

City of Bandon

CITY COUNCIL AGENDA DOCUMENTATION	DATE: November 6, 2017
SUBJECT: Oregon PERS Update	ITEM #: 5.1.1

BACKGROUND (Recent)

According to the LOC Bulletin (October 6, 2017)

PERS Valuation Leads to More Liability

Oregon's unfunded pension liability has jumped to \$25.3 billion, according to an actuarial report delivered to the Public Employee Retirement System (PERS) Board of Directors last Friday. The valuation was based on the funded status of the system as of December 31, 2016 and will be used to calculate employer rates for the 2019-2021 PERS rate cycle. The increase in liabilities was due largely to a projected reduction in earnings from 7.5 to 7.2 percent. Under normal conditions, employer rates will only increase by a maximum of 3 percent of payroll. But with the unfunded liability increasing, the system's total funded status has dropped below 80 percent, thus requiring the PERS Board to raise employer rates by a larger amount. The projected system-wide average (no employer pays the average and individual rates may vary significantly) is expected to be 24.42 percent of payroll. Employers are scheduled to receive their individual advisory rates for 2019-2021 later this year. Final rates will be approved based on system's funded status effective December 31, 2017.

Using simple math and not getting mired in the specifics of each employee, the City of Bandon currently pays a PERS rate of approximately 19.5% of our gross payroll. This equates to approximately \$444,000 annually. As stated above, we should be receiving notification of new rates for 2019-2021 before the end of the calendar year. Once these rates are received we can calculate the potential impact to the City of Bandon for the next couple of years.

Also from the LOC Bulletin (October 20, 2017)

PERS Task Force Nearing Final Report

The Public Employee Retirement System (PERS) Task Force, established by Governor Kate Brown and charged with making recommendations to reduce the system's unfunded liability, held its final meeting last week and is set to release a final report by November 1. A wide range of potential proposals can be found on the task force's website.

As cities are not represented on the task force, the League does not have certainty as to what the final report will contain. However, indications are that recommendations could include a matching program to incentivize PERS employers to pay down their unfunded liabilities more quickly, and proposals to loosen financial preemptions on local governments. Other options that have been discussed include creating consequences or penalties for local governments that don't pay additional money into PERS. This could result in legal and political challenges. In summary, as PERS costs are state-mandated, putting additional burdens on cities would be problematic. The League will report on further developments in the Friday LOC Bulletin.

As you can surmise from the League's comments, it's difficult to know what may occur with PERS going forward, when Cities are left on the outside looking in. The PERS Task Force report was released on November 1st and to conserve paper, everything but the Appendices has been included with this report. The entire report has been emailed to the Mayor and Council and is available for download through the PERS UAL Task Force Website.

There is a lot of good information about PERS and the UAL provided in the Task Force Report, and we know how things are projecting if no significant action is taken, but until some decisions are made at the State level no one really knows what the impact to public entities and their retirees/employees will be in the coming years.

Recommendations from the Task Force, noted in the "Options for Action" section of their report, include:

- Reduce Excess Risk Capital across State-Controlled Entities
- Create a New PERS investment fund for non-state employees
- Utilize the SAIF Corporation large capital surplus to offset some of the PERS liabilities
- Harvest One-time "Windfall" Income
- Redirect Unclaimed Property earning for a 10-year period from the Common School Fund to PERS
- Reduce Agency Reserve Funds
- Increase State Alcohol Revenues
- Privatize Public Universities
- Maximize Financial Value of Real Property Assets
- Implement Approved Timber Harvests on Federal Land
- Pass more Fire Suppression Costs to the Private Landowners
- Levy a One-time Fee on the Market Value of any Future Water Rights granted by the State
- Increase Lottery Revenue
- Divert a portion of the State's Rainy-Day (Budget Stabilization) Funds

FISCAL IMPACT

The current consolidated PERS rate on the City of Bandon gross payroll is approximately 19.5%, which equates to approximately \$444,000. Future impacts will depend on new rates, which will be received by the end of the calendar year.

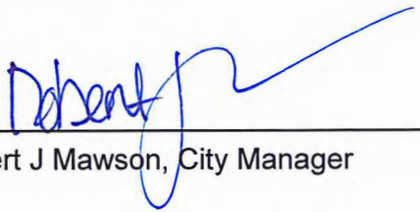
ATTACHMENTS

- Press Release by Governor Kate Brown's Office
- 2017 PERS UAL Task Force Final Report (excluding Appendices)
- Recent News excerpt from the Bend Bulletin and Curry Coastal Pilot
- Editorial by Mayor Mary Schamehorn, while Editor of the Herald Newspaper

RECOMMENDATION

This item and associated information are provided for update & discussion only. No action is being requested.

SUBMITTED BY



Robert J Mawson, City Manager



GOVERNOR KATE BROWN

NEWS RELEASE

November 1, 2017

Media Contact:
Chris Pair, 503-559-5938

PERS UAL Task Force Submits Final Report to Governor Brown

(Salem, OR) — Governor Kate Brown today received the final report from the PERS UAL Task Force. Governor Brown thanks the members for their research and commitment to leave "no idea unexamined and no rock unturned" in identifying ways for Oregon to keep its promise to retirees.

Governor Brown convened the task force to identify opportunities to pay up to a quarter of the Public Employee Retirement System's Unfunded Actuarial Liability (UAL) over the next five years. Paying down a portion of the UAL ahead of schedule will slow the growth of employer rates and start lowering them more quickly.

Governor Brown directed her staff to further research the proposed idea of pooling excess capital across state controlled entities and to examine creating an incentive fund to partially match employers who further contribute to their UALs. In the coming weeks, staff will be reaching out to key stakeholders and researching these and other report findings to identify methods to capitalize the incentive fund and develop legislation for the 2018 session.

Governor Brown has also expressed to staff serious concerns about the task force's proposals to privatize public universities and sell SAIF.

DOWNLOAD: PERS UAL TASK FORCE FINAL REPORT

Members of the PERS UAL Task Force are:

Donald W. Blair Blair served as Executive Vice President and Chief Financial Officer at NIKE for 16 years and held financial management positions at PepsiCo and Deloitte. Blair has also served on the Oregon State Board of Higher Education and on the board and executive committee of Portland Center Stage. Blair holds a Bachelor of Science in economics and an MBA from the Wharton School, University of Pennsylvania.

Monica Enand As Chief Executive Officer and founder of Portland-based tech company Zapproved, Enand has led the cloud-based software provider in developing a new way for corporate legal departments to respond to litigation while mitigating risk and reducing costs. Prior to founding Zapproved, Enand spent more than 15 years with blue-chip companies such as Intel and IBM. Additionally, Enand serves on the board of the Technology Association of Oregon as well as on the board of Auth0. Monica holds a B.S. in computer engineering from Carnegie Mellon University and an M.B.A. from the University of Portland.

Lawrence J. Furnstahl Furnstahl is Executive Vice President and Chief Financial Officer of Oregon Health & Science University. Before joining OHSU in January 2011, Furnstahl served as Chief Financial and Strategy Officer for the University of Chicago Medical Center and Biological Sciences Division, and University Vice President for Financial Planning for Science; Senior Vice President and Chief Financial Officer for UCSF Stanford Health Care; Vice President and Chief Financial Officer for the University of Chicago; and Vice President & Treasurer and Senior Executive, Patient Services for the University of Chicago Hospitals. In 2015, Governor Brown appointed him to the Oregon Public Employees Retirement System Board. Furnstahl is a graduate of the College of the University of Chicago, where he studied economics.

Bob Livingston Livingston has served for 25 years in the Salem Fire Department as a Firefighter, Engineer, Captain and is currently in the rank of Battalion Chief. For the past 20 years, Livingston has also served Oregon State Fire Fighters Council as Legislative Director and President. Livingston is the current Vice President of Oregon AFL-CIO; past member of the state Public Safety Standards and Training board; and former member of the Governor's Fire Service Policy Council. Livingston holds a B.A. of Public Administration from San Diego State University; an A.A. in emergency medical services from Umpqua Community College; and a Masters of Public Administration from Portland State University.

Rick Miller Rick Miller is the founder and chairman of the board of the Avamere Group, a senior care and housing provider. Miller is also the co-founder of Rogue Venture Partners, a private equity firm that provides funding and mentoring to entrepreneurs in Oregon. A seventh-generation Oregonian, Miller graduated from the University of Oregon and earned an MBA from Portland State University. He serves on the Board of Trustees of Portland State University and on the Oregon Investment Council.

Cory Streisinger Streisinger is a former director of the Department of Consumer and Business Services, Oregon's financial regulatory and consumer protection agency. A lawyer by background, she clerked at the U.S. Supreme Court before joining Portland law firm Lindsay Hart Neil & Weigler. She served as legal counsel to Governor Neil Goldschmidt, and then as general counsel to the Port of Portland before her appointment to head DCBS. Now retired, Streisinger is on the board of the Oregon Retirement Savings Plan (OregonSaves) and is active in a number of nonprofit organizations.

Charles Wilhoite Wilhoite serves as Managing Director with Willamette Management Associates, a national financial, forensic, and economic analysis consulting firm. He is also the leader of the firm's tax-exempt entity and health care services practice. Wilhoite also serves on the Board of Directors for the Federal Reserve Bank of San Francisco – Portland Branch; the Portland Business Alliance; Meyer Memorial Trust as chairman; Legacy Health; PacificSource Health Plans; Metal Toad Media; the U.S. Bank of Oregon; and The Nature Conservancy as vice chairman.

November 1, 2017

2017 PERS UAL TASK FORCE FINAL REPORT

STATE OF OREGON





GOVERNOR KATE BROWN
PERS UAL TASK FORCE



November 1, 2017

The Honorable Kate Brown
Governor of Oregon
900 Court Street
Suite 254
Salem, OR 97301-4047

Dear Governor,

Enclosed is the final report of the PERS UAL Task Force. We appreciate the opportunity to be of service as you lead Oregon's response to this challenge.

Like many public and private pension systems around the world, Oregon's public-sector pension plan, PERS, faces an unfunded actuarial liability, or UAL. You charged our Task Force with identifying options to generate additional funding to reduce the PERS UAL by up to \$5 billion over the next five years. In the report and appendices that follow, we have identified a number of options for your consideration. For some options, we were able to obtain rough estimates of the funding that might be available to reduce the PERS UAL over the next five years; these estimates totaled \$4.2 - \$6.4 billion. Implementing the unquantified options could provide additional funds. We also believe even greater PERS UAL reductions could be achieved by applying some of these resources to an Employer Incentive Fund, offering a partial match for incremental funding by PERS employers. If we assume the State established a \$500 million - \$1 billion incentive fund, offering a 25% match, and other PERS employers identified qualifying side account funding to fully utilize the program, an additional \$2 - \$4 billion of PERS reductions are possible.

It's important to note that these estimates are intended simply to provide an order of magnitude for the PERS funding opportunities that might be available from various policy options. In most cases, these estimates were prepared by the affected agencies using readily available information. We have not attempted to independently confirm these estimates, and in most case, have not included costs of implementation or collateral financial impacts on public or private entities. Some options may overlap or be mutually exclusive to implement.

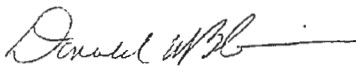
We did not endeavor to reach a consensus recommendation, but have included in our report those options we judged were not unreasonable public policy, likely could be implemented and might deliver a material reduction in the PERS UAL over the next five years. In our detailed description of each option, presented in the appendices, we also outlined key considerations.

These were not intended to be exhaustive, but only to highlight some of the more significant non-financial implications of implementing the option. Generating additional funds to reduce the PERS UAL would benefit many Oregonians, by reducing ongoing PERS costs and protecting critical public services. However, we recognize that implementing these options might also have negative implications for some in the State. Significant additional analysis will be required to fully assess the potential financial and non-financial impacts of each option, and translate these high-level concepts into specific policy proposals and implementation plans.

The pros and cons of each option may be difficult to quantify, and the current political climate often does not facilitate a dispassionate assessment of policies that provide general benefits to many constituencies, but specific discomfort to a few. To achieve the best outcome for the citizens of Oregon, we must challenge ourselves to objectively assess the facts, and then weigh the benefits and costs of acting on these options against the expected downsides of inaction.

In closing, we wish to thank the many people across Oregon who assisted us in this work. Although some of the options we discussed were uncomfortable for them to contemplate, they gave generously of their time, addressing our questions with patience and candor. We were once again reminded how fortunate we are to live in this State.

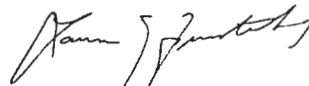
Very truly yours,



Donald Blair



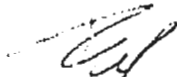
Monica Enand



Lawrence Furnstahl



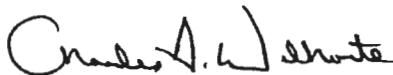
Bob Livingston



Rick Miller



Cory Streisinger



Charles Wilhoite

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INTRODUCTION

Charge

The PERS UAL Task Force was convened by Governor Kate Brown to identify opportunities to pay up to an additional \$5 billion of the Public Employee Retirement System's Unfunded Actuarial Liability over the next five years. Specifically, the Governor asked the Task Force to consider (1) assets that could be monetized, (2) one-time funding streams that could be redirected, (3) capital from other accounts that could be invested or loaned, and (4) ways to leverage similar funds from other PERS employers. Our direction was to be comprehensive and creative, leaving "no idea unexamined and no rock unturned. Include ideas that are controversial, difficult, or will ultimately be rejected, rather than risk overlooking an opportunity." The Governor also directed us not to consider changes to benefit levels, rates of return, or specific investments.

What is the PERS UAL?

The Oregon Public Employee Retirement System (PERS) is the primary retirement system for public sector workers in Oregon. Public sector entities participating in PERS include state agencies, public corporations, school districts, community colleges, public universities, cities, counties, and a variety of fire and utility districts. The report refers to this group as "PERS employers." PERS affects millions of Oregonians, including current and former public employees and their families, as well as constituents of PERS employers.

Every pay period, PERS employers and employees make contributions to PERS. PERS invests these funds and holds them in trust until employees begin receiving benefit payments. Employer contributions are often referred to both in terms of dollars and as a percentage of salary. Employee contributions are generally referred to as a percentage of salary.

The value of liabilities for future benefits to be paid and the assets held by PERS fluctuate over time. A PERS retiree's monthly pension benefit is set upon retirement, but the total value of their retirement benefits depends on factors such as inflation and corresponding cost of living adjustments, how long they live, and whether they have a beneficiary. Assets held by PERS are invested in stocks, bonds and other assets; their value is expected to grow over time, but the rate of growth is dependent on the broader investment market. Therefore, the liability for amounts to be paid to retirees and the assets that will be available to meet those future liabilities are uncertain, and must be estimated by actuaries.

Currently, there is a shortfall between the funds actuaries expect PERS will pay to retirees and the assets that they project to be available to pay these obligations. This shortfall is called the Unfunded Actuarial Liability (UAL).

The actuaries determine the UAL at the end of each calendar year. As of December 31, 2016, that shortfall

was \$19.9 billion, almost the size of the biennial state General Fund budget or about \$5,000 per Oregonian. The shortfall is calculated after deducting advance deposits, called side accounts, which some employers have made to offset future contributions. At the end of last year, side accounts totaled \$5.4 billion.

At the end of 2016, the PERS liability was estimated to be 75% funded (including side accounts). Put differently, actuaries currently estimate that PERS lacks about 25% of the funds needed to pay the projected benefits employees have already earned.

The total PERS liability represents the present value of the benefits owed by over 900 PERS employers, including the state of Oregon, both to employees who have already retired and the benefits accumulated by those who are still working. Although PERS is administered by a state agency, each PERS employer has incurred their own liabilities and nearly all PERS employers currently have a UAL. The breakdown of the UAL by employer type is as follows:

- State Agencies and Universities: 28%¹
- Community Colleges: 3%
- Cities: 13%
- Counties: 13%
- Special Districts: 9%²
- School Districts: 34%

Financial markets can be volatile and investment returns rise and fall. Over the last 40 years, the S&P 500 index has been up as much as 20%, and down as much as -39% in any one year, with annual gains averaging about 10%. This financial market volatility changes the funded status of PERS from year to year. Over the fifteen year period from 2000 to 2014, the system ranged from 82% funded to over 111% funded.

- 1 State Agencies and Universities have a single PERS account, however we know that Universities made up 25.15% of the PERS-subject state payroll in 2015, and can therefore extrapolate that the 28% of the UAL held by state Agencies and Universities can roughly be attributed at a rate of 21% to the state and 7% to Universities.
- 2 The Oregon Health and Sciences University (OHSU) is listed with Special Districts on PERS payroll calculations, not with state Agencies and Universities.

As a retirement system matures it has more liabilities and assets, so losses can be larger. In recent years, the UAL has grown consistently, both in absolute dollars and as a percentage of the total liability.

Unfunded Actuarial Liability status, 2000-2015

Valuation ² Date	With Side Accounts (starting in 2002)	
	UAL (\$M)	Funded Ratio (%)
2000	1,545	96.4
2001	-2,031	105.4
2002	3,204	92.0
2003	1,751	96.1
2004	2,122	95.6
2005	-1,751	104.0
2006	-5,019	109.7
2007	-6,120	111.5
2008	10,998	80.0
2009	8,108	86.0
2010	7,700	87.0
2011	11,030	82.0
2012	5,600	91.0
2013	2,600	96.0
2014	12,100	84.0
2015	16,200	79.0

Source: PERS

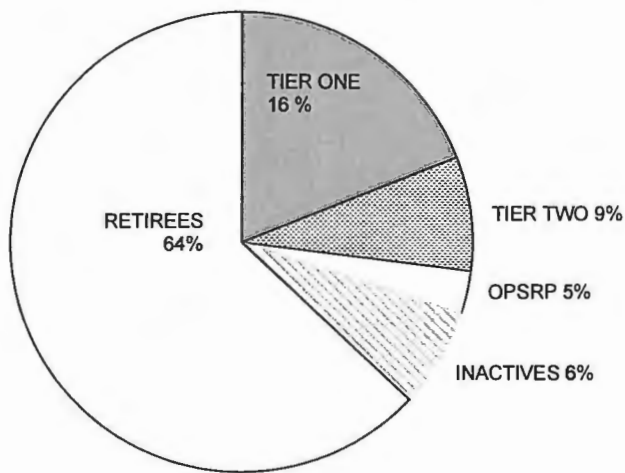
During the late 1980s and 1990s, investment markets boomed, delivering returns well above expectations and dramatically increasing PERS assets. Normally, this would increase the system's funded status.

However, a portion of these excess earnings were credited to employee retirement accounts, significantly increasing liabilities. This dynamic was recognized in the late 1990s, and the method of calculating benefits changed. But the combination of the increased "legacy" liabilities, and financial market downturns (such as the "dot-com Crash" of 2000, and the "Great Recession" of 2008 – 10) created a large funding shortfall or UAL. Employer rates have increased to make up that difference.

The largest component of the system's total liability is for benefits owed to employees who were hired before 1996. In 1995 and again in 2003, the Oregon Legislature changed the PERS benefit structure significantly, creating different "tiers" of retirement benefits. Pub-

lic employees hired before January 1, 1996, receive Tier One benefits when they retire. Those hired between January 1, 1996, and August 28, 2003, receive Tier Two benefits, and those hired after August 28, 2003, receive Oregon Public Service Retirement Plan (OPSRP) benefits when they retire. It is largely those Tier One employees who retired in the 1990s and early 2000s whose benefits are driving the UAL.

UAL by Tier level and Retirees



Source: PERS

The PERS Board's policy is to eliminate the UAL and fully fund PERS by increasing employer contributions to the PERS fund over the next 20 years to close the gap. This is referred to as 20 year UAL amortization. Conversely, when PERS is fully funded, the policy is to hold or lower employer rates, thus maintaining a system that is as close as possible to 100% funded at any given time and with a plan to reach full funding within 20 years when funding is less than 100%.

Because the UAL is not a fixed number, the employer contribution rate needed to fund it over time fluctuates. Three key factors affect the PERS contribution rates paid by employers: (1) differences between the actual and assumed investment rates of return today, (2) changes in assumed investment rates of return for the future, and (3) policy decisions made by the PERS Board, like the rate collar.

When the actual investment rate of return for the current year is above the assumed rate, assets grow faster than projected and the UAL shrinks. When the

actual investment rate of return is below the assumed rate, the UAL grows.

Similarly, raising the assumed future investment rate of return increases the assets that are expected to be available to pay benefits, reducing the calculation of the UAL. Lowering the assumed future investment rate of return decreases projected assets, increasing the calculation of the UAL. The PERS Board sets the assumed future rate of return every two years and recently lowered the assumption from 7.5% to 7.2%. This change increased the calculation of the UAL by \$2.3 billion in the 2016 valuation.

PERS Board Rates of Return, 2007-2018

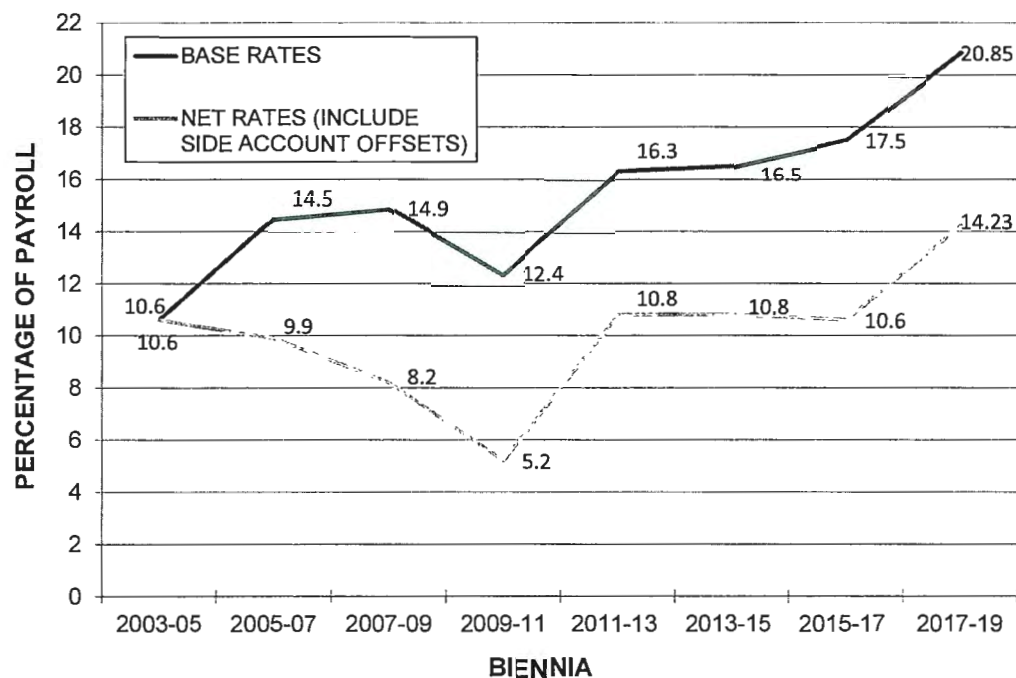
Year	Actual Earnings (%)	Assumed Rate (%)
2007	10.22	8.0
2008	-27.18	8.0
2009	19.12	8.0
2010	12.44	8.0
2011	2.21	8.0
2012	14.29	8.0
2013	15.76	7.75
2014	7.29	7.75
2015	2.21	7.5
2016	6.9	7.5
2017		7.2
2018		7.2

Source: PERS

The rate collar, set by PERS Board policy, significantly impacts employer rates and the UAL. The rate collar dampens the impact of investment market volatility on employer rates by limiting, or collaring, increases and decreases in PERS contribution rates from biennium to biennium. The collar defers, but does not eliminate, the need for higher or lower employer contributions.

In recent biennia, PERS contributions have increased but the UAL has continued to grow, driven by several factors. On a number of occasions, investment returns have fallen short of the assumed rate. A recent court decision reversed much of the benefit liability reductions passed by the 2013 Oregon legislature. The rate collar has deferred some

Rates by Biennia, 2003-2019



- Excludes 6% member contributions and pension obligation bond debt service payments
- Includes Tier One, Tier Two, and OPSRP
- Rates for 2005-07 and before are as of valuation date
- 2017-19 Rates reflect investment returns for 2014 and 2015, the Moro decision, assumed rate decrease from 7.75% to 7.5%, updated mortality assumptions, expected increase in UAL in 2014 and 2015, and all other assumption changes and actuarial experience
- Does not include RHIA/ RHIPA

Source: PERS

increases in employer contributions. Because employer rates have been collared, most employers have paid less up front with the expectation that they will pay higher PERS rates later in the 20 year amortization period. We are beginning to reach those “later years.”

The UAL is expected to peak in 2021-23, and employer rates are expected to peak in 2029-31 when most side accounts are depleted.

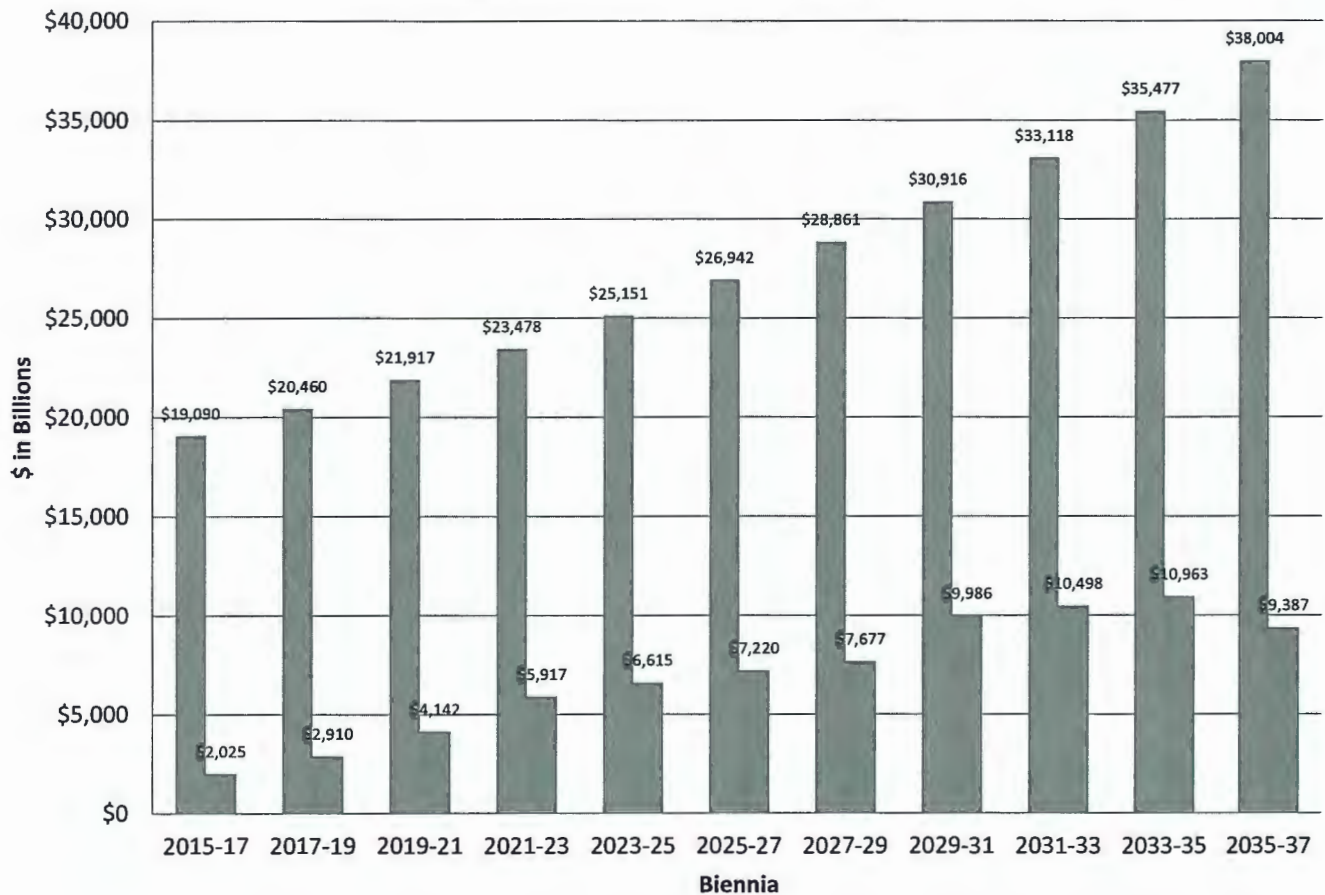
If rate collars had not constrained prior year increases, average PERS employer contributions for the 2019-21 biennium (the “uncollared rate”) would have increased by 2.4 percentage points, from 29.1% to 31.5%, largely reflecting the impact of the lower assumed future investment rate of return. The (currently lower) collared rate must increase faster, by 5.3 percentage points (from 20.9% to 26.2%), because it both reflects the lowered future investment rate of return and the need for the rate to converge toward the uncollared rate.

These rate increases will undoubtedly put pressure on PERS employer budgets as well as the services public employees provide to Oregonians. PERS projects that the total payroll for PERS-covered employees in 2019-21 will be \$21.9 billion, so a 5.3 percentage point increase in the PERS contribution rate is equivalent to \$1.16 billion. \$1.16 billion would provide about three years of state funding for the Salem-Keizer school district, or about the total 2017-19 Lottery Fund distributions.

Paying down a portion of the UAL ahead of schedule will lower the uncollared contribution rate. While collared rates will not fall until they catch up to the uncollared rate, the convergence will happen sooner, rate increases will stop more quickly, and peak contribution rates will be lower.

Although some of the options the Task Force identified may have undesirable consequences, these must be weighed against the undesirable impact on Oregonians of employer contributions continuing to increase well into the future. It is within the context

Projected System-Wide Employer Payroll and Collared Net Contributions



- Projected Payroll is based on 2015-17 experience increased 3.5% per year (current actuarial assumption).
- Collared net contributions are from the 50th percentile of Milliman's November 2016 PERS Board financial modeling presentation. Amounts shown exclude contributions to the IAP, RHIA and RHIPa programs, and debt service payments on pension obligation bonds.
- Contributions increase so much in the 2029-31 biennium because employer side account offsets cease as the scheduled amortization period expires.

■ Projected Payroll

■ Projected Collared Net Contributions

Projected Net Contribution	2015-2017	2017-2019	2019-2021	2021-2023	2023-2025	2025-2027	2027-2029	2029-2031	2031-2033	2033-2035	2035-2037
State Agencies	\$575	\$835	\$1,219	\$1,741	\$1,946	\$2,124	\$2,259	\$2,938	\$3,089	\$3,226	\$2,762
School Districts	\$575	\$910	\$1,328	\$1,897	\$2,121	\$2,315	\$2,461	\$3,202	\$3,366	\$3,515	\$3,010
All Others	\$875	\$1,165	\$1,595	\$2,279	\$2,548	\$2,781	\$2,957	\$3,846	\$4,043	\$4,222	\$3,615
Total	\$2,025	\$2,910	\$4,142	\$5,917	\$6,615	\$7,220	\$7,677	\$9,986	\$10,498	\$10,963	\$9,387
Difference from previous biennium		\$885	\$1,232	\$1,775	\$698	\$605	\$457	\$2,309	\$512	\$465	-\$1,576

Source: PERS

of the consequences of inaction that the Task Force brings forward the following proposals.

The Work of the Task Force

The short timeline for this project limited the depth of our work. All options included in this report require additional analysis to assess feasibility, understand potential impact, and develop the best approaches for implementation. We chose not to present recommendations, but rather to outline a series of options and related considerations for the Governor's review.

We also chose to exclude options we judged were not reasonable public policy, were impractical to implement, or would have had an immaterial impact on the PERS UAL within the five year timeframe outlined in the Governor's charge. We did not consider the political implications of the options presented, reasoning that the Governor is best equipped to assess these factors. We also did not evaluate options which reallocated spending appropriated by the Legislature or changed the state's overall revenue structure. Finally, we tried to avoid options which might deliver short-term cash at the expense of long-term economic value.

We began our work by brainstorming a list of possible options to generate incremental capital to pay down the PERS UAL (*Appendix 1*). While our work focused primarily on the potential impact of these options on the state, and large PERS employers, this list could also be considered a menu of options for other PERS employers to consider implementing to accelerate paying down their own UAL.

To be thorough in our work and consider the specific circumstances faced by different types of PERS employers, we assigned groups of employers to each of the seven members of the Task Force. Task Force members engaged leaders and staff of PERS employers, associations and various other sources

regarding potential PERS funding options available to those employers. The list was broken down by:

- Universities and community colleges
- K-12 schools
- SAIF and OLCC
- Other public corporations and revenue generating entities
- State agencies
- Cities, including economic development agencies
- Counties and special districts

Discussed in our report are the most significant opportunities we identified, with greater detail in the appendices that follow. There were many smaller opportunities which we did not assess in detail. While individually immaterial, these opportunities could be significant in aggregate and may warrant additional consideration by individual PERS employers. In the material that follows we introduce the concept of a PERS Resolution Program and we encourage employers to individually evaluate these ideas if such a program is created.

Since our work began, \$533 million has already been identified that could be applied to reduce the UAL through the application of PERS reserve funds. As well, the Governor and legislature made it easier for PERS employers to open and contribute to side accounts. Our work builds upon and takes advantage of these two important actions.

FUNDING OPPORTUNITY: \$533 MILLION

OPTIONS FOR ACTION

Reach and Scope of State Action

The Governor directed us to thoroughly consider options available to the state to pay down the UAL ahead of schedule, and also to look at similar methods of repayment available to other PERS employers. It became clear to the Task Force early on in our work that the methods of repayment available to non-state PERS employers vary widely based on the employer type, size, location, and individual liability. Instead of laying out authoritative state actions which could be taken to ensure all PERS employers address their UALs, we will detail the options we believe are available to the state and other entities. We will also detail a PERS Resolution Program which could be used to leverage the participation of all PERS employers in this collective work.

State Funding Options

Reduce Excess Risk Capital across State-Controlled Entities (*Appendix 2*)

Several state-controlled entities maintain substantial amounts of cash and short-term investments on their balance sheets to cushion against financial downsides and to maintain their credit ratings. This “risk capital” is rarely needed and may, in fact, never be drawn down. If this risk capital was pooled at the state level, less would be required since the possibility that all entities would need risk capital at the same time is remote. The released funds could be transferred to PERS to reduce the UAL.

To provide a pool of collective risk capital, the state could issue very long term or perpetual³, interest-bearing notes to state-controlled entities like SAIF, OHSU, and public universities, among others. These notes would be callable by the holding entities only

³ Perpetual bonds have long been issued by sovereign nations such as the United Kingdom. Oregon has not issued such notes to date, and additional research would be needed to determine whether and how this could be done.

if they experienced a level of financial distress that affected their ability to pay debt service or other legally committed obligations. All or a portion of the proceeds from these notes would be used to reduce the PERS UAL.

The notes would permit the state to use excess risk capital currently held by state-controlled entities, while the call provision would provide those entities a fully committed vehicle for regaining those resources in the event of financial distress. The call provision also transfers some risk from these state-controlled entities to the state. Interest would have to be paid on the notes, and Oregon’s credit rating and debt capacity could be affected, though the state would essentially be exchanging the liability of unfunded PERS benefits for a liability for principal on the notes that would be paid much later (if ever). While the probability of a call on these notes is low, there is a possibility of calls by multiple institutions in a broad-scale financial crisis, potentially at a time when the state would be least able to raise the capital needed to redeem the notes. The program would have to be designed carefully to ensure that the amount and structure of notes issued would not affect the regulatory compliance of state-controlled entities, deteriorate the credit worthiness or debt capacity of the state, or deteriorate the credit-worthiness of state-controlled entities.

FUNDING OPPORTUNITY:
\$750 MILLION – 1.5 BILLION

Create a New PERS Investment Fund for Non-State Employers

PERS employers not controlled by the state, such as cities, counties and school districts, also maintain excess cash on their balance sheets. The state Treasurer could create a pooled investment fund separate from current investment funds that would have a longer maturity, but higher return, than the short-term investments these employers often use for investing excess cash. Investment returns on the

funds invested by these employers would be credited against their own PERS liability.

This limited but more independent approach, as opposed to the joint strategy proposed (above) for state-controlled entities, is more appropriate for these more independent and smaller entities.

Some entities may not have sufficient liquid assets to commit cash to a longer-maturity instrument. Additionally, these smaller-value investments would have an administrative cost. If too few employers participated, the funds raised might not be material and too small to justify the administrative burden.

FUNDING OPPORTUNITY: UNKNOWN

SAIF Corporation (Appendix 3)

Oregon has a hybrid workers' compensation system, with coverage provided by: SAIF Corporation (formerly the State Accident Insurance Fund, also referred to simply as SAIF), a tax exempt, state controlled insurance company; for-profit (taxable) insurers; and various employer self-insurance arrangements. All these coverage models are regulated by the state. SAIF's market share has consistently grown over the past two decades. Employers have clearly benefited from this model. SAIF has pioneered many progressive policies in the workers' compensation market. Oregon workers' compensation premiums have fallen twice as fast as the national average and are now 25% lower than a decade ago and among the lowest in the U.S.

Nevertheless, SAIF holds a large capital surplus in excess of amounts needed to pay estimated claims to workers. Over the last seven years, SAIF's surplus has been sufficiently significant to pay back over 30% of premiums in the form of dividends to policyholders. In 2015 and 2016, SAIF declared dividends to policyholders of \$140 million and \$160 million, respectively.

Instead, SAIF surplus capital could be used to address the PERS UAL in several ways, which may not be mutually exclusive:

1. The state could transfer some of SAIF's surplus capital directly to PERS, or require SAIF to invest some of its surplus capital in state notes for PERS (discussed above).
2. The state could require ongoing payments from SAIF to PERS in lieu of corporate excise taxes or allocate some or all future dividends to PERS.
3. The state could sell SAIF, either to its policyholders ("mutualization") or to another insurer or investors and dedicate the proceeds to PERS.

No level of surplus can protect against every conceivable adverse circumstance. Nevertheless, transferring surplus from SAIF to PERS would result in an increase in risk for SAIF. Also, following a transfer of surplus from SAIF to PERS, SAIF management might elect to take certain actions to rebuild surplus to current levels. While benefits to workers are specified by state law, management actions could affect services and workers' compensation costs to existing and prospective policyholders, including state and local government entities. A sale or mutualization of SAIF would be a complex and lengthy transaction, potentially falling outside of the five-year window set by the Governor for the Task Force's work.

FUNDING OPPORTUNITY: \$500 MILLION PLUS

Harvest One-Time "Windfall" Income

Due to their inherent uncertainty, some public sector revenues may significantly exceed anticipated or historic levels. These one-time or unanticipated amounts could be dedicated to PERS without significantly affecting ongoing public services in the near term. These revenues are by their nature difficult to calculate, however, a range of predicted impact based on past experience is included for each option.

Windfall incomes could include:

Oregon Capital Gains Taxes – Dedicate capital gains tax revenues in excess of projections to PERS. Funding opportunity: ~ \$350 million per biennium ([Appendix 4](#))

Oregon Estate Taxes – Dedicate estate tax revenues in excess of projections to PERS. Funding opportunity: \$50 million per biennium ([Appendix 5](#))

Lawsuit Settlements – Dedicate revenue from near term expected lawsuit settlements (including expected future revenues from the Comcast property tax settlement and the Tobacco Master Settlement Agreements) to PERS, and consider creating a mandated funding mechanism for future settlements, as well. Funding opportunity: Unknown ([Appendix 6](#))

School District State Funding Rebalance – Each May, the state redirects funding to schools whose actual funding needs and enrollment numbers exceeded their projected funding needs. These dollars are rebalanced from schools whose projections led to initial overfunding. Upsides from the rebalance could be redirected to a PERS side account for the school district receiving additional dollars, or for the school district account pool to the benefit of all school districts. Because services have already been provided, these funds are excess, however, districts may pay for these services out of reserves assuming they will be reimbursed through the rebalance. It is possible that other state-appropriated education funds could be directed to PERS as well, including money from unfilled positions or unspent contingency funds. Over the past three biennia, the rebalance has ranged from \$11 million to \$42 million a year. Funding opportunity: \$22 million plus per biennium ([Appendix 7a/Appendix 7b](#))

Increased Debt Collections – Dedicate debt collections above projections to PERS. Work undertaken during the 2017 Legislative Session suggests that the state could significantly accelerate debt collections. This proposal could also apply to other PERS employers, either through their own enhanced collection efforts or in partnership with the

state. Funding opportunity: \$56 million per biennium – state only ([Appendix 8a/Appendix 8b](#))

Forfeited Properties – Oregon counties manage the sale of repossessed properties. Sale proceeds in excess of back taxes owed and county expenses are distributed among all taxing entities. These excess proceeds could instead be dedicated to PERS. Funding opportunity: Unknown ([Appendix 9](#))

It is important to note that diverting these windfall revenues may reduce growth in the Rainy Day Fund since a portion of the General Fund ending balances make up that fund. Additionally, if excess dollars were dedicated to PERS after they became part of the General Fund, the state could remove resources from its balance sheet at the same time the kicker is triggered leaving the General Fund under-resourced.

FUNDING OPPORTUNITY: \$1.2 BILLION PLUS

Unclaimed Property ([Appendix 10](#))

Currently earnings from unclaimed property flow to the Common School Fund, but the principal remains in trust. The Legislature could change statute to allow the state to take ownership of unclaimed property after 10 years and dedicate these funds to reduce the PERS UAL for Oregon schools. Approximately \$200 million of property is currently unclaimed for 10 years or more. This change could produce additional funds as more unclaimed property reaches the 10 year threshold.

The long-term impact to the Common School Fund of removing these properties from trust and losing the interest payments has not been explored. The Governor would also need to consider how often unclaimed property is claimed after the 10 year point and whether that was the most appropriate time at which to convert property ownership to the state.

FUNDING OPPORTUNITY: \$200 MILLION PLUS

Reduce Agency Reserve Funds (Appendix 11)

While some level of year-end agency fund balances is often required to smooth inconsistencies in the timing of revenues or cushion against shortfall, agencies may maintain fund balances above necessary levels. The Governor or the Legislature could establish fund balance targets for individual state agencies based on their specific needs and transfer excess reserves to PERS.

Over the past several biennia, the Legislature has swept funds from select agency reserves in order to support the General Fund. \$111 million in sweeps were included in the 2017-19 biennial budget. Establishing a practice of sweeping ending fund balances for PERS could reduce the funds available for other purposes. Statutory or constitutional provisions may restrict some of these funds. Reserves may also include federal funds with restrictions.

FUNDING OPPORTUNITY: UNKNOWN

Increase State Alcohol Revenues (Appendix 12a/Appendix 12b)

In 1933, Oregon established the Oregon Liquor Control Commission (OLCC) to regulate alcohol industries in Oregon and directly operate wholesale and retail distribution of spirits in the state. While the OLCC manages spirit distributions at a profit and works with private retail agents to ensure they maintain profitability, profit is only one of a number of priorities that drive OLCC policy.

By implementing commercial best practices, OLCC could increase the state's spirits revenues and dedicate the incremental funds to PERS. These practices include:

- Using OLCC's bulk-purchasing power to drive better prices from manufacturers and distributors

- Breaking the rigid mark-up structure and establishing a demand-based retail pricing structure
- While developing a demand-driven pricing strategy, considering increasing the mark-up on spirits to generate additional revenue
- Expanding retail points of sale more rapidly
- Centralizing inventory management
- Increasing marketing and promotion

The state could also consider increasing the excise beer and wine taxes and dedicating the incremental revenue to PERS. Oregon excise taxes on beer and wine are \$0.08 and \$0.67 per gallon, respectively. These have not changed since 1977 and are among the lowest in the nation. Presented for illustrative purposes and assuming no change in demand, increasing the current taxes to the national average rates of \$0.35 and \$1.03 respectively would raise \$61 million per biennium.

Changes in alcohol pricing and distribution could affect the amount and mix of consumption. Expanding retail outlets could increase demand and might lower profit margins for neighboring retail outlets. Additionally, Oregon has a growing alcoholic beverage industry and some changes in pricing and distribution could affect local producers and impose broader economic implications. In the context of developing evolved business approaches for OLCC, these potential implications should be analyzed and quantified to ensure that the resulting strategies strike the balance that best serves Oregonians.

FUNDING OPPORTUNITY: \$453 MILLION PLUS

Privatize Public Universities (Appendix 13)

Oregon has eight public universities including regional universities, research universities, and a health sciences university. Any of the research universities or the health science university could seek private backing to buy the university out of the public sphere.

The state currently provides approximately 12% of revenues, on average, for Oregon's three research universities, but has made significant additional investments over time. These universities currently follow state policies around procurement, financial management and various operating processes, and the state oversees setting of tuition rates. Converting one or more of these universities to a private, not-for-profit entity could lead to greater operating flexibility and philanthropy over time.

A private, not-for-profit university could access the bond market to purchase assets currently owned by

the state. In addition, major philanthropy would be needed in order to create an endowment to replace state support. The state could choose to continue to fund preferential tuition rates for Oregon students, either through an endowment created with a portion of the privatization proceeds or through the continuation of existing general fund appropriations.

No philanthropic donor has been identified with the available assets and interest to undertake privatization at this time. By removing one or more institutions from shared services, costs for the remaining public universities and other state agencies might increase. The effect on tuition rates and educational access for Oregon students is also unknown.

FUNDING OPPORTUNITY: \$250
MILLION – \$1.5 BILLION

State University Assets by institution

FY16 (millions)	EOU	SOU	WOU	OIT	PSU	OSU	UO	OHSU*
Capital net assets	\$49	570	\$56	\$54	\$234	\$678	\$761	\$876
Unrestricted net assets	4	(2)	16	14	25	(25)	23	628
Capital + unrestricted	53	68	72	68	259	654	784	1,503
Restricted net assets	4	8	10	5	47	88	56	69
Total before foundation	57	76	82	73	306	741	840	1,572
Foundation net assets	12	27	13	22	96	648	1,020	1,346
Total with foundation	69	102	95	94	402	1,389	1,861	2,918
Tuition & fees	16	28	30	24	188	303	388	69
Grants & contracts	3	4	13	2	72	207	103	501
Auxiliary enterprises	5	13	20	8	85	155	175	1,990
Other operating revenue	1	5	3	1	12	55	27	114
Revenue before govt approp	25	50	66	35	357	720	693	2,673
Public Univ. Support Fund	19	20	22	24	76	102	63	36
Capitalized value (12.5x)	239	253	279	296	954	1,269	783	445
Revenue including PUSF	\$44	\$70	\$88	\$58	\$434	\$822	\$755	\$2,709
PUSF / total revenue	44%	29%	25%	41%	18%	12%	8%	1%

*For OHSU, gifts are in grants & contracts line, patient revenues in auxiliary enterprises line, total State appropriations in PUSF line.

Maximize Financial Value of Real Property Assets

There are a number of real property assets held by the state which are no longer in use, or for which there may be a higher value use. The properties could be sold and net proceeds directed to paying down the PERS UAL. The Task Force did not consider ideas which do not create significant economic value, such as selling and leasing back office space at a higher cost than current operating costs.

Real property opportunities include:

The Portland State Office Building in Northeast Portland: The state could sell this 300,000 square foot building in the quickly-developing Lloyd District for an estimated value of \$120 million. Leasing space in a less central but suitable location would likely increase costs, but replacing that building with two new buildings outside of the Portland core would likely yield lower operating expenses. New buildings could be constructed using the proceeds of the sale or debt financing to be repaid using the operating cost savings. Funding Opportunity: \$120 million ([Appendix 14](#))

Other State-Owned Property: The state could maximize the value of state-owned lands and property in a variety of ways. There is no single, easily-accessible database of all state-owned property. However, there are a number of properties the Task Force identified which could be sold and which have a high likelihood of realizing profits. These could be used to pay down the UAL and include (1) the recently-vacated Hillcrest Youth Correctional Facility, (2) buffer zones around the MacLaren Youth Correctional Facility, and (3) the Oregon State Hospital North Campus. The total value of sale for all three facilities, less remediation costs, would be about \$8.4 million, although some of this land is leased or used by state agencies. That amount would be offset by increased annual agency costs and decreased lease revenues. This maximizing of properties could be applied to other PERS employers as well, with opportunity particularly among school districts. Funding Opportunity: \$8 million plus ([Appendix 15a/Appendix 15b](#))

Port of Portland: The Port of Portland operates three airports and numerous other transportation facilities. Some of these operations are underutilized and unprofitable. Excluding Portland International Airport, the real property held by the port has an estimated appraised value of approximately \$400 million. The state could conduct a strategic evaluation of Oregon's port and airport infrastructure requirements, identify and sell surplus property (if any), and dedicate the proceeds to PERS. Funding Opportunity: Unknown ([Appendix 16](#))

FUNDING OPPORTUNITY: \$128 MILLION PLUS

Natural Resources

Timber ([Appendix 17a/Appendix 17b](#)): The state owns a significant amount of timber land. However, the Governor's charge specified that the Task Force should not consider the privatization of state forests and past proposals for increased logging of state forests have been controversial. Potential legal challenges could delay and significantly diminish any funding available for PERS, likely beyond the five year timeframe of the Task Force's work.

Along with managing state forests, the Oregon Department of Forestry can undertake approved harvests on federal land under the 2016 Good Neighbor Agreement between the state and the Federal Government. The state can use the revenues from the harvest to cover their costs and a percentage of the revenues are dedicated to counties. Approved harvests have not yet begun because the state has little incentive to do so, and the Federal Government is not staffed to undertake the work. The state could negotiate with the Federal Government to create a trust (similar to the Common School Fund) that would be dedicated to offsetting PERS costs and funded by a portion of revenues from harvests carried out under the Good Neighbor Agreement. Funding Opportunity: At the current market rate, harvests would generate up to \$15 million.

Fire Suppression Costs:

Fire suppression costs are split through a complicated formula between the state and private and other public landowners, and are offset by a varying level of federal reimbursement. Currently, private landowners' share of costs is capped and the state General Fund picks up any additional costs. That cap could be increased and the additional General Fund dollars dedicated to PERS. This could generate between \$10-50 million a year (*Appendix 18*)

Water:

All water in the state belongs to the public. With a few exceptions, those seeking water rights must obtain those rights from the state. Once a water right is obtained, it is generally held in perpetuity (though it is subject to earlier-granted rights and can be forfeited if not used). When the state issues a water right, it charges a one-time transaction fee for the issuance of the right, which generally covers 50% of administrative costs. When issuing future water rights, the state could levy a one-time fee based on the market value of the water right granted. In an average year, this could raise approximately \$53 million. (*Appendix 19*)

FUNDING OPPORTUNITY: \$330-
\$530 MILLION PLUS

Increased Lottery Revenue (*Appendix 20*)

The Oregon Lottery is currently considering options to expand the types of games offered. The expansion could include different game platforms, or new types of games or retailers. Assuming the Lottery Commission continues to support this direction, the Lottery expects to begin offering new options as soon as fall 2018.

A Lottery expansion will likely lead to increased revenue. A portion of revenues above a baseline could be dedicated to the PERS UAL.

There are constitutional restrictions on the uses of Lottery revenue, and dedicating revenues to PERS

would have to be weighed against the other uses to which Lottery funds are currently designated. At a minimum, it would likely be constitutional to use these funds for school districts' UALs. As much as \$35 million could be available in the first year, with increases expected each subsequent year.

FUNDING OPPORTUNITY: \$175 MILLION PLUS

Rainy Day Fund (*Appendix 21*)

The state has two budget stabilization funds: The Education Stability Fund and the Rainy Day Fund. The Rainy Day Fund receives all revenue collected from corporate and excise taxes above 7.2%, as well as a 1% distribution from the General Fund, if the General Fund is sufficient. These funds are then available to supplement the General Fund during an economic downturn.

At the end of the 2015-17 biennium, the projected balance of the Rainy Day Fund was \$389 million. If the state makes all the projected deposits for the 2017-19 biennium, this fund could grow to \$635 million by the end of the current biennium. Combined with the Education Stability Fund, the state is projected to have \$1.2 billion in stabilization funds at the end of this biennium.

If the state were to divert \$200 million of this biennium's projected contributions to PERS instead, there would still be over \$1 billion in stabilization funds available.

During the 2001 recession, General Fund revenues dropped by \$1.5 billion and they dropped by \$3.6 billion in the 2009-11 biennium. Ninety-six percent of the state's General Fund goes to education, human services, and public safety programs.

FUNDING OPPORTUNITY: \$200 MILLION

SUB-TOTAL FUNDING OPPORTUNITY:
\$4.2 – \$6.4 BILLION

PERS Resolution Program

PERS is a single pension system, but it represents over 900 PERS employers. While the state has a great deal of influence on public entities in Oregon, and provides significant amounts of funding to many PERS employers, it does not control local budgets. Resolving the PERS UAL issue will require a dedicated effort by the state and all PERS employers. Because every PERS employer is unique, representing different constituencies and facing different conditions, uniform solutions are impractical. Engaging each employer in a collaborative approach and providing incentives allows them to develop and implement plans that reflect local priorities and are responsive to their constituents.

Under a PERS Resolution Program, PERS employers would work cooperatively with the state to develop a tailored “PERS Reduction Plan” to reach fully funded status for their PERS liability over the normal amortization period while maintaining critical services. If an employer does not take near-term actions to reduce their UAL, the PERS Reduction Plan would simply reflect the PERS’s Board strategy of amortizing the UAL over 20 years. Current projections show that this would result in sharply increased PERS expenses in each of the upcoming biennia. If employers take near-term actions to reduce their UAL, their future PERS expenses would be lower.

As an incentive to encourage PERS employers to act to reduce their UAL, the state could establish an Employer Incentive Fund, which would provide a partial match (for example, 25%) of qualifying side account contributions made or committed by PERS employers as of a certain date. The Employer Incentive Fund could be funded by one or more of the *Funding Options* described earlier in this report and in the following appendices. For example, if the state identified \$500 million to be used for this purpose, and these funds were fully matched by PERS employers on a 4:1 basis (a 25% match), this initiative could reduce the PERS UAL by an additional \$2 billion.

The state might also consider further incentives for PERS employers who make additional contributions to reduce their PERS UAL. One possibility proposed to the Task Force was that local governments might have more options for paying off the UAL if the state did not preempt certain types of local taxes. While the Task Force did not explore this issue in depth and does not advocate simply raising taxes to pay down the UAL, this could be a means to encourage cities and counties to participate in the work. Additionally, it has been recommended that the state increase the limit on funds local governments can invest through Treasury’s short-term investment accounts, or an intermediate-term pooled fund, if they agree to make additional near-term contributions to reduce their UAL.

Task Force members also considered whether the state should take action if PERS employers elect not to participate in a PERS Reduction Plan process. While the projected PERS cost increases would be the responsibility of these employers, there are reasons why the state might want every employer to participate. PERS is healthier, and services across the state are more stable, if we can avoid the projected peak employer contribution rates. Although the rate collar can temporarily prevent disruptions to government services or extraordinary fee escalations while actions are taken to adjust to changed circumstances, eventually the full cost of benefits must be paid. In some cases, the collar may create a disincentive to act, as it obscures the true impact of the UAL and defers difficult decisions. The Governor and the PERS Board could consider temporarily making collared rates available only to employers who develop a PERS Reduction Plan or whose Plan includes meeting specific targets for UAL reduction.

For the PERS Resolution Program to work, the state and PERS staff would need to provide information and technical support to assist PERS employers in developing their own PERS Reduction Plans. PERS employers would need to commit to sharing information and formally evaluating a menu of options to determine what opportunities may

exist for the employer to make incremental capital contributions to the PERS UAL.

To achieve leverage from the contributions of many PERS employers, the Employer Incentive Fund model assumes that the state is willing to apply funds provided by state entities toward the reduction of other PERS employers' UALs. Alternatively, the state could apply funds solely to benefit state budgets by further reducing the state's UAL, or simply by depositing the state funds into PERS, lowering all employers' PERS contribution rates on a pro-rata basis.

The Task Force believes that all PERS employers (including those such as state agencies, SAIF and public universities considered by PERS to be part of a single state employer) should be eligible to open side accounts and participate in this program. The Task Force members discussed whether the Employer Incentive Program should prioritize funding or enhance the match for certain PERS employers based upon factors such as an explicit judgment of vulnerability or the relative importance of the services they provide, the relative size of their UAL, or their size and ability to raise additional funds. While there was agreement that the benefit to Oregonians of a given dollar amount of PERS UAL reduction might vary, there was also agreement on the value of designing a simple and equitable incentive program. Ultimately, this discussion did not result in consensus.

The Task Force acknowledges that the development of PERS Reduction Plans and the corresponding public discussions may raise the level of concern among PERS employers' constituents surrounding the future impact of increasing PERS rates. PERS is generally a strong, stable system, but the events outlined previously in this report have led to a funding gap that is driving costs well above historic levels. By ensuring Oregonians understand the current UAL, the future implications for government services and the options for slowing the growth in employer contributions, our hope is that PERS employers will be able to gain support for making the difficult decisions needed to reduce the UAL.

Developing and monitoring PERS Repayment Plans for hundreds of small PERS employers, many with limited capabilities and resources, will require significant assistance from the state. Leveraging employer associations and sharing best practices from larger employers could help reduce this burden. While the ultimate value of this program will be dependent on the level of employer match and the total dollars deposited into the Employee Incentive Fund, the Task Force members believe this program could yield benefits that outweigh the administrative requirements of this program.

FUNDING OPPORTUNITY: \$2 BILLION PLUS

Other Concepts

The Task Force considered other concepts that might generate additional funding for PERS, but were expected to yield relatively small amounts of revenue, deliver funds well beyond the five-year timeframe and/or face significant implementation challenges. While we did not spend significant time pursuing these concepts, they are presented here for PERS employers to consider.

University Non-Academic Operations: Universities operate facilities for both academic and non-academic purposes. Arenas, event conference centers, museums, parking and some food service could be considered non-academic operations. Ownership of some of these facilities was maintained by the state when the Universities became more independent in 2015. There may be opportunities to generate additional revenue for PERS by selling or leasing publicly-owned facilities to private operators.

Licensing Surcharges: The state and other PERS employers charge licensing fees for a variety of services. These fees could have a surcharge added to them, the proceeds of which would be directed to PERS. Many of these fees are constitutionally or legislatively restricted for specific uses (such as ODOT fees), but others may be more flexible. ([Appendix 22](#))

Enterprise Zones and Urban Renewal Districts:

These entities exempt businesses from some taxes in order to bring businesses to an area in need of development. But they are blunt instruments that may warrant readjustment. A number of options might be available for parsing these tax breaks out in creative ways that support the same policy goals but relieve pressure on schools, specifically. These options would have to be weighed against their policy intents and the ability to recruit businesses to these areas if the incentives were not as robust. Options include:

- Early sunseting of enterprise zones and urban renewal districts. The additional revenue could be directed to PERS.
- Reform urban renewal districts to include tax rate reductions from other entities but not from schools (entities would pay the full tax load attributable to school districts). Schools do not receive the direct benefit from urban renewal districts' increased commercial activity that other taxing entities do.
- Have state-mandated access to data storage solutions at a discounted rate in exchange for enterprise zone benefits. (A number of large users of Enterprise Zones are data centers.)
(*Appendix 23*)

Tech Transfer: Technologies developed by research universities may be licensed or otherwise monetized. The financial benefits of these arrangements are often split among parties including the responsible individuals, university departments, and broader institutions. The state could negotiate a partial share of the profits which would be dedicated as windfall revenue to PERS. (*Appendix 24*)

SUMMARY

While the PERS Board is executing a plan to pay down the UAL and reach full PERS funding within 20 years, PERS contributions will continue to grow and could have a growing negative impact on program and service delivery across Oregon. Hence, we are convinced that the Governor should consider taking additional steps to reduce the UAL. Further analysis is required to determine whether these options would yield significant additional funding for PERS and represent acceptable public policies. Implementation would not be easy and there may be undesirable consequences. The pros and cons of these options must be weighed against the implications of potentially significant increases in future PERS contribution rates.

Because of limited time and information, the Task Force could not quantify the potential funding opportunity of every option presented. For the proposals where a dollar amount has been identified, the Task Force identified Funding Opportunities of \$4.2 - \$6.4 billion that could be available to reduce the PERS UAL within the next five years. If \$500 million - \$1 billion of matching funds were dedicated to the Employer Incentive Fund, and PERS employers were able to identify enough qualifying side account funding to fully utilize a 25% match, an additional \$2 - \$4 billion of PERS reductions are possible, though this would represent a heroic effort. Still, these efforts, along with the \$533 million previously identified, would bring the total opportunity to \$6.7 - 10.9 billion.

TOTAL FUNDING OPPORTUNITY:
\$4.7 - \$6.9 BILLION PLUS LOCAL
GOVERNMENT MATCHING FUNDS

This report concludes the work of the PERS UAL Task Force, as established by Governor Brown.

Task Force members appreciate the opportunity to weigh in on this important issue.

The bad news about the growing unfunded liability in the state's Public Employees Retirement System pension fund is that what's owed is now pegged at \$25.3 billion. That means that in the 2019-2021 biennium, Oregonians, whose taxes feed the PERS pig, will have to shell out \$1.4 billion more than they'd expected. They had already expected to pay out more than a \$900 million jump in the current two-year budget cycle.

The increase for school districts alone would hire some 2,650 entry-level teachers. Put another way, it would pay for enough teachers to replicate the faculty of the entire Bend-La Pine district, with its roughly 775 teachers, nearly three and a half times over.

Staggering as those figures are, they're not the whole story.

First, the new rate of return that the PERS board assumes it will earn on its investments — 7.2 percent — may well be too high. Analysis done for the PERS board was not so optimistic. If PERS does not earn that 7.2 percent, the unfunded liability is going to explode upward again.

There's another problem, as well. The PERS board has "collared," or capped, the increases in the amount that state and local government agencies must pay into the system in a given year. That helps keep today's schools and other government agencies running but adds to the total amount owed in the long run. The collar doesn't lessen what agencies owe; it merely serves to delay payment of the full bill.

If you've ever had problems paying off a credit card, you know what that means. It would be like somebody putting a cap on how much of your credit card debt you could pay every month. It would make paying that bill easier every month, but it wouldn't help in the long run. Interest continues to grow, and you end up paying even more than you planned to when you started.

The PERS problem was bad and it's now worse. The state cannot expect to raise taxes on businesses and individuals enough to correct it without damaging the economy. It must make further reforms to PERS, something the state Democratic leadership has refused to touch.

By Mary Schamehorn
Herald Editor

AS YOU MAY have read in these pages earlier, The Oregonian and the Salem Statesman Journal newspapers prevailed in a lawsuit requiring the Oregon Public Employees Retirement System to make public the PERS recipients and the amount they are receiving. These are basically lifetime benefits.

Anyone who is interested in looking up this information can go to: gov.oregonlive.com/pers/search and enter the person's name you want to look up.

You will find some very interesting statistics.

For example, Cliff Walters (the former Bandon school superintendent) receives a monthly benefit of \$6,723.05 for a total of \$80,677 a year. Coos County Commissioner Bob Main is receiving monthly PERS benefits of \$4,512.31 for a total of \$54,148 a year. Former county commissioner Bev Owen is bringing in \$6,169.27 a month.

It's important to point out, of course, that the reason these figures are so high is because of Oregon's system ... not anything the employees did.

Anyone who wonders why people are concerned about the future of Oregon's public employees retirement system need only look at these figures.

Several days later, in a guest editorial in The Register-Guard, a Springfield man said that it is "neither hyperbole nor unfair to state that Oregon's PERS has funding requirements that if not modified will threaten outright insolvency of the entire state.

"That looming liability conceivably could reduce the entire productive economy of hard-working Oregonians to little more than involuntary servitude on behalf of PERS beneficiaries," said Fred Starkey.

He says that Oregon's Legislature has been prevented from making changes due to a series of decisions by Oregon judges "who themselves were conflicted beneficiaries of the very system they were judging."

He goes on to say that the judges ruled that even current employees can't be forced to increase their own contributions.

"Taken to its logical conclusion, taxpayers will be required to shell out \$1.204 billion to cover the unfunded liabilities of PERS in the 2012-13 biennium alone."

He then cites a City Club of Portland report at www.pdxcityclub.org/system/files/reports/PERS_2011.

He says that if the unfunded liability is not dealt with, it will mean massive tax increases to fund current service levels ... or massive layoffs for current public servants.

"Eventually we will be required to do both."

If you bother to look up some of the Tier 1 PERS recipients, you will be astounded by the amount of money they are receiving each month ... for the rest of their lives, while municipalities and school districts struggle to get by.

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AT THE OTHER end of the spectrum, but still dealing with government, is the huge burden being placed on the utility ratepayers of Powers.

The City is under a mandate to build a new sewage treatment plant, and Powers residents are probably facing a combined water and sewer bill of about \$120 a month, and that may be a conservative estimate.

At least with a bond issue, voters have a chance to decide whether they want to pay a little extra for a stated cause.

But utility ratepayers have no say.

When Senator Jeff Merkley came to Coos Bay several weeks ago, I was invited (as mayor of Bandon) along with 15 or 20 other port, county, school district and tribal officials to meet privately with him before the public Town Hall meeting.

When asked what we felt were the major issues facing our area, I brought up two of them.

The first was the tremendous financial burden that a small community like Powers is being forced to bear because of ever tightening water standards and federal mandates. The other was the Bandon Marsh project.

On the one hand, the federal government seems to find the money to purchase private (and often times working) property from people to restore it to a marshland ... but on the other hand, they have no money to help communities like Powers deal with trying to comply with the Clean Water Act.

It simply doesn't make sense to me.