



OUR NEXT

20

NEW PERSPECTIVES ON  
OREGON'S FISCAL FUTURE  
AND WHAT WE CAN DO NOW



OUR NEXT  
**20**

## EXECUTIVE OVERVIEW

# Our Next 20

**Oregon cities, counties, schools and other public services face meaningful budget shortfalls in 2022. It's not a one-time problem. It's the beginning of 20 years of steady fiscal stress. Now is the time to open a conversation that can bring everyone to the table – because these outcomes are not inevitable.**

Two years ago, seven organizations came together to better understand the state's coming fiscal stress. In the spirit of learning in order to serve Oregon communities better, we began with four guiding questions:

1. What is the fiscal health and resiliency of Oregon's local governments?
2. What is the timeline and magnitude of expected fiscal shortfalls?
3. How are they likely to be distributed throughout Oregon?
4. What impact can we predict for families, communities, and the ongoing economic strength of the state?

We commissioned this report to provide civic leaders a new path into understanding this complex issue, and imagining our roles in shaping a hopeful future for all of Oregon. For some, this report will present a new way of talking about a host of issues that have been simmering for decades; for others it may be a wake-up call. Our hope is that for all of us, this report serves as a call for new action and engagement.

- **By 2021** nearly all of the communities we studied will struggle to maintain current levels of service for schools, fire districts, public health and safety.
- **After 2022**, even with new revenue, persistent structural imbalances will result in ongoing and increasing budget shortfalls through 2037.

## OUR NEXT 20 | EXECUTIVE OVERVIEW

As we reviewed the final data one member of our learning group observed, “It seems that we thought we were going to die by falling 500 feet and we’ve learned that it’s actually 5,000 feet. Is it even useful to know that?”

It is a feeling reminiscent of the gut turn many of us experienced when we first reckoned with the massive earthquake – The Big One – that will likely shake Cascadia in the next fifty years.

The difference between The Big One and this coming financial crisis is simple: You cannot prevent an earthquake. But Oregon governments and voters can prevent this fiscal crisis.

**We have the tools to determine when budget imbalances will occur, how deeply they will impact communities today and in the future, and which communities will carry the heaviest burden – by income level, geography, race and generation.**

### How did we get here and where are we going?

The challenges that confront Oregonians today result from chronic imbalances in public budgets that were set in motion a generation or more ago. Over the last twenty years hundreds of reports, news articles, and policy proposals have sounded the alarm and advanced solutions. In the 2019 legislative session, thirty eight bills offer partial remedies.

This report seeks to open a different door for this conversation. The next two years offer a critical period for developing solutions that can either prevent or mitigate the most significant harms to communities.

### WE SHARE HERE WHAT WE’VE LEARNED

Over the next twenty years, the primary drivers of fiscal stress for local governments are a combination of two things:

1. Annual increases in required payments from local governments to fund the Public Employee Retirement System’s Unfunded Actuarial Liability (UAL).
2. Constrained revenue options to fund local governments because of a combination of declining Federal aid, constitutionally frozen property taxes, and low statewide business taxes (this primarily impacts education investments).

At the end of this report, we present a menu of fiscal solutions that could address both the magnitude and timing of these challenges, and invite community leaders to evaluate and innovate. Notably: Developing a structured approach to manage the past obligations of the UAL offers the most potential to address both the scale and timing of future budget shortfalls for schools, cities, counties, and other local governments.

### WE ALSO RECOMMEND FOUR STEPS TO HELP REBUILD CIVIC TRUST IN EACH OTHER AND IN OUR STATE AS A GREAT PLACE TO PLAN OUR COLLECTIVE FUTURES

- **Focus** on the needs of local and state governments – and the communities they **serve together** – when designing solutions.
- **Prioritize** and support ongoing, empowered civic leadership related to this statewide challenge – particularly with low-income communities, rural communities, and communities of color.
- **Get out of crisis** by viewing budgetary decisions on a generational timeline, not annual or biennial negotiations.
- **Support civic understanding** of public budgets by developing transparent budget forecasting tools, such as those adopted in other states.

## The Report is Organized in Three Sections

**1. Redefine the Fiscal Problem:**  
A Community Centered-View

**2. Define the Civic Problem:**  
Are We Prepared to Solve These Challenges Together?

**3. Understand Our Options for a More Hopeful Future**

### SECTION 1 OVERVIEW

#### Redefine the Fiscal Problem: A Community-Centered View

Oregon’s financial health is typically viewed through the lens of state government. We shift our focus to assess the financial health and stresses of communities in every part of the state, with a look at what those shortfalls might mean for families, economic opportunity, and business vitality in those regions.

- Impacts are likely to fall most heavily on people who are low income, rural, indigenous, African American, Latino, Asian and Pacific Islander, people with disabilities and the elderly.
- Impacts are likely to distress opportunities for business growth, entrepreneurship and job security, particularly in rural areas.

Our research focuses on local governments and the communities they serve. However, local governments do not operate in isolation. State and federal governments provide sizable shares of their revenue and, in cases like pension policy, state policymakers set program rules that determine local government expenditures.

An analysis of fiscal health at the local level necessarily requires an understanding of fiscal conditions at the state and federal levels, as well. And, consequently, communities that aspire to have productive schools, safe neighborhoods, uncongested roads, and well-maintained parks must take a broad view and consider all the interconnected, intergovernmental issues that affect their abilities to deliver public services.

### SECTION 2 OVERVIEW

#### Define the Civic Problem: Are We Prepared to Solve These Challenges Together?

Everyone knows that we're facing a tough challenge. Policymakers and other stakeholders have anticipated today's local government fiscal distress for at least a generation. With many of the biggest problems foreseen and well-understood, a variety of groups inside and outside of government have proposed solutions to address them.

What information, representative decision-making bodies and voter engagement efforts prepare us to work together on these challenges?

How do Oregon civic leaders address two important ways in which current approaches to developing solutions have been mismatched with the challenges ahead?

- **Generational Mismatch:** State and local budget decisions are made on annual and biennial basis, but the consequences of decisions (including inaction) take place over twenty years.
- **Stakeholder Mismatch:** Key stakeholders – leaders in communities of color, low income communities and rural communities – have not been engaged as partners to identify priorities, evaluate the financial and community issues with the current path, or to design or assess the value of new proposals.

These misalignments have become barriers to developing the public will to advance solutions at the scale of the problem.

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### SECTION 3 OVERVIEW

## Understand Our Options for a More Hopeful Future

**The challenges described in this report are solvable.**

We recommend that the Governor, legislators, local governments and other stakeholders in this conversation create meaningful and empowered space for the expertise of affected communities to guide the development of solutions. Experience shows that solutions will be more impactful, innovative and relevant with stakeholder involvement from the beginning.

**We invite leaders to evaluate potential solutions based on four sets of outcomes** that are central to Oregon's vitality over the next twenty years and beyond:

### Generational

The fiscal challenges ahead were decades in the making, but will disproportionately impact kids, people starting families and businesses in the next twenty years – this generation. The solutions available to address our statewide fiscal stresses will require sacrifices and investment for decades, and may require spreading obligations into the following generation.

#### Ask:

What are the impacts of current plans and new proposals for this generation and those that follow?

### Race and Class

Historically, periods of budget imbalance result in austerity choices that fall disproportionately on people of color and people living on a low income. Often, policy changes focus on the compensation of public employees – who are more likely to be lower income, female, and people of color.

#### Ask:

How do current plans and new solutions compare in terms of impacts across race and class?

### Rural

Property tax limitations, declining federal revenue, and employment loss following the Great Recession hit rural Oregon harder than urban Oregon. As a result, coming budget shortfalls may be particularly challenging for these communities.

#### Ask:

How do current plans or new proposals serve or undermine the unique economic development needs of rural Oregon?

### Reputational

Oregon's potential for future growth is based on our reputation and attractiveness to new residents and new business investments, and is also interconnected with our sense of belonging and mutuality as a state.

#### Ask:

Do current plans or new proposals set the stage for Oregon's future economic health and shared growth?



# Redefine the Fiscal Problem

## A community-centered view

Balancing budgets, reducing unfunded liabilities, strengthening bond ratings, and preventing bankruptcies are important reasons to focus on the fiscal condition of local governments. Two more important reasons: Securing opportunity for the next generation of Oregonians and maintaining strong foundations for regional economies.

Harvard University economist Raj Chetty and his colleagues have deepened our understanding of the importance of place – a city, a county, a neighborhood – in determining the economic opportunity of young people who grow up there.<sup>1</sup> Oregon is home to both opportunity-rich and opportunity-poor zip codes.

What are characteristics of opportunity-rich neighborhoods? Chetty says great schools, low crime rates, short commutes, and well-integrated neighborhoods that allow children and adults of different races, ethnicities, and incomes to interact. Those are many of the same characteristics that businesses look for when they consider expansion or relocation.

## OUR NEXT 20 | REDEFINE THE FISCAL PROBLEM

Well-run, adequately funded local governments play central roles in creating opportunity-rich, economically vibrant places. Employees of local governments educate, mentor, coach, and protect Oregonians. They envision, plan, design, and build housing and transportation infrastructure to provide access to work and to markets. They build and maintain libraries, parks, and other civic spaces that strengthen social bonds and foster collaboration.

The next chapter of this report shows the near-term outlook for these critical services is bleak. Detailed projections for 35 representative governments across Oregon show that all but five face serious budget imbalances. Deficits run as high as 10% for the most challenged jurisdictions.

Oregon's local governments are drifting into an era of fiscal distress because of underlying structural issues within state and local budgets. What does it mean for a government to have a structural budget issues? It means that these challenges are not one-time shortfalls resulting from a new expense or sudden loss of revenue. Instead, they represent a persistent and growing imbalance that results from policy choices made ten, twenty and thirty years ago.

These trends put Oregon's local governments at the threshold of an era of service cuts: higher K12 class sizes, diminished course offerings at community colleges, fewer police patrols, slower emergency service response

times, reduced hours for parks and libraries, substandard road maintenance, decreased disability services and more. Arguably, such cuts have already begun – at the state level and in many local areas.

### Conditions may improve in the early 2040s, when legacy UAL costs are expected to ease, but by then the damage will be done.

Many localities have already been through belt tightening. Nine counties – Columbia, Coos, Curry, Douglas, Jackson, Josephine, Polk, Lane, Linn – were deemed at “at risk” of fiscal distress by the Oregon Secretary of State in 2014 and 2016 reports,<sup>2</sup> and most have considered, or implemented, service cuts. And, Oregon's K12 school districts endured nearly two decades of budget challenges – following the early 2000s recession – and have operated with persistently high class sizes.

If action isn't taken, we will have failed to give a generation of young Oregonians the skills they need to compete against global peers and accelerating automation. Future observers will look back and find that achievement gaps never narrowed, high school graduation rates remained stuck in the bottom tier, and the state never came close to achieving its 40/40/20 educational goal. Polls will show that Oregonians routinely characterized their communities as incapable of solving pressing problems like affordable housing, homelessness, and traffic. Respondents will answer that their communities are “on the wrong track” regardless of underlying economic conditions.

Oregon's local governments will have earned a reputation for unreliable service that will persist for decades. Parents looking for economic opportunity for their children, and businesses looking for competent public partners, will increasingly look elsewhere.



# Challenges of the Next 20

The dynamics and trade-offs reflected in this study have been building for decades. Property tax limitations in the 1990s reduced flexible funding, increased the use of fees and charges, and made localities more reliant on state aid.<sup>3</sup> A long-term decline in federal aid has constrained spending in a wide array of programs. And, although legislative action stabilized and reduced the cost of providing retirement benefits to public workers, legacy obligations now represent a large and growing share of local budgets – crowding out public services that Oregonians expect. The Unfunded Actuarial Liability (UAL) reached \$26B in 2019.<sup>4</sup>

Oregon local governments will enter the 2020s in a relatively weak position.

Employment levels for a range of occupations – teachers, fire fighters – are already comparatively

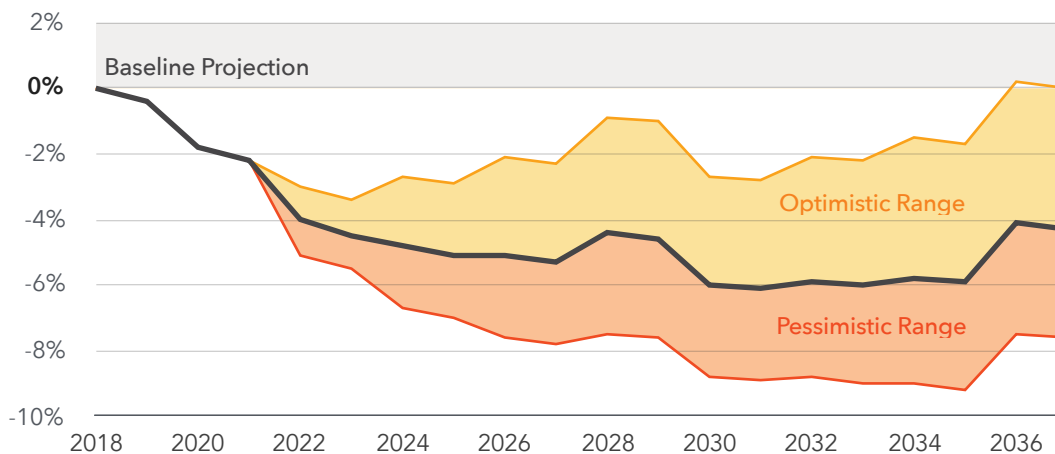
low. Many public workers already shoulder proportionately larger workloads: they teach larger classes, patrol neighborhoods with less support, and carry larger caseloads.

Fiscal challenges will only intensify over the next decade across several inter-dependent areas: Housing and population infrastructure needs, transportation infrastructure needs, and public employee health insurance rates. These needs arise in stark contrast with Oregon’s future revenue. Low permanent property tax rates and low statewide corporate tax rates – for services shared between state and local jurisdictions such as schools and mental health care – will be insufficient to fund future services.

We estimate that local governments will negotiate annual budget shortfalls through 2037. The greatest imbalance (6%) will appear in 2035.

## Local Governments’ 18 Year Projected Aggregate Budget Gap

Between 2019 and 2037 Oregon local governments’ annual budget imbalances will grow to \$2.69B in 2035. The combination of increasing PERS UAL payments and restricted property tax growth are the primary drivers of budget imbalances over this period. This baseline projection assumes a 7.2% rate of return for PERS investments. The pessimistic and optimistic scenarios are based on lower or higher rates of return.



**Source:** ECONorthwest analysis of data from U.S. Census Bureau, Annual Survey of State and Local Government Finances. Projection factors based on historical growth rates. PERS financial modeling scenarios are from 2018 Milliman presentation to PERS Board and PERS Employer Tool.



**Low permanent property tax rates and uncertain federal payments will challenge timber counties.**

**REVENUE SLOW/LOSS**

A number of Oregon counties have yet to identify reliable means to finance basic local services, and they will transition in and out of financial distress until they do so. In 1997, voters passed Measure 50, creating a permanent property tax rate limit. These rates cannot be changed by any action of the district or its voters and remain as they were set in 1997.

**State revenue and budget stresses impact local governments.**

**REVENUE UNCERTAIN**

Local agencies – cities, counties and schools – rely on state funding to provide critical services. The state is a major funding partner of K12 schools and community colleges, so tax decisions will directly affect staffing levels and, at community colleges, tuition levels and course offerings. Three issues dominate the state’s fiscal outlook: 1: a volatile revenue portfolio that is highly dependent on income taxes, 2: pension legacy costs associated with its own, state-level, workforce, 3: healthcare costs that continue to outpace economic growth. Oregon’s reliance on income taxes

have resulted in volatility in available resources. The 2019 Legislature will consider new, state-level taxes on business activity, bringing business taxation closer to national norms. Lawmakers are considering a separate tax package to balance the Oregon Health Plan budget.

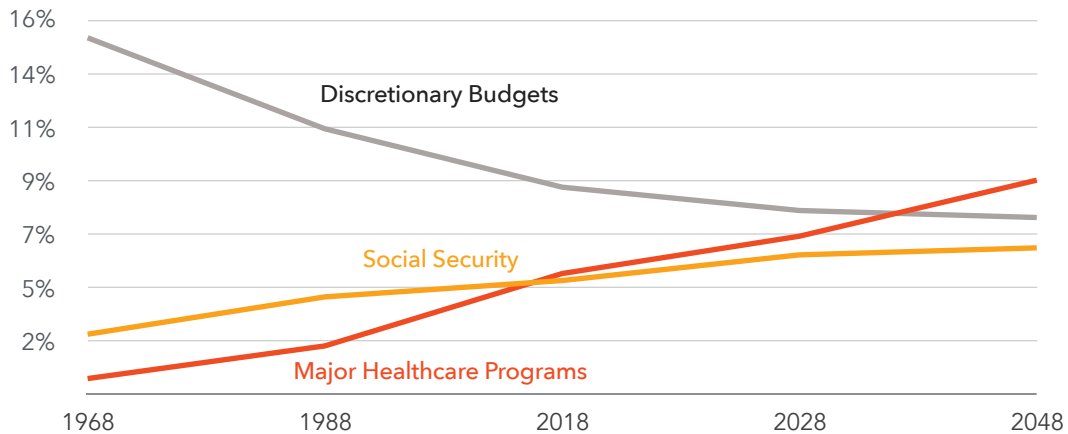
**Federal aid to localities will grow slowly.**

**REVENUE SLOW/LOSS**

The federal government entered a period of sustained deficit spending after the late 1990s through a combination of tax cuts and increased expenditures on entitlements, recession-related stimulus, defense, and interest payments. Discretionary budgets, which are subject to annual appropriations, are the source of federal aid to local governments. They fund home visiting and prekindergarten programming, special education, low-income student supports, rental assistance, transportation infrastructure, community development programs, and more. Absent a major shift in tax policy, entitlement reform, or both, projections indicate that discretionary federal spending – as a share of the economy – will steadily decline over the next several decades.

**Projected Federal Budgets Show Competition Between Core Services**

The U.S. Congressional Budget Office projects that an aging population will accelerate spending on Social Security and Medicare, which in turn will crowd out so-called discretionary spending.



Source: U.S. Congressional Budget Office, 2018 Long-Term Budget Outlook

**Legacy costs of the pension system will come due.****EXPENSE INCREASE**

The policy decisions that elevated the cost of Oregon's pension system started in the late 1960s and extended through the mid-1990s. The consequences of those decisions began appearing in local government budgets in the early 2000s.

In 2003, legislators took action. The goal was to reduce and stabilize costs, while keeping the retirement benefits for public workers competitive and fair. They created a new tier of the pension system for new employees and that system on its own is sustainable.

But lawmakers did not identify a comprehensive plan to fund the significant legacy obligations of the past system. The plan they adopted required a combination of ongoing high market returns and future steep increases in employer contributions. The stock market crash of 2007 compounded these mistakes, more than doubling the liability. The UAL now represents a large and growing share of government budgets.

Abrupt increases in UAL costs over the next three years threaten school, college, and first-responder budgets (among many others), and

after 2022 the competition between public services and the UAL payment schedule will become worse.

Current projections indicate the carrying cost of the pension – a combination of employer contributions for current employees and legacy obligations, and debt service on pension obligation bonds – will increase for local governments from an average of 19.9% of payroll to 28.5% of payroll by 2025. The costs for local governments are projected to reach a high point of 29.2% in 2030. In that year, local governments will spend \$1.5 billion (2019 dollars) above and beyond the cost of a conventional pension system.<sup>5</sup>

To put the costs in context, consider an alternative scenario in which Oregon had adopted the Tier III benefit Oregon Public Service Retirement Plan (OPSRP) much earlier. Assuming no other policy mishaps, local governments would be contributing roughly 10% of payroll to the pension system.<sup>6</sup> That's the same rate that employers could expect to pay sometime in 2040s – once employers have paid off the legacy costs of the system's Tier I and Tier II programs.



## Our New Context: The Need for New Investment

### Housing and infrastructure needs will strain local budgets.

#### EXPENSE INCREASE

Oregon's population is projected to grow from 4.2 to 4.7 million during 2018-2028.<sup>7</sup> New households will demand housing serviced by road, water, sewer, and stormwater systems. Local governments and the private market failed to deliver housing and infrastructure during the current economic expansion. Only seven housing units were built for every 10 new households formed during 2010-2016.<sup>8</sup>



The underproduction put upward pressure on rents, the number of cost-burdened renters increased sharply, and a homeless crisis ensued. Local shelter systems have been overwhelmed, leaving Oregon with the second highest rate of unsheltered homeless people in the U.S.<sup>9</sup>

The needs extend beyond shelter. The American Society of Civil Engineers (ASCE) estimates Oregon will need to spend \$5.6 billion in drinking water infrastructure and \$3.9 billion in wastewater infrastructure over the next 20 years.<sup>10</sup> The engineers rate more than 8,000 miles of Oregon roads in poor condition, which will cost drivers \$285 annually in repairs.

### Employee healthcare costs will continue to outpace inflation.

#### EXPENSE INCREASE

High, and fast growing, employee healthcare costs have challenged public budgets in Oregon and elsewhere. Milliman – the actuarial consultancy – estimates the typical family coverage for a teacher costs \$1,154 per month.<sup>11</sup> Analysts with National Health Care Statistics Group predict healthcare costs for public employers will continue to outpace inflation – growing at nearly 5 % annually during 2019-2026.<sup>12</sup>

## Fiscal Resiliency in the Next Twenty: Place Matters

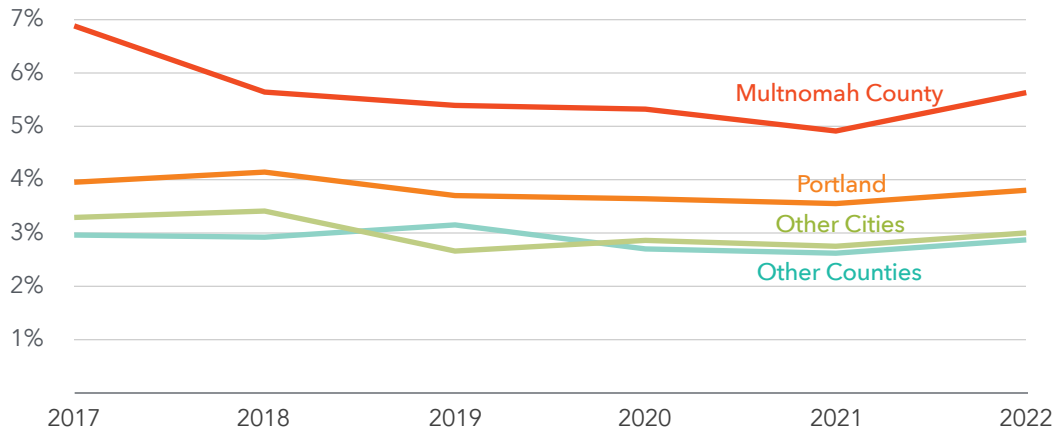
Oregon's local governments share a number of common fiscal challenges. But Portland isn't Ontario and Redmond isn't Roseburg. Timber-dependent counties will see ongoing uncertainty with their federal payments. Each local government negotiates its own compensation package and collective bargaining agreement. And, each local government carries a unique pension liability tied to the past and present composition of its staff. Property tax growth rates vary from region to region. Finally, the key driver of

revenue and service demand – population growth and household formation – varies across the state.

So while the 2020s, on balance, will be fiscally challenging across Oregon's cities, counties, schools and other districts, the decade will play out differently from place to place. To understand just how differently, Portland State University's (PSU) Center for Public Service evaluated the fiscal health and resilience of 35 representative local governments in Oregon.

### Regional Growth Rates Show Higher Property Tax Growth in Portland, Multnomah County than Other Areas

The PSU research team used a three-year moving average for property tax to estimate growth trends over time in each of the 35 jurisdictions for which property tax was a source of income, to project growth through 2022. The tax rates below reflect growth for general property taxes only.



Source: Portland State University Center for Public Service

**We asked: “Will local governments be able to continue providing Oregonians the same levels of service in the future?”**

**For 30 of the 35, the answer was “no”.**

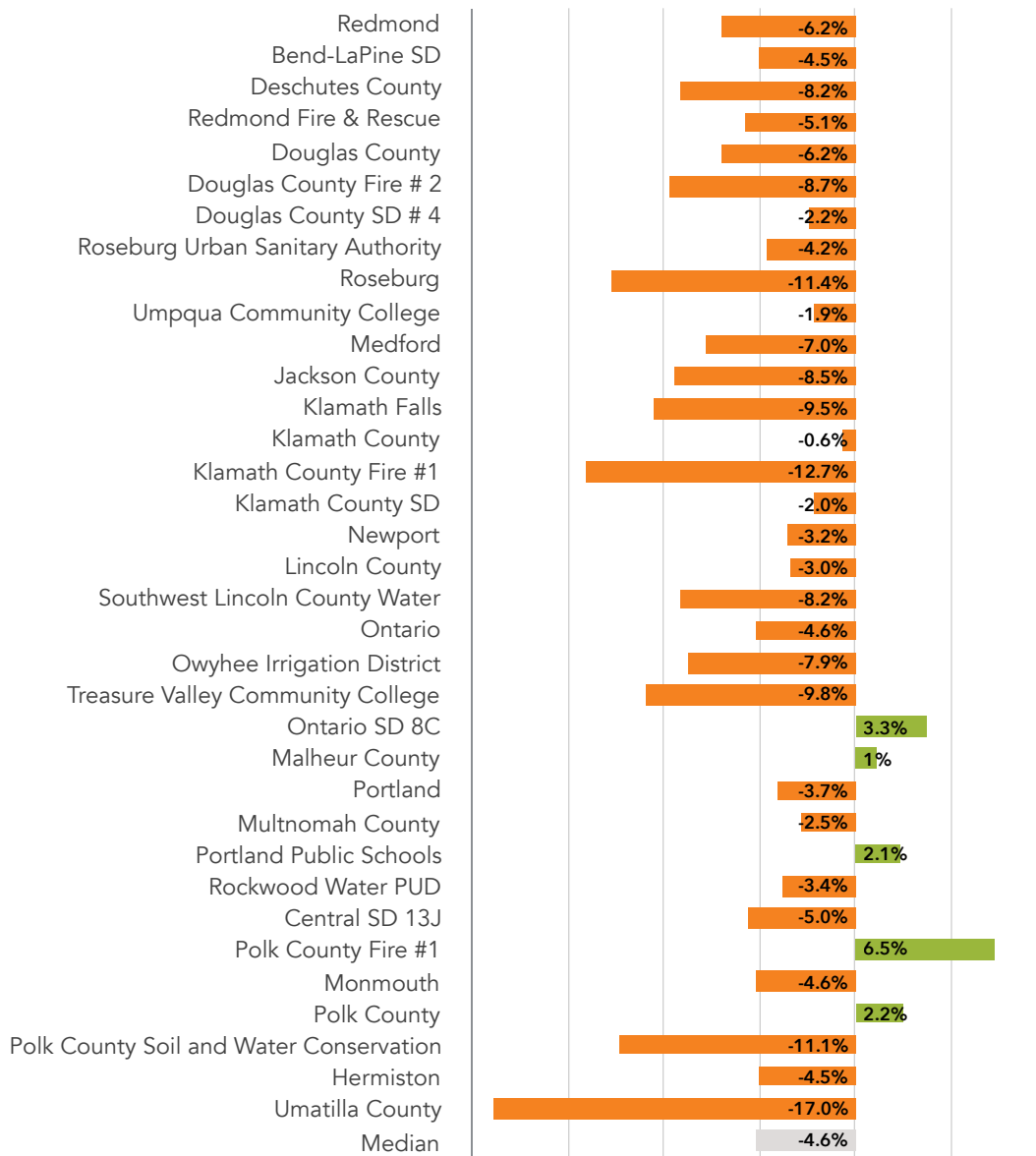
PSU developed a model that indicates only 5 of the 35 jurisdictions studied have sufficient projected revenues to fund the number of personnel necessary to maintain existing service levels through 2022.<sup>13</sup> Assuming constant service levels, the median projected deficit between revenues and expenses is -4.6%, though some local governments could experience a shortfall upwards of -10%. (See chart, next page.)<sup>14</sup>

The model followed a trajectory in which Oregon's economy continues to grow, stock market investments continue to beat the odds, and the cost of buying health insurance for public workers stabilizes. Even under this rosy “status quo” scenario the state will face unprecedented financial hardship at every level of government, in nearly every community.

Resiliency challenges are not confined to specific areas of the state. Many jurisdictions across rural and urban areas are financially strained. Almost everywhere, communities are grappling with the very real prospect of “back sliding” – in some cases, dramatically so – in the next several years and beyond.

### Modeling Fiscal Resiliency for 2022

PSU researchers gathered revenue and expense data from jurisdiction budgets and annual financial statements to model fiscal resiliency. They focused their attention on “operating” or recurring revenues and expenses, which demonstrate the financial capacity of an organization to maintain service levels. As a proxy for service levels, the team looked to the ratio of government employees relative to the size of the population served. The researchers started with the assumption that government revenues and expenses were balanced in 2017, and then used projection factors to estimate growth in inflation, wages, health insurance, PERS, property taxes, and population (among other things) to estimate the balance of revenues to expenses in the future.



Source: Portland State University Center for Public Service

# What if We Fail to Act?

Oregon's outlook should be bright.

People vote with their feet, and all signs are that many want to vote for Oregon.

An appealing quality of life has supported the recent in-migration of college-educated workers and retirees, strong increases in household incomes, and above-average job growth. The state government has created rainy-day funds to put its fiscal house in better order. Looking into the future, Oregon businesses are well-positioned to trade into Asia's rapidly growing middle-class economies. And climate change, while highly disruptive, will likely have less severe economic consequences here than elsewhere.

But Oregon faces serious challenges. Oregon local governments sit at the intersection of these challenges. If they simply drift into the next decade, many will descend into an era of diminished service and persistent fiscal distress. Then the questions will start.



## **Families with children will ask:**

Why enroll my children in Oregon schools when I can find longer school years, smaller class sizes, and generally better performing schools in nearby Washington? That question has been a common one in the Portland-era

since the early 2000s recession. Voters in Washington recently increased property taxes to fund services at a level consistent with education requirements in the state's Constitution. And, Washington's pension system didn't experiment with a money-match program and has a liability that's smaller, proportionately, than Oregon's. The bottom line: quality difference between Oregon and Washington schools was probably more perception than reality in the past. But without intervention on the Oregon side, the difference is about to become real and pronounced.

## **Teachers – and other public servants – will ask:**

Where am I most likely to find stable employment and favorable working conditions? New Oregon teachers are at the frontlines of the fiscal challenge. They cope with some of the highest class sizes in the country, and they won't retire with extraordinary pensions. Like families, they will look across the border. And, the same goes for police officers, fire fighters, planners, librarians, and a host of other public employees.

## **Business site selectors will ask:**

What will become of the critical public services that my companies rely on? Economists have tied the provision of transportation, public safety, and education services to local economic growth. Firms demand timely access to markets, safe communities for their workers, and education systems that develop local talent – and perhaps even more important – offer appealing, public options for employees' children. When a business plans a major expansion or relocation, it assesses local conditions over a longer time horizon. Businesses doing that today see two decades of challenges with no clear strategy on how to address them.



### Retirees will ask:

Is it safe to live in Oregon's small towns? Retirees are critical to Oregon's small town and rural economies. A population strategy doubles as an economic strategy outside of Oregon's big cities.

State economist Mark McMullen contrasts the fates of the U.S. farm, rust, and timber belts. When the traditional industries transformed or collapsed, populations fled the farm and rust belts. But, they stayed in timber country thanks to natural amenities. In Oregon, population either increased, or was stable, in all but two counties during 2010-2018 – thanks in part to relocating retirees.<sup>15</sup> They bring connections, work experience, life savings, Social Security, and Medicare coverage to small towns. National studies show that \$1 in retirement benefit results in \$2 of economic activity in average economies.<sup>16</sup> If they don't trust first responders and local police, they'll take their economic contributions elsewhere.

The retirees that choose to stay may be poorer: many Oregonians are projected to exit the work force in the next twenty years with inadequate

retirement savings. Communities of color are especially at risk of retirement insecurity because of lower access to retirement plans through their employers, particularly in the private sector.<sup>17</sup> If the public sector contracts, the disparity in retirement access could widen. All Oregonians will feel the ripple effects, as retirees begin contributing less and less to the local economy.

### Bond rating agencies will ask:

How will the challenges of Curry, Douglas, Josephine, and Polk counties affect their neighbors and the state? When state and local governments issue bonds to finance infrastructure and buildings, rating agencies assess their abilities to make the bond payments. General economic conditions, employment and income growth, factor into those ratings. If local governments transition from distress to crisis, rating agencies might consider how the consequences could spread. For example, if a county couldn't make a bond payment, would the state step in on its behalf? If one local government allowed service to drop to unusually low levels, how does that affect the ability of its neighboring jurisdictions to attract businesses and households? Persistent, negative media coverage about Oregon's fiscal stress could result in lower bond ratings and higher borrowing costs, not only for the struggling governments, but also for the state.

The questions won't stop here.

The present course isn't promising. Struggling local governments represent a crack in the economic foundation. If Oregon doesn't repair it, household and businesses will vote with their feet.

OUR NEXT 20

# Oregon Values and Beliefs

## Excerpts from Statewide Survey by DHM Research

### What are the most important issues that you want your local government officials to do something about?

"Education is the most important. Improving access to good education in K-12 and affordable tuition at public colleges and universities."

– Female, age 25-34, Willamette Valley

"I live in a city and we receive solid services, but our neighbors in rural areas and some smaller towns are in bad shape: law enforcement has been cut to almost zero, social services are hurting, few options exist to help people get back onto their feet."

– Male, age 55-64, southern Oregon

"We have a greater population that when I was growing up. Unfortunately, we do not have the resources for local government to continue to provide the services they once were able to... we need a quality police force, well-trained fire personnel, and well-maintained roadways."

– Male, age 55-64, Willamette Valley

"If [PERS] is not solved, there won't be any money for necessary public services such as K-12 education, roads/infrastructure, public safety etc."

– Male, age 55-64, Willamette Valley

"Fund the services and programs that make our local community a great place to live."

– Male, age 75+, southern Oregon

### What are the most important issues that you want your state government officials to do something about?

"I think we need to figure out a way to offer balanced local and county services in which there is relative equality of paying for those services and receiving the services. Some counties are bankrupt, roads are deteriorating, local services are terribly uneven in quantity and quality. While not specifically a state government issue it still needs attention and a remedy that is most likely to be handled by state government – if only in a leadership and consensus-building role."

– Male, age 55-64, southern Oregon

"Our educational system needs serious attention, as does much of our infrastructure. Perhaps our most pressing need is to continue to get ourselves prepared for the inevitable earthquake and tsunami. The coast is not ready, nor are the big population centers."

– Male, age 65-74, Willamette Valley

### What is the most important issue in your community that you want leaders to do something about?

"Come up with a meaningful budget and tax structure that truly meets the needs of all in the community."

– Male, age 65+, rest of state

"Affordable housing and education. Both are not supported strongly enough, and I think it is the only thing holding the community back."

– Male, age 35-54, Willamette Valley





# Umatilla County

## Human Services Substance Abuse Treatment

by Greg Alexander, Pendleton

The Human Services Department is one of the smaller line items in Umatilla County's total budget, roughly 7 %. Yet it serves some of county's most vulnerable residents, including many with substance abuse disorders.

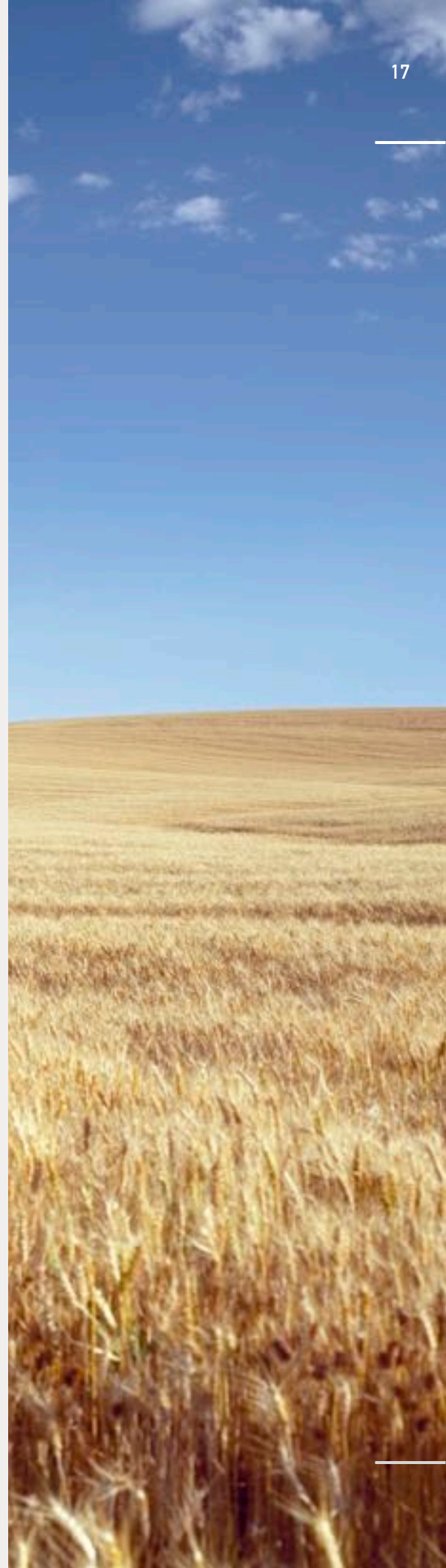
"Across the state, behavioral health has never been fully funded," says Human Services Director Amy Ashton-Williams, "but we face increasing mandates." One of those is combatting the opioid addiction epidemic.

Williams has seen the downward spiral from prescription pain medication to addiction. "Here's a father with a family, maintaining on OxyContin, whose prescription is cut off. Now he's in distress; he may try to buy something off the street. If a treatment program doesn't exist, he won't learn how to manage, which has fallout with his family and community. We see the effect on children in schools, with behavioral problems and depression. That's the trickle down. The whole family unit starts to deteriorate."

The department's substance abuse treatment program employs five alcohol/drug counselors and three certified recovery mentors, based in Pendleton, Hermiston, and Milton-Freewater. Recovery mentors were added three years ago and they are already making a difference, says Williams. "We are seeing a huge increase in client participation. People are engaging in treatment more fully and clients feel more supported." Each mentor has personally experienced addiction, bringing life stories and skills to share about their journey to recovery.

But funding for recovery mentors is tenuous, Williams points out, and reimbursement rates for behavioral health services are the lowest in the state. "In Oregon, 43 % of our mentors have a college degree. They make \$15.10 an hour. 44 % of drug counselors have Master's degrees and PhDs and they earn \$18.94 per hour. We should be paying them a fair wage."

In Umatilla County, Williams believes focused funding can have a big impact on recovery success rates – it's all about making a personal connection. "If we can build strong relationships, we can show people how to live a different life."



OUR NEXT 20 | IMPACT PROFILE

# Douglas County

## Roseburg Public Library

by Mandy Elder, Roseburg

I moved home for a postgraduate fellowship a year and a half ago, after almost ten years of living in cities in Oregon and abroad. The transition was hard for many reasons; probably as hard as leaving here in the first place. The looming vacant building across from my favorite bagel café did not help. Douglas County budget cuts had shuttered the system's library headquarters and closed all the branches.

But this isn't a story of loss, it's a story of perseverance and defining our future.

In January 2019, community leaders opened a new library – the Roseburg Public Library. I toured our new library in early December, before it opened to the public. The children's library was under construction, books lay in boxes, and construction workers traipsed back and forth carrying supplies and debris. A bustle of anticipation filled the old County library with new energy and optimism.

It was during this visit that I started thinking differently about my hometown. The Roseburg Public Library fosters opportunity in our community. With the transition from a county branch, the library membership pool shrank to just those within city limits. This would have excluded thousands of children and families who live in unincorporated areas but otherwise call Roseburg home and rely on the city's services. Instead our community decided to extend free membership to all children within the Roseburg Public School District's boundaries and open a low-income resident sponsorship program funded by individual community donors. These caring acts of inclusive leadership illuminate who we are as a community.

Roseburg's perseverance, creativity, and resourcefulness weave through the fabric of the library in beams of exposed heartwood and the collaborative offices of the education service district sharing the building. The library challenges narratives that no one cares.

Today children gather in the library with stacks of colorful books to read and community members sign up for their library cards. With every story time, book placed on hold, and community gathering held in this space, we are reminded that Roseburg's best days lie ahead of us and that we work best when we work together.



Image courtesy of Allison Shelley/The Verbatim Agency for American Education: Images of Teachers and Students in Action

# Malheur County

## Treasure Valley Community College Center for Business, Workforce and Community Learning

by Greg Alexander, Pendleton

Most people associate colleges with youthful students, pursuing their dreams in the shape of a two- or four-year degree. That's true for Treasure Valley Community College in Ontario – but TVCC also serves a broader community and students seeking something other than an advanced degree.

TVCC's Center for Business, Workforce and Community Learning (CBWCL) partners with state agencies and organizations like the American Heart Association to host classes in first aid and CPR, provide notary workshops, EMT certification, and even real estate broker training. Springtime brings a flurry of wildland fire training and recertification before fire season begins. CBWCL's programs reach a spectrum of age groups and address specific community and industry needs. "We're very different from the academic side," says Center Director Andrea Testi.

The Center also provides hands-on training in workplace practices and skills, often directly from established businesses and tradesmen. Testi cites the electrical and plumbing apprenticeship programs that help develop and license the next generation of journeymen. "It really is up to the local workforce whether these thrive."

Teaching new workplace skills has become increasingly important, says David Koehler, TVCC's Dean of Career & Technical Education. "Industries are starving for qualified workers. It's the bottleneck for economic growth. They will train people, but they much prefer to hire those with skills. We have to stay ahead of that curve so the region continues to grow at a healthy rate."

But like other departments at the college, CBWCL is being asked to do more with less – in fact, much less. "In the last round of cuts two years ago, our budget was sliced in half," Testi reports. Two full-time positions were lost and most of her staff now work under hourly contracts. "We're just not doing everything we used to do."

Koehler echoes her concern. "Staff is wearing so many hats now, and we just get spread thinner and thinner. What happens to the quality of the programs we are putting out there? You essentially reach a tipping point."

If funding cuts lead to a loss of flexibility in skills training, he explains, it reduces TVCC's ability to produce the workforce needed to drive economic growth. "You have that ripple effect, growth becomes stagnant. Economic development agencies have a tougher time recruiting new businesses. Gross domestic product goes down for the region. It would have a drastic and profound effect on our economy." relationships, we can show people how to live a different life."





# Define the Civic Problem

## Are We Prepared to Solve These Challenges Together?

**Everyone knows that we're facing a tough challenge. Policymakers and other stakeholders have anticipated today's local government fiscal stress for at least a generation.**

The consequences of Oregon's unusual Tier 1 pension design became increasingly clear in the late 1980s. Proponents of the 1990s-era property tax reform were aware of its inequities at the time of its passage. The inadequacies of the gas tax became apparent with the introduction of hybrid vehicles in the late 1990s. The U.S. Congressional Budget Office anticipated a slowing of federal discretionary spending – an important source of local revenue – in its 1995 budget outlook. And, the decline in federal timber payments began a decade ago.

In-depth analysis of the governance and civic decision-making issues relevant to this work was outside the scope of our research. However, in sharing initial drafts of our report with communities, business owners and elected leaders, governance and civic questions (and barriers) came to the forefront of nearly every conversation. This isn't just a policy problem; it's a civic problem.

We use this chapter to explore and frame what we've heard, and to recommend further research.

## OUR NEXT 20 | DEFINE THE CIVIC PROBLEM

Oregon leaders – governors, legislators, mayors, County administrators, superintendents, parent and student advocates, faith leaders, culturally specific community advocates, public employee union presidents and business lobby chairs – agree that the communities and constituencies they represent will be impacted negatively.

With many of the biggest problems foreseen and well-understood, a variety of groups inside and outside of government have proposed solutions to address them. For example:

- The Oregon Legislature created a Road User Fee Task Force in 2001 to advance pricing approaches for high-fuel efficiency vehicles.
- Governor Ted Kulongoski appointed a Task Force on Comprehensive Revenue Restructuring in 2007 that recommended changes to the property tax system.
- The Oregon legislature created a new tier in the pension system in 2003. This third tier (OPSRP) benefit applies to 68% of all current, active employees.<sup>18</sup>
- Key local government associations – the League of Oregon Cities, the Association of Oregon Counties, and the Oregon School Boards Association – have offered multi-point policy plans in advance of every legislative sessions.
- Since 1969 nearly a dozen efforts to reform taxes have been brought to Oregon voters at the state level and have failed, including four attempts to pass a sales tax. Most recently, 59% of voters rejected Measure 97 at the ballot, which would have raised \$3B annually.<sup>19</sup>
- At the local level, efforts to pass levies or bond funding see mixed results across the state.



## How Do We Decide?

Despite efforts to fix them, the challenges we see today and through the next 20 years remain. Why?

Voters, civic and community leaders, business owners, legislators and advocates come back to this: “We just need leadership.”

But long-term democratic decision making is more typically and more representatively accomplished through legislative and community-level democratic processes. And in Oregon, solutions at the scale of this challenge – whether they are for revenue reforms, service delivery reforms, or structural changes to legacy obligations – will ultimately be evaluated by voters.

What information, representative decision-making bodies and voter engagement prepare us to work together on these challenges?

## OUR NEXT 20 | DEFINE THE CIVIC PROBLEM

**Quality Information and Forecasting**

Do local budget administrators have financial or analytical tools or protocol needed to fully understand how their specific jurisdiction may be affected? This isn't a rhetorical question, but it is difficult to answer.

Here are observations offered by current and former budget administrators:

- The generational nature of the structural imbalance is out of step with how governments balance their budgets – on fiscal or biennial calendars. This is true for how governments approach long-term obligations as well as how they manage infrastructure choices.
- For budget managers in Oregon, essential data is widely available. PERS employer rates, projected personnel costs, inflation assumptions, infrastructure maintenance requirements and depreciation schedules are available. It is not clear if this data is presented in terms that every budget manager can use and local governments do not share protocol or decision making templates for how to include this data in budgeting processes.
- In large jurisdictions, budget managers inform a political process to pass a budget. While budget managers may use tools to predict long-term or equity outcomes and may present budget data in those terms, the political process for passing a budget can prioritize near-term visible investments or “wins” above long-term stability or sustainability.
- Elected leaders charged with advancing budgetary decisions have many disincentives to make budgeting processes transparent or longitudinal.
- Although larger governments use long term forecasting tools, some jurisdictions lack the tools or protocol to forecast budgets over a decade. Although this kind of budget forecasting is inherently

imprecise, such protocol might serve as an advisory tool for leaders.

- Many state and local decisions result in long-term financial obligations that are not transparently accounted for in the current budget process. The practice of back-loading costs – for labor contracts, infrastructure decisions, and other larger expenses – results in short-term decisions that seem financially manageable, without visibility on the long-term expenditure requirements for the government.
- According to the 2009 Task Force On Comprehensive Revenue Restructuring Final Report, “The State has a well-developed system of short-term expenditure and revenue analysis but does not systematically factor long-term trends such as demographic changes and structural revenue into the planning process.<sup>20</sup>”

One of the most significant barriers to adopting a long-term budgeting view is that it essentially pits the needs of a current generation against the long-term needs of the community.

Long-term decision-making tradeoffs are also not visible to most budget managers and government leaders. This means that they may miss critical windows of opportunity to fix problems before they become unmanageable.



## OUR NEXT 20 | DEFINE THE CIVIC PROBLEM

Because they were not addressed earlier, some of these challenges will require new approaches to solve them in their current form. The policy changes that might have mitigated future harm a decade ago may no longer be relevant.

The PERS unfunded liability (UAL) offers a clear example of this kind of challenge. Today 80% of the liability is related to retirees and inactive workers. This means that any changes to benefits enacted today would address less than 20% of overall UAL.



Road repairs offer another example of local government expenses that are more efficiently addressed now than in the future. When less

expensive routine maintenance is ignored, exponentially more expensive replacement efforts must be adopted.

The inability to transparently develop longitudinal budgets is more likely to deliver negative outcomes for generational and racial equity. But few governments (none we talked to) have adopted assessments or protocol to address this.

- Local governments do not have tools to assess the ability of future generations to fund obligations, or to evaluate decisions through a generational equity lens.
- Local governments do not have tools or protocol to assess the potential for budget decisions to have a disproportionately negative impact on communities of color today, or to evaluate those decisions through a racial equity or gender equity lens. Adoption of a racial equity lens for jurisdiction budgets often depends on the specific leadership of individuals in the room, not agency protocol or procedure.
- The State of Oregon and local governments have not developed or adopted transparent publicly available forecasting tools. With modern data visualization capabilities these tools are more broadly available and have been adopted in some regions to daylight government decision-making and inform civic engagement around budget prioritization, trade-offs, and sequencing of investments. Instead, community input is often sought toward the end of the budget process, with few tools available to visualize alternatives or tradeoffs. As a result, community input often focuses on and emphasizes immediate needs of the community or infrastructure.

#### FURTHER RESEARCH

Audit local governments to better understand the forecasting and equity analysis tools and practices used.

## OUR NEXT 20 | DEFINE THE CIVIC PROBLEM

## Representation

Many local government leaders and community advocates do not feel that their interests are represented in state-level debate about fiscal challenges that are ultimately intertwined with local financial resiliency.

When talking about PERS and revenue reform specifically, conventional wisdom in Oregon politics proposes “that these tough issues will require compromise between business and labor.” However, this assumption illuminates critical problems with how decision-making, the agenda setting table, and systems of power play out in Oregon politics today.

- Local government leaders, particularly those outside of the metro area, express frustration and hopelessness about the financial challenges Oregon faces, but do not see themselves at the agenda-setting table.
- Culturally specific community leaders, particularly in indigenous, Latino, African American, and API communities, see current and future local government stresses as a clear threat to community opportunity and prosperity. They, too, do not see a path to join an agenda setting process or to weigh in on proposed solutions.

**This mismatch between the communities that will be impacted and the locus of decision-making has been a primary barrier to developing the public will to advance solutions at the scale of the problem.**

Many communities will be impacted by these challenges. How do advocacy groups and community leaders assess these challenges, advocate for solutions, or participate in agenda setting processes for the state? And what capacity do different groups have to do this work?

### FURTHER RESEARCH

Evaluate the needs and opportunities for increased representative engagement in partnership with community leaders throughout the state.





**Never in Oregon's history would not doing something significant about a public finance issue cause such statewide damage to core services at the local level, including public education.**

### **Informed electorate**

Significant reforms at the scale of the challenge will almost certainly be decided by voters – even if initial policies are passed in the legislature.

Over the years Oregonians have voted on hundreds of local, regional, and statewide ballot measures. Since 1902 Oregon voters have considered many measures that have mandated new programs or expenditures without new revenue or reduced revenue without specifying program reductions or new offsetting revenue sources.

More recently, Oregonians have voted to limit property taxes, oppose a sales tax, and increase businesses taxes, all which have impacted government programs and services in Oregon. Are there lessons to be drawn from this history? While it is true that if you don't know history you may repeat it, it is also true that things change.

What history tells us is that many variables determine a ballot measure's success or failure, ranging from the financial impact the measure would have on people to more general trends like the health of the economy and voter attitudes, to the level of stakeholder engagement on both sides of the topic, campaign funding, and communications. And of course, there is voter turnout and demographics.

History also tells us that voter perception of a crisis is an important variable. This is where Oregon's coming budget shortfall has the potential to distinguish itself as an issue.

A ballot measure that would in a fair and equitable way minimize the negative impacts described in this report would start in a unique place in Oregon's ballot measure history.

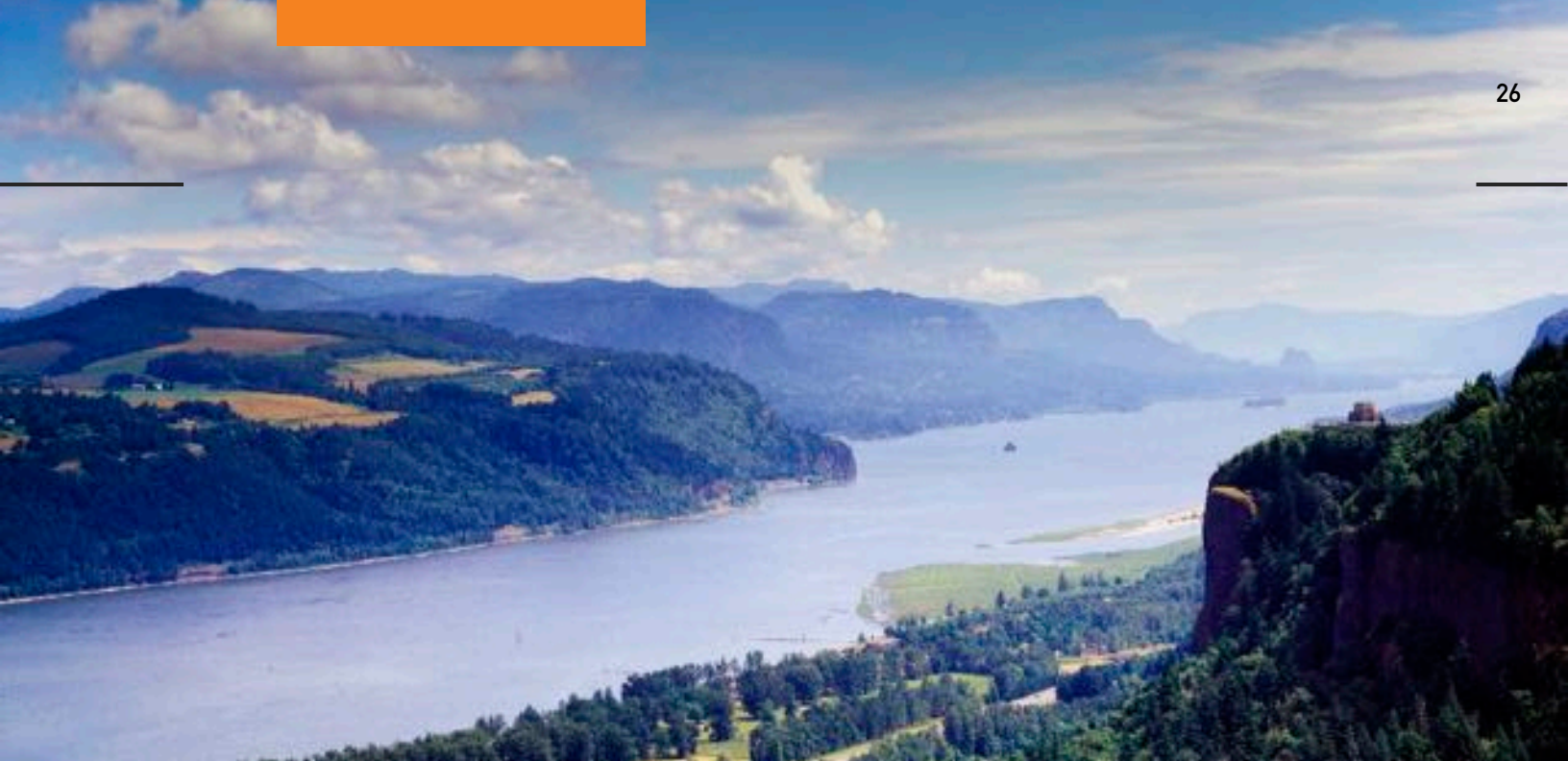
However, Oregon leaders will need to overcome multiple challenges in framing the current situation for voters, and leading the "change management" of voter attitudes and beliefs about the value of government services and the trustworthiness of governments as a steward of Oregon's resources and values.

Due to low information levels about government and public finance, Oregon voters currently don't consider the PERS UAL a problem they want something done about (or believe anything can be done about) and they recently rejected Measure 97, an effort to raise new revenue.

**An effective, long-term public education campaign would be key for any significant reform to start with a higher chance of success than past public finance measures.**

In a 2003 report on the need to engage voters deeply in any effort to make substantive changes, civic leader Dave Yaden explained the path ahead in a way that still resonates today:

"[Change] will require a new institution, a process, to engage citizens and allow deliberation on a massive scale. The minimum conditions are: Must be non-partisan and highly credible; Must be patient to allow process to work and to live through setbacks; Will be expensive (but not compared to money spent on losing efforts). No one should be fooled that it has gotten easier with the passage of time or the current budget shortfall.<sup>21</sup>"



# Options for a More Hopeful Future

Oregon leaders have addressed state and local structural budget challenges on an annual or biennial basis for more than a decade. But one-time fixes will not carry the state through the coming decade.

In this chapter we describe a range of policy options. We invite community leaders to evaluate and innovate to find solutions at scale and statewide.

We looked at ideas in four categories:

- Civic engagement and leadership
- New funding for state or local budgets
- Address our new context
- Stabilize legacy obligations

**We recommend four steps to help rebuild civic trust in each other and in our state as a great place to plan our collective futures:**

1. **Focus** on the needs of local and state governments – and the communities they serve together – when designing solutions. State **and** local revenue reform will be necessary to address adequacy, equity and volatility.
2. **Prioritize** and support ongoing, empowered civic leadership related to this statewide challenge – particularly with low-income communities, rural communities, and communities of color.
3. **Get out of crisis** by viewing budgetary decisions on a generational timeline, not annual or biennial negotiations. Structure financing of obligations to stabilize critical community services.
4. **Support civic understanding** of public budgets by developing transparent budget forecasting tools, such as those adopted in other states.

## Civic Engagement and Leadership

### Build capacity for community leaders to inform public decision-making

Ultimately, the issues described in this report are not “government challenges” – they are community challenges. All of the following policy concepts would be strengthened by deeper civic engagement, analysis, and problem-solving. Communities should define these challenges on their terms and lead the effort to design meaningful and timely solutions.

Philanthropy and public civic engagement offices play a critical role in ensuring that communities have access to information that helps everyone better understand our futures – and alternative paths.

Culturally specific organizations and rural communities have been chronically under-invested in as potential partners in agenda-setting work. All too often, these communities are informed of a solution in the 11th hour and asked to lend their voices to ideas developed without their input.

Building capacity for meaningful, ongoing, and empowered civic participation related to this statewide challenge may be the most significant contribution philanthropic leaders can make in this work.



### Strengthen and diversify governance at the local level

Most communities across Oregon enjoy well-intentioned, thoughtful governance from their elected leaders. The best local governing boards collect evidence, trust their staff, have direct interface with the people they represent, understand their community's problems, and genuinely care about the future of their communities.

The thousands of elected officials – most of whom are unpaid – who oversee Oregon's local governments (school districts, community colleges, cities, counties, special districts) would benefit from additional training in leadership, ethics, board responsibilities, and fully inclusive community involvement. The abilities of these decision makers, and the diversity of their lived experiences, will play a major role in how Oregon local governments fare in these challenging times.

### Develop transparent budget forecasting tools, such as those adopted in other states

The State of Oregon and local governments have not developed or adopted transparent publicly available forecasting tools. With modern data visualization capabilities these tools are more broadly available and have been adopted in Connecticut, Texas and Washington to daylight government decision-making and inform civic engagement around budget prioritization, trade-offs, and sequencing of investments.

Instead, community input is often sought toward the end of the budget process, with few tools available to visualize alternatives or tradeoffs. As result, community input often focuses on and emphasizes immediate needs of community or infrastructure.

Development of these tools should ensure that they allow voters to see generational, racial, and class impacts and tradeoffs.

## New Funding for State or Local Budgets

### Increase the adequacy, equity, and flexibility of the property tax system

Governor Ted Kulongoski's *Revenue Task Force Report* included providing voters a one-time option to change the Measure 5 permanent tax rates, adjusting the 3% assessed value change with an appropriate inflation index, establishing a ceiling or floor for the changed property ratio when new properties come onto tax rolls, and resetting assessed values to market values at time of transaction.<sup>22</sup> All the options have pros and cons, but all have the potential to improve tax policy relative to current law. Oregon's Legislative Revenue Office and others have subsequently described several related concepts that would add local flexibility and improve taxpayer equity.

### Corporate Revenue

Oregon legislators have proposed several options for increasing corporate taxation in 2019. The context for these proposals is the following: Oregon's business taxes – at the state and local levels – are among the lowest in the nation. The Council for State Taxation (COST) calculated Oregon's business tax collections equaled 3.7% of gross state product in 2017 –or 0.8 percentage points below the U.S. average (4.5%). The absence of a retail sales tax in Oregon explains most of the difference. Businesses in most other states pay taxes on the materials and supplies that they use in their production processes.

If Oregon had national-average taxation, state and local business tax collections would have been \$1.6 billion higher in 2017. This impacts local school budgets most directly, but also other services that are provided partnership by state and local agencies: health and mental health services, public safety and transportation.

## Address Our New Context

### Expand the state role in addressing housing supply, housing affordability, and homelessness

Local governments are struggling to address a statewide housing crisis. State-level interventions are necessary to overcome the political and financial challenges of developing infrastructure to support new housing development. There may be a critical role for the state to play a larger role in housing affordability and homelessness. Local governments – cities, counties, housing authorities – simply do not have resources to ease rent burdens or to provide emergency beds for individuals and families who lose their homes. Much as it did with school finance in the 1990s, the state could accept a larger role in funding rent assistance, mental health treatment services, and emergency beds to meaningfully reduce homelessness and ensure consistency of care across the state.



## Accelerate the implementation of modern road finance

Two, unrelenting trends demand the modernization of road finance. The first is climate change, which requires sharp reductions carbon emissions and a transition away from fossil fuels. The second is sustained population growth, which will strain already-congested roadways. Oregon anticipated the trends and deserves credit for piloting new payment approaches like vehicle-miles taxes and congestion pricing. Oregon will need to move beyond those pilots, finetune policies with an eye on equity, earn the public's support, and implement the next generation of road finance.

## Benchmark and manage healthcare costs of local government employees

A recent report by the Milliman actuarial consultancy compared the cost of health benefits for Oregon's state government employees and teachers to counterparts in California, Idaho, Nevada, and Washington. Cities, counties, and other local governments need comparable analyses and, going forward, should factor in the relative value of health benefits in total compensation studies to ensure localities can recruit and retain talent.



## Stabilize Legacy Obligations

The legacy costs of the Oregon's Tier I and II pension systems will be paid. The question is when and by whom?

The current plan to fund legacy obligations creates significant and persistent stress for local governments. Average public employer contributions are currently 19.9% of payroll for local governments, including schools. The costs are projected to reach a high point of 29.2% of payroll in 2030.<sup>23</sup>

By comparison, the cost of the third tier OPSRP benefit is about 10% of payroll. The current and future costs above this level represent two things: the normal cost of Tier I and Tier II employees who are active workers and the carrying cost of legacy obligations in the system.

To avoid budget imbalances in schools, counties, and cities, State policymakers should seek to bring employer rates to close to 15-18% of payroll before the next rate increases in 2021.

This means that policymakers should be looking for solutions that can provide 12-15 points of payroll reduction.

At 15-18% of payroll, public employers would still be paying more than a conventional system – and more than the OPSRP plan or current normal costs for OPSRP, Tier I and Tier II requires – and their investment in the retirement fund would be both predictable and low enough avoid severe disruption of public services

## OUR NEXT 20 | OPTIONS FOR A MORE HOPEFUL FUTURE

**OPTIONS TO EXPLORE:****Refinance and/or Restructure the PERS Unfunded Liability**

Restructuring could reduce rates for local employers to achieve the total target.

Restructuring options that would decrease stress on local governments include two kinds of activities: Options that require more lower payments over a longer period of time (amortization and collaring changes) and financing options (new targeted revenue, lump sum systemwide payments, matching funds, or creating a new pooled fund for certain legacy obligations.)

**AMORTIZATION AND COLLARING:**

State leaders could extend the amortization period and fund the liability over a longer period of time, changing the period over which public employers must invest in the PERS fund, from 20 years (current policy) to a longer period. This would reduce near-term costs, but would increase total long-term payments. We encourage lawmakers to review and make recommendations on the financial viability, and employer contribution rate impact, of extending the amortization schedules for all benefit plans, with a goal of reducing points of payroll toward the 15-18% target.

**FINANCING:**

For Oregon schools, cities and counties to adopt restructuring alternatives for legacy obligations, local governments will need the state's help. In some partnership, they could raise new taxes or sell assets to buy down the unfunded liability. Additional reductions could come through financing mechanisms like those proposed by Governor Kate Brown's PERS UAL Task Force. Their proposed framework – local tax or asset contributions matched by state dollars – is a sound one. The key to success is creating a state matching fund large enough to incentivize local participation. Alternatively, the

state could identify some portion of the legacy costs as an obligation best managed and funded by the state directly.

Ultimately, new revenue will be a part of any solution that seeks to offset stresses on local school, city and county budgets. One choice is to direct new revenue to local governments' UALs directly. Another is to raise taxes to support services – and to back the funds for the UAL out of those budgets. Directing any new funds to the UAL directly, rather than through organizational budgets, can deliver more significant savings over the long term.

Politics will shape these decisions; those political judgments should be made with the goal of building trust in government in mind.

**OPTIONS TO EXPLORE:****Reform Current Benefits**

Reducing current benefits could lower rates by no more than 5% of payroll.<sup>24</sup>

We invite advocacy groups and policymakers to evaluate benefit reforms with a “cost ecosystem” approach, including:

- Impact on competitiveness in the current job market.
- Wage adequacy for lower-paid public jobs. A majority of public employees in Oregon earn less than the median wage for the state.
- Economic ripple effects in rural communities where public jobs are significant share of the workforce
- Retirement security for public employees.

We encourage public employers and public employee labor unions to work in collaboration to proactively address the long-term stability of benefits in an era of increasing market volatility, and any effects this may have on the assumed earnings rate of PERS investments.

## OUR NEXT 20 | EXECUTIVE OVERVIEW

## We're Still Learning and We Invite You To Join Us

It took us several months to get up to speed in this complex area of policy. The report shares an overview of fundamental information in the spirit of inviting new thought partners to join us.

## Thank You

This project relied heavily on the willing thought partnership of dozens of community leaders in philanthropy, rural economic development, education, public finance, and civic engagement, as well as community leaders from culturally specific organizations, legislators, city and county elected and appointed leaders and budget administrators.

These individuals gave generously of their time and ideas, sometimes across disagreement. Oregon is poised to have a bright future because of the leadership and sincere engagement of people like you.

Amy Ruiz, Andrea Paluso, Andrew Scott, Caitlin Baggott Davis, Carol Samuels, Cheryl Myers, Dana Hepper, Diana Nuñez, Jefferson Smith, Jennifer Yocom, John Kitzhaber, Kali Ladd, Kelley Weigel, Kimberly Howard, Margaret Kirkpatrick, Marina Kaminsky, Mary Li, Rukaiyah Adams, Ryan Fisher, Scott Nine, Swati Adarkar, Trina Stout

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Portland State University  
Center for Public Service  
ECONorthwest

## In Partnership

This research and report were developed with support from:

Foundations for a Better Oregon  
North Star Civic Foundation  
Northwest Health Foundation  
The Ford Family Foundation  
The Women's Foundation for Oregon

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ALF-OR

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Craft3



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