voters' pamphlet

VOLUME 1 OF 2

MEASURES

State of Oregon
General Election
November 5, 1996

The Secretary of State must produce two Voters' Pamphlet volumes due to the large number of measures to be voted on in the 1996 General Election. Volume 1 includes measure information only. Volume 2 includes candidate information and will be mailed to you in approximately seven to ten days.

Compiled and distributed by

Phil Keisling

Secretary of State

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Measure No. 30

Measure No. 30

House Joint Resolution 2—Referred to the Electorate of Oregon by the 1995 Legislature to be voted on at the General Election, November 5, 1996.

BALLOT TITLE

30 AMENDS CONSTITUTION: STATE MUST PAY LOCAL GOVERNMENTS COSTS OF STATE-MANDATED PROGRAMS

RESULT OF "YES" VOTE: "Yes" vote requires the state to pay local governments for costs of state-mandated programs.

RESULT OF "NO" VOTE: "No" vote rejects requirement that state pay local governments for costs of state-mandated programs.

SUMMARY: Amends constitution. Measure would require legislature to pay local governments for costs of new state-mandated programs or increased level of services for state-mandated programs. If funds are not paid, local governments need not comply with law or rule requiring program or service. Contains exceptions. Requires 3/5 vote of each house of Legislature to take certain actions reducing state revenues that are distributed to local governments. If adopted, measure would be repealed on June 30, 2001, unless approved again at general election in year 2000.

ESTIMATE OF FINANCIAL IMPACT: No financial effect on state or local government expenditures or revenues.

Be It Resolved by the Legislative Assembly of the State of Oregon:

<u>PARAGRAPH 1.</u> The Constitution of the State of Oregon is amended by creating new sections 15 and 15a to be added to and made a part of Article XI and to read:

SECTION 15. (1) Except as provided in subsection (7) of this section, when the Legislative Assembly or any state agency requires any local government to establish a new program or provide an increased level of service for an existing program, the State of Oregon shall appropriate and allocate to the local government moneys sufficient to pay the ongoing, usual and reasonable costs of performing the mandated service or activity.

(2) As used in this section:

(a) "Enterprise activity" means a program under which a local government sells products or services in competition with a nongovernment entity.

(b) "Local government" means a city, county, municipal corporation or municipal utility operated by a board or commission.

(c) "Program" means a program or project imposed by enactment of the Legislative Assembly or by rule or order of a state agency under which a local government must provide administrative, financial, social, health or other specified services to persons, government agencies or to the public generally.

(d) "Usual and reasonable costs" means those costs incurred by the affected local governments for a specific program using generally accepted methods of service delivery and administrative practice.

(3) A local government is not required to comply with any state law or administrative rule or order enacted or adopted after January 1, 1997, that requires the expenditure of money by the local government for a new program or increased level of service for an existing program until the state appropriates and allocates to the local government reimbursement for any costs incurred to carry out the law, rule or order and unless the Legislative Assembly provides, by appropriation, reimbursement in each succeeding year for such costs. However, a local government may refuse to comply with a state law or administrative rule or order under this subsection only if the amount appropriated and allocated to the local government by the Legislative Assembly for a program in a fiscal year:

(a) Is less than 95 percent of the usual and reasonable costs incurred by the local government in conducting the program at the same level of service in the preceding fiscal year; or

(b) Requires the local government to spend for the program, in addition to the amount appropriated and allocated by the Legislative Assembly, an amount that exceeds one-hundredth of one percent of the annual budget adopted by the governing body of the local government for that fiscal year.

(4) When a local government determines that a program is a program for which moneys are required to be appropriated and allocated under subsection (1) of this section, if the local government expended moneys to conduct the program and was not reimbursed under this section for the usual and reasonable costs of the program, the local government may submit the issue of reimbursement to nonbinding arbitration by a panel of three arbitrators. The panel shall consist of one representative from the Oregon Department of Administrative Services, the League of Oregon Cities and the Association of Oregon Counties. The panel shall determine whether the costs incurred by the local government are required to be reimbursed under this section and the amount of reimbursement. The decision of the arbitration panel is not binding upon the parties and may not be enforced by any court in this state.

(5) In any legal proceeding or arbitration proceeding under this section, the local government shall bear the burden of proving by a preponderance of the evidence that moneys appropriated by the Legislative Assembly are not sufficient to reimburse the local government for the usual and reasonable costs of a program.

(6) Except upon approval by three-fifths of the membership of each house of the Legislative Assembly, the Legislative Assembly shall not enact, amend or repeal any law if the anticipated effect of the action is to reduce the amount of state revenues derived from a specific state tax and distributed to local governments as an aggregate during the distribution period for such revenues immediately preceding January 1, 1997.

(7) This section shall not apply to:

(a) Any law that is approved by three-fifths of the membership of each house of the Legislative Assembly.

(b) Any costs resulting from a law creating or changing the definition of a crime or a law establishing sentences for conviction of a crime.

(c) An existing program as enacted by legislation prior to January 1, 1997, except for legislation withdrawing state funds for programs required prior to January 1, 1997, unless the program is made optional.

(d) A new program or an increased level of program services established pursuant to action of the Federal Government so long as the program or increased level of program services imposes costs on local governments that are no greater than the usual and reasonable costs to local governments resulting from compliance with the minimum program standards required under federal law or regulations.

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Measure No. 30

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(e) Any requirement imposed by the judicial branch of government.

(f) Legislation enacted or approved by electors in this state under the initiative and referendum powers reserved to the people under section 1, Article IV of this Constitution.

(g) Programs that are intended to inform citizens about the activities of local governments.

(8) When a local government is not required under subsection (3) of this section to comply with a state law or administrative rule or order relating to an enterprise activity, if a nongovernment entity competes with the local government by selling products or services that are similar to the products and services sold under the enterprise activity, the nongovernment entity is not required to comply with the state law or administrative rule or order relating to that enterprise activity.

(9) Nothing in this section shall give rise to a claim by a private person against the State of Oregon based on the establishment of a new program or an increased level of service for an existing program without sufficient appropriation and allocation of funds to pay the ongoing, usual and reasonable costs of performing the mandated service or activity.

(10) Subsection (4) of this section does not apply to a local government when the local government is voluntarily providing a program four years after the effective date of the enactment, rule or order that imposed the program.

(11) In lieu of appropriating and allocating funds under this section, the Legislative Assembly may identify and direct the imposition of a fee or charge to be used by a local government to recover the actual cost of the program.

SECTION 15a. (1) Section 15 of this Article is repealed on June 30, 2001, unless, at the general election held in 2000, a majority of the electors voting on the question of whether or not to retain section 15 of this Article as part of the Oregon Constitution vote to retain the section. If the electors vote to retain the section, section 15 of this Article remains in effect. If the electors do not vote to retain section 15 of this Article, then that section is repealed on June 30, 2001. The Legislative Assembly may provide for the disposition of any matters remaining unresolved with respect to the appropriation and allocation of moneys under section 15 of this Article.

(2) By appropriate action of the Legislative Assembly and the Secretary of State, the question described in subsection (1) of this section shall be submitted to the people for their decision at the statewide general election held in 2000.

(3) This section is repealed on January 1, 2002.

PARAGRAPH 2. The amendment proposed by this resolution shall be submitted to the people for their approval or rejection at the next regular general election held throughout this state.

EXPLANATORY STATEMENT

Measure 30 amends the Oregon Constitution to require state financing of state programs imposed on local governments after January 1, 1997. Affected programs are those programs, projects or services imposed by the legislature or by state agency rule or order under which a local government must provide administrative, financial, social, health or other specified services to persons, government agencies or to the public generally. For purposes of this amendment, "local government" means a city, county, municipal corporation or municipal utility operated by a board or commission.

The state is required to pay the usual and reasonable costs of such programs and costs of the state's increasing the level of services under existing programs after January 1, 1997. The legislature must continue to provide at least 95% of these costs each year.

If there is a dispute over the issue of state funding, a local government may submit the dispute to nonbinding arbitration or to judicial determination. The arbitration panel shall consist of one representative from the Oregon Department of Administrative Services, one representative from the League of Oregon Cities and one representative from the Association of Oregon Counties. The local government must show that moneys provided by the state are not sufficient to cover the usual and reasonable costs of the program or services.

If the legislature fails to provide moneys to local governments to pay at least 95% of the cost of the program or service imposed after January I, 1997, the local government is relieved of its duty to provide that program or service. The duty of the local government also ends if the legislature requires it to spend more than one-hundredth of one percent of its budget for the required program or services, not including the costs met by the state.

Under Measure 30, the required money for local governments may come from state appropriations or from a legislative requirement that local governments collect fees or charges to pay the costs.

Measure 30 requires that at least 18 of the 30 state senators and 36 of the 60 state representatives approve any bill that reduces the amount of money that is distributed to local governments from proceeds of a specific state tax.

Measure 30 does not apply to any of the following:

- Any law approved by at least 60 percent of the members of each house of the legislature.
- Requirements imposed by state or federal courts.
- Laws enacted or approved through the initiative or referendum process.
- Programs that inform citizens about activities of local governments.
- Other programs and laws specified in the measure.

When a local government is not required to comply with a state requirement relating to a program under which the local government sells products or services in competition with a private entity, then the private entity is also not required to comply with that state requirement.

Measure 30 will be repealed June 30, 2001, unless the voters at the 2000 General Election vote to keep the measure in effect.

Committee Members:	**Appointed by:**
Senator Gene Derfler	President of the Senate
Representative Lynn Lundquist	Speaker of the House
Representative Tony Corcoran	Secretary of State
Senator Peter Sorenson	Secretary of State
Kathleen Beaufait	Members of the Committee

(This committee was appointed to provide an impartial explanation of the ballot measure pursuant to ORS 251.215.)

Measure No. 30

LEGISLATIVE ARGUMENT IN SUPPORT

Measure 30 amends the Oregon Constitution to require the state government to pay for services that it requires local governments to provide.

Currently, the state government or a state agency may compel a local government to provide financial, social, health and other services to the public, but does not have to provide any money to the local government to pay the cost of those services.

The state government and state agencies therefore have the power to impose their policy preferences on local governments and to have the local governments pay the bill with money obtained by local taxpayers.

Measure 30 eliminates the power of state government and state agencies to demand that local money be used to pay for state required programs.

Under Measure 30, if the state government does not pay for services required by the state government or state agencies, local governments need not provide the services.

Measure 30 restores control of their budgets to local governments and local taxpayers and ensures that local revenues will be used only for those programs preferred by and needed by local governments.

As an added safeguard for local governments, Measure 30 requires 60 percent of each house of the legislature to approve any bill that reduces the amount of money that is distributed to local governments from the proceeds of a specific state tax, such as the cigarette tax.

In addition, the measure does not apply to laws adopted by the people by initiative.

Finally, Measure 30 allows the voters to determine over the next four years whether the measure improved the operation of government. If the voters decide that Measure 30 does not benefit them or their local governments, the voters are given the opportunity to repeal Measure 30 in November 2000.

This measure reduces the power of state government, allows local governments to set their own budgetary priorities and grants a greater share of fiscal control to local voters.

A "yes" vote on Measure 30 is urged.

Committee Members:	**Appointed by:**
Senator Bob Kintigh	President of the Senate
Speaker of the House Bev Clarno	Speaker of the House
Representative Ken Strobeck	Speaker of the House

(This Joint Legislative Committee was appointed to provide the legislative argument in support of the ballot measure pursuant to 1993 Or. Laws 811 §10.)

Measure No. 30

ARGUMENT IN FAVOR

Eliminate Hidden Costs and Hidden Taxes

Yes on Measure 30

It's time to slow the growth of hidden taxes! State government should pay for the programs it enacts. Ballot Measure 30 puts this principle of accountability into practice right up in front.

Hidden costs result when the state government makes your counties and cities deliver state programs without providing money to pay for them. By their very nature, hidden costs grow and grow with no accountability and no control. As consumers, you know hidden costs get translated into higher prices.

Hidden costs also become higher taxes for you as a local taxpayer. It's like giving the State unlimited credit authority to charge state programs against your local property taxes **without your approval.**

You have a chance through Ballot Measure 30 to **re-establish accountability.**

You can bring together the responsibility for enacting government programs and paying for them.

You can **stop the illusion that people are getting something for nothing.**

Slow the growth of hidden taxes.

Vote YES on #30.

(This information furnished by Richard M. Butrick, President, Associated Oregon Industries.)

(This space purchased for $500 in accordance with 1993 Or. Laws 811 §11.)

The printing of this argument does not constitute an endorsement by the State of Oregon, nor does the state warrant the accuracy or truth of any statement made in the argument.

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Measure No. 30

ARGUMENT IN FAVOR

Dear Fellow Oregonian,

Have you ever wanted to tell state government to be accountable? To stop passing the buck to someone else?

That's what Ballot Measure 30 is all about. It's an opportunity to tell state government that, if you're going to require local governments to do a job, the state is going to have to pay the bill. It's that simple.

You see, far too often, it's easy for the politicians in Salem to pass the cost of providing services on to local government. They require that counties and cities provide certain services, but they don't give the counties and cities the money to get them done.

Keeping criminals behind bars is a great example. Starting next January, a lot of criminals who would normally go to state prisons will be housed in county jails.

Now, the state is helping to provide funds to expand jail space to meet the increased needs. That's only right since it is the state's responsibility to house these criminals. But there is no guarantee of continued operating funds from the state. That means the counties could be on the hook for the whole tab, if the state was to discontinue funding.

That's just not right. And it's why the Legislature is putting Ballot Measure 30 to a vote of the people.

Ballot Measure 30 simply says that if the state says to counties and cities that they have to provide a service, the state has to foot the bill. If the state is not paying the price, the county or city can decline to provide the service.

Doesn't that make sense? Don't you think the politicians who decide a service is worth providing should figure out how to pay for it?

Please join me in voting yes on Ballot Measure 30.

Sincerely,

Bev Clarno
Speaker of the House

(This information furnished by Bev Clarno, Speaker of the House.)

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Measure No. 30

ARGUMENT IN FAVOR

What is wrong with this picture? **If the legislature wants to create more programs than it has money, it can force local communities to come up with the funding instead!** Here is how it works now. The state legislature passes a law requiring a program to be provided at the local level but does not budget any state tax dollars to pay for running it. Communities are then in the position of having to increase their taxes, cut local programs or break the law. **Unfunded mandates force a choice to be made that violates local control.**

Ballot Measure 30 is a constitutional amendment that will bring some certainty to the local control principle. It is a practical way to make a distinction between what is the responsibility of the state legislature to fund and what should be determined at the community level. Communities in Oregon are as varied as its landscape and citizens know what their most important local problems and issues are and how best to address them.

Ballot Measure 30 is about accountability and community self determination. It forces the legislature to set priorities for spending the funds they control. It provides an incentive for them to pay for the services and programs they provide and lets local communities select the services and programs that will best meet their needs.

Ballot Measure 30 will be voted on again in four years. This measure has been worked on for 7 years and three legislative sessions. We are confident that if you pass it now, based on these arguments and the impact we say it will have, you will pass it again in the year 2000 because it worked. What could be more open and fair than that?

(This information furnished by Kim Katsion, Commissioner, Washington County; Gary Hansen, Commissioner, Multnomah County; Tanya Collier, Commissioner, Multnomah County; Ed Lindquist, Commissioner, Clackamas County.)

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Measure No. 30

ARGUMENT IN FAVOR

STOP UNFUNDED MANDATES — SUPPORT MEASURE 30

While reaching agreement on issues these days is very difficult, one issue facing Oregon voters this November 5 is not. The concept is really quite simple. When the State of Oregon approves new programs that cost more money, the State of Oregon shall provide full funding for those programs. **VOTE YES ON MEASURE 30** - stop the long list of unfunded mandates placed on local government and local property taxpayers.

WHAT IS A UNFUNDED MANDATE?

- **A program enacted by the state legislature or agencies and given to local government WITHOUT adequate funding!**

WHO PAYS FOR UNFUNDED MANDATES?

- **YOU DO, local taxpayers through higher property taxes!**

CAN WE STOP THESE MANDATES?

- **Vote YES on Measure 30**

Now is a very important time to enact this constitutional referral. The federal and state governments are shifting responsibility for services to local government, often times without long term adequate funding. Local taxpayers deserve the assurances that Measure 30 provides. The state will not have the ability to withdraw funding and leaving local property taxpayers on the hook for picking up the costs. A **YES VOTE on Measure 30**, will keep the State from shifting the tax burden to the local level.

Fifteen (15) states already have constitutional amendments limiting unfunded mandates. This year Congress passed a bill limiting federal unfunded mandates. The results have been greater accountability for decisions they make and less hidden taxation. Oregon voters deserve the same too. Local government is willing to provide funding for its programs, lets make the state of Oregon do the same. Join us and **VOTE YES On Measure 30.**

STOP UNFUNDED MANDATES - VOTE YES!

(This information furnished by Richard Allen, Chair, Jefferson Co. Commission; Judge Dale White, Harney Co. Court; Steve McClure, Union Co. Commission.)

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Measure No. 30

ARGUMENT IN FAVOR

Ballot Measure 30

An unfunded mandate is a binding directive from one level of government to another to accomplish something without providing money to pay for it. Ballot Measure 30 would change this practice. It requires the State to provide money to local governments for costs of mandates. Local governments are often amenable to receiving responsibilities for services when there is adequate state funding or fiscal flexibility to pay for them. We also accept responsibility for state programs when we can participate in setting standards to which we will be accountable. But when we are mandated responsibilities without fiscal assistance, the impact often results in protecting the state budget at the expense of local budgets. As a result, we are blamed for higher property taxes, fees and charges to cover costs for which the state legislature should be accountable.

In placing Measure 30 on the ballot, legislators recognized a partnership must exist between each level of government and fiscal impact discussions must take place before mandate legislation is passed. This measure acknowledges that communities must maintain local control to provide the best services possible. In 1995 when the legislature approved this issue for the ballot, it also passed several concurrent resolutions which they sent to Congress, petitioning the federal government to mandate sparingly. They recognized this issue has far reaching implications for all level of government.

This measure does not eliminate all mandates nor will it stop the state government from legislating in areas of state wide significance. It does say that if the state shifts responsibilities to local government, the state must do so with a higher standard of accountability and sensitivity to local control. Issues and concerns in our communities, such as having appropriate public safety and quality education, can not be addressed adequately unless the state is sensitive to the impact of mandates and how they affect us. Vote for State **accountability** and for **local control.** Vote **yes** on Ballot Measure 30.

(This information furnished by Judge Laura Pryor, President, Association of Oregon Counties; Mayor Alice Schlenker, President, League of Oregon Cities; Police Chief Charles Stull, Oregon Police Chiefs for Safer Communities; Undersheriff Alvin Allen, Sheriffs of Oregon.)

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Measure No. 30

ARGUMENT IN FAVOR

Measure 30 is good news for taxpayers.

When the state government requires local governments to provide a particular service, but doesn't provide money to pay for that service, an unfunded mandate is created. This hidden shift of financial responsibility happens on a regular basis when the Oregon Legislature makes demands on counties and cities.

It's as if someone else had the ability to write checks from your personal bank account for purchases you might not necessarily approve of or choose for yourself.

Unfunded mandates drain the limited checkbooks of local governments. Unfunded mandates reduce local government's ability to pay for services requested by its citizens as dollars required to fund mandates must be allocated first. Local services such as fighting crime, running jails and reducing juvenile crime are funded last, or not at all.

Federal law now requires Congress to pay up front or take a separate vote to impose the cost of mandates on state and local taxpayers. Laws protecting civil and constitutional rights of individuals, national security and emergency assistance are exempt from this requirement.

While relief from federal dipping in our local checkbooks is now in place, the legislature continues to micro-manage county and city budgets from the State Capitol.

Measure 30 would change Oregon's Constitution and require that state funds cover the expense of future state mandates. The purpose is not to eliminate desirable programs, but to require that priorities and money be allocated together.

In these tough economic times it makes no sense for the state legislature to decide how a local government's funds are spent. If a service is important enough to become law, it should be funded from the state's resources.

State government should pay for state programs and local government should pay for local programs. Unfunded mandates have plagued local planning efforts for years, always at the expense of local taxpayers.

Vote **"yes"** on measure 30 and **stop unfunded mandates.**

Randall "Randy" Franke
Commissioner
Marion County, Oregon

(This information furnished by Randall 'Randy' Franke, Commissioner, Marion County, Oregon.)

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Measure No. 30

ARGUMENT IN FAVOR

"State Must Set Priorities"

Jackson County has serious financial problems. We are losing millions of forest revenue dollars each year. Often citizens are not able to choose services they want due to "unfunded mandates" coming from the state. An unfunded mandate occurs when the state requires the county to perform tasks and does not provide funding to pay for it.

Some examples that effect our citizens in Jackson County include:

Elections-the state requires some elections be conducted at polling places, causing inconvenience for citizens and great expense for the taxpayers. An election at polling places costs Jackson County more than $113,000. Vote-by-mail for the same election costs only $34,000.

Land use planning-the state, through LCDC, has required the county to complete tasks which are projected to cost the county $277,842. In return the state has provided the county with a $40,000 grant.

Property assessment and taxation-the state requires counties to assess all properties and collect taxes for all cities, schools, fire districts etc. in the county. The process and budget for this service is totally regulated by the state. In return the state provides the county with a grant which covers approximately 18% of the $2,214,400 cost.

Right-of-ways-state law guarantees telephone, power, and gas companies free access to county right-of-ways for which the county spends $110,000 each year to acquire. Additionally the county must spend $133,000 each year to locate and inspect utilities right-of-way work free of charge. Counties, unlike cities, are not permitted to franchise public utilities so no cost recovery is possible.

It is time the legislature began to set priorities and provide **FULL** funding with their mandates. Our county does not have money to enact every mandate the state sends us.

Vote yes on Measure 30 and force the legislature to set priorities!

(This information furnished by Jack Walker, Jackson County Commissioner; Sue Kupillas, Jackson County Commissioner; John Harmon, Jackson County Budget Committee.)

(This space purchased for $500 in accordance with 1993 Or. Laws 811 §11.)

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Measure No. 30

ARGUMENT IN OPPOSITION

IF MEASURE 30 PASSES, IT WON'T BE THE SAME OREGON
Vote no if you like Oregon

From the Desk of Governor John Kitzhaber, M.D.

Dear Oregon Voter:

Measure 30 would create a confusing jumble of laws about who pays for what services in Oregon.

Over the years, state mandates have required schools to provide education for handicapped children, local governments to enforce building and fire codes, and counties to provide flu shots to senior citizens. Throughout Oregon, we benefit from uniform standards and uniform protections. They help us as individuals and as communities.

If Measure 30 had been law during the last 50 years, Oregon would probably be a different -- and less healthy — state than the one you know today.

For example:
- Many parents wouldn't be able to send their children to public kindergartens.
- Every city in the state might still be sending raw sewage into rivers and streams.
- We might have an unbroken stream of buildings from Portland to Eugene — on the best farmland in the nation.

Sometimes, it just takes leadership.

Historically, Oregonians have benefited from far-sighted state leadership. We don't need state mandates very often. But when they are enacted they often mean a leap of progress for Oregon as a state.

The mandates put in place 15 and 20 years ago are what has made Oregon one of the most desirable places to live in the nation.

Vote no on Measure 30 – and keep Oregon "Oregon".

Oregon faces many challenges in the coming year: improving our roads, our schools and our environment. Let's focus our energy on solving those problems instead of this type of unnecessary ballot measure.

Sincerely,

John A. Kitzhaber, M.D.

(This information furnished by Governor John A. Kitzhaber, M.D.)

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Measure No. 30

ARGUMENT IN OPPOSITION

IT'S UNNECESSARY — AND IT COULD BE HARMFUL

Ballot Measure 30 is a confusing set of unnecessary restrictions and requirements.

It will lead to more political bickering and government gridlock.
It might cost us more than it saves.
It could lead to inequity among Oregon residents.
It could lead to a loss of local control.
And we don't need it.

Vote **NO** on Ballot Measure 30.

WHAT DOES IT MEAN?

Ballot Measure 30 contains a host of clauses, conditions and exemptions having to do with state mandates. It leaves open the opportunity for court fights, interpretations and long debates over the meaning of mandate. It complicates state law and the interaction between the state and other jurisdictions.

THERE'S TOO MUCH FINE PRINT

Ballot Measure 30 has layers of alternatives and options — but we don't know what the consequences **really** are. Do we want the state of Oregon telling our local governments to raise taxes on its residents? Do we want legislators costing us more in the long run? Do we want to further gridlock the legislative process that already gets bogged down? Do we want Washington, D.C. bureaucrats, such as the EPA, to take over enforcing safety standards?

- It will give us more gridlock and political fighting.
- It could force the federal government to take over.
- It could lead to more expensive legal battles.

Keep it simple. Vote no on Measure 30.

(This information furnished by Ken Allen, Director; If It Ain't Broke, Don't Fix It Committee.)

(This space purchased for $500 in accordance with 1993 Or. Laws 811 §11.)

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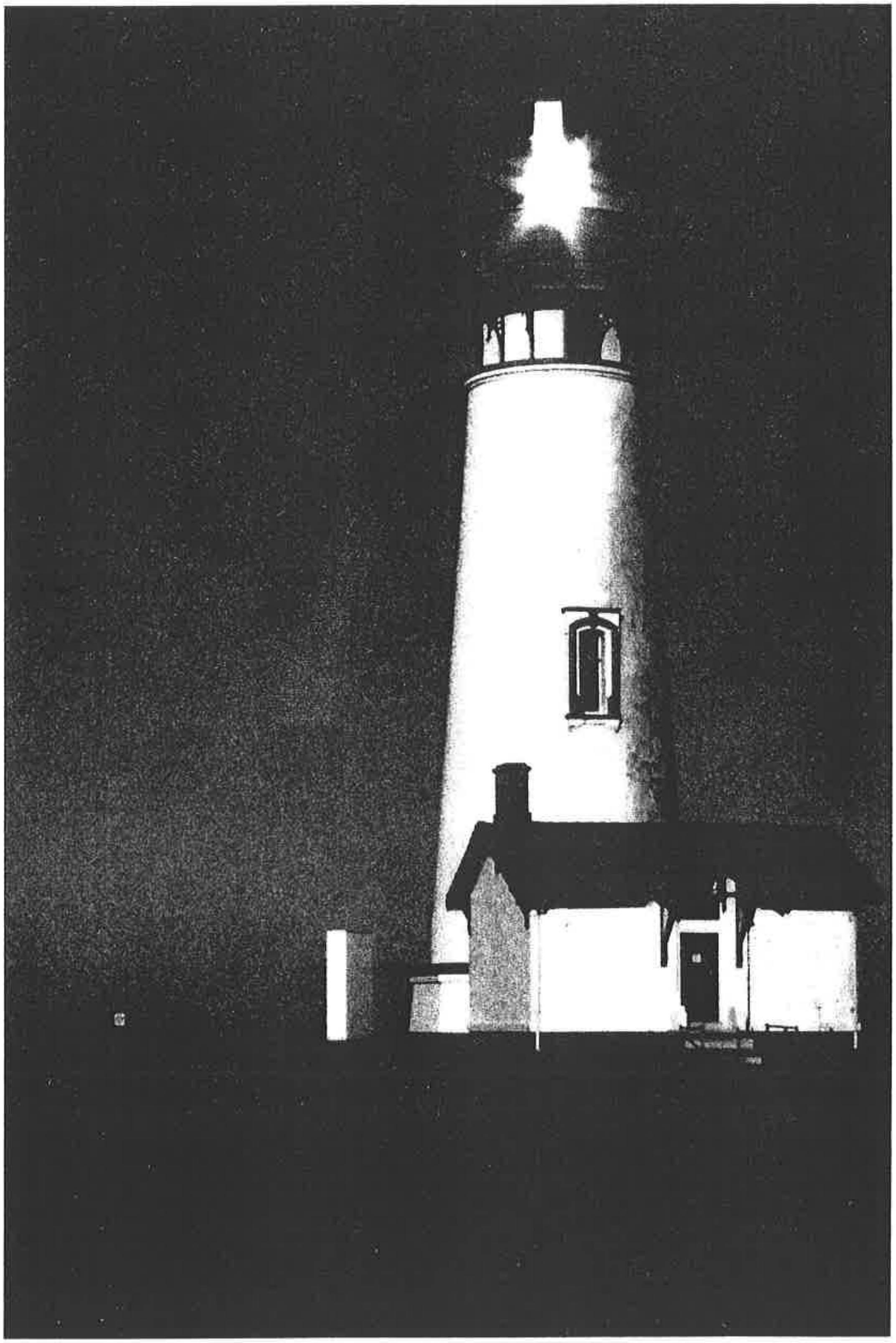


VOTE BY MAIL GENERAL ELECTION, NOVEMBER 7, 2000

Compiled and Distributed by

Oregon Secretary of State

This Voters' Pamphlet is provided for assistance in casting your vote by mail ballot.

Measure No. 84

Senate Joint Resolution 39—Referred to the Electorate of Oregon by the 1999 Legislature to be voted on at the General Election, November 7, 2000.

BALLOT TITLE

84 AMENDS CONSTITUTION: STATE MUST CONTINUE PAYING LOCAL GOVERNMENTS FOR STATE-MANDATED PROGRAMS.

RESULT OF "YES" VOTE: "Yes" vote retains requirement that state pay local governments for costs of state-mandated programs.

RESULT OF "NO" VOTE: "No" vote repeals requirement that state pay local governments for costs of state-mandated programs.

SUMMARY: This measure retains section 15, Article XI of the Oregon Constitution, which requires state legislature to pay local governments for costs of new state-mandated programs or increased level of services for state-mandated programs. If costs are not paid, local governments need not comply with law or rule requiring program or service. Contains exceptions. Requires 3/5 vote of each house of state legislature to take certain actions reducing state revenues that are distributed to local governments.

ESTIMATE OF FINANCIAL IMPACT: There is no financial effect on state or local government expenditures or revenues.

TEXT OF MEASURE

Be It Resolved by the Legislative Assembly of the State of Oregon:

<u>PARAGRAPH 1.</u> Section 15a, Article XI of the Constitution of the State of Oregon, is repealed and section 15, Article XI of the Constitution of the State of Oregon, is retained as part of the Oregon Constitution.

<u>PARAGRAPH 2.</u> The amendment proposed by this resolution shall be submitted to the people for their approval or rejection at the next regular general election held throughout this state.

EXPLANATORY STATEMENT

Section 15, Article XI of the Oregon Constitution, requires the state to pay for services that the state requires local governments to provide. Section 15 is repealed by section 15 a of Article XI on June 30, 2001, unless the people vote to keep section 15 in effect. Ballot Measure 84 keeps section 15 in effect.

Section 15 covers administrative, financial, social, health and other specified services that the state requires local governments to provide. For purposes of section 15, "local government" means a city, county, municipal corporation or municipal utility operated by a board or commission.

Under section 15, a local government does not have to provide a service that the state requires if:

(1) The state fails to pay at least 95 percent of the cost of the required service; or

(2) The cost of providing the service exceeds one-hundredth of one percent of the local government's budget for the services, not counting the costs met by the state.

The state may provide money for a service by appropriating the funds or by requiring the local government to collect fees or charges.

Section 15 requires that at least 18 of the 30 state Senators and 36 of the 60 state Representatives approve any bill that reduces the money that the state distributes to local governments from the proceeds of a specific state tax.

Section 15 does not apply to:

(1) A law approved by at least 60 percent of the members of each house of the legislature;

(2) A service required by a state or federal court;

(3) A law enacted or approved through an initiative or referendum;

(4) A service that informs citizens about a local government activity; or

(5) Any other program or service specified in section 15.

Committee Members:	**Appointed By:**
Senator Lee Beyer	President of the Senate
Representative Richard Devlin	Speaker of the House
Representative Deborah Kafoury	Secretary of State
Representative Bill Witt	Secretary of State
Kathleen Beaufait	Members of the Committee

(This committee was appointed to provide an impartial explanation of the ballot measure pursuant to ORS 251.215.)

CONTINUED

Section 15. Funding of programs imposed upon local governments; exceptions. (1) Except as provided in subsection (7) of this section, when the Legislative Assembly or any state agency requires any local government to establish a new program or provide an increased level of service for an existing program, the State of Oregon shall appropriate and allocate to the local government moneys sufficient to pay the ongoing, usual and reasonable costs of performing the mandated service or activity.

(2) As used in this section:

(a) "Enterprise activity" means a program under which a local government sells products or services in competition with a nongovernment entity.

(b) "Local government" means a city, county, municipal corporation or municipal utility operated by a board or commission.

(c) "Program" means a program or project imposed by enactment of the Legislative Assembly or by rule or order of a state agency under which a local government must provide administrative, financial, social, health or other specified services to persons, government agencies or to the public generally.

(d) "Usual and reasonable costs" means those costs incurred by the affected local governments for a specific program using generally accepted methods of service delivery and administrative practice.

(3) A local government is not required to comply with any state law or administrative rule or order enacted or adopted after January 1, 1997, that requires the expenditure of money by the local government for a new program or increased level of service for an existing program until the state appropriates and allocates to the local government reimbursement for any costs incurred to carry out the law, rule or order and unless the Legislative Assembly provides, by appropriation, reimbursement in each succeeding year for such costs. However, a local government may refuse to comply with a state law or administrative rule or order under this subsection only if the amount appropriated and allocated to the local government by the Legislative Assembly for a program in a fiscal year:

(a) Is less than 95 percent of the usual and reasonable costs incurred by the local government in conducting the program at the same level of service in the preceding fiscal year; or

(b) Requires the local government to spend for the program, in addition to the amount appropriated and allocated by the Legislative Assembly, an amount that exceeds one-hundredth of one percent of the annual budget adopted by the governing body of the local government for that fiscal year.

(4) When a local government determines that a program is a program for which moneys are required to be appropriated and allocated under subsection (1) of this section, if the local government expended moneys to conduct the program and was not reimbursed under this section for the usual and reasonable costs of the

program, the local government may submit the issue of reimbursement to nonbinding arbitration by a panel of three arbitrators. The panel shall consist of one representative from the Oregon Department of Administrative Services, the League of Oregon Cities and the Association of Oregon Counties. The panel shall determine whether the costs incurred by the local government are required to be reimbursed under this section and the amount of reimbursement. The decision of the arbitration panel is not binding upon the parties and may not be enforced by any court in this state.

(5) In any legal proceeding or arbitration proceeding under this section, the local government shall bear the burden of proving by a preponderance of the evidence that moneys appropriated by the Legislative Assembly are not sufficient to reimburse the local government for the usual and reasonable costs of a program.

(6) Except upon approval by three-fifths of the membership of each house of the Legislative Assembly, the Legislative Assembly shall not enact, amend or repeal any law if the anticipated effect of the action is to reduce the amount of state revenues derived from a specific state tax and distributed to local governments as an aggregate during the distribution period for such revenues immediately preceding January 1, 1997.

(7) This section shall not apply to:

(a) Any law that is approved by three-fifths of the membership of each house of the Legislative Assembly.

(b) Any costs resulting from a law creating or changing the definition of a crime or a law establishing sentences for conviction of a crime.

(c) An existing program as enacted by legislation prior to January 1, 1997, except for legislation withdrawing state funds for programs required prior to January 1, 1997, unless the program is made optional.

(d) A new program or an increased level of program services established pursuant to action of the Federal Government so long as the program or increased level of program services imposes costs on local governments that are no greater than the usual and reasonable costs to local governments resulting from compliance with the minimum program standards required under federal law or regulations.

(e) Any requirement imposed by the judicial branch of government.

(f) Legislation enacted or approved by electors in this state under the initiative and referendum powers reserved to the people under section 1, Article IV of this Constitution.

(g) Programs that are intended to inform citizens about the activities of local governments.

(8) When a local government is not required under subsection (3) of this section to comply with a state law or administrative rule or order relating to an

enterprise activity, if a nongovernment entity competes with the local government by selling products or services that are similar to the products and services sold under the enterprise activity, the nongovernment entity is not required to comply with the state law or administrative rule or order relating to that enterprise activity.

(9) Nothing in this section shall give rise to a claim by a private person against the State of Oregon based on the establishment of a new program or an increased level of service for an existing program without sufficient appropriation and allocation of funds to pay the ongoing, usual and reasonable costs of performing the mandated service or activity.

(10) Subsection (4) of this section does not apply to a local government when the local government is voluntarily providing a program four years after the effective date of the enactment, rule or order that imposed the program.

(11) In lieu of appropriating and allocating funds under this section, the Legislative Assembly may identify and direct the imposition of a fee or charge to be used by a local government to recover the actual cost of the program. [Created through H.J.R. 2, 1995, and adopted by the people Nov. 5, 1996]

Section 15a. Subsequent vote for reaffirmation of section 15. [Created through H.J.R. 2, 1995, and adopted by the people Nov. 5, 1996; Repeal proposed by S.J.R. 39, 1999, and adopted by the people Nov. 7, 2000]

VERBATUM TRANSCRIPT

FEBRUARY 2, 2016

SENATE COMMITTEE ON WORKSFORCE AND GENERAL GOVERNMENT

Ted Reutlinger, Chief Deputy Legislative Counsel:

Chair Dembrow, members of the Committee, I'm Ted Reutlinger from Legislative Counsel; with me is Gail Stevens, who is the Author of the Bill. The Local Mandate Provision of the Oregon Constitution, which is Article 11, Section 15, does by its term require the legislature to, umm, if the legislature requires a local government to establish a new program or to provide an increased level of services for an existing program, then the State must pay the costs of providing that service. There is a big exemption in that if the Legislature passes a bill by a 3/5 majority then the counties, the local governments, are obligated to comply with the State Law. However, this section of the Constitution does not, by its terms, render any law that you pass unconstitutional nor does it require anything more than a simple majority to become law. What it does mean, is that you might have to provide funding or pass something by a 3/5 majority in order to prevent a local government from ignoring the law. There aren't any court cases on this; it passed originally in 1996 and reaffirmed by the voters in the year 2000. If you were to pass this Bill as it is, without providing funding and without providing a 3/5 vote it would then be up to the local governments to decide whether or not they are going to comply with it; and I think what you just heard was that at least one County is going to take the position that this Section does in fact apply to an increase in the minimum wage. However, there aren't any court cases on this language- it is broad. The question legally would be whether or not an increase in the minimum wage would require local governments to either establish a new program or provide for an increased level of services for an existing program. As you know, lawyers will argue about what does "program" mean, what does "service" mean.

Program is defined pretty broadly in the Constitutional Amendment itself. Obviously, people can differ upon the interpretations of this. We have not issued a formal opinion on this particular issue. But a Court, what they would do is look at the text, the context and if they couldn't determine the voter's intent they would look at the legislative history, which could include the voters' pamphlets or other contemporaneous things like editorials and the like. I suspect that ultimately a Court would likely decide this case if counties chose not to comply. The Section in the Constitution does prohibit cases against the State itself. So, it could end up in court. If you were to simply just pass this without a super majority and without the accompanying funding.

Senator Diane Rosenbaum:

Thank you, Mr. Chair, far be it for me to try and discuss the law with a panel of very capable lawyers; but I think, and you eluded to it Ted, having a minimum wage, particularly a Statewide minimum wage is by no definition a new program. Oregon has had a State minimum wage-I think we were the first State in the entire Nation to adopt a State minimum wage back in 1913. So, simply adjusting the amount of the Statewide minimum wage which already goes up every year under current law doesn't seem to me to fall under any definition of a new program; though I do get that lawyers can go into court and argue whatever they want but I just don't see how you could say that having a State minimum wage would be creating a new program.

Mr. Reutlinger:

Mr. Chair, Senator Rosenbaum, I suspect the better argument for local government would be to argue that this requires an increased level of service for an existing program. Then the discussion evolves into is this in fact a program as it's defined in the Constitution. It could get further involved in does that program mean that a local government providing wages to its own workers or is it a broader interpretation or a narrower interpretation of just providing services to the public. Either interpretation is potentially valid the language of the Constitution is fairly broad. So, my main point right now is that it's subject to interpretation and we don't know the answer at this point.

Senator Sara Gelser:

So, if it's subject to interpretation, the way we get the answer is it would be determined by a court – how long would that process last and what would happen to wages in that

DOUGLAS COUNTY

DOUGLAS COUNTY BOARD OF COMMISSIONERS

CHRIS BOICE SUSAN MORGAN TIM FREEMAN

1036 SE Douglas Ave., Room 217 • Roseburg, Oregon 97470

February 3, 2016

House Committee On Business and Labor
Oregon State Capitol
900 Court Street NE, 160
Salem, OR 97301

RE: Proposed Minimum Wage Increase

Dear Representatives:

We write you today to express our concerns over the minimum wage proposals being considered by the Oregon State Legislature. In our review of the information available to us, we believe the various proposals being considered are financially irresponsible.

Douglas County estimates that if the minimum wage was increased to $13.50, the annual fiscal impact would be $300,305.00 dollars. We are not in a financial position to pay the increased cost associated with the proposed legislation of the minimum wage program. Douglas County would be faced with the real issue of compression – where the argument could be made (by the employee or their Union) that the pay increases for all classifications should be proportional to the pay increases made at the lower classifications. If that were to happen, the overall cost of the minimum wage increase would be significantly higher.

Sincerely,

DOUGLAS COUNTY BOARD OF COMMISSIONERS

Tim Freeman, Chair

Chris Boice

Susan Morgan

Information (541) 440-4201 • Fax (541) 440-4391

1843
YAMHILL COUNTY

Board of County Commissioners

Stan Primozich • Allen Springer • Mary Starrett

535 NE Fifth Street • McMinnville, OR 97128-4523
(503) 434-7501 • Fax (503) 434-7553
TTY (800) 735-2900 • www. co.yamhill.or.us

February 4, 2016

Governor Kate Brown
Oregon State Capitol
900 Court St NE, 160
Salem, OR 97301

Re: Testimony for Senate Bill 1532

Dear Governor Brown:

We are writing to you today to express our concerns over the minimum wage proposals being considered by the Oregon State Legislature. In our review of the information available to us, we believe the various proposals being considered are financially irresponsible; we also believe they could violate Article XI, Section 15 of the Constitution of the State of Oregon.

Our initial analysis is that the cost statewide to local government is in the range of $450 to $500 million dollars a year.

Article XI Section 15 of the Oregon Constitution prohibits unfunded mandates on local government. We've not heard of any conversations addressing the fiscal impacts of the Governor's proposal on state and local government or any discussion on how to avoid a potential violation of Article XI Section 15 of the Constitution which you took an oath to uphold.

Additionally, the McMinnville Chamber opposes the proposed legislature in SB 1532, SB 1592, and HB 4054 to raise the minimum wage. All businesses should have the autonomy to pay their workforce at the level they deem economically sustainable. We believe mandated wage increases outside of what is already in place in Oregon will hurt the economic sustainability of our local business climate, do a disservice to our most vulnerable workforce participants, and will not achieve the desired outcomes that the authors and supporters wish to achieve.

Based on both the State Constitution and the lack of financial resources to pay for a minimum wage increase, we request that you forego taking action on a minimum wage package in the upcoming 2016 session.

Sincerely,

Mary Starrett, Chair

Stan Primozich, Vice-Chair

Allen Springer
Allen Springer, Commissioner

cc: email to Senate Workforce Committee Administrator Jan Nordlund; and
Committee Administrator Assistant Ashley Clark

Klamath County
Home of Crater Lake

Klamath County Commissioners

Tom Mallams, *Commissioner*
Position One

Kelley Minty Morris, *Commissioner*
Position Two

Jim Bellet, *Commissioner*
Position Three

February 4, 2016

Governor Kate Brown
Oregon State Capital
900 Court St. NE, 160
Salem, OR 97310

RE: Opposing Oregon Minimum Wage Increase

Dear Governor Brown:

As our local economy and state economy show signs of improvement, we ask that you do not place additional burdens on our small businesses and county governments, nor on the backs of the working class by implementing a statewide minimum wage increase. What works in Portland does not necessarily work for rural Oregon. While it may be perfectly appropriate for a $15 minimum wage in Portland and the urban areas, it will be difficult to sustain in Klamath County.

In Klamath County, an increase of the minimum wage to 13.50 would cost approximately $551,000 additional dollars for county government alone. An increase to $15 would cost the county approximately $1,051,500. This would likely necessitate the need to drastically reduce certain departments or eliminate entire departments. Surely the economic impact of this change on county governments is something you will consider.

A minimum wage increase would also cause many workers to lose their eligibility for the Oregon Health Plan, childcare subsidies, and other aide services. This would create a situation where even though workers earn an increased income, they are forced to payout that additional income in increased health care and daycare costs. Increasing Oregon's minimum wage will cause the same people who are currently struggling to make ends meet to be significantly worse off than they already are.

305 Main Street, Klamath Falls, Oregon 97601
Phone: (541) 883-5100 | Fax: (541) 883-5163 | Email: bocc@klamathcounty.org

While Oregon has had a historically high minimum wage, Klamath County has not yielded economic improvements nor has its workers. Klamath County's unemployment rate of 7.9% has consistently exceeded the state's 5.4%. However, in the past year, Klamath County has shown signs of improvement by adding 430 jobs. As a county on the cusp of economic improvement, raising minimum wage could create a hardship on our local businesses by hampering their ability to absorb the increased costs thus hindering their capacity to compete and grow.

Sincerely,

Tom Mallams
Commissioner

Kelley Minty Morris
Chair

Jim Bellet
Commissioner

hh
Cc: via email: Senator Doug Whitsett, Representative Gail Whitsett, Representative Mike McLane

305 Main Street, Klamath Falls, Oregon 97601
Phone: (541) 883-5100 | Fax: (541) 883-5163 | Email: bocc@klamathcounty.org

OREGON
Coos County
EST. 1853

BOARD OF COMMISSIONERS
250 No. Baxter Street, Coquille, Oregon 97423

(541) 396-7535
FAX (541) 396-1010 / TDD (800) 735-2900
E-mail: bbrooks@co.coos.or.us

JOHN SWEET **MELISSA CRIBBINS** **ROBERT "BOB" MAIN**

February 8, 2016

RE: Proposed Minimum Wage Increase

Dear Legislator,

We write to you today to express our concerns over the proposed minimum wage increase, which would affect all areas of Oregon. We believe that the proposals are financially irresponsible and would further increase the urban/rural divide, rather than uniting us as one Oregon. It would cause low paying, entry level jobs such as call centers to locate in depressed rural areas and manufacturing and industrial jobs to locate in the Portland metro region, further exacerbating poverty in our most challenged areas of the state.

In Coos County, increasing the minimum wage would decrease public services to our citizens, especially direct services that they depend on. For example, Coos County libraries would be forced to either cut hours of service or cut services such as Books By Mail for our disabled citizens. It would cause wage compression, driving up costs for services that the public relies on, such as sheriff patrols, jail beds, county parks, and road maintenance, just to name a few.

For all of these reasons, Coos County opposes any minimum wage legislation in this session. We will challenge any minimum wage legislation as an unfunded mandate in violation of Article XI Section 15 of the Oregon Constitution unless funding is provided to ameliorate the impacts of the increase. We respectfully request that you forego any action on a minimum wage package during the 2016 session.

Sincerely,

COOS COUNTY BOARD OF COMMISSIONERS

John W. Sweet

Chair – John W. Sweet

Commissioner – Melissa Cribbins

Robert "Bob" Main

Commissioner - Robert "Bob" Main

WASCO COUNTY

Board of County Commissioners

511 Washington Street, Suite 302
The Dalles, Oregon 97058-2237
(541) 506-2520
Fax: (541) 506-2521

Steven D. Kramer, ***County Commissioner***

February 9, 2016

Re: Proposed Minimum Wage Increase

I am writing you today to express my concern over the proposed minimum wage increase, which would affect all areas of Oregon. Around the State, newspaper after newspaper has come out against this short session rush to judgement – at best it is careless, at worst it is sneaky.

I believe the various proposals being considered are financially irresponsible and may violate Article XI, Section 15 of the Constitution of the State of Oregon. I have not heard anyone address the fiscal impacts of the Governor's proposal on state and local government or any discussion on how to avoid a violation of Article XI, Section 15 of the Constitution.

Further, I believe we are not in a financial position to pay the increased costs associated with the proposed legislation of the minimum wage program; one estimate sets the statewide cost in the range of $450-$500 million dollars per year. Undertaking such significant legislation in a short session without adequate time to vet the legislation and allow legislators to get input from their constituents is irresponsible.

Based on constitutional questions, a lack of financial resources to pay for a minimum wage increase and the unreasonable timeline to consider such a weighty matter, I request that you forego taking action on a minimum wage package in the upcoming 2016 session.

Yours truly,

St D Kramer

Steven D. Kramer
County Commissioner
Wasco County Board of Commissioners

Legislative Fiscal Office

Ken Rocco
Legislative Fiscal Officer

Daron Hill
Deputy Legislative Fiscal Officer

900 Court Street NE
H-178 State Capitol
Salem, Oregon 97301
503-986-1828

Budget Information Report

Potential Effects of Increasing Oregon's Minimum Wage

Overview

While many of the estimated costs to state and local government of an increase in the minimum wage are indeterminate, the following document provides information on some of the possible effects of an increase in the minimum wage and is intended to provide a sense of magnitude of cost, as well as context for a discussion of the various fiscal and policy effects of such a change.

Because there is no single set of data available to estimate the costs to state and local governments, a number of different data sources were relied upon to provide this estimate. These data sets exist for other purposes and, as such, may include or exclude positions and/or wage information that would affect the actual implementation costs of an increase in the minimum wage. The source of the data used for each estimate is noted in the report.

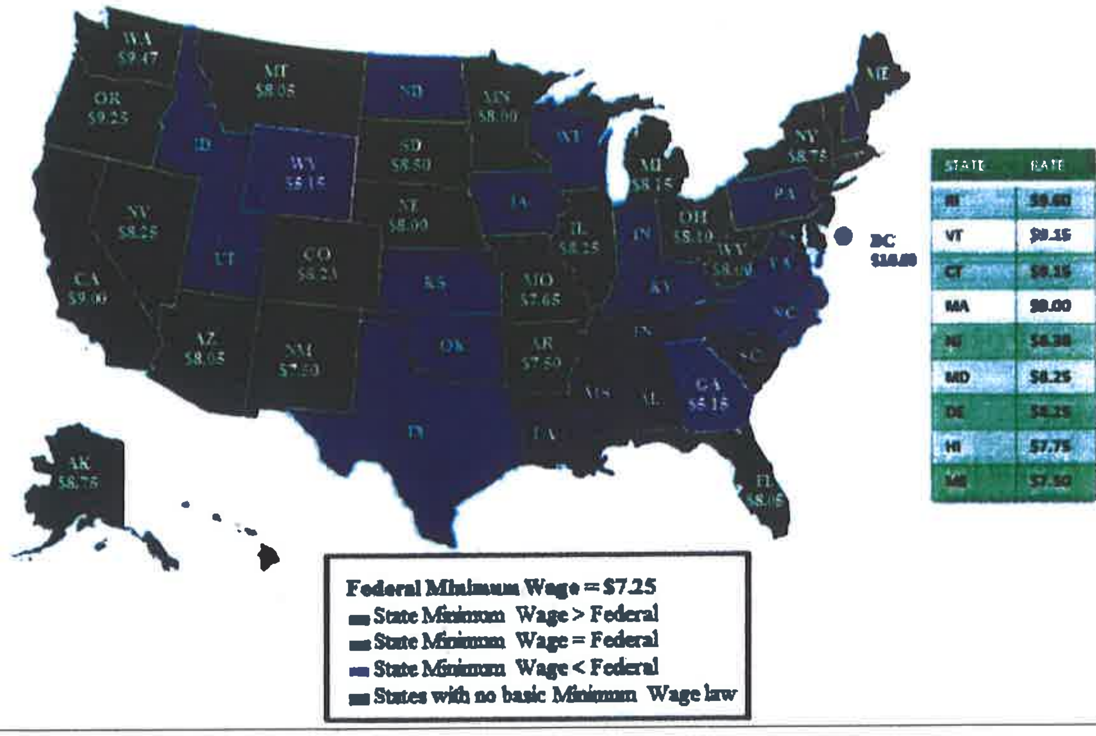
The cost estimates (in total funds) identified in this report generally assume the annual or biennial costs (as noted) of an immediate increase in the minimum wage from the current level to a $13.50 and/or $15.00 per hour level. Proposals to gradually phase in increases to reach these levels over multiple years would result in lower annual or biennial costs than those identified here that would be more easily incorporated into budgets through the normal budgeting process for state and local governments. In some isolated instances, projected costs for minimum wage increases phased-in over multiple years were able to be estimated for this report.

Again, the actual costs will be dependent on a number of factors, including position or wage adjustments that will occur prior to the effective date of an increase, the application of changes on either a statewide or regional basis, and, potentially, other law or policy changes that may occur.

Status of Current Minimum Wage

On the following page is a chart showing the minimum wage of each state and how it compares to the federal minimum wage requirement. Oregon is one of 29 states plus the District of Columbia with a minimum wage level that exceeds the federal minimum wage level of $7.25. It should be noted that some states have more than one minimum wage level. For example, beginning in August 2016, Minnesota will have a minimum wage of $9.00 per hour for employers with annual sales volumes of $500,000 or more, while those employers with annual sales volumes of under $500,000 are required to pay a minimum wage of $7.25 per hour.

Minimum Wage Laws in States – July 2015 Source: United States Department of Labor



According to the Oregon Employment Department, during the first quarter of 2014 nearly 6% of all jobs in the state paid Oregon's minimum wage (at that time) of $9.10 per hour. Of the total number of jobs in Oregon, the percentage that pay minimum wage has ranged from 5 to 6 percent since 2003. The leisure and hospitality sector had the highest number of minimum wage jobs with 41,300 jobs paying $9.10, followed by retail trade with 20,700 minimum wage jobs. Other industries with a large number of minimum wage jobs were professional and business services (9,600 jobs), natural resources and mining (7,600), and educational and health services (6,900). The following table provides information on the number of jobs in each county paying $9.10 (the minimum wage at that time) or less as of the 1st Quarter 2014.

Jobs Paying $9.10 or Less, by County, 1st Quarter 2014

	Jobs	% of Total		Jobs	% of Total
Oregon	103,470	5.7%			
Malheur	1,397	10.9%	Union	715	7.1%
Harney	221	10.6%	Douglas	2,564	7.1%
Wheeler	30	10.2%	Clatsop	1,215	6.9%
Sherman	67	9.3%	Umatilla	2,113	6.9%
Jefferson	550	8.6%	Jackson	5,820	6.9%
Polk	1,575	8.5%	Linn	2,995	6.7%
Klamath	1,846	8.4%	Lane	9,579	6.4%
Baker	418	8.3%	Coos	1,452	6.3%
Lincoln	1,508	8.3%	Benton	2,250	6.3%
Josephine	2,036	8.1%	Wallowa	142	6.2%
Yamhill	2,792	8.1%	Tillamook	550	6.2%
Grant	170	8.1%	Crook	347	6.0%
Curry	490	7.8%	Deschutes	4,139	5.9%
Columbia	793	7.5%	Clackamas	8,948	5.8%
Hood River	1,099	7.5%	Morrow	256	4.7%
Marion	11,001	7.5%	Washington	13,031	4.6%
Lake	168	7.3%	Gilliam	38	4.5%
Wasco	781	7.2%	Multnomah	19,389	4.0%

Source: Oregon Employment Dept., Unemployment Insurance Wage Records

Direct Cost Estimates of an Increase in the Minimum Wage

State Government:

- Based on data from the Department of Administrative Services, an increase in the minimum wage to $13.50 per hour could result in costs of approximately $1.1 million, including Other Payroll Expenses (OPE),[1] for a full biennium, and an increase to $15.00 per hour could result in costs of approximately $4.8 million for a full biennium.[2] For context, costs of $1.1 million represent 0.02% of the 2015-17 total funds budget for personal services for state government, while costs of $4.8 million represent 0.07%. It should be noted that these costs are not based on Governor Brown's proposal, which includes a regional element and a phased-in increase beginning January 2017 at $10.25 per hour statewide and $11.79 per hour for the Portland metropolitan area, gradually increasing each year to $13.50 statewide and $15.52 for Portland by 2022 (thereafter increasing by the consumer price index). At this time, a fiscal impact statement for that proposal has not yet been prepared.
- A change in the minimum wage to $13.50 per hour would currently affect 79 classifications that include steps below that amount.[3] A change in the minimum wage to $15.00 per hour would currently affect 182 classifications.[4] Examples of the types of positions affected by a change to $13.50 per hour include:
  - Entry level office assistants and specialists
  - Student workers
  - Livestock brand inspectors
  - Experimental biology aides
  - Military lease agents
  - Entry level wildland fire support specialists
  - Custodians
  - Food service workers

K-12 School Districts and Educational Service Districts:

- Based on data from the Department of Education, an increase in the minimum wage to $13.50 per hour would result in direct costs of approximately $23 million per biennium, including OPE.[5] An increase in the minimum wage to $15 per hour would result in costs of approximately $52 million per biennium. For context, costs of $23 million represent approximately 0.3% of the 2015-17 total School Fund.
- The types of positions that will be directly impacted by an increase to the minimum wage will include nutrition services personnel, instructional assistants, non-teacher substitutes, library/media support, clerical staff, student workers, and special education paraprofessionals.
- Volunteer positions compensated by stipend or a set contract rate (such as coaches and school board members) are currently paid at a rate that equates to less than the minimum wage. If the minimum wage is increased and the stipends for these types of volunteer positions remain the same, there will be a greater disparity between the values of these stipends relative to actual market wages in the state. It is not known at this time if this disparity will impact the total number or quality of volunteers utilized by school districts.

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[1] Other Payroll Expenses are expenses other than salaries paid for employees, including retirement payments, Social Security taxes, health insurance costs, and other benefits associated with employment.

[2] This estimate excludes elected legislative members. Salaries for legislators, if calculated on an hourly basis, would be below the minimum wage if an increase to $13.50 is implemented.

[3] The number of classifications affected excludes elected legislative members.

[4] Currently, there are almost 3,400 state position classifications.

[5] The Oregon School Boards Association (OSBA) has produced an ***Estimate of Minimum Wage Increase to $13.50 per Hour*** based on raw survey information collected from schools that represent 51% of the average daily membership weighted (ADMw). The estimate provided in the document varies from the data provided by the Department of Education due to the assumptions used in the calculations. In addition to an estimate, the document includes comments from school districts describing a variety of impacts specific to their particular district. The OSBA methodology projects annual costs of approximately $15 million.

- It is likely that an increase will affect eligibility for nutrition programs as well. This issue is discussed under the section heading, Impacts on Program Eligibility, later in this report.

Higher Education:

- The effect of an increase in the minimum wage, based on preliminary information responding to the current phased-in proposal (see page 3 for a brief description of that proposal), is estimated to have a direct fiscal impact, including OPE, to public universities of $2.15 million in the 2015-17 biennium (for the last six months) and $16.49 million in the 2017-19 biennium. Alternative research conducted during the 2015 session estimated a total impact of $75 million, including OPE, based on impacts from raising the minimum wage to $15 per hour.
- Estimates for community colleges, also based on the current phased-in minimum wage proposal, could be as low as $5.25 million in the 2017-19 biennium. Other analyses based on data from the Employment Department, indicate that an increase in the minimum wage to $13.50 per hour could cost Community Colleges approximately $9 million per biennium, including OPE.
- Community Colleges and Public Universities indicate that a significant portion of the increased cost would be due to an increase in wages for student workers. They point out that, in general, an increase in wages for student workers is likely to reduce other assistance the students receive, including federal aid. (This issue is further discussed under the section heading, Impacts on Program Eligibility, later in this report.) In addition, federal funds support the majority of student worker positions, and the U.S. Department of Education will not raise work study allotment dollars if Oregon raises the state minimum wage.[6]
- Similar to K-12, the costs for Community Colleges and Public Universities are likely to include a number of people, such as contract instructors, who receive a flat amount or stipend that may result in them receiving less than minimum wage for the hours they work.
- Higher education officials note that many bargaining agreements contain language that requires the "same pay for the same work," and, therefore, wage minimums set by region are unlikely to be observed in contract negotiations.

All Other Local Government:

- Little data has been gathered on the effect of an increase in the minimum wage on local governments (excluding school districts), but based on Employment Department data, an Increase in the minimum wage to $13.50 per hour could result in costs of approximately $50 million per biennium, including OPE.

Indirect Cost Estimates (State Government)

It is possible that costs associated with an increase in the minimum wage may result in providers of goods and services increasing their rates and prices to consumers, including state government. While these costs and any related price increases are indeterminate, this issue has been raised by a number of agencies across all program areas. It has also been noted that it is possible that a change in the minimum wage could **trigger some immediate contract renegotiations**. For example, a number of school districts indicated that they have contracts that include an escalation/escalator clause which is triggered if the contractors incur a significant change in operating costs. More information on indirect costs is provided below on the possible impact on the human services program area.

[6] Federal code (USC Title 29, Chapter 8, Section 214(b)(3)) allows for student employees to be exempted from minimum wage requirements. The code provides that *"The Secretary, to the extent necessary in order to prevent curtailment of opportunities for employment, shall by special certificate issued under a regulation or order provide for the employment by an institution of higher education, at a wage rate not less than 85 per centum of the otherwise applicable wage rate in effect under section 206 of this title..."* This exception has been adopted by some states which have minimum wage standards that exceed federal minimum wage law.

Some human services programs and services are delivered directly by private sector employees through contracts or agreements that generally involve paying a rate to a provider for a specific level or certain type of service provided. While there may be a wage estimate used to help develop service rates, most often the wage paid to an employee is determined by the provider and not the state. This makes it difficult to evaluate the finite fiscal impact of an increased minimum wage for these workers. However, there is some information on wage trends by job sector and other data that may help identify services and lower wage workers that are most likely (or not likely) to be affected by a minimum wage increase.[7]

In order to get a general sense of magnitude of indirect costs related to health and human services, the Employment Department provided data on the number of jobs at different wage levels for the Private Sector Health Care and Social Assistance Industry. This information is at the industry level and does not indicate whether or not services are paid for with public versus private dollars.

- For the subset including health care and mental health providers, outpatient centers, and hospitals, the number of jobs at minimum wage is very low at 0.4%. Jobs at a wage level up to $13.50 per hour total 7.7% of all jobs in this subset, but represent only about 1% of total wages paid. So, while an increase in minimum wage would have some impact on these providers, it is expected that it would be relatively small.
- In nursing facilities providing long term care, overall wages are generally higher than those in other long term care settings; more than half the jobs associated with nursing facilities have wages above $15.00 per hour. A survey of Department of Human Services (DHS) long term care providers indicated the average wage of direct care staff in nursing facilities in 2014 was just over $16.00 per hour.
- In other care environments (except in-home) for seniors and people with disabilities (physical, developmental, intellectual) wages are lower. In those facilities, over half the workforce is paid at less than $13.50 per hour; this is an area where state government would likely see some pressure to increase provider rates to align with minimum wage increases. The same survey of DHS providers indicated the average wage of direct care staff providing these services in 2014 was less than $11.00 per hour.
- Wages for in-home care services for seniors and people with disabilities (both physical and intellectual/developmental) paid through DHS are governed by collective bargaining agreements. As of January 1, 2016, the base wage for these home care and personal support workers is $14.00 per hour with another $0.50 increase scheduled for February 2017.
- Some child care providers serving DHS clients employ workers that could be affected by minimum wage increases. Employment Department data indicates that more than one-half of the reported wages in this sector are at less than $13.50 per hour. A Secretary of State Audit issued in 2015 reported the average wage for child care workers in Oregon was $11.18 per hour (in 2013).

Impacts on Program Eligibility

A higher minimum wage will potentially affect an individual's eligibility for programs that use earned income as an eligibility criterion. Because there may also be other eligibility tests – such as other sources of income, household composition, and age – it is difficult to estimate specific changes in eligibility and potential savings. Client and employer behavior may also impact hours worked and income earned. However, there are programs where impacts are most likely to be felt. Eligibility dynamics and potential outcomes related to minimum wage changes for some of those programs are highlighted below:

- Increased wages could mean fewer people would be accessing services under the Oregon Health Plan. The Oregon Health Authority (OHA) matched wage data from the Employment Department to

[7] The Oregon Health Care Association has commissioned a study to determine the budget effects of an increase in the wages to workers providing Medicaid and other social services. The study is being conducted by Portland State University's Economic Research Center.

clients on the Oregon Health Plan and found that 60% of adults on the Health Plan did not earn any wage income, while 23%, or about 125,000, earned up to $13.50 per hour.

However, OHA does not have the necessary data to estimate how many of these clients might actually come off the caseload with a wage increase. Currently, OHA eligibility systems do not capture adequate data on numbers of people in the family. In addition, data is not available on other sources of income besides wages. Even if this data were available, there would be other issues to consider such as individual behavior in response to the wage increase. Some clients might choose to work fewer hours in order to retain benefits. If an increase in the minimum wage were to reduce the number of jobs, the state could see additional people come onto the caseload.

- A recent review of the impacts of increased income on benefits in certain human services programs indicates that hours worked may have a stronger influence on program eligibility than wages. For example, a single adult working 18 hours per week is still eligible for a modest Supplemental Nutrition Assistance Program (SNAP) benefit when earning $18.00 per hour; if that same adult works 30 hours per week, SNAP benefits completely phase out at $12.00 per hour. For SNAP clients working full-time, an increase in the minimum wage would likely result in some federal funds savings if they were to exit the program. What is more likely is that a subset of SNAP recipients would see a reduced benefit due to a higher income, but this is probably a small subset. When SNAP recipients were matched up with Employment Department data, more than 65% of those recipients showed as having no hourly wages. This appears to correlate with other DHS data that shows about 65% of SNAP households are at less than 50% of the federal poverty level.

  Before program changes approved during the 2015 legislative session, recipients of Temporary Assistance for Needy Families (TANF) benefits typically became ineligible if they were working 14 hours a week at minimum wage. Program changes smoothed out what was a sharp benefit cliff, keeping clients in the program longer with a gradually reduced benefit as they work more hours and/or receive a higher hourly wage. An increase in minimum wage could accelerate that pattern and move clients out of the program more quickly; any associated saving is indeterminate and could be offset by costs associated with programs potentially accessible to working families, such as Employment Related Day Care.

- Any changes in household income, relative to the federal poverty level, will mean changes to total reimbursements for school nutrition programs. It is not known if, or how many, children and families will incur a change in the percentage of federal poverty levels. Furthermore, since most of the federal funding comes in the form of a cash reimbursement for each meal served, it is not known if changes in the minimum wage will change the total number of meals served. Impacted programs may include the National School Lunch Program, School Breakfast Programs, After School Snacks and At-Risk Afterschool Meals Program, Summer Food Service Program, and the Special Milk Program.

- Increases in student and parental incomes are likely to increase the Expected Family Contribution (EFC) rate and may result in decreased financial aid awards for students in the higher education system. This may adversely impact students' ability to qualify for work-study jobs. Higher education officials also note that given that satisfactory academic progress is a condition of most financial aid awards, decreased or non-awarded financial aid may lessen, for some students, academic performance incentives which could negatively impact completion/graduation rates.

- If Increases to EFC rates are observed statewide, then funds for Oregon Opportunity Grants (OOG), which are awarded on a first-come, first-served basis, may last longer before depletion. Furthermore, any minimum wage proposals based on a tiered or regional basis will likely require the development of more complicated methodologies.

- Eligibility for, or use of, other Pre-K programs, including Head Start, relief nurseries, Healthy Families Oregon, and Child Care and Development Fund Vouchers also could be impacted. The federal government distributes a number of early learning and educational related funding based on the relative income or proportion of households under the Federal Poverty Level (FPL) for Oregon compared with other states. If the changes in the minimum wage lead to increases in Oregon's relative income or decreases in households under the FPL compared to other states, Oregon could lose some federal funding for programs such as Child Care Development Block Grant, Title 1 (Education for the Disadvantaged), and some Special Education programs.

Overall Effect From Minimum Wages Increases

There are many studies on the effect of minimum wage increases on the subject economy. The findings range from large, statistically significant negative effects to small, statistically significant positive effects and many variations in between. Some of the difference in the qualitative results is due to how researchers apply a variety of methods to different data, time periods, and definitions of minimum wage.

Recent researchers have developed approaches and meta-analyses to address criticisms that have plagued the debate. One study, conducted by Allegretto, Dube, Reich, and Zipperer (2013) looked at every major state and federal minimum wage increase (over 200 in all) in the United States between 1990 and 2012. The researchers compared employment in about 400 pairs of adjacent counties located on different sides of a state border with a minimum wage difference. Comparing the employment trends of the most affected groups (teens and restaurant workers) across adjacent counties with different minimum wage levels, the study found no statistically significant effects of minimum wage increases on either employment or hours worked in restaurants and other low wage industries. Additional studies by Belman and Wolfson (2014) and Schmitt (2013) agreed with this finding.

Other research would indicate that while some workers will receive an increase in their income, others may actually lose their jobs because of the increased cost to their employers. There is also a question about whether there is a tipping point from positive to negative effects based on the amount of the minimum wage. **The current common consensus seems to be that a low minimum wage might have a net positive effect while a high minimum wage may have net detrimental effects, but there does not appear to be current research on how high the minimum wage needs to be to cause the effects to become negative.**

Other Issues for Consideration

- Businesses that employ low wage workers would face higher labor costs and could respond to these costs with one or a combination of ways including:
  - Reducing production hours per employee or by the total number of employees.
  - Absorbing the increased labor costs with offsets from increased worker productivity and with reductions in recruitment and retention costs.
  - Raising prices.
  - Reducing other costs such as fringe benefits.
  - Accepting lower profits.[8]

- **Possible compression issues with the salaries of other employees and the potential need to increase several salary levels of staff making above the minimum wage.**
- Some of the direct costs incurred by government agencies may necessitate fee increases.

[8] Researchers note that this option is unlikely because employers of low wage workers are often in highly competitive industries with relatively low profit margins.

- If there is a reduction in employment opportunities, teenagers may be some of the most affected. Some have argued that this may lead to increased criminal activity among this segment of the population resulting in additional corrections and judicial costs.

Other research regarding potential impacts on revenues suggests the following possibilities:

- Some of the increased income would be paid as taxes.
- Increased income may result in increased spending and increased demand for goods and services may actually result in new jobs.
- Price inflation could occur, reducing the total amount of goods and services that consumers can afford to purchase.
- Some studies show that states with higher minimum wages have, on average, about the same unemployment rate as states with low minimum wages.
- Potential for businesses to close and for fewer jobs to be available overall.
- Businesses may stay open but reduce training and benefits to workers to cover the increased cost of wages.

Revenue Implications of Changing Oregon's Minimum Wage

According to the Legislative Revenue Office, changing Oregon's minimum wage does not directly affect state and local tax revenue. Revenue changes that do occur will be the result of secondary behavioral effects as the impact of the higher minimum wage works through the state's labor markets. Initially, overall wage income is expected to rise thereby generating additional income tax collections. For example, an increase in the minimum wage to $13.50 starting in 2017 is expected to increase personal income tax collections by $13.5 million in the 2015-17 biennium and $44.4 million in the 2017-19 biennium. However, these gains are expected to shrink over time as employers respond with output reductions and/or labor saving investments. The uncertainty surrounding the timing and magnitude of these offsetting effects makes the net revenue implications indeterminate over the long term.

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November 18, 2015

Hon. Roger Nyquist
Chair, Linn County Board of Commissioners
Box 100
Albany OR 97321

Dear Chairman Nyquist:

Thank you for your thoughtful inquiry about the decline in the real value of the minimum wage that appeared my Powerpoint presentation that was released on Monday at the legislature in Salem.

The statement about the declining minimum wage was on a slide summarizing the national literature on causes of inequality. I should have clarified in the slide that all of these factors are not operating in Oregon. It is true that the Federal minimum wage has been declining since the early 1970s. But, as you correctly point out, the minimum wage in Oregon has been pretty constant in real terms and is at the same level as in the early 1970s. The Oregon Employment Department has a good review of this issue that supports this point: http://oregonemployment.blogspot.com/2013/02/oregons-minimum-wage-outpaces-federal.html

I appreciate your taking the time and effort to call this to my attention. In future presentations, I will make sure to point out that Oregon's minimum wage has not been declining.

Sincerely,

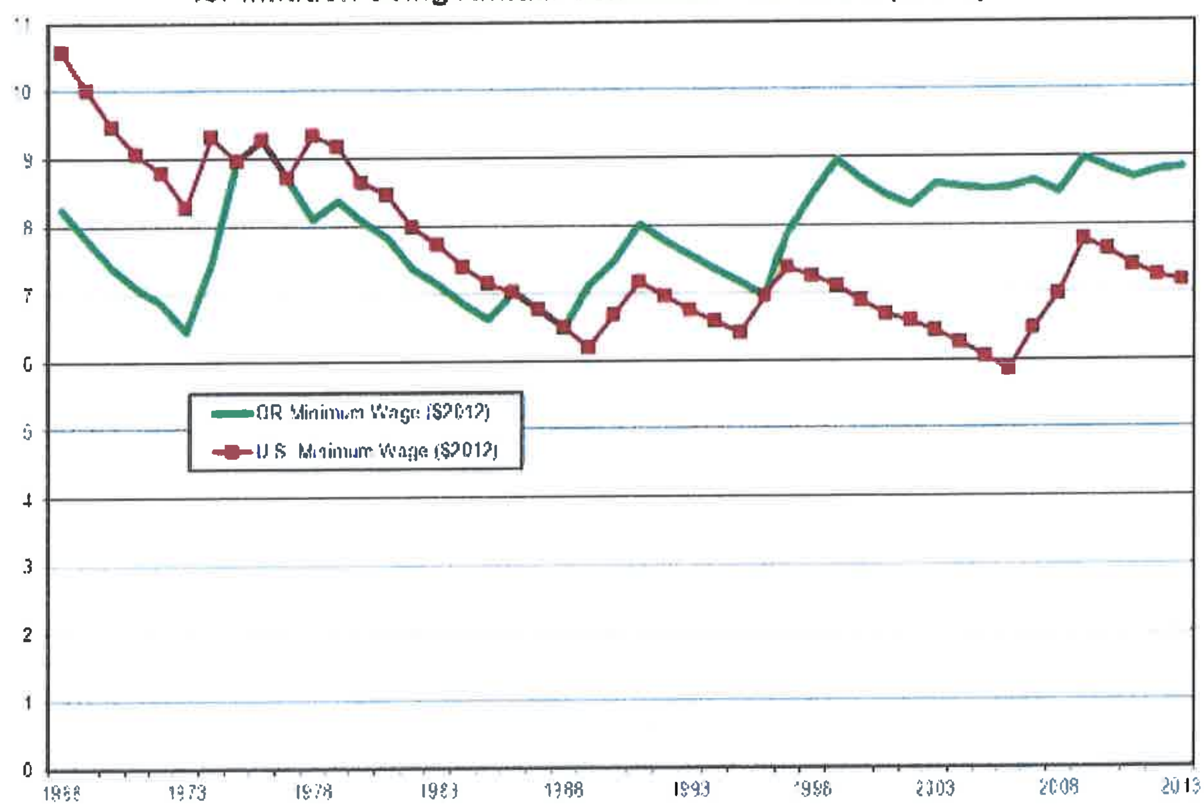
Bruce Weber
Professor

Oregon's Minimum Wage Outpaces Federal Minimum Wage

We wrote about Oregon's minimum wage back in September when the Oregon Bureau of Labor and Industries announced the inflation-linked increase to $8.95 per hour for 2013. Oregon's minimum wage is the second highest state minimum wage in the nation behind Washington's $9.19, and $1.70 more than the national rate of $7.25 per hour. Employers pay the higher of the minimum wage that applies to their workers.

The graph below shows Oregon and U.S. real minimum wages going back to 1968. The wages are adjusted using the U.S. Consumer Price Index (CPI-U) to reflect purchasing power in 2012.

Oregon and Federal Minimum Wage, Adjusted for Inflation Using Annual Consumer Price Index (CPI-U)



Source: Oregon Employment Department, Bureau of Labor Statistics

The graph shows the “choppiness” of minimum wage purchasing power over time. Minimum workers receive a boost in real pay following legislative increases in the minimum wage, but rising prices erode their purchasing power over time, until the next legislative increase. That’s the pattern under the current Federal minimum wage, and was the pattern in Oregon until 2002, when minimum wage increases were linked to inflation.

Back in the 1960s and 1970s, real minimum wages were usually higher than today. The Federal minimum wage in 1968 ($1.60 per hour at the time) was equivalent to about $10.50 in 2012 dollars. Oregon’s current minimum wage is $1.05 above the state’s average minimum wage between 1986 and 2012, but the current Federal minimum wage is $0.35 below the average Federal minimum wage during that period.

*Our state employment economist, **Nick Beleiciks**, provided today's post summary. You can find more information about the **minimum wage** on QualityInfo.org, or by contacting Nick.*

LINN COUNTY 12/02/15 E M P L O Y E E P R E L I S T Yr 15 Cc 01 Per 120-REEL Page 415
WED, DEC 02, 2015, 12:35 PM --req: 03797-----leg: GL ZP--loc: ONSITE----job:281238 J053------prog: PY500 --report id: PYREEL01

**** G R A N D T O T A L S ****

PAYMENTS

Desc.	Cmnt	No.	Hours	Payments
REGULAR		001	50,512.17000	1,473,275.11
HOURLY		002	7,257.05000	154,372.78
REGULARP		003	26,805.90000	743,903.43
ELEC WKR		005	44.25000	409.33
HOLIDAY		008	6,057.50000	173,450.16
HOL HRLY		009	251.90317	5,246.41
1.5 OT		010	1,245.00000	56,747.94
STOT		011	478.25000	14,321.59
1.5 OTDC		013	43.00000	2,061.58
LWOP		020	1,022.26000	27,059.66
MISC $		029	0.01900	1,305.76
RETRO $		030	0.00100	396.00
RETRO H$		031	18.00000	670.00
LONGVTY		035	292.00000	62,156.06
LGVTYADJ		036	0.00100	19.80
STANDBY		060	0.02500	15,203.60
UNFRMTXB		062	0.00200	33.34
UNIFORM		063	0.00200	550.00
TXBLMEAL		064	0.00400	69.44
MILEAGE		065	0.00400	351.36
AIC $		068	0.00400	82.51
SK ACCRL		100	4,563.08962	0.00
SK USED		101	2,572.56000	70,010.80
SK ADJ		102	-381.77000	0.00
SK DNTD		110	23.50000	0.00
SK DUSED		111	43.00000	596.59
SK DREC		112	46.00000	0.00
VA ACCRL		200	2,593.01034	0.00
VA USED		201	6,988.92000	200,110.53
VA ADJ		202	-238.44000	0.00
VA OCAP		204	133.02005	0.00
VA ACCRL		205	119.36000	0.00
VA ACCRL		206	451.12850	0.00
VA ACCRL		207	1,539.48127	0.00
VA ACCRL		208	2,174.33950	0.00
VA DNTD		210	22.50000	0.00
VA THREC		212	18.00000	0.00
VA THUSE		213	18.00000	485.57
PL ACCRU		300	1,532.64003	0.00
PL USED		301	1,452.33000	42,169.02
PL ADJ		302	-52.40000	0.00
PL OCAP		304	25.32600	0.00
COMP ST		400	392.88000	0.00
COMP 1.5		401	139.12500	0.00
COMP USE		402	781.34000	24,166.61
COMP ADJ		403	44.50000	0.00
FH USED		501	363.00000	9,561.01
FH ADJ		502	-14.25000	0.00
SH USED		551	302.00000	9,250.06

DEDUCTIONS

Desc.	No.	Amount
MEDI	001	44,813.40
FICA	002	186,249.02
FIT	005	340,996.65
SIT	006	199,836.85
WKCOMPTA	010	814.75
P&F	100	208.81
ODSHJMC	200	52.44
ODSHNMC	204	773.49
ODSHNP	206	3,821.37
ODSHSP	210	2,425.72
ODSHTMC	212	196.65
ODSHTP	214	1,041.15
ODSHOMC	216	1,206.12
ODSHOP	218	5,193.79
ODSDJV	300	9.04
ODSDNP	304	803.73
ODSDSP	308	3,968.54
ODSDTP	312	207.26
ODSDOP	316	947.51
KAISDNU	334	269.40
KAISDSH	338	244.94
KAISDTE	342	43.80
KAISDOP	346	302.52
LIFESUAO	402	1,660.56
LIFESUTE	412	133.00
LIFEOPET	414	67.20
LIFESUSH	422	883.20
LIFEAD&D	430	302.18
ACCINSAT	432	2,204.34
ACCINSPT	434	145.15
CANCERPT	435	456.75
LTD	436	2,009.06
STD	438	2,704.68
MASS	600	9,048.16
ICMA	602	16,355.99
NACO	604	49,427.99
MASS PYM	610	561.42
ICMA PYM	612	192.56
ICMA R45	622	325.00
NACO R45	624	100.00
CHILD1	700	8,135.19
GARN1	710	1,944.69
GARN2	711	1,159.00
GARN3	712	522.68
GARN4	713	273.00
GARN5	714	800.00
LCDSAD	750	3,766.80
LCJDAD	755	200.00
LCJDAF	756	300.00

CONTRIBUTIONS

Desc.	No.	Amount
MEDI	001	44,470.79
FICA	002	186,388.14
WORKCOMP	007	50,825.18
UNEMP	008	21,261.61
WKCOMPTA	010	2,004.12
ELWK M&F	015	1,770.54
PERS ER	100	347,958.20
PERS EE	108	176,056.24
UAL	114	125,291.74
ODHJMC	200	16,841.80
ODHNMC	204	220,897.76
ODHNP	206	73,839.65
ODHSMC	208	229,308.26
ODHSP	210	39,433.71
ODHTMC	212	49,323.44
ODHTP	214	19,782.58
ODHUMC	216	337,605.72
ODHUP	218	98,684.91
KAIHNP	236	10,610.65
KAIHSP	240	12,408.00
KAIHTP	244	3,442.04
KAIHUP	248	15,586.34
ODDJP	300	171.80
ODDNP	304	15,341.34
ODDSP	308	8,895.20
ODDTP	312	3,938.56
ODDUP	316	18,005.30
KAIDNU	334	672.55
KAIDSH	338	275.06
KAIDTE	342	109.65
KAIDU	346	582.66
WDGJV	360	813.00
WDGNU	364	5,165.51
WDGSH	368	5,875.64
WDGTE	372	937.88
WDGOU	376	9,956.50
LIFEBAAO	400	6,198.20
LIFESUAO	402	42.00
LIFEBATE	410	156.94
LIFESUTE	412	1.00
LIFEOPET	414	67.20
LIFEBASH	420	2,240.96
LIFESUSH	422	22.00
MASS	600	2,122.08
ICMA	602	1,504.02
NACO	604	4,620.92
FSA ADM	830	378.00
CEA	840	1,257.90
**TOTAL:		2,173,143.29

73,573 HRS
x 12
882,876
x $ 2.00 inc
$ 1765752
payroll cost
x 1.2588
$ 2,222,728 35

Minimum
wage increase

Linn County Minimum Wage Increase

(Cost to Implement Methodology)

Linn County as a local government entity represents about 15 percent of local government activity in all of Linn County.

$2,222,728 x 6.7 = $14,892,227.60

Linn County is approximately three percent of the state's population.

$14,892,227.60 x 33.3 =

$495,912,844.

Per Year to Local Government Statewide

Cost of minimum wage increase to $13.25 when fully implemented.

FRBSF ECONOMIC LETTER

2016-02 | February 1, 2016

Changes in Labor Participation and Household Income

BY ROBERT HALL AND NICOLAS PETROSKY-NADEAU

The percentage of people active in the labor force has dropped substantially over the past 15 years. Part of this decline appears to be the result of secular factors like the aging of the workforce. However, the participation rate among people in their prime working years—ages 25 to 54—has also fallen. Recent research suggests this decline among prime-age workers can be attributed in large part to lower participation from among the higher-income half of U.S. households.

For most people, active participation in the labor market is socially desirable for several reasons. One major benefit is the set of skills and abilities a person gains on the job. Long periods out of employment can mean a worker loses valuable skills. In terms of the overall labor force, this loss is compounded, lowering the accumulation of human capital and negatively affecting economic growth in the long run. As such, a decline in labor force participation, particularly among workers in their prime, is a significant concern for policymakers.

Over the past 15 years, the labor force participation (LFP) rate in the United States has fallen significantly. Various factors have contributed to this decline, including the aging of the population (Daly et al., 2013) and changes in welfare programs (Burkhauser and Daly, 2013). In this *Economic Letter*, we look at another potential contribution, the changing relationship between household income and the decision to participate in the labor force.

Measuring labor force participation

People are considered "in the labor force" if they are employed or have actively looked for work in the past four weeks, according to the Bureau of Labor Statistics definition of unemployment. Following this definition, we study labor market participation and how it relates to household income using data from the Survey of Income and Program Participation (SIPP). Administered by the Census Bureau since 1983, the SIPP was created to remedy shortcomings in existing survey data on household incomes and benefit-program participation, such as the March Income Supplement to the Current Population Survey. The SIPP collects detailed information on a person's labor force activities, a wide range of demographic data, the receipt of cash and in-kind income, and participation in government programs.

Comparisons of LFP rates over time need to control for the ever-changing demographic characteristics of the U.S. population, such as age, educational attainment, and race and ethnicity. For example, aggregate participation may decline if a certain group—say, individuals over age 55, who are less likely to be working—gain greater prominence in the overall population. In this case, we would observe a decline in overall participation even if there had been no change in each individual's propensity to be in the labor market.

We use a probability model to determine the likelihood that an individual with a specific set of demographic characteristics will participate in the labor market. Crucially, this allows us to compare the behavior of similar individuals at different points in time. The factors we include are age and sex, household structure (at least two individuals in the household over age 25), education (less than high school, high school, college, or post-graduate), and race and ethnicity (white, black, Hispanic/Latino, Asian, or other). All LFP rates we report in this *Letter* control for these demographic characteristics.

The LFP rate for people between the ages of 25 and 54 was 83.8% in 2004, then dropped to 81.2% by 2013. This 2.6 percentage point decline has persisted well beyond the end of the Great Recession and has caught the attention of policymakers, particularly because it concerns workers in their prime who are usually active participants in the labor market.

Measuring household income

Each individual in the SIPP is associated with a household, and the survey provides a detailed account of the household's monthly income. Households are then ranked according to income level, and divided evenly into four quartiles across the range of the household income distribution. In 2013, households in the lowest 25% of the income distribution, or the first quartile, had an average monthly income of less than $1,770. The median total household monthly income was $3,430. At the top of the distribution, the lower bound for being in the highest 25% of households, or the fourth quartile, was a monthly income of $5,993.

Earnings from work are typically the main source of income for a household regardless of its position within the household income distribution. Other sources are property income and various support programs such as social security, veteran benefits, and public assistance. On average in 2013, the upper-level households derived about 96% of their monthly income from working. For households in the poorest quartile, earnings made up about 62% of monthly income, while another 23% came from unemployment compensation, social security, supplemental social security, and food stamps.

Labor force participation and household income

We sort prime-age individuals according to their household's position in the income distribution. The probability of participating in the labor market for those in the poorest households in 2013 was just 61.5%, compared with 81.2% for all 25- to 54-year-olds (see Table 1). Further up the household income distribution, individuals are more likely to actively participate in the labor market—in the top quartile, the participation rate was 89.9% in 2013.

Table 1
Labor force participation among prime-age workers across household income distributions

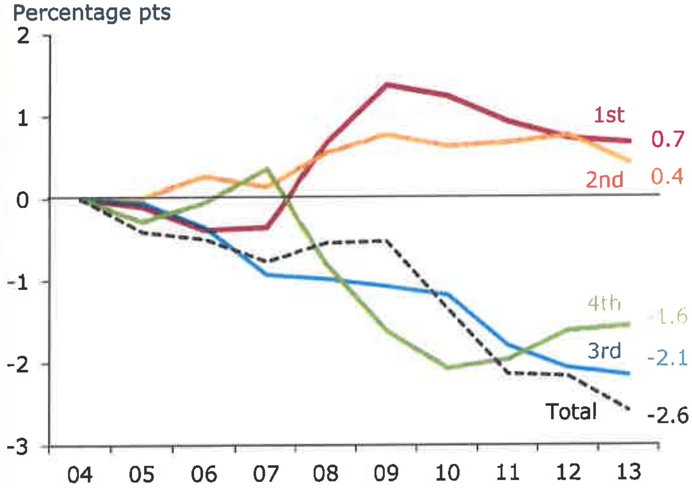
	2004	2007	2013
Total	83.8%	83.0%	81.2%
1st quartile (lowest income)	62.3%	61.2%	61.5%
2nd quartile	80.0%	78.0%	77.6%
3rd quartile	88.0%	87.3%	84.8%
4th quartile (highest income)	91.9%	91.4%	89.9%

Source: Authors' calculations based on the SIPP.

Looking back in time, we see that the decline in the LFP rate of prime-age workers is unevenly spread across the income distribution. The poorest quartile had the smallest change since 2004, falling 0.8 percentage point. The second quartile fell 2.4 points, while the third quartile reported the largest drop with 3.2 points. Participation also fell 2.0 percentage points for households in the fourth quartile.

Figure 1 shows how much each household income quartile contributed to the 2.6 percentage point overall decline in LFP among workers ages 25 to 54 since 2004. Each quartile's contribution is the sum of two numbers. The first is the change in the probability that an individual living in a particular household income bracket will participate in the labor market. The second is the change in household size over time, which raises or lowers the number of people in a household income grouping. For instance, the poorest quartile saw a small decline in individual participation rates. At the same time there was a modest increase in the average number of people living in these households. Taken together, the poorest quartile added 0.7 percentage point to the total participation rate between 2004 and 2013 (red line). Likewise, the second quartile (yellow line) added 0.4 percentage point.

Figure 1
Changes in labor participation among prime-age workers
Total and contribution by quartiles of household income distribution



Note: Numbers to right of lines show percentage point changes to total and quartile contributions, 2004–13.

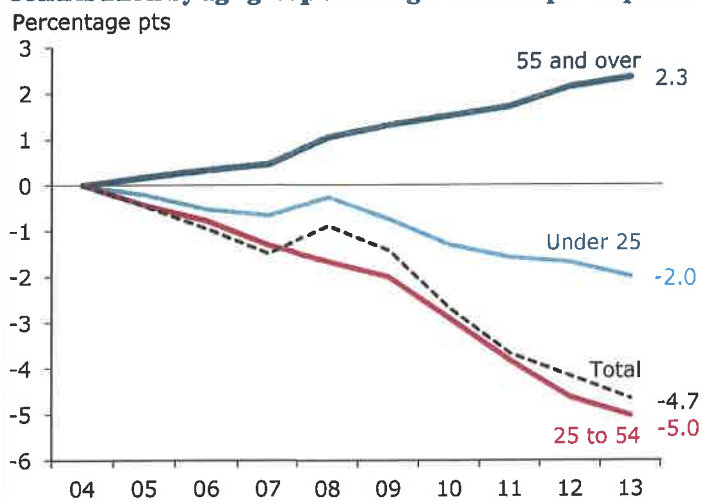
By contrast, individuals in the two highest income quartiles have increasingly remained out of the labor force during this time frame. Individuals in the fourth quartile (green line) accounted for 1.6 of the 2.6 percentage point decline in total participation since 2004, while those in the third quartile (blue line) contributed the most to the decline, a full 2.1 percentage points. By this measure, virtually all of the decline in labor market participation among 25- to 54-year-olds can be attributed to the higher-income half of American households.

Participation among younger and older workers

We can also extend this analysis to the remaining age groups: young people under age 25 and older workers age 55 and over. Doing so will allow us to examine the contribution of each group to the decline in the LFP of the working-age population, that is, all individuals over age 16. Indeed, the LFP of the working-age population dropped 4.8 percentage points over this period, from 67.2% in 2004 to 62.4% in 2013.

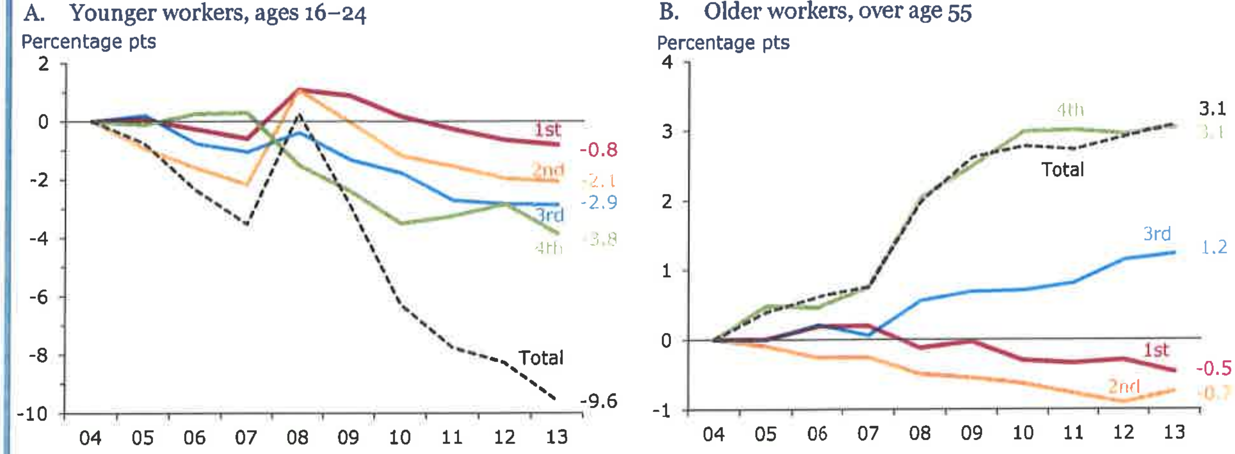
As a first step, Figure 2 depicts the total decline in labor force participation and the contribution from each of the three age groups between 2004 and 2013.

Figure 2
Contribution by age group to changes in labor participation



Source: Authors' calculations based on the SIPP.

Figure 3
Change in labor force participation by household income quartile



Note: Numbers to right of lines show percentage point changes to total and quartile contributions, 2004–13.

The decline among young workers from 61.8% participation in 2004 to 52.2% in 2013 is striking. Although young workers represent only 16% of the overall working-age population, the 9.6 percentage point decline of the young pulled the aggregate rate down by 2.0 percentage points (light blue line). The pattern of young workers' participation across the household income distribution, shown in panel A of Figure 3, is similar to that of prime-age workers. Young workers in the highest-income households contributed the largest drop, 3.8 percentage points, while those in the lowest-income households contributed only 0.8 percentage point to the decline for their age group.

The LFP rate of those over age 55 differs from what we have seen for the other age groups in two respects. First, their likelihood of being in the labor market has increased 3.1 percentage points; together with their increased share of the population, these conditions pushed the aggregate LFP rate up 2.3 percentage points, as shown by the dark blue line in Figure 2. Second, we do not find the same household income pattern among older workers as we found for the other age groups. Rather, panel B of Figure 3 shows that individuals in the highest-income households provided the bulk of the increase in labor force participation.

Conclusion

To get a clearer view of the factors underlying the decline in labor force participation, this *Letter* has examined how work trends have changed across different age groups and income levels. Our findings suggest that the decline in participation among people of prime working age has been concentrated in higher-income households. A similar pattern appears among younger workers, between the ages of 16 and 24. However, this has not been the case among older workers. Workers over the age of 55, particularly those in households at the top of the income distribution, have been increasingly participating in the labor force. Further research should help understand the underlying reasons for these diverging trends across household incomes.

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Minimum wage: Why is nobody talking about seniors? (Letters to the Editor)

By Letters to the editor
on January 30, 2016 at 5:09 PM

Minimum wage and seniors: Not one of the **minimum-wage** proposals I see out there does anything to offset the immediate damage that will be done to senior citizens on fixed incomes. Social Security payments won't be going up at the same time the minimum wage starts to increase. This means seniors won't be able to afford all their groceries, since minimum-wage labor is a big part of grocery store items. What then? Not one plan considers seniors on fixed incomes, and I find it deplorable. This is very irresponsible to our parents and grandparents. Either coordinate this with the federal government so Social Security increases at the same rate, or Oregon must start to subsidize Social Security payments so seniors aren't harmed. If the state is unwilling to do that, it has no business voting in a minimum-wage increase beyond current inflation. Why isn't anyone remotely talking about our seniors?

Bill Northrup

Eugene

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