Chair Barnhart, Vice-Chair Berger and members of the committee,

We oppose HB 2456-2.

Thank you for the opportunity to testify on HB 2456. We are here today representing Associated Oregon Industries, the Oregon Business Association, the Portland Business Alliance and the Oregon Business Council. Collectively our organizations represent thousands of leading Oregon businesses and business owners across Oregon.

We strongly support boosting investments in education but we oppose HB 2456. The legislature should not adopt any tax package until it meaningfully addresses Oregon's PERS liability which is the primary source of school budget deficits this biennium and will continue to be the primary source of Oregon's fiscal challenges for the next 15 years unless addressed meaningfully by this legislature.

Revenues are up $1.5 billion this biennium. The Co-Chairs have proposed an $835 million increase in school funding this biennium and the same taxpayers targeted by HB 2456 have paid well over a billion additional dollars in taxes since 2010 as a result of Measure 66 and 67.

Yet, even with a $6.55 base budget and SB 822 PERS reforms school districts will be making cuts. It's because PERS costs for school districts have tripled since the 2009-2011 biennium.

School District PERS Contributions (Not including 6% pickup or Debt on Pension Obligation Bonds)

2009-2011	2011-2013	2013-2015	2015-2017
$308M	$720M	$1,050M	$1,252M

*Source: PERS. PERS Cost Containment Analysis Appendix, February 2013

The recent analysis by the PERS board makes it quite clear that SB 822 and the proposed delayed payments to PERS are inadequate solutions to this problem and create an unsustainable burden for a generation of Oregon students and taxpayers.

Table 1: School District PERS Payroll Rates Before and After SB 822, Delayed Payment (PERS, April 2013)

	2011-2013	2013-2015	2015-2017	Subsequent Biennia
Pre-SB 822	18.9%	26.1%	28.3%	~30.5%
SB 822 COLA		23.6%	25.8%	~28.0%
822+Budget Note		21.7%	26.1%	~28.3%

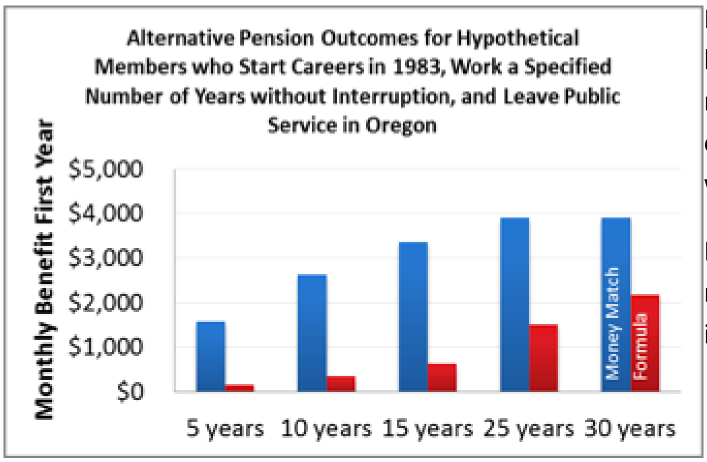
The full analysis shows school district PERS payroll rates rising to and hovering just below 30% of payroll through 2029.

To put these PERS costs in context, each 1% increase in school district PERS payroll rates forces cuts equivalent to 309 teachers. Rates this high are unprecedented. The last time the legislature made serious reforms to the PERS system back in 2003, it was to prevent PERS employer rates from reaching 20% of payroll. We've entered a new normal and it's a scary place to be.

Raising taxes on businesses or any taxpayers without making reforms that significantly reduce Oregon's PERS liability is both unfair and a fool's errand.

We want to engage in a conversation with the legislature about school funding. It's a top priority for us. We are also interested in tax reform. In fact, we are in the midst of such conversations with the Governor right now, and we are looking forward to hearings in the Senate next week on tax reform.

But PERS must be addressed meaningfully in order for those conversations to matter. There are fair and legal PERS reforms that would substantially reduce the PERS liability and employers rates and make the system fairer for current employees.



PERS is unaffordable and unfair because of Money Match benefits. Under Money Match the PERS Board credited member accounts with 20% returns during the market booms of the 1980s and 1990s and then guaranteed 8% returns when the market crashed in 2001 and 2008.

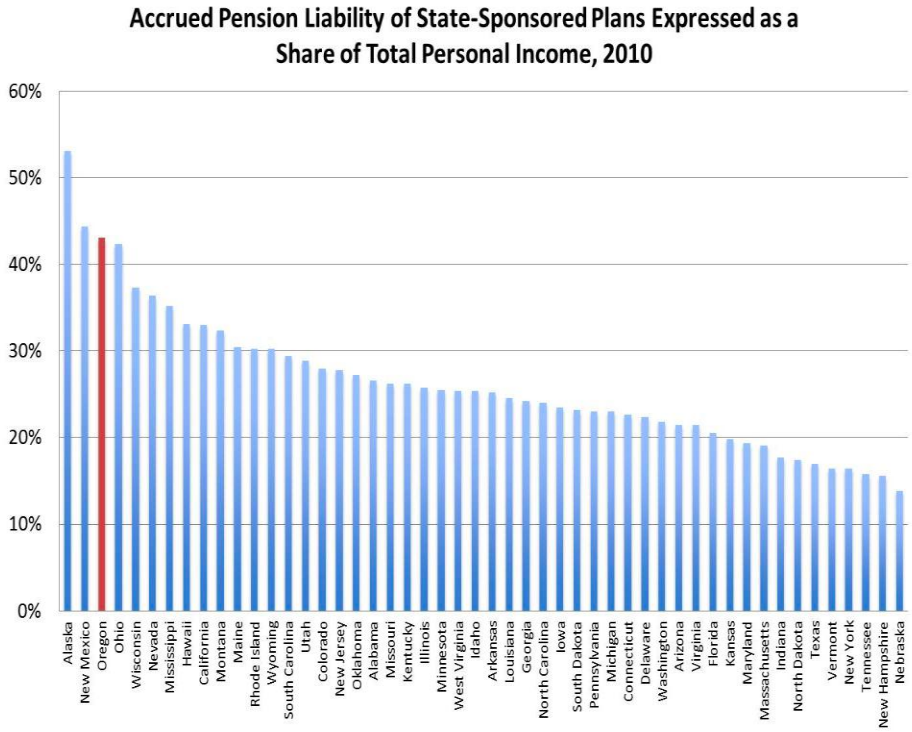
It's the only program of its type on the planet and it's the reason why Oregon's pension obligations are so outsized with its ability to afford them.

Calculation assumes employee earns $17,192 in 1983 and salary increases at an annual rate of 3.75%. The 30-year employee retires in 2013 with a final salary of $50,000.

It's also the source of tremendous inequity among employees and retirees. For partial career employees Money Match benefits are often 5-10 times higher than they would be for similarly situated employees whose pension is calculated under the Full Formula or OPSRP. And because of the drain Money Match has created on the state budget, Tier 2 and OPSRP employees are being laid off and forced to make concessions in order to finance the unaffordable Money Match benefits. Fair and legal reforms have been proposed by members of the legislature, the Portland City Club, former PERS Board Chair James Dalton and others. Taking up these reforms will generate significantly more revenue than HB 2456, will put the budget on a more sustainable path and will protect current employees from paying the price for past mistakes of the PERS Board.

We appreciate the committees focus on finding ways to adequately fund education and other critical services. And we will take the time to discuss and analyze HB 2456 with our members. But we will continue to oppose tax increases until the legislature addresses Oregon's unaffordable and unsustainable PERS costs.

Thank you for your consideration.



Permanent Changes to Oregon's Tax Structure: Measures 66 and 67		
Tax Impacts	Pre-Measures 66/67	Post-Measures 66/67
Marginal Personal Tax Rate	9%	9.90%
Federal Income Tax Liability Maximum	$5,850	$4,650
Minimum Corporate Tax	$10	$150-100,000
Corporate Marginal Rate	6.60%	7.6% over $250K income

J.L. Wilson, Associated Oregon Industries

D.J. Vogt, Oregon Business Association

Jeremy Rogers, Oregon Business Council

Bernie Bottomly, Portland Business Alliance