

June 18, 2017



The Honorable Mark Hass
The Honorable Phil Barnhart
Co-chairs, Joint Committee on Tax Reform
900 Court Street, NE
Room 354
Salem, OR 97310

RE: HB 2830 Work Session

Co-Chair Hass, Co-Chair Barnhart and Members of the Joint Committee on Tax Reform:

The Oregon Business Council [submitted a letter last week](#) along with some of our partner business associations opposing a gross receipts tax this session but supporting a comprehensive package that includes significant cost containment, business tax increases from the existing tax code, and targeted investments. Our letter urged the creation of a table where both cost containment and revenue come together as part of a single conversation. Attached are some charts that underscore why such an approach is needed.

The Oregon Business Council and ECONorthwest analyzed data supplied by the Public Employee Retirement System (PERS) and the Legislative Revenue Office (LRO). Our analysis, visualized in the attached charts, shows that by 2021 PERS cost increases will have consumed all of the new revenue generated by HB 2830-3.

[According to LRO](#), the HB 2930-3 is expected to increase revenues over today's levels by \$1.46 billion in the 2021-2023 biennium.¹ But the increase in PERS costs associated with K-12 and the General Fund portion of state agency payrolls will be \$1.9 billion over today's levels in the same biennium. The increase in PERS costs is due to PERS rates that are expected to rise from 17.5% of payroll to 31.6% of payroll in 2021-2023, and from payroll growth, which is expected to grow at 3.5% annually. The increase from the higher rates alone will be \$1.52 billion in 2021-2023, more than the tax brings in.²

Unfortunately, SB 1068—the PERS reform bill—as currently drafted would do little to offset these future PERS costs. The bill requires 1% cost sharing by employees beginning 7-1-18, going up to 2% in the 2019-2021 biennium. This represents less than \$50M in K-12 and General Fund savings in 2017-2019, and only \$200M in 2019-2021. The Oregon Business Council has proposed PERS reforms that would save \$500-\$600M for K-12 and the General Fund per

¹ LRO analysis of HB 2830-3 presented to the Joint Committee on Tax Reform 6-15-17 and [available on OLIS](#).

² Milliman's PERS rate and payroll data were presented to the Senate Committee on Workforce on 2-1-17 and 2-6-17 and can be found on slides 24 and 27 of [PERS Director Steve Rodeman's presentation on OLIS](#). Our analysis assumes that the General Fund pays for 47% of state agency payrolls (an assumption drawn from analysis of BAM documents).

biennium³ along with reforms to bring down the costs of public employee health insurance that could save hundreds of millions in future biennia.⁴ This magnitude of cost-containment is needed if new taxes are to truly pay for new investments in Oregon students. Otherwise new taxes will simply pay for old problems.

We encourage the legislature to pursue cost containment with the same vigor that it is pursuing tax increases, and to bring the conversations around cost-containment and revenue together. There is no hearing scheduled for SB 1068, nor is there a commitment to hold one. SB 1067 has only received one hearing and the Capital Construction Subcommittee of Ways and Means (the cost containment committee) has met only once in the past month.

If Oregon is to truly move forward in a way that benefits students, the conversations around tax increases and cost containment must be brought together. We urge the Committee to slow down its rush to pass a gross receipts tax and work toward a package of meaningful cost containment, changes to the existing tax code, and targeted investments.

I hope that the information we have provided is helpful. Please don't hesitate to contact me with any questions.⁵

Thank you.

Sincerely,

Jeremy Rogers, Vice President
Oregon Business Council

³ See <https://olis.leg.state.or.us/liz/2017R1/Downloads/CommitteeMeetingDocument/133280>

⁴ See <https://olis.leg.state.or.us/liz/2017R1/Downloads/CommitteeMeetingDocument/133723>

⁵ This letter and the attached analysis focus on K-12 and General Fund PERS costs. Cities, counties and special districts also face billions of dollars in increased PERS costs in the coming years and the reforms proposed by OBC would also provide significant savings to these entities.