirements. Facilities went out and interviewed the Oregon Forward approved vendors to see if anybody would be interested in coming to put in a bid for FPDR service as well as are they union or nonunion employees. That was unsuccessful, finding anybody who wanted to participate with us. So again, we went back and talked with Commissioner Gonzalez, he's the representative of the Council who passed the ordinance requirements to do this. The idea or intent is to still try and find union employees. So, after doing more research, we went ahead and issued an RFP requesting for janitorial services using union labor. We finally got the responses back a week or so ago. The committee that's reviewing all the responses will have a recommendation, probably next week, on what to do. So again, we're not certain if any of them will qualify, meeting all of that, especially union, we won't know until the committee makes their decision. What we've been doing since July has been using our landlord's janitorial service and paying extra for it. We will continue to do that until a decision is made and should we not find a union vendor, we will probably stay with the landlord. It's a little bit cheaper to do and it doesn't require us to do a contract because it's built into the lease of what we're doing. I've already run this by commissioner Gonzalez's office, he supports it. I'll run it past him again we should go that way. We have made a lot of due diligence effort to meet both the State and the City requirement. Again, if the worst case fails and we can't find one, we'll stick with the landlord. If we do find one, we will have to do a contract. And the reason why I'm not asking you to authorize me to do a contract, because we're nowhere near even starting negotiation on a contract. So at some point, I don't know - I'll just put this in your head here, is that we may have to have an intermediate one-subject Zoom board meeting to approve a contract between now and the July session. If that happens, I'll talk to you to see if you're game for that, it will just be that one topic. We'll probably have a completed contract ready for you at that time. So, any questions on the janitorial service? It's been one of those nightmare things that's taken us this long to get where we are and I'm not certain it's resolved yet. We'll keep plugging away with that.

The last thing, future meeting agenda items. So, July, the janitorial contract approval then at the latest, it assumes we're going to do a contract, I may try to get that done earlier if we need to. We'll roll out the strategic plan and do that with you. Due to some of the legislative updates, there are some bills changing workers' compensation, not impacting FPDR, but there are some things that we like in those bills. We'll be talking about do we want to change our administrative rules to match some of those bills that are going for workers comp, and they're favorable to our members to do that. And so in July, if we go that route, we'll give you a high-level overview of what we're thinking and then we'll tell you what the process is to make that process. If there are any other final legislative updates of importance, we'll share that with you at that time. In September, we have the state of FPDR, that's the year-end recap of what's gone on for the last fiscal year. Then we'll have potentially more on the administrative rules at that time. I don't know if we'll put it up for a vote with the board, we'll delay that until November, because the State of FPDR can be particularly long and we want to make sure we don't shortchange any discussion on the rules. That's where we are. I don't have anything else. Do you have any questions for me or Stacy or anybody else?

Trustee MacLeod: Are there any future board agenda topics any of the other trustees would like to see in the future?

Trustee MacLowry: Funny you should ask. Yes, actually. I apologize for speaking so much today, but there's couple of more things I would like to bring up, if it's okay. The first is, in regard to the ETOB test, going through all this information about this pension side of the ETOB, and I spoke to this briefly, to Director Hutchison, I would like for us to discuss the ability to do a similar test on the disability side of the FPDR versus the State system. I think it would be worthwhile understanding some of the differences. I know I'm not an expert by any means on the State system, but I believe the claims are different. They're run differently, they're accepted differently, and benefits are different. I think it would be worth having a third-party auditor, not an actuarial service, compare the benefits and the benefits structure.

Director Hutchison: You brought that up to me last board meeting, or when we did the interviews with that to look at that.

Trustee MacLowry: Correct.

Director Hutchison: I have some information; I'll pull it together and send it to the Board. In 2005, in preparation for the 2007 charter change, as well as 2011 and 2012 in preparation for the 2013 charter change, there were discussions on should FPDR move into the workers compensation system. There were a lot of analyses and comparisons done at those times. I'll share that with you.

Trustee MacLowry: Okay.

Director Hutchison: And again, if you want to go ahead and do some additional stuff, that's fine. But I'll share with you because it's pretty detailed. Bennett Hartman, who has been the law firm representing PFFA for a long time, they wrote their own version up on this. So, I will share with you what their report is so you will have it. And it was under the idea of should we move into workers' compensation as part of the charter changes, either in 2007 or 2013.

Trustee MacLowry: Okay.

Director Hutchison: And you know how it went, they were not proposed, and we did not get any pressure or recommendation from the unions or the union attorneys that we do make that change.

Trustee MacLowry: I do recall reading some of that report from 2006. That was quite a while ago. It may be worthwhile, another analysis.

Director Hutchison: I'll share that information with you, I found it in my file folder, there's quite a few documents outlining it. If there's anything else you need, we'll find a way in future meetings to discuss this.

Trustee MacLowry: Okay. And my last thing, hopefully my last, on this may be directed somewhat towards Dr. Dauenhauer. I would be interested in getting some counsel, some expert advice on perhaps some of the information we're getting from public comment from Mr. Machiz. It seems to be different information than we're getting from different places, not having anywhere else to get the expert advice, I would like to get some clarification on what exactly -

Director Hutchison: Do you know what? Because he's talked over several points today.

Trustee MacLowry: Just specifically today, he's saying the information we got at the last meeting was incorrect.

Director Hutchison: Okay.

Trustee MacLowry: From our experts. So, I just would like, it's hard to get correct information. I know sometimes maybe interpretation, but if there's any way to clarify that. That may be dependent on him presenting some more specific information, but I would like to be able to address his issues if we were at all able to.

Director Hutchison: Okay because he's brought up several issues. But we're specifically looking at the last -

Trustee MacLowry: ASOP Number 4.

Trustee MacLeod: And specifically on that, the matter of whether the actuarial analysis we've been getting constitutes a funding valuation as defined in the standards of practice, and if so, is what we've been getting compliant with what a funding valuation is required to provide. I think that was the issue at hand. There were other issues about, you know, the benefits of prefunding versus not prefunding, but kind of behind that, he had raised the issue of whether or not the actuarial information we were provided was compliant with ASOP 4. It sounds like that was the primary issue being raised in the last presentation.

Stacy Jones: I know you guys are asking Lorne this question, but I'll come back up. I just went to a workshop on ASOP 4 at our professional association this morning, I was able to talk to the person who led it, I mean, he's just the chair of the public practice for Segal, and I talked to him about this issue, and he completely agrees with Milliman. It's a new standard, and I think until people have rolled it out into practice and have a lot of - or if Milliman or Trustee MacLeod wants to get one of those advisory opinions, you could. We're also a super unique plan. I think Lorne had already shared his opinion that it is not a funding valuation. That's the opinion of Milliman and of the folks I talked to at the workshop this morning. It also is not that big of a deal to ask Milliman to calculate that number if you guys want it. I know Loren disagrees with me and thinks we can't pay for that, but I don't think it would be a significant cost, it's just a number, and it's part of what they do for every other plan. So, if the board really wants that number, I personally don't think there's any issue with obtaining that number, but anyway.

Lorne Dauenhauer: I'm hearing my name uttered in vain. Lorne Dauenhauer, Outside Legal Counsel. We did look at it and we looked at ASOP and looked at the language of ASOP 4 and I spoke with Milliman about what was involved with the valuation and concluded on the plain language of ASOP 4, it's not a funding valuation. The purpose is not to determine funding of the plan. The purpose is to understand the impact of the plan's benefit levels on the levy adequacy, which doesn't affect the funding of the plan, it affects the City's general fund. Where do they come up with the money to pay for the benefits? So, it's not strictly speaking a funding question, and unfortunately, I disagree with it not being a big deal. Yes, it's just numbers, but if it's a funding valuation, somebody needs to come up with a bunch of funding assumptions. Right now, we don't have any funding assumptions because we're not a funded plan. So even if we were a funded plan and we were doing this levy adequacy study and we were like, wow, let's run it and see what happens, we would have a set of funding assumptions we could apply to it. But we don't, so somebody would have to come up with a complete set of frankly arbitrary funding assumptions that are meaningless because we're an unfunded plan. I'll dust off the work I did when this question first came up, just to double-check myself, and we can talk about it at the next meeting just to touch base. But I was pretty confident that we were not doing anything that implicated a funding valuation.

Stacy Jones: And I completely share Lorne's confidence and I didn't mean to be dismissive that Lorne disagrees with me because he disagrees with me for a valid reason, which is that the Board should not waste resources, and it would cost money to have Milliman do this for the reasons Lorne said.

Lorne Dauenhauer: It would cost money and the results would depend completely on the funding valuation assumptions which are completely arbitrary and meaningless at the end of the day for this fund. So, you spend a bunch of money on a number that doesn't mean anything.

Director Hutchison: Say we go through this and make the assumptions; how would this board use that number? How would it influence decisions made by the board?

Lorne Dauenhauer: That's the next question. It's really not a fund decision in terms of should this plan stop being pay as you go. That's a decision up at City Council.

Stacy Jones: In any event, I just wanted to share that I did have another independent opportunity to yet again validate the professional opinion of Lorne, of our actuaries at Milliman, of myself, with several other folks who are national experts on this topic and that they felt the same. They were a little surprised we were having actuaries do the levy adequacy analysis, because it's a financial analysis, it's not an actuarial analysis. So maybe that's part of the confusion with Mr. Machiz as well.

Lorne Dauenhauer: It is financial in nature, but there are other valuations that are non-funding valuations that ASOP 4 recognizes.

Stacy Jones: Yep, we talked quite a bit about that this morning.

Director Hutchison: So Lorne, you'll go through and dust off your thinking and be prepared to come back in?

Lorne Dauenhauer: I'm going to look at what I did because he said, among other things, that if you look at the very definition of a funding valuation, like the question answers itself or something to that effect. So, I'm going to go back and look at that, did I miss something? I'm not perfect, I will look. But I was pretty confident at the time that we were on firm footing.

Director Hutchison: I'll put you on the July meeting so you can come in and do a recap of what your opinion is for everybody.

Lorne Dauenhauer: Happy to do that.

Stacy Jones: I think part of where I was going with on the, like when we think about how much money we're spending, Lorne isn't free either, I would just like to point out.

Lorne Dauenhauer: I'm cheaper than a funding evaluation.

Stacy Jones: Yes, cheaper than a funding valuation, but at some point, we're also spending staff resources addressing what is kind of a meaningless question. So if it's cheaper to answer the meaningless question that is intellectually, where I'm coming from, is it cheaper just to ask Milliman to produce that number than to continue to talk about this endlessly.

Lorne Dauenhauer: And it may be, depending on how long it takes them to do the actual valuation, it may be cheaper than having me go over the same road again and again. But they have to come up with a set of assumptions. And that requires a fair amount of work.

Stacy Jones: Yes. The first time they do it, it would be much more expensive than the other times.

Lorne Dauenhauer: Exactly. And again if the result is meaningless.

Trustee MacLeod: And that was an important question you asked. What's the offshoot of having, I mean, the purpose of a funding valuation, as I understand it, is to have an actuarially determined, if you were funding the plan, and that when you have that information, what do you do with it. The logical consequence of what earlier presentations were about were that the value of prefunding the plan potentially in order to build up assets and have things prefunded and better match those kinds of things to the timing of benefits, those things are out of this board's sphere of responsibility. So, whether or not it's meaningful for us to get that information, City Council would need to be interested in wanting to get that information, and I'm not sure they've expressed that interest.

Lorne Dauenhauer: I agree.

Trustee MacLeod: Okay, thank you on that one. Those were good topics. Trustee MacLowry, I was interested in your comments on the ETOB modified disability only discussion, do we put it on as a discussion item for the next board meeting, or to wherever it seems like we've got time available to discuss it further? I'm not sure it's fully fleshed out in my understanding.

Director Hutchison: What I would like to do is share that information with you about what's been done in the past, and potentially have some discussion of what additional information that's not in those reports. And again, this is one of where you're going to be looking at apples and rocks, comparing the two plans. And the statute, let's see, my fingers there are out of the picture. The statute and the administrative rules for workers comp is this big, for FPDR is this big, so you're comparing an awful lot of stuff between the two plans, and so, you know, what's going to be valuable difference and what's going to be not. I want to defer back to studies done in 2005 and 2011 just to show you what other people have come up with, and if you want more information, we can go from there.

Trustee MacLeod: And I would like to state again the idea that it not occur at a board meeting prior to us having a full board to get back to a discussion of whether and how we might, you know, get some action behind what are some expressed frustrations about the true comparability of the PERS versus tier 2 plan benefits as opposed to what the ETOB test provides for administratively, kind of true comparability, and/or other benefit issues on the table without necessarily concluding that this board or a committee is going to take that task on, but rather just discuss and decide how best to, for anyone that has concerns in that area, how best to help that process along while also not accepting that this board or some group of this board is going to tackle that on its own. But I would like that for a future meeting topic, but not until we have a full board.

Trustee MacLowry: I would like that too.

Trustee MacLeod: Okay. Any other topics for the future we want to throw out there now or are we ready to consider moving on to something else today? All right, then, I'm going to adjourn the meeting then and thank everybody for the presentations and comments. I thought it was a very productive meeting.

Trustee Kulp: Thank you.

CAPTIONING PERFORMED BY LNS CAPTIONING
www.LNScaptioning.com