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Summary:

State tax revenues are approaching all-time highs. Nevertheless, the state must face the budget reality that Oregonians do not have the resources to support ever-expanding spending programs that outpace our ability to pay for them.

Word Count 607

"…[T]he average Oregonian earns less but pays more for basic items than the average American. Oregon legislators and other policymakers must face the reality that the state simply cannot afford costly new or expanded programs."

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How Legislators Can Balance Oregon's Budget—Without Raising Taxes

By Eric Fruits, Ph.D.

Despite an eight percent increase in general fund revenues, Governor Kate Brown and some lawmakers say Oregon is facing a $1.7 billion budget shortfall in the 2017-19 biennium. Nevertheless, the Governor has released a budget that expands entitlements while raising taxes, fees, and charges by nearly $275 million for the general fund alone.

Expanding programs while increasing taxes is something Oregon could do if it were a rich state. Oregon is not a rich state. Income for the average Oregonian is about nine percent lower than the national average, and the cost of living is 15 percent higher. In other words, the average Oregonian earns less but pays more for basic items than the average American. Oregon legislators and other policymakers must face the reality that the state simply cannot afford costly new or expanded programs.

My analysis published in *Facing Reality: Suggestions to Balance Oregon's Budget Without Raising Taxes* (February 2017), by Cascade Policy Institute and Oregon Capitol Watch Foundation, identifies seven straightforward solutions to the state's current budget crisis for savings of nearly $1.3 billion in the next biennium.* If all the solutions were implemented, none of the tax and fee increases outlined in the Governor's budget would be necessary.

Governor Brown blames three-fifths of the budget crisis on Oregon's decision to expand Medicaid coverage under the Affordable Care Act. Policymakers undertook the expansion with full knowledge that the federal government would be shifting some of the costs of expansion to the state. Janelle Evans, budget director for the Oregon Health Authority, estimates these costs to the state's general fund will be as much as $360 million in the next biennium. With many portions of the ACA likely to be reformed or replaced by this Congress, Oregon can see immediate budget savings by opting out of the Medicaid expansion now.

The skyrocketing costs of Oregon's Public Employee Retirement System presents the biggest long-run challenge to balancing state and local government budgets. As reported in *The Portland Tribune*, the impact on the 2017-19 state budget is approximately $500 million because the state funds two-thirds of the operating costs of school districts, which will also be hit with the steep increase in PERS costs. In addition to the higher costs of PERS padded into the agency costs, the Governor's budget includes a $100 million line item to support the state's increased PERS costs.

Senate Bill 560 provides a reform that would cap at $100,000 the final average salary used to calculate Tier 1 and Tier 2 retirement benefits. The PERS actuary calculates this reform alone would save the state budget approximately $135 million in the 2017-19 biennium.

Oregon has the 12th highest pay in the U.S. for state employees. The Governor's budget proposes increasing the state government workforce by 675 full-time-equivalent employees. This expansion of the public sector workforce would cost the state more than $120 million in additional compensation costs for the 2017-19 biennium. A halt on adding more state employees during this biennium would free up resources and ward off some of the pressure to increase taxes, fees, and charges.

In addition to these items, Oregon can face its budget reality by adopting targeted reductions already identified by the Department of Human Services, reforming the state's cash assistance programs, saying "no" to the Governor's wish to expand Medicaid to those who are not "legally present" in the state, and saying "no" to Measure 98's unfunded high school education spending mandate.

State tax revenues are approaching all-time highs. Nevertheless, the state must face the budget reality that Oregonians do not have the resources to support ever-expanding spending programs that outpace our ability to pay for them.

* Solution	Impact
Medicaid—opt out of ACA expansion	$360 million
Cover All Kids—reject expansion	$55 million
PERS—$100,000 cap	$135 million
Department of Administrative Services—halt additional hiring	$120 million
Department of Human Services—targeted reductions	$321 million
Department of Human Services—cash assistance reforms	$160 million
State School Fund—reject Measure 98	$139 million
Total	**$1,290 million**

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Eric Fruits, Ph.D. is an Oregon-based economist and adjunct professor at Portland State University. Fruits has been invited to provide analysis to the Oregon Legislature regarding the state's tax and spending policies. His testimony regarding the economics of the Oregon public employee pension reforms was heard by a special session of the Oregon Supreme Court. A version of this article originally appeared in The Portland Tribune *on February 23, 2017.*

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