


Business Leaders: Pension Reforms Must Be Part of 2019 Education Solution

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by Dirk VanderHart Follow and Jeff Mapes Follow OPB Dec. 3, 2018 2:33 p.m. | Updated: Dec. 3, 2018 3:33 p.m.

With Democrats dominating the Legislature, and pledging to find big new revenues next year, Oregon business leaders on Monday made what amounted to a plea.

They're asking lawmakers to include in any budget deal significant savings in the state's ballooning pension costs. And they're offering up their preferred ideas for when the Legislature asks businesses to pay more.

"Our economy is the most volatile in the nation," said Debbie Kitchin, principal of Portland-based contractor Interworks, during an address at the Oregon Leadership Summit in Portland. "A one-sided solution won't work."

The Leadership Summit is an annual gathering put on by the state's major businesses, aimed at charting a course for state policy through what it calls the Oregon Business Plan. This year, the one-day event comes just after Democratic Gov. Kate Brown handily won re-election and her party added to its legislative majorities.

Brown's new budget proposal calls on lawmakers to find an extra \$2 billion for Oregon schools, and a new coalition that includes the state's three major public employee unions says it doesn't want the hunt for additional taxes to be contingent on a deal over controlling pension and other costs.

The governor has said repeatedly she believes the state is at a turning point, with a thriving economy creating space to solve education funding woes that have plagued Oregon since the early 1990s. But neither Brown nor the committee studying the matter has offered concrete ideas.

The Oregon Business Plan highlighted several on Monday.

The Oregon Business Plan is proposing an end to those refunds. Instead, the kicker would be placed in a rainy day fund reserved for education. Oregonians voted in 2012 to end a kicker refund on corporate income taxes.

"We can build a rainy day fund while still honoring the intent of voters," Kitchin said.

More notably, the Business Plan introduced a new business tax it believes is more fair than past proposals for hiking corporate taxes. The so-called Business Activity Tax would assess a tax on businesses based on their total revenues minus what they purchase from other businesses.

Such a structure is more fair than a gross receipts tax — such as 2016’s controversial Measure 97 — that is based purely on sales, Kitchin argued.

A business activity tax is similar to a value-added tax, a revenue mechanism popular in Europe but not the U.S. Duncan Wyse, president of the Oregon Business Council, said it would tax businesses on their sales, minus many of their costs.

In a written proposal, the Business Plan said such a tax would need to be paired with “significant reductions in personal income taxes and other business taxes. On a revenue-neutral basis, such a tax could reduce Oregon’s reliance on income taxes, improve revenue stability and make Oregon’s tax code more like other states.”

The Leadership Summit also focused on the looming problem of Oregon’s public pension system, known as PERS. The system faces a \$22 billion funding shortfall, and its escalating costs are eating an increasing percentage of state and local governments’ budgets.

“It’s really now up to the governor and the Legislature to take on this problem,” said Tim Nesbitt, a consultant for the Oregon Business Council who once served as Oregon AFL-CIO president and then chief of staff to former Gov. Ted Kulongoski.

In a bluntly worded presentation, Nesbitt warned that “without reform, PERS has dibs on all new revenue.” He said schools and other public employers historically paid about 12 percent of their payroll to cover PERS costs; now it’s up to 21 percent and will eventually top 30 percent.

The Oregon Supreme Court in 2015 unraveled key PERS reforms passed by the Legislature. The court said existing pension benefits promised to retirees — by far the largest cost driver in the system — cannot be touched.

Still, that ruling left a “clear legal path forward to PERS reform,” Nesbitt argued. That includes transferring public employees to a 401(k)-style plan moving forward, and requiring employees to pay into the pension system.

“Yes, PERS reform is hard,” Nesbitt said. “Tax reform is hard. And trying to do both at once may be more than twice as hard. But that’s the imperative we face now.”

Wyse, the business council president, said it’s fine if negotiations for new taxes and for cost controls are held in different rooms. “But at the end of the day it has to come together,” he said.

At this point, it’s unclear just what kind of tax the Legislature will pursue. Senate President Peter Courtney, D-Salem, has raised the possibility of passing a value-added tax, like the Oregon Business Plan is proposing, or a gross receipts tax.

“What it looks like right now, I think we’re gathering all the information we can,” said state Sen. Arnie Roblan, D-Coos Bay, who co-chairs the Joint Committee on Student Success. The committee has been studying the matter, and plans to meet next week to arrive at an

approximate price tag for its priorities: Increasing the graduation rate, lengthening the school year, and reducing class sizes, among other things.

“It’s going to be a large number,” Roblan said Monday.

“I’m not sure \$2 billion is enough to meet all the needs that exist,” said state Rep. Julia Fahey, D-West Eugene, also a member the committee.

That estimate didn’t sit well with state Rep. Carl Wilson, R-Grants Pass, the new House Minority Leader, who says his rural constituents won’t tolerate such a large ask.

“Our constituents may be a long way from Portland, but they understand some things,” Wilson said. “They know how big \$2 billion is. If that comes in the form of another tax, that certainly is going to grab the attention of red Oregon.”