



OREGON LEGISLATIVE ASSEMBLY

To: Peter Courtney, President of the Senate
Tina Kotek, Speaker of the House

From: Representative Nancy Nathanson, Co-Chair Ways and Means
Senator Richard Devlin, Co-Chair Ways and Means
Representative Greg Smith, Vice Co-Chair Ways and Means
Senator Jackie Winters, Vice Co-Chair Ways and Means
Senator Betsy Johnson, Vice Co-Chair Ways and Means

Date: April 21, 2017

Re: Actions to curb future budget growth

Oregon is facing a \$1.6 billion budget deficit for the 2017-19 biennium. This shortfall is the result of both short- and long-term factors.

In the short-term, the cost of expanding health care accounts for most of the shortfall, while voter-enacted measures and pensions costs each account for about one-fifth.

But underlying the current deficit is a long-term, structural imbalance between existing revenue streams and the growing costs of providing programs and services to Oregonians. The structural imbalance is due to choices legislators and voters have made over many years.

Without action to contain the growing costs of state government now, the structural imbalance will cause even greater deficits in future years.

We propose the following list of actions to curb future growth in the budget, make our state government more efficient and stabilize investments in critical public services. We believe cost-containment efforts are a key step toward making sustainable, long-term investments in schools, services, and programs on which Oregonians rely.

The following actions are divided into two categories: temporary actions to address the 2017-19 biennium and permanent on-going actions to curb long-term growth.

Temporary, immediate actions to address the 2017-2019 biennium:

- Freeze hiring of non-essential positions.
- Do not automatically grant standard inflationary increases for services and supplies costs.

Permanent, ongoing actions to curb long-term growth:

- Limit state government full-time equivalent positions to 1% of the population instead of the current limit of 1.5% of the population.
- Ensure periodic review of position vacancies for savings and position elimination.
- Require legislative review of state agency debt collection performance and approval of agency proposals to write-off debt.
- Review Lottery Commission administrative costs and the transfer rate to determine if more funds could be transferred for public purposes.
- Manage bonding costs (including paying for small projects with cash rather than increasing the overall cost of the project by using long-term debt).
- Additional rigor in vendor contracting process.

Take steps to reduce PERS costs.

- Increase current and future employees' share in retirement costs for all public employees who are members of PERS.
- Require all PERS employers to set aside excess operating funds for the prepayment of future employer costs.
- Determine whether the amortization period is set for the appropriate length of time.
- Ensure the PERS administrative reserves are at an appropriate level and use any excess administrative reserves to reduce the unfunded liability.

Continue to improve management of and contain health care costs for public employees.

- Combine the Public Employee Benefit Board (PEBB) and the Oregon Educators Benefit Board (OEBB).
- Require PEBB and OEBB to stay within a 3.4% annual growth rate.
- Tie PEBB and OEBB non-primary care rates to a percentage of Medicare rates.

Ensure compensation increases are within budget for the biennium in which they are granted and do not exceed normal growth rates for future biennia.

- Manage timing of cost of living increases to restrain future roll up costs.
- Any cost of living increases for employees of organizations reliant on state General Fund follow the same rules as increases for state employees.
- Limit collective bargaining agreements to two years for economic issues.
- Change the collective bargaining process to even numbered years so the Governor's budget proposal includes the full cost of increases for the upcoming biennium.
- Require legislative approval for the following before they may be implemented:
 - Reclassifications of positions
 - Addition of new steps to salary ranges for state positions

Cost-Containment Budget Principles:

- Do not create programs and start them at the end of the biennium.
- Do not create new programs or funds that have no money to support them.
- Use one-time funds for one-time investments or save them for an emergency.
- Do not automatically replace lost federal or other funding.
- Require analysis of ongoing costs rather than initial costs for all new programs.
- Review performance and need for current programs and services to determine whether new proposals are a higher priority than current programs and services.
- Transition the timing of issuing bonds to reduce future rollup costs.
- Prioritize preservation and maintenance of infrastructure before constructing new buildings.
- Limit creating new task forces, boards and commissions.