FIRE AND POLICE DISABILITY AND RETIREMENT BOARD OF TRUSTEES MEETING	MINUTES

This meeting was held remotely via a Zoom webinar platform.

Date and Time: January 23, 2024, at 1:04 p.m.; Meeting adjourned at 4:11 p.m.

Board Members Present:
Catherine MacLeod (Board Chair); Christopher Kulp (Police Trustees); Kyle MacLowry (Fire Trustee); Tom Kramer (Citizen Trustee)

Also Present:
Sam Hutchison (FPDR Director); Stacy Jones (FPDR Deputy Director/Finance Manager); Kimberly Mitchell (FPDR Claims Manager); Julie Hall (FPDR Legal Assistant); Franco A. Lucchin (Sr. Deputy City Attorney); Lorne Dauenhauer (FPDR Outside Counsel); Nick Coffey (Policy Advisor, Office of Commissioner Gonzalez); Angie Cuthill (2VP, The Standard); OpenSignal PDX

Motions Made and Approved:
- Motion by Trustee Kramer that was seconded by Trustee MacLowry and unanimously passed (4-0) to approve the November 14, 2023 minutes.
- Motion by Trustee MacLowry that was seconded by Trustee Kramer and unanimously passed (4-0) to approve the December 19, 2023 minutes.
- Motion by Trustee Kulp that was seconded by Trustee MacLowry and unanimously passed (4-0) to adopt the FY 2024-25 budget.

A text file produced through the closed captioning process for the live broadcast of this board meeting is attached and should be considered a verbatim transcript.

Fire and Police Disability and Retirement

By______________________________________

Sam Hutchison
FPDR Director

CLOSED CAPTIONING FILE

[Captioner on standby]

Chair MacLeod: Good afternoon and welcome to the regular board meeting of the Fire and Police Disability and Retirement Plan. Let's start with approval of minutes from the November 14th meeting first, and then we'll move to the following minutes. Any comments about the November 14th minutes? Do I have a motion to approve those minutes as written?

Trustee Kramer: So moved.

Trustee MacLowry: Second.

Chair MacLeod: Those approving, say aye.

Trustee Kramer: Aye.

Trustee Kulp: Aye.

Trustee MacLowry: Aye.

Chair MacLeod: Aye. Opposed? Ok, same for the minutes of the December 19th meeting? Any questions or concerns about those minutes? Alright, let's repeat that. Do we have a motion to approve those minutes as written?

Trustee MacLowry: I'll make a motion.

Trustee Kramer: Second.

Chair MacLeod: Those in favor say aye.

Trustee Kramer: Aye.

Trustee Kulp: Aye.

Trustee MacLowry: Aye.

Chair MacLeod: Aye. Opposed? Okay, we've approved both of those sets of minutes from the prior two meetings. Do we have any visitors today? Julie, you're on mute. Do we have any visitors today in person or - okay, no visitors.

Julie Hall: No.

Director Hutchison: Actually, Nick are you there? Do you want to introduce yourself?

Nick Coffey: Yeah, can you all see and hear me?

Chair MacLeod: Yes.

Nick Coffey: Hello, everyone. I've met some of you and it's good to see some others. I'm Nick Coffey, I'm a Policy Adviser here in Commissioner Gonzalez' office and liaison to FPDR. Thank you for inviting me today. I'm excited to sit through my first meeting. Thank you all for inviting me.

Chair MacLeod: Thank you for coming to sit with us. Anyone on the phones? Okay, then. Let's proceed to our action items. We have one, which is adopting the 2024-2025 budget, and I suspect that that is a Stacy item.

ACTION ITEM NO. ONE – APPROVAL OF THE 2024-2025 FPDR BUDGET

Stacy Jones: You suspect correctly. I could give Sam the surprise of his life. Sam, will you walk everyone through the budget?

Director Hutchison: Uh-uh.

Stacy Jones: You could do it, I know you could. Hi, everybody, I'm Stacy Jones. Today I'm in my capacity as FPDR Finance Manager. It's time for the board to talk about next fiscal year's budget. Julie, I don't seem to have the option, oh, there it is. Oh, it says that you've disabled my participant screen sharing. You can share the presentation if you want. You're on mute, Julie, if you're trying to talk to me.

Julie Hall: I'll share my screen now, thank you.

Stacy Jones: Okay. If you want, you can go ahead and share the presentation and I'll just tell you when to advance the slides. That works for me.

Julie Hall: That's the wrong screen. One moment.

Stacy Jones: While Julie is pulling that up, I can just remind staff and let Trustee Kramer know for the first time since this is his first time going through this, this is the only bureau in the entire city that Council does not have direct budget authority over. You as the Board of Trustees have the exclusive power and authority to adopt the FPDR budget. Council is simply directed to levy a tax to meet the requirements of the fund according to the budget you all approve, so it's totally unique in that way within the City of Portland. We do of course participate in the City's budget process because our budget will be combined with all of the other funds in the city for the State-required City-wide budget. So we do go through the City-wide budget process but council doesn't have the authority to change the budget. That is all up to you folks. So at the same time that I walk you through the budget for next fiscal year, I will also talk you through the five-year forecast because we want to look ahead. The City requires us to do this since we have our own fund and of course it's good practice to look ahead for the next four fiscal years and make sure that we're aware of anything that might be coming our way. We don't want to just think year to year, so I'll also walk you through that. Our fiscal years run July 1st to June 30th like most local governments. So we're talking about our budget that will start on July 1st, 2024, and run through June 30th, 2025.

I do want to mention that the City-wide budget process is very different this year, I kind of mentioned that at the last meeting, and that's because of the City-wide restructuring that's going to happen part way through the next fiscal year on January 1, 2025, and that's in response to charter changes that the voters approved two falls ago. So all of that restructuring and all the things that need to happen as part of that first-year budget under the new form of government has delayed the budget process by just a couple of weeks. That does mean that a few of the numbers in this budget aren't as final as usual and we don't have official budget documents yet like we normally do this time of year when I'm sharing this with you. The budget publishing software isn't even opened yet, for example, but our budget is finalized and we have prepared it. There are some pieces that are still moving, but they're mostly small in nature and I'll talk about those as we go through the budget and they're only in places where we intersect with other bureaus because they're a couple of weeks behind us at this point because of the City-wide process. And we have mocked up a document for you that looks kind of similar to what we've given you in the past. I think it's behind my presentation, although it might be in front of my presentation in your board books. You'll see something that looks quite a bit like a portion of what we will turn into the City budget office and to the elected officials for them to see our budget. So that has some narrative summary of our programs and the bureau, that part will be familiar to you, but also some tables with our budget and tables with our positions in it. Julie let's head to the next slide. Just stop me if you have questions, folks, of course as always.

So this first slide just gives you an overview of resources, money coming in, and requirements, money going out. In the budget that the staff is recommending to the board for fiscal year 2024-2025, and then we're comparing it to the current year projection, not the budget, but the projection as of now, and to actual revenues and expenses in the prior year, which was fiscal year 2022-2023. To the far right you'll see the percentage change for next year's budget as compared to the current year projection, so you can see how things are moving year over year. I'll just hit some highlights now before we get into details. Property taxes are going to need to grow by nearly 15% over the current year, and I'll talk more about that as we get deeper into revenues. For now, I'll just say it's got a lot to do with the fact that we held property tax growth down so much over the last two years while we were spending down fund balance. You'll see that miscellaneous revenue is growing a lot in percentage terms. That's not a big line item, but that's interest income with interest rates projected to nearly double next year. And then if you move down to requirements or expenditures, something that might jump out at you is that the fastest growing program is obviously the FPDR 3 PERS contributions, which is the second line in the table, and that's what you would expect to see since we're phasing in the prefunded PERS plan for that population. That program budget should be growing very rapidly, and it is. We can go to the next slide, Julie.

This slide shows you just resources, or revenues if you want to think of them that way, but with the other four years of the five-year forecast also added in. So you can see what revenues are projected to do over the next four years, what we're projecting they'll do. And then if you go to the next slide Julie, you will see a slide that just has requirements or expenditures but again, with the other four years of the five-year forecast added. I'm just trying to avoid putting too many numbers on one page for you. So that is all the numbers, all at once, all put together, rolled up into their different components, obviously not at the line-item level, that I wanted to put in front of you. And then let's kind of dive into some of the big picture things and then we'll walk through first the expense side of the budget and then the revenue side of the budget, and I'll sum up with the main things I think you should take away from the budget this year. And then we can answer any questions that I haven't answered as we've gone along and talk about anything you might want to change. But like I said, just ask questions as we go, if you have any. Nick, I'm going to assume your hand is up from earlier, not because you have any questions.

Nick Coffey: Yes, it is, sorry.

Stacy Jones: No problem. Moving on to the next slide.

Julie Hall: I see Trustee MacLeod's hand is up.

Chair MacLeod: Are you planning to delve into the increased assumptions and where things are taken from? Like for example retirement benefits, the annual projections for those, are those taken from the actuarial reports or are those just a static trend that you're assuming those kinds of things. Are you going to delve into that and is this a good time for that question?

Stacy Jones: Actually, I think it's a great time for that question because some years I really go into that and some years I don't, and I didn't plan to dive deeply into that this year, but it is based on actuarial assumptions. It's the most complex part of our budget, takes a long time to put together because we do really detailed projections using all the actuarial assumptions we get from the experience study. We apply a probability of death in every single year to every single member, we apply the probability of retirement in every single year to every single member. Then we put it all together and we come up with median numbers for new retirees in all the different categories, median benefit amounts and median benefit amounts for those who are passing away. That's kind of in a nutshell. We then pull it all together so we have something that is based in actuarial experience from our experience study. All of that said, with the budget for next year, that's what we'll do over the whole five-year forecast, but for next year we will sometimes tweak it based on our own personal knowledge. Actuarial projections are meant to be over the long-term trends, and we often have knowledge of something that's happening in the next year that might shift things a bit. So we'll take a look at next year and say, what is happening this year and next year? This year we have two 27 pay date months, we know that's going to make retirements higher than actuarially projected this year. There's a bonus in the lookback for the police members this year, so we know more people will retire. During the pandemic, deaths were trending above average. So we'll look at those situational sort of things and tweak. We just call that cushioning, we don't usually take away. I can't think of any time when we did less than what would have been actuarially predicted but we've sometimes added to the budget. Does that answer your question in a short way?

Chair MacLeod: That's exactly what I was looking for, thank you.

Stacy Jones: Great, great question. Yes, this is not the kind of thing that, I mean I guess you could do just a line projection, but no we do something much more complicated than that. It's too large a budget for that in my opinion. So on this slide, I would just like to briefly follow up on some of the things we talked about last year because unlike all those TV pundits who drive me nuts because they get up there and say whatever they want and nobody ever makes them come back and say if they were right about all the things they've said in the past, I like to go back to the prior year, kind of remember what was top of mind last year when we were talking about last year's budget, and assess how some of those things turned out in comparison to our projections. And so I just look at what were some of the big takeaways I left you with last year and what happened.

So last year, the three biggest things impacting the budget were inflation, a high fund balance we had built up, and slow hiring, especially at police. So what happened with those things? Inflation, and you all are probably at least somewhat aware of what happened with inflation, but how did it do? Inflation has obviously been tempered and slowing. It's still historically high, but it has come way down from where it was. But how did it do compared to our forecast? It came in, as you can see, lower than forecast in 2022, and higher than forecast in 2023, which you would think would be a wash. Did I just say that backwards? I think I just said that backwards. No, no, that's right. Which you would think would be a wash, but that over projection in 2022 actually didn't have a big impact on us because of the way the city's wage contracts are set up. Inflation mostly hits our budget through sworn wages, and the sworn wage contracts award an annual cost of living adjustment based on inflation but only up to 5%. So, projecting inflation at 7.3%, 7.7%, whatever, it doesn't really matter, it's only going to be 5% anyway. So that didn't save us much. It does in some other areas, but not in our biggest impact area, which is wages. That 2023 under projection hit us a little harder. You have a question?

Director Hutchison: Are we on the right slide, Stacy?

Stacy Jones: Oh, I'm sorry, I didn't even notice. Yes, Julie, we need to be down. Sorry, thank you, Sam. Sorry, I didn't notice we were not on the right slide. So inflation, that 2023 under projection, I'm talking about kind of the first little flag here on the left, inflation. That hit us a little bit harder, that under projection, but it's still as close as you can reasonably expect when you're making an inflation estimate a year out. There's nothing really to complain about that. I would say all in all, inflation tracked pretty closely to what we thought it would do. 2022 was another historically very high year, and 2023 came back into what I will call the normal range, if still on the high end of that range and still certainly above average.

Looking at fund balance, which is the second flag. Again, Trustee Kramer wasn't here then, part of our reaction to the pandemic years and that year of nearly continuous civil unrest that coincided with the start of the pandemic and produced a lot of sworn retirements, was for us to budget very conservatively and we built up a bit of extra fund contingency, and we did blow past all of our previous highs. We retired more members than at any previous period, we had more disability claims and costs than in any previous period. I'm really glad we did that because we were completely financially stable throughout the pandemic, so we didn't have to add that to our list of concerns. But we didn't need quite all of that extra contingency and we wound up with about $30 million in fund balance at the end of it all. My normal target is to carry something in the $20 million range, something between $16 and $24 million. So last year I said that I wanted to spend that fund balance down to at least $24 million by

July 1st, 2023. We got it down to $26 million, so not quite as far down as I wanted to go. We had underspending on the pension budget and on the PERS contribution budget. But it did come down $4 million, so that's good and I want to continue with returning some of that money to the taxpayers, but we made some good progress on that. We don't need to sit on that much contingency at this point.

The last slide is to talk about is hiring. Last year we talked about how the struggle was at the police bureau, that they were having to hire folks and how that was keeping our PERS budget low. That was saving us money, at least in the short run, and then we would expect a big spike in costs when they were able to hire folks for the PERS contributions. Neither bureau has hired as much as they planned, but police has significantly picked up hiring. In 2022-23, that was their third highest hiring year ever, and almost doubled their average over the last 15 years. So they didn't do as well as they hoped to, they never do, but they really had a big uptick over what had been going on before. Trustee Kulp, I don't know if you have any insight into what led to that. Probably a lot of work. I don't know if Trustee Kulp is still with us. Trustee Kulp, do you have any thoughts on all that hiring at Police?

Trustee Kulp: There’s a lot of recruitment going on now. We have so many vacancies, and I think as the economy changes people are realizing it's a good job, it has a pension, and a lot of folks are looking for something more interesting than what they were doing, I believe, and the folks we're hiring right now are so multifaceted with degrees. I think I’ve seen more young people hired on now with advanced degrees than I ever have. As society is kind of changing, we're slowly becoming more popular than we were. So, I think people are actually filling out applications again.

Stacy Jones: That's great news for the City of Portland and it does mean more costs for us, but that's what we're here for. So it's good to see that turning around and it didn't turn around so dramatically that we couldn't handle it financially, that's good. Fire had hoped to hire more than they usually hire because they were hoping to staff up in advance of retirements, but I understand there were some budget constraints that were imposed on them that kept them from doing that, they had some budget issues going on. So fire never has any trouble hiring as many people as they want but they sometimes have logistics issues with getting people trained and through academies. I think they were hit with some budget issues. Trustee MacLowry, I don't know if you have any more insight than that. So anyways that’s how things wrapped up, some of the big topics from last year. Does anyone have any questions about that? If not we can go to the next slide.

So what’s different this year? For the first time I think maybe ever in my time at FPDR, at least it's been a very long time, none of the sworn labor contracts are currently open, or will become open during next year's budget. And since sworn wage increases are a major source of expenditure uncertainty for us, perhaps the single greatest source of cost growth and the single greatest source of uncertainty, it is an unusual luxury and very nice to know we have total certainty about wage levels for the next 18 months. Of course, we don't have certainty about overtime and things like that, but we have total certainty about wages. So that is a really good thing. The second thing that's different this year is less good, not good at all. This is kind of an amorphous thing in the background that's just been building. For many years now, CBO, the city budget office, keeps hitting the alarm about expense growth and it outstripping revenue growth across the whole city. The ringing of that alarm is getting louder and louder and louder. The city doesn't have an immediate need to cut budgets for next year, but the Mayor is trying to get in front of that trend a little bit more and so he has required a 5% automatic budget cut on all the general fund bureaus except for police, fire, and emergency Communications, which is 911 and dispatch, and also a 5% cut for all the internal service funds like printing and mail, technology, and items like that. So it definitely feels like we're entering a period of retraction, and that could ultimately impact FPDR, probably not directly, more likely indirectly through the bureaus that we partner with. For now Police and fire have been held harmless. We'll see what that looks like in the future years.

And then the final item on the slide is neither good nor bad, it's just something new. As we just mentioned, we're moving to a new form of government. We're moving from this Commissioner form of government that we've had since the City was created. I'm not sure about that, it's been a long time if not, to a City Manager form of government with an expanded city council. So each bureau is also going to be part of a service area reporting to a Deputy City Manager. Our service area will be Budget and Finance so that restructuring is going to impact next year's budget in two ways.

First, we're going to have some new costs. All city bureaus are going to share the cost of the expanded City Council, the new City Manager, any associated staff, infrastructure, etc. We'll also need to share in the cost for the deputy city manager of our service area and their administrative assistant. We may also, and this would be by choice probably, take advantage of some opportunities for some shared services across the whole service area. We saw that that would be advantageous. So there will be some new costs. I don't expect them to be anything earth-shattering and maybe in the long run they'll be offset by cost reductions elsewhere, but there will be some new costs coming into the budget. For now, we don't know exactly what they are, so we just have a placeholder in the budget for them and I'll talk about that a little bit more later.

And then the second way it's impacting this year's budget is what I mentioned before, just that all that restructuring has pushed the whole process back a couple of weeks. Which means that I'm now bringing you a recommended budget that's just a little fuzzier around the edges than it usually is because we don't have final costs from a few internal services, some of the technical steps that are taken to allocate costs and firm up personal forecasts haven't happened yet. And then some of the shared budget items, particularly with police, are still under final negotiation although we're at least under a million dollars on that stuff. So fortunately, none of those costs are going to be really large and impactful to our budget. Like I said, it's just a bit fuzzier around the edges and unusual for this time of year. Any more questions about things that are different this year? Ok, next slide.

So now let's talk about expenses because usually you talk about revenues and then expenses. We do it backwards because we're in the fortunate position of being able to talk about how much money we need and then we go out and levy taxes to cover our necessary expenses. This pie chart gives you an overview of our budgeted expenses for next year by program area. You can see that FPDR 1 and 2 pension benefits remain the largest expense, of course, but the FPDR 3 pension contributions are starting to catch up. We just continue that trend. The other programs remain in consistent proportion of our overall expenses. The pie is larger every year because our expenses increase every year. In terms of the division of those expenses, what we're really seeing as we see every year is that FPDR 3 PERS contributions take up a little bit more of the pie and FPDR 1 and 2 pension benefits take up just a little bit less of that pie. Did somebody have a question?

Chair MacLeod: I do have a quick question. Can you clarify for us what falls into the administrative expense bucket versus fund management expense bucket?

Stacy Jones: Yes, and I have a slide that talks a little bit more about this. So, fund management expenses are only general fund overhead, which is money that we pay into the sort of general fund pot that goes to support general city-wide services like City Council, emergency management, things like that. We have to pay that because we live outside the general fund. It also includes fund contingency which is kind of like our savings account. And it includes a few fund transfers for citywide debt services, our share of citywide debts and pension obligation bond debt just for our own personal staff at FPDR, and it also includes our tax anticipation note expenses. So in budget speak it includes some fund transfers, debt contingency and general fund overhead. They are the expenses of having our own fund, essentially. Administration is probably what you all would think of as the cost of running the plan itself, so that's where all the staff expenses are, that's where the office lease is, that's where office supplies are, that's where all the services we buy, whether internally or externally, are. So when we pay the actuaries, the auditors, the internal Bureau of Technology Services, when we pay for programming to our software, all of that is in administration. Does that help?

Chair MacLeod: That does significantly, thank you.

Stacy Jones: So administrative expenses are really the cost of running the plan. Fund management expenses are sort of the cost of living in our own fund and those costs are also offset by some revenues because we also get to keep our own interest revenue and things like that. Okay, so moving on to the next slide, Julie.

Trustee Kramer: Stacy, may I ask you a follow-up question to Catherine’s?

Stacy Jones: Of course.

Julie Hall: It looks like he froze up, I think.

Stacy Jones: Trustee Kramer, I think you had a connectivity issue and we missed most of that. Can you repeat the question?

Trustee Kramer: You're right, I'm having connectivity issues. It's always worth blaming Xfinity for anything that happens, and I'm blaming them now, including bad weather or traffic. Are there some pieces of the fund management expenses that we have control over at FPDR and others that are a given?

Stacy Jones: You have control over the level of fund contingency for sure, and we'll talk about that at the end. So that's kind of the savings account part of it, like how much money do we want to have on hand for emergencies, unanticipated expenses, unanticipated revenue shortfall, we definitely have control over that, and that's pretty much it. I was thinking, I'm sort of pausing because I'm thinking about tax anticipation notes, but it's not entirely clear if it's optional for us to issue tax anticipation notes because of the way the charter is written. We choose to issue tax anticipation notes because it's always been financially advantageous for us to do that. There are costs associated with doing that, but there are also revenues because we earn money on the funds while we sit on those funds. We've always come out ahead. So do we have to issue tax anticipation notes to manage our cash flow? We could also build a fund balance to do that, which is what the general fund does. That's why I was kind of hesitating over that issue. You could debate whether or not we have discretion over that. But really, contingency is the only item that the Board really has discretion over in the fund management expenses. But contingency is the largest item, I think I have it set at $14 million for this year, or for the next budget year. Does that answer that question fully Trustee Kramer? Okay.

Chair MacLeod: I think he froze up again.

Stacy Jones: I know, that's what I was just thinking. I don't know if anybody watches the TV show, "Parks and Rec", but I always remember the scene where Chris Pratt, somebody’s sick and he types their symptoms into the computer and says, the computer says you have internet connectivity issues. Oh, dear. Okay, we’ll go on to the next slide and come back if Trustee Kramer has any follow-up.

We'll have a couple of slides to talk about our major expenses one by one going from biggest to smallest. So obviously our largest expense is direct FPDR 1 and 2 pension payments. Direct pension benefit costs are growing a bit more rapidly than usual next year. Two reasons for that above average growth. First reason, more retirements than deaths. It's probably somewhat intuitive, right? So far this year we've had 49 retirements, we're projecting 36 more, mostly in June, and so far this year we've had 21 deaths. We projected 60 on an actuarial basis, but we're running way under that interestingly enough. We could actually turn out to have fewer deaths and even more retirements this fiscal year than we're already projecting, which would make that even more lopsided. But we're really projecting to have a lot more retirements in the current fiscal year than deaths, which turns into faster growth in pension cost next year. So that's reason number 1.

Reason number 2 is that the high inflation we've had over the last couple of years has driven larger than usual wage increases for sworn employees, which in turn makes those new retirees more expensive because their final pay is larger when they actually do retire. But I do want to point out that even if deaths equaled retirements perfectly, costs would still go up because new retirees are more expensive than dying retirees and there are several reasons for that. Deaths are a mix of members and surviving spouses, and the retirees obviously are always members, and the surviving spouse benefit is virtually always smaller. It's never more, and it's almost always smaller. That's one reason. Another reason is that most of the deaths are in the FPDR 1 population, and all of the new retirees are FPDR 2s. FPDR 1 retirees have a less generous pension benefit than FPDR 2s and new retiree benefits are initially calculated on final pay which even in normal times, pay tends to increase faster than the 2% COLA that we can give retirees every year. So all those things, even if everything was equal, costs are going to increase given all those structural factors. But then also on top, that's where we normally see 5%, 6% growth every year, we're seeing more than that this year because of this imbalance between retirements and deaths and also higher than usual wage growth.

Moving on to the next slide, Julie, let's take a look at the second biggest part of our budget, which is the PERS contributions that we make on behalf of our FPDR 3 members who are sworn employees hired 2007 and later and who are enrolled in PERS for their pension benefits. So this is the second largest portion of our budget and the fastest growing portion of our budget. And we are really just the funding source for these PERS contributions, but you can see it increasing at a pretty good clip over the entire forecast period. And there is a little bit of bumpiness in this forecast, because one of the contributing factors to growth in this is the PERS contribution rate. The PERS contribution rate increases every other year, but it doesn't change annually, so it creates a little bit of bumpiness. What drives this budget is the number of FPDR 3 members, their pay levels, how much they're getting paid, and the PERS rates. Those are really the three things that we have to look at and we have a table down below there that shows you some of the assumptions that are going into these projections. You see the growth in the FPDR 3 population, it's getting larger and larger, because every retiree is replaced by a new hire who will be an FPDR 3 member. You can see that PERS contribution rates are doing nothing but going up, because PERS has an unfunded liability, and so they are going up and have been the whole time I've been with the city. And then of course we have wage growth. We have cost of living adjustments, which as I mentioned are capped in the sworn labor contracts at 5%. When we come back to promotional wage growth, but underneath that, we have what I call real wage growth, although how real is it when there's that 5% cap, but that is wage growth that's either built into the PPA or the PFFA, a blend of the two, growth above and beyond that wage COLA that we know about that is built into the current PFFA and PPA contracts. That is real wage growth, or at least growth above the wage COLAs, on the first line. Then that middle line, promotional wage growth, this is sort of unique to this population, because this population are folks who have been on for around 15 years, and they are now being promoted and receiving specialty premium assignments. So they’re having more rapid salary growth than folks who are older and towards the end of their career because they're moving up through the ranks, at least some of them, and into those premium assignments. Economists usually call that drift, but that's not a very friendly term so we called it promotional wage growth here.

All of those things are happening and that's why you get this exponential growth in the PERS contributions, so it really doesn't look significantly different than it does in the past. This budget is getting bigger and more complicated to model and forecast because of the spread of this younger population through the workforce. So we're kind of doing this workforce spread modeling that we're not as experienced with, but we're learning as we go. The other thing I would mention about PERS contributions is the impact of overtime because that is a very unpredictable piece and we do pay PERS contributions on overtime spending and overtime is volatile in public safety bureaus, it can be very high and it's hard to control. It's been high for the last year and so one of the things we're still discussing with the Police Bureau, for example, is how much to budget for overtime next year. Are high levels of overtime continuing, are they coming down? That used to not matter so much when the budget was smaller but now it matters more. I'm trying to get a handle on overtime projections. [inaudible – video froze]. We'll move on to the next slide.

Julie Hall: You were breaking up at least on my end. Could everyone else hear Stacy just now? She froze for just a minute. Could everyone hear her on the call?

Chair MacLeod: I felt like I could. Maybe a little bit of a hiccup, but not much.

Julie Hall: Okay, good.

Stacy Jones: I just got a message that said my internet connection was unstable. I'm in the office so that's kind of surprising, my goodness. I see Sam coming and going, he's in the office too. Julie, ping me if that happens again and I'll pause. Does anyone need me to resay anything from that last slide?

Trustee MacLowry: No.

Trustee Kramer: Stacy, I would like to go back to a point, if I could. I had the same experience as Julie. I have Xfinity. It looked like in the last chart we saw that -

Stacy Jones: Can we go back to the previous slide, Julie?

Trustee Kramer: That would be great. It looked like we were budgeting roughly 20% increases in PERS increases, just in rough terms, from 2023 actuals to 2024 projection, we budgeted more than a 30% increase. Do we have a sense what have the 2024 actuals look like? Are they as high as we thought they would be?

Stacy Jones: They're actually worse than we thought they would be. We only have one quarter of expenses in for the current fiscal year. So that's part of what we're debating with police right now. So looking at the first quarter costs, they came in even higher than this and that is because of overtime spending. So it's even worse. The growth in this budget is really, the first time someone sees it, it's mind-blowing because everything is moving. PERS contribution rates are moving up. Wages are moving up. On top of that, this population is getting promoted and making even more money. And we're hiring and it’s getting bigger. We’re hiring more and more of them every year. The growth is off the charts. When we add overtime to that, and I don't know this, but we were attempting to do an analysis of, does this younger population work more overtime also? In our model we're assuming the overtime is kind of proportional. You know, the FPDR 2s are as likely to work overtime as FPDR 3s. I don't know if that's true, I don't know if with seniority maybe they work less overtime. Trustee Kulp and Trustee MacLowry, do you have any insight into that assumption?

Trustee MacLowry: I don’t think there’s any correlation between whether tier 3 or tier 2 work more overtime. The overtime is sort of proportional, people work as they work it, it's not related to that. But I am curious, you're saying the PERS contributions went up, yet the projection was for so many more

Police and Fire than were actually hired. So there was a projection for quite a bit more new hires, yet you're saying still, the overtime was enough to compensate for all those hires that didn't happen?

Stacy Jones: Yes. And I don't know if it was just an exceptionally bad year for overtime, or if it's a little bit of the impact of lateral hires, which we don't budget for in our model, folks coming in at higher than entry. That's another potential issue with the model because we're seeing more and more of that at both fire and police. I mean, I just don't think there's enough of those for that to really be, I mean, mostly it's overtime, it seems to be. That's what both the fire and police bureaus think as well. Trustee Kramer, does that answer your question?

Trustee Kramer: It does, but I'm glad for Trustee MacLowry' s follow up question. That was very helpful.

Stacy Jones: I do want to say about PERS contribution rates, obviously everything on here fiscal year 2024 and beyond is a projection because it hasn't happened yet. We do know the PERS contribution rates, we know they're 33.91% for the current year and for next year, so those are known. But beyond that, those are the city economist's projected PERS contribution rates where he just has them going up 5 percentage points a year, up to 43.91%. So once you're up into the out years, that much growth in the PERS contribution rates, I don't know if that's realistic or not. It may not be that bad. I hope it's not that bad, but it might be. All right, any other questions about PERS contributions? Okay, Julie, let's go down to the next slide.

So at this point we've talked about essentially 80% of our budget, so now we're talking about the rest. So disability costs, this is obviously really important programmatically, but it is only 3 - 4% of our total budget. But this is, like I said, important programmatically obviously, and this is also the disability program. That's the main way that we interact with our active membership, through the disability benefit; that and retirement workshops and pension estimates. You can see on this slide, we have it broken into the different components of disability benefits. You can see that we still spend more on short term disability than any other type of benefit, but just barely. It's just a little bit more than medical payments. You can see us coming down, if this slide went back further you would see even higher highs during the pandemic for short term disability, but you can still see us coming down from those 2023 actuals, so we're still coming down and projecting to spend less. We came up quite a bit in medical payments from the prior year. Again, we saw during the pandemic that medical costs actually stayed low because Covid claims are not expensive medically, and people put off and the hospitals kept delaying more expensive procedures and now we see medical costs coming back in force. And then I would just say long term disability return to work subsidies, which is where if the bureau can find work for someone to do on modified duty while they wait to recover from an injury, we'll pay 75% of their salary while they do that. And then that last component there is the funeral benefits for folks that are part of the pension population, people who are in their 80s and 90s hopefully most of the time. Those are essentially holding steady. So we really just are growing those things in the out years by wage growth if it's a wage replacement benefit, as is the case with short term disability or long-term disability. We're growing it by medical cost inflation factors, if it's medical costs, and then growing funeral benefits also by wage inflation because it's a percent of wages, the funeral benefit and also return to work subsidies since that's also a wage-driven benefit. Any questions about disability benefits? All right. Let's go on to the next slide.

Director Hutchison: Catherine has a question.

Stacy Jones: I'm sorry, thank you.

Chair MacLeod: I do, but it was really kind of a follow-up question relating to the earlier discussion about the PERS contributions increasing. I want to verify, I appreciated your explanation about the first couple of years being known rate levels that PERS has communicated, but subsequent to that, thinking that it's probably a 5% per year increase that you've extrapolated, just confirming that's not affecting the current budget in any way whatsoever.

Stacy Jones: No.

Chair MacLeod: That's strictly for forecasting. So even if you were off significantly one way or another, that's not going to project the current budget at all. Thank you.

Stacy Jones: No, not this year because next year we know what the rate would be, and I think we always know by this time what the next year's rate will be. We find that out in September, even in the biennial years. Those projections that the City economist comes up with, he comes up with that in consultation with Milliman, who are also the PERS actuaries. They don't ever impact the actual cost.

Chair MacLeod: As you mentioned, it's a very complex thing. PERS has their own unfunded liability and how they allocate that and assign those costs for paying that down and how that translates into future long term contribution rates is something that you're just relying, necessarily, on other people to come up with those best estimates for now.

Stacy Jones: Right. And you can see, when you know something is that complicated and you just see it going up 5%, you're like, hmm. But I personally prefer that. I'm always telling my staff, I don't want to be falsely precise, you know? I think, when you're like, well, that tells us right up front, this is a WAG, this 5%, so at least there's transparency about that. It's a total guess and because there are so many moving parts with that PERS - we get a good stock market return, all these things that nobody can predict, it's so hard to guess, other than we know it's still got to go up to pay down the unfunded liability. Then there's rate collaring and how that will impact it. Whew, it starts to get really complicated.

Chair MacLeod: Thank you.

Stacy Jones: But yes, not impacting, fortunately, that complex and consequential of an estimate is not impacting the budget. That's a very good point. Thank you, Chair MacLeod.

Moving on to the next couple of slides, let's talk about the administration of the plan. This first chart, to Chairman MacLeod's point earlier, this is not about fund management expenses, which I'll talk more about at the very end of the presentation. This is probably what most people would think of as the cost of running the plan. So the pie chart here shows you what are all the things that we spend, how it breaks down. We spend most of our administrative budget on personnel, about 60% and then the next largest chunk is actually on internal city services. Those are things like technology, all of our laptops and monitors and cellphones. Things that we're required to pay into, like our share of the city's enterprise management software, we have to pay our share of the city's risk management insurance, we have to pay for printing and mailing, all of those types of city internal services. That also includes the City Attorney's office, paying for services from them. And then beyond that, smaller pieces are on services that we pay to external vendors, folks that we pay, for example, to help the disability folks review claims, Milliman, our actuaries, our auditors, our space to work in, our office lease, some software for the bureau, and other kinds of miscellaneous things. This pie chart really looks pretty similar to how it looked in the past. Administrative expenses are less than 2% of our budget. They are growing, however. I do want to make the board aware. Right now we have growth of more than 11% for next year's budget in administrative spending, that's a big number. But a big chunk of that is because of this placeholder that we've plopped into the budget for new costs associated with this government restructuring, and those are in internal services, and we don't know if we need all that money. We just wanted to make sure we have it if we needed it. We have no idea if it will be that high. If I took that placeholder out, growth for next year's administrative spending would be 7.3%, which still seems like a lot, but I'll talk about that more on the next slide. And then, like I said the division of costs is pretty similar to how it's been in past years. So Julie, let's go to the next slide and talk a little bit about how costs are growing on the administrative side of the budget.

Julie Hall: Okay, but I do see Trustee Kramer's hand up.

Stacy Jones: Thanks, guys. I can't see hands; I can't see everybody on the screen. Trustee Kramer.

Trustee Kramer: Thank you, Stacy. You may be just about to get to this. Under internal materials and services on actually the next slide, it says largest item City Attorney's office, $352K. I was guessing that that probably didn't include Lorne, that he would be under the external vendors, and I don't mean to offend Franco or anyone else, but how do we get to that number? Lawyers are obviously worth anything we pay them, but that was an eye-catching number.

Stacy Jones: I know. So sadly for Franco, not all that money is Franco's salary. Franco's still here, I assume. Yes, there he is, he's just not on camera. No, we don't pay Franco that much, sadly. That is a large number, but that is salary and benefits for Franco, plus salary and benefits for at least part of a paralegal, plus some other services that we grab from the City Attorney's office on an ad hoc basis. We use quite a lot of legal services, on two fronts really. First, on the disability side, where whenever someone appeals their disability claim, we need representation for that for someone to go and present the Fund's point of view on the claim denial and carry that through, and folks often appeal those all the way up through the process, all the way up to, I forget how far up it can go. Kim and Sam and Franco could tell you. And then on the other side of that is that we haven't had this recently, but there can be sort of union grievance related stuff that we need to get legal opinions on even though we're not directly involved in those, and things like that. So when you just think of it as legal services, Lorne, we don't spend very much money on. He just bills us on an hourly basis. Our overall legal expenses are not very large, in my opinion, as part of the budget. But yes, it is more than Franco.

Franco Lucchin: And the contested disability cases, there are really five levels possible. Administrative, Appellate Panel, Writ of Review at the Circuit Court, appeal to the Oregon Court of Appeals, and less frequently, appeal to the Oregon Supreme Court. So one case could be argued five times, potentially.

Stacy Jones: So even though a very small percentage of claims are denied, I don't know what percentage of claim denials are appealed, and I don't know if Kim knows off the top of her head, but yeah, that takes up, I don't know, Franco, quite a bit of your time.

Kim Mitchell: I'd have to look at that Stacy for the percent. I know our percentage of claims denied in this past fiscal year was like 10%. I don't think it's half of those, maybe. I would have to look. I can get back.

Stacy Jones: Does that answer your question well enough, Trustee Kramer?

Trustee Kramer: Well enough, thank you.

Stacy Jones: Okay. And thank you, Trustee Kramer, for moving us on to the next slide. So let me talk about the two biggest things in the administrative budget which are obviously personnel and things we buy internally from other City bureaus or externally from others. So for personnel, I just want to remind the Board, and Trustee Kramer for the first time, that the Board can control the number of positions at FPDR and the job classifications, and Sam, myself, and Kim can control merit pay raises within these kind of prescribed ranges for the non-represented staff. But everything else is mandated by the City Compensation Plan or external forces like how much health insurance costs under the health insurance coverage the city has negotiated, what payroll taxes are, what PERS rates are, things like that. So that's sort of the division of what's within the Board's control and what is not. Yes, Trustee Kramer.

Trustee Kramer: A minor point on that one, Stacy. The health insurance variable in the second bullet is huge, between $6K and $27K per employee. Can you tell us a little about that?

Stacy Jones: Welcome to government employment. The city, like many government employers has really, really generous health insurance benefits, and the range is large because the range, the $6,000 range I believe is, I think that's the cost. We have a couple of employees, including me, who opt out entirely of medical insurance because it's provided by a spouse or something, but opt in for dental. So I think that $6,000 is me and maybe one other employee. At the high end, the $27,000 annual, that's full coverage, vision, dental, and medical for an entire family. And so that's the range for the health insurance plan, and yes, it's a very generous health insurance plan. And Trustee Kramer, I have the most interesting story to tell you, at the end, when we get to the board expenditure summary, when you were asking about the personnel budget last time, I dug around, and found out a funny, interesting thing about health insurance costs that's been happening this year. But I'll save that for the end because I don't want to get us offtrack. And it is a large number, and that's not something the board has any control over because the City Human Resources negotiates that and offers the same suite of benefit options to all city employees, so we have no control over that number.

So those first two bullets under personnel are telling you what's included in that $3.3 million that we're spending on personnel and where it says percent, that's a percent of wages, and then the remaining bullets tell you the cost increases that we've built into the personnel budget. I will say that we have learned what the wage COLA will be since I sent this out to you. It will be 3.3%, because we have the actual wage COLA. Again, this is built into the city's labor contracts, most of our staff are represented. Most of our staff though don't have a current labor contract because it's open right now. But assuming that they get what is the normal case at the city, which is not to get too wonky, it’s a particular index that’s second half to second half, and we now know that that will be 3.3%. So that is like an automatic wage increase that city employees are going to be able to expect on July 1, 2024. We have one employee who will get a bigger raise because she's not at top of range, and then some employees may get merit pay increases of as much as 2%. And that could also change because, anybody who is not represented is at the discretion of council's guidance and their manager and the CPPW employees are the folks that have an open contract right now. I'm not quite sure how that will all shake out. Moving on to internal materials and services. Oh, Franco, you had a question?

Franco Lucchin: I just wanted to note that CCPW bargaining starts literally tomorrow morning, it's the first bargaining session. The minimum time period for bargaining is 150 days, which probably doesn't have any impact on this presentation but gives an idea of when there could be a contract for that union.

Stacy Jones: Yeah, it could be that we're not looking at, if there is a wage increase, it might wind up being paid later in the fiscal year. Then it's usually made retroactive to July 1st, so it kind of comes out the same. I was so excited that we didn't have any open labor contracts for sworn employees, but we do have an open labor contract for our own employees, but that's much less impactful than the sworn labor contracts in terms of our budget. Thanks, Franco.

In Internal materials and services, these are really growing a surprising amount especially given that that growth is after the internal service funds have applied the mayor's 5% cut. So I had to really sit back when they started sending those costs over. But so remember, again, a big part of what you're seeing is that placeholder that we have for the city, any extra costs we have to pay related to the city government restructuring, but the other big driver is technology services. Over in technology services, the labor contract that governs IT staff awarded fairly large salary increases, so this is the last year of those salary increases. There are also several new IT projects approved by council that are city-wide impact and city-wide cost, things like a new website, new online help service, information security kind of measures that we have to pay for. And then on top of all that, they're building out new IT infrastructure for this new expanded city council and a bigger city council chambers. So, all the internal Bureau of Technology Services charges that are just being shared out across the whole city are growing quite a bit.

And then if we look down at kind of everything else which has the external materials and services, office lease, and other miscellaneous items, software, everything else is growing as well. By less than personnel and less than internal services but still a little more than inflation, although that little bit more growth in this category is really an artifact of the additional actuarial services that we buy on a biannual basis because we buy the fund analysis and the fund valuation only every other year, so you get a bigger increase in growth for those actuarial costs in the off years. And then we also budget very conservatively for capital because it's a small item and its own line item in the local law budget, we have to be careful we don't overspend it. Capital for us is just programming capital improvements to our software. Let me pause and ask if there are questions about administrative expenses or any expenses at all before I talk about revenues. Seeing none. All right, let's move on to revenues.

Revenues are so much more straightforward than expenses because there's really only one important revenue and that's property taxes. If you remember that beginning fund balance is just leftover property taxes from prior years for the most part, it's pretty much all property taxes. We do have a few little slices of revenues from other sources that I'll talk about in a minute, but pretty much it's all property taxes. Let's move on to the next slide and talk about property taxes.

So, property taxes. I told you they were growing quite a bit this year. So, we believe we'll need about $222 million in property taxes next year, which is almost 15% more than last year, as I mentioned in the beginning. So there are two reasons for that. The first is that our expenses are growing 10.3%, which you can see on the first slides. That is driven by 22% growth in PERS contribution costs and 7% growth in direct pension benefit costs. So just to keep up with our expenses we've got to go up by 10.3%. And all things being equal given the way we're funded, our tax revenue is going to need to grow by the same percentages as expenses every year, all things being equal. But all things are not equal this year, because we grew the levy less than expenditure growth last year and the year before while we were using up some of that excess fund balance. That means the increase from last year's levy as a percentage is just higher because we're catching up now. That goes back to the debate I'm always having in my mind about whether or not it's better to smooth the property tax levy or whether it's better to not sit on any unneeded taxpayer funds. You know, when we're being careful not to hold on to any taxpayer money we don't need, it gives you bumpier growth in the levy as we go along. And so, it's always a debate in my mind. Is it better to have smooth but steady growth or to make sure we're making sure to get money back in taxpayer hands whenever we have more than we need? It is bumpier when you have years with slower growth than years with faster growth. That's why taxes are growing as much as they are for next year. Questions about property taxes? I have a little bit more about property taxes on the next slide, maybe let's talk about that before I pause.

Trustee Kramer: Stacy, may I ask, where do you come down on that smoothing versus not smoothing?

Stacy Jones: You can tell I'm always having that debate in my mind. I think it's good to keep both things in mind, I do. But I wind up erring on the side of not holding on to taxpayer money I don't need because I just think if it was my money, I would rather have it in my pocket as long as I could have it in my pocket. And if that means that, okay, now my bill went up a little more as a percentage this year than it did last year, at least I held onto my money as long as I could. There's no getting around the fact that our bills are going to keep going up, that's the design of what we're doing here. But I think it's a valid point of view to say that sudden jumps are not desirable for folks when they're planning. When you get down and look at it on a household-by-household basis, you're not talking about a lot of money, so that's the other thing to remember. We're not suddenly hitting people with a bill that's a thousand dollars more than last year. It will be ten dollars more, something like that. So I tend to err on the side of making sure we're not holding onto taxpayer money we don't need, but I understand the other side of that equation or that consideration too.

And then on this slide, just wanting to show you some of the assumptions that go into thinking about property taxes, and then what kind of property tax rate we wind up with based on those assumptions and what we think we need to raise in terms of tax revenue. So if you look at the chart at the bottom, the AV rate. This is what the rate is per thousand dollars of assessed value, what people actually pay property taxes on, and the blue line is the RV rate, what people actually pay per thousand dollars. I shouldn't say actually pay, it's not an actual thing at all, but what the property tax rate would be per thousand dollars of real market value. That's the RMV rate down below. We care about the RMV rate for one reason only, because that's what the cap in the City Charter is based on. So that $2.80 cap we have is based on the real market value rate. So we pay close attention to it but actual property taxpayers pay their taxes based on that AV rate. It’s useful to always look to see what's going to happen with that rate.

I want to draw your attention to a couple of things. Real market value growth on the top line. Zero percent for fiscal year 2024, that was a projection. We needed to update that. We have the actual now. It's come in at 0.15%. Pretty close to zero. And then the City economist is projecting zero percent growth again next year. Not negative, we have had negative growth in some years, but basically no growth and that is related to concerns about commercial properties, mostly downtown commercial properties. So what that is doing is, it means that our RMV rate is going up a little faster than we thought it would. That's not the only reason, but when we're not growing RMV at all, we're not growing the denominator and so the rate is growing much faster. If you look down at the bottom table, which is in the middle of the slide, you'll see that we're now projecting a tax rate for next year, an RMV tax rate of $1.36. A few years ago, we were projecting that would only be $1.30 in fiscal year 2024-2025. Now we're projecting $1.36 mostly because of that very slow RMV growth. I'm trying to think if there's anything else I really want to point out to you on this slide. You do see a big, assessed value growth in the current fiscal year and that is urban renewal areas returning to the regular property tax rolls. So, it's not as exciting as it looks although maybe it only looks exciting to people like me. All right, any questions about property taxes before we move on? Trustee Kramer, I'm not sure if these things about compression and discounts and delinquencies make sense to you, you may not have ever seen them before. If not, you can ask me now or we can talk later.

Trustee Kramer: Either one. If they're not of interest to anyone else, I'll ask you later because you're right, they're new to me.

Stacy Jones: Those are basically, let me just say briefly, and then maybe we can talk later, those are losses we expect. Like we're going to tell everybody to pay us a certain amount of money, but some people won't. So that's delinquencies, right? They just will say, nope, we're not going to pay you, okay. So we're going to lose some money from people who just refuse to pay us. Discounts for people who pay, as most people do but if we didn't guess right about, how many people are going to pay up front and get that little discount, then there's some losses there. Compression is related to the intricacies of Oregon's property tax law which caps property taxes at $10 per $1,000 of real market value on each individual property. So some properties are in compression, some properties are not. We are one of the last levies to get compressed but if there's enough compression on an individual property we can be compressed, which means that the property already has so many taxes on it that we can't get our full taxes out of it. Does that make sense? And so all of those assumptions come from the City Economist, from Peter Hulseman, the City Economist. All right, moving on to the next slide. We're getting there, guys. Sorry, I know we have a full agenda.

So, managing the fund. So, Chair MacLeod was talking about fund expenses. Let me just say again that funds are a totally foreign concept to folks who don't live in government, because funds are not used extensively in the private sector, they do exist but in a governmental finance context everything lives in a fund. A lot of the services you think of as core city services live in the general fund, like the Police Bureau, Fire Bureau, Parks Department, things like that. But things with a dedicated revenue source that need to be segregated in some way for some reason live in their own funds. We live in our own fund because we have a fiduciary responsibility to the city, we have our own dedicated revenue source we can only spend money on certain things, so we live in our own fund. We can only spend money on certain things. That means we have to do a few things. One is that we need to have some fund balance. So why do we have fund balance? Why don't we just spend our fund down to zero dollars? The same reason you don't spend your checking account down to zero dollars. Some of it is because you need to manage daily cash flow so you can just think of that as the cushion you keep in your checking account to make sure you don't overdraw. Last year, for example, in 2022-2023, our average daily cash balance was about $75 million. But our lowest daily cash balance was $5.2 million and our highest was $160.3 million. There's a lot of variability in there, so there's a cash flow management aspect to this. And then the other reason is contingency, which you can just think of as your personal emergency fund. So that is money that we want to have on hand if we need to spend more than we planned or budgeted for or if our revenues fall short for some reason, then we need to have that money on hand. And then fund balance is just where sort of extra savings or extra revenue also goes to live, again, just like in your checking account. If we spend less than we planned or budgeted, it falls to fund balance or if revenues are higher than expected, it falls to fund balance. I mentioned earlier, I target a fund balance sort of in the 7% of annual expenditures range, which winds up being in that $15 to $20 million range. We built it up over the pandemic to make sure that we could have lots of financial certainty and stability, and then you can see us spending that down now. So I'm hoping to spend that down even further, and ideally hit our target by 2024. I'm a little concerned about that because it looks like we may be over collecting on property taxes, some of those assumptions from the City economist last year may have been a little too conservative. So we'll see where we wind up at the end of the year but that's still my goal, to spend that fund balance down.

Then I just have some notes at the bottom of the slide about some of the things that happen when you live in your own fund. Like I mentioned before, we have to pay our share of the citywide general services, we have to manage our own cash flow, part of which is managing fund balance, but another aspect of which is issuing TANs every year, but we also get to keep interest earnings on our fund balance. Those are the tradeoffs of having to manage your own fund. If you're a bureau that lives in the general fund, the City economist does all that stuff for you but we have to do it for ourselves because we don't. All right. Any questions about that before I wrap up?

All right let's just hit these last two slides, then. So on the last slide, I mentioned that one of the purposes of fund balance is to serve as fund contingency to deal with any risks to the budget. So what are the risks to the budget? Some risks are structural, by which I mean they're there every single year. There are always risks that we know, things that could go up or down every year. And some are specific to a certain set of external circumstances in any given year, so they're sporadic. And obviously some risks are bigger than others, and they could be bigger either because they're more in other words riskier because they're more volatile, or they could be riskier just because small changes will have big dollar impacts. So this slide shows what I and my staff think are the six major financial risks to next year's budget. The bigger the dot, the bigger the risk. We keep experimenting with different slides. So June 2024 is an example of something. So you can see the things I think are the biggest risks are June 2024 retirements and property tax losses. So June 2024 retirements is an example of something that I think is a big risk because it's extremely unpredictable and volatile. We might have ten retirements in June, we might have 100. Really, we've made a guess, we could be way off. Property tax related risk is an example of something that's risky because very small changes can have big dollar impacts. We're talking about hundreds of millions of dollars so if delinquencies are 4.7% instead of 4.5%, that turns into quite a lot of money. This year that risk is amplified by the continuing above average uncertainty about RMV growth and continuing above average uncertainty about property tax delinquencies, all of which is really focused on commercial properties, particularly downtown real estate, as leases continue to expire and several of those commercial downtown properties get into trouble. There's concern about defaults and property tax delinquencies and losses in market value on that side. So that risk is always there, it's amplified this year.

The only risks on the slides that are really specific to just this year are the June 2024 retirements and the City government restructuring. All the rest of these risks are really structural and they're always present to a greater or lesser degree. I just mentioned, the property tax risk is larger this year than normal, but it's always there. So every year my staff and I also attempt to monetize these risks as kind of an exercise of saying, okay what do we think is a reasonable estimate of what the costs, if things went sideways with some of these things, what would the costs associated with that be? And we come out to a little under $10 million when we monetize these costs but remember we're definitely guessing. There's a huge range, obviously. That's kind of where we landed. So how do we manage that risk? Well, we have fund contingency which we've set at $14 million. That's what we've recommended to you all this year. The second thing we do is we err slightly, just slightly, on the side of conservatism in budgeting for items that are particularly volatile or items that are high impact line items. So those are the two ways that we really try to manage those risks. Questions about the risk and the forecasts to the budget? Nope?

All right, last slide. You're almost there although it is not going to get better you know. The next thing we're going to talk about is ASOP 4, which Lorne can probably make it pretty exciting I'm guessing. So as always, I like to end with just a few key takeaways that I hope will stick in your minds as the things that really stick out to me and the rest of the finance staff about this year's budget and that I always want to make sure I talked about at some point during the presentation, if I didn't hit on them hard enough during the presentation. The first thing is that the current fiscal year, I talked about June retirements, it really has the potential to come in second to only fiscal year 2021 as the year with the most FPDR retirements ever. Just like in fiscal year 2021 there are two 27-pay date months this year. But unlike in fiscal 2021, one of those months is the last month of the fiscal year, June, which means we probably won't have time to adjust next year's budget if we've underestimated retirements this is year, so it is riskier than usual. Why so many retirements this is year? Two 27-day pay date months as I just mentioned. There were two fairly long gaps between the previous 27 pay date months. The last was July of 2022. And then we had one in December of 2023 and we’ll have another in June of 2024. So July 2022, December 2023, that’s a fairly long gap. There is a one-time bonus for PPA members that will be in their lookback if they retire in June. We had unusually large wage increases for both PFFA, PPA, and PPCOA on July 1, 2023 that will go into a June retirement. The June retirements always have an extra incentive because as long as they are retired by July 1st, they have historically received the pension COLA and then they would get that immediate pension COLA as well. So all of those things are making June look pretty good to a lot of people. So I think we're in for a doozy of a retirement year.

The second thing, and I've talked about this enough I think, is that this really low or nonexistent RMV growth means that our RMV tax rate is growing just a little bit faster than we had previously anticipated. Still nothing to be concerned about in terms of hitting the cap, but faster than we thought earlier. Third, it looks like inflation is cooling off but the last couple of years have pushed us into a permanently higher cost curve. Inflation isn't like stock prices, where when you have a few big years that will be offset by some negative years. There isn’t, or hopefully there isn't, negative inflation or deflation. That is not something anybody wants. So we're not going to have deflation ideally to offset the high inflation we've had for the last few years. That cure would be worse than the disease. So the inflation we've experienced over the last few years which has driven up costs and particularly sworn wages beyond previous expectations, that’s part of our new life now and permanently shifted our cost curve up a bit. And on top of that we don't know for sure that historically high inflation is done with us even now. We’ll have to see how the next six months shake out.

And finally, the PERS contribution budget as I mentioned is both getting harder to predict, and it is having larger impacts on our overall budget. Which is not really news, we knew that day would come. In the very beginning PERS contributions were a tiny part of our budget, and they were very predictable. We used to do the budget literally person by person. We knew the names of all of them and literally did it by individual because the only factor you really had to account for was little step increases they would have as police officers or firefighters and hiring. But now there is hiring and attrition to account for. The budget is large enough that volatile pieces like overtime actually can really matter. But the hardest part as I mentioned is just trying to model the spread of those FPDR members through the workforce as they promote and move into those premium assignments. So in 15 years it will be more manageable than right now because then the entire workforce will be covered by PERS. So we won't have to model that spread, we'll just need to account for hiring attrition and the variable piece likes overtime. Of course then the budget will be larger though so the impact of making a wrong guess will be larger, but it will be easier to model. So those are the four things I think are really worth taking away from the budget presentation about this year. And before I ask about final questions and any changes, the board might want to see if there is anything you want to revisit. Let me see if there are any more questions. Trustee Kramer?

Trustee Kramer: Thank you. So I want to go all the way back to slide 4 if we may.

Stacy Jones: Okay.

Trustee Kramer: And just go over the growth in the administration expenses if we could. What I'm seeing if I'm reading it correctly, is that the projection for the current fiscal year is $4.9 million, and the recommended budget for the next fiscal year is $5.46 million if I'm reading it correctly. So does that work out to about a five-year, $60,000 increase annually?

Stacy Jones: Let me pull up our A line and I can tell you exactly.

Trustee Kramer: That's fine. Thanks Julie.

Stacy Jones: Let me give you the exact dollar amount. Yeah, so our projection for this year is $4,903,877, which sounds very precise, and our next year's budget as recommended to you is $5,460,527. So the difference between those two is $556,650, so about half a million dollars.

Trustee Kramer: I'm afraid you told us this but I'm sorry I don't remember. How much of that is attributable to the uncertainty relating to the charter change?

Stacy Jones: You are very clever and have noticed I deliberately did not say that amount. I was trying to avoid saying it publicly because there is a negotiating aspect to this with other city bureaus and I don't want them to know how much money we've set aside. But that is a legitimate question so let me answer it. We've set aside $200,000 for that. I think that is very high. I think it is unlikely that we will need all of that $200,000. We've only committed $15,000 so far. So I think that is really high. But of the growth, so with that $200,000 in there, that is 11.35% growth and if I take that $200,000 out and pretend it is not there, then the growth is 7.3% without that $200,000.

Trustee Kramer: Thank you, that is very helpful.

Stacy Jones: Okay, glad it was helpful. And good catch. I was trying to be silent on that $200,000. Other questions or parts of the budget that the board would like to revisit?

Chair MacLeod: None for me.

Trustee MacLowry: No, thank you.

Trustee Kramer: Nice graphics, very readable.

Stacy Jones: I'm glad. We always try to make our fonts big. I myself can't stand tiny, tiny fonts. Julie, if we could go down to that very second to last slide where it just sort of says questions which we've just kind of clarified that doesn't sound like we have anymore. It doesn't sound like there is anything that the board wishes to change. So if we can flip to the last slide, I'm sure you will interrupt me if I'm wrong and there is anything you want to change. We will need a motion to adopt the budget. But before we talk about that, I want to say, as I say every year, but this year is a little more serious than usual. I want to make sure that the board understands that we always have to make some minor technical adjustments to the budget after you adopt it to accommodate changes that the Mayor or council make to budgets elsewhere in the city where they intersect with our budgets. So that happens usually on the police or fire budgets but could also happen in internal service budgets and then we just need to make little adjustments where we intersect with them. So when that happens, I always come back to you if there is anything significant financially or programmatically and talk to you about it whenever the next meeting is; March, May, could be even late as July. So I just want you to be aware of that possibility. This year that is going to happen, and there is going to be more of it because of those structural reforms to city government that I was just talking about which are still being ironed out and costed and also the delays in the city-wide process which means there are just more pieces that are up in the air at this time. I don't think any of those things are going to turn into million-dollar costs. I still think we're talking about small potatoes within the context of our overall budget, but I want to be transparent that there is going to be a little more of that this year and there is just unfortunately nothing I can do about that. But I will definitely come back to you at the next meeting or the next meeting or the next meeting and talk to you about any change that is financially or programmatically significant that is coming our way because of changes elsewhere that we need to intersect with.

Chair MacLeod: Thank you very much. That was a very fine presentation. I felt like we got some good discussion, and it was very easy to follow so thank you. And yes, good discussion and questions along the way. Are there any other questions from any of the other trustees before we make a motion. All right then I'll entertain a motion to adopt the budget for 2024-2025 as is presented to us.

Trustee Kulp: I'll make the motion.

Trustee MacLowry: I'll second.

Chair MacLeod: Thank you. And any subsequent discussion? I'm assuming none. All those in favor of passing this say aye.

Trustee Kulp: Aye.

Trustee MacLowry: Aye.

Trustee Kramer: Aye.

Chair MacLeod: Aye. And opposed? All right. Thank you very much Stacy. Thank you again.

Stacy Jones: Thank you very much, board.

Chair MacLeod: Okay. That concludes our action items, but we have a very long list of some interesting information items for today and the first one is a memo presented by FPDR counsel Lorne Dauenhauer on Actuarial Standard of Practice No. 4. So Lorne, can I turn this over to you?

INFORMATION ITEM NO. ONE – ACTUARIAL STANDARD OF PRACTICE (ASOP) NO. 4 DISCUSSION

Lorne Dauenhauer: You can. It is good Stacy probably wore all of you out so I expect I'm going to put you all to sleep.

Stacy Jones: Thanks Lorne.

Lorne Dauenhauer: That was a lengthy and well-done presentation. Thanks.

Stacy Jones: That is the kind of opening act you want for sure.

Lorne Dauenhauer: It is, it is. I will try to live up to the job you just did. So you all have received a copy of a memo that my office prepared concerning some issues pertaining to public comments received on the application of Actuarial Standards of Practice No. 4 on the services that Milliman is contracted to perform for you. The concern was either that A, the actual agreement with Milliman was defective because it didn't require anyone to perform the work that would be required if in your specific case the levy adequacy study was treated as a funding evaluation for purposes of ASOP 4. Or there was a transmittal memo that Stacy and FPDR staff prepared for the board to consider when it was reviewing the new Milliman service agreement. That memo had stated somewhere in the memo that because the FPDR is not a funded plan, certain services or reports that would generally be prepared by an actuary doing that work would not be required and that included the determination of actuarially determined contributions, as well as other reports and studies, or not studies, other valuations that would be typically prepared by an actuary when performing a valuation for a fund that actually had assets.

So again, public comments were made by Mr. Kevin Machiz, saying that he believed that either A, that the Milliman contract was deficient because it didn't require Milliman to perform the things they would be required to do under ASOP 4, or that there was something defective with the memo in that it indicated that Milliman was instructed not to perform those particular deliverables when it had to. Again I'm not entirely clear what the complaint was but regardless of what that exact complaint was, the issue is for Milliman, as well as the fund or FPDR, does ASOP No. 4 apply to the work that Milliman is being contracted to perform? We've looked at ASOP for the language of ASOP 4, the language of the services agreement with Milliman, knowing the nature of the work that we're asking them to perform, reviewing the commentary underneath ASOP 4 and I think from a legal perspective the way I read the ASOP 4, I don't think this is a funding valuation because we're not actually asking Milliman to tell us how much money we need to save for the future. We're asking them to tell us, when we look at our costs in the future, do you think those costs will exceed our ability to tap into the levy? And if so, what does that mean? From FPDR's standpoint it probably doesn't mean any of that. It just means that instead of relying on the levy, we're going to rely on the city to come up with an alternate source of revenue to pay the benefits because although the charter anticipates that the levy will be the main revenue source to pay the benefits, if for some reason we hit the levy cap, that doesn't mean that the city doesn't have to pay the benefits, right? It's really just a risk analysis to see, do we need to worry about levy adequacy? It is not what we would typically view as a true funding valuation where we're looking at how much money you need to set aside.

In talking to Milliman, they said those professional standards apply to us and we're required as a matter of the standards to do our work consistent with those standards. If we conclude that ASOP 4 does apply, then we're going to have to do that work even if you didn't ask us to. I think more likely they would come back and say it turns out we need to do this extra work so we're going to need to revise the service agreement because we're not going to work for free. But again, the sole source or the sole determiner of whether or not ASOP 4 would apply to a unique fund like this one would be the Actuarial Board for Counseling and Discipline, which is a unit of the Actuarial Standards Board. Mr. Machiz had indicated that he had reached out to a number of actuaries who had either reached out to them or had read the ASOP and concluded that ASOP 4 did apply. He couldn't get us names or examples of who did you talk to so we could talk to them, but Milliman has said that they are planning to, and may already have, reached out to the ABCD (Actuarial Board for Counseling and Discipline) to ask them for an opinion as to whether or not they believe ASOP 4 would apply to the funding evaluation analysis or levy adequacy analysis that they are generally provided to the fund. And again, if they conclude that ASOP 4 does apply, that is, that the levy adequacy analysis is a funding evaluation for purposes of ASOP 4", then Milliman is going to come back to us and explain the decision that has been conveyed by the ABCD and basically at that point we'll have to cross that bridge when we come to it. And see what that means, what additional work will Milliman have to perform in the event the ABCD concludes that this work is subject to ASOP 4. Hopefully they come back with it's not, because you actually are a pay-as-you-go plan and there is no funding that you are asking Milliman to calculate. Again, our point is that the funding for the levy adequacy analysis is really just helping us come up with the source of the money. We're not too concerned with the amount of it. Obviously, the amount of the money is part of the analysis but it's not the end goal of the analysis. The end goal is just hey, we've got this levy, will we ever exceed the levy coming up with the money to pay the benefits and the other costs of the fund? Trustee Kramer, do you have a question?

Trustee Kramer: Yes, if I'm not interrupting your train of thought though, Lorne.

Lorne Dauenhauer: Not at all.

Trustee Kramer: If the question may put you more on the spot than you want, I'll leave you free to answer as much or as little as you want.

Lorne Dauenhauer: Okay.

Trustee Kramer: We have a 5-year contract with Milliman, that runs through Spring of 2028. They're required by that contract to perform their duties in a certain manner.

Lorne Dauenhauer: That is correct.

Trustee Kramer: What proper actions on their part is as you said determined in part by the ABCD. So, I would have thought in a simple-minded way that if ABCD comes back and says yes you have to do this Milliman, then Milliman is arguing uphill with us.

Lorne Dauenhauer: They may be, yeah. And I really can't say what.

Trustee Kramer: Yeah.

Lorne Dauenhauer: If they had a mistake of fact, or not sure what it would be. If the contracting parties didn't have a meeting of the minds and everybody thought they wouldn't have to do this work. FPDR said we don't want for you do this work, and then section 6.7 of the service agreement which says they have to perform the work in accordance with their own professional standards comes into play, does that mean that notwithstanding, the professional standards requires them to prepare this extra work that nobody thought they would have to do, would it mean that they're still bound by the terms of that contract? I'm not going to get into that. Let's cross that bridge when we get to it. You know, again, it's been too many years since I took contract law in law school to remember, which brings back a little PTSD, to be frank. The answer is we'll have to cross that bridge when we get there and see what Milliman says because we can't force them to redo the work. If we take the position that they have to do this work as part of their professional responsibilities and they want to break the contract, then obviously we'll leave that for the city attorney's office to handle.

Stacy Jones: Can I just jump in Lorne and just say that based on my long relationship with these actuaries, I mean, if their board came back and told them to do this, I am highly confident that they would do it and we would pay for it through the other projects provision of the contract, or perhaps we'd revise the contract. But it would be a non-issue in every way. Milliman isn't opposed to doing this, I'm not opposed to doing it, I just don't know why we would pay for something that we don't need and serves no purpose.

Lorne Dauenhauer: Right. That cuts to the question, is this a funding valuation and I suppose it's up to the ABCD to make that call. I believe when I spoke with Matt Larrabee and Scott Preppernau, in talking to them it didn't sound like they really wouldn't be that much more work if they did have to do this. But there are lot of inputs that they would require in order to do the work which would involve I think a fair amount of discussion with the trustees as to certain assumptions that would have to go into their work. So, what I understood from Matt and Scott, and I'll certainly talk to them later after they've seen this video, is that a lot of the work was just coming up with the assumptions and once the assumptions were in play, they've got the data to be able to do the other work, the actuarial determination of contributions and the other stuff that ASOP 4 would require.

So again, I didn't get the impression from Milliman that this was a large lift for them, but again I guess we'll cross that bridge when and if we need to get there. Hopefully they'll hear back from ABCD that of course this is not a funding valuation. When you talk about, you have no assets, and you're not making contributions to the fund, it would be sort of useless for Milliman to have to prepare the reports, given the nature of FPDR. But we'll see. Disciplinary boards have their own view of the world. Trustee MacLowry, question?

Trustee MacLowry: Couple questions. Do you have a sense of the time frame for the ruling from the ABCD? And second question, either Sam or Stacy because I'm not sure, is FPDR required by the charter to have the levy analysis done annually or semiannually?

Lorne Dauenhauer: I'll let you tackle that one Stacy or Sam. The second one.

Stacy Jones: Yeah, the second one. No, the charter does not require us to do a levy adequacy analysis, we've just done that as a matter what seemed reasonable financial stewardship. So, a plausible, yes. We're not required by charter. And I'll let you answer the first one Lorne.

Lorne Dauenhauer: And in terms of the timing, I don't know. I will ask Milliman to see if they have any sense of timing. I know when I've asked opinions of the Oregon State Bar, they'll get to it when we get to it, but perhaps the actuaries are more responsive. But I'll see what I can find out for you. And I concur, there's no regulatory or charter required reason to do the levy adequacy study it's simply good financial stewardship to know does the city need to worry or reasonably worry at any time in the future, will the FPDR costs hit that levy cap. And Sam you may know this. Did the fund even do the levy adequacy study before the charter was reformed back in the mid '90s?

Director Hutchison: Yes, that is part of. They were looking at the chart and numbers were climbing high, and it was worried that it was going to hit the cap sometime in the future. So that was one of the drivers for the 2007 charter change and creating FPDR 3. The trend was upward, and nothing was going bring it down. So that is why they did. I have a question for your Lorne.

Lorne Dauenhauer: Okay.

Director Hutchison: So, if we get this analysis completed, the funding. What do we do with it? We're not, it seems like it is going to be report that is going to be clumped in front of us, and there is nothing for us to do or use this report for. Am I correct?

Lorne Dauenhauer: I can't imagine there is anything that the FPDR board could do with that. The city may, I suppose, look at that and say, gosh, since we have to have this funding analysis and now we have to have a funding policy and basically the actuaries are saying we've kind of made one for you and you are not following it. The answer is well, it's because we don't have to. I think that is why it would seem sort of, it's a useless report, and it's a shame to have to perform the analysis because of ASOPs. But if Milliman had to do it because of the ASOPs, we're certainly not going to tell Milliman don't do it and disregard your own professional standards. Milliman has to abide by its professional standards so they may end up having to prepare reports and come up with certain assumptions that are at day's end meaningless.

Chair MacLeod: I would suggest that in theory, with results of such a report and establishment of a funding policy, that council could entertain the idea of setting up a trust and prefunding the plan, like PERS is being prefunded. That would require coming up with funds that it doesn't have right now to prefund it or that it hasn't set aside, and that is certainly out of the purview of this board. I think the only thing that we could do there is if we wholeheartedly endorse that concept that we could encourage city council to consider that, but that's a lot of ifs and that is a lot of money that I don't see lying around. But I think that is ultimately a potential use for it. But you know, unless there is somebody prepared to lobby for that with the city, again, it feels like a report that would just be, thanks for the report.

Director Hutchison: And just keep in mind the funding. We are considered $3 billion underfunded. To prefund it, we have to come up with $3 billion, or we continue the tax levy the way it is right now. So that's the dollars that we're talking about and when that's been proposed at city council, they back up totally away from this. They don't want to try and figure out where they are going to get $3 billion today to prefund the plan. They're satisfied with the way it's funded and the way to go forward. So, just to keep the context in place.

Chair MacLeod: Yeah.

Lorne Dauenhauer: And my recollection from dealing with other public defined benefit plans that aren't PERS is that they come up with a funding policy, if we have assets, here is your liabilities, we back out the assets, that leaves an unfunded liability of X. We're going to try to fund that over a period of years and come up with what is called actuarially recommended contribution or an ARC. There is no obligation for the public employer to follow the actuarially recommended contribution. But again, the actuaries would come up with a number and say here is the recommendation if you want to reduce that over X number years. Useful if you are intending to fund the plan over X number of years, but utterly pointless if you are not.

Trustee MacLowry: I can say from where I sit as my position on the board, what is of critical importance to me is that modelling that shows the probability that we would ever hit that $2.80 cap on the levy, that's what is important. And clearly, we're in good shape in that regard right now. I would just push back one tiny thing, Sam alluded to this. You have on page 6 of your report, even if Milliman concluded that future benefit payments would require contributions in excess of the levy limits, there is nothing the city or FPDR can do about that. We went through it in 2005 and 2006. Should that be the case there is something we could do about it, and it would be another reform. And that is what Sam is talking about in 2006. They saw the projection going above the line.

Lorne Dauenhauer: Sure. Right.

Trustee MacLowry: And those are the steps that were taken.

Lorne Dauenhauer: Yeah. Obviously, there are steps that people could do. If that came into play, of course there are things that can be done. They don't have to, right? It could be just well the city has got to pay it. The city has to come up with the funding. The alternatives would be the charter could be amended to come up with a different source of funding. I suppose the state could even get involved, or Oregon legislature could step in and compel some change. Of course something could happen. But if nothing did happen, the city would still be obligated to make those payments. They would just come from some other source, probably the general fund, but maybe something else. Maybe an income tax, I don't know. We can't really predict.

Trustee Kulp: Do we by chance know if any of the other funds in the State of Oregon, I believe there are six other total funds. Do they do this review at all? Or are they so small there's no -

Lorne Dauenhauer: I believe they are all funded to some greater or lesser extent. They are certainly better funded than us. We've got zero.

Stacy Jones: Are you talking about the other plans, trustee Kulp, that have the ETOB test?

Trustee Kulp: Right, they're outside of PERS.

Stacy Jones: None of them are funded like this from a property tax levy. So yeah, it is funny. Lorne is using actuarial or accounting speak that they're funded. But in the normal parlance of a normal person on the street, I always say this, and it makes the accountants nuts but, our plan is funded. Look at Lorne. See he's rolling his eyes at me right now. I'm distinguishing.

Lorne Dauenhauer: It has a source of money. There's a future revenue stream.

Stacy Jones: It is not a funded plan.

Lorne Dauenhauer: It's a revenue source that is anticipated to pay all our costs, right? Now other systems have said we don't want to do it that way. We're going to do it more the traditional way which is, we're going to save money into a funded trust, a separate legal entity, that we're going to put money in and that money is going to be invested, and it's going to grow. So that between the investment return and contributions that the employer is going to put into the fund, those two sources of money will be enough to pay the benefits for the future. That's what PERS does, and what every private employer is required to do by the federal tax code is to prefund the liabilities. You are more in the social security model, which is we get this money from taxes every year and we're going to take the tax revenue and pay the benefits out and if there is anything leftover, we're going to put it in the proverbial lockbox is what Al Gore used to call it. We all know there isn't a lockbox. We lend that money out. But it's similar to social security where it is a pay as you go system, and it's unique.

Stacy Jones: Yeah. It is as far as we know Trustee Kulp the only plan in the country, I've never been able to find another one like this. So I just wanted to point out that when we all talk about a funded plan, what we mean is what Lorne is talking about which is a PERS type of plan.

Lorne Dauenhauer: Right.

Stacy Jones: But that doesn't mean there is no money for the plan, like in the parlance of a normal person talking.

Lorne Dauenhauer: The funding is really the revenue source and other plans have a big pot of money as the revenue source. We don't have that. We have the ability to tap into property tax revenue. All right, well bottom line is we're waiting for Milliman. I will find out how long they think it might be before they get an answer and certainly if they get an answer we'll update the board. Whatever the answer is, if it means that Milliman needs to perform these extra functions due to their professional responsibilities or ASOP No. 4, then, you know, Milliman's got to do what Milliman's got to do and we'll respond accordingly.

Chair MacLeod: Thank you. Any other follow up questions from anyone about what Lorne's presented here? Okay, well thank you very much. That was very helpful to do and I appreciate that we've got a clear direction right now. The contract is in place. Regardless of whether we see value in this or not, there is an obligation to pursue whether or not it is subject to this ASOP 4, and we'll hear back and we'll get an ETA from you when you find out.

Lorne Dauenhauer: Yes.

Chair MacLeod: Thank you very much.

Lorne Dauenhauer: You bet.

Chair MacLeod: And it looks like the next information item is disability pension benefits review, and then there is a 2.5. So is someone else doing the original part of this and then back to you Lorne, or are you doing the whole thing?

Director Hutchison: I'm doing the pension comparison.

Chair MacLeod: Okay perfect. We'll turn it back to you, Sam.

Director Hutchison: If I can find the right screen to share.

Trustee Kramer: Chair MacLeod while Sam is setting up may I raise a presentation point?

Chair MacLeod: Absolutely.

Trustee Kramer: That is in both the disability retirement and in this ASOP 4 discussion, there were a number of attachments to the memos. That was extremely helpful. So I appreciated having those, especially as a new trustee, to have the source documents attached as exhibits rather than having to go find them. So, thank you.

Chair MacLeod: Agreed. Thank you for pointing that out.

INFORMATION ITEM NO. 2 – DISABILITY PENSION BENEFITS REVIEW

Director Hutchison: We're going to dive into a PERS and FPDR disability retirement comparison. So a few months ago you asked for more information on how FPDR retirement benefits compare to PERS disability retirement benefits. So I'm going to compare a situation where we have a police officer who is part of FPDR to a police officer who is part of PERS and see what they would get if they became totally disabled. Now, PERS tier 1, 2 and 3 all have different start and end dates, and we have some active-duty members who could be part of tier 1 or tier 2 or tier 3. So I selected tier 2 because 63% of our active members would have been under PERS tier 2 if they had been hired elsewhere. For tier 1, only 4% would, that was retired long ago, and 31% are a part of OPSRP. So I chose the one where the most members are here, and I think this is the one where when you've heard retirees talk about it, they are comparing FPDR 2 to PERS tier 2.

So we have like I said before a police officer who is covered by the city of Portland, the FPDR 2 plan, and a police officer who works for another city that is PERS covered and they are eligible for PERS tier 2. So I'm going to use this information I have up front. So the job position is police officer. Both were hired July 4, 1975, that was date of birth July 4, 1975. Excuse me, hire date was January 15, 2000. Disability date was December 20, 2023, just a few weeks ago and salary at the time of disability is $120,000. So what we're doing here is comparing. I thought it would be, with FPDR 2 you have two components. You have the disability benefit component on top and then it's followed by a service retirement. For PERS tier 2, if you are disabled, you get a disability retirement from day 1, you don't have that disability plan in front of it. For the definition of disability at FPDR, a person shall be eligible for a service-connected disability when they are unable to perform the member's required duties due to an injury or illness arising out of work. Pretty straightforward. If you can't be a police officer or firefighter, you would qualify for these benefits. If you go over here to PERS, they have to be totally disabled, not partially, and unable to perform any work. So they don't hold the work that you are doing as a police officer as their guide for disability. They look at what your education, training and experience is and what other jobs you could possibly be performing other than a police officer in this case. So there is a possibility they can say hey look, we've done analysis and you could be working someplace else and deny you getting a disability benefit or disability retirement. So there is a higher, what do you want to call it, bar to cross to get your claim approved for that. But I'm going make it simple for this one. We're going to assume that everybody is permanently disabled and unable to perform any work. So we're going to take out that partial disability or the ability to work any other work. So you are totally disabled for the sake of this.

One thing, I go through this and try to make it a straightforward, simple approach. You could ask what happens in this scenario? What happens in this scenario? What happens if this goes on here? The more complexities we throw in, the harder the analysis gets. So I just want to keep it as simple as possible for you. So like I said, for FPDR, you have the first plan. So FPDR disability plan, they don't receive this part until retirement age, and we'll go over that in just a minute. The date of disability is December 20, 2023, which we indicated above is the date of disability. Their benefit there would be $90,000. So what we take into account is their $120,000 salary times 75% of their base pay when they are disabled right there, and it does include some premiums but does not include overtime. So that is where you come up with the $90,000.

So COLA. There is really no COLA for this plan, it is more of a benefit adjustment that occurs regularly. So we treat anybody who is on disability as if they are still on active duty and for the purposes of salary increases, we look at what union agreement they belong to so they get the COLAs, they get the step increases, they get the longevity increases and everything else, the premiums that are all laid out in the contract. So we did, because this is an actuarial assumption, that every year that's going to amount to about 3.25% of annual salary. I think this is low but again I'm using what the actuaries do because recently we've had higher inflation, we've had more liberal contracts out there that have given more benefit, but we're just going use this number here because the actuaries gave it to us. And we will look at the end so see if you change this to 5-7%, what it would do to the benefit. The benefits are not taxable. And service credit, again, if you were fully disabled, you're not SGA. Which you are not able to work or sustain any gainful employment, you will receive full-service credit for every year that you're on disability. And the benefits in this case will end after 30 years which is when they hit their retirement age on that. Fairly straightforward. So do you have any questions on this? How we calculate this first part? This is for the first 7 years of this person's disability that they will be able to get this benefit. And I know I'm moving pretty fast, but you know, interrupt me please if you have any questions.

So we're going down here to the second part. We're going to compare the FPDR service retirement to the PERS disability retirement. The PERS disability retirement starts on December 20, 2023, the date the person became disabled, the police officer and FPDR service retirement begins January 15, that is when the regular disability benefits ended. So we're going stick to the green side and then I'll jump over to the PERS side. So the final average salary at the time is, we take 7 years and adjust those 7 years for 3.25% annual salary increase. So this is what you would get after 7 years of those salary increases. So that is what it would be at the time we'd be estimating how much disability benefits you would have been getting at the time you retired and reached disability retirement age after 30 years. And we're going to assume that there was no partial disability or anything, so they received the full benefit. We have a 2.8% multiplier. That's the one that gives you the highest benefit, the lowest survivor benefit. And this line here is just a recap back to December 2023, the date of disability the member is getting $90,000, but on the date they retire, they are going to get a benefit of $126,000. That's that $150,000 of final average salary up here, times the 30 years of service, times the 2.8% multiplier. Basically that comes up to about 84% of their salary is what their benefit is.

Now we'll swing on over here to the blue. Again, for the blue, at this point we're only talking on December 20, 2023. I haven't brought it up to the date that we are with FPDR yet. So their final average salary at this point would be the $120,000, but what they do is PERS averages over three years. So they'll look back three years and that is your average. So you probably won't be getting $120,000 as your base, you'll be getting a little less. FPDR has a three year look back but we choose the one year that gets you the highest benefit. So we're assuming for this model $120,000. So here they would get little less than $120,000 but they do have overtime included. Overtime is an average overtime, and I said Portland police, that really should say for this employer, this person's employer. They look at all the overtime that all the police officers for that city worked and average it. That's how much overtime you get. So if you have a police officer who is out there earning 75 or 80% higher than their salary because of a tremendous amount of overtime, they won't see that. They won't get that full benefit. They will get, and if we use the Portland police bureau's most recent study on Portland police is 15% load. We talked earlier about overtime, where the city is going to try to lower it. You could see that number lower in the future, but we just use 15%.

So you take the final average salary, the average of the $120,000, add the 15% load. So as on the date of disability, their benefit is $133,000. Actually their final average salary is $133,000, excuse me. Their years of service is 30 because what they do for PERS is they say, how many years of service would you accrue if you weren't disabled and worked until age 55? In this example it's 30 years, plus or minus a few months. Their highest multiplier is only 2% versus our 2.8%. So you come out here to the benefit of what we calculate for on December 20, 2023. So that's at the date of disability, you get the final years of service of $133,000 calculated up here times the 30 times the 2% and it gives you the benefit of $80,000. The key here is the 2 times 30 gives you a 60% versus FPDR members getting 75% at this time and their final salaries they're getting 84%.

Let's take it down here. We're going to true this up here so we're going to look at both plans on January 15, 2023, the same date as the FPDR service retirement begins. So that is the benefit they're going to get there. Here it is $89,000 because your salary is fixed on the date of disability. You do not get any salary adjustments forward, and you get the 1.55% COLA increase and we'll go over a little more on the calculation of that later. So that's why that benefit is there. We still included the 15% load. So any questions on that at this point? I'm throwing a lot of stuff out at you.

Trustee Kulp: Sam, you said this is assuming 7 years of disability? Is that right?

Director Hutchison: Yeah, I'm going to go back here at the top. The date of disability was 2023, the hire date was in 2000 so I took it out 30 years beyond that to 2030, because that is when the FPDR benefit would be coming in, and I'll show you on the next slide that I've got a little more on how that works. So hold that question a little bit and I think I can help answer that in the next slide.

Trustee Kulp: Okay.

Trustee MacLeod: Sam just one more. For the PERS illustration, you're illustrating the COLA adjusted benefit in January 2030, but is it true that that is adjusted every year?

Director Hutchison: Yes, that is adjusted. And Stacy, when she gave me the numbers, she gave me the spreadsheet that has it adjusted and recalculated every year.

Let's look down here at the next line for the COLA so we'll go a little more on that. So, COLA for FPDR this is only after the service pension starts. Before, remember we're using 3.5%, which may be low. So we're going to assume the board gives the 2%. That's the max they can get. We're going to assume they get that. PERS has this complicated formula. It says 2% of service credit earned up to October 1, 2013, they get 2% because that is when they changed the COLA calculation. Then they're saying the service time after October 1 of 2013, you only get a 1.25% COLA. However if your benefit is above

$60,000, the component that is above $60,000 only gets 0.15%. So Stacy went through it. So what we're looking at is it goes from about 1.54%, 1.56%, maybe a little higher or lower over time. It changes every year but on average we're looking at 1.55%.

The benefits are taxable, the FPDR service component is taxable. The disability component of the first seven years is not. The benefits are not taxable under PERS.

PERS has an IAP which is a defined contribution benefit which people have been contributing to during their employment. Trying to predict what that is all depends on the investment options. People selected how they want to cash it out there so I didn't make any attempt to determine what a person would have.

Now what I want to show you here. I went year by year, from 2023, the date of disability, up through 2031. This is when the FPDR pension kicks in and just for some runout to 2040. So you can take a look at the first component up here. This is the salary. It is increasing by 3.5% a year due to union contracts. And again, you may argue that that number is too low, and that is I think a good argument but I'm sticking with it. It is my story, I'm sticking with it right now, the 3.25%. And PERS, PERS starts here and only gets 1.55% approximately. Stacy created for me the whole spreadsheet that calculated these exactly, but just for rule of thumb about 1.55%. So when you first started out, the FPDR benefit equals about 75% of salary. PERS only equals 60% of salary. You do have the overtime load in PERS which you do not have in FPDR. The annual benefit increase for the first seven years is 3.25% and PERS is approximately 1.55%. You can already see that you are starting out higher and running higher for FPDR in the first seven years. Now when the FPDR service retirement begins, service retirement is 84% of final salary; PERS is 60%. This was done intentionally to make that big difference because FPDR members do not have social security. So this is one way they are trying to amp up the benefits over PERS because you don't have social security. And then FPDR’s annual increase is 2% versus 1.55%. So you run it out here to 2040, this is the difference in the benefits. I will make an editorial comment here. You’re talking about a tax-free benefit, and even at $150,000, if you have a 25% tax bracket, you are getting more money take home than you were out of PERS.

Stacy Jones: Sam, you have multiple hands up out there.

Director Hutchison: Okay. Christopher let's start with you.

Trustee Kulp: So using this example with the 7 years, if you are disabled longer than 7 years is your benefit going to be reduced from 75% to a lower percentage.

Director Hutchison: No, I'm assuming here in this that the person is fully completely disabled. We don't have SGA, so we don’t see a reduction in the disability benefit. It stays 75% until they hit retirement age. That is why I wanted to keep this simple because if a person was SGA, if we determined that they could work, PERS would stop the benefit.

Trustee Kulp: Right.

Director Hutchison: Because they aren't disabled from all occupations, there is some work they can perform. So that’s one of the reasons I want to say somebody is permanently disabled. So they give your 75% calculation through here plus the 3.25% or whatever annual increase the labor agreements say you should be getting.

Trustee Kulp: Who makes that evaluation on the permanent disability? Is that just internal?

Director Hutchison: That’s the PERS board has a committee that does that.

Trustee Kulp: Who does it for FPDR?

Director Hutchison: We do it here, we make the disability decision as part of our claim process. Because PERS isn't worker's comp they have their own disability team, let's put it that way. They make that evaluation. I don't know the full criteria of how they define “any work” but I imagine it’s some education, training and experience there. It is a higher bar and sometimes you might be surprised what they say you can do when you don't think you can. But that is up to PERS, it’s a higher bar.

Trustee Kulp: Ok, thank you.

Director Hutchison: So this is what we went through and it was interesting here, because I may take a little steam from Lorne on this next presentation. Maybe I'll just put a teaser out there and Lorne can fill it out. Benefits are taxable, and that is changing. The Feds are changing that requirement. They are only partially taxable in the future. I'll let Lorne in his next talk do this. So just come back up to this, I ran this through pretty fast. I think you’ve got all the numbers here. I don't know if you have any questions. It just shows here that FPDR was always intended to pay more for disability than PERS was because you don't have Social Security. And that is why even when you come down here to this 2.8% and 2% that implies whether you are disabled or not and that’s partly there to help compensate for the lack of Social Security.

Stacy Jones: Sam, you have more hands.

Director Hutchison: Catherine?

Chair MacLeod: Yes, thank you. This is great, this is really helpful because for those of us that aren't overly familiar with PERS this is really nice to have this side by side. So thank you. I'm wondering if it might be helpful just for the future to have samples at a couple of other different service/disability just to see how the results might distort more or less favorably for kind of a couple of different combinations of age and service disability.

Director Hutchison: We could do that and take when PERS tier 2 started, start with that. You know, I can try to do some stuff. The challenge is that you have to be disabled or have to be employed within the window of PERS tier 2, and that's a fairly narrow window.

Chair MacLeod: That makes sense. So in fact then maybe my question is a little moot because the incidence of something being radically different from this is maybe not very likely because at this point most of the tier 2, FPDR tier 2 people who are also PERS 2 is a pretty small group then.

Director Hutchison: Yeah. It is a narrow window and unfortunately, I don't have the dates for you right now for when they are effective. Interesting thing is I did a comparison with OPSRP. OPSRP just really quickly does not have a disability retirement benefit. It has a disability benefit just like FPDR does. We pay 75% and they pay 55%. You come down here, its calculations. We blow OPSRP so far out of the water it's ridiculous just because of how they've done it. So FPDR tier 2 close. FPDR 1 is just a small group of people, plus FPDR 1 is a pain in the rear end because it's got so many different options and so many different bells and whistles that I think PERS has a hard time figuring it out at times too. So I didn't think that was worth it. We can take a look and I can play with different scenarios but I think you are going to run into somewhat the same conclusion simply because when we come to this third page here, you're going to see this same effect. Maybe more years or different years in here, so you may be more amplified or less amplified. But you are always going to have, FPDR is going to have more salary than PERS in both plans. It's going to have a higher annual adjustment than PERS does in both plans. That's always going to put FPDR on top somehow.

Chair MacLeod: There were other questions, correct?

Director Hutchison: Stacy you have your own question?

Stacy Jones: Not really a question. I just want to say the dates for PERS tier 2 are January 1, 1996 through August 28, 2003 Chair MacLeod. And also, just to say that if it helps in general, the further away from someone, the earlier in their career someone is disabled, the worse this looks. You can see that because of the way the benefit builds. The worse the comparison looks in terms of the PERS benefit being worse than the FPDR benefit.

Chair MacLeod: But if they happen to be younger or shorter service, the discrepancy between PERS and FPDR?

Stacy Jones: Grows.

Chair MacLeod: It grows. Okay.

Stacy Jones: It grows because the FPDR benefit is growing so much more every year because it grows based on real wage increases whereas the PERS benefit is only growing based on that PERS COLA which declines every single year, and for this example person is 1.55%. For someone who was hired later it would be even less, and so on.

Chair MacLeod: Thank you.

Director Hutchison: Franco you had your hand up at one point?

Franco Lucchin: Yes, I was just puzzling over where the workers' comp benefit under the state statute would fall in all this.

Director Hutchison: The reason I didn't compare worker's comp because worker's comp, Kim and I talked about it, is so different on how to they do things and their permanent partial, permanent total, when they pay, how they pay it. Do they pay out in lump sum, do they continue in lifetime benefit? It's very hard to do, it's so fact driven by worker's compensation law and the decision of who the worker's compensation administrator is. Most of these benefits are offset so you don't double dip for workers' comp and PERS. There is an offset, you may get a little more money. I don't know what it would be because again, if you are significantly disabled, workers comp can do a total settlement and pay you off three or four years into disability and give you a lump sum and say here you go and then close the claim out. It all depends on how workers' comp wants to administer and it what the facts are for workers' comp.

Franco Lucchin: I only brought it up because the disability benefit, the 75% untaxable FPDR benefit that replaces the workers' comp benefit doesn't have a cap on it for salary, whereas my recollection is the workers' comp benefit has like an average weekly wage cap and then it is calculated at 66 and 2/3% of that. But if that is not part of your analysis here, then.

Director Hutchison: Workers' comp is so hard to include because Kim and I spent some time talking about it. It is so claim specific that's it's hard to do, plus there is a formula for the offset. You don't get full worker's comp or full PERS at the same time. It is a good point you could be getting some workers' comp but how much and for how long is really hard to tell.

Franco Lucchin: Okay, thanks.

Chair MacLeod: Sam, just a couple more questions about this.

Director Hutchison: Okay.

Chair MacLeod: Although one of them just fell out of my head. Wait a sec while I remember. Oh, you stated that the PERS 2 disability benefit is only paid in the event of total permanent disability. Right?

Director Hutchison: Correct.

Chair MacLeod: And if that is not the case, what do they get?

Director Hutchison: Nothing.

Chair MacLeod: Nothing.

Director Hutchison: If they can identify here, I'm going through the term "any work." If they can define or document that you can do any work elsewhere, they won't pay this benefit and you're going to have to wait until you hit normal service retirement to get a PERS service retirement.

Chair MacLeod: So there's no salary continuation or do they have a disability income plan or anything?

Director Hutchison: No.

Chair MacLeod: Okay. All right.

Trustee Kulp: FPDR doesn't have that?

Director Hutchison: FPDR doesn't have what Christopher?

Trustee Kulp: So once you are determined to be fully disabled for FPDR, there's no rule that triggers you to have to find some other sort of work or your benefit is lowered?

Director Hutchison: Well what we have is, that is what the SGA analysis is down here, when we look at service credit. For this example, I assume they are totally disabled so we didn't get into that. But if you are, and Kim chime in and correct me, if you are on claim for a certain period of time, one year, two years or you are considered medically stationary we then do our own evaluation. Are you able to work someplace else for some money? If so, you will still get the FPDR benefit but it could be reduced down from 75% to 50%. And as long as you can't work as a police officer or firefighter, you will get this benefit until you hit retirement age, it's just the amount of benefit you will get. And then if you were also down to 50% and actually working, we will offset some of your salary down to the point the minimum benefit you will ever get from FPDR is 25%.

Trustee Kulp: Correct me if I'm wrong but when those benefits are reduced you do not accrue years of service at a full rate correct.

Director Hutchison: Correct, that’s why I put that little caveat in here when we did it. Yes, you accrue it at a slower rate.

Trustee Kulp: Thank you.

Director Hutchison: Kim, did I get that all right.

Kim Mitchell: You did. Thank you, Sam.

Director Hutchison: Thank you.

Chair MacLeod: Thanks again. That was extremely helpful.

Director Hutchison: Yeah, and again this is a very simple thing. Like Christopher is talking about somebody could partially work, there are a lot of different variables. I wanted to keep it simple so you could just run down and see how the numbers are calculated and a general comparison.

Chair MacLeod: Okay, if there are no further questions with this should we move on to something that promises to provide some intriguing new stuff including tax changes from Lorne? Information item 2.5.

INFORMATION ITEM NO. 2.5 – OVERVIEW AND DISCUSSION OF FPDR DISABILITY/DISABILITY RETIREMENT BENEFITS PRESENTATION

Lorne Dauenhauer: If you haven't been put to sleep yet, hold your horses. This is a recurring question that’s come up from two retired members. Is it Jim Gymkowski, no it’s Joe Gymkowski and Del Stevens. They sort of became fixtures, well Del until his recent death, and between the two of them they both have been fixtures around the halls of FPDR championing the cause of trying to get the FPDR 2 disability benefits to have the same tax attributes as what PERS gets if you were getting a service-connected disability. As Sam just discussed if you retire under PERS with a service-connected disability, you get that service-connected disability for the rest of your life and because it’s a service-connected disability benefit, it’s tax exempt. FPDR 2 does it slightly differently in that it’s service-connected up to a certain point but once you hit a certain age, that service-connected disability benefit converts to your normal retirement benefit, and retirement benefits unlike service-connected disability benefits are taxable.

So over the years there's been significant discussion over what the FPDR disability rules are and why they are how they are, so Franco and I wanted to address only three things. One, why does FPDR tax service-connected disability benefits the way it does? Two, is the fact that FPDR treats it as taxable once the disabled retiree hits retirement age, does that run afoul of the state's ETME rules? And number three, did the board of FPDR eliminate the disability retirement benefit when it modified some administrative rules back in 2015?

So just to take first one first, the tax treatment of FPDR 2 benefits is completely driven by the tax code. When the fund is paying a service-connected benefit that is based as a percentage of compensation to a disabled firefighter or police officer, that payment is exempt from tax under section four. Now, so long as it is paid under that formula, it continues to be tax exempt. However under FPDR 2 at a certain point once the employee hits disability retirement age, the way in which the benefit is calculated changes. We stop paying the service-connected disability benefit which is based on as a percentage of pay and instead pay the regular pension benefit which is a function of service, pay, and age. So what happens is, and I think Sam's chart did a good job of explaining it, that when you hit the disability retirement age the benefit may well go up, but now instead of the benefit being completely exempt from tax, the benefit is completely subject to tax. So now that there are taxes the benefit may actually be less valuable as a retirement benefit than the nontaxable benefit the member was receiving while disabled, and that has been sort of a thorn in the side or under the blanket of some of the retired members of FPDR 2. But again the problem has been that's the way Congress wrote the tax code and that the FPDR 2 benefit has been designed that way since day one and we don't have any control over how IRS taxes things, the only way to get a different tax result would be to change the charter. Now, ironically enough given Mr. Steven's recent passing, Congress did slip in a little noticed provision into the Secure 2.0 Act which was passed at the end of 2022 adding new code section 139 cap C. Code section 139 cap C addresses this perceived tax hit to retired police and firefighters under service-connected disabilities that basically says look, if you were getting a service-connected disability benefit and that benefit was tax-free and it converts to a retirement benefit, we're going to continue to allow you to take the portion that you were receiving tax free and continue to receive it tax free but any increased benefit would be subject to tax.

So if the service-connected disability benefit was $1,000 a month and it was being received tax free and it converts to retirement of $1,500 a month the first thousand dollars of that benefit would still be tax free and only the excess of $500 a month that you are now receiving in excess of your disability benefit at retirement would be subject to tax. So, perhaps Congress was listening to Del Stevens and his similarly situated colleagues who thought it wasn't fair and eventually got something through Congress to fix this thing, albeit not until 2027. So in terms of the taxation of this benefit, we're stuck with what the tax code says is the required result given how the service-connected disability benefit is calculated but starting in 2027 there is going to be some relief for disabled firefighters and police officers who hit, in our case, disability retirement age. Trustee Kulp?

Trustee Kulp: Do we have historically or currently anybody in this category that’s permanently disabled that is collecting benefits?

Lorne Dauenhauer: I'm sure we do. Joe Gymkowski is.

Trustee Kulp: That is on fire side I'm guessing.

Lorne Dauenhauer: Yeah, on the fire side.

Trustee Kulp: I can't think of anybody on the police side. I don't want any names but in general, how many people does this affect in the fund?

Kim Mitchell: I would defer to Stacy but I know that we've had members transition from disability to retirement on the police side as well. I don't have numbers.

Trustee Kulp: Okay. Fully disabled?

Stacy Jones: Fully. I know we have one on long term disability police, who is not SGA right now. Kim? I'm pretty sure.

Kim Mitchell: I'm thinking historically Stacy.

Stacy Jones: Oh, historically. So Trustee Kulp, they do exist and certainly this is not something widely applicable to a big swath of the membership. But then, as those folks retire, given that there are say 30 people on long term disability at any one moment and then they retire and then they are impacted by the taxability of this benefit. So you have however many decades worth of folks who are on that. But yeah, so it is not like a big pervasive thing but there are definitely people.

Trustee Kulp: Okay. Thank you.

Lorne Dauenhauer: It's a significant tax hit for a small number of people is how I understand it.

Chair MacLeod: Well this is a very fortuitous development in the tax code it seems.

Lorne Dauenhauer: Right.

Chair MacLeod: And this is something that would apply automatically to members in this plan?
Okay.

Lorne Dauenhauer: Yeah, basically. Right. Once the law takes effect and the payments are made FPDR will treat the first, whatever the amount in service-connected disability they had been receiving, that amount will be basically exempt from tax and won't have any tax withheld on it when they get the 1099-R at the end of the year. The complete distribution will be shown but the taxable amount will be considered less than it what would be in 2026 before the new law takes effect.

Chair MacLeod: That is really good news but I know it is a few years away.

Lorne Dauenhauer: Yeah. It’s good news for those officers on service-connected disability. I do wish that Del Stevens had lived to learn about this because it sort of began, it kind of gives him a somewhat Pyrrhic victory at this point, but something that he'd been pushing for is something that Congress took to heart and has given relief, albeit it not until 2027.

Chair MacLeod: Thank you. So Stacy, Sam, Kim, I'm assuming that staff will take up the appropriate measures to begin looking into who this might affect and appropriate communication measures about this.

Stacy Jones: Yep, and we'll have to either program our tax software, which we already have for other special tax situations like surviving spouses and folks killed in line of duty and other various little intricacies of the tax code and then communicate that to membership. So it will be very good news to a handful of people, and thank you, Lorne, for bringing it to our attention.

Lorne Dauenhauer: I'll confess that in my review of the Secure 2.0 Act this did not hit my radar until I started researching this issue. I'm sure it would have come to my attention eventually but it’s good for me to learn something while I'm researching something.

Stacy Jones: Yeah, no I'm sure it would have bubbled up to mind as well and I've taken several classes on the Secure Act and not until you pointed this out did I say, oh bingo. So luckily, they give us several years to implement this.

Lorne Dauenhauer: Right.

Chair MacLeod: Should we let you carry on.

Lorne Dauenhauer: Yeah. So moving into Number 2 is the equal to or better than issue, and Franco can probably talk about this more than I can because there actually was litigation. But basically PERS does not factor in the tax character of the benefit when determining whether the benefit is equal to or better than, it’s baked right into their administrative rules. Franco do you want to chime in on that?

Franco Lucchin: Only to point out, Mr. Gymkowski did have a hearing. So in addition to all the disability hearings we were talking about earlier I'm reminded now the administrative rules also contain appeal rights for retirement benefits decisions and death benefits decisions and those kinds of cases do come up from time to time. We did have a death benefits case within the last year or so. The retirement benefits cases are rare but this was one of them. So an Administrative Law Judge at the Office of Administrative Hearings heard a bunch of arguments about why in essence the benefit received when a member reaches 30 years of service and is on disability becomes a retirement benefit and becomes taxable. I mean, there was not a lot of merit to the claim. So I mean there isn't a whole lot to be gleaned from that case other than the conclusion was that that the aim I guess Congress has sort of, in some sense. I mean they didn't ratify it specific to Portland but if there was some natural right to this tax-free service retirement benefit, then Congress obviously wouldn't have had to do what it did. But in terms of the FPDR plan that administrative law judge found no requirement that there be a tax-free service retirement benefit and to the extent that there were allegations in that case, one of my colleagues tried that case. I don't recall whether the allegation that the board changed something about the benefit structure or the plan was litigated and I don't want to steal your thunder Lorne.

Lorne Dauenhauer: No, not at all.

Franco Lucchin: But in the memo, it explains that apparently there was a misperception about the board's revision of an administrative rule concerning disability service benefits. There was lingo or shoptalk that was used describing the scenario. It is a little cumbersome to describe as you have just experienced where you move from the disability benefit to the retirement benefit and shorthand for that was disability retirement benefit. And that was codified in the administrative rules and when the bureau saw fit to remove that reference in the rules, that seems to be what the basis was for the allegation that the board took a benefit away which obviously the board can't do.

Lorne Dauenhauer: Right. Yeah, it was kind of intertwined with the ETOB. They were sort of making a bunch of arguments that didn’t stick.

Franco Lucchin: Yeah. And I guess the only other thing I'd say is then the case was brought separately at the circuit court suing city council members, the FPDR board, the PERS board by the same plaintiff, unrepresented by this point, and the court basically found well, if you wanted to argue this issue again you had an appeal right from the Office of Administrative Hearings final order which would have gone straight to that writ of review procedure I was describing earlier at the circuit court if the plaintiff had wanted to appeal. That didn't happen so the court essentially found that the administrative remedies available had not been exhausted and therefore it wasn't appropriate to just bring a separate lawsuit over the same issue.

Lorne Dauenhauer: Right. So basically it all kind of conflated into ETOB and the administrative rules, and disability retirement which really didn't exist, it was just a shorthand reference to the conversion of the benefit from the disabled to where it would be calculated under the plan's retirement rules. So again in the cleanup of that particular administrative rule for the FPDR, there was I think a misunderstanding that the board had somehow eliminated a benefit that would have provided this tax-exempt payment but that really wasn't true. But it had been raised a number of times in public comments in particular from Mr. Stevens, so we thought this was a good opportunity since we were addressing this in a holistic manner to try to put that misunderstanding to bed. And again, as the board composition has changed over the years, Mr. Stevens would make his appearances and make public comments asserting certain things, like the fact that the board had removed, had eliminated the disability benefit in disability retirement back in 2015. And as new people cycled onto the board, they had no reason to disbelieve him in saying this stuff, but then we had to always sort of inform new board members of what he's actually talking about. So again the intent of this memo was to hopefully provide a comprehensive review of the whole disability retirement issue, and again, ultimately in 2027 it becomes a moot point. Any other questions about the rise and fall of the disability retirement issue?

Chair MacLeod: No, that was very helpful. This has been stewing about for some time.

Lorne Dauenhauer: It has.

Chair MacLeod: And I know I share your disappointment that Mr. Stevens wasn't, even if he didn't benefit personally, he wasn't aware to see this so he could feel vindicated to some extent.

Lorne Dauenhauer: He's right. It was in many ways unfair. Disabled firefighters and police officers who were disabled in line of duty, and you know, why the fact that the tax nature of the benefit was taken away simply because they hit a certain age.

Chair MacLeod: Right.

Lorne Dauenhauer: You know there was a certain fairness issue there that really was for a higher pay grade than FPDR. So in this case Congress took the baton and dealt with it.

Chair MacLeod: That’s terrific. Thank you very much. Anything further on this topic? Okay. Next up is the overview of FPDR Administrative Rules. I guess Sam I should maybe check in with you to see, should we continue on with our agenda? We're coming up on 3 hours. I think Trustee MacLowry had to sign off about 30 minutes ago. It’s been a long meeting and I don't know that he got to hear this good news from Lorne. I can continue on or not, but I just want to check to see what we should do.

INFORMATION ITEM NO. 3 – OVERVIEW OF THE FPDR ADMINISTRATIVE RULE AMENDMENT PROCESS

Director Hutchison: Let me go through the administrative rules. You have in your packet the process of the administrative rules and what we go through. I'll leave this up just for you to read and if you have any questions, email me or call me and I'll walk you through some more of what we do, because we at our next meeting are going to talk about and present to you some administrative rules for your approval. Let’s see what we're going to do. Let me give you a timeline real quick. So we're going to publicly post the rules on February 15th. We have to post them at least 30 days ahead of the time that you all will review or vote or deliberate on them. We will have a public Q&A session just real quickly. It is a Q&A session. That is all it is. it’s not a work session, it’s not a bargaining session with the unions, it is not decision making. People can tell us what they think, like, or don't like about the proposed rule changes. We do listen to what people say and have had made changes in the past. We've even pulled some rules based on their comment. The key thing is this public Q&A session is not a substitute for a person submitting written or presenting oral testimony to the board, I always tell people that attend that. And then you all will evaluate the administrative rules on March 19th, our March meeting.

So we have three types of rules that we're going to be presenting to you and you’ll see them when we post them. One is to update the definition of attending physician to include nurse practitioners, naturopath physicians and assistants to match what workers’ compensation is doing. To make it real simple there’s a lot of confusion between medical providers, is this workers’ comp or FPDR, and so this is a benefit to our members. You’ll see more detail on that when the rules are presented. The next is the cleanup for the definition of "spouse." We talked about that a couple of meetings ago. This time what we're going to do is, all the rules have multiple old definitions, we’ve got four or five definitions of spouse and surviving spouse under the administrative rules. We need to get them cleaned up so they’re the one correct definition across the rules. And lastly is a real minor one is that when new citizen trustees come in and the rules say they have to be sworn in by the auditor's office, well the city council removed that requirement. So board members no longer have to be sworn in by the auditor’s office and we just need to delete that one sentence. So that is what we're doing with that. So real quick, if you have any questions after the administrative rules we can talk about before we do them or any time between now and then so you understand what they’re doing.

INFORMATION ITEM NO. 4 – LEGISLATIVE UPDATE

Legislative update. You have a criteria of what I look at all the time. The first one I look at is, one we look at the funding of FPDR. I always look at property taxes. The State constitution has a provision put in by a former firefighter and former trustee actually, into the Oregon constitution that protects FPDR's fund, that we can have as our own tax levy. I'm very concerned if people go into property tax they are going the delete that sentence because they hate it. We are the only city municipality that gets this special treatment. So you talk about worst case scenarios in funding, this is the ultimate worst-case scenario. There is no indication that for now or the next several years they’re going to look at property tax, but I always look at it, and then there’s the other issues that we have. The bills have not been released for the upcoming session which starts February 5th and lasts through March 10th. Most of it’s going to be housing, homelessness, Measure 110, public safety, those type of things. I've heard nothing about any workers’ competition or PERS bills going through but I will look because somebody is bound to try to sneak something into the whole list. So you’ll hear more about that when we come through. And then I'm going jump past everything and let you close out if you want to, Stacy on the expenditures.

INFORMATION ITEM NO. 6 – FPDR UPDATES

FPDR updates. We talked earlier about the CPPW union starting the negotiations tomorrow. The reason why that's a concern to us is half our staff is under that union and they have not been unionized before. So this will change how we manage those employees and how we do it. So we're waiting for that to get done and then we'll have in the future board meeting, we will talk about what impact that has.

INFORMATION ITEM NO. 7 – FUTURE MEETING AGENDA ITEMS

And last, future meeting agendas. You have got the list there. If you want anything included, let me know. The March meeting will be held in room 2500 of the 1900 building. Julie will give you the instructions how to go there. We'll be meeting there through September and possibly into November of this year. So that is everything I've got on my list. So Stacy, if you want to, you opened up, so you can close out with the summary of expenditures.

Stacy Jones: The only thing I really want to say because I teased it earlier is Trustee Kramer you asked a question about personnel spending at the last meeting and in the process of following up with that I want to thank our newest trustee for eagle eyes because yes, we were running ahead of where we should have been and hadn't really noticed because we're not paying that much attention at this point in the year and also the personnel budget is very predictable. And it's because of the way health benefits were being charged so we have questions into the benefits office right now about that. And I won't bore you with the details but it is about moving to a blended rate model for charges and how that happened and we can't tell if we misunderstood or if they messed up at this point. But anyway, we're looking into it. So thank you Trustee Kramer. Pretty impressive showing for a new trustee so thank you for that. And that is all I would have to say unless folks have other questions.

Chair MacLeod: I don't and I'm not hearing anymore from anyone else. So thank you both and thank you, Sam, for giving a quick run through of what we can expect on the administrative rules in the next meeting. Thank you, I appreciate that. Alright, with that, it's been a long meeting but I felt like we got some very good things covered. The budget was very thorough and those particular items on the ASOP 4 and the disability benefits comparison and the analysis about those changes, those are things that have been kind of clicking around in the back of my mind that just wouldn't rest for a while. So I'm really glad that we got a chance to hear about those things. If there is nothing else, last chance for anyone to speak up on any miscellaneous items.

Director Hutchison: Tom just threw a chat line checking back with the Majoris contract. Sure we'll do that. We're still working through the details with them but we'll definitely come back to you when it is done.

Chair MacLeod: Ok, thank you very much. So that's potentially on the March agenda if that's been wrapped up by then.

Director Hutchison: Yeah.

Chair MacLeod: Thank you. Good question. With that then I'm going to adjourn the meeting. Thank you very much everyone.

Trustee Kulp: Thank you.

Kim Mitchell: Thank you.

Stacy Jones: Thank you.

Director Hutchison: Appreciate your patience everyone, thank you.