Gov. Kate Brown outlines education proposals

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Gov. Kate Brown delivers the State of the State address on Monday, Feb. 5, 2018, at the Oregon State Capitol in Salem. MOLLY J. SMITH / STATESMAN JOURNAL

Oregon Gov. Kate Brown announced a series of education and business proposals and priority shifts during her State of the State address Feb. 5, outlining the ways she believes the state can expand economic prosperity to all through education programs.

At the heart of her address is "Future Ready Oregon," her new five-step agenda to refocus education on graduating students from high school by preparing them for open jobs in technical careers and putting $300 million toward those classes in the next budget.

These efforts will be especially directed toward rural areas and communities of color, including Oregon's Native American tribes.

"For too many in Oregon, the American Dream has become the Impossible Dream," Brown said. "It seems no matter how much you work, it's very hard to get ahead."

Brown laid out for the joint legislative session and assembled guests the situation she has seen in the state: Families are struggling to make ends meet with low-paying jobs, while technical job creators want to hire more people into well-paying careers but are forced to look out of state for employees.

This skills gap in the state is the "opportunity" Brown wants to take advantage of.

She noted that 86 percent of high schoolers in Oregon who had hands-on education, including career technical courses, graduated high school 10 points above the state's overall rate.

Oregon has one of the lowest graduation rates in the country, though it has seen growth in recent years: 5 percentage points higher overall since Brown became governor and 7 points higher among Hispanic or Latino students.

As a particular success story, Brown pointed to Salem's Career and Technical Education Center, which boasts a 98 percent graduation rate. Its programs include construction, auto-body, video and game design, and robotics.

A high school degree or equivalent is the focus because the occupations driving economic growth are jobs that don't require a college degree: advanced manufacturing, renewable energy, health-care, bioscience and IT services.

Brown laid out a five-pronged plan to achieve her goal: Create high-tech apprenticeships, incentivize rural construction, build more homes in rural communities so people can live near those new jobs, focus growth on often overlooked communities and align education with entry-level job qualifications.

The only bill that addresses any of these goals during this 35-day session is House Bill 4144. The bill, one of five from the governor this year, would lower barriers for mid-career construction professionals to start their own businesses and create grants for training new workings and construction of rural housing projects.

"By working together, we can ensure that economic prosperity reaches every single corner of the state," Brown said, one of her speech's handful of applause lines.

In a statement, House Republicans seemed more concerned about the problems Brown didn't bring up. They criticized her for not mentioning the millions of misspent dollars by the Oregon Health Authority, for not providing a plan on how to fix the state's foster care system and for only giving passing reference to the massive PERS unfunded liability.

"It's hard to appreciate Gov. Brown's future aspirations for our state when she has failed to address so many problems here in the present," House Republican Leader Mike McLane, R-Powell Butte, said in a statement.

House Democrats, meanwhile, were complimentary of the speech, saying Brown's intent to expand economic opportunity in the state matched their various legislative goals for this session.

"I stand with Gov. Kate Brown and her vision for an Oregon where everyone, regardless of where they live, has the ability to succeed and thrive," House Democratic Leader Jennifer Williamson, D-Portland, said in a statement. "We must continue to capitalize on our success and make progress for Oregon's future."

Toward the end of her address, Brown offered a strong rebuke of some policies coming out of Washington, D.C. She promised to protect Oregon's immigrants and Dreamers, maintain health care coverage in the state and preserve public lands, all of which were targeted during the first year of the Trump Administration.

"As we come together this session, let us commit to keeping our promise to Oregonians, to take responsibility for moving Oregon forward," Brown said.

Reporter Natalie Pate contributed to this report.

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Public pension system exceeds return expectation for 2017

Ted Sickinger
The Oregonian/OregonLive

PORTLAND, Ore. – Thanks to a red-hot stock market, Oregon's public pension system investment portfolio generated a 15.3 percent return last year, more than double what was expected and sufficient to lop $3 billion or so off the system's $25 billion unfunded liability.

But it wasn't enough to head off another painful round of pension cost increases slated to hit government budgets in 2019.

The Legislature will probably delay any serious conversation about changes to benefits, as it has for the past three years. Gov. Kate Brown, for one, says she's not ready to talk about the main benefit reform idea in circulation – reinstituting some level of employee contributions to the pension fund – until 2019.

In the meantime, she has another plan, or two plans actually. The first would redirect a slice of state revenues to offset the pension costs of K-12 schools, community colleges and universities. The second involves enticing the 900 or so public employers who participate in the system to shake their sofa cushions, identify reserve resources and deposit them in accounts at PERS. In the process, they would be gambling that the pension fund's investments will generate higher returns than the low and largely risk-free returns those dollars earn today in the short- and medium-term funds managed by the Oregon Treasury.

Historically, that's been a good bet. But it's no sure thing.

The Public Employees Retirement System paved the way this fall, relaxing minimums and reducing fees on government employers, to make extra deposits. Those funds would go into "side accounts" that are invested alongside pension assets. Those account balances are then drawn down gradually to reduce an employer's annual pension costs.

As the system's actuary likes to say, side accounts leverage, or amplify the effects of the system's investment returns on employers' pension costs. If returns are good, the side account balances and the pension savings they generate grow. But there is also the risk of a stock market downturn depleting the funds after they're deposited, which can turn the strategy into a loser.

To sweeten the pot and tilt the risk-reward balance in employers' favor, the governor is looking to set up an incentive fund that would match employer deposits by 25 cents on the dollar. The idea was hatched by the task force that Brown appointed last year to look for ways to reduce the pension deficit by $5 billion. Its success hinges on the state's ability to come up with the seed funds, and employers' finding the money to take advantage of them.

Neither is assured. While the goal is for the state to come up with $400 million, which could match an additional $1.6 billion in employer contributions, no revenue source has been identified yet.

If the state comes up with the dollars, the plan is to prioritize employers with the largest proportional liabilities. Employers would have to apply reserve matching dollars from the funds by the end of 2019, then they'd have another 3½ years to come up with the extra pension contributions.

"We expect to see some rate relief in '21-'23 and potentially even further rate relief the following two biennia," said Elana Pirtle-Guiney, the governor's workforce and labor policy.

Scott Winkels, a lobbyist for the League of Oregon Cities, said he wasn't sure how many cities have revenue sources they could tap to put in side accounts. Lawmakers, he said, should be looking at benefit reforms, including employee contributions, on top of this effort.

"This isn't the end all be all," he said. "It's not going to solve the problem, but it's something we need to do. It's the right thing to do."

The school funding, meanwhile, would be a bulk side account funded with a straight redirection of existing state revenues and no contributions required from the schools, community colleges or universities, said Pirtle-Guiney.

The governor's office is hoping lawmakers agree to capitalize that fund with a "few hundred million" dollars, she said. The legislative concept includes a number of potential revenue sources, including a proposed tax amnesty program that would give delinquent taxpayers a break on their accrued interest and penalties if they paid all or a portion of their back taxes. The state last offered such a program in 2009 and raised about $40 million, about half of it unexpected revenue.

The other source of funds would be one-time revenue streams and windfall dollars. Those could include lawsuit settlements and debt collections, as well as tapping a set of standard revenues if they come in above average, such as capital gains taxes, estate taxes, beer and wine taxes and lottery commissions.

The pension cost offsets generated by a bulk side account with several hundred million dollars would likely be very small at an individual school district level. Still, it's a no-risk plan for schools. Participating in the incentive program would be another matter, tapping the reserves they've been husbanding to cover budget shortfalls.

"Would it be more valuable to take part of our rainy day fund and pay this down versus saving it for a downturn when we might need it?" asked Claire Hertz, chief financial officer of Beaverton School District. "Each district will have to evaluate that. You look at the trends and the history and make your call."

The consulting firm ECONorthwest recently offered its take on the risks and opportunities of side accounts at a meeting organized by the Oregon School Boards Association.

"If you had cash sitting around, there's a 99 percent chance you'd come out on top," said Ralph Mastromonaco, a senior economist at ECONorthwest. "The opportunity cost of holding cash is pretty high. Over a 20-year period you can expect (Oregon pension system) returns to be substantially higher."

Mastromonaco said a number of districts have also expressed in interest in borrowing more money to seed their own side accounts by issuing pension obligation bonds. The incentive program won't offer matching funds on borrowed money, but districts have had some success with the strategy in the past, which is essentially gambling that PERS returns will be higher than the interest rate paid on the borrowed money.

ECONorthwest also analyzed the probability of a positive outcome with pension borrowing, given current market conditions, and told schools it was fairly high: 70 to 80 percent. But Mastromonaco offered some caution:

"The timing of these returns matter," he said. "A lot of people are expecting a correction in the stock market in the short term. In 30 percent of the cases it's still a negative outcome. No one is suggesting it's a risk-free decision."