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Kitzhaber's Grand Bargain: Pension cuts for retired school teachers, tax cuts for wealthy business owners

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In a Sept. 30-Oct. 2 special session called by Oregon Governor John Kitzhaber, state lawmakers voted to shrink pension benefits for 329,887 public employees by nearly \$5 billion, while giving away over \$500 million in new tax breaks to owners of certain kinds of businesses. But that's not how the governor's office described it.

Kitzhaber's Sept. 18 announcement

of the special legislative session described "a framework to boost education funding by \$140 million." It was an agreement which would include "cost savings from additional PERS reforms" with "new revenue to fund education, mental health, and senior services" and "targeted tax relief for small business owners and working families." The agreement consisted of five bills, and all of them passed.

The spending was real enough.

House Bill 5101 appropriates \$100 million to hire teachers and add school days to K-12 schools, \$40 million to lower tuition at state universities and community colleges, \$41 million for services to senior and disabled Oregonians, and \$10 million for mental health services. The spending bill passed with only two "no" votes.

But the big game in the special session was "PERS reform." SB 861 would produce immediate "cost sav-

ings" for state and local public employers by reducing cost-of-living increases for retired school teachers, firefighters and others. Cutting amounts owed to retirees in the future reduces the amount public employers currently must pay into PERS to make up for financial market losses.

Around 95 percent of all public employees in Oregon are in Oregon's Public Employees Retirement System (PERS), including workers and managers at state agencies, universities, community colleges, school districts, cities, counties, and other local government units. For decades, PERS gave retirees an annual 2 percent cost-of-living adjustment (COLA). Under SB 861, the increase will be 1.5 percent this year and 1.25 percent in future years. [The reduction is offset partially by supplemental payments of 0.25 percent that won't change the base amount for future COLA calculations.]

The reduction doesn't sound like much, but it adds up, through the magic of compound interest, to an estimated \$4.9 billion over a 20-year time period. Last year, the average PERS retiree received a benefit of \$29,235. At 2 percent a year, that benefit was set to grow to \$35,637 in 10 years. Now, under SB 861, it would grow to \$33,267. In other words, SB 861 will be costing today's average PERS beneficiary \$2,370 a year in 10 years, by which time they will have lost a cumulative \$11,811 in benefits.

And that doesn't figure in actual inflation. In the last 10 years, the real cost of living has increased an average of 2.4 percent a year, so even at 2 percent, PERS retirees were losing ground. Reducing the COLA to 1.25 percent means retired Oregon public employees will be cinching their belts a little tighter every year for the rest of their lives.

Meanwhile, a certain class of business owner will enjoy a tax cut that grows in impact each year. HB 3601, the revenue part of the package, makes a number of changes to the state tax

code. It increases the corporate income tax rate by one percentage point, to 7.6 percent, on profits between \$1 million and \$10 million; increases the cigarette tax 15 cents a pack; eliminates the \$183-per-person personal exemption credit for incomes over \$100,000; changes the senior medical deduction and limits it to incomes under \$100,000; expands the Earned Income Tax Credit

for low-income filers who don't owe taxes; and lowers taxes on certain businesses that export products overseas.

But by far HB 3601's biggest tax change — by dollar amount — is a new lower tax rate for "active" company owners whose business income is taxed on their personal income tax returns. Instead of counting business income alongside other income, those business owners will now be able to calculate it separately and pay a lower rate on it. [The new rate is 7 percent on the first \$250,000, rising to a maximum of 7.6 percent on income over \$1 million; up to now, those taxpayers paid 9 percent on that income.] How the new rule will work is complicated, so much so that the Legislative Revenue Office had a hard time predicting how much it will cost the Oregon treasury; estimates are \$38 million for the 2013-15 biennium, rising to \$205 million and \$239 million in subsequent two-year periods.

"Accountants and tax attorneys will have a heyday helping people restructure to take maximum advantage of this tax break," explains Chuck Sheketoff, executive director of the Oregon Center for Public Policy. Sheketoff testified against the tax break, and predicted that about 85 per-

"What is the message this Legislature is sending when we cut taxes on thousands of lawyers, doctors, lobbyists, accountants on the same day that we are reducing benefits to retirees?"



Rallying for immigration reform

Members of SEIU locals 49 and 503 watch Aztec dance group Ollin Yoliztli perform in downtown Portland's Director Park Oct. 5, where several hundred people gathered to call attention to federal immigration reform. Similar rallies that included a broad coalition of labor, faith, immigrant, civil rights, and family organizations were held on the same day in more than 180 locations in 40 states. That culminated in a huge rally Oct. 8 in Washington, D.C., where 90 union officials and eight U.S. House Democrats were among 200 people arrested in an act of civil disobedience. The D.C. crowd was estimated at 20,000. Pressure is mounting on Congress to take action on creating an immigration process that protects workers' rights and provides aspiring Americans with a road map to citizenship. At the recent national AFL-CIO convention in Los Angeles, delegates agreed to a resolution to continue efforts to support immigration reform that protects U.S. workers, reduces exploitation of immigrant workers, removes employer incentives to hire undocumented workers, and creates a roadmap to citizenship. The Portland event was co-sponsored by SEIU, the Oregon AFL-CIO, and Oregon AFSCME. Speakers included Oregon AFL-CIO President Tom Chamberlain and SEIU Local 503 Executive Director Heather Conroy.

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