Oregon News

Record number of bottles, cans returned in 2018

By Stephen Hamway
WesCom News Service

During a year clouded by disruption to Oregon's overseas markets for its recyclables, some good news emerged from the state's recycling industry last week: Oregonians recycled more bottles, cans and other containers than ever before through the bottle deposit program.

The Oregon Beverage Recycling Cooperative, which oversees the state's bottle deposit program, announced that around 90 percent of the containers covered by the program were returned and redeemed in 2018, a jump of around 35 percent over where the figure stood just two years ago.

With the increased rate and a longer list of eligible containers, Oregonians recycled around 2 billion containers last year, the most ever under the program.

Joel Schoening, community relations manager for the cooperative, attributed the uptick primarily to two recent efforts to revamp the state's bottle redemption program: dramatically expanding the types of containers included in the program and raising the deposit from 5 cents to 10 cents in April 2017.

Ryan Brennecke / WesCom News Service

Sean Lewis of Bend works on recycling some of his cans and bottles at the BottleDrop Redemption Center in Bend.

"That dime did what it was supposed to," Schoening said.

While year-long totals aren't available yet for the Bend redemption center, at 755 N.E. Second St., the center comfortably surpassed its quarterly totals from 2017 during each of the three 2018 quarters where data was available.

Additionally, the cooperative announced the number of BottleDrop accounts increased by 50 percent last year, with about 300,000 households now enrolled in the program.

In part because of this increase in participation, Schoening said the cooperative is looking at adding more BottleDrop redemption centers across the state, including Prineville. Schoening said other "express" centers could be added in grocery stores in other parts of the region, to keep Central Oregonians from needing to drive all the way to Bend or Redmond.

When the Oregon bottle bill passed in 1971, it added a 5-cent deposit to the sale of every bottle and can of beer, soda and similar beverages sold in Oregon, which could be redeemed by returning the bottle.

In 2016, the Oregon Liquor Control Commission announced the deposit would be increased to 10 cents, after redemption rates fell below the levels set by the Legislature. The change occurred in April 2017, and the redemption rate spiked from 59 percent to 82 percent for the rest of the year.

Another major change occurred at the beginning of last year, when the state expanded its list of acceptable containers to include energy drinks, juice, coffee, tea and other beverages. Schoening said the raw totals of redeemed containers predictably spiked after the change, but he said the redemption rate increased despite the volume of new recyclables, a sign that more Oregonians bought into the program.

"Historically, when you add new containers to a bottle state, the redemption rate goes down," Schoening said.

The growth occurred during an otherwise tough year for recycling in Oregon. China, which had previously been a major destination for recyclables in Oregon and other western states, announced that it would no longer take many of the low-value recyclables that it had been importing. The change forced some cities and counties to make changes to what can and can't be recycled, while others received permission from the Oregon Department of Environmental Quality to dispose of material that had once been recyclable.

In December, the state environmental agency released its annual report, that concluded Oregon is unlikely to meet its goal of recovering 52 percent of recyclable material statewide by 2020.

Schoening said much of the BottleDrop program's success stems from its clean recycling stream. Unlike the blue curbside bins, most of the materials sent to redemption centers are either glass, high-grade plastic or aluminum, which Schoening said makes it easy to ship the materials to domestic markets.

OREGON'S PUBLIC EMPLOYEES RETIREMENT SYSTEM

Latest concern about PERS: Negative cash flow

By Ted Sickinger
The Oregonian

Warnings about Oregon's public pension system have been consistent for nearly two decades. But a deficit of roughly $26 billion, seesawing financial markets and years of political inaction continue to drive painful cost increases for schools, municipalities and government employers across the state.

The pension system's appetite for more dollars is the backdrop to every budget discussion. It was a wedge issue in the 2018 governor's race. And it will lurk around the legislative session that starts Tuesday, even if Democrats decide not to take up legislation to tackle the problem.

Even as Gov. Kate Brown proposes $2 billion in new taxes to fund schools, much and potentially all of that money could eventually disappear into the pension system, leaving little for Brown's promise of smaller classes, more teachers or a longer school year.

Now a new alarm is ringing, one that's triggering a different conversation among the folks who manage the pension fund's investments. On the surface, it's about structuring the investment portfolio to meet growing needs. But dig a little deeper, and it's also about the basic solvency of the pension plan.

The problem is cash flow, or more accurately, negative cash flow.

In plain terms, that means PERS pays out far more than it takes in before investment earnings. The situation, given the projected growth of benefit payments, is unprecedented and important enough to affect the "long-term viability of the plan," said Rukaiyah Adams, chair of the Oregon Investment Council, the citizens panel that oversees pension fund investments.

"No OIC has ever had to face this issue," she said. "No governor or treasurer has had to face this issue. So, we're approaching it with measured, analytical care."

Already, some financial experts think it unlikely that public employers will ever "pay off" the pension deficit.

Others see the system approaching a financial precipice that, without drastic measures, could eventually leave Oregon looking like Illinois, whose pension system is on the verge of insolvency.

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Allen Alley, a former tech executive, Republican gubernatorial candidate and technology investor, suggests that policymakers stop focusing on the actuarial mumbo jumbo and the complex accounting, and start looking at the actual cash flowing out of the system. Bottom line, he calculates, public employers' collective bill for retirement benefits over the next three decades will be about $225 billion. That's just for existing employees. New employees will increase the bill.

"As a CEO of a company, you think about cash," he said. "What's the check I have to write and where's that money going to come from?"

Last year, Oregon's Public Employees Retirement System took in roughly $1.4 billion in contributions from employers to fund employees' pension benefits. Over the same period, it paid out $4.7 billion in pension benefits. That $3.3 billion mismatch is called negative operating cash flow.

That's not an inherently bad thing. Many mature pension systems are cash flow negative. But when PERS writes its monthly checks to retirees, the money needs to come from somewhere.

That somewhere is the pension trust fund and the investment earnings it throws off. In recent years, those earnings have covered nearly three-quarters of the cost of PERS benefits. Across the public pension landscape, that makes Oregon's system more dependent on investment earnings than all but a handful of systems.

But PERS' benefit payments aren't static. They are stair-stepping higher every year as more public employees head for retirement. As it stands, about a third of active public employees and inactive members entitled to a future PERS benefit are eligible to retire. Consequently, annual benefit payments are projected to grow to more than $6 billion by 2024, more than $7 billion by 2029 and $8 billion by 2035.

Optimizing the portfolio

The immediate question facing state investment managers is whether and how to restructure the portfolio to meet those increasing cash needs. But longer term, the question is the same one facing most retirees: How much cash can it afford to spend every year without dipping into the seed corn, and potentially exhausting the fund.

Here's another conundrum: Accomplishing the first objective may undermine the second.

But first things first. To date, the PERS portfolio has been structured to maximize returns for the pension fund. Over time, state investment managers have delivered, piling money into leveraged buyouts, real estate partnerships and distressed debt funds that have generated the excess returns needed to fund PERS' growing benefit bill while keeping contributions from employers relatively reasonable. Right now, more than 40 percent of the PERS portfolio is spread across a variety of those "alternative investments."

Optimizing the portfolio for cash needs, says Adams, the OIC chair, is an entirely different objective. And by definition, it may mean dialing down investments in the private partnerships that have traditionally delivered the extra juice on returns. That's because those are illiquid investments, often locking up cash for 10 years or more.

During the last recession, many pension plans were forced to sell their illiquid alternative investments at deep discounts on secondary markets to raise cash. Oregon's pension managers want to avoid that kind of "liquidity crunch."

"It's definitely an issue for the council to consider," said Treasurer Tobias Read. "I feel good about the fact that we're taking this seriously. We have the capacity to be thoughtful about it. We don't have to make drastic changes."

If the OIC does shift more of its investments into liquid assets — and it will be looking hard at that question this year — it could put new pressure on the PERS Board this July to reduce its assumption about what those investments will earn. That's currently 7.2 percent annually, an estimate many experts think is inflated in today's low interest rate environment.

That's not just an academic exercise. Lowering the assumption would increase the present value of the system's future benefit payments as well as its funding deficit, requiring higher contributions from employers — exactly the situation that Brown and other lawmakers are looking to avoid. In fact, Brown has pledged to stabilize schools' contribution rates, though she hasn't said how.

A few comparisons

Oregon politicians take comfort in the fact that Oregon PERS, unlike many public pension systems around the country, is not in severe distress. It is better funded than many state systems, and its actuarial assumptions are more conservative.

But not all the comparisons are favorable.

Last year, the Pew Charitable Trusts issued an analysis comparing cash flows in public pension systems across the country. It found that Oregon PERS' negative cash flow as a percentage of its assets (before investment earnings) was higher than all but five state pension systems, at negative 5 percent in 2016. So, before investment earnings, cash outlays consumed 5 percent of its assets. That number bounces around, but the cash flow has been on an increasingly negative trend line.

That makes Oregon's plan more vulnerable to market volatility, magnifying the impact of poor investment returns. In years of poor investment performance, like last year, the fund eats itself. And if the balance gets low enough, from a big market correction or a series of years with low returns, it might not throw off enough cash to backfill the annual cash flow deficit and, potentially, could undermine the plan's solvency.

That's not an issue yet. But as the Pew study noted, the gap between returns on safe investments and state pension plans' assumed returns are the highest in decades.

"Independent analyses suggest that states can assume returns of about 6.5 percent a year for at least the next 10 years; 5 percent or lower returns are a real possibility over the next 20 years," the study said.

Oregon's Legislative Fiscal Office took its own look at the issue in December. Its analysis noted that Pew had actually underestimated the ratio of PERS negative cash flow to its assets in 2016. But it concluded that the system had little liquidity or solvency risk, because PERS is still assuming its investments will earn more money each year — 7.2 percent — than the drain on its assets: 5.2 percent of assets. Assets increased in 2017, for example, when the fund earned 15.3 percent and contributions went up.

Randall Pozdena, an economist with EcoNorthwest, previously served on the Oregon Investment Council. He was sounding the alarm about the structural deficit created in the pension system in the run up to the 2000 dot-com bust. He's unconvinced by the state analysis.

"The assumption is that you'll earn the assumed rate every year as new cash, and that will paper over the negative cash flow," he said. "That's simplistic logic."

The reality, he says, is that this is the longest bull market in history. At this point, he says, it's hard to see where the productivity growth will come from to sustain market returns.

"The liquidity and solvency risks are significant," he said.

Adams, the OIC chair, said the panel will begin that analysis with a review of its private equity portfolio later this month, then expand to consider liquidity needs, expected returns and the volatility of returns.

"If benefits remain the same, and employer contributions plus earnings cannot cover the cash needs of the plan, (we) as responsible investors have to face that reality and manage the assets accordingly," she said.