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STATE SENATOR
DISTRICT 12



OREGON STATE SENATE

June 19, 2017

Joint Committee on Tax Reform
900 Court Street
Salem, Oregon 97301

Committee Members:

As the A6s or A7s to HB 2830 come forth the Committee continues to operate in a vacuum.

There has been no cost containment even in the draft of SB 1067 that leaves to meaningful progress to bending the cost curve. In fact, even with a billion in new revenue the State would be upside-down in the next biennium. Further, the fantasy that the State budget is \$19-20 billion continues as the real all funds budget is over \$70 billion now. Anyone who does not understand the budget substitution game between tax revenue, lottery, fees and federal funds should not be voting for anything until fully educated.

Health care will outpace education in three years. Both are unsustainable now. PERS alone will drag the State into a disaster. After five months, the Legislature has continued to operate in silos that now are incompatible for any meaningful reform. The drum roll from the majority that a tax increase is the answer to all problems is a recipe for economic disaster.

It is clear, the wrong people have been in the room. And for the record, despite the public comments even in the hearing room, there have been people from all sides working separately on these issues. They did not just show up to a June hearing. Obviously, it should have been combined discussions as in 2011-13, when the State's real spending was trimmed 5.5%, not some game of limiting growth from 8% to 14% or higher in some programs this year.

If a revenue and transportation package get out of both Chambers, both will likely be on the ballot in November, and both will very likely fail in tandem.

Sincerely,

Brian J. Boquist
Co Vice Chair

Attachments 3

Cost Containment Legislation/Work Group Comparison

Early in the 2017 Legislative Session, a bipartisan workgroup spent a tremendous amount of time reviewing potential cost containment strategies. Below is a summary of which components are a part of SB 1067, the cost containment legislation currently being pursued:

Recommendations Included in SB 1067

- Require DAS to report on future costs of collective bargaining agreements (*Section 1*)
- Limit FTE to 1% of the population (*Section 4-5*)
- Establish a target for deferred maintenance versus new projects (*Section 9*)
- Limit PERS contingency reserve account (*Section 11*)
- Pay cash rather than issue bonds for small projects (*Section 13-14*)
- Change debt collection practices (*Section 15-24*)
- Combine PEBB and OEGB (*Section 25-35*)
- Require PEBB and OEGB to stay within a 3.4% annual growth rate (*Section 27-28*)
- PEBB/OEGB non-primary care rates tied to a % of Medicare rates (*Section 29-34*)

Potential General Fund Cost Savings – TBD

Potential Total Funds Cost Savings – TBD

Recommendations Not Included in SB 1067

- Remove long term vacancies and associated funding (*Section 2 - Requires Review*)
- Require legislative approval of position reclassification and addition of steps to top of salary ranges. (*Section 3 - Require additional reporting requirements*)
- Changes to Lottery Administration (*Section 6 - Study Lottery Administration Costs*)
- Add rigor to vendor contracting process (*Section 7 - Require Study*)
- Require PERS set-aside accounts (*Section 10 - Require Governor's Budget Recommendation*)
- Eliminate standard inflation
- Restrict filling of vacancies
- Establish state PERS prepaid account for state government
- Limit rollup costs for COLAs for state employees
- Prevent rollup costs beyond typical first year increase for organizations receiving state funds for general operations and personal services costs (education)
- Freezing hiring (or slowdown) of all non-essential state employees
- Change bargaining process to even years (Washington Model)
- Compensation agreements must be within salary pot amount – Governor's proposal must include all costs (Washington Model)
- Limit collective bargaining agreements to two years
- Require school districts to reduce administrative costs
- Reduce mandates/required reports for education

SB 1067 - Cost Containment Summary

Summary: Provides a myriad of cost containment policies.

Section 1: Review of reclassifications

- Requires legislative review on reclassification of state positions, including which positions were filled at the time of reclassification and difference in compensation.

Section 2: Review of long term vacancies

- Requires DAS to report to Legislative Fiscal Officer on any position that has remained vacant for at least six months. Requires report to detail recruitment action, filling the position or using the position for purposes other than legislative approved. Requires LFO to report to Legislature.

Section 3: Report on Collective Bargaining Rollup Costs/Steps Ranges

- Requires DAS to present before making changes in a compensation plan, to include for the legislative review agency: step pay increases, cost of living adjustment, addition of steps in position pay ranges, any other actions that have economic effect on salary plan, and estimates of total cost of any salary plan changes for the next biennium.

Sections 4-5: Cap on state government employment based on state population

- On January 1, 2018, reduces the cap on the number of people that may be employed by the state from 1.5% of the population to 1.0% of the population.

Section 6: Oregon State Lottery Commission transfer rate and administrative costs

- Prior to each odd-numbered year session, LFO must conduct a study on the Lottery Commission's administrative costs and transfer rate to determine if it is appropriate to transfer additional funds for budget purposes.

Section 7: Procurement practice improvements

- Requires a study to be conducted on current procurement practices, including current statutory exemptions from DAS procurement authority, to determine if improvements can be made to save money. The study may be in the form of an audit conducted by the Secretary of State, but, if such a study is not to be conducted before the next regular session, the study would be conducted by the Legislative Policy and Research Office (LPRO). Requires LPRO director to describe methods used to conduct study and present in a report to Legislative Audit Committee.

Section 8: Utilizing cost information in state budget development

- Authorizes LFO to review and update projected current service level costs (CSL) for the legislative budget process from those used for the Governor's recommended budget preparation. Factors for projections include: position vacancy assumptions, standard and exceptional inflation adjustments, mandated caseloads, and other assumptions used in developing the tentative budget.

Section 9. Targets for deferred maintenance

- Requires the Governor's budget to include at least 2.0% of the current replacement value of state buildings and infrastructure for deferred maintenance.

Section 10. PERS employer side accounts

- Requires the Governor's budget to include recommendations regarding the ability to establish employer side accounts to help offset future PERS costs.

Section 11. PERS contingency reserve account

- Reduces the PERS contingency reserve account and caps the account at \$50 million.

Section 12. PERS Determination of unfunded accrued liability

- Ensures that official reporting by the PERS board and staff of the PERS unfunded accrued liability shall include the value of side accounts.

Section 13-14. State borrowing

- Requires the Legislature to set a minimum project amount for bonding; projects approved under that amount would be paid for with cash rather than bonds. Prohibits bonding for ongoing state administrative expenses.

Section 15-24. Debt collection practices

- Centralizes state debt collection work and requires state agencies to assign specified liquidated debt to the Department of Revenue for collection. (The language is from SB 89.- Passed out of General Government on a 5-0 vote.)

Section 25-26. Public Employees' Benefit Board (PEBB) and Oregon Educators Benefit Board (OEBB) merger

- Requires a plan to be developed for the merger of the two boards and begins administrative consolidation. Plan to be presented to Ways and Means by February 1, 2018.

Section 27-28. Annual growth rate limit for health benefits

- Requires PEBB and OEBB to use payment methodologies and adopt policies and practices that limit health services costs to 3.4% growth each year.

Section 29-34. Limitation on benefit plan non-primary care rates

- Ties rates for hospital services provided through PEBB and OEBB to a percentage of Medicare rates in-network hospitals- 200%, out-of-network hospitals- 185%.

Section 35. Captions

Section 36. Emergency Clause

Current Cost Containment Strategies Pricing (as of May 2017)

Eliminate Standard inflation	\$36.5 million GF/LF	\$211.9 million TF	likely one time, but renewable; resets base
Hiring Slowdown	\$62.2 million GF/LF	\$145.3 million TF	one-time; resets base
Vacancy Savings in CC Plan	\$42.7 million GF/LF	\$67.8 million TF	mostly DHS/OHA/DOC as part of co-chair plan
PEBB/OEBB at 3.4% growth*		\$35 million TF	could increase to \$70 million total funds in future
			3.4% is instead of the long-term actuarial trend of 7.2% growth
PEBB/OEBB tied to % of Medicare		\$165 million TF	future biennial amount with rates at 200% of Medicare
PERS Options			under development; future biennial savings

Other items on the Cost Containment Strategies list are cost avoidance actions that are dependent on the timing and actual implementation used. Estimates for these items (such as limiting state FTE to 1% of population, debt collection performance and enhancement, managing bonding proposals, managing the timing of cost of living adjustments and other collective bargaining control mechanisms, reviewing position reclassifications, etc.) will be provided when more details are developed.

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