



## Bureau of Fire and Police Disability and Retirement

*City of Portland*

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

The Bureau of Fire & Police Disability & Retirement (FPDR) administers a defined benefit retirement plan for sworn members of the Portland Police Bureau (Police) and Portland Fire & Rescue (Fire) hired before 2007 (FPDR One and Two members), as well as a disability plan for all sworn members with at least six months of service. The FPDR Fund is also the funding source for contributions to the Oregon Public Employee Retirement (PERS) pension plan for Fire and Police employees sworn after December 31, 2006 (FPDR Three members). The FPDR Fund (Fund 800) is the primary operating and financing fund for these purposes. The FPDR Reserve Fund (Fund 801) is required to be maintained at \$0.75 million and is for use in the event the FPDR Fund becomes depleted to the extent it cannot meet current requirements. Both funds are established and defined by Chapter 5 of the Portland City Charter.

### Plan Overview

FPDR Plan benefits are defined in Chapter 5 of the City Charter, which is considered FPDR's legal plan document by the federal Internal Revenue Service. In addition to providing pension benefits for Fire and Police employees hired before 2007, City Charter establishes the FPDR disability plan. The disability plan is both a workers' compensation substitute plan for the City's sworn workforce and a nonservice disability plan for sworn employees with at least five years of service. Fire and Police employees sworn after December 31, 2006 are enrolled in the Oregon PERS pension plan but still covered by FPDR's disability plan. In addition to paying FPDR pension and disability benefits, the FPDR Fund pays the PERS contributions on behalf of FPDR Three members by reimbursing the Fire and Police Bureaus for PERS expenses. This means the FPDR Fund is financing two generations of pensions simultaneously, with pay-as-you-go pension payments to FPDR One and FPDR Two members during their retirement years and prefunded pension contributions for FPDR Three members during their working careers. As this transition is phased in, FPDR costs will grow in excess of usual inflationary factors such as wage increases. Expenses (on an inflation-adjusted basis) are projected to peak in the mid to late 2030s when the entire sworn workforce is comprised of FPDR Three members and most FPDR

Two retirees are still living. After this point, mortality in the FPDR Two population will begin to reduce costs.

FPDR expenses fall into four general categories: direct FPDR pension payments to retirees originally hired before 2007; PERS contribution payments for those hired after 2006 and still working; costs for sworn employees who cannot work and/or require medical care because of a disability; and administrative expenses. Total FPDR FYE25 requirements are budgeted at \$287.2 million. Net of the FPDR Reserve Fund and tax anticipation notes (TANs), which are issued and repaid within the same fiscal year and whose inclusion therefore overstates the size of the budget, FYE25 requirements are \$242.2 million. For the FYE25 budget, 67% of bureau requirements are for FPDR plan pension benefits, 21% are for PERS contributions made on behalf of FPDR Three members, 3% are for FPDR plan disability benefits, 2% are for program administration, and 7% are for fund-level requirements. Total budgeted bureau expenditures (which excludes fund-level requirements such as contingency, TANs, and General Fund overhead) for FYE25 are \$225.6 million.

Over the five-year forecast extending through FYE29, total bureau expenses are estimated at \$1.338 billion, with annual growth ranging from 7.8% to 9.9% per year and total growth over the five-year period of 52.2%. Net of the FPDR Reserve Fund and annual TAN issues, total requirements are projected to be \$1.443 billion for FYE25 – FYE29, with annual growth as high as 9.4% and total growth over the five-year period of 63.5%.

FPDR is funded almost exclusively from a dedicated property tax levy. Smaller sources of income include interest earnings on fund balance, a pension and disability overhead charge on contracted Police and Fire work (passed through the Police and Fire Bureaus), and subrogation revenue on disability claims. The FPDR Reserve Fund is required by City Charter to be funded at precisely \$0.75 million on July 1 and June 30 of each year. In between, the FPDR Fund may borrow from it interest-free. Interest earnings on the FPDR Reserve Fund balance are credited directly to the FPDR Fund. Non-property tax revenues comprise just 1.5% of total revenues (net of TANS) in the FYE25 budget, or \$3.4 million, and just \$22.9 million over the entire FYE25-29 forecast. The remainder of resources needed to fund the expenditures discussed below derive from property taxes, of which \$1.334 billion will be required over the same five-year period.

FPDR's dedicated property tax levy is capped by the City Charter at \$2.80 per \$1,000 of real market value (RMV). The current RMV levy rate is \$1.17. The assessed value (AV) rate, on which property owners actually pay taxes, is currently \$2.64 per \$1,000 of AV. The Oregon property tax system separated AV and RMV in the 1990s, when annual AV growth was limited to 3% for all properties except new construction. For FYE25, the RMV rate for the FPDR property tax levy is projected to climb to \$1.36 and the AV rate to \$2.92, an increase of 16.0% for the RMV rate and 10.5% for the AV rate. Since property taxes comprise nearly all of FPDR's resources, property tax revenue must generally increase in direct proportion to costs. FPDR expenses are expected to be roughly 10% higher in FYE25 than FYE24. (Please see "Expenditure

Assumptions” below.) The RMV rate will grow at an even faster clip than expenditures because RMV itself is expected to remain flat in FYE25. (On the other hand, the City Economist expects AV to increase by 5.0% in FYE25.) Further into the five-year forecast RMV is projected to resume growing, albeit slowly. AV is projected to continue growing, but at a slower pace. By the end of the forecast period in FYE29, it is estimated the RMV rate for the FPDR property tax levy will be about \$1.67 and the AV rate about \$3.67.

In concert with the legally required biannual plan valuation, FPDR contracts with an independent actuarial firm to model the RMV tax rate for the FPDR levy over a 20-year period. The model simulates thousands of possible scenarios and incorporates widely variant possibilities in terms of real market value growth, PERS investment returns and contribution requirements, and other factors. The most recent analysis was completed with data as of June 30, 2022 and concluded there was less than a 1% probability that the \$2.80 cap would be insufficient to fund FPDR spending in any year between now and FYE42. At the median probability, the levy rate was expected to peak at \$1.43 in 2031 – 2033. At the 95<sup>th</sup> percentile probability, the rate was expected to peak at \$2.00. However, the analysis was prepared before the current era of flat RMV growth. The next levy adequacy analysis will be undertaken in 2024 with results available in January 2025.



## Revenue Assumptions

### ***Property Taxes***

More than 98% of bureau resources come from the dedicated FPDR property tax levy. In FYE25, property tax revenues need to be increased to \$222.1 million which is \$28.3 million (14.6%) more than budgeted in FYE24. Increases in PERS contribution costs coupled with a rise in direct pension benefit costs account for 10.3% of the growth, while a planned decline in fund balance in the prior year accounts for 3.9% of the need for increased revenue. New retirements exceeding deaths, inflationary cost increases, and above average wage increases for sworn employees are expected to yield a 22% increase in PERS contribution costs and a 7% increase in direct pension benefit costs. In the prior year, FPDR grew the tax levy less than expenditure growth to return 3.9% excess fund balance to the taxpayers. As a result, the increase from the prior year’s levy, as a percentage, is higher.

The fund is expected to close FYE24 with an ending fund balance of \$16.2 million, restoring the fund balance to historically typical levels. The primary reason for the reduction of excess fund balance is the aforementioned cutback in the tax levy for FYE24, along with a return to usual fund contingency levels after increasing contingency during the COVID

## FPDR FYE 2025-29 Five Year Plan

pandemic. FPDR management’s target ending fund balance is between \$14 million and \$20 million, a level to which the fund is expected to maintain in the outyears of the forecast.

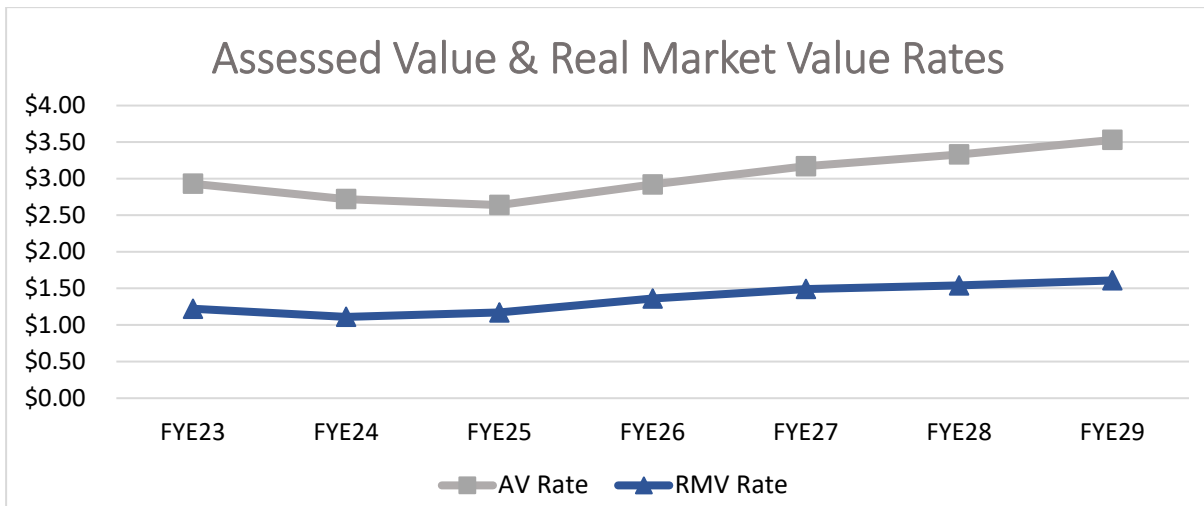
Property taxes will rise at a more rapid rate in FYE26 – FYE29 and are planned to reach \$312.4 million by the end of the forecast period, a 61.3% increase over current budgeted tax revenue levels. The increase is necessary to meet rapidly growing benefit expenses, mostly caused by the ongoing transition from a pay-as-you-go pension plan (FPDR) to a pre-funded pension plan (PERS). That transition requires exponential annual cost increases while pensions for two generations of retirees are funded simultaneously.

FPDR must levy more taxes than are required since not all taxes will be collected due to discounts, delinquencies, and compression under Measure 5/50 tax limits. FPDR relies on the City Economist to calculate the amount that will offset these losses. His assumptions are listed below, and compared to actual results from FYE23, in the table below:

PROPERTY TAX ASSUMPTIONS (DOLLARS IN THOUSANDS)							
	FYE23 Actuals	FYE24	FYE25	FYE26	FYE27	FYE28	FYE29
RMV Growth	7.0%	0.0%	0.0%	2.0%	4.0%	4.0%	4.0%
AV Growth	4.5%	8.8%	5.0%	2.5%	2.5%	2.5%	4.1%
Compression	-4.5%	-4.0%	-5.0%	-5.3%	-5.3%	-5.3%	-5.5%
Discounts/Delinquencies	-4.6%	-4.7%	-4.7%	-5.0%	-4.7%	-4.5%	-4.5%
<b>Current Year Taxes Required</b>	<b>\$181,345</b>	<b>\$191,541</b>	<b>\$219,901</b>	<b>\$243,657</b>	<b>\$262,573</b>	<b>\$285,894</b>	<b>\$309,158</b>
Discounts/Delinquencies	\$8,330	\$9,446	\$10,845	\$12,824	\$12,950	\$13,471	\$14,568
Taxes Imposed	\$189,675	\$200,988	\$230,746	\$256,481	\$275,523	\$299,365	\$323,725
Compression Loss	\$8,448	\$8,374	\$12,145	\$14,211	\$15,266	\$16,588	\$18,841
<b>Taxes Extended</b>	<b>\$198,123</b>	<b>\$209,362</b>	<b>\$242,890</b>	<b>\$270,692</b>	<b>\$290,789</b>	<b>\$315,953</b>	<b>\$342,566</b>

These assumptions result in the following projected AV and RMV tax rates for FYE25 – 29, as compared with projected rates for FYE24 and actual rates for FYE23:

FPDR PROPERTY TAX RATES							
	FYE23 Actuals	FYE24 Projected	FYE25	FYE26	FYE27	FYE28	FYE29
<b>AV Tax Rate</b>	\$2.72	\$2.64	\$2.92	\$3.17	\$3.33	\$3.53	\$3.67
<b>Effective RMV Tax Rate</b>	\$1.11	\$1.17	\$1.36	\$1.49	\$1.54	\$1.60	\$1.67



The levy was a stable resource throughout the pandemic and associated economic downturn. Property tax delinquencies were 3.7% in FYE22 and 4.6% in FYE23. In FYE24 – FYE29 property tax delinquencies are expected to range from 4.7% to 5.0% slightly higher than historic levels of 4.0% to 4.5%. Property tax compression losses are expected to increase slightly as well, ranging from 5.0% to 5.8% (an increase of \$6.7 million) between FYE25 to FYE29. In FYE23 property taxes came in 0.48% (\$0.9 million) over budget, and property tax collections are on target for FYE24.

**Tax Anticipation Notes (TANs)**

Unlike the General Fund, but like many governmental funds whose primary revenue source is property taxes, the FPDR Fund borrows money to cover its cash flow shortfall between the start of the fiscal year on July 1 and the receipt of most property tax payments in mid-November. FPDR borrows these funds by issuing tax-exempt notes (short-term bonds) in July of each year. FPDR plans to borrow \$45.0 million in FYE25 and as much as \$65.0 million by the final year of the forecast in FYE29. As expenses grow each year, more must be borrowed to prevent a negative cash position before mid-November. Within arbitrage rebate limits allowed by the Internal Revenue Service, FPDR generally earns more interest on the borrowed funds than it pays to the note holders and for debt issuance costs. FPDR expects to pay 3.65% in interest on its summer 2024 TAN issue, a slight increase from the 2023 borrowing rate of 3.48%. However, the City Investment Officer also expects to earn 3.9% on the City investment pool in FYE24, where FPDR will deposit the TAN proceeds while they are spent down. Therefore, FPDR will likely earn a positive arbitrage return on the 2023 TAN issue. The FPDR Fund borrows under the “working capital” arbitrage exception rule, which means FPDR management must demonstrate when it repays the notes that it borrowed no more than required for expenses, plus an allowance for working capital equal to 5% of the prior year’s fund expenditures.

**Other Revenues**

As noted above under Plan Overview, non-property tax revenues are just \$3.4 million of projected revenue in FYE25, and only \$22.9 million over the entire FYE25-29 forecast. FPDR does not require revenues beyond what can be raised from the dedicated property tax levy to meet its requirements over the forecast period. However, FPDR management obviously pursues other appropriate revenue sources to reduce the taxpayer burden. Except for interest income, these minor sources of miscellaneous revenue are expected to remain stable or grow slightly over the forecast period. Interest income is projected to increase significantly as both interest rates and fund balance grow. FPDR relies on the City Investment Officer for interest rate forecasts. Interest rates are projected to increase significantly over the forecast period. Together with FPDR’s projected fund balance over the five-year plan period, those interest rate assumptions are shown below:

INTEREST INCOME ASSUMPTIONS							
\$ Millions	FYE23 Actuals	FYE24	FYE25	FYE26	FYE27	FYE28	FYE29
Average Cash Balance	\$74.6	\$61.2	\$71.6	\$78.9	\$84.8	\$92.6	\$100.0
Forecast Interest Rate	1.62%	3.00%	3.90%	4.60%	4.60%	4.60%	4.60%
Interest Income	\$1.49	\$1.84	\$2.79	\$3.63	\$3.90	\$4.26	\$4.60



## Expenditure Assumptions

FPDR forecasts \$1.338 billion in bureau expenditures (all costs except fund-level requirements like contingency, debt service, etc.) during the five-year forecast period. Bureau expenditures are expected to grow 52.2%, or \$107.1 million, between FYE24 and FYE29. This growth rate, which was planned as part of the 2006 City Charter reforms that placed new sworn hires in the prefunded PERS plan, will of course require increases in the dedicated FPDR tax levy (see above). Fortunately, the tax levy has room under its cap to accommodate this growth. Nevertheless, the tax increases will burden the current generation of taxpayers and increase compression on other permanent property tax levies in Multnomah County for at least the next 10 years.

For the most part, FPDR cannot legally reduce its service levels to restrain expenditure. Nearly 98% of bureau expenditures are nondiscretionary plan benefits mandated by City Charter. Plan benefits fall into three categories: FPDR pension benefits, PERS contributions, and FPDR disability/death benefits. Of the three, FPDR pension benefits are by far the largest, making up 66% of planned bureau expenditures over the next five years. PERS contributions, at

## FPDR FYE 2025-29 Five Year Plan

29% of budgeted bureau expenditures for FYE25-29, are the fastest-growing component. On top of growth in wages and PERS contribution rates, each year a larger percentage of the sworn workforce is comprised of FPDR Three members enrolled in PERS. Disability and death benefit expenses make up just 3% of planned bureau expenditures over the forecast period. However, the disability program can have significant operational impacts on the Police and Fire Bureaus and is an important program to FPDR members during their active employment; indeed, it is the *only* FPDR program that FPDR Three members interact with at all.

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

Inflation Assumptions						
	FYE24	FYE25	FYE26	FYE27	FYE28	FYE29
Wages	5.00%	3.30%	2.50%	2.20%	2.00%	2.00%
Medical Costs	3.60%	5.00%	5.00%	5.00%	5.00%	5.00%
PERS Contribution Rates						
Tier 1 & Tier 2*	29.60%	29.60%	34.60%	34.60%	39.60%	39.60%
OPSRP General*	26.12%	26.12%	31.12%	31.12%	36.12%	36.12%
OPSRP Public Safety*	33.91%	33.91%	38.91%	38.91%	43.91%	43.91%
External Materials & Services	3.00%	2.20%	2.00%	2.00%	2.00%	2.00%
Internal Materials & Services	2.80%	3.10%	2.60%	2.50%	2.40%	2.40%

\*Includes 9% Individual Account Program "pick up" for OPSRP Public Safety and 6% for Tier I/II/OPSRP General

Other Assumptions							
	FYE23 Actuals	FYE24	FYE25	FYE26	FYE27	FYE28	FYE29
FPDR 2 Service Retirements	53	73	65	66	63	60	53
Deaths, Members & Beneficiaries	56	60	61	62	63	64	65
Pension COLAs							
FPDR One, Fire	5.00%	6.26%	4.13%	3.01%	4.24%	2.10%	2.10%
FPDR One, Police	5.00%	5.00%	3.30%	2.50%	2.20%	2.00%	2.00%
FPDR Two	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Percent of Sworn Workforce, FPDR Three	55.8%	59.7%	65.7%	70.7%	75.3%	79.6%	83.3%
Bureau Hiring Projections							
Fire Bureau	27	15	45	36	32	32	31
Police Bureau	73	45	75	57	53	50	43



### ***FPDR Pension Benefits***

Key assumptions underlying the forecast for FPDR One and Two pension payments relate to retirement rates, death rates, pension amounts for new retirees, and annual cost-of-living adjustments (COLAs) for existing retirees. Retirements and deaths are generally predicted using actuarial models developed by an independent actuarial firm, which are based primarily on data collected in periodic FPDR Plan Experience Studies. The last such study was based on data for the period July 1, 2014 – June 30, 2019. Current actuarial assumptions used in budget development are enumerated in Appendix C of the 2022 Actuarial Valuation Report which can be found at <https://www.portland.gov/fpdr/budget-reports>. Each non-retired FPDR member is assigned a probability of retirement in each year, based on age and service time. Each FPDR member is also assigned a probability of death in each year; these probabilities are based on the experience of the larger and more statistically valid Oregon PERS sworn population, which is assumed to be similar to the FPDR population. These probabilities are summed to arrive at an estimated total for retirements and deaths in any given fiscal year, although FPDR management often adjusts retirement projections in the budget year to account for known short-term factors, such as the timing of 27 pay date months. (In 27 pay date months the City’s biweekly pay structure produces 27 pay dates – rather than the usual 26 – in the period for calculating final pay, a critical component of the FPDR Two pension calculation.)

Annual COLAs are awarded to FPDR Two retirees and beneficiaries at the discretion of the FPDR Board of Trustees but cannot exceed the maximum pension COLA given by Oregon PERS (currently 2.0%). To be conservative, the five-year plan assumes a 2.0% COLA for FPDR Two pension benefits each year. FPDR One pension benefits are a percent of active duty pay and therefore grow at the same rate each year. In addition, pension amounts for new retirees grow with wage increases because FPDR Two pension benefits are based partly on final salary. The forecast assumes that sworn wages will increase annually by the value of the consumer price index for urban wage earners in West Class A cities (CPI-W West Class A), but no more than 5% in any one year. In addition, the forecast includes the following additional wage increases in accordance with adopted collective bargaining agreements:

#### *Portland Fire Fighters Association (PFFA):*

- 0.8% wage increase for all PFFA employees on July 1, 2024
- 1% increase in premium pay for paramedics in emergency operations on July 1, 2024
- 0.5% wage increase for all PFFA employees on July 1, 2025
- 2.0% wage increase for all PFFA employees on July 1, 2026



### Portland Police Association (PPA):

- New 2% premium for intermediate and 4% premium for advanced certification with the Department of Public Safety Standards & Training, for all PPA employees on July 1, 2024
- 1% increase in premium pay for PPA employees with a Bachelor's degree on July 1, 2024
- New 5% premium pay for PPA employees with a Master's degree on July 1, 2024

### **PERS Contributions**

The PERS contribution budget depends on the number of working FPDR 3 members, their pay levels, and PERS contribution rates. Growth in this budget category is exponential: in addition to increases resulting from wage inflation, the number of PERS-covered employees grows each year as FPDR-covered employees retire and are replaced by new PERS-covered hires. The number of current FPDR 3 members is of course known, but the total projected number over the forecast period relies on hiring projections, which are detailed in the table above. Hiring projections for FYE24 and FYE25 are developed collaboratively with the Police and Fire Bureaus. Beyond that, hiring projections are based on FPDR's actuarial model for retirements, plus an estimated 15 annual separations. It is assumed that the number of overall employees remains the same beyond FYE25 – in other words, that all retirements and pre-retirement separations are replaced by new hires. The final forecast assumes 454 new hires over the next five years, which would increase the number of PERS-covered employees by 38% and make them approximately 83% of the sworn workforce by FYE29.

Secondly, the PERS-covered employee population is still maturing; as compared with the total sworn population, a larger proportion of PERS-covered employees are still at the police officer or fire fighter rank (and at lower pay levels on those pay scales), ineligible for longevity pay, and less likely to have attained premium and specialty pay assignments. As they move through pay steps, promote into higher paying classifications, receive specialty pay assignments, and begin to earn longevity pay, their pay grows above and beyond inflationary wage COLAs. Therefore, the forecast assumes annual wage growth in excess of COLAs and any contractual wage increases for PERS-covered employees: 5.0% at Police and 4.0% at Fire. Finally, the PERS Board continues to raise contribution rates every two years to reduce PERS' unfunded liability. The PERS contribution rate projection detailed in the table above was developed by the City Economist. Rates for the City's public safety employees are forecast to grow from 33.91% currently to 43.91% by FYE28.

### **Disability and Funeral Benefits**

Disability benefits are comprised of medical costs; wage replacement when members are unable to work; wage subsidies to incentivize the Police and Fire Bureaus to keep members working in modified duty positions when possible; funeral benefits; and vocational rehabilitation expenses. The most important assumptions in the disability benefit budget are claim volume, wage growth and medical inflation. New short-term disability claims have

returned to pre-pandemic levels (350 or so annually) after increasing to more than 500 a year during the COVID pandemic. The previous forecast assumed that claim volume would remain slightly elevated due to lingering COVID impacts, but this has not proved to be the case. The current forecast predicts 300 to 350 claims per year, the historic average. The number of members who transition from short-term to long-term disability is based primarily on actuarial probability from the most recent FPDR Plan Experience Study, although FPDR has adjusted this number for FYE25 based on staff knowledge of specific claims. Two employees moved from short to long-term disability in FYE24. As discussed above, the forecast assumes sworn wage growth includes annual COLAs equal to inflation (but no more than 5%) plus other salary increases included in collective bargaining agreements for PPA and PFFA. Medical inflation is projected to escalate, from 3.5% - 4.0% last year to 5.0% annually over the life of the forecast, based on guidance from the City Economist. Medical costs for large claims (those with more than \$50,000 in lifetime medical expenses) are based on a three-year average of expenses for such claims. Funeral benefits are projected using the same mortality models built into the pension budget. Although a very small portion of the budget, they are growing rapidly as FPDR Two members make up a growing share of total plan deaths. The FPDR Two funeral benefit is significantly more generous than the FPDR One funeral benefit. Wage subsidies and vocational rehabilitation expenses are based on long-term averages and, in the case of wage subsidies, projected sworn wage increases.

### ***Administrative Expenses***

Administrative expenses include all general operating expenses of the bureau: staff, office space, information technology and legal services, and various other goods and services. The largest component of administrative expenses is personnel costs. Staff salaries and benefits are set by the City compensation plan and policies, but the FPDR Board and Portland City Council have authority over the number and type of positions. FPDR currently has 18 positions: 14 represented (by the District Council of Trade Unions, or DCTU, and the new City of Portland Professional Workers, or CPPW). Personnel expenses are planned to increase for annual wage COLAs ranging from 2.0% to 3.3% per year. In addition to the annual COLA, the four DCTU employees will receive a 2.0% wage increase on July 1, 2024, in accordance with their contract. Finally, merit-based wage increases of up to 2.0% annually are assumed for all nonrepresented staff and 10 CPPW staff, along with annual step increases for one DCTU employee. The remaining employees are already at the top step of their wage scale. Health insurance benefit costs are budgeted to increase by 5.0% each year for the FYE25-29 forecast period, based on a projection provided by the City Economist. PERS contribution rates are predicted to increase as described in the table above and are also provided by the City Economist. FPDR staff are a mix of Tier 1/2 and OPSRP General Service employees within PERS.

Spending on administrative materials and services (both external and internal) is projected based on a variety of factors. Most costs for internal materials and services – those

services and goods procured from other City bureaus – are based on rates set by the bureaus providing the service and/or materials. FPDR’s largest internally procured goods and services are legal services provided by the City Attorney’s office, liaison services provided by two sworn employees at the Fire and Police Bureaus, and computer/telecommunications equipment and services purchased from the Bureau of Technology Services. Costs for externally procured goods and services are estimated based on experience, known upcoming purchases, contract provisions where they exist, and a general external materials/services inflation factor provided by the City Economist. The largest of these items are professional services for the disability program and the office lease. Capital spending is limited to programming and other improvements to FPDR’s database, which is used to process all benefit payments and to track member and beneficiary information. FPDR tends to budget a bit more than planned for capital since the small, single-item budget means that even a minor unanticipated expense could cause over-expenditure in a major object category, a violation of Oregon state law.

## FPDR FYE 2025-29 Five Year Plan

The table below lists FYE23 actual costs, FYE24 projected costs, and the FYE25 budget for each of FPDR’s administrative expense.

<b>Administration &amp; Operations: Budget Detail</b>				
	FYE23 Actuals	FYE24 Projection	FYE25 Budget	Change: FYE24 to FYE25
<b>Personnel Services</b>	\$ 2,711,576	\$ 3,040,965	\$ 3,257,501	7.1%
<b>External Materials &amp; Services</b>				
Database Maintenance & Consulting	\$ 79,720	\$ 100,000	\$ 67,080	-32.9%
Consulting Services	64,580	-	15,000	N/A
Legal Services	9,900	45,000	46,000	2.2%
Audit Services	31,877	32,000	32,500	1.6%
Actuarial Services	75,750	34,000	90,000	164.7%
Professional Services - Disability Program	325,806	380,000	390,600	2.8%
Other Professional Services	3,440	57,100	58,400	2.3%
Repair and Maintenance Services	-	3,700	3,800	2.7%
Miscellaneous Services	21,832	25,000	25,600	2.4%
Computer and Office Supplies	21,280	30,000	25,300	-15.7%
Minor Equipment and Tools	4,123	18,000	4,200	-76.7%
Food	-	-	500	N/A
Education, Subscriptions and Dues	9,892	15,700	16,130	2.7%
Travel - Local	-	1,000	1,000	0.0%
Travel - Out of Town	-	5,200	5,300	1.9%
Office Rent	153,434	182,144	188,963	3.7%
Miscellaneous	2,721	1,500	1,530	2.0%
<b>Total External M&amp;S</b>	<b>\$ 804,355</b>	<b>\$ 930,344</b>	<b>\$ 971,903</b>	<b>4.5%</b>
<b>Internal Materials &amp; Services</b>				
Fleet	\$ 26	\$ -	\$ 66	N/A
Printing & Distribution	54,247	47,117	50,426	7.0%
Facilities Services	128,743	12,314	16,183	31.4%
Technology Services	296,535	233,964	279,803	19.6%
Risk Management	35,964	42,727	43,629	2%
City Attorney	316,174	337,646	352,187	4.3%
Government Relations	10,000	10,000	10,000	0.0%
Bureau of Revenue & Financial Services	39,761	54,802	72,129	31.6%
Fire & Police Bureaus	149,770	155,128	161,700	4.2%
<b>Total Internal M&amp;S</b>	<b>\$ 1,031,219</b>	<b>\$ 893,698</b>	<b>\$ 986,123</b>	<b>10.3%</b>
<b>Capital (Database Improvements)</b>	<b>\$ 59,020</b>	<b>\$ 38,870</b>	<b>\$ 60,000</b>	<b>54.4%</b>
<b>Total Admin &amp; Delivery</b>	<b>\$ 4,606,170</b>	<b>\$ 4,903,877</b>	<b>\$ 5,275,527</b>	<b>7.6%</b>
<b>Staff: Full-Time Equivalent (FTE)</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>0.0%</b>

## Risks to the Forecast and Contingency

The key risks to the FPDR FYE25-29 Forecast relate to delinquency and compression rates for property taxes, the number of retirements in the next 27 pay date month (June 2024), the potential for more sworn hiring than budgeted, ongoing uncertainty about short-term inflation, the recent high levels of sworn overtime, and the upcoming change in the overall structure of municipal government for the City of Portland. Apart from exposure specific to June 2024 retirements and the government reorganization, all of these risks are structural in nature and therefore recur in every forecast to a greater or lesser degree.

### ***Property Tax Delinquency and Compression Rates (Higher Risk)***

- Even small increases in Measure 5/50 property tax compression or property tax delinquencies can translate to large revenue losses for FPDR. An additional 1% loss from either of these factors results in roughly a \$2.5 million shortfall in FPDR property tax collections. Tax shortfalls also negatively impact interest income.
- Compression and delinquency rates are particularly difficult to forecast accurately, in the first case because of the complexities of Oregon’s property tax system and in the second case because of macroeconomic factors. For this forecast period, the usual uncertainties are amplified by falling values for downtown commercial real estate and stagnant growth in the real market value of Portland properties overall.
- The forecast assumes compression losses will be 5.0% in FYE25 and increase throughout the forecast period to reach 5.5% by FYE29. While the forecast therefore allows for higher losses than the typical 4.7% to 4.8%, it is still possible compression rates will be even worse.
- Delinquencies are also expected to be higher than usual for the next three or four years, as more commercial property owners may default on their taxes in response to losses. Delinquencies on residential properties are anticipated to remain flat, and in the outyears the overall delinquency rate is projected to drop to a more usual 4.5%. However, delinquencies are closely aligned to the business cycle and subject to the same volatility and unpredictability.

### ***June 2024 Retirements (Higher Risk)***

- There are two 27 pay date retirement months in FYE24 (December 2023 and June 2024). Years with two 27 pay date months always have more retirements than years with one or none. In addition, there was an unusually long gap since the previous 27 pay date month in July 2022. On the two previous occasions with a similar gap, FPDR saw retirements increase by 28% and 115% over a typical year.

- The combination of these two factors – two 27 pay date months in a single year and a large gap since the previous 27 pay date month – may produce an unusually large number of retirements in FYE24.
- An additional risk factor is the attractiveness of June retirements in general to members. When other factors are equal, more members retire in June than any other month. This is partly because of the expectation of an immediate pension COLA on July 1, but may also be because members like to begin retirement at the start of the summer season.
- June retirements have outsized budgetary impacts as compared with retirements in other months. June retirements generate a full year of costs in the next fiscal year's budget, but their number cannot be known until after that budget has been adopted.
- FPDR has budgeted for 85 retirements in FYE24, 49 of which had already occurred by January 31, 2024, leaving budget for an additional 36 retirements in June (or earlier). If 85 members do retire, FYE24 will become the second highest retirement year in FPDR history. (FYE21 was the highest retirement year with 106 retirements. Like FYE24, there were two 27 pay date months in FYE21 and an unusually long gap since the previous 27 pay date month. However, FYE21 also coincided with the early stages of the COVID pandemic, continuous civil protests in Portland, and a large number of wildfires, all of which made public safety employment less attractive.)
- If 30 more members retire than FPDR has budgeted for in FYE24 – in other words, if there are 115 retirees rather than 85 – the additional unfunded cost for FYE25 would be approximately \$2.7 million to \$3.0 million. This cost would grow in the outyears with pension COLAs.

### ***Public Safety Hiring (Medium Risk)***

- FPDR's five-year forecast is based on 278 new hires at Fire and 176 new hires at Police by the end of the forecast in FYE29.
- FYE25 is expected to be a banner hiring year, as the Police and Fire Bureaus hire a combined 120 new sworn employees to replace the previous year's retirees and partially fill existing vacancies at Police.
- As aggressive as these hiring plans are, both the Police and Fire Bureaus have even greater hiring ambitions. The Police Bureau would like to fill all of their vacancies in FYE25 and the Fire Bureau's goal is to double-fill additional new hires into occupied positions in advance of another 27 pay date month in November 2024. These aspirations make it possible the two bureaus will hire even more than the budgeted 120 new employees in the first year of the forecast.
- If there are 25 more Police hires and 20 more Fire hires than currently budgeted for FYE25, the additional cost in FYE25 PERS contributions is estimated at \$1.5 million. This would grow significantly in FYE25, as PERS contributions are not generally paid during

the first six months of employment. Following that, costs would increase at the same rate as wage increases and PERS contribution rates in the outyears of the forecast.

- Alternatively, given the constrained City budget environment for FYE25, the Fire and Police Bureaus may not receive adequate funding even to hire up to authorized levels. In addition, neither bureau has previously hired at the pace hoped for in FYE25. Over the last five years, the Police Bureau has averaged 61 annual hires and the Fire Bureau 24. Given these considerations, it is also plausible that sworn hiring will be lower than presumed in the FPDR forecast.

### ***Inflation (Medium Risk)***

- Inflation in FPDR's five-year financial plan is based on a forecast provided by the City Economist, who projects inflation will drop significantly in 2024. His forecast predicts first a return to inflation more typical of the decades preceding the COVID pandemic, or about 2.5%, and then a further decline for several years, down to as low as 2.0%.
- If this forecast is too low, nearly all FPDR benefits will be more expensive than forecast. This is because wage COLAs are tied to inflation, and wage increases drive up the cost of most FPDR benefits.
- If this forecast is too low, many FPDR administrative expenses, including FPDR staff salaries, will also be more expensive than forecast.
- Like any variable influenced by macroeconomic factors, but subject to variation based on highly specific local circumstances, inflation is complex and difficult to predict.
- In the current era, inflation forecasts have become even more unreliable as the U.S. Federal Reserve attempts to ease down the persisting high inflation that followed the COVID pandemic and global markets and financial systems react to those actions.

### ***Sworn Overtime (Low Risk)***

- Sworn employee overtime, on which FPDR must pay PERS contributions for FPDR Three members, has increased sizably at both the Fire and Police Bureaus in FYE23 and FYE24.
- Many factors have contributed, including increased call volume and complexity for both bureaus, and staffing shortfalls at the Police Bureau.
- This forecast assumes that overtime spending remains at a high level because it builds from FYE24 projections. Should public safety overtime spending return to earlier levels – if the Police Bureau is able to make continued progress in filling vacant positions – FPDR's PERS contribution budget will be too large.
- On the other hand, existing employees may need to work yet more overtime to coach and train new hires over the next several years, which could drive up overtime spending even beyond the historically high levels already reflected in this forecast.



- Together, the Police and Fire Bureaus are spending approximately \$35.0 million a year on overtime. If this were to increase further, by another \$2.0 million, FPDR estimates it would result in an additional \$0.7 million in PERS contribution costs for the FPDR Fund.

### ***Change in City Government and Administration (Low Risk)***

- The FYE25 budget is the first prepared for the City of Portland's new form of government, which was approved by Portland voters in November 2022 and will take effect on January 1, 2025.
- The City of Portland will move from a Commission form of government, where five City Commissioners elected citywide both enact City policy and directly manage a portfolio of City bureaus, to a Council-Mayor-City Manager form of government, where 12 City Councilors elected from districts will enact City policy to be administered by the Mayor and an appointed City Manager
- As part of the change, all City bureaus have been grouped into new "Service Areas." FPDR will be part of the Budget & Finance Service Area.
- The change will result in new costs for FPDR, although the scale and scope of those expenses are not yet known. At a minimum, they will include a pro-rated share of costs for the new Budget & Finance Deputy City Manager and administrative assistant, as well as the new City Manager, new City Officers for Equity and Sustainability, and new City Councilors and support staff. There may also be opportunities to collaborate with other bureaus to fund service area-wide teams for communications, equity, safety, or other specialties that small bureaus often struggle to adequately staff alone.

### ***Other***

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

- Increases in PERS contributions rates in FYE26 and/or FYE28 beyond the already assumed 5% growth.
- Wage increases in future labor contracts for the Portland Police Association and the Portland Fire Fighter Association beyond those discussed above. Current agreements for those associations expire June 30, 2025 and June 30, 2027 respectively.
- Significant expansions in the number of authorized sworn positions at the Police and/or Fire Bureaus.
- Fewer deaths than projected using the mortality tables and assumptions recommended by the FPDR actuaries.
- Faster promotion rates or more premium pay assignments in the FPDR Three population than predicted.
- More new retirees selecting the lowest survivor benefit, or establishing eligibility for the additional state tax offset benefit, than forecast.

- More newly deceased retirees with surviving spouses than expected, or more newly deceased retirees with higher survivor benefits than expected.
- Higher than projected medical cost inflation.
- More catastrophic and/or expensive disability claims than forecast.
- A disproportionate share of disability claims from higher paid employees.
- Unforeseen information technology expenses.

### ***Fund Contingency***

While many operating funds maintain a standard 10% contingency line item, FPDR has mostly found it unnecessary to maintain such a high level of contingency given the relatively predictable nature of monthly pension payments, which make up 70% of bureau expenditures. FPDR fund contingency has been set at 7% of total bureau expenditures in each year of the forecast (the usual contingency level selected by management in normal circumstances), except for FYE25. FPDR increased fund contingency to 9% of bureau expenditures in FYE21 and FYE22 amidst the general economic uncertainty brought on by the pandemic. Some of these additional funds were spent on the record-breaking retirement and disability costs FPDR experienced in those years, and some of the additional funds have already been returned to taxpayers via a lower property tax levy in 2023. To further reduce fund balance FPDR has set fund contingency at just 6% of bureau expenditures in FYE24, or \$14.0 million. Approximate monetization of the risks outlined above comes to around \$12.6 million. FPDR management believes a 6% contingency level will assist the bureau in reducing fund balance from \$26.3 million at the start of FYE24 to the targeted \$15 - \$20 million during FYE25, while still providing a prudent contingency amount of \$14.0 million for FYE25.

## FPDR FYE 2025-29 Five Year Plan

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

Resources	CY Estimate	FY 2024-25 Plan	FY 2025-26 Plan	FY 2026-27 Plan	FY 2027-28 Plan	FY 2028-29 Plan
Beginning Fund Balance	\$ 26,311,813.00	\$ 16,220,577.47	\$ 14,000,000.00	\$ 17,000,000.00	\$ 19,000,000.00	\$ 20,000,000.00
Taxes	193,611,162.00	221,850,558.60	245,911,772.13	265,092,823.95	288,618,656.09	312,137,254.91
Licenses & Permits	-	-	-	-	-	-
Charges for Services	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Interagency Revenue	423,384.00	496,300.00	563,700.00	584,600.00	666,000.00	687,900.00
Fund Transfers - Revenue	-	1,500,000.00	1,500,000.00	1,500,000.00	1,500,000.00	1,500,000.00
Bond & Note Proceeds	32,565,839.00	45,000,000.00	49,000,000.00	54,000,000.00	60,000,000.00	65,000,000.00
Miscellaneous	1,901,000.00	2,922,000.00	3,763,400.00	4,040,000.00	4,403,800.00	4,748,800.00
General Fund Discretionary & Overhead	-	-	-	-	-	-
<b>Resource Total</b>	<b>\$ 254,813,198.00</b>	<b>\$ 287,989,436.07</b>	<b>\$ 314,738,872.13</b>	<b>\$342,217,423.95</b>	<b>\$ 374,188,456.09</b>	<b>\$ 404,073,954.91</b>

Expenditures	CY Estimate	FY 2024-25 Plan	FY 2025-26 Plan	FY 2026-27 Plan	FY 2027-28 Plan	FY 2028-29 Plan
Personnel	\$ 3,040,964.75	\$ 3,257,501.38	\$ 3,524,281.09	\$ 3,658,435.05	\$ 3,912,602.97	\$ 4,018,673.35
External Materials and Services	159,491,544.00	170,280,703.08	175,886,435.04	184,728,315.08	191,779,093.38	200,598,661.85
Internal Materials and Services	42,759,049.78	51,966,822.61	65,354,738.00	76,631,155.81	94,023,608.73	107,757,002.71
Capital Outlay	38,870.00	60,000.00	39,000.00	39,000.00	42,900.00	42,900.00
Debt Service	33,110,519.00	46,766,562.00	51,272,538.00	56,494,668.00	62,760,461.00	67,982,887.00
Fund Transfers - Expense	151,673.00	907,847.00	911,880.00	915,850.00	919,790.00	923,830.00
Contingency	-	14,000,000.00	17,000,000.00	19,000,000.00	20,000,000.00	22,000,000.00
Debt Service Reserves	-	-	-	-	-	-
Unappropriated Fund Balance	16,220,577.47	750,000.00	750,000.00	750,000.00	750,000.00	750,000.00
<b>Expense Total</b>	<b>\$ 254,813,198.00</b>	<b>\$ 287,989,436.07</b>	<b>\$ 314,738,872.13</b>	<b>\$342,217,423.95</b>	<b>\$ 374,188,456.09</b>	<b>\$ 404,073,954.91</b>

<b>Planned FTE Total</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>18</b>	<b>18</b>
--------------------------	-----------	-----------	-----------	-----------	-----------	-----------