

**Minutes of the Board of Commissioners
Multnomah Building, Board Room 100
501 SE Hawthorne Blvd., Portland, Oregon
Tuesday, April 15, 2014**

BOARD BRIEFING

Chair Marissa Madrigal called the meeting to order at 10:05 a.m. with Vice-Chair Diane McKeel and Commissioners Liesl Wendt and Judy Shiprack present. Commissioner Loretta Smith arrived at 10:09 a.m.

Also attending were Jenny M. Madkour, County Attorney, and Lynda Grow, Board Clerk.

[THE FOLLOWING TEXT IS THE BYPRODUCT OF THE CLOSED CAPTIONING OF THIS PROGRAM.]

Board Clerk: B-1, BOARD BRIEFING ON RECENT CHANGES TO OREGON PERS AND IMPACTS ON MULTNOMAH COUNTY, OREGON.

Chair Madrigal: GOOD MORNING.

Mr. Campbell: GOOD MORNING CHAIR AND COMMISSIONERS, MARK CAMPBELL, CHIEF FINANCIAL OFFICER. I'M HERE TO GIVE A BRIEFING ON THE STATE OF OREGON PERS AND BEFORE I BEGIN, HAPPY TAX DAY BY THE WAY.

>> I'M SORRY, HAPPY --

>> TAX DAY. [LAUGHTER]

Mr. Campbell: I'M HERE TO TALK ABOUT THE PERS SYSTEM TO GET AN OVERVIEW OF THE PERS SYSTEM AND TALK ABOUT SPECIFIC CHANGES THAT THE STATE LEGISLATURE MADE IN THE 2013 LEGISLATIVE SESSION. AND HOW THOSE HAVE IMPLICATIONS FOR MULTNOMAH COUNTY GOING FORWARD. SOME OF THIS PRESENTATION ACTUALLY WILL BE A REVIEW FOR SOME OF YOU, BUT I THINK IT'S IMPORTANT TO GET OUT SOME BASIC -- JUST BASIC NUMBERS AND INFORMATION ABOUT PERS AND HOW BENEFITS ARE ESTABLISHED. ON TODAY'S AGENDA WHAT I'LL BE TALKING ABOUT IS PROVIDING THAT OVERVIEW ON PERS, WHAT DID THE LEGISLATURE DO SPECIFICALLY THEY PASSED TWO BILLS, 822 AND SENATE BILL 861 DURING THE SPECIAL SESSION THAT HAD EQUITE SIGNIFICANT IMPACT ON THE FUNDING STATUS FOR THE SYSTEM. ALSO TALK ABOUT WHAT IMPACT IT HAD ON RATES THAT WERE CHARGED TO EMPLOYERS AND WE HAVE RECEIVED THE DECEMBER 31st, 2012, SYSTEM EVALUATION, AND WHAT THAT LOOKS

LIKE, IT'S ESSENTIALLY PRETTY GOOD NEWS. I'LL ALSO TALK ABOUT WHAT CAN WE DO, I WANT TO TALK A LITTLE BIT ABOUT SIDE ACCOUNTS AND LAST YEAR I TALKED PRETTY EXTENSIVELY ABOUT ISSUING PERS BONDS AS AN ALTERNATIVE TO FUNDING OUR UNFUNDED LIABILITY. AND ALSO WHAT WE HAVE DONE TO MANAGE THAT LIABILITY. AND THEN FINALLY, I WANT TO TOUCH ON GASB 68, A NEW PRONOUNCEMENT FROM THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD THAT REQUIRES FINANCIAL REPORTING IN OUR FINANCIAL REPORT OF THE UNFUNDED LIABILITY AND WHAT IMPLICATIONS THAT HAS FOR GOING FORWARD.

SO THE OREGON PUBLIC EMPLOYEE RETIREMENT SYSTEM, ALSO KNOWN AS PERS, IS A COST-SHARING, MULTIEMPLOYER DEFINED PENSION PLAN, ADMINISTERED STIRRED BY A FIVE-MEMBER BOARD APPOINTED BY THE GOVERNOR. THE FUNDS ARE MANAGED BY THE OREGON INVESTMENT COUNCIL, WHICH IS AN ARM OF THE STATE TREASURER'S OFFICE. PERS WAS CREATED BY THE LEGISLATURE IN 1945, AND THE COUNTY HAS BEEN A MEMBER SINCE 1982. THEY THERE ARE OVER 900 PARTICIPATING EMPLOYERS IN THE SYSTEM, AND THAT REPRESENTS ROUGHLY 95% OF ALL THE PUBLIC EMPLOYEES IN THE STATE OF OREGON. EMPLOYERS ARE GROUPED INTO FOUR RATING POOLS, AND THE COUNTY BELONGS TO WHAT'S CALLED THE STATE AND LOCAL GOVERNMENT RATE POOL. THERE ARE ALSO POOLS FOR THE JUDICIARY AND POOLS FOR EDUCATION, FOR EXAMPLE. PERS MAINTAINS THREE DISTINCT BENEFIT PROGRAMS. TIER 1 IS ANY EMPLOYEE WHO IS HIRED PRIOR TO JANUARY 1st OF 1996. TIER 2 ARE EMPLOYEES WHO ARE HIRED BETWEEN 1996 AND AUGUST OF 2003. AND WHAT IS KNOWN AS THE OREGON PUBLIC SERVICE RETIREMENT PROGRAM, OR TIER 3, IF YOU WILL, HAVE BEEN IN EFFECT SINCE SEPTEMBER OF 2003, AND IN 2003 THERE WERE SOME RATHER SIGNIFICANT CHANGES MADE TO THE SYSTEM, AND WHEN I TALK ABOUT THE DIFFERENCES AND THE BENEFIT -- IN THE BENEFIT PROGRAMS I THINK YOU'LL SEE HOW THOSE CHANGES HAVE REALLY IMPACTED THAT 3rd TIER OF FOLKS.

THE OTHER SIGNIFICANT THING THAT HAPPENED AS A RESULT OF THE 2003 REFORMS WAS THAT MEMBER CONTRIBUTIONS AFTER JANUARY OF 2004 ARE DIRECTED INTO AN INDIVIDUAL ACCOUNT PROGRAM AND THAT INDIVIDUAL ACCOUNT PROGRAM OPERATES MORE OR LESS LIKE A 401(K). THE CHART ON THE SIDE OF THE TABLE THERE ARE COPIES ON THE TABLE IF ANYBODY NEEDS TO FOLLOW ALONG. IF YOU LOOK AT THIS CHART, THERE ARE ABOUT 25% OF THE TOTAL BENEFICIARIES IN THE SYSTEM ARE NOW MEMBERS. THERE'S 19% THAT ARE TIER 1, 19% THAT ARE TIER 2 AND ANOTHER 37% IS RETIREES. WHEN WE DID THIS PRESENTATION LAST YEAR, I THINK THE OP CERT NUMBER WAS AROUND 23%, SO AS NEW HIRES COME ON, WE'RE BLUNTING THE IMPACT OF THE TIER 1, TIER 2, BUT THAT'S STILL GOING TO BE WITH US FOR QUITE SOME TIME. AND JUST TO GIVE YOU A KIND OF SENSE OF THE COUNTY'S DEMOGRAPHICS, WE HAVE

APPROXIMATELY 35% OF OUR CURRENT WORK FORCE ARE OP CERT MEMBERS.

Commissioner Shiprack: THAT'S STATEWIDE?

Mr. Campbell: YES. THAT REPRESENTS 330,000 TOTAL PERS BENEFICIARIES. THE CHART ON SLIDE FIVE SHOWS THE DIFFERENCES BETWEEN THE THREE TIERS. I THINK THE MOST IMPORTANT THING TO KNOW WITH THE TIER 1 VERSUS TIER 2 AND OP CERT IS DOWN IN THE REGULAR ACCOUNT EARNINGS LINE, WHERE TIER 1 MEMBERS ARE GUARANTEED AN 8% RETURN EACH YEAR, WHEREAS TIER 2 AND TIER 3 ARE ONLY REF MARKET RETURNS. AND THE REGULAR ACCOUNT EARNINGS ARE ONLY ON THE PART OF THE TIER 1 EMPLOYEES ACCOUNT THAT WAS PRIOR TO THE INDIVIDUAL ACCOUNT PROGRAM. IN EFFECT, THAT ACCOUNT HAS BEEN FROZEN. SO ANYTHING THAT'S BEEN CONTRIBUTED SINCE 2004 IS EARNING ON MARKET RETURNS. THE RETIREMENT CALCULATION METHODS ARE ALSO DIFFERENT FOR THOSE THREE TIERS, AND FOR TIER 1 AND TIER 2 THERE ARE MULTIPLE CALCULATION METHODS. FOR OP CERT THEY ONLY GET THE FORMULA CALCULATION. AND THEN THE OTHER THING THAT IS -- THE OREGON INCOME TAX REMEDY LINE. PREVIOUSLY PRIOR TO 2013, THE LEGISLATURE GAVE -- WORKED OUT TO ABOUT A 9% AVERAGE INCREASE FOR PEOPLE WHO WERE BENEFICIARIES WHO HAD TO PAY FEDERAL INCOME TAX. AND THIS RESULTED FROM A LAWSUIT FROM ABOUT 20 TO 25 YEARS AGO WHERE FEDERAL EMPLOYEES HAD SUED THE STATE SAYING THAT THEY SHOULDN'T BE TAXED FOR THEIR FEDERAL PENSION IF STATE EMPLOYEES WEREN'T BEING TAXED FOR THEIR STATE PENSION.

SO WHAT THE PERS BOARD DID WAS THEY SAID, OK, WE'LL TAX THE BENEFIT, BUT WE'RE GOING TO GIVE IT TO THEM. THE 2013 LEGISLATURE CHANGED THAT, SO NOW THAT FOR ANY -- ESSENTIALLY IT ONLY IS GRANTED TO PEOPLE WHO RETIRE BETWEEN I WANT TO SAY 1989 AND 1991, AND THEY HAVE TO RESIDE IN THE STATE OF OREGON. SO IF YOU MOVED OUT OF THE STATE AND YOU'RE A PAM HERNANDEZ BENEFICIARY -- PERS BENEFICIARY, YOU NO LONGER GET THAT ADDITIONAL BENEFIT. SO HOW ARE BENEFITS CALCULATED? AS I SAID, EARNINGS ARE CREDITED TO MEMBER ACCOUNTS. THAT'S IMPORTANT FOR A MONEY MATCH. AGAIN, I SAID MULTIPLE PAYMENT OPTIONS AVAILABLE FOR TIER 1 AND TIER 2. OP CERT -- BASED ON THEIR DEMOGRAPHIC SITUATION. AND THEN A COLA IS APPLIED ANNUALLY.

THE OTHER THING THE LEGISLATURE DID IN 2013 IS THEY MADE SIGNIFICANT CHANGES TO HOW COLAs ARE APPLIED. PRIOR TO 2013 A 2% COLA WAS GRANTED AND IT WAS -- I BELIEVE THE LANGUAGE IN THE RULES WAS THAT IT COULD BE UP TO 2% -- IT COULDN'T BE HIGHER THAN 2%, BUT IT WAS NEVER LOWER THAN 2%. IT WAS ALWAYS 2%. AND SO HERE'S AN EXAMPLE

OF SOMEBODY WHO HAS A FINAL AVERAGE SALARY, RETIRED AT \$60,000 FINAL AVERAGE SALARY WITH 30 YEARS OF SERVICE. HERE'S HOW THAT WOULD WORK OUT. SO THAT INDIVIDUAL WOULD RECEIVE A MONTHLY BENEFIT OF ABOUT \$2,505 PER MONTH, WHICH IS ROUGHLY HALF OF THE FINAL AVERAGE SALARY. AND IN GENERAL, THE PERS BENEFIT IS DESIGNED TO PROVIDE 45 TO 50% OF FINAL AVERAGE SALARY, AND THAT'S KIND OF CONSISTENT WITH OTHER PENSION FORMULAS, BECAUSE THE IDEA IS THAT PEOPLE ALSO HAVE SOCIAL SECURITY, THEY ALSO HAVE OTHER DEFERRED COMP, OTHER SAVINGS THEY CAN USE IN RETIREMENT SO THE BENEFIT THAT YOU GET FROM YOUR PERS COVERED EMPLOYMENT SHOULD COVER ABOUT HALF.

THE PERS DOES THIS THING EVERY YEAR CALLED A REPLACEMENT RATIO STUDY. WHAT IT DOES IS IT LOOKS LIKE A DEMOGRAPHIC INFORMATION AND PROVIDES US WITH BENCHMARKS. THE AVERAGE AGE OF RETIREMENT IS 59. AND THAT HAS HELD PRETTY STEADY, AS HAS THE YEARS OF SERVICE, WHICH IS ABOUT 22 FOR MOST PERS BENEFICIARIES. AVERAGE FINAL SAMERY AT RETIREMENT IS JUST UNDER \$62,000, AND THE AVERAGE MONTHLY RETIREMENT BENEFIT IS ABOUT \$2436, SO IT'S ROUGHLY SLIGHTLY LESS THAN 50%. BUT THE INTERESTING THING, WHEN YOU LOOK AT A RETIREE WHO HAS 30 YEARS OR MORE OF SERVICE, AND THERE IS -- OF RETIREES WHO RETIRED IN 2012, ABOUT 6.6% HAVE 30 OR MORE YEARS OF SERVICE. THE AVERAGE MONTHLY RETIREMENT BENEFIT FOR THOSE PEOPLE IS ROUGHLY 3900 A MONTH, WHICH TRANSLATES TO ABOUT 70% OF FINAL SALARY. AND 4.3% OF THOSE FOLKS, 4.3% OF ALL THE RETIREES, RECEIVE AN ANNUAL BENEFIT GREATER THAN 100% OF THEIR FINAL SALARY.

SO HOW DOES PERS PAY THESE BENEFITS? PERS IS FUNDED THROUGH A COMBINATION OF THREE THINGS -- IT'S PRIMARILY FUNDED THROUGH INVESTMENT EARNINGS, THE BLUE COLUMN ON THE CHART HERE TRACKS INVESTMENT EARNINGS DATING BACK TO 2004, AND AS YOU CAN SEE, 2008 HAS THAT BLUE COLUMN THAT DIPS WAY BELOW THE LINE THERE, AND I HAD TO CUT THIS OFF AT \$5 BILLION BECAUSE THE FUND ACTUALLY LOST \$17 BILLION IN THAT YEAR, SO IF I EXTENDED THAT CHART OUT IT WOULD MAKE EVERYTHING ELSE LOOK REALLY TINY. AND THEN THE OTHER WAY THAT IT'S FUND SECOND DEGREE THROUGH EMPLOYER CONTRIBUTIONS AND MEMBER CONTRIBUTIONS WHICH FOR MOST EMPLOYERS ARE PAID BY WHAT'S CALLED THE PICKUP, THE 6% THAT EMPLOYER CONTRIBUTES INTO THE PERS ACCOUNT. AND AS YOU CAN SEE, THOSE TWO COLUMNS ARE DWARFED BY THE INVESTMENT EARNINGS.

I THINK THE TAKE-AWAY HERE IS THAT SO LONG AS INVESTMENT EARNINGS ARE ABOVE WHAT THE ASSUMED RATE IS, THE FUNDS SHOULD PERFORM FAIRLY WELL. YOU GET ONE YEAR, LIKE 2008 AND IT THROWS THE WHOLE THING INTO WHAT IS DESCRIBED MAYBE RIGHTLY SO, AS A CRISIS OVER THE

PAST FEW YEARS. SO WHAT DID THE LEGISLATURE DO TO HELP FIX THAT SITUATION? SENATE BILL 822 WAS APPROVED IN THE 2013 REGULAR SESSION. IT PROVIDES A COLA LIMIT OF 1.5% IN 2013, GRADUATED BY BENEFIT LEVEL AFTER 2013, AND IT SAID THAT SO IF YOU ARE -- IF YOU WERE LESS THAN \$20,000 ANNUAL BENEFIT YOU GOT THE FULL 2%, BUT IF YOU WERE HIGHER THAN \$60,000 OF ANNUAL BENEFIT, YOU ARE -- YOUR COLA WAS ONLY 2.5%. AND THAT HAD -- AGAIN, IT ELIMINATED THAT TAX REMEDY I WAS TALKING ABOUT FOR PERS RETIREE WHO'S MOVED OUT OF THE STATE. SO THAT -- THOSE CHANGES BY THEMSELVES REDUCE THE UNFUNDED LIABILITY BY ABOUT 3.2 BILLION. AND THE AVERAGE RATE REDUCTION THAT WAS ASSOCIATED WITH THAT WAS ABOUT 2.5% OF PAYROLL. THE PERS BOARD FURTHER COLLARED AN ADDITIONAL 1.9% RATE INCREASE BY USING ONE-TIME-ONLY FUNDS. AND WHAT THEY SAID AT THE TIME WAS, SO WE'LL SEE HOW THE INVESTMENT EARNINGS COME IN OVER THE NEXT COUPLE BIENNIUMS, AND WE'LL MAKE A DECISION ABOUT WHAT WE NEED TO DO AFTER THAT.

SO THE COMBINATION OF THOSE TWO ACTIONS PROVIDED A TOTAL AVERAGE REDUCTION OF 4.4% OF PAYROLL. SENATE BILL 861, MAYBE BEING A LITTLE PEJORATIVE, THE GOVERNOR FELT HE DIDN'T GET ENOUGH SAVINGS FROM SENATE BILL 822, SO HE ASKED THEM TO COME BACK INTO SPECIAL SESSION FOR OTHER THINGS AS WELL, BUT TO CONSIDER FURTHER PERS RATE REDUCTIONS. AND WHAT SENATE BILL 861 DID, IT FURTHER LIMITED THE COLAs FROM SENATE BILL 822, ESTABLISHED A BASE COLA, AND THAT GOES UP TO -- THAT GOES FROM 1.5% UP TO \$60,000. AFTER \$60,000 THE COLA WOULD BE .15%. AND THEN IN ORDER TO HELP WITH THE RE-- THERE WERE SEVERAL ANNUAL PAYMENTS THAT WERE AVAILABLE FOR FOLKS WHO HAD BENEFITS LESS THAN \$60,000 A YEAR, AND THEN THERE'S ANOTHER SUPPLEMENTAL PAYMENT FOR FOLKS WHO EARN LESS THAN \$20,000 WHO GET A BENEFIT OF LESS THAN \$20,000 A YEAR. FOR THOSE FOLKS UNDER \$20,000 ANNUAL BENEFIT, THEY WILL GET A FULL 2% COLA. THROUGH THE 2017-19 LEGISLATIVE SESSION. AND THAT ALSO HAD THE EFFECT OF REDUCING EMPLOYER RATES BY 4.4%. WHAT THE LEGISLATION SAID HOWEVER WAS NO JURISDICTION COULD HAVE A LOWER PERS RATE THAN THEY HAD IN THE PREVIOUS BIENNIUM. SOME OTHER CHANGES, THE PERS BOARD ADOPT AFTER THE LEGISLATURE ACTED HAVE AN IMPACT ON THE UNFUNDED ACTUARIAL LIABILITY, AND IT WILL HAVE SOME IMPACT ON RATES, BUT THAT IMPACT IS GOING TO BE A LITTLE BIT FURTHER OUT. SO THE BIGGEST THING THEY DID, THEY CHANGED THE ASSUMED EARNINGS RATE FROM 8% TO 7.75%, AND THIS WAS A DISCUSSION, OR THIS HAS BEEN A DISCUSSION NATIONWIDE ABOUT SORT OF WHAT IS AN APPROPRIATE RATE TO ASSUME FOR INVESTMENT EARNINGS. I WAS A LITTLE SHOCKED TO FIND OUT THAT THERE ARE SOME STATES WHERE I THINK OUR NEIGHBOR TO THE NORTH IS ONE, THEIR ASSUMED EARNINGS RATE IS 3.5-4% RANGE. OVER TIME I SHOULD SAY OVER

TIME, PERS HAS GENERATED OVER 8% RETURNS, BUT IN LOOKING AT THE LONG-TERM, IT WAS FELT BY THE PERS BOARD THIS WAS A PRUDENT STEP TO TAKE. SO WHAT THAT DOES, IT HAS AN EFFECT OF INCREASING THE UNFUNDED ACTUARIAL LIABILITY SLIGHTLY, THEY ALSO CHANGED THE ACTUAL ALLOCATION TO COMPLY WITH GEORGIA BUY RULES, WHICH HAS -- GASB RULES, WHICH HAS A SLIGHT IMPACT ON UNFUNDED LIABILITY. THEY ALSO REAMORTIZED THE UNFUNDED LIABILITY OVER A 20-YEAR PERIOD BEGINNING IN JANUARY 1st OF 2013 TO TAKE INTO THE CONSIDERATION THE CHANGES MADE IN SENATE BILL 861. SO THAT HAS A POSITIVE EFFECT IN THE SENSE THAT IT'S GOING TO SLOW THE RATE OF GROWTH. AND EVEN WITH THE CHANGES MADE IN SENATE BILL 861, WE KNOW THAT RATES ARE GOING TO GO UP IN THE 2015-2017 BIENNIUM BECAUSE OF PREVIOUS DECISIONS THAT WERE MADE BY THE PERS BOARD TO COLLAR RATE INCREASES. AND THE COLLAR IS IN PLACE TO HELP EMPLOYERS WITH RATE PREDICTABILITY, THAT THE RATE COULD NEVER GO UP BY MORE THAN 6% IF THE SYSTEM WAS FUNDED AT -- IF THE SYSTEM WAS DRASTICALLY UNDERFUNDED, RATES WOULD NEED TO GO UP TO COVER IT. SO THE COLLAR PUT THIS 6% ABSOLUTE INCREASE ON IT. AND THEN IT SAID THAT ALSO -- BUT BECAUSE OF WHAT HAPPENED IN 2008, THEY DEFERRED THOSE RATE INCREASES, SO WE'RE GOING TO NEED TO MAKE UP FOR THEM IN THE FUTURE, I GUESS IS HOW TO LOOK AT THAT. AND THE THING THAT WILL HELP US OUT WITH THAT IS WHAT HAPPENS TO THE INVESTMENT EARNINGS OVER TIME. THERE'S ANOTHER CHART THAT SHOWS HOW THAT CAN BE IMPACTED. ONE THING I DO NEED TO MENTION ABOUT THE LEGISLATIVE ACTIONS IS THAT THEY HAVE BEEN LEGAL CHALLENGES FILED RELATED TO THEM. THE LEGISLATION DIRECTED THAT THOSE CASES BE HEARD DIRECTLY BY THE SUPREME COURT. SO THE TIME LINE THAT WE'RE ON RIGHT NOW IS IN APRIL, IN FACT I THINK THIS MIGHT HAVE HAPPENED LAST WEEK, OR MAYBE IT'S HAPPENING THIS WEEK. THE SPECIAL MASTER WILL HOLD A HEARING IN MAY, THE SPECIAL MASTER WILL PROVIDE A REPORT TO THE SUPREME COURT AND FORM THEIR THINKING ON THIS, AND THEN IN THE FALL OF COURSE EXPECTED TO HEAR ORAL ARGUMENTS ON THESE CASES. THE DECISIONS COULD TAKE A WHILE. AS A REMINDER, THE LAST OF THE CASES THAT WERE FILED FOR THE 2003 REFORMS WAS JUST SETTLED IN THE FALL OF 2012. AND -- BUT THE EXPECTATION IS THAT IT WILL HAVE -- WE'LL HAVE A DECISION FROM THE COURT IN TIME TO INFORM RATES FOR THE 2017-2019 BIENNIUM. THE IMPACT ON EMPLOYER RATES IS THAT THEY WERE ON AVERAGE REDUCED BY 4.4% OF PAYROLL. FOR MULTNOMAH COUNTY, OUR RATE THAT WE'RE PAYING THE PERS IS THE SAME AS WE PAID IN THE 2011-2013 BIENNIUM. THE TOTAL UNFUNDED LIABILITY HAS BEEN REDUCED 50% FROM THE 2011 VALUATION, IT WAS 16.3 BILLION IN 2011, IT'S NOW ABOUT 8.1 BILLION. AND IF YOU INCLUDE SIDE ACCOUNTS, IT'S DOWN TO 2.2 BILLION. THE SYSTEM --

>> CAN I INTERRUPT? WHAT WAS THE INTEREST RATE THAT WAS APPLIED FOR 2013?

>> I HAVE A CHART ON THAT, IT WAS ABOUT 15.5%.

>> SO -- I'M JUST THINKING BACK TO THE CHART THAT WE JUST LOOKED AT, AND WITH THE BAR THAT GOES DOWN FURTHER THAN THE CHART WOULD ACCOMMODATE BY ABOUT -- BY A LOT, ARE THERE PROJECTIONS THAT ANYBODY HAS PUT TOGETHER, THEN, OR IS THAT WHAT WE'RE TALKING ABOUT HERE THAT SHOW WHEN THE INVESTMENT RETURNS WILL, FOR EXAMPLE, GOBBLE UP THAT 8.1 BILLION DOLLAR --

Mr. Campbell: YEAH, THAT'S A GOOD QUESTION. SO WHAT THE ACTUARIES DO, THEY USE THAT ASSUMED EARNINGS RATE, SO THEY'RE BASING THEIR ANALYSIS ON WHAT 7.75%. BUT IF WE HAD, YOU KNOW, GROWTH ABOVE THAT FOR AN EXTENDED PERIOD OF TIME, CERTAINLY THAT WOULD WIPE OUT THE -- IT WOULD PUT A BIG DENT IN THE UNFUNDED LIABILITY. THE SYSTEM FUNDING AS A RESULT OF THIS INCREASE TO 87%, AND THAT WAS UP FROM 73% IN THE PREVIOUS ONE. SO WE'RE GETTING BACK UP THERE. AS I MENTIONED BEFORE, MOST FOLKS BELIEVE THAT -- MOST FOLKS IN THE ACCOUNTING FIELD BELIEVE IF YOU'RE AT 80% FUNDING FOR YOUR SYSTEM YOU'RE PRETTY STABLE. SO I THINK THAT'S SOMETHING THAT WE CAN LOOK AT AND SAY, YOU KNOW, BECAUSE OF THE INVESTMENT RETURNS, BECAUSE OF THE ACTIONS OF THE LEGISLATURE, WE HAVE BROUGHT THE FUND BACK TO AN ADEQUATE LEVEL OF HEALTH, I GUESS IF YOU WILL. BUT AS I MENTIONED, THE RITZ WILL GO UP AGAIN TO HELP DEAL WITH THE FACT THAT THEY -- THE PERS BOARD DEFERRED RATE INCREASES FOR SEVERAL BIENNIA PRIOR, AND WE THINK FOR MULTNOMAH COUNTY THAT'S GOING TO BE ABOUT 2.2%. WE HAVE FACTORED THAT INTO THE FORECAST. THE 2013 VALUATION WILL BE RELEASED THIS SUMMER, AND THAT WILL INFORM RATES FOR THE PERIOD BEGINNING JULY 1, 2015. SO HERE'S WHAT I WAS TALKING ABOUT WHEN THE -- WITH THE INVESTMENT EARNINGS. THIS GOES BACK TO 1989. SO YOU'VE GOT ROUGHLY 25 YEARS OF EARNINGS, AND AS YOU CAN SEE, IT'S KIND OF ALL OVER THE MAP WITH A COUPLE SIGNIFICANT DECLINES. THE 2001-2002 TIME FRAME, AND AGAIN IN 2008. BUT IF YOU LOOK AT IT OVER TIME, AND THEN THE GREEN LINE IS WHERE THE ASSUMED EARNINGS RATE IS, IN 2012, THE EARNINGS WERE ABOUT 12.6% AND IN 2013 THE EARNINGS WERE ABOUT 15.5%. ONE OF THE THINGS I DO NEED TO CAUTION ABOUT, AT LEAST THROUGH THE FIRST COUPLE MONTHS OF 2014, WHAT WE'RE SEEING IS THAT EARNINGS RATES ARE PRETTY FLAT. I THINK THEY'RE ONLY UP ABOUT 1.5%. FOR THE YEAR SO FAR. SO IF THAT TREND CONTINUES, THAT'S GOING TO HAVE -- THAT WILL HAVE AN IMPACT, BUT IT WON'T EFFECT RATES UNTIL 2017-2019. AND OVER THIS 25-YEAR PERIOD, EVEN WITH THOSE DOWNTURNS, THE FUND HAS AVERAGED ABOUT 10%

GROWTH A YEAR. SO THAT'S NOTHING TO SNEEZE AT. THEY DO -- I PUT A PLUG IN FOR THOSE FOLKS AT THE OREGON INVESTMENT COUNCIL, THEY DO A REALLY GOOD JOB OF MANAGING THOSE FUNDS.

>> I'VE GOT A QUESTION ABOUT GOING BACK TO THE SYSTEM FUNDING AND HOW WE'RE AT 87% -- SO IF THAT'S A GOOD MARKER, HOW DO WE COMPARE TO SOME OF OUR NEIGHBORS OR SOME OF THE OTHER PERS SYSTEMS THAT WE'VE HEARD A LOT ABOUT?

>> WELL, SO ON THE OTHER END OF THE SPECTRUM, NEW JERSEY IS AT ABOUT 35%, AND I BELIEVE THEY'RE UNDER A COURT ORDER TO MAKE CONTRIBUTIONS TO THEIR PENSION SYSTEM. THE LAST TIME I LOOKED AT THIS, I DON'T KNOW THE EXACT NUMBERS, BUT GIVEN WHERE WE'RE AT WHEN THIS VALUATION, I WOULD THINK PERS IS PROBABLY ONE OF THE THREE OR FOUR BEST FUNDED STATE SYSTEMS IN THE COUNTRY.

>> GREAT.

>> THANK YOU.

>> HERE'S WHAT THE IMPACT ON MULTNOMAH COUNTY IS. I'M NOT GOING TO GO THROUGH ALL THESE NUMBERS, BUT ONE OF THE THINGS I WANT TO POINT OUT IS THAT IF YOU LOOK AT -- AS RECENTLY AS 2007, WE HAD A SURPLUS OF ABOUT \$148 MILLION. WHICH WAS TOTALLY WIPED OUT AND THEN SOME IN 2009. AND THEN THAT LIABILITY IN THE 2011 VALUATION GREW TO 2 HUNDRED -- ALMOST \$292 MILLION. BUT LOOK WHAT HAPPENED IN 2012. WE HAD OUR PORTION OF THE UNFUNDED LIABILITY WAS REDUCED DOWN TO 155 MILLION. AND DEPENDING ON WHAT HAPPENS WITH THE 2013 VALUATION, THAT NUMBER MIGHT GO DOWN A LITTLE BIT MORE. SO YOU CAN SEE THE IMPACT ON THE RATES, WHAT WE WERE LOOKING AT IN 2011 WAS A TIER 1, TIER 2 RATE OF 16.26%, AND THAT DOESN'T INCLUDE THE PICKUP AND THAT DOESN'T INCLUDE THE AMOUNT THAT WE'RE -- IT'S KIND OF A TAX THAT WE HAVE ON DEPARTMENTS THAT WE CHARGE INTERNALLY TO REPAY THE PERS BONDS WE ISSUED IN 1999. SO OUR TOTAL RATE IN 2011 WAS CLOSER TO 28%. BUT WHAT WE'VE GOT NOW IS AS YOU CAN SEE, WE'RE BACK TO WHERE WE WERE IN THE 2009 VALUATION, AND WHAT WE'VE DONE WITH THAT OVER TIME IS, WHAT WE DID IN THE PAST FEW BUDGET YEARS IS WE DID NOT PASS ALONG RATE REDUCTIONS INTERNALLY. AND WHAT WE DID IS WE KEPT THAT MONEY AND YES PUT IT INTO A RESERVE AND WE PAID PERS BASED ON WHAT THEY WERE CHARGING US. AND I CAN SHOW YOU THE IMPACT OF THAT IN A LITTLE BIT. SO JUST SOME KIND OF GENERAL THOUGHTS ABOUT THE -- SOME GENERAL THOUGHTS ABOUT THE UNFUNDED LIABILITY. LEGISLATIVE ACTIONS AND INVESTMENT EARNINGS HAVE GREATLY STRENGTHENED THE SYSTEM. AGAIN, PERS FUNDING IS 87% IN 2013, AND IF YOU ADD SIDE ACCOUNTS, THAT'S AT 96%. THE PROBLEM IS

IN THE SECOND BULLET POINT. MORE THAN 80% OF THE EXISTING LIABILITY IS RETIREE AND TIER 1 EMPLOYEES. AND THAT'S PROBABLY NOT GOING TO CHANGE. THERE'S GOING TO BE SOME BOARD OF COUNTY COMMISSIONERS IN SOME FUTURE TIME, MAYBE 25 OR 30 YEARS FROM NOW WHO SEE AS HUGE WINDFALL BECAUSE ALL OF US TIER 1 PEOPLE WILL BE NO LONGER RECEIVING BENEFITS. I GUESS THAT'S THE BEST WAY TO PUT THAT. [LAUGHTER] BUT IT'S GOING TO TAKE A WHILE. AND --

>> WE HOPE.

>> BEFORE THE 2003 RETURNS, THE LIABILITY WAS GROWN AT 12% A YEAR. SINCE 2003, THE LIABILITY HAS BEEN GROWING ABOUT 3 TO 4% A YEAR. TO GET TO YOUR POINT, COMMISSIONER SHIPRACK, IF THE EARNINGS GROW JUST AT THE ASSUMED RATE AND THE LIABILITY IS ONLY GROWING THREE TO 4% A YEAR, WE, KEEP CHIPPING AWAY AT THAT UNFUNDED LIABILITY. NOW I WANT TO TALK ABOUT SIDE ACCOUNTS. WE'VE TALKED A LITTLE BIT ABOUT THIS, BUT WE HAVEN'T EVER REALLY DELVED INTO IT, AND ONE OF THE THINGS THAT PERS DOES, IT PROVIDES A MECHANISM TO REDUCE THEIR PORTION OF THE UNFUNDED LIABILITY. THAT'S A SIDE ACCOUNT MANAGED AND INVESTED BY PERS, IT'S ESSENTIALLY SET ASIDE IN A SEPARATE ACCOUNT THAT'S DEDICATED TO THE INDIVIDUAL JURISDICTION AND THE PRIMARY ADVANTAGE TO THAT IS THE INVESTMENT EARNINGS POTENTIAL. IF PERS IS AVERAGING, SAY, 7.75% ON THEIR INVESTMENT EARNINGS, THE COUNTY'S EARNINGS LAST MONTH WERE .4%. SO YOU CAN SEE THERE'S A REAL VALUE TO DOING THAT. THERE'S A MINIMUM CONTRIBUTION THAT YOU HAVE TO MAKE, SOME KIND OF BASED PRIMARILY ON YOUR COVERED PAYROLL. AND THERE'S A NOMINAL ONE-TIME FEE TO ESTABLISH THE ACCOUNT. BUT AFTER THAT IT'S NOT -- THERE'S TO FEES TAKEN OFF THE TOP OR ANYTHING LIKE THAT. SIDE ACCOUNTS ARE TYPICALLY FUNDED BY BOND PROCEEDS. WE ISSUED BONDS IN 1999, BUT SIDE ACCOUNTS DIDN'T EXIST THEN. AND WHEN WE DISCUSSED THIS LAST YEAR, I IT THIS CONCLUSION I CAME TO ANYWAY, WAS THAT BECAUSE OF THE STRUCTURE OF THOSE BONDS AND THE WAY THEY'RE SET UP, WE LOST A LOT OF THE VALUE OF THOSE BECAUSE WE DIDN'T HAVE A SIDE ACCOUNT, AND ALL OF THOSE FUNDS JUST WENT INTO THE STATE LOCAL GOVERNMENT POOL. AND BECAUSE OF THE STRUCTURE OF THOSE, THEY CAN'T BE REFINANCED, THE -- THEY HAVE A VERY HAIKU UPON, A BOND, AN ADDITIONAL BOND PLAY WOULD BE A SOMEWHAT RISKY PROPOSITION. BECAUSE YOU WOULD THEN BE LOCKED INTO MAKING DEBT SERVICE PAYMENTS AND EVEN THOUGH THE RETURNS HAVE BEEN PRETTY GOOD FOR THE LAST FEW YEARS, IF WE GET BACK TO SOMETHING LIKE, YOU KNOW, EVEN 2001-2003, THEN WE'VE -- WE'RE STILL OBLIGATED TO MAKE THE DEBT PAYMENTS. BUT YOU CAN ALSO FUND A SIDE ACCOUNT WITH CASH, AND AT THE END OF JUNE 3014, I'M ESTIMATING WE'LL HAVE \$70 MILLION SET ASIDE IN THE PERS BONGED FUND. AND SO ONE OF THE

THINGS -- A COUPLE OTHER THINGS ABOUT SLIDE ACCOUNTS THAT I THINK WE NEED TO THINK ABOUT THIS AND WE NEED TO GO INTO THIS WITH EYES WIDE OPEN, THERE'S ACTUAL WARRAL FACTORS THAT PLAY INTO IT. ONE IS INDIVIDUAL JURISDICTION DEMOGRAPHICS. WE -- AS I MENTIONED, WE HAVE -- WE'RE SLOWLY REPLACING TIER 1, TIER 2 PEOPLE WITH OP CERT PEOPLE, BUT A LOT OF OUR FOLKS WHO ARE IN UNIFORMED SERVICE ARE IN TIER 1. AND BECAUSE THEY CAN RETIRE EARLIER, AND BECAUSE THEY GET A LITTLE HIGHER BENEFIT, THAT WILL HAVE AN IMPACT ON OUR DEMOGRAPHIC FOR DOING THE ACTUARIAL ANALYSIS.

>> CAN YOU INTERRUPT HERE? I'M JUST CURIOUS, SO THE LIABILITY THAT MULTNOMAH COUNTY HAS, MULTNOMAH COUNTY'S LIABILITY, WHEN YOU TALK ABOUT THIS POOL, IS THIS A STATEWIDE POOL? SO DO WE --

>> THE POOL IS RATED AS A WHOLE. BUT THEN WHAT THE PERS ACTUARY DOES, THEY BREAK OUT YOUR SHARE OF THE LIABILITY BASED ON YOUR INDIVIDUAL DEMOGRAPHIC, AND YOUR COVERED PAYROLL. SO IF THE LIABILITY, SAY, IS 8.1 BILLION, OUR 155 MILLION REFLECTS OUR SHARE OF THAT 8.1 BILLION.

>> SO BECAUSE EARLIER ON YOU WERE TALKING ABOUT HOW MULTNOMAH COUNTY IS OP CERT EMPLOYEE POPULATION IS CONSIDERABLY HIGHER, LIKE 10% HIGHER THAN THE AVERAGE STATEWIDE. SO WHEN THIS GETS BROKEN DOWN, WE'RE CREDITED WITH THAT IN ADDITION TO BEING DINGED FOR OUR PUBLIC SAFETY --

>> RIGHT, BUT THOSE ARE -- THOSE WILL BE FUTURE IMPACTS. THINK A COUPLE BIENNIUM DOWN THE ROAD. BUT YES, IT WILL HAVE A POSITIVE IMPACT.

Commissioner Smith: SO HOW CAN WE PROTECT OUR SET-ASIDE MONEY FROM BEING PUT IN THE LARGER POOL?

>> SO NOW ANY MONEY THAT'S INVESTED WITH PERS IS SET ASIDE AS A SEPARATE ACCOUNT. AND THAT ACCOUNT THEN GETS CREDITED WHATEVER EARNINGS THE PERS BOARD ASSIGNS TO IT. I THINK THE PROBLEM WITH THE WAY IT WAS DONE IN THE PAST IS THAT ACTUARY ANALYSIS IS PRECISE, BUT MAYBE NOT EXACT SCIENCE. AND SO YOU'RE LOOKING AT A LOT OF FUTURE VALUES, AND SO IT KIND OF GOT LOST IN THE CHURN, IF YOU WILL. BUT NOW BECAUSE THE MECHANISM IS YOU CONTRIBUTE MONEY, IT'S YOUR ACCOUNT, IT'S REPORTED TO YOU INDIVIDUALLY. SO THAT'S HOW THAT WOULD WORK. THERE'S A RISK INVOLVED, BUT AT LEAST WE SEE IT AND WE KNOW WHAT IT IS.

Commissioner Smith: RIGHT. IT'S NOT IN ONE BIG POT.

>> RIGHT. SO OUR GROWTH IN PAYROLL AND HOW PEOPLE RETIRE ARE ALSO GOING TO HAVE AN IMPACT. THERE IS SOME ANECDOTAL EVIDENCE THAT PEOPLE ARE WEIGHTING LONGER TO RETIRE BECAUSE OF WHAT HAPPENED OVER THE LAST FIVE OR SIX YEARS. AND THEN AGAIN, INVESTMENT RETURNS, IF THERE'S ONLY ONE THING I WANT TO LEAVE YOU W. IT'S INVESTMENT RETURNS TAKE PRETTY MUCH EVERYTHING WE HAVE IN PERS. SO A SIDE ACCOUNT CAN MITIGATE AGAINST THESE IMPACTS. THE -- OUR UNFUNDED LIABILITY REPRESENTS ABOUT ONE-THIRD OF OUR RATE. IF OUR RATE IS JUST UNDER 12%, THEN 4.25% IS JUST TO PAY DOWN THE UNFUNDED LIABILITY. SO ANOTHER GOOD POINT IS ANY CONTRIBUTION TO A SIDE ACCOUNT WILL REDUCE THE RATE BECAUSE PERS CAN INVEST IT IN THINGS WE CAN'T. AND THEN WE'RE LOOKING AT HOW MUCH CASH WE COULD PUT INTO A SIDE ACCOUNT, AND I'LL TALK ABOUT THAT IN A LITTLE BIT, BUT I WANT TO SEE THE 2013 VALUATION. BECAUSE IF THE EARNINGS WERE 15.5%, MAYBE OUR LIABILITY COMES DOWN BY ANOTHER 20 MILLION OR SOMETHING LIKE THAT. SO I WANT TO SEE WHAT HAPPENS WITH THAT BEFORE MAKING AN ABSOLUTE DETERMINATION.

>> WHEN ARE YOU EXPECTING THAT?

>> JULY, JULY OR AUGUST. SO I THINK ALL THINGS BEING EQUAL AGAIN, THERE'S LESS RISK TO SEATING A SIDE ACCOUNT WITH CASH THAN THERE WOULD BE TO ISSUING ADDITIONAL BONDS. THAT'S NOT NECESSARILY ALWAYS TRUE, BUT IT'S TRUE FOR US BECAUSE OF THE WAY OUR EXISTING BONDS ARE STRUCTURED. THERE ARE PEOPLE WHO HAVE -- WHO DIDN'T HAVE THE SAME STRUCTURE THAT WE DID AND THEY'RE ABLE TO REFINANCE THEIR BONDS. BUT WE'RE NOT ABLE TO DO THAT. AND SO TODAY YOU COULD ISSUE A TAXABLE BOND AT 4.5-5%, OUR BONDS ARE AT 7, 7.5%. SO IF WE WERE ABLE TO REFINANCE, WE COULD REALIZE SOME SIGNIFICANT SAVINGS.

>> BUT WE'RE NOT.

>> RIGHT.

>> AND THE CASH IN THE SIDE ACCOUNT, HOW ACCESSIBLE OR NOT IS THAT TO THE COUNTY IN THAT TIME OF NEED FOR SOMETHING OTHER?

>> WELL, THAT'S A GOOD QUESTION. I DON'T KNOW THAT THERE'S -- I DON'T KNOW THAT THERE'S PROVISIONS FOR WITHDRAWALS AND DEPOSITS. BUT THAT'S SOMETHING I'M GOING TO BE LOOKING AT FOR SURE. BECAUSE -- YOU JUST TEED UP A GOOD SEGUE TO THE BRIEFING I'M GIVING NEXT WEEK. WE HAVE A SIMILAR SITUATION WITH OUR RETIREE HEALTH CARE LIABILITY. AND ONE OF THE OPTIONS THAT YOU HAVE THERE IS TO CREATE A TRUST.

AND IF YOU WERE TO CREATE A SECTION 115 TRUST UNDER THE IRS CODE, IF YOU WERE TO DO THAT, THAT MONEY IS ABSOLUTELY LOCKED UP FOR THE PURPOSE OF PROVIDING BENEFITS. AND WE'LL TALK ABOUT THAT NEXT WEEK, SO I DON'T WANT TO GET TOO FAR AHEAD OF THE GAME. I DON'T KNOW HOW ALL THE MECHANICS HOW THIS WORKS WITH PERS, BUT THAT'S ONE OF THE THINGS WE'RE GOING TO BE TAKING A LOOK AT. THE FOLLOWING CHART ON SLIDE 19, THIS SHOWS WHAT OUR FORECASTED RATES AND WHAT THE COST IS WITHOUT A SIDE ACCOUNT.

SO IN 2014 AND 2015, YOU CAN SEE THAT THE PERCENT OF PAYROLL IS APPROXIMATELY THE SAME, IT'S ALMOST IDENTICAL TO THE 2012-2013 PERCENT OF PAYROLL COST. WHAT 2016 AND 2017 SHOW IS THE RATE GOING UP BY ABOUT 2.2%, AND THEREFORE THE PAYMENT TO PERS GO UP IN 2017, THAT NUMBER IS CLOSE TO \$60 MILLION. FOR THE CURRENT YEAR, WE'RE ESTIMATING THAT WE'LL PAY PERS JUST A LITTLE BIT LESS THAN \$50 MILLION, RIGHT AROUND \$50 MILLION. SO THAT'S A \$10 MILLION INCREASE IN COST OVER THE NEXT TWO YEARS. BUT I DO WANT TO POINT OUT WE HAVE FACTORED THAT INTO THE FORECAST, AS I MENTIONED WE DID NOT PROVIDE INTERNAL PERS RELIEF TO THE DEPARTMENTS. IN THE 2014-2015 BUDGET, WHAT -- WHEN WE WERE BUILDING THAT FORECAST, WHAT WE DID IS WE SAID WE CAN TAKE A 2.2% REDUCTION IN THAT, BUT LEAVE THE OTHER 2.2% REDUCTION THERE SO WE DON'T HAVE TO -- WE'RE NOT FACED WITH THIS JUMP UP IN COSTS. SO THE GOOD NEWS IS WE HAVE THAT COVERED. BUT THE BETTER NEWS IS, IF WE FUNDED A SIDE ACCOUNT, WHAT WOULD THAT LOOK LIKE? AND I'VE JUST BEEN PLAYING AROUND WITH SOME NUMBERS, AND THIS IS NOT -- THIS HASN'T HAD ANY GREAT DEGREE OF RIGOR ATTACHED TO IT YET. BUT IN LOOKING AT THIS, IF WE TOOK \$40 MILLION OF THAT 70 MILLION, AND WE WERE GET OUT TO PERS, AND HAVE THEM CREATE A SIDE ACCOUNT FOR US, WHAT THAT DOES IS THAT COULD POTENTIALLY BLUNT ABOUT TWO-THIRDS OF THAT INCREASE WE'RE EXPECTING IN THE 2015 BIENNIUM. AND TRANSLATED INTO REAL DOLLARS, IF THE PREVIOUS CHART IN 2017 WE WERE GOING TO BE AT \$60 MILLION CONTRIBUTION TO PERS, BY DOING THIS WE WOULD BE AT ABOUT A \$55 MILLION CONTRIBUTION TO PERS, WHICH WOULD THEN TRANSLATE INTO ONGOING REVENUE. WHICH, YOU KNOW, SO \$5 MILLION LET'S SAY ROUGHLY HALF IS GENERAL FUND SO 2.5 MILLION ONGOING ADDITIONAL REVENUE THAT WOULD BE AVAILABLE TO THE COUNTY. AGAIN, THIS HAS NOT BEEN SUBJECT TO RIGOR, ONE OF THE THINGS WE'RE GOING TO DO IS HAVE OUR FINANCIAL ADVISOR VET THESE NUMBERS, AND RUN THEM THROUGH SOME ACTUARIAL ANALYSIS. SO THIS WAS JUST KIND OF A, ONE OF THESE KIND OF THINGS. BUT I THINK THIS IS INSTRUCTIVE OF HOW IT WOULD WORK. AND THE REASON WHY WE DON'T WANT TO SPEND DOWN TOO MUCH OF THAT RESERVE IS THAT AGAIN, AND I DON'T WANT TO KEEP HARPING ON THE BOND STRUCTURE, BUT THE BONDS ALSO ESCALATE, THE BOND -- THE DEBT PAYMENTS ESCALATE EVERY YEAR. AND RIGHT NOW WE'RE PAYING ABOUT

18 MILLION. THOSE PAYMENTS EXTEND OUT TO 2030, AT WHICH TIME WE'LL BE PAYING CLOSE TO 43 MILLION, AND WHAT WE'VE TRIED TO DO OVER TIME IS WE HAVE THIS INTERNAL RATE WE CHARGE TO DEPARTMENTS ON TOP OF REGULAR PERS, WE'VE TRIED TO KEEP THAT CONSTANT. AND ONE OF THE WAYS WE CAN DO THAT IS BY HAVING A RESERVE, BUT WHAT WE'RE TRYING TO WEIGH IS DOES CREATING A SIDE ACCOUNT REDUCE OUR OBLIGATION TO PERS ENOUGH THAT THEN WE CAN MANAGE THE BOND ACCOUNT IN A WAY THAT WE CAN KEEP THAT RATE FLAT, OR AT LEAST NOT TOO MUCH OF AN INCREASE OVER TIME. SO AGAIN, THIS IS -- THERE NEEDS TO BE FURTHER ANALYSIS DONE IN THAT, BUT THAT'S KIND OF GENERALLY HOW IT WOULD WORK.

>> SO WHEN DO WE EXPECT THAT THE BOARD WILL BE VOTING ON WHICHEVER DIRECTION WE GO WITH THIS?

>> SO GIVEN THE VALUATION DOESN'T COME OUT UNTIL, SAY, I'M GOING TO SAY AUGUST, JUST BECAUSE THEY -- BY THE TIME IT DOES COME OUT IT'S THE END OF JULY, WE PROBABLY NEED A COUPLE MONTHS TO ANALYZE IT. SO PROBABLY IN THE FALL.

>> AND HOW DOES THIS OVERLAP OR ALIGN WITH OUR BUDGET PROCESS? WILL THE POTENTIAL INVESTMENT RESOURCE BE AN UNASSIGNED BUDGET ITEM, PUT IN A RESERVE ACCOUNT? WHAT IS THE -- WHAT SHOULD WE ANTICIPATE LOOKING FOR IN A COUPLE OF WEEKS? HOW WILL WE IDENTIFY THIS?

>> SO WE DON'T HAVE -- THIS WOULD NOT AFFECT FISCAL YEAR '15. AND FOR FISCAL YEAR '15, THOSE FUNDS ARE IN WHAT'S THE UNAPPROPRIATED BALANCE WITHIN THE PERS BOND FUND. WHAT IT WOULD DO, IT WOULD IMPACT FISCAL YEAR 2016. AND THAT'S MY HOPE, THAT WE CAN GET ENOUGH INFORMATION AND DO ENOUGH ANALYSIS BETWEEN NOW AND WHEN WE HAVE TO START PREPARING THE 2016 BUDGET THAT IT WOULD INFORM THOSE DECISIONS.

>> JUST ONE MORE. THAT IS, I THINK IT WOULD BE HELPFUL TO VISUALIZE THE -- ALTHOUGH I'VE ALREADY REACHED A CONCLUSION JUST IN THE SIMPLISTIC SORT OF COMPARISON OF, WELL, IS IT GENERALLY BETTER TO BORROW MONEY, OR INVEST MONEY? THAT SEEMS TO BE PART OF THE DECISION THAT YOU'RE PROVIDING US WITH, AND I WOULD SAY GENERALLY IT'S MORE PRUDENT TO INVEST MONEY, AND IT REQUIRES --

>> WE WILL TAKE A LOOK AT WHETHER BONDS MAKE SENSE.

>> THAT'S HELPFUL.

>> RATES ARE STILL LOW. AND IT MAY BE THAT IT'S LESS RISKY THAN IT WOULD HAVE BEEN, BUT IT'S THAT -- IT'S THE WHAT WE ALREADY HAVE THAT IS -- IF WE DIDN'T HAVE THE EXISTING ONES, THEN MAYBE THAT'S AN EASIER DECISION TO MAKE.

>> I HAVE A PERSPECTIVE QUESTION AND THAT IS, WHAT IS THE COMPARATIVE RETURN RECORD FOR THE OREGON INVESTMENT COUNCIL VERSUS EVERYBODY ELSE IN THE WORLD? BECAUSE AGAIN, I WOULD JUST SAY SORT OF ANECDOTALLY IT SEEMS TO ME IT'S -- THEY SEEM TO DO BETTER THAN EVERYBODY ELSE IN THE WORLD.

>> THEY DO PRETTY WELL.

>> AND MY OTHER QUESTION IS HISTORICALLY LOOKING BACK AT OUR PERS RESERVE FUND, IN YEARS WE'VE HAD IT, HAS THIS BOARD EVER NEEDED TO MAKE A WITHDRAWAL FROM THAT FUND TO PAY FOR ONE OF OUR PROGRAMS, ONE OF OUR SAFETY NET PROGRAMS, OR SOME OTHER PRIORITY THAT WAS DETERMINED BY THE BOARD WITHIN OUR BUDGET?

>> IT HASN'T BEEN THIS BIG, IT'S REALLY -- THE GROWTH AND THE RESERVE HAS ACCELERATED OVER THE LAST FOUR OR FIVE YEARS BECAUSE OF THE DECISIONS WE MADE ABOUT -- TO KEEP THE RATE THE SAME BUT PAY PERS THE SAME, THE LOWER RATES THEY WERE ASSIGNING. SO IT'S PROBABLY ONLY BEEN SINCE 2009 OR 2010 THAT IT'S GOTTEN TO BE AS BIG AS IT IS. SO WE HAVE NOT REALLY HAD THAT DISCUSSION BEFORE.

>> I BELIEVE THAT IN THE PAST WHEN THE COUNTY WAS HAVING FINANCIAL TROUBLE, THEY WENT TO THE REGULAR RESERVES, TO THE GENERAL FUND RESERVE AND SPENT THOSE DOWN BEFORE. SO IF WE WERE GETTING TO THE POINT WHERE WE NEEDED TO LOOK AT THE PERS RESERVE FUND, WE WOULD BE IN --

>> RIGHT --

>> -- ROUGH SHAPE.

>> RIGHT. THAT'S A GOOD POINT, CHAIR. ONE OF THE THINGS, WHEN WE WERE IN THE DEPTH OF THE RECESSION AND WE NEEDED TO BORROW MONEY FROM LEAK THE EAST COUNTY COURTHOUSE, AND SELLWOOD BRIDGE, ONE OF THE THINGS THE RATING AGENCIES LOOKED AT, NOT ONLY DO YOU HAVE YOUR GENERAL FUND RESERVES, BUT YOU'VE GOT THIS OTHER RESERVE THAT YOU COULD USE IN AN EMERGENCY. AND SO WE GOT RATED HIGHLY FOR THAT. ONE OF THE THINGS I WANT TO -- ONE OF THE THINGS I'VE BEEN AFRAID TO ASK THIS QUESTION, BUT ONE OF THE THINGS I

DO WANT TO ASK MOODY'S, SO I HAVE THIS AMOUNT OF MONEY, AM I BETTER OFF FUNDING MY PERS LIABILITY OR MY RETIREE HEALTH CARE LIABILITY WITH IT? AND I THINK WHAT THEY'RE GOING TO TELL ME IS YOU'RE BETTER OFF FUNDING YOUR PERS LIABILITY, BUT THAT'S JUST A GUESS.

>> YOU REAL WILL BE MADAM CHAIR, I THINK YOU'RE MAKING IT HARD FOR US NOT TO JUMP THE LINE. I'VE BEEN REALLY CAREFUL HERE NOT TO ASK YOU ANY QUESTIONS ABOUT THAT OTHER UNFUNDED LIABILITY, BUT JUST HAVE TO SAY, IF YOU KEEP HINTING ABOUT IT, YOU'RE GOING TO OPEN THE DOOR PRETTY QUICKLY. THAT WILL BE -- THAT WILL BE INTERESTING TO SEE. AND I WILL JUST TO SET YOU UP, IF YOU'RE NOT ALREADY THERE, IT WOULD BE VERY INTERESTING TO SEE WHAT IMPACT THE ACA HAS, AND ON OUR UNFUNDED HEALTH CARE RETIREE HEALTH CARE BENEFIT LIABILITY.

>> SO THAT'S KIND OF HOW THE -- THAT'S PRETTY MUCH SORT OF REALLY GENERAL OVERVIEW OF HOW THE SIDE ACCOUNT WOULD WORK AND HOW IT CAN WORK IN OUR FAVOR TO REDUCE THE RATES. WHETHER YOU ISSUE DEBT OR JUST FEED IT WITH CASH, THE IDEA IS STILL THE SAME. YOU CAN GENERATE MORE INVESTMENT EARNINGS THAN YOU CAN BY NOT HAVING IT.

>> JUST AS FAR AS POLICY QUESTIONS FOR THE BOARD, AND I THINK THIS QUESTION WAS IN THERE, IN YOUR REMARKS, A LOT OF THIS IS ABOUT WHETHER OR NOT WE PREFER TO HAVE ONE-TIME ONLY FUNDING, OR INVESTMENT ONE-TIME ONLY TO CREATE ONGOING MONEY. AND WE CAN DO THAT BY BUYING DOWN DEBT, WE CAN DO THAT POTENTIALLY HERE. AND I THINK THAT'S AN IMPORTANT DISCUSSION FOR THE BOARD TO HAVE. AS WE TALK ABOUT THE FORECAST GOING FORWARD, AND THEN WHATEVER TECHNICAL THINGS WE NEED TO DO TO MAKE THOSE DECISIONS HAPPEN, IS ANOTHER QUESTION. BUT OVERALL I THINK THE DIRECTION OF THE BOARD IN THE LAST FIVE, SIX YEARS HAS BEEN TO TRY TO CONVERT ONE-TIME-ONLY TO ONGOING TO FUND PROGRAMS. I DON'T -- WHICH ALSO HAPPENS TO BE A PRUDENT THING TO DO, BUT THERE MIGHT BE OTHER CONSIDERATIONS.

>> I'M CURIOUS, ONE-TIME-ONLY, THERE ARE A COUPLE OF ONE-TIME-ONLY POTS, ONE OF THEM IS ONE WE'RE TALKING ABOUT NOW, WHICH IS THE PERS RESERVE THAT WE'VE BEEN MAINTAINING. AND THIS IS KIND OF A NEW WORLD OF RESERVE. BUT IT'S NOT THE GENERAL FUND RESERVE AND IT'S NOT GENERAL FUND -- MY UNDERSTANDING SITS NOT GENERAL FUND ONE-TIME-ONLY, IT'S VERY TECHNICALLY SORT OF LINE ITEM IDENTIFIED WITH PERS. AND THAT'S WHERE WE'RE LOOKING AT MAKING A SIDE ACCOUNT INVESTMENT. IS THAT CORRECT?

>> M-HMM.

>> YES, BUT IT'S -- IF WE USE THAT TO REDUCE OUR PERS RATES, WE WOULD BE INCREASING -- BECAUSE WE CHARGE THOSE RATES TO THE GENERAL FUND AND TO OTHER FUNDS, WE WOULD BE CREATING --

>> WE WOULD BE CREATING ONE-TIME-ONLY FUNDS IN THE GENERAL FUND -
-

>> ONGOING.

>> ONGOING ONE-TIME-ONLY FUNDS. ONGOING.

>> WHEN WE PAY DOWN I GUESS IT WAS IN 2009 BUDGET WE PAID DOWN A BUNCH OF THE DEBT, WE USED ONE-TIME-ONLY MONEY TO MAKE THE DEBT PAYMENT THE FOR THE DEPARTMENTS SO THAT GENERATED ABOUT \$2-3 MILLION OF ONGOING COSTS THAT THEY DIDN'T HAVE TO BEAR. SO SAME IDEA.

>> WELL, IT IS THE SAME IDEA. I'M JUST NOW CURIOUS ABOUT WHICH POT THE INVESTMENT COMES OUT OF. AND IT SOUNDS LIKE ONE OF THE ADVANTAGES OF THIS IS THE INVESTMENT COMES OUT OF A PERS RESERVE ACCOUNT, THE BENEFIT RESONATES TO THE GENERAL FUND ACCOUNT.

>> M-HMM.

>> OK.

>> THAT'S ALL GOOD.

Mr. Campbell: I JUST WANT TO TOUCH BRIEFLY ON THE ACCOUNTING STANDARDS THAT HAVE BEEN RECENTLY ADOPTED. GASB 67 AND 68, THEY PERTAIN TO REPORTING OF THE UNFUNDED LIABILITY IN YOUR FINANCIAL STATEMENTS. GASB 67 IS REALLY SPECIFIC TO POOLED FUNDS LIKE PERS, AND IT APPLIES FOR THIS YEAR. SO THEY'RE IN THE PROCESS NOW OF FIGURING OUT HOW THEY'RE GOING TO DO THIS AUDITING TO HAVE IT IN PLACE FOR THE END OF -- FOR THE END OF JUNE. GASB 68 EMPLOY -- APPLIES TO THE INDIVIDUAL EMPLOYERS WITHIN THE POOL, AND IT IS EFFECTIVE FOR US BEGINNING IN FISCAL YEAR 2015. SO WHAT DOES THAT MEAN? THE ASSETS ARE MEASURED AT FAIR MARKET VALUE, SO MOST EMPLOYERS BASED ON WHAT WE KNOW TODAY WILL HAVE A LIABILITY ON THEIR BALANCE SHEET. EMPLOYERS EITHER NEED AUDITED DATA FROM PERIODS OR HAVE EXTERNAL AUDITORS COMPILE INFORMATION. AND IN THE SESSION THAT WAS HELD IN FEBRUARY, I BELIEVE IT WAS HOUSE BILL 4155, THAT GIVES PERS THE ABILITY TO CHARGE THE MEMBER JURISDICTIONS FOR THE COST OF THAT AUDIT. AND TO BE HONEST WITH

YOU, I HAVE NO IDEA WHAT THAT COST IS GOING TO BE. WE'VE KIND OF TALKED ABOUT IT WITH MOSS ADAMS, OUR EXTERNAL AUDITOR, AND I DON'T THINK FOR ANY INDIVIDUAL EMPLOYER IT WOULD BE TOO GREAT A COST. YOU'RE TALKING ABOUT SPREADING THIS OVER 900 EMPLOYERS, BUT WE ARE ONE OF THE LARGER ONES OUTSIDE OF THE STATE ITSELF. BUT I WOULD THINK EVEN THEN, 25,000 WOULD BE A LOT. BUT YOU KNOW, I DON'T HAVE ANYTHING TO BASE THAT ON. AND IT ISN'T REALLY A COST THAT WE'RE GOING -- THAT WE DON'T WRITE THEM A CHECK, IT'S ESSENTIALLY -- WHEN THEY APPLY THE EARNINGS CREDIT THEY WOULD REDUCE THAT BY WHATEVER THE AMOUNT FOR THE AUDIT WAS.

SO WHAT IF WE DON'T COMPLY? WE ARE GOING TO COMPLY. I KNOW MY GENERAL LEDGER STAFF WOULD NEVER LET ME HEAR THE END OF IT IF WE DIDN'T COMPLY. BUT IF YOU DON'T COMPLY, IT COULD RESULT IN YOU RECEIVING A QUALIFIED AUDIT OPINION. AND HAVING A QUALIFIED AUDIT OPINION COULD POTENTIALLY HAVE AN IMPACT ON OUR FUTURE COST OF BORROWING. SO I THINK IT'S PROBABLY ON BALANCE IT'S A GOOD THING FOR TRANSPARENCY, BUT EVERYBODY IN THEIR COUNTRY WILL HAVE THIS PROBLEM. TO THE EXTENT OREGON PERS IS BETTER FUNDED THAN OTHER STATES, I THINK BY COMPARISON WE'LL LOOK PRETTY DECENT. I JUST WANT TO -- I JUST WANT TO LEAVE YOU WITH SOME FINAL THOUGHTS ON THIS. THE SYSTEM REFORMS THAT WERE ADOPTED IN 2013 HAVE GREATLY IMPROVED THE FINANCIAL HEALTH OF PERS. BUT AS WITH EVERYTHING, THERE ARE SOME LEGAL CHALLENGES THAT HAVE YET TO BE DECIDED. MY -- I AM NOT AN ATTORNEY, BUT ONE OF THE THINGS I LOOK AT WHEN SOME OF THE FOLKS WHO FELT LIKE THAT DOING ANYTHING TO LIMIT COLAS WOULD BE REVIEWED NEGATIVELY BY THE COURT ARE RELYING ON THE DECISION IN STRUNK, AND WHAT I THINK THE DECISION IN STRUNK SAID WAS YOU HAVE TO GIVE A COLA. I DON'T BELIEVE IT SAID YOU HAVE TO GIVE A SPECIFIC COLA. SO I HAVE SOME DEGREE OF OPTIMISM THAT THESE THINGS WILL BE UPHELD. BUT WITH THAT DISCLAIMER THAT I AM NO LEGAL EXPERT. THE INVESTMENT GAINS HAVE MITIGATED SOME OF THE IMPACTS OF THE GREAT RECESSION, BUT WE DO KNOW BECAUSE OF THE DECISIONS MADE IN THE PAST THAT WE'RE LOOKING AT, YOU KNOW, SOME RATE INCREASE FOR THE NEXT BIENNIUM. AND THE OTHER PIECE IS THAT BENEFITS TO RETIREES WILL BE REDUCED. AND ONE OF THE THINGS THAT AS I WAS THINKING ABOUT THIS, IN THE FUTURE IT'S PROBABLY UNLIKELY THAT ANY INDIVIDUAL WOULD EVER GET BENEFITS THAT ARE GREATER THAN 100% OF THEIR FINAL AVERAGE SALARY. SO DEPENDING ON YOUR PERSPECTIVE, THAT'S PROBABLY A GOOD THING FOR THIS SYSTEM. AND YOU KNOW, THIS IS -- I THINK MY RECOMMENDATION IS THAT WE SHOULD INVEST IN A SIDE ACCOUNT, HOW WE DO IT REMAINS TO BE SEEN. BUT ONE OF THE THINGS THAT I'VE KIND OF TRIED TO HIGHLIGHT TODAY IS THAT WE CAN PUT SAVINGS TO WORK FOR US IN A WAY THAT WE CAN'T DO IT OURSELVES. AND I WILL COME BACK TO YOU IN THE FALL WITH A SPECIFIC RECOMMENDATION

AND BASED ON THE ANALYSIS WE'RE GOING TO DO AFTER WE SEE THE 2013 VALUATION.

Chair Madrigal: ANY QUESTIONS?

Commissioner Smith: I HAVE A QUESTION. SO WHEN YOU ASK US TO INVEST IN A SIDE ACCOUNT, IS THAT SOMETHING WE HAVE TO DO IN SOME BUDGETING PROCESS FOR FISCAL YEAR '15?

>> NO, THIS WOULD NOT BE SOMETHING WE WOULD DO UNTIL FISCAL YEAR 2016. AND SO I THINK -- I THINK FOR THIS YEAR THE PRIMARY FOCUS THIS YEAR WILL BE JUST ON DOING THE ANALYSIS. AND TRYING TO FIGURE OUT, OK, ASSIGNING SOME RISK TO WHETHER OR NOT THERE'S -- IS THE BOND PLAY A GOOD THING, IS TAKING THE CASH A GOOD THING, SO WE WANT TO WEIGH ALL THOSE ALTERNATIVES.

>> BACK EARLIER WHEN YOU WERE TALKING ABOUT PEOPLE'S BEHAVIOR AND SOME FOLKS NOT RETIRING AT THE PACE THAT THE PEOPLE THOUGHT BECAUSE OF THE CHANGES, HOW SIGNIFICANT IS SOME -- ARE SOME OF THOSE CHANGES? AND HOW ARE YOU ANTICIPATING THEM?

>> COULD IT HAVE AN IMPACT. I KNOW -- NOT TO GIVE AWAY MY -- NOT TO GIVE AWAY MY PRESENTATION FOR NEXT WEEK, BUT ONE OF THE THINGS IN THE VALUATION THAT WE GOT ON THAT WAS THAT WE DID CHANGE SOME OF OUR ASSUMPTIONS AROUND HOW THAT WAS GOING TO AFFECT THE LIABILITY, BECAUSE WE DID NOTICE THAT THAT WAS AN IMPACT. SO I THINK IT COULD HAVE A PRETTY SIZABLE IMPACT, DEPENDING ON HOW LONG PEOPLE DECIDE TO DELAY RETIREMENT. BUT GOING BACK TO THAT CHART IN THE BEGINNING, THE AVERAGE AGE HAS BEEN 59 AT RETIREMENT, AND IT'S BEEN ABOUT THAT FOR OH, AS LONG AS I CAN REMEMBER. SO GOING BACK TO THE EARLY 2000s.

Chair Madrigal: COMMISSIONER SHIPRACK.

Commissioner Shiprack: SO -- I'LL LET YOU WAIT FOR NEXT WEEK ON THAT. IT'S A TEMPTATION. I -- JUST A COUPLE THOUGHTS. I REALLY APPRECIATE THESE OPPORTUNITIES TO THINK ABOUT THIS WITH YOU, BECAUSE I THINK THAT OUR ABILITY TO GET THIS RIGHT TODAY AND MOVING FORWARD INTO 2016'S BUDGET IS GOING TO REALLY HAVE A BIG IMPACT ON OUR ABILITY TO PROVIDE THE SERVICES THAT WE NEED TO PROVIDE. SO I GET IT THERE. I ALSO THINK THAT WE REALLY NEED TO BE AWARE THAT IF WE'RE GOING TO RELY AND WE'RE GOING TO PUT THESE EGGS IN THE BASKET OF RELIANCE ON THE HEALTH OF OUR INVESTMENTS, THAT WE HAVE AN OBLIGATION TO UNDERSTAND WHAT THE HECK DID HAPPEN IN 2008. AND -- BECAUSE WE ARE ELECTED OFFICIALS AND POLICYMAKERS, AND BECAUSE THIS IS

BIGGER THAN US, NOT TO JUST MOTOR ON AND SAY I'M GLAD THAT'S IN OUR REAR VIEW MIRROR, BUT TO UNDERSTAND WHILE WE'RE LOOKING IN THE REAR VIEW MIRROR WE COULD BE HEADED DOWN THE ROAD TO A GREAT BIG FALL, AGAIN. AND I -- I'M GLAD THAT WE'RE DOING BETTER THAN NEW JERSEY, FOR EXAMPLE, BUT I DO THINK THAT THE WELFARE OF OTHER PERS PROGRAMS NATIONALLY IS GOING TO IMPACT OUR ECONOMY. AND WE JUST DON'T EXIST AS LITTLE SEPARATE POINTS ON THE MAP ANYMORE. AND REALLY, THIS IS JUST AN AREA OF STUDY THAT WE HAVE TO PAY ATTENTION TO, AND HOPEFULLY WE CAN HAVE SOME IMPACT ON PREVENTING THIS FROM HAPPENING. IT'S A LITTLE BIT LIKE PUBLIC HEALTH. I THINK WE HAVE TO EDUCATE OURSELVES FIRST.

>> I THINK ONE OF THE THINGS WE'LL BE LOOKING AT, WE DID A LITTLE BIT OF WORK AROUND THIS LAST SPRING, LOOKING AT DOING SOME SENSITIVITY ANALYSIS AROUND SO, YOU KNOW, WE KNOW RECESSIONS ARE SORT OF A FACT OF ECONOMIC LIFE, AND SO WE WANT -- WHEN WE DO THIS ANALYSIS WE WANT TO DO THE MODELING SO HOPEFULLY NONE OF US WILL HAVE TO EXPERIENCE RECESSION LIKE WHAT HAPPENED IN 2008. BUT DO SOME SENSITIVITY ANALYSIS AROUND SO WHAT IS THE DEPTH AND DURATION, AND WHAT IMPACTS THAT WOULD HAVE. SO WE WILL BE CONSIDERING ALL OF THAT.

Chair Madrigal: ANY OTHER QUESTIONS? THANK YOU, MARK. THAT'S REALLY HELPFUL. THERE BEING NO FURTHER BUSINESS, WE'RE ADJOURNED.

ADJOURNMENT

The meeting was adjourned at 11:13 a.m.

This transcript was prepared by LNS Captioning and edited by the Board Clerk's office. For access to the video and/or board packet materials, please view at:
http://multnomah.granicus.com/ViewPublisher.php?view_id=3

Submitted by:
Lynda J. Grow, Board Clerk and
Marina Baker, Assistant Board Clerk
Board of County Commissioners
Multnomah County