

Oregon: Growing and Uncertain Spending Commitments

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Abstract

The foremost challenge facing the Oregon Legislature confronts nearly all state and local governments today: meeting growing and uncertain spending commitments while funding the public employee retirement system adequately. There is more than magnitude to this problem. The solutions are constricted by a rigid revenue system, funding patterns locked in by party politics, an initiative system that fosters spending commitments more easily than revenue raising, and strong judicial protections of public employee contractual guarantees. To capture the context of the budget debates of the Winter/Spring of 2017, this paper examines the nature and legacies of the November 2017 election, Oregon's broad economic context, and the core budget debates within Salem.

For longer than I have served in government, Oregon has faced a revenue shortfall—a little less painful in good times, catastrophic in bad times. We have cut and we have squeezed. Our roads, our public safety, and our schools have paid the price. And we now have two modern-day Oregon trails to choose from. One trail is to continue the endless process of slicing and squeezing, of diminishing our hopes and expectations, and shrinking our dreams of what it means to be an Oregonian. The other trail is to follow the advice of Governor McCall. To not be guided by regionalism and factionalism. To work in partnership, rather than partisanship. It is a trail that will involve hard work and painful choices. But it is, my fellow Oregonians, the only path to follow.

Oregon Governor Kate Brown, Inaugural Address, January 9, 2017¹

¹ Kate Brown, Inaugural Address, January 9, 2017,
<http://www.oregon.gov/gov/media/Pages/speeches/Inaugural-010917.aspx>

Introduction

As the 2017 Oregon Legislature convened, the mood was not positive. Although Democrats retained their control over all government branches in Salem and the economy seemed to be booming, the legislators and governor faced a seemingly intractable challenge in balancing the state budget, which is \$1.8 billion in the red. The fiscal chickens of previous commitments and patterns were coming home to roost, and they needed more than scratch to avoid some catastrophic cuts: “Hundreds of thousands of low-income residents could lose coverage under the Oregon Health Plan; K-12 teachers could be laid off, leading to even more crowded classrooms; help and services for seniors could be slashed.”²

The foremost challenge facing the Oregon Legislature confronts nearly all state and local governments today: meeting growing and uncertain spending commitments while funding the public employee retirement system adequately. There is more than magnitude to this problem. The solutions are constricted by a rigid revenue system, funding patterns locked in by party politics, an initiative system that fosters spending commitments more easily than revenue raising, and strong judicial protections of public employee contractual guarantees. To capture the context of the budget debates of the Winter/Spring of 2017, this paper examines the nature and legacies of the November 2017 election, Oregon’s broad economic context, and the core budget debates within Salem.

The 2016 Election: Democratic Victors Must Govern in Interesting Times

Four elements of the 2016 elections stand out: (1) Democrats captured significant but not overwhelming majorities in the statehouse; (2) Kate Brown, the incumbent governor, won with a very slight majority; (3) voters made a strong statement against major revenue reform, while also endorsing more spending commitments; and (4) Republicans, led by Donald Trump, seized almost complete control over the federal government.

In November 2016, Oregon voters seemed to basically say things are fine, no need for significant change. Democrats maintained strong majorities in the state senate (17–13) and in the House (35–25). The net change in the legislature was that Republicans gained one Senate seat. Democrats were left one seat short in both the House and Senate of the two-thirds supermajority needed to pass a tax measure without going to the public (see Table 1). Democratic Governor Kate Brown earned 50.6 percent of the votes, winning only seven of Oregon’s 36 counties in the race. Since this election was only to complete the term Governor John Kitzhaber resigned from in early 2015, she will face voters yet again in 2018.

When the smoke cleared on November 10, 2016, it was clear the governor and new legislature would face some hard tasks and great uncertainty in January. Despite a poll favoring it 60 percent to 40 percent in September, Ballot Measure 97, which would have created a corporate revenue tax and brought an estimated \$6 Billion (that’s with a “B”) each biennium in new state general funds, wound up losing by a 19 percent margin after an aggressive public relations campaign. The opposition campaign outspent supporters of the initiative by a two-to-one margin, making it the most expensive campaign in Oregon history. The epic nature of the defeat brings to

² Oregonian Editorial Board (2017). “A \$1.8 Billion Deficit in a Time of Record Revenue: Editorial Agenda 2017.” Accessed at http://www.oregonlive.com/opinion/index.ssf/2017/01/a_18_billion_deficit_in_a_time.html

Table 1. Political Makeup of the Oregon Legislature, 2000–2016

Year	House of Representatives		Senate		
	Democrats	Republicans	Democrats	Republicans	Ind.
2000	25	35	18	12	
2002	27	33	15	15	
2004	25	35	18	12	
2006	31	29	18	11	1*
2008	36	24	18	12	
2010	30	30	16	14	
2012	34	26	16	14	
2014	34	26	16	14	
2015	35	25	18	12	
2016	35	25	17	13	

*independent

Source: Oregon Secretary of State, 2017.

question whether Oregonians will ever be able to do a large-scale revenue reform without the support of the business community that pumped a record-breaking \$26 million into the campaign. That loss will linger in Oregon’s political memory for a while.³ Meanwhile Oregon voters also chose to dedicate lottery funds to both veterans’ programs (Measure 96) and to “Outdoor School” programs (Measure 99). They also approved by nearly 66 percent the spending of approximately \$150 million annually to school programs that promote graduation and employment for youth.⁴ The voters’ message seems to be “Do more with existing revenue streams.”

The 2016 election also brought another truly unknowable risk to the state budget system: the election of Donald Trump and a Republican Congress. As a state that eagerly embraced the possibilities of the Affordable Care Act, Oregon faces the possibility of being forced to choose between providing health care coverage to low-income people or funding their education, public safety, and public retirement obligations. The Congressional Budget Office predicted that the initial plan supported by Donald Trump and Speaker of the House Paul Ryan (supported by Representative Greg Walden (R-OR)) would cut health insurance to an estimated 299,000 to 465,000 current recipients, while a state-sponsored study says that 465,000 who would be otherwise covered will lose insurance under the GOP reform by 2026.⁵

Other consequences of the new Republican dominance in Washington, DC are uncertain, but seem unlikely to benefit Oregon’s state fiscal situation. According to the Oregon Legislative Revenue Office, some Trump programs, “like rolling back the Medicaid expansion, worsening

³ Nick Budnick, “Measure 97 Post-Mortem: What Went Wrong?” *Portland Tribune* (December 13, 2016).

⁴ Bethany Barnes, “Oregon Ballot Measures: Measure 98 and 99 Pass,” *The Oregonian* (November 8, 2016).

⁵ Jeff Manning, “As Walden Leads Health Care Fight, 64,300 of His Constituents Could Lose Coverage.” *The Oregonian* (March 22, 2017).

trade relations and federal land policy changes are likely to have an outsized impact in Oregon relative to the typical state.”⁶ In addition, Oregon’s new recreational marijuana industry that has generated \$54.5 million in new tax revenue in 2016 may also be under assault by the Trump administration.⁷

Oregon Economic and Budget Projections for 2017: Looking Good and Looking Bad

On February 22, 2017, the Oregon Office of Economic Analysis (OEA) released the state’s March 2017 Economic and Revenue Forecast affirming the positive projections made when the 2015–2017 state budget was prepared. Oregon’s economy has continued to grow ahead of most states. Although the job growth has slowed from peak recovery rates of 2016, healthy job gains of 2.4 percent are projected for 2017, creating 3,500 jobs per month. Although the OEA projects that Oregon’s high minimum wage policy will have a dampening effect on new job creation, current workers should be in a good position to gain wage increases due to the tight job market.⁸

In fact, the Oregon Employment Department reported that Oregon’s unemployment rate reached four percent in February 2017, the lowest recorded since contemporary recordkeeping started in 1976. For 2016, health care, financial services, and information jobs grew strongly, while construction was the fastest area of job growth increasing by 10 percent. In February 2017, the fastest growing sector was government, which added 4,400 jobs after a decline of 3,400 in January 2017.⁹ The OEA report predicts a continued positive direction for employment for the next two years (see Figure 1).

Declining unemployment favors rising incomes, but the larger number also hides regional disparities. According to the Research Division of the Oregon Employment Department:

In 2015, Oregon had a per capita personal income (PCPI) of \$43,783. The PCPI ranked 29th in the United States and was 91 percent of the national average, \$48,112, according to the U.S. Bureau of Economic Analysis. In Oregon, the 2015 PCPI increased by 5.0 percent from 2014, faster than the nationwide PCPI growth rate of 3.7 percent. In 2005, Oregon’s PCPI was \$32,421 and ranked 32nd in the United States.¹⁰

The trends favor urban areas in particular. Three of the top four counties in PCPI in 2015 were the Portland Metro counties, and nearby Hood River was fifth.¹¹ Unemployment is even more distinctly disparate between the rural and urban areas, with the four counties having unemployment under four percent being the three metro counties plus Benton County, home of Oregon

⁶ *Oregon Economic and Revenue Forecast, March 2017*, Volume XXXVII, No. 1, Oregon Office of Economic Analysis, 1, 5–6 (OEA Report).

⁷ R. Reilly and M. Ferner (2017), “Jeff Sessions Issues Ominous Warning on State Marijuana Legalization.” Accessed at http://www.huffingtonpost.com/entry/jeff-sessions-marijuana-comments_us_58b4b189e4b0780bac2c9fd8

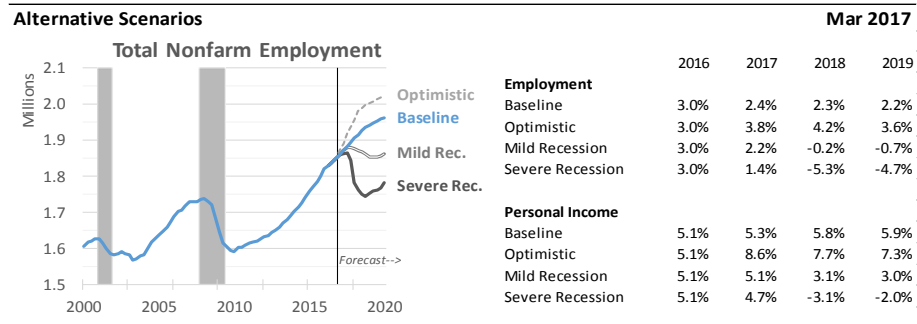
⁸ OEA Report, 7–11.

⁹ Mike Rogoway, “Oregon Unemployment Rate Drops to 4 Percent, a Record Low.” *The Oregonian* (March 21, 2017).

¹⁰ Oregon Employment Blog: <http://oregonemployment.blogspot.com/2017/01/per-capita-personal-income-in-oregons.html>

¹¹ Felicia Bechtoldt, “Per Capita Personal Income in Oregon.” Oregon Employment Department (January 26, 2017). <https://www.qualityinfo.org/-/per-capita-personal-income-in-oregon>

Figure 1. OEA March 2017 Employment Projections



gon State University. Meanwhile all 13 Oregon counties with unemployment of six percent or higher were rural.¹²

For state legislators and the governor, probably the more immediate concern is not employment, but revenue. The OEA report did not disappoint, but it also did not create any illusions that Oregon was going to grow itself out of the impending fiscal tribulations. The projections that were used to create the 2015–2017 budget seem remarkably accurate, within \$4 million for personal income tax revenues and \$113 million (or 0.6 percent) for overall general funds revenues.¹³ This means there is little chance Oregonians will receive the “kicker” refunds, which are distributed when personal income tax revenues exceed projections by two percent in a biennium. Overall things look positive for the 2017–2019 state budget, with personal income taxes, which are approximately 85 percent of general fund revenues, increasing by an estimated 10.7 percent, although corporate income taxes could decline by four percent (see Table 2).

While 10 percent gross General Fund growth is certainly promising, the OEA report foresees tougher times in the long run: “Revenue growth in Oregon and other states will face considerable downward pressure over the 10-year extended forecast horizon. As the baby boom population cohort works less and spends less, traditional state tax instruments such as personal income taxes and general sales taxes will become less effective, and revenue growth will fail to match the pace seen in the past.”¹⁴

Core Budget Debates in Salem for 2017

Not very long ago economic conditions such as Oregon has in 2017 would have meant the state’s budget debate would center on what programs needed restoration and what new programs merit investment. Instead the discussions in Salem center on whether producing a balanced budget requires major new revenues, significant program cuts (or nonincreases), or both. Besides the condition and requirements of the General Fund, which is the most central focus here, dec-

¹² “Local Area Unemployment Statistics Map: Oregon, January 2017.” U.S. Bureau of Labor Statistics. <https://data.bls.gov/map/MapToolServlet?survey=la&map=county&seasonal=u&datatype=unemployment&year=2017&period=M01&state=41>

¹³ OEA Report, 22.

¹⁴ OEA Report, 22–23.

Table 2. OEA Revenue Projections**General Fund Revenue Forecast Summary (Millions of Dollars, Current Law)**

Revenue Source	Forecast 2013-15		Forecast 2015-17		Forecast 2017-19		Forecast 2019-21		Forecast 2021-23		Forecast 2023-25	
	Biennium	% Chg	Biennium	% Chg	Biennium	% Chg	Biennium	% Chg	Biennium	% Chg	Biennium	% Chg
Personal Income Taxes	13,958.3	15.2%	15,709.8	12.5%	17,392.7	10.7%	19,257.7	10.7%	21,499.2	11.6%	23,529.2	9.4%
Corporate Income Taxes	1,116.5	26.3%	1,136.2	1.8%	1,058.6	-6.8%	1,054.2	-0.4%	1,100.7	4.4%	1,149.3	4.4%
All Others	1,030.2	-11.4%	1,264.6	22.8%	1,162.1	-8.1%	1,255.2	8.0%	1,338.7	6.7%	1,419.4	6.0%
Gross General Fund	16,105.0	13.7%	18,110.6	12.5%	19,613.5	8.3%	21,567.1	10.0%	23,938.6	11.0%	26,098.0	9.0%
<i>Offsets and Transfers</i>	<i>(74.5)</i>		<i>(44.4)</i>		<i>(73.5)</i>		<i>(75.1)</i>		<i>(75.8)</i>		<i>(77.9)</i>	
Net Revenue	16,030.5	13.3%	18,066.3	12.7%	19,540.0	8.2%	21,492.0	10.0%	23,862.8	11.0%	26,020.1	9.0%

ades-long complaints over the need to invest more in transportation seem to be coming to a head after a disappointing failure to significantly act on this issue in 2015.

Before analyzing the forces driving the increased demands on the general fund, it is useful to recognize that long-standing commitments are not going away. The foremost spending commitment for the state general fund is K-12 education, which not only takes the biggest bite of the budget but also has the broadest political support. The Oregon Legislature faces especially strong pressures to support K-12 schools because property tax reforms of the 1990s cap local funding tightly, limiting local property tax options. Pressure to protect, if not expand spending on K-12 education is enhanced by Oregon’s consistent ranking among the bottom five states in graduation rates. In 2013–2014, Oregon ranked 48th with a 75 percent graduation rate in 2013–2014, compared to the national average of 82 percent.¹⁵ Oregon’s spending per K-12 pupil ranked higher at 22nd with \$9,760 per pupil in 2013–2014, compared to a national average of \$10,936.¹⁶

Assuming that K-12 spending will remain at least the same percentage in the 2017–2019 Oregon General Funds budget, then the state legislature will be committed to spending at least 38.7 percent of those funds on K-12 education. Governor Kate Brown’s proposed budget for 2017–2019 recommended approximately the same percent spending in that area.¹⁷ In the Oregon Legislature, the chairs of the Joint Ways and Means Committee have guided the budget process in recent years. In the “Existing Resources Budget Framework 2017–2019,” which reflects the Ways

¹⁵ “Table 219.46, Public high school 4-year adjusted cohort graduation rate (ACGR), by selected student characteristics and state: 2010–11 through 2013–14.” National Center for Educational Statistics. <https://nces.ed.gov/programs/coe/indicator_coi.asp>

¹⁶ “Table 2. Current expenditures and current expenditures per pupil of public elementary and secondary school systems, by region, state, and two largest school districts by enrollment in each state: Fiscal year 2014.” In *Revenues and Expenditures for Public Elementary and Secondary School Districts: School Year 2013–14* (Fiscal Year 2014). National Center for Educational Statistics (February 2017). <<https://nces.ed.gov/pubs2016/2016303.pdf>>

¹⁷ *2017–2019 Governor’s Budget*. State of Oregon (January 2017). http://www.oregon.gov/das/Financial/Documents/2017-19_gb.pdf

and Means Committee chairs' analysis of what is possible if there are no major revenue changes for the upcoming biennium, the chairs estimate that the current service level for K-12 Education General Funds would be \$8,012.6. Given their estimate that General Funds/Lottery money will be \$1.8 B short of projected needs, their preliminary recommendation for this area is \$7,725.8, about the same percentage as the governor's recommendation.¹⁸

The second area of the General Fund that is difficult for the legislature to control is health care spending. Looming over this area is the possibility that President Trump and congressional Republicans organize themselves sufficiently to actually repeal and replace the Affordable Care Act, but from Oregon's perspective there can be nothing but bad news from Washington, DC in this area. Even with no change, the existing ACA required that states replace significant one-time federal funding for the Medicaid expansion Oregon eagerly embraced, as it moved from 100 percent federal funding to requiring states to pick up 10 percent of the cost. Within her proposed General Funds and Lottery budgets, the governor endorses Oregon's commitment to maintaining the accomplishments of the ACA in Oregon, which has achieved 95 percent insurance coverage, and to increase coverage of children even further. The Governor's request has about a one percent increase in the general fund and lottery, enhanced revenue from special assessments within the health care industry, and an optimistic estimate of cost control efforts.¹⁹ The Ways and Means co-chairs report recommends the same basic General Funds/Lottery Funds allocation, but since this report assumes no new revenue sources, the study predicts a necessary 27.5 percent cut in current service levels unless new funding is adopted.²⁰

The final and most significant spending commitment the legislature faces is the state and local government commitment to the Public Employee Retirement System (PERS). The need to increase funding to PERS is a long-standing Oregon concern, but the impetus for actual action has expanded with the aging of Oregon's state and local workforce and, in this budget cycle, because of incessant pressure on the issue by the *Oregonian* and the release of a January 2017 report on the issue by the Portland State University.

Oregon's problems with the long-term funding of public employee retirement programs are far from unique. Analysis by the Pew Charitable Fund in 2016 states there was a "\$934 billion gap in fiscal year 2014 between the pension benefits that governments have promised their workers and the funding available to meet those obligations. That represents a \$35 billion decrease from the shortfall reported for fiscal 2013. The reduction in pension debt was driven primarily by strong investment results."²¹ It should be noted that pension liability numbers are volatile because of they are determined by both economic and financial conditions (particularly investment returns) and also by the metrics used by the rating agency. Oregon was rated tenth best in Standard and Poor's calculation of State Net Pension Liability Per Capita for 2013, with a 91.9 percent funded ratio compared to the national average of 73.2.²² The Pew Center for the States

¹⁸ "Co-Chairs Existing Resources Budget Framework, 2017-2019." Oregon Legislative Fiscal Office. (January 2017), 4. Accessed at <<https://www.oregonlegislature.gov/lfo/Documents/2017%20Co-Chair%20Document.pdf>>

¹⁹ *2017-2019 Governor's Budget*, pp. 58-62.

²⁰ "Co-Chairs Existing Resources Budget," 7.

²¹ "The State Pension Funding Gap: 2014." Pew Charitable Trust Issue Brief. (August 24, 2016). <http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/08/the-state-pension-funding-gap-2014>

²² "U.S. State Pensions: Weak Market Returns Will Contribute To Rise In Expense." S & P Global Rating (2015) pp. 14-15.

publication projection that Oregon PERS had 102 percent of the Funded Ratio in 2014 means that if the Oregon's projections and policies were accurate, there was at least enough to cover pension liabilities. But the Pew study also revealed that government and investment contributions to the fund in the year 2014 were only 68 percent of what was needed to maintain the system.²³

The discussion is Oregon is driven by less positive numbers. In an article entitled "PERS: 9 myths about Oregon's public pension fund," *Oregonian* reporter Ted Sickinger writes:

The growing deficit in the public pension fund is a massive overhang on Oregon's budget and its future. Government employers—and ultimately taxpayers—will see their required contributions soar over the next six years, sucking some \$12 billion out of public coffers to mostly pay for legacy costs tied to older members and retirees. That's about double what the bill would be at current rates. At least that's the scenario if the pension fund's investments perform as expected. If they don't, the deficit and contributions could get even bigger.²⁴

The *Oregonian* article presents the editorial argument the paper has been making for years, basically that the retirement benefits for long-term public employees threaten state and local budgets throughout Oregon because they were made excessively generous in the booming stock market of the 1990s and reforms since then have been inadequate and create inequity between long-term and more recently hired employees.

There is no doubt that Oregon's state and local governments, nearly all of which participate in the PERS system, are extremely exposed financially by growing retirement obligations. The 2017–2019 budget cycle seems to be the first where the number of retirees and the inadequate returns on investment are deeply accelerating total employee costs since governments are legally required to maintain appropriate levels of funding. This message is at the heart of the high profile report, "Oregon's Looming 'TECC' Challenge: The Imminent Rise of 'Total Employer Costs of Compensation' for Oregon Local Government," issued by Portland State University's Center for Public Service with former Democratic Secretary of State Phil Keisling identified as the lead author. Although the focus is on Oregon local government expenditures, the core concepts apply to all Oregon public employees participating in PERS. As the title indicates, the study focuses on the need to fully recognize the full costs of public employees; in other words, policymakers must go far beyond salary when calculating the financial obligations they have as employers. The study finds that:

By the 2021–22 fiscal year, a typical local government will pay approximately \$4,000 towards employee retirement obligations for every \$10,000 it devotes for base salaries. Some—especially

<<http://www.nasra.org/files/Topical%20Reports/Credit%20Effects/SPGlobalstates1609.pdf#page=8&zoom=170,4,546>>

²³ "The State Pension Funding Gap: 2014." The Pew Charitable Trusts Brief (August 2016), 3–4. <<http://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2016/08/the-state-pension-funding-gap-2014>>

²⁴ Ted Sickinger, "PERS: 9 Myths about Oregon's Public Pension Fund." *The Oregonian* (February 12, 2017).

in the realm of K-12 school districts—are projected to pay even more than 40 percent for this one TECC component alone.²⁵

Although the TECC incorporates health care benefits and other possible costs, such as cost-of-living adjustments, the real concern of the study is the extent to which local governments (and the state) are unprepared for the impending retirement of the baby boomers whose contracts guarantee good retirement incomes. To reach a level of contributions to the PERS fund adequate to cover 100 percent of its liabilities, employer contributions would have to go from the current average of 17.46 percent of total payroll costs to 29.08 percent.²⁶ The total possible increase in costs for a typical local employee is illustrated in Table 3 from the Kiesling report.

If nothing happens then the increase in TECC will force local governments, including school districts, to control their other costs. Since most of the costs are employee related, this is predicted to mean that there will be fewer public employees, and they will be less well paid with reduced benefits. Kiesling estimates this could mean a 10-percent drop in local government employment if nothing is done.²⁷

Although the possibility of higher investment earnings and unknowable factors ameliorating the PERS situation exist, Oregon legislators are basically assuming that the Kiesling report accurately describes the looming cost obligations facing local governments, and the possible consequences.

Possible Directions for the Oregon State Budget

As of April 2017, the direction the legislature may go to respond to the estimated \$1.8 billion shortfall in General Funds is unclear. In late January 2017, the Democratic Speaker of the House Tina Kotek and the Democratic Senate President Peter Courtney appeared pessimistic about the possibilities for taxing their way to resolve either the short-term or the long-term shortfalls facing the state.²⁸ In an ironic observation for the longest serving Senate president in Oregon’s history, President Courtney observed that Oregon has lost its way in recent years and lacks the leadership to get back on track. As the *Oregonian* reported, “We just don’t want it,” he (Courtney) said repeatedly, mourning the loss of an Oregon that was the “first and only” in testing out new policies, and “we’re on our way to becoming just another state. Another friggin’ state.”²⁹

Courtney’s pessimism does not erase the need to complete a new 2017–2019 budget nor does it address the PERS issue, so legislators are pushing on. In early April, Democratic Representative Mark Haas (D-Hillsboro), chair of the House Revenue Committee, was advocating for a new corporate revenue tax. Although the shadow of Measure 97 hangs over all tax measures being considered, Haas believes that this system would be more acceptable to the corporate community due to its simplicity, being modeled after Ohio’s “commercial activity tax,” which taxes all corporate transactions at .26 percent. Haas’s work on the Revenue Committee has been collabora

²⁵ Phil Kiesling, “Oregon’s Looming ‘TECC’ Challenge: The Imminent Rise of ‘Total Employer Costs of Compensation’ for Oregon Local Government” Center for Public Service, Portland State University. (February 16, 2017), 4.

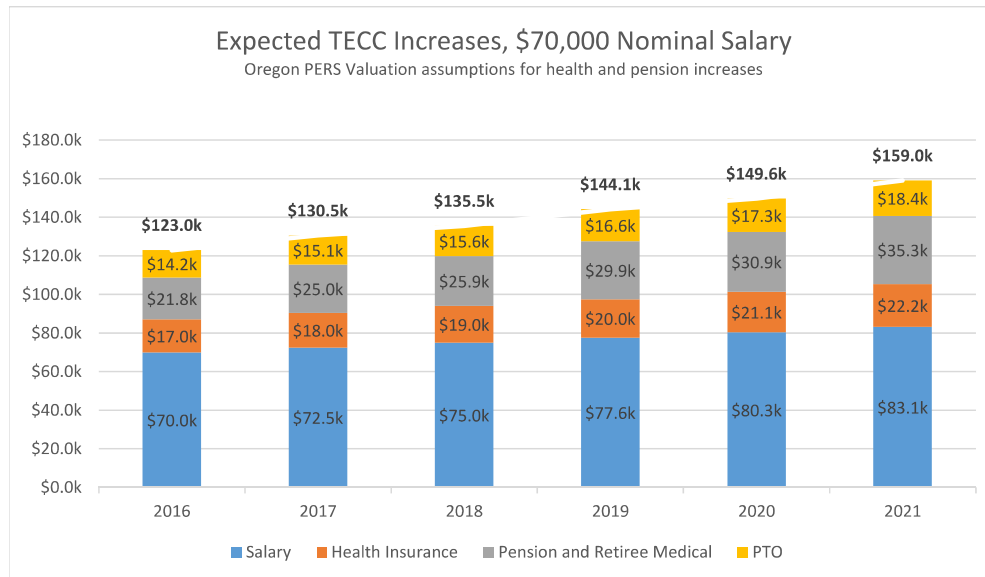
²⁶ Kiesling, 15.

²⁷ Kiesling, 5.

²⁸ Anna Marum, “Legislature Could Be Forced into Special Session over Budget Fight, Senate President Says.” *The Oregonian* (January 24, 2017).

²⁹ Marum, “Legislature Could . . .”

Table 3. Expected TECC Increases, from Kiesling



tive with Republic legislator Mark Johnson (R-Hood River), although Johnson seeks a more revenue neutral reform.³⁰

The general understanding in Salem is that to balance the 2017–2019 budget will require both cuts and new revenues. The co-chair of the Joint Ways and Means Committee, Senator Richard Devlin (D- Beaverton) has identified a possible three-way approach that incorporates a tax on hospitals, major cuts, and new taxes.³¹

PERS reform is difficult. The Oregon Supreme Court has determined that the state must honor whatever agreements it has already entered regarding benefits, although the state may make new contracts with workers over time. Early attempts by the state to limit retirement costs under this principle have created three “tiers” of state employees. The first tier have worked for the state since before 1996 and have the most generous benefits. First tier employees are seen as the cost drivers in the system, because they are entitled to the highest retirement benefits in their contracts and because they are already drawing from the system as retirees or are getting close to that status. First tier employees are entitled to “defined benefit” retirement packages that commit the state to guarantee whatever income the contracts have promised.

Tier two and three generally have “defined contribution” programs and the state does not have to worry about shortcomings in their investment earnings. One common element in Oregon retirement packages is that over 70 percent of Oregon public employees have a supplemental retirement investment account that employers contribute six percent of an employee’s salary amount to, in addition to the PERs guarantee and Social Security. The state and local govern-

³⁰ Anna Marum, “Oregon Lawmakers Seek a New Way to Tax Corporations.” *The Oregonian* (March 31, 2017).

³¹ Anna Marum, “Oregon’s Top Budget Writer Endorses \$500M in Cuts, \$500M in New Taxes.” *The Oregonian* (March 17, 2017).

ments agreed to pick up this retirement contribution in lieu of raises in the 1980s, and it has been given to most Oregon public employees since.

For state legislators reforming the PERS is complicated by the fact that the largest source of pension obligations are tier one employees who have the strongest legal guarantees of benefits. Reforms being considered in Salem in 2017 include eliminating or reducing the employer contributions to the supplemental account, diverse ways of reducing the benefit calculations, and raising the retirement age.³² Any reform faces at least two major risks: (1) the anger of public employees, the most organized and active single political force in the state; and (2) review by the state supreme court to determine if the changes abridge its interpretation of what has been promised to employees in the past.

There are other ways to reduce government employee costs, however. In early April, a new place to potentially cut received significant press attention: state employee health care coverage. According to an article in the *Eugene Register-Guard*:

The average health plan premium for an employee at an Oregon state agency cost the state \$16,992 this year. In Washington, the cost for the same type of worker is \$12,312 a year; in California, it's an estimated \$15,500 annually. Those weighted averages lump together lower-cost, employee-only plans with more expensive employee-plus-family plans.

Furthermore, Oregon state agency employees contribute much less, on average, toward their health insurance premiums than do their counterparts in Washington and California. Those workers in Oregon—including corrections and state police officers, social workers and university professors—pay on average 5 percent of their health plans' premium cost, with the government picking up 95 percent. In Washington, their counterparts chip in 15 percent. In California, workers pick up 23 percent.³³

There is likely to be new pressures to reduce the quality of the state employee health care benefits, the contributions state employees make to their health care coverage, or both. During John Kitzhaber's governorship, there was a plan to gradually move public employees into the same health care system the state was provided to Medicaid recipients, a local network-based system called the Coordinated Care Organizations (CCOs).³⁴ Although the uncertain status of the ACA makes it unlikely public employees will be moved into any system linked to the federal program, attention to this idea is an indicator of the budget pressures in Salem.

Summary and Other Impending Issues

To sum up Oregon's biennial budget situation, the state's two-year budget revenue forecast is \$19.7 billion, which is up \$1.3 billion. However, some expenditures are increasing at twice the rate of growth including \$1 billion in increased health care costs primarily due to a reduction in federal support for Oregon's Medicare expansion, \$350 million in unfunded PERs costs, and

³²Ted Sickinger, "PERS: Lawmakers Consider Public Pension Reform Bills." *The Oregonian* (March 26, 2017).

³³ Saul Hubbard, "Insurance Costs Have Legislators' Attention." *The Register Guard* (April 2, 2017).

³⁴ Kristian Foden-Vencil, "Oregon Lawmakers Want Public Employees to Use CCOs for Health Insurance." Oregon Public Broadcasting. (April 5, 2017) <<http://www.opb.org/news/article/oregon-lawmakers-want-public-employees-to-use-ccos/>>

\$357 million in unfunded ballot measures that were passed by voters in 2016.³⁵ And all of this is happening despite a mostly healthy economy with one of the lowest unemployment rates on record, a housing boom, and even job growth in most counties and even Oregon’s economically challenged rural counties.

Other issues that arise from this situation include, but are not limited to, cuts in K-12 public education budgets including Portland Public Schools planning to eliminate 59 administrators and 70 teaching positions. All of Oregon’s public universities plan five percent or more tuition increases, with Portland State University planning on a nine percent increase, and cuts in the number of instructors and administrators. In addition, as was discussed above, there will certainly be cuts in health care and coverage for many Oregonians, which will also have an impact on jobs with cuts to the health care industry projected to be around 45,000 to 47,00 jobs.³⁶

Other “policy victims” of the budget situation includes Oregon’s ambitious “40–40–20” education policy, adopted through SB 253 in 2011. This goal states that by 2025, 40 percent of Oregonians should have a baccalaureate degree or higher, 40 percent should have an associate’s degree or certificate, and 20 percent should have a high school diploma or equivalent. The ambitiousness of this goal is impressive, since in 2015 only 31 percent of Oregonians had bachelor’s degrees, 17 percent had associate’s degrees and 10 percent have not earned a high school degree.³⁷ Certainly major cuts and the reduction of K-12 teachers and higher education instructors will adversely affect progress toward this ambitious goal.

Another ambitious and innovative educational program at risk is the state’s new “Oregon Promise” program, which covers most tuition for Oregon High School graduates to attend an Oregon community college. According to a recent memo by Senator Devlin and Representative Nathanson—the chief legislative budget writers: “the promise could be one of many casualties of Oregon’s \$1.8 billion revenue shortfall. The legislators acknowledged their plan limits the number of students who could enroll and leaves the state “unable to fund” students . . . who are already receiving grants.”³⁸

Another important and strategic area for the state economy that will continue to suffer for lack of budget and supporting legislation is transportation infrastructure. Two recent ODOT economic studies—“Rough Roads Ahead” and “Oregon Highways Seismic Plus Report”—predict serious economic consequences without new investment in transportation infrastructure.³⁹ The “Rough Roads Ahead” study predicts a loss of up to 100,000 jobs by 2035 due to “slower economic growth due to deteriorating conditions” of Oregon’s highways and bridges.⁴⁰ Similarly,

³⁵Mike Rogoway, “Oregon’s Economy Soars Yet State Budget Gap Grows: Here’s Why.” *The Oregonian* (April 9, 2017). Accessed at http://www.oregonlive.com/business/index.ssf/2017/04/oregons_economy_soars_yet_stat.html

³⁶Vickie Aldous, “Battle Brewing over Oregon Health Plan,” *Mail Tribune* (February, 2, 2017). <http://www.mailtribune.com/news/20170202/battle-brewing-over-oregon-health-plan>

³⁷Oregon Educational Attainment Data: Progress toward Oregon’s 40–40–20 Education Goal,” Oregon Legislative Reports and Resources. Accessed at <https://www.oregon.gov/highered/research/Pages/educational-attainment.aspx>

³⁸ Andrew Theen, “Oregon Promise’s Future not Guaranteed Heading into Legislative Session,” *The Oregonian* (February 1, 2017). http://www.oregonlive.com/education/index.ssf/2017/02/oregon_promises_future_not_gua.html

³⁹ Oregon Department of Transportation, “Rough Roads Ahead” and “Oregon Highways Seismic Plus Report.” Accessed at https://www.oregon.gov/ODOT/COMM/Documents/FAQ_RRAandSPreports.pdf

⁴⁰ “Rough Roads Ahead.” Oregon Department of Transportation. 2014. <https://www.oregon.gov/ODOT/COMM/Documents/RoughRoads2014.pdf>

the “Seismic Plus Report” conducted an economic analysis of a Cascadia subduction zone earthquake on Oregon roads and bridges. The study concludes that the state would reduce its economic losses due to earthquake by \$84 billion with investments in key bridges and highways.⁴¹ Given recent deadlock between Democrats and Republicans concerning new transportation revenues (i.e., Oregon’s Constitution requires a three-fifths supermajority to pass a new taxes), and given the current biennial budget situation, it is hard to see how ODOTs budget can be increased to maintain and build new infrastructure projects remains unclear.

⁴¹ “Oregon Highways Seismic Plus Report.” Oregon Department of Transportation (October 2014). https://www.oregon.gov/ODOT/HWY/BRIDGE/docs/2014_Seismic_Plus_Report.pdf