



March 1, 2013

OSBA introduces PERS reform bill

OSBA has been working with a group of coalition partners over the last several months on legislative concepts related to reducing the overall cost of the Public Employees Retirement System (PERS) and providing a stable and adequate retirement benefit for public employees. The culmination of this work was the introduction earlier this week of **Senate Bill 754**.

A number of PERS concepts have been introduced this session, and the governor has offered his ideas on cost reductions for the system. However, SB 754 is the only bill offered to date that offers a comprehensive package to reform PERS on multiple levels that will withstand a legal challenge in the Oregon Supreme Court and maintain a strong retirement system for public employees.

SB 754 contains five major proposals:

- Limiting the cost of living adjustment (COLA) for PERS retirees;
- Limiting what can be defined as “salary” for the purposes of calculating a retirement benefit;
- Eliminating the Oregon tax benefit for out-of-state retirees;
- Transferring the member “Six Percent Contribution” back into the pension system; and
- Lowering the assumed earnings rate for “Money Match” retirees.

Limiting the COLA for PERS retirees has been discussed for several months and was introduced as a reform measure in the governor’s recommended budget in December. Under current law, a PERS retiree receives a COLA on his/her PERS benefit that is equal to the Consumer Price Index (CPI) capped at two percent. This COLA occurs regardless of the amount of the benefit a retiree receives from PERS. For example, Mike Bellotti, the former University of Oregon football coach, who receives a monthly benefit from PERS of over \$42,000, receives a COLA, as does a retiree who may only receive \$1,000 per month. The idea contained in SB 754 would be to limit the COLA to the first \$24,000 annual benefit paid to a retiree. Anyone receiving a benefit under \$24,000 annually from PERS would still receive the same COLA he/she receives today; however, individuals receiving an annual benefit over \$24,000 would receive a reduced COLA. In other words, SB 754 would not eliminate the COLA, even for Coach Bellotti; it would simply limit the amount of the COLA individuals could receive.

Why was \$24,000 chosen as the “magic number”? According to PERS, that is the average benefit paid on an annual basis to PERS retirees; limiting the COLA to the first \$24,000 in benefits paid can reduce the system-wide PERS rate by approximately 4.4 percent of payroll and save over \$800 million in the 2013-15 biennium.

SB 754’s second reform would change the definition of what is considered salary for the purposes of calculating a retirement benefit. If a PERS retiree is going to retire under the “Full Formula” calculation, PERS uses a formula to calculate the pension benefit a retiree will receive. One of the components of that formula calculation is the “final average salary” an individual received while working as a PERS-covered employee. Tier 1 and Tier 2 members are currently allowed to factor lump sum vacation pay and unused sick leave into their “final average salary” when calculating their benefit. This has the effect of driving their “final average salary” higher and providing a higher retirement benefit. PERS has calculated that limiting the definition of “final average salary” may save the system \$129 million in 2013-15.

The third concept in SB 754 is to eliminate the Oregon tax benefit that out-of-state PERS retirees receive. This portion of the PERS statutes has a long and detailed past. The short version is this would eliminate a supplemental tax remedy benefit for PERS retirees who do not pay state income taxes in Oregon. The remedy was created by the legislature many years ago to give PERS retirees a benefit equal to the Oregon tax liability they face on their Oregon income tax for their PERS pension income. This benefit is paid to both Oregon residents (who pay the tax), and to out-of-state retirees (who do not pay the tax). PERS estimates this concept could save more than \$55 million system-wide.

The fourth concept is to re-direct the member’s six percent contribution back into the PERS pension system for Tier 1 and Tier 2 members. One of the PERS reforms enacted in 2003 was to move the member’s contribution out of the pension system and place it into an Individual Account Program (IAP), to be set up like an individual 401k plan. The contribution would go into a member’s account and earn whatever the pension fund would earn and be credited to the member’s IAP account. Moving the member’s contribution into the IAP had an immediate impact on the cost of the system and virtually eliminated the “Money Match” method of calculating the retirement benefit for a retiree. It also had the effect of not placing funds directly into the system to fund the system. Currently, the member’s contribution can be paid either by the member or “picked-up” and paid by the employer.

Under SB 754, these funds would go back into the system, thus requiring the member to have some “buy-in” into the pension system. This provision only re-directs the member’s future six percent contribution. It does not direct any of the member’s IAP balance into the system. PERS has estimated that this would create system-wide savings of approximately \$570 million.

The final reform measure in SB 754 limits the interest rate used to calculate the annuity portion of the benefit for retirees who retire under the “Money Match” retirement option. Currently, for Tier 1 and Tier 2 members, PERS does two calculations to determine a member’s retirement benefit. The first method of calculating the benefit is the “Full Formula Benefit,” where PERS uses a formula to create the benefit. The other is known as “Money Match.” Under “Money Match,” PERS takes a member’s pension account balance and doubles that amount, which creates a “Money Match” fund. PERS then annuitizes that amount at eight percent and calculates a benefit based on that annuity and how long the member and his/her beneficiary, if he/she designates one, will live. The retiree receives whichever benefit is higher.

The annuity portion of the “Money Match” benefit is calculated currently at eight percent, which is the assumed earning rate for PERS. If an individual were to take his/her private funds and seek to purchase an annuity to fund his/her retirement, he/she would face current annuity rates of three percent or less. SB 754 seeks to allow “Money Match” retirees to use four percent as the annuity rate on their pensions benefit. PERS estimates that action would save \$221 million system-wide in 2013-15.

In addition to these reform measures, SB 754 requires the PERS Board to recalculate the rates for employers as soon as the bill becomes law. The bill also has a provision that allows for direct appeal to the Oregon Supreme Court if the measure is challenged as being unconstitutional.

OSBA is working with PERS to complete a financial analysis of the provisions in the bill to give an accurate picture of the amount of savings for the system and for school districts across Oregon. It is anticipated that if SB 754 were enacted, the savings provided could be in excess of \$1.75 billion for the system in 2013-15.

OSBA is also working with its coalition partners on a legal opinion as to whether the proposed changes would be upheld by the Oregon Supreme Court. Initial feedback on the proposal is that the proposed changes would be constitutional in light of recent decisions rendered by the court on the PERS issue.

Once OSBA has the financial and legal analyses of SB 754, we will share them with our members, legislators and the general public. If you have any questions on SB 754, contact OSBA Deputy Executive Director Jim Green at jgreen@osba.org.

View a copy of SB 754 here: <http://www.leg.state.or.us/13reg/measpdf/sb0700.dir/sb0754.intro.pdf>

Ways and Means Committee begins State School Fund hearings

The Ways and Means Subcommittee on Education will begin public hearings on the State School Fund (**House Bill 5519**) on Tuesday, March 5, continuing through March 7. The hearings will take place at 8:30 a.m. in Hearing Room F at the State Capitol.

OSBA will coordinate testimony on the bill with our coalition partners to focus our collective message on the need for an increased investment in the State School Fund.

Board members urge Senate committee to protect local option levies from “compression”

In 1990, Measure 5 capped property taxes for schools at \$5 dollars per \$1000 dollars of real market value (RMV). If the property taxes assessed on a property exceed these Measure 5 limits (including taxes assessed through local option levies), the taxes are reduced until the \$5 dollar limit is reached through a mechanism commonly known as “compression.” Voter-approved levies are reduced first, all the way to zero, before collections for the school district’s permanent tax rates are impacted.

According to the latest data available, about 90 percent of school districts are in “compression;” the impact has been exacerbated in recent years with the collapse of the housing market in many communities across Oregon.



L to R: Karen Cunningham (Beaverton School Board/OSBA Board), Betty Reynolds (West Linn-Wilsonville School Board/ OSBA Legislative Policy Committee) and Maureen Wolf (Tigard-Tualatin School Board) testify at the Senate Finance and Revenue Committee hearing on February 27.

The significant loss of voter-approved school revenue across Oregon has prompted the Oregon School Boards Association to join the League of Oregon Cities and others to call on the Legislature to provide relief to school districts and other local governments.

On February 27 the Senate Finance and Revenue Committee held their first hearing on **Senate Joint Resolution 10** and **Senate Joint Resolution 11**. SJR 10 would refer an amendment to Oregon's constitution which would make local option levies immune from the impacts of "compression." SJR 11 would reset assessed values for properties at the time of sale to real market values; assessed values were capped as a result of Measure 50.

Three school board members traveled to Salem to share stories about how compression has impacted their ability to provide services to their students. Tigard-Tualatin School Board chair **Maureen Wolf** told committee members that her district's levy "...will lose almost \$5 million to compression while collecting only \$3.8 million...I come before you to recommend that communities be given the opportunity to fully support their local schools through the effective use of local option levies." OSBA Legislative Policy Committee and West Linn-Wilsonville School Board member **Betty Reynolds** noted that "the voters of our district have consistently voted by large margins to support smaller class sizes, but that wonderful community support is losing out to compression."

The committee was presented with several examples of school districts that lose more than half of their local option levy to "compression," including Morrow County, West Linn-Wilsonville, Crow-Applegate-Lorane and Eugene. Beaverton School Board and OSBA Board member **Karen Cunningham** shared that in Beaverton "it is common to have 35-38 students in an elementary classroom (and) 40-50 students in a high school classroom." As a result, her board recently decided to go to the ballot this May to ask their voters to approve a levy. Even if approved, Cunningham told the committee about half of the expected \$23 million in money raised would be lost to "compression."

While many school board members across Oregon await legislative action to undertake a comprehensive review of Oregon's system of funding schools and other vital public services, Wednesday's hearing was a reminder that there are measures that can dramatically improve school funding in districts across Oregon without costing the state a dime. If a local community chooses to raise money for their schools, the school district should be able to collect the full value of the local option levy. Maureen Wolf summed it up best when she told the committee, "I believe it will be impossible to deliver the level of education expected from Tigard-Tualatin schools given the losses we have and will incur."

OSBA would like to extend thanks to Tigard-Tualatin School Board vice-chair **Dana Terhune** and David Williams from Portland Public Schools (who also testified) for their support at Wednesday's hearing. If you have a "compression" story to share, or would like to get involved

with this issue, contact OSBA legislative specialist Morgan Allen at mallen@osba.org.

View a copy of Senate Joint Resolution 10 here: <http://www.leg.state.or.us/13reg/measpdf/sjr1.dir/sjr0010.intro.pdf>

View a copy of Senate Joint Resolution 11 here: <http://www.leg.state.or.us/13reg/measpdf/sjr1.dir/sjr0011.intro.pdf>

OSBA BILL SPOTLIGHT: Capital matching funds and OEIB membership

As mentioned in previous *Legislative Highlights*, at the direction of OSBA's Legislative Policy Committee, the legislative team has drafted several bills that will bear the tagline "*at the request of the Oregon School Boards Association*." We are pleased to report that several of these are moving forward in the legislative process.

On Feb. 26, the Senate Education Committee, on a 5-0 vote, sent **Senate Bill 273** to the Joint Committee on Ways and Means. If approved by the legislature's budget writing committee, the bill would represent an initial state investment of up to \$200 million in school building and renovation projects.

The funds raised by SB 273 will help create incentives for local districts to pass bonds for their schools and will especially help communities that may have a low tax base make major investments in their school buildings.

Senate Bill 273 prioritizes funding for five different areas facilities experts tell OSBA are of the greatest need or will be needed to help districts prepare for new state educational mandates:

1. Building or retrofitting instructional space for full-day kindergarten.
2. Building or retrofitting space available for physical education.
3. Tsunami and earthquake upgrades and retrofits.
4. Health, safety and security projects.
5. Facilities projects designed to improve student achievement.

As the next step in the legislative process, the Ways and Means committee will consider SB 273 and other requests to fund bonding for capital construction projects.

House Bill 2538 would require a school board member position be added to the Oregon Education Investment Board (OEIB). Rep. Mark Johnson (R-Hood River), who is also a Hood River County School Board member, drafted the legislation at OSBA's request.

The OEIB currently includes school superintendents, a teacher and union leaders for school and community college employees. OSBA believes that the perspective of school board members needs to be added to the

discussion, especially since it is local boards that enter into “achievement compacts” with OEIB. Without school board representation on OEIB, the unique perspective of school board members who will be required to carry out the policy directives of OEIB is sorely missing. We expect the bill to get a hearing the week of March 11 in the House Education Committee.

View a copy of SB 273 here:

<http://www.leg.state.or.us/13reg/measpdf/sb0200.dir/sb0273.intro.pdf>

View a copy of HB 2538 here:

<http://www.leg.state.or.us/13reg/measpdf/hb2500.dir/hb2538.intro.pdf>

Contact Morgan Allen, OSBA legislative specialist, at mallen@osba.org for more information on these bills.

Contact your legislator

Find your legislators’ contact information on the Oregon Legislature’s website:

House - <http://www.leg.state.or.us/house/>

Senate - <http://www.leg.state.or.us/senate/>

To contact your legislator by phone, call the Capitol Switchboard at 1-800-332-2313.

