Steve Demarest, President, SEIU Local 503
Testimony on SB 1067

Co-Chairs Girod and Holvey, thank you for giving me the opportunity to testify today. For the record, my name is Steve Demarest, President of SEIU Local 503. I am here to testify about SB 1067, which has many different elements. We want to thank the workgroup for their hard work on this.

SEIU Local 503 represents 65,000 workers. About 30,000 of those workers are state, higher education and local government workers. As you can imagine, this session has been a difficult one for the people who deliver services to Oregonians. Our members' benefits, pay and overall worth has been a non-stop conversation. We have been blamed for all of the state's funding problems, and the benefits we agreed to when we took these jobs have been discussed non-stop throughout session. Although that is not the main topic of SB 1067, I bring it up because that is the lens we view this bill through.

Our members have been very interested in cost containment over the years. I submitted to the committee a report that we did in 2011 about how the state could decrease costs. Some of those ideas have been implemented and some have not. I also submitted a more recent list that came directly from front-line workers about things that should be looked at. Some of the ideas, such as vacancy savings, are being considered, but many other ideas are not and we hope that they can continue to be a part of the conversation.

There are parts of SB 1067 that we have a lot of concerns about and other pieces that we think are good ideas. I want to highlight the pieces that we support:

1. We think that the idea of capping provider costs for PEBB will help to bring down costs. Increasing provider costs is the main driver of cost increases for PEBB and so a cap will contain costs.
2. We like the focus on debt collection. This has been an ongoing issue for our state, and it is time that we addressed the issue and bring in more of the money owed to the state.
3. We also like the review of contracting. In the report from 2011 that I submitted we highlighted the costs of IT contracting. We believe that there is a lot of waste in state contracting.
    a. To take this one step further, we and Rep. Nathanson had an idea last biennium about hiring a pool of high level IT workers that could go from project to project, decreasing the costs of hiring contractors. We think that this is an idea that would make sure that the people doing the work are familiar with the state systems, which would both decrease project costs and improve outcomes, which in turn would decrease ongoing costs.

There are other elements of the bill and the budget that we do have concerns with. This bill has been linked to many different budget items that are happening as well, so we are addressing the budget cost containment items like the hiring slow down as well as the elements of the bill.

1. We have a lot of concerns about the "hiring slowdown" that has been talked about in relation to cost containment and this bill. Right now many departments are facing higher than average retirements and having a slow-down in hiring could cause major disruptions in being able to deliver services people need.

2. We oppose the lowering of the cap on FTE. We understand that the current level may not be something that is limiting employment, but we also don't understand why the cap matters. What if the state is facing an emergency and we need to hire people and there is an arbitrary cap on state employment that prevents us from responding appropriately? We believe it unnecessary and arbitrary.
3. We oppose the merger of PEBB and OEBB. We will provide testimony about why, but we don't believe it will save money and we don't think the systems are similar.
4. We oppose putting the 3.4% cap into statute. PEBB has met this cap every year since it was adopted as a legislative mandate in 2011 and the board just made changes to stay within that cap again this year. We feel like a statutory limit does not account for the variation that may be necessary for a health care plan.

We will provide testimony that will go into more detail on a couple of these items. The women and men who work for the state work hard, and they care about their jobs and about the people of Oregon. We know that the Legislature is trying to figure out complicated problems, but please don't underestimate how the conversations you have here make employees feel. As I mentioned earlier, this session has been hard for state workers. People generally feel very undervalued. Just like any business, if the state wants to keep quality employees, they must work at it, especially in an economy with a 4.5% unemployment rate. We hope that you will take that into account during all of these conversations.

LOCAL 503
SEIU
Stronger Together

Service Employees International Union, Local 503,

March 22, 2011

When the elected leaders of our state declared that the current budget crisis was also a wakeup call telling us to change the way Oregon does business, the elected leaders of our union took them at their word. We went to the source, Oregon's frontline workers, and asked them how their agencies can streamline work, cut waste and save money.

"Moving Oregon Forward: A Better Way" amounts to a compilation and evaluation of their most promising observations and suggestions. Produced by a team of trained researchers, it draws a roadmap to nearly $500 million in savings, efficiencies and unrealized revenue from existing sources available in the 2011-13 biennium and then proposes that this half-billion dollars in budget relief be matched by a like amount derived from means-testing tax expenditures afforded to Oregon's most affluent residents.

This document and the research behind it are just the start. Many of our findings and proposals would save much more in future biennia. Others are the product of a review of a few agencies and programs and thus have the potential to save far more when they are applied across the board. Some of these ideas are obvious and should have been in place years ago. Others will stir controversy because as much sense as they make, they call into question politically sacred cows.

We advance them in the spirit of working collaboratively to find a balanced solution to our budget crisis — and it *is* a crisis — because our members —and most Oregonians — feel that educating our children, care for our seniors and keeping our communities safe are sacred obligations that trump sacred cows.

One legislative leader predicted last week that this report would not be "a game-changer." Maybe so, but we believe it can help make the final score a lot closer. Filling $1 billion of our $3.5 billion gap as our members propose would not spare us or the Oregonians we serve from tough cuts, but it could help to avoid devastating hardships like cramming more children into oversized classes in a shortened school year, forcing seniors from their homes for lack of basic help or facing the Hobson's choice of returning precariously at-risk boys and girls back to their neighborhoods before they are ready or shipping them off to adult prisons. We commend "Moving Oregon Forward: A Better Way" to your attention.

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Moving Oregon Forward: A Better Way

A Roadmap to a Balanced Solution to Our Budget Crisis Drawn from the Suggestions of Frontline State Workers

Like its counterparts across the country, the 2011 Oregon Legislature is faced with a challenge: How can Oregon continue to provide essential services in areas such as human services, education, and public safety when faced with a budget shortfall of $3.5 billion and a slow-to-recover economy?

The Governor's proposed "all cuts" balanced budget framed this challenge in stark terms: without major changes in how Oregon delivers services and raises revenue to pay for them, the 2011 – 13 biennium will see drastic reductions, especially as it relates to Oregon's most vulnerable populations. For example,

- Cuts to long-term care for seniors would deny many older Oregonians the independence, dignity, and choice that have been a hallmark of Oregon's senior system for three decades.
- Reduced aid to education would lead to fewer school days, school closures, increased class sizes, and many teacher layoffs, impacting schools across the state for years.
- Premature release of 425 youngsters in the custody of the Oregon Youth Authority may send many back to gangs and drugs, putting them and their neighbors at risk.

While some states have chosen to cut services for the neediest residents and demonize their workers, last year Oregonians voted to prioritize services through the passage of Measures 66 and 67. In a recent poll, voters indicated that they continue to prefer a balanced approach that includes some revenue enhancement to offset the worst of the proposed cuts to education, senior care, and public safety.[1] That does not mean business as usual now or in the future. In November, voters indicated that they want government to be leaner, smarter, and more efficient—a theme reflected in messages from the Legislature and the Governor that this budget crisis is an opportunity to reshape government. But reshaping government is not an opportunity to slash the budget which will result in fewer school days, forcing seniors out of their homes and risking community safety. Oregonians— and their leaders—understand that government can be smaller if that makes sense, but this is more about shape than size, matching appropriate services to real needs in the smartest, most efficient, and least wasteful way we can.

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[1] Poll of 600 registered voters, March 3-8, 2011, done by Greenburg Quinlan Rosner Research

To begin thinking about how Oregon can afford to continue providing essential services, SEIU Local 503 did something unusual. We asked our members, the people who work on the frontlines every day, to identify efficiencies that could lead to savings in their agencies. About 1,600 workers— about one in ten of the state workers the union represents — responded. Ideas ran the gamut, but in one agency the feedback reflected an existing conversation. At the Department of Revenue, concerns over mismanagement and its impact on tax collections had been an open topic of conversation for months.

Through the member survey and follow-up research into some promising targets, SEIU has identified a potential $333.5 million[2] in savings and efficiencies just for the General Fund. This is hardly the full extent of what a broader and deeper examination would find with focused leadership and management cooperation. Certainly the savings will not approach anything close to the current budget gap. We never imagined they would. But beyond the specific examples we cite, what we sought to show—and this report really demonstrates—is that once we are past the present crisis, there is potential for us to work cooperatively—as we already have in select agencies in recent years—to make our government more efficient and responsive. And in the interim, these five significant targets for efficiency can be part of a balanced response to the budget gap that affects everyone but is hardest on those who can least afford it:

- If the goal is really to re-shape government, Oregon needs to examine the structure of its agencies. A review of the manager-to-staff ratio agency by agency—the most comprehensive of its kind so far as we know—found that Oregon's ratio is very low—just 5.7 workers for every manager. Finding the optimal balance between workers and managers is one key to encouraging prompt and responsive decision-making, leading to productive and efficient operation. During this budget crisis it can also save significant resources. A full review is warranted, but for now in order to ensure that Oregon does not sacrifice essential services to protect a structure that remains largely unexamined, SEIU recommends that the Legislature direct agencies to increase their worker-to-manager ratios by one each year of the biennium. This would mean increasing the current 5.7-to-1 ratio of workers-to-managers to 6.7-to-1 by July 1, 2011, and 7.7-to-1 by July 1, 2012. **While this is not a solution to the organizational issues facing agencies, it will result in significant cost savings of $71,004,424 in General Fund dollars and $253,587,228 in Total Funds—and quite likely actually increase service quality across state agencies with the removal of unnecessary and counterproductive layers of excessive management.[3]**

[2] This represents the savings and increased collections identified in the report, not including the changes to tax expenditures.

[3] These scenarios assume the reduction of the overall number of managers, those that supervise and those that do not. Supervisory and managerial non-supervisory positions across the board are 28% general fund; this percentage is used to estimate GF savings from all funds savings.

- With legislators considering steps that could cut school days, force seniors from their homes, and send troubled youth back to communities without treatment, it is critical to examine how resources are being spent. An analysis finds that the 2011 Governor's budget has $7.47 billion in Total Funds budgeted for services and supplies (such as rent, phones, travel and contracting) including $1 billion in the General Fund. Through our survey, SEIU members have suggested ways to reduce travel expenses and paper costs, and even consolidate offices. But they reserved their most pointed comments for contracting. Evaluations of just two areas, nursing and information technology, suggests that agencies spend significantly more contracting out than it would cost them to provide the same services themselves. On average Oregon spends 20% more for contracted nursing than its own nurses would earn and, believe it or not, information technology contracts cost the state 68.9% more than the same work would cost in-house. There are almost certainly many more similar examples. To compel agencies to take a critical look at the cost of services and supplies and their contracts, the state should reduce the Service and Supplies line item by 10% in the 2011 – 13 budget. **This would result in $747,704,006 in Total Funds savings and $107,230,367 in General Fund savings.[4]**

- Most of Oregon's budget is based on agency projections, yet there is no established review process for this key function. The Department of Corrections is a case in point. A review of the DOC budget projections process over the past four years found significant over-projections for inmate populations. It should be assumed that at best projections will be somewhat off, which is why they are done for DOC two times a year. Yet there is no adjustment throughout the biennium to rebalance the department's budget based on latest information. **If the DOC budget had been rebalanced, similar to the process in place for the Department of Human Services, there would have been an average savings of $11.7 million a year over the last four years in general fund savings.[5]** That $47 million could have gone to the rainy day fund or been re-allocated to an agency with demonstrated need.

- We also identified smaller efficiencies that could be made by encouraging interagency collaboration and increasing staffing at departments that have high return on investments. We believe that there are real opportunities to find these types of smaller efficiencies throughout government if the time is put into looking for them.

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[4] Source: 2011 – 13 Governor's Budget, P-18, http://governor.oregon.gov/Gov/priorities/budget.shtml
[5] This was calculated by adding the savings calculated for the 2007 – 09 and 2009 – 11 bienniums and dividing it by four years.

- One area where agencies should better collaborate is on the purchasing of prescription drugs. In 2003, Oregon set up the Oregon Prescription Drug Purchasing Program, a purchasing pool that promotes more access to prescription drugs by the uninsured and secures lower costs for state agencies and local governments. Our analysis found that many agencies that purchase significant amounts of prescription drugs still don't use OPDP, even though it would decrease costs. An analysis of the current DOC prescription drug contracts found that DOC could save 8% on its prescription drug budget by moving to OPDP. Findings for other agencies and programs were similar**. If all agencies used OPDP, it is estimated that the state could save $16.9 million a biennium.**

- The Department of Administrative Services offers a variety of services to small agencies through the "Shared Client Services" program, which covers such areas as payroll, accounting, budget development, and procurement.[6] Participation in the SCS program allows small agencies to avoid dedicating staff time to administrative processes, thereby saving the agency money and enhancing its ability to deliver core services. An analysis of the program found that out of 45 agencies with 75 FTE or fewer, only 20 participate in the program. The savings for one agency to use just payroll services through SCS were found to be $80,000. **If all 25 other agencies found similar savings, there could be the potential of $4 million in savings over the biennium.**

- Many different agencies add revenue to state coffers. The Medicaid Fraud Control Unit at the Department of Justice is one of them. Oregon currently collects $8.64 for every dollar spent on the program, but trails other states in terms of the investment in the department. The Department of Justice is asking for four additional staff members for the Medicaid Fraud Control Unit. **Our analysis finds that an additional $8 million a biennium could go directly back into the Medicaid program with just four additional staff.** We recommend adding at least four staff and to examine if even more could continue to get a strong return on investment.

- As noted, frontline worker feedback from the Department of Revenue identified deeper concerns, so we did an in-depth analysis of the agency's collection process to determine if improvements could produce more money for critical services. **We project that with the adoption of seven recommendations the DOR could collect an additional $726 million in the next five years.** Our recommendations include:
    - passing HB 2519 to ensure that DOR is regularly audited,

[6] http://oregon.gov/DAS/SCD/SCS/about_us.shtml

- better analysis of the corporate tax gap,
- evaluation and change of current management practices,
- adoption of a strategic plan to address the personal income tax gap,
- review of resource allocations within the agency,
- elimination of private collection contracts that are demonstrably less effective than direct staff collections,
- and mandated regular performance reviews.

While some of our recommendations require legislative action, the new director of the agency can implement others. Finally, the Legislature and the Governor must outline clear expectations to ensure that DOR collects more revenue owed to the state than it has in the recent past.

While these and other changes will surely help, we cannot save our way out of the current budget squeeze. And we can only cut our way out so far without running the risk of writing off two generations—children in need of education and seniors requiring long-term care. In order to protect services, another area worth pursuing is over $12 billion worth of tax expenditures for corporations and individuals, including some that will sunset this year unless the Legislature chooses to renew them. Tax expenditures are often created to meet a specific goal or respond to an identified need. As such tax expenditures should logically compete with other state goals, such as providing quality education, and be subject to the kind of stringent review legislators reserve for agency budgets. SEIU has identified a number of tax expenditures that do not seem to meet the needs of Oregonians and would quite likely fail to survive such a review.

Specifically we evaluated two corporate tax expenditure programs which are both scheduled to sunset in the coming biennium—the Oregon Business Energy Tax Credit (BETC) and the Film Production Tax Credit—to assess their effectiveness and identify ways to reduce unnecessary spending. We found that some of these programs spend money inefficiently, fail to accomplish their stated (or unstated) goals, and cost Oregonians hundreds of millions of dollars. There are surely others in the same category and even though some may be deemed political sacred cows, if we are truly serious about finding a better way to do business they surely merit genuine evaluation. **Reducing the budget for renewing income tax expenditures scheduled to sunset in the 2011-13 biennium in half could save Oregon $143 million for 2011 – 13 that could go to providing critical services.** Further savings could be made by changing the BETC and tweaking the Film Production Tax Credit.

Together, savings from effecting new efficiencies and re-evaluating corporate tax breaks could protect over a half-billion dollars worth of critical services for Oregonians. That would be a lot in most years but this year it is far from the total required to fill the budget shortfall. Thus we appreciate that there will likely be cuts to some services and that frontline workers will need to be partners during the budget crisis to make sure that we can move forward in providing quality services for Oregonians. But if the

Legislature and the Governor are to find common ground with public employees through negotiations, they must ask everyone to share in the sacrifice, not just public employees and the Oregonians who rely on our services. Thus, there is one other area that should come under scrutiny and become part of a balanced budget solution: personal income tax expenditures in the form of deductions and credits for high-income Oregonians relatively unscathed by the recession. We have identified a half-billion dollars in these tax breaks that could be harvested to match the half-billion in potential savings from efficiencies and enhanced revenue. That would be $1 billion of the $3.5 billion in required budget relief and begin to approach what every Oregonian might see as a balanced solution involving shared sacrifice.

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Prioritizing Frontline Service Delivery by Reducing Management

Organizational structure directly impacts the productivity and efficiency of an organization. This is as true for governments as corporations. Finding the optimal balance between workers and managers is one key to encouraging fast decision-making processes, maximizing productivity, and containing operational costs.

At a time when the budget situation is causing reductions to services, all state agencies should be re-examining their organizational structures and finding ways to increase efficiency and prioritize service delivery. Unfortunately, most agencies don't regularly perform a systematic analysis of their optimal worker-to-manager balance, also known as span of control. Thus the Legislature is not regularly given basic information about each agency's ratio of workers-to-managers and why those ratios make sense given a particular program's goals and activities.

The data that does exist, along with anecdotal evidence provided by frontline workers, suggests that Oregon's worker-to-manager ratios are often far less than optimal. Oregon's current ratios not only increase operational costs but also create excessive and unnecessary layers of managerial approval, which cause barriers to providing high-quality services to Oregonians. Prudent cuts in management could not only save taxpayers money but also improve service delivery.

There are two ways to assess the worker-to-management ratio: worker-to-manager, which includes managers who do not supervise staff, and worker-to-supervisor, which only includes managers who supervise staff. Our analysis shows that by either measure most state agencies in Oregon are top-heavy with strikingly low average worker-to-supervisor ratios and average worker-to-manager ratios. Texas mandates an 11-to-1 supervisory ratio.[7] In contrast, Oregon's agencies have an average ratio of 7.7 workers to 1 supervisor. Include managers without staff supervisory responsibilities and the ratio is even lower: 5.7 workers to 1 manager.[8] [Ratios in each agency can be found in Appendix A]

The stark difference in the two sets of ratios—workers-to-supervisors and workers-to-managers—represent a troubling trend: state agencies are hiring large numbers of managerial staff and not assigning them anyone to supervise. While there may be justification for some non-supervisory managers, such as employees who need access to

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[7] Texas Statutes, Sec. 651.004, Management-to-Staff Ratios. While the term "manager" is not defined in this portion of Texas law, it appears that it refers to both supervisors and managers who do not supervise staff: http://sao.hr.state.tx.us/systems/fte/managementtostaff.html

[8] These ratios are based on an analysis of SEIU-requested data from the Department of Administrative Services Payroll Division. Department of Administrative Services, "State of Oregon Executive Branch Current Employees and Positions by Agency with Budget Split Information," Asset Class 2 Data, As of 1/21/2011, Report Date 1/26/2011. Excludes: Judicial Branch, Legislative Branch, Oregon Lottery, Oregon University System, and Temporary and Board Employees.

classified information or oversee large projects, the number we identified merits close scrutiny at a time when significant cutbacks threaten provision of basic services.

According to frontline workers, the low worker-to-manager ratio often hampers their ability to provide services in a timely fashion, often resulting in layers of red tape that stifle appropriate decision-making and discourage initiative. Jason Spevak, an employee at the Department of Revenue, says the imbalanced worker-to-manager ratio results in "too much unnecessary middle-management, and far too much upper management, which fosters bureaucracy which inhibits efficiency of procedure, policy and agency productivity."

An employee at the Oregon Department of Transportation filling out our budget survey offered this anonymous comment: "I also own a business in the private sector and we would never have as many layers of management as we do here at ODOT."

To be clear, this is about structure not individuals and not intended to belittle the good work of people in managerial positions at state agencies.

Alternative: Adopt a Statewide Worker-to-Manager Ratio

Since the agencies, and thus the Legislature, lack information justifying the current span of control and number of non-supervisory managers, it is difficult to propose a specific statewide worker-to-manager ratio or even agency-by-agency mandates that allow for differing needs. However, the experiences of other states and the private sector suggest that Oregon should increase its worker-to-supervisor ratio. HB 2020 directs the Ways and Means committee to develop a plan for state agencies with over 100 FTE to attain an 11-to-1 worker-to-supervisor ratio and to report their progress toward achieving that goal. The bill does allow agencies that demonstrate need for a lesser span of control to set different targets with the Ways and Means budget committee. Even if Oregon cannot immediately establish an 11-to-1 ratio, gradually moving toward that goal would increase productivity, efficiency and performance.

Potential Cost Savings

Oregon could realize significant cost savings by increasing both its worker-to-manager and worker-to-supervisor ratios. The following analysis is based on information received from the Department of Administrative Services regarding Executive Branch staffing and excludes the Judicial Branch, Legislative Branch, Oregon Lottery, Oregon University System, and Temporary and Board Employees. As a result, cost savings that we identify represent a conservative estimate. If all branches of state government increased their managerial efficiency, the savings would be even greater. The chart below includes a breakdown of all Executive Branch positions and the cost of those positions in All Funds and General Fund Dollars.

Executive Branch Staffing and Costs 2011 – 2013 Biennium[9]

	All Positions	Total Funds Cost, Total Compensation, All Positions	General Fund Cost, Total Compensation, All Positions	**%General Fund**
Supervisory	4,625	$ 907,914,605	$279,767,549	**31%**
Nonsupervisory Managerial	1,386	$236,144,919	$44,076,445	**19%**
All Managerial	**6,011**	**$1,144,059,524**	**$323,843,995**	**28%**

Methodology
Biennial base salaries for all managerial positions filled as of January 21, 2011 in the executive branch cost a total of $755,598,610. Since the budget is funded for all positions, not just those that are currently filled, we have based our analysis on the cost of all managerial positions. In doing so we assume that the budgetary cost of a vacant managerial position is equivalent to the average cost of an equivalent filled managerial position in the same agency. This results in an estimated total funds cost for base salaries for all managerial positions of $849,205,371 and an estimated general funds cost of $240,771, 630.

To reach the total compensation costs, we utilized the standardized formula from the Department of Administrative Services Labor Relations Unit and assumed that all managerial positions were full-time. This results in total compensation costs for all managerial positions in total funds dollars of $1,144,059,524 and in general fund dollars of $323,843,995.[10]

Option 1: Move Immediately to an 11-to-1 Supervisory Ratio

We believe that Oregon should adopt a goal of an 11-to-1 supervisory ratio. While we believe all agencies should review the number of managers who don't supervise, the ratios that were used for comparisons were supervisor ratios, so the cost savings are calculated based on an agency moving to 11-to-1 supervisory ratio.

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[9] These estimates are based on an analysis of SEIU-requested data from the Department of Administrative Services Payroll Division. Department of Administrative Services, "State of Oregon Executive Branch Current Employees and Positions by Agency with Budget Split Information," Asset Class 2 Data, As of 1/21/2011, Report Date 1/26/2011. Excludes: Judicial Branch, Legislative Branch, Oregon Lottery, Oregon University System, and Temporary and Board Employees.

[10] Department of Administrative Services Labor Relations Unit, "Other Expenses Breakdown, OPE Monthly Per FTE Per Position," Includes 3210 ERB Assessment $1.75, 3220 PERS 8.22%, 3230 Social Security Tax 7.65%, 3250 Workers' Comp $2.60, 3270 Flexible Benefits $1,070.00, and 3260 Mass Transit 0.6%.

If Oregon adopted the 11-to-1 supervisory ratio the state could save $87,457,739 in General Funds and $282,121,738 in Total Funds over the 2011 – 2013 biennium. Agencies currently at or above the goal ratio of 11-to-1 would not be affected. [11]

Adjust Worker-to-Supervisor Ratio to 11-to-1 on 7/1/11 2011 – 2013 Biennium			
2011 – 2013 Biennium	**Supervisory Positions Eliminated**	**General Fund Savings**	**Total Funds Savings**
Total	1399	$87,457,739	$282,121,738

Option 2: The Plus-1 Scenario for the managerial ratio

For many reasons, it may be difficult to immediately move to an 11-to-1 supervisory ratio during the 2011 – 2013 biennium. At the same time, the high number of non-supervisory management positions suggests that each agency should review the manager positions that lack supervisory responsibility and try to make changes to prioritize services on the frontline. By using the managerial ratio, agencies could review what managerial and supervisory positions are necessary to provide quality services.

In order to encourage state agencies to perform this analysis and bring their worker-to-manager ratios in line with budgetary realities, the legislature should direct agencies to increase their worker-to-manager ratios by one each year of the biennium. This would mean increasing the current 5.7-to-1 ratio of workers-to-managers to 6.7-to-1 by July 1, 2011, and 7.7-to-1 by July 1, 2012. While reduced, this would still result in significant **cost savings of $71,004,424 in general fund dollars and $253,587,228 in total funds**, as well as increase program efficiencies across state agencies.[12]

Adjust Worker-to-Manager Ratio by 1 Each Year of the 2011 – 2013 Biennium			
2011 – 2013 Biennium	**Managerial Positions Eliminated**	**General Fund Savings**	**Total Funds Savings**
Total	1711	$ 71,004,424	$ 253,587,228

[11] A ceiling ratio of 11 is assumed. No change is assumed in DPSST, which has an unusually high ratio already. Estimates of savings in total compensation costs assume each supervisor is full-time. 31% of all supervisory costs are covered by the General Fund; this percentage is used to estimate GF savings from all funds savings (see footnote 2).

[12] Improvements in the managerial ratio assume the reduction of an equal percentage of supervisors and non-supervisory managerial staff. 28% of all supervisory and managerial non-supervisory costs are covered by the General Fund (see footnote 2); this percentage is used to estimate GF savings from all funds savings.

Case Studies: Oregon Youth Authority and Department of Human Services

Both OYA and DHS face significant cuts to the services they provide. Both of these agencies have some of the least efficient worker-to-manager ratios in Oregon. Improving the managerial balance in these agencies could produce cost savings to cushion proposed cuts in services.

The OYA worker-to-supervisor ratio is 8.1-to-1 and its worker-to-manager ratio is 6.1-to-1, slightly better than the state average for agencies its size. If the supervisor ratio were improved to 11-to-1 over the 2011 – 2013 biennium, this would produce $6,310,803 in total funds savings, $6,064,682 of which would be General Fund.[13] If OYA simply increased its managerial ratio by one each year of the biennium; 7.1-to-1 by July 1, 2011 and 8.1-to-1 by July 1, 2012; this would still produce general funds savings of $5,124,714. Currently, OYA is facing cuts that would result in a loss of 425 beds, potentially forcing juvenile offenders to be released early or transferred to the Department of Corrections. Savings from increasing the worker-to-manager ratio could go toward covering the cost of incarcerating and treating these juvenile offenders, thereby more efficiently providing essential public safety services.[14]

The DHS worker-to-supervisor ratio is 7.6-to-1 and its worker-to-manager ratio is 5.7-to-1. If the supervisory ratio were improved to 11-to-1 over the 2011 – 2013 biennium, this would produce $79,616,900 in total funds savings, $20,222,693 of which would be General Fund.[15] Increasing the DHS managerial ratio by one each year of the biennium; 7.1-to-1 by July 1, 2011 and 8.1-to-1 by July 1, 2012; would produce total funds savings of $66,161,910, and a General Fund savings of $14,952,592. Savings from streamlining DHS management could go directly into services for vulnerable Oregonians. Seniors face a significant reduction in long-term care services under the Governor's proposed budget, which threatens to deprive many of access to quality care and the choice to stay in their homes.[16]

[13] On average, 96.1% of OYA supervisory and non-supervisory managerial costs are General Fund costs.
[14] Governor's Balanced Budget, 2011 – 13, page D-16-17, http://governor.oregon.gov/Gov/docs/priorities/BUDGET_Full_Budget.pdf
[15] On average, 22.6% of DHS supervisor and non-supervisory managerial costs are General Fund costs.
[16] Department of Human Services Presentation to Ways and Means, February 24, 2011, pages 20-25, http://www.oregon.gov/DHS/aboutdhs/budget/2011-2013/docs/spd-phase1-2011-0224-jwm.pdf

Recommendations

- We believe the Legislature should pass HB 2020 which requires Ways and Means Committees to work with agencies to move to an 11-to-1 supervisory ratio. We don't believe that all agencies can move to 11-to-1 ratio this biennium, but with continued follow-up we estimate that savings will eventually reach at least $87 million in general funds and $282 million in total funds per biennium.

- The Legislature's approved 2011 – 2013 biennial budget should be based on the expectation that every agency will increase its worker-to-manager ratio by one each year of the biennium (moving to an average of 6.7-to-1 by July 1, 2011 and 7.7-to-1 by July 1, 2012). A conservative estimate of the resulting cost savings is **$71 million in general fund dollars and $253.5 million in total funds for the 2011 – 2013 biennium**.

- DAS budget instructions in all future biennia should require a current and historical reporting of worker to manager/supervisor ratios.

- Since our analysis was based on Executive Branch information alone, all other branches including the Oregon University System and the Judicial Branch should be reviewed for their worker-to-manager ratios and should have their 2011 – 2013 budgets based on the expectation that they will increase that ratio by one each year of the biennium if, as expected, their ratios are lower than 11:1.

- High-performing agencies with efficient worker-to-manager ratios should serve as examples in the identification of best practices and provide technical assistance for agencies with low ratios as they transition to a more efficient model.

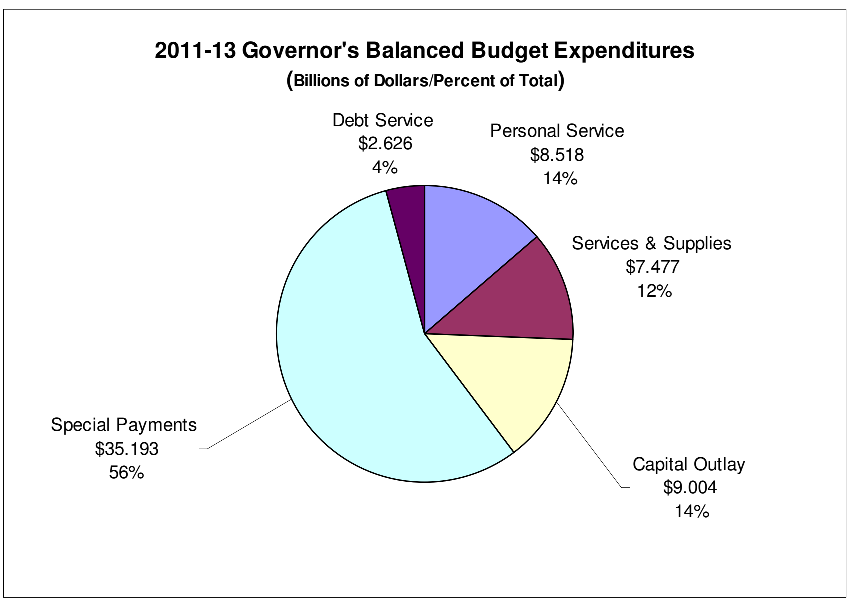
- The Legislature should include budget notes requiring agencies to examine their organizational structures and develop plans to reduce ratios or explain why they are necessary to provide essential services.

- Each agency should convene a Labor-Management Committee to identify ways to increase worker-to-manager ratios, reduce multiple layers of managerial approval, and better utilize managers in service provision activities.

Examining Contracting and Supply Budgets to Prioritize Services

Services and supplies make up 12% of the Governor's 2011–13 Balanced Budget. Much of the services and supplies line item is spent on private-sector contracts. Given the attention that has been put on personal services[17] which only make up 14% of the 2011–13 proposed budget, a comprehensive review of the service and supplies budget area is probably long overdue. This year, with a serious budget shortfall causing significant reductions in direct services for school children, seniors and others, an examination of service and supplies seems essential.

The 2011 Governor's budget has $7.47 billion in Total Funds budgeted for services and supplies, including $1 billion in the General Fund. The services and supplies line item includes contracting for services, rent, office supplies, travel, telephones and other items for the day-to-day operation of an agency.[18] Information is not readily available on how the $7.47 billion is allocated by agency or how much is contracted out to private vendors. Yet our research has shown for the 2011 – 13 biennium the state has 1,588 active personal service and trade service contracts committing as much as $1.2 billion in state funds and $4.4 billion through the life of the contracts.[19] All of these contracts and others come from the services and supplies line item.



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[17] Definition of Personal Services: The cost of paying the state's employees. This cost includes salaries, benefits and other payroll costs, 2011 – 13 Governor's Budget, N-3, http://governor.oregon.gov/Gov/priorities/budget.shtml

[18] Source: 2011 – 13 Governor's Budget, P-18, http://governor.oregon.gov/Gov/priorities/budget.shtml. Definition of Services and Supplies 2011 – 13 Governor's Budget, N-4.

[19] Estimates are based on procurement information from Oregon Procurement Information Network (ORPIN) of active contracts for 2011 – 13.

[20] Source: 2011 – 13 Governor's Budget, P-18, http://governor.oregon.gov/Gov/priorities/budget.shtml

In an attempt to pin down exactly how much the state plans to pay private contractors during the 2011 – 13 biennium, researchers combed through the services and supplies line item in the state budget. Researchers discovered that the budget for services and supplies has expanded by 10% per year since 2007 as critical programs for services to Oregonians have been slashed.[21]

Since the services and supplies line item includes costs for such things as rent and telephones that may be somewhat fixed costs those costs need to be reviewed on an individual basis. We do believe that a case-by-case review can result in significant savings in rent, travel, and other supplies. In light of the drastic budget cuts proposed to agencies it should be an expectation that the services and supplies costs are reduced to protect services to Oregonians.

While we believe that agencies can identify some internal savings in travel, rent, and other supplies, we believe that outside vendors are a significant portion of the services and supplies line item. The 1,588 personal service and trade service contracts cited above are just two types of contracts the state has with private companies, there are also price agreements and Architect & Engineer Related Services.

Yet, the Governor's budget does not target funding for these contracts for the nearly same level of cuts it projects for direct state services. In addition, there are no systems in place to review the effectiveness or necessity of existing contracts and despite some progress by recent legislatures the process for tracking contracts still lacks transparency. While reducing contracts will not erase the entire budget shortfall, a timely and thorough review of state contracting could result in significant savings. Two case studies, contracting for nursing and information technology services, illustrate how expensive and inefficient it is to contract for services that could be provided in-house.

Case Study: Contracting for Nursing Services

Oregon spends millions of dollars a year on contracts for nursing services that our research deems unnecessary and/or far more costly than providing these services in-house. Oregon already employs highly qualified nurses in agencies like the Department of Human Services, the Department of Corrections, the Oregon Youth Authority, and the Oregon State Hospital. In February, 2010, the Oregon Center for Nursing issued a report on the current state of the nursing workforce in Oregon. The report reflects that the number of actively licensed RNs in Oregon has increased by 37% since 1995 and the number of licenses increases by about 600 per year.[22] Since it seems that there is no shortage of qualified nurses in Oregon, agencies like the Oregon State Hospital should be able to meet any additional need for nurses by hiring them directly.

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[21] Analysis of data derived from Schedule VI, P-18, 2011 – 13 Governor's Balanced Budget.
[22] Oregon Center for Nursing, Report on Nursing Workforce, issued February, 2010.

In order to assess the cost-effectiveness of the state's contracts for nursing services, SEIU researchers systematically examined these contracts on the state transparency web site and the Oregon Procurement Information Network (ORPIN).[23] To ensure accuracy in comparing the cost of private nursing contracts with the cost of public nurses we focused on the most common type of nursing services provided by the state: essential nursing services, not specialized arrangements like home care or nursing facilities for seniors. The results of our analysis show that the cost of a contract nurse is roughly 20% more on average than nurses hired directly by a state service provider.

Since a great concentration of state nurses work at the Oregon State Hospital (OSH), a detailed analysis of its contracts for nursing services provides an opportunity to compare apples to apples. The OSH has contracts for nursing services with four different primary company providers: Travel Nurse Solutions, The LHC Group, Maxim Healthcare Services, and Worldwide Travel Staffing. Our analysis shows that a contract nurse costs more than a state-employed nurse per hour for every level of nursing service, even though contract nurses' salaries are no higher and their benefits package is inferior.[24]

Oregon State Hospital
Costs of State Employee Nurses vs. Contract Nurses

Who	RN	LPN	CNA
State Employee Nurse	$45.17	$30.38	$23.70
Travel Nurse Solutions	$71.50	Na	na
The LHC Group	$48.50	$36.00	$26.00
Maxim Healthcare Services, *per diem*	$54.95	$44.95	$26.95
Maxim Healthcare Services, *traveler*	$64.00	$54.00	na
Worldwide Travel Staffing, *per diem*	$51.00	$41.00	$25.00
Worldwide Travel Staffing, *traveler*	$58.00	$48.00	$32.00

Source: Contracts available through ORPIN.[25]
Per diem nurses tend to be shorter contracts; travelers come from farther away and stay longer.

[23] http://www.oregon.gov/transparency/. Estimates are based on procurement information from ORPIN and the 2010 expenditure reports.
[24] SEIU researchers examined public information and called each company individually in February 2011 to learn the benefit packages. Benefits generally include access to health insurance after a short waiting period for people who work over 30 hours per week, and creation of a 401(k) retirement plan. Sick and vacation pay are not generally part of the package, nor is a defined-benefit pension.
[25] Contracts were provided through ORPIN on February 3, 2011 in response to a public records request for contracts active in the upcoming biennium. We examined the relevant contracts individually, with amendments through February 15, 2011. Contracts to provide nursing services exclusively in the Oregon State Hospital include Maxim Healthcare, contract # DHS-070708MA-09; LHC Group (formerly Northwest Healthcare Alliance), contract # DHS-070708NO-09; Travel Nurse Solutions, contract # DHS-070708TR-09; and Worldwide Travel Staffing, Ltd., contract # DHS-070708WO-09. Other companies provide nursing services in multiple locations including OSH, but they sum to modest amounts and their nurses generally cost even more than these primary providers—so including them in the analysis increases confusion without changing the result.

To establish the cost of nurses employed by OSH, we determined the average total compensation package for state-employed nurses, including benefits such as health care, pension, and Social Security, as well as assessments for workers' compensation, mass transit and the Employee Relations Board. We found that the cost of a state employee Registered Nurse (RN) with mental health certification is $45.17. A Licensed Practical Nurse (LPN) costs taxpayers $30.38 per hour and a Certified Nursing Assistant (CNA) costs $23.70.[26]

The cost of the contract nurse is the cost to the state, which includes company costs as well as the nurse's personal salary and benefits. The most expensive nurses are provided by Travel Nurse Solutions. Its RNs cost the state $71.50 per hour, 58% more than a public RN. Travel Nurse Solutions was authorized to receive as much as $3,200,000 of Oregon taxpayer money over the life of its three-year contract. It was paid $734,035 in 2010 alone,[27] for work that public employee nurses could have done for $463,743.

The company that earned the most money providing nurses to the Oregon State Hospital was Maxim Healthcare Services. Oregon State Hospital paid Maxim $54.95 per hour for per diem nurses and $64.00 for nurses it brought from out of town, for a total cost of $1,660,663 in 2010.[28] Oregon public employee nurses could have done the same work for $1,365,149.

The Oregon State Hospital paid $2,394,698 to just these two contractors in 2010 which was $564,806 more than in-house nurses would have cost the state.[29]

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[26] Department of Administrative Services, "State of Oregon Executive Branch Current Employees and Positions by Agency with Budget Split Information," Asset Class 2 Data, As of 1/21/2011, Report Date 1/26/2011. We estimated total compensation by using the formula provided by the Labor Relations Unit, Department of Administrative Services.

[27] SEIU analysis of FY 2009 – 10 multi-agency vendor payment detail and ODOT vendor payment derived from: http://oregon.gov/transparency/expenditures.page#SFMA and http://oregon.gov/transparency/expenditures.page#ODOT

[28] *ibid*

[29] These estimates are made by applying the cost ratio of RNs under each contractor to state RNs. The precision is limited because not all work is done by RNs and the precise ratio of work done by RNs compared to LPNs and CNAs is not known. However, because RNs are the most expensive category, have a state/contractor cost-ratio close to or higher than the other nurse types, and do a great deal of the work, we are confident that using the RN cost-ratio for the entire contract amount provides the closest estimate possible. To the degree that work was done by LPNs, whose state/contractor cost-ratio is less favorable to the state than RNs, state taxpayers come out still farther ahead than indicated by these estimates.

Who	Where	ORPIN total contract value	Paid 2010	Savings if public in 2010
The LHC Group.*	Lafayette, LA	$4,250,000	$899,843	$61,752
Maxim Healthcare Services	Columbia, MD	$2,750,000	$1,660,663	$295,514
Travel Nurse Solutions	Birmingham, AL	$3,200,000	$734,035	$270,292
Worldwide Travel Staffing	Tonawanda, NY	$2,250,000	$291,323	$33,293
TOTAL		$12,450,000	$3,585,865	$660,850

* The contract was originally awarded to the Northwest Healthcare Alliance in 2009. Since that time, it has been acquired by Assured Medical Staffing and now by LHC Group.

Almost every penny of compensation paid to staff nurses is poured back into our local economy; the significant percentage of contract money that accounts for corporate profit leaves the state for places like Birmingham, Alabama, where Travel Nurse Solutions is located, and Columbia, Maryland, where Maxim is headquartered. Nurses these firms employ do stay in Oregon but since their compensation packages are inferior to those of state-employed nurses less money flows through them into the state economy.

The state may have been trying to address this problem and keep taxpayer money in state when it first contracted with the Portland-based Northwest Healthcare Alliance in 2009. Unfortunately, since that time, the company and the contract were acquired first by Assured Medical Staffing and then by LHC Group, a national corporation headquartered in Lafayette, Louisiana. In 2009 the top six executives of LHC earned $5.4 million, $1.5 million alone for the CEO's compensation.[30]

These companies were awarded three-year contracts effective January 1, 2009. We don't know exactly how much will be spent in 2011, but payments up to $4.2 million are authorized. If all of the authorized money is paid, it will amount to $738,826 more than state-employed nurses would cost for the same work.

Solution: Replace Contracted Nurses with State Nurses

We shouldn't pay 20% extra for services that can be provided in-house. At this time the Oregon State Hospital has 28 vacancies for registered nurses with mental health certification out of a total 222 positions, a vacancy rate of 17 percent. Only two of the four nurse practitioner positions are filled, a vacancy rate of 50 percent.

[30] LHC Group, SEC form Def. 14A for 2009. http://investor.lhcgroup.com/secfiling.cfm?filingID=1193125-10-102195&CIK=1303313.

Oregon State Hospital: Nurse Classification	**Filled Positions**	**Vacant Positions**	**Total Positions**	**% Vacant**
Mental Health Registered Nurse	184	38	222	17.1%
Nurse Practitioner	2	2	4	50.0%
RN Epidemiologist	2		2	0.0%
Total	188	40	228	17.5%

Source: Department of Administrative Services[31]

Unless the state has a reason to maintain these vacancies it should simply hire as needed to fill its vacancies. Hiring nurses instead of contracting for nursing services could have saved the state $1,399,676 over two years.[32]

It should be noted that there are likely many reasons that OSH contracts for nurses, including covering for someone's shifts if they call in sick, covering for mandatory furlough days, or because OSH can't recruit enough nurses. But they should work towards hiring enough nurses to decrease the amount they need to contract, which will save money for Oregonians.

Case Study: Contracting for Information Technology Services

Managers for the State of Oregon have estimated that, on average, performing information technology services work in-house costs 68.9% of what it costs to contract out the same work.[33] Despite this stunning mark-up, the state continues to contract for IT services that could be capably delivered by in-house staff.

In 2010, Oregon spent at least $21,681,588 on contracted IT services.[34] Like nursing contracts, the vast majority of IT contracts go to out-of-state companies. This means that money for executive salaries and overhead costs leaves the state. In fact, fully half the money spent on IT contracts in 2010 went to four out-of-state companies: Nextsource based in New York, EDS Information Services based in Texas, Saber Software based in California, and Walter R McDonald & Associates also based in California.[35] In fact, only $2,413,102 (11.1%) of the total value of these expenditures went to contractors based in Oregon.

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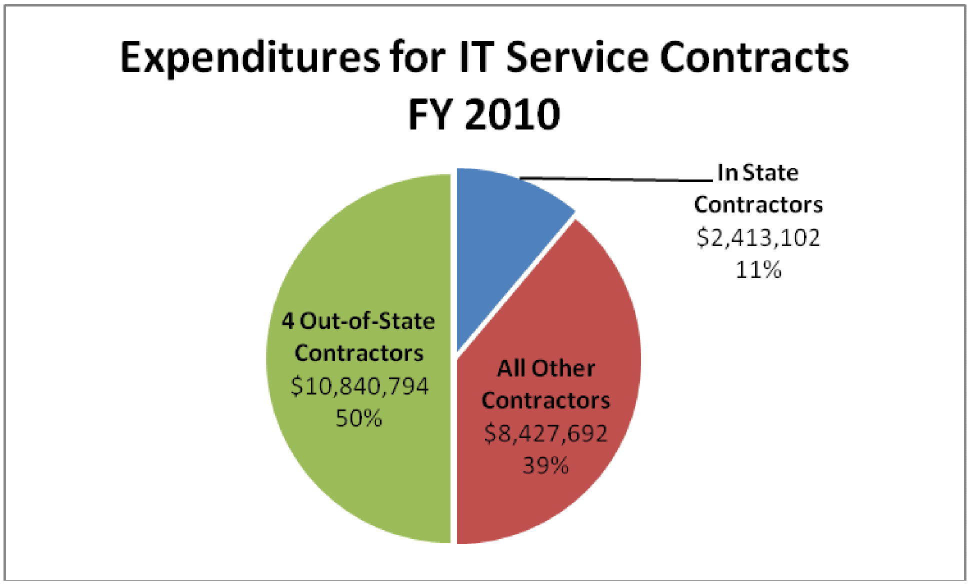
[31] Department of Administrative Services, "State of Oregon Executive Branch Current Employees and Positions by Agency with Budget Split Information," Asset Class 2 Data, As of 1/21/2011, Report Date 1/26/2011.

[32] Potential two year savings amount of $1,399,676 is the amount that could have been saved in 2010 if contract nursing services were provided by state-employed nurses plus the anticipated savings for 2011.

[33] This is based on the 54 feasibility studies for IT services SEIU has received from the state for 2009 – 11 (as of the end of February, 2011). A provision of SEIU's contract with the State requires state managers to conduct studies assessing the potential costs and the potential savings of proposed contracts before contracting out work performed by bargaining unit members. These studies, which according to the contract must be provided to SEIU, are called feasibility studies.

[34] SEIU analysis of FY 2009 – 10 multi-agency vendor payment detail and ODOT vendor payment derived from: http://oregon.gov/transparency/expenditures.page#SFMA and http://oregon.gov/transparency/expenditures.page#ODOT

[35] *ibid*



Source: FY 2010-11 vendor payment data

Assessing Cost Savings

A provision of SEIU's contract with the State requires state managers to conduct feasibility studies assessing the potential costs and the potential savings of proposed contracts before contracting out work performed by bargaining unit members.[36] SEIU has received 54 feasibility studies for potential contracts for IT services for the 2009 – 11 biennium.

These studies allow us to compare the cost of contracting for IT services versus the cost of performing them in-house. Many of these studies estimate that the additional cost to contract out the work far exceeds the 68.9% average. For example, in the summer of 2010 SEIU received a study investigating the costs associated with contracting out IT work for the Department of Human Services. The estimated cost for state employees to perform this work was $40,048. The estimated cost to contract this work was $114,360, 185% more than having state employees provide these services![37]

These small IT contracts can add up quickly. According to data from the Oregon Transparency website, expenditures for IT services contracts for Executive Branch agencies in 2010 totaled $21,681,588.[38] To identify the potential savings of performing

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[36] Article 13, Collective Bargaining Agreement between SEIU 503, OPEU and the State of Oregon, Department of Administrative Services, in effect July, 1, 2009 through June 30, 2011. Direct costs were adjusted to reflect the fact that 80% of SEIU wages are used in the estimate of direct costs. Estimated in-house direct costs are 68.9% of the cost to contract, on average.

[37] Feasibility Study provided to SEIU dated August 6, 2010 by the Department of Human Services, investigating the potential of contracting out the work of a Senior Systems Analyst on the Oregon Medical Marijuana Registry.

[38]The Oregon Transparency website (http://www.oregon.gov/transparency/) provides a list of total expenditures by category for fiscal year 2010. The $21.7 million annual expenditure figure represents Oregon's spending on enterprise application, maintenance, development and modifications. SEIU identified over $67 million technology

IT services in-house we calculated the actual amount spent in past years on IT contracts and used that to project the savings for the coming biennium. What we found is that Oregon can save nearly $14 million in the coming biennium by performing IT services in-house.

How do we know that? Oregon spent at least $21,681,588 on IT contracts in 2010. Based on the average 68.9% less it costs to perform IT services in-house, we can estimate that it would have cost about $14,938,614 to do that work in-house. This means the State could have saved **$6,742,974** in 2010 by providing IT services in-house. Assuming a similar level of spending for the next two years, we can project that the State could save about **$13,485,948** over the 2011 – 13 biennium simply by using State employees to perform IT services work.[39] And that does not include the potential for additional savings in non-Executive Branch agencies such as the Oregon University System and the Judicial Department which are likely to have expensive IT contracts that are not evaluated in this report because they are not included in the public transparency data system

Potential Savings based on 2010 IT Contract Spending, 2011 – 2013 Biennium			
Amount Spent on 2010 IT Contracts	Cost to Provide Same Services In-House	Savings Per Year	Projected Total Savings Over Biennium
$21,681,588	$14,938,614	**$6,742,974**	**$13,485,948**

Using Expensive Contracts Instead of Filling Vacancies

Finally, it must be pointed out that much of this IT contracting is occurring while there are vacant IT service positions. On January 21, 2011, there were 139 vacant positions in the Information Systems Specialist series. Nearly half of those positions were of the type proposed for contract work in the feasibility studies. Instead of contracting out this work, the state could focus on filling these positions at a significant cost-savings.[40]

The choice to contract IT services instead of filling vacant positions is a problem across state agencies, but particularly in the Department of Human Services. The DHS spent more in 2010 on contracted IT services than any other state agency, $6,390,624. Despite

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related expenditures statewide. Additional IT related expenditures identified by SEIU included: PC and Mainframe support, application processing, peripheral support and other services.

[39] Contracts were provided through ORPIN on February 3, 2011 in response to a public records request for contracts active in the upcoming biennium. We examined the relevant contracts individually, with amendments through February 15, 2011. This estimate is based upon the conclusion that the $21.7 million spent state-wide each year for software maintenance, new application development and modifications to existing software applications could be performed by DAS programmer analysts. Additional savings could be realized by expanding the use of DAS staff for mainframe and PC support and other services. However SEIU was not able to estimate what the additional savings would be for these additional categories of technology-related services that are currently provided by outside vendors but could conceivably be performed by DAS.

[40] Most of the contracted work would replace state positions in the ISS 6, 7, 8 classes. These classes made up 66 of the 139 vacant positions on January 21, 2011. See Note 9 for source.

this high utilization of costly contract services, DHS had 43 vacant IT positions as of January 21, 2011.[41] In order to increase efficiency and save money, DHS and all state agencies should prioritize hiring in-house IT services instead of using expensive contract IT services.

Conclusion

As these examples show, Oregon's system for contracting out services that its own employees could perform at a lower expense is costing taxpayers dearly and, this year in particular, diverting resources that could forestall some of the most devastating of the proposed service cuts. In order to ensure that contracts are cost-effective Oregon must set up a process for a cost-benefit analysis before contracting to ensure that it spends tax dollars wisely. If based on this process a decision to contract is made, there needs to be a subsequent review process to identify performance measures, and evaluate contracted work.

At $7.47 billion in Total Funds, the services and supplies line offers the potential for significant cost savings. Utilizing state employees instead of contract employees for just IT and nursing services could save over $15 million in the 2011–2013 biennium.[42]A systematic review of state contracts for services to determine whether state employees currently provide those services for less is clearly required. The Governor's budget proposes to cut an average of 2.5% in the services and supplies line item area[43] — far less than it targets for essential services to seniors and other vulnerable Oregonians. Requiring agencies to closely review their costs for services and supplies to increase this target could yield far more in savings.

It is encouraging to note that some state agencies have already cut back on these non-essential items in the current biennium, but by engaging frontline workers in this process we believe that more savings can be found.

Recommendations

- Reduce the Services and Supplies line item by 10% to make sure it is sharing in the sacrifice. This would result in $747,704,006 in Total Funds savings and $107,230,367 in General Fund savings.[44] To do this we should:
    - Review all contracts using performance measurements.

[41] Oregon Transparency website and Oregon Employment Department Website, accessed January 21, 2011.
[42] This is the potential savings on IT services based on the authorized contracts plus the projected potential savings identified for the Oregon State Hospital nursing contracts, based off of the 2010 contracts.
[43] Details on the cuts included in the 2011 – 13 Governor's proposed budget provided by the Department of Administrative Services to the Ways and Means Committee, General Government Subcommittee, March 21, 2011.
[44] Source: 2011 – 13 Governor's Budget, P-18,http://governor.oregon.gov/Gov/priorities/budget.shtml

- Use escape clauses to cancel or renegotiate contracts that can't be justified during difficult times.

- Transfer the work in-house when that option is demonstrably more cost-effective than contracting out services.

- Create labor-management committees to tap into the perspective of frontline workers in identifying and evaluating further cost savings on services and supplies.

- Review policies and practices at any agency with a high vacancy rate for services that it chooses to contract out to determine why.

- Increase transparency in contracting to clarify the true costs of contracts and indicate which contracts are active. One example: Link actual expenditures on contracts with ORPIN.

- Do not follow through with the proposal to contract out custodial services at state offices and facilities. It will not produce significant cost savings and will result in a lower quality of work.

Improving Budget Projections

Like much of state government, the operating budgets of agencies like the Department of Human Services (DHS) and the Department of Corrections (DOC) are largely based on biennial projections of service demand, a budgeting process that involves a fair amount of estimation. While changing economic forces can make it difficult to anticipate the need for services with much degree of certainty two years out, agencies have developed systems for forecasting caseloads and facility populations.

Since the DHS budget is heavily based on projections, there is a process to review their projections and re-balance their budget based on updated information throughout the biennium. This process is especially important during the budget crisis so that the state can be sure to fund the agency at the adequate level. With almost every agency facing cuts to services, all projections should be reviewed very closely. In that context, we reviewed the way DOC projects its population to evaluate the process.

Current Budget Projection Process: Department of Corrections Case Study

The Department of Corrections budget includes some costs that are relatively fixed and others that are driven by how many inmates populate Oregon prisons. The Office of Economic Analysis projects inmate population within the DOC's 14 correctional facilities each April and October.[45] The forecasts are formulated by Department of Administrative Services (DAS) and the Corrections Population Forecasting Advisory Committee (which is appointed by the Governor).[46] The DOC is mandated to use these forecasts for budgetary and policy purposes.[47]

Specifically, the DOC analyzes the forecast data to formulate a population management plan based on the expected demand for different levels of custody and programs by gender and the number of beds needed to accommodate that demand.[48] The DOC then identifies the costs needed to fund the plan, and arrives at an overall budgetary amount. Finally, the DOC is able to calculate a Budgeted Average Daily Population and the Cost Per Day Per Inmate (CPD) for the budgetary biennium. This CPD attempts to anticipate the costs that will fluctuate depending on the number of inmates who populate DOC

[45] *Oregon Corrections Population Forecast,* http://www.oregon.gov/DAS/OEA/corrections.shtml, *Oregon Corrections, October 2010 Population Forecast,* http://www.oregon.gov/DAS/OEA/docs/prison/DOCForecast201010FINAL.pdf, page 2.

[46] *Oregon Corrections October 2010 Population Forecast,* http://www.oregon.gov/DAS/OEA/docs/prison/DOCForecast201010FINAL.pdf, page 2.

[47] Executive Order 95-06 and ORS §184.351

[48] *Oregon Corrections October 2010 Population Forecast,* http://www.oregon.gov/DAS/OEA/docs/prison/DOCForecast201010FINAL.pdf, page 3-4.

facilities but does not include fixed costs, such as capital improvement and maintenance.[49]

The DOC multiplies anticipated inmate population by the Cost Per Day Per Inmate to arrive at the cost of incarcerating an inmate, which varies significantly from facility to facility based on factors such as the level of custody and services provided (for example, the number of inmates receiving treatment for drug and alcohol abuse or sex offenses).

The DOC calculates an average CPD for the entire system, by averaging together the expected costs and populations of each facility. For example, the 2007 – 09 biennium had an average budgeted daily population of 14,303 inmates at $77.78 CPD, and the 2009 – 11 biennium had an average budgeted daily population of 15,037 inmates at $84.46 CPD.[50]

Different forecasts are incorporated throughout the budget development process:

- The agency uses the April forecast from even-numbered years to formulate its requested budget.
- The Governor's office uses the October forecast from even-numbered years to formulate its recommended budget.
- Finally, the Legislature bases its adopted budget on the April forecast from odd-numbered years. [51]

Even though the budget is developed using three sets of projections, once set by the legislature, funding for the DOC is not adjusted during the biennium to reflect more recent forecasts or actual prison populations.

Policy changes, discretion within the justice system, and trends in crime and inmate behavior can drive significant variation between the forecasted inmate population and the actual inmate population. Thus the accuracy of these forecasts diminishes the further into the future they are applied.

Compare the forecasted populations with actual populations (the forecast error rate) in the charts below and you will conclude, as we did, that Oregon routinely overestimates the number of inmates. Because these population forecasts are used to determine the DOC budget, overestimating inmate populations results in excess funding going to the DOC. In essence, the DOC is regularly receiving money for phantom inmates that never enter a correctional facility.

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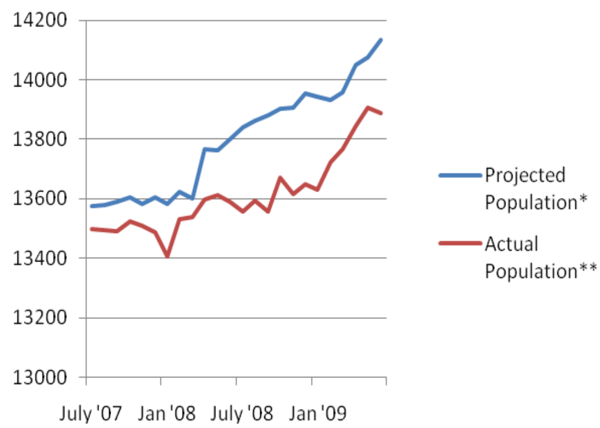
[49] Oregon Department of Corrections, Budgeted Cost Per Day Rate Calculations, 2007 – 09 and 2009 – 11 Biennia, provided by DOC. The CPD includes the costs of the Operations Division, most of the costs for the Transitional Services Division, and small parts of the costs for the Administration Division, Public Services Division and General Services Division. The CDP does not include the costs for capital construction, debt services, capital improvement, Community Corrections, or a majority of the costs for the Administration Division, Public Services Division and General Services Division.[49]

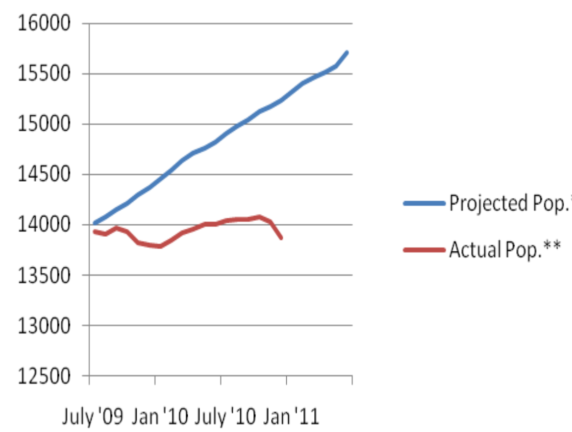
[50] Ibid.

[51] Legislative Financial Office Analysis of 2009 – 11 Legislatively Adopted Budget-Public Safety, Page 117, http://www.leg.state.or.us/comm/lfo/2009-11_budget/PUBLIC_SAFETY.pdf

Projected Population v. Actual '07-'09



Projected Population v. Actual '09-'11



Sources: See footnote [52]

Alternative Budget Projection Process: Washington Case Study

We did not have to look far to find a better way. Like Oregon, Washington relies on inmate population forecasts to calculate its DOC budget. However, there are several key distinctions between how Washington and Oregon utilize their forecasts. Washington's annual legislative sessions and supplemental budgets allow it to incorporate mid-biennial forecasts into the second-half of the biennial budget. [53] This allows for more budget flexibility and the possibility of reduced forecast error; particularly during biennia with high forecast risk.

While in some recent biennia, like 2007 – 09, Oregon's over-estimation of prison population was relatively low,[54] the advantages of an annual re-adjustment are clear in the 2009 – 11 biennium, a period in which Oregon's forecast was plagued by several risk factors, namely the unknown impacts of Measure 57, HB 3508 and SB 1007.[55]

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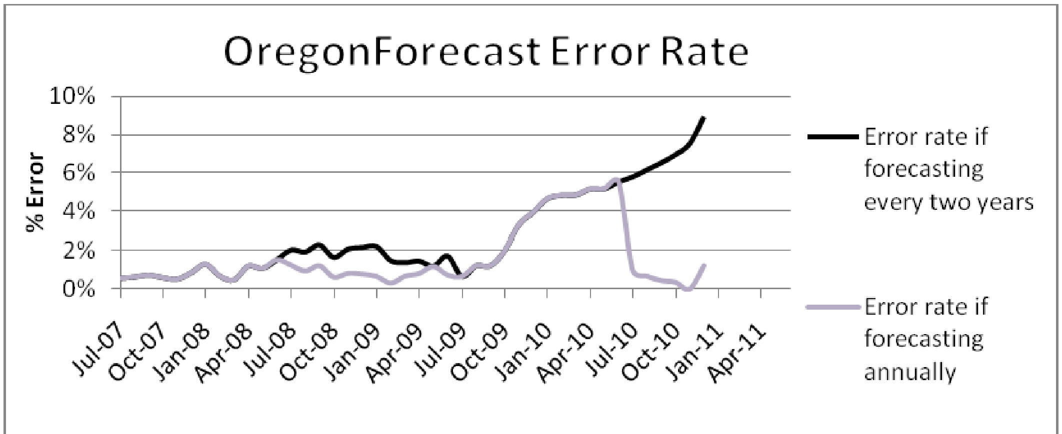
[52] Projected population figures from April 07 (http://oregon.gov/DAS/OEA/docs/prison/prison0407.pdf) and April 09 projections by Office of Economic Analysis http://www.oregon.gov/DAS/OEA/corrections.shtml, (April 2009 monthly detail tables) Actual population from DOC statistics www.oregon.gov/DOC/RESRCH/docs/POPS4.pdf, p. 14-16.

[53] RCW 43.88C.020, http://www.cfc.wa.gov/enablinglegislation.htm. "Adult Corrections CFC Monthly Monitoring Report," p. 2, http://www.cfc.wa.gov/Monitoring/COR_AdultInmateData.pdf.

[54] Projected population: http://www.oregon.gov/DAS/OEA/corrections.shtml. Actual population according to DOC statistics, www.oregon.gov/DOC/RESRCH/docs/POPS4.pdf, p. 14-16.

[55] Measure 57 was passed on the ballot in 2008, it increased mandatory minimums for a variety of property offenses. HB 3508 was passed in June 2009 to delay the implementation of Measure 57 and increase earned time by 10% for certain crimes. SB 1007 was passed in February 2010 which changed certain provisions from HB 3508 and expanded the number of crimes excluded from the 10% increase in earned time.



Source: see footnote [56]

The graph above illustrates how the incorporation of mid-biennial forecasts could allow Oregon to more accurately predict inmate populations for the second half of the biennium. For example, see the reduced error rate at the beginning of the second-half of the biennium when new forecasts are incorporated.

Incorporating a mid-biennial forecast would have reduced Oregon's forecast error during 2007-09 and 2009-11, as demonstrated by the mid-biennium forecast's lower error rate. This would have resulted in a more accurate budget for DOC and provided potential savings for the General Fund that could have put aside in a rainy day fund or re-allocated to meet genuine need for other services.

Savings from Implementing Annual Forecasts

Since the voters established annual sessions in November 2010, the Legislature has an opportunity to annually rebalance the DOC budget, similar to the process used to fund DHS. The table below shows the savings that could have been realized if the Budgeted Daily Average Population for the 2009 – 11 biennium had been updated with the revised projections in the second year of the biennium.

Projected Savings from Implementing Revised Population Forecast[57]

	Actual Amount Spent	*Amount Spent if used Revised Projections*	*Savings*
2007-2009	$813,056,987	$795,848,460	$17,208,527
2009-2011	$928,380,565	$896,333,825	$32,046,740

[56] Error rate calculated as percentage difference between actual and projected rates used in April 07 and April 09 for biennium figures and adding in projections from April 09 and April10 for annual figures.

[57] Oregon Department of Corrections, Budgeted Cost Per Day Rate Calculations, 2007-09 and 2009-11 Biennia, provided by DOC. It should be noted that the DOC budget was decreased during the 2009-11 biennium as a part of allotment cuts so some of these estimated savings were realized as a result of the allotment cuts.

Methodology

To evaluate the savings this policy would create, we compared past budget expenditures with the hypothetical expenditures of incorporating mid-biennial forecasts. The 2007 – 09 budget relied on a forecasted daily average of 14,303 inmates, but the mid-biennial projections (April 2008) forecasted an average of 13,730 inmates for the remainder of the biennium. If the April 2008 forecast had been incorporated into the DOC's 2007 – 09 budget to more accurately reflect the actual inmate population, the state would have spent $16,267,298 less funding the DOC. The same calculations were applied to the 2009 – 11 biennium to demonstrate the potential cost savings incurred from incorporating a mid-biennial forecast.[58]

Recommendations

- In order to have accurate projections, DOC should re-balance its budget mid-biennium. The DHS budget is regularly re-balanced because their budget is based on forecasts that change dramatically. A majority of the DOC budget is also based on forecasts and should be re-balanced during the February Session or through Emergency Board Process after the April Even-Numbered Year Forecast. While there is no certainty the budget will change significantly every year, this approach would provide better forecasts and more accurate budgeting. The average savings from such a re-balance over the last four years would have been $11.7 million a year—over $45 million over the last two biennia.[59]
    - The 2011 – 13 Governor's budget is based on projections that the DOC population will increase by 459 over the next biennium, a growth rate of 3.5%. The expected increase is substantially higher than the rate of growth for 2009 – 11, which is expected to be 1.1% or 161 inmates.[60]

- Based on what we learned by examining the DOC process, we recommend that the Legislature review the projections process for all agencies that tie costs to anticipated caseload. One bill that has been introduced, SB 938 sponsored by Senator Devlin, would direct the Department of Administrative Services to produce a caseload forecast for programs administered by the Department of Human Services and the Oregon Health Authority. This idea, along with best practices from other states, should be investigated to see if there are ways to make our budgeting process more accurate.

[58] Oregon Department of Corrections Budgeted Cost Per Day Rate Calculations, Accessed 1/28/11.
[59] This was calculated by adding the savings calculated for the 2007 – 09 and 2009 – 11 biennia and dividing it by four years.
[60] 2011 – 13 Governor's Balanced Budget, Public Safety, Page D-5.

Creating Cross-Agency Collaboration: Pharmacy Purchases

In 2003, the Oregon Legislature authorized the formation of the Oregon Prescription Drug Program (OPDP), a prescription drug purchasing pool, to help increase access to prescription drugs by the uninsured and lower prescription drug costs for state agencies and local governments.[61] OPDP unites Oregon's prescription drug purchasers to leverage the best prices on the most effective medicines by pooling prescription-drug purchasing power, developing a preferred-drug list of the most-effective drugs at the lowest cost, securing competitive discounts with pharmacies, and increasing transparency in the prescription-drug purchasing process. Participation in the OPDP is open to all state agencies, local governments, and special governmental bodies that directly or indirectly purchase prescription drugs as well as the Public Employees' Benefit Board, the Oregon Educators Benefit Board, Public Employees Retirement System, the Oregon Health and Science University, Oregon residents who lack or are underinsured for prescription drug coverage, private entities, and labor organizations.[62]

However, participation is optional for all these entities. As a result, state agencies can choose to participate in OPDP or purchase pharmaceuticals on their own which could include purchasing through Group Purchasing Organizations (GPO), insurance companies or pharmacy benefit managers.[63] Some of the state's largest consumers of prescription drugs do not currently participate in the OPDP.[64] These include the Department of Corrections (DOC), Oregon Youth Authority (OYA), and Public Employees' Benefit Board (PEBB).

The Oregon Educators Benefit Board (OEBB) uses OPDP for purchasing approximately 80% of their pharmaceuticals and the Oregon State Hospital (OSH), which is not a participant in OPDP, purchases through Premier the same GPO that serves OPDP.[65] By not participating in the OPDP, many of these agencies are spending more on prescription drugs than necessary, at a time when essential state services are facing cuts.

Alternative: Increase Participation in OPDP

During this budget crisis, encouraging agencies to use OPDP could reduce the level of cuts that many programs are facing. When SAIF moved to OPDP in March 2008 the agency saved 14% on their prescription drug costs in the first year.[66] A further analysis

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[61] OPDP was established by SB 875 in the 2003 Oregon Legislative Session.
[62] ORS 414.312 Oregon Prescription Drug Program.
[63] ORS 414.312 Oregon Prescription Drug Program.
[64] OPDP list of participating agencies and facilities, provided by OPDP.
[65] OEBB pharmacy expenditures for 10/1/2009 through 9/30/10, reported by Heidi Williams, Director of Operations, March 15, 2011.
[66] SAIF Email to OPDP Reflecting First Year Savings.

shows that there could be significant savings if all agencies that now opt out moved to OPDP.

Potential Cost Savings

A study of prescription drug costs at DOC, OYA, OEBB and PEBB show that each of these entities could save a significant amount of money by participating in the OPDP. In fact, based on the following data it appears reasonable to expect savings in drug purchasing costs of 8-10% for every state agency or local government that switches to OPDP.

1. **Department of Corrections (DOC) -** In August of 2010 a market basket analysis of the DOC's drug purchases over a six-month period was performed by Premier Inc., the GPO for OPDP. The study compared DOC drug expenditures of $4.7 million for the six month period of January 1 through June 30, 2010 with prices that were offered through OPDP. Based on the product list provided by DOC, Premier pulled the best contract price that matched the product exactly. The exact matching covered 47% of the purchases. The results reflected an 8% savings over the six month period on the 47% of purchases that matched for a total of $178,500 in savings. A one year savings total of just the matched drugs would yield $360,000. Many of the unmatched items may actually match at different quality and strength, e.g. DOC orders aspirin in #30 count bottles, ordering in #1000 count bottles from Premier would result in savings. The Premier study makes the further point that there are many non-pharmacy products (gauze, bandages, etc) that could be purchased through Premier at savings. A final point in the study is that a large number of the unmatched purchases were for brand prescriptions that have no GPO pricing, so Premier would have to default to the wholesale acquisition cost (WAC). Even using the WAC, the expectation is that OPDP could get some volume discounts that DOC may not be getting. Taking all this into account, a reasonable estimate of 8% savings on annual DOC pharmacy purchases of $9.4 million would yield an annual savings of approximately $750,000 if DOC purchased its pharmaceuticals through OPDP. [67]

2. **Oregon Youth Authority (OYA) -** OYA purchases its prescription drugs through a contract with Payless Drug Stores.[68] There has been no market basket study on OYA's drug purchasing process because the data on prescriptions purchased through Payless are not known. However, a former CEO of the Payless Drug Group has stated that OPDP pricing would be considerably lower than Payless Drug Stores'.[69] Using a conservative savings estimate of 8%-10%, on a

[67] DOC Market Basket Study, Premier Inc, August 2010.
[68] Contract 10515, contract between OYA and Payless Drug Stores, Inc.
[69] Conversation with Ray Fitchette, Former CEO of Payless Pharmacy, March 2, 2011.

purchasing volume of $1.5 million[70] by OYA from Payless, annual savings would be in the neighborhood of $135,000 - $150,000.

3. **Employee Benefits Boards, OEBB and PEBB** - OEBB spends approximately $71.5 million on pharmacy products in the most recent year. Of this amount, $57 million is already purchased through OPDP and the remaining $14 million is purchased through Providence and Kaiser. Assuming an 8% savings on the $14 million remaining outside of OPDP, the annual savings to OEBB would amount to approximately $1.1 million annually. The estimated savings of 8% is based on documented savings on the OEBB purchases that are currently through OPDP.[71] PEBB expenditures on prescription drugs total $81 million per year. Of the total, $67 million or approximately 80% comes through Providence and the remaining $14 million comes through Kaiser.[72] OPDP has projected that if PEBB were to join OPDP, the savings would conservatively be 8% per year.[73] Applying an 8% savings to the annual spend of $81 million yields savings of nearly $6.5 million a year for PEBB. The estimated 8% savings factor is supported by the history in the state of Washington when Washington PEBB joined the Washington prescription drug purchasing pool the PEBB achieved an 8.1% savings in the first year.[74]

In addition to the savings for the state agencies we also believe that local governments should be encouraged to use OPDP. Since the state funds a significant amount of services through counties, savings through OPDP could be passed to the state. A market based study performed by Premier, Inc. in 2010 determined that the Clackamas County jail system could save 30% on its prescription drug costs if it were to utilize the OPDP.[75]

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Recommendations

- In order to save the state a minimum of 8% – 10% on prescription drug costs and maximize other benefits offered only by the OPDP participation, the Legislature should pass a bill that requires state agencies and facilities that dispense prescription drugs to participate in OPDP unless an agency can demonstrate that than an alternative purchasing process will result in greater savings. The approximate savings from using OPDP for DOC, OYA, PEBB, and OEBB is $8.48 million a year, $16.9 million a biennium.[76]

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[70] Pharmacy expenditures for OYA for FY 2010 totaled $1.5 million as reported in a telephone conversation on March 17, 2011 with OYA Deputy Director, Fariborz Pakseresht.

[71] OEBB pharmacy expenditures for 10/1/2009 through 9/30/10, reported by Heidi Williams, Director of Operations, March 15, 2011.

[72] PEBB pharmacy expenditures from 1/1/2009 through 12/31/2009, Data provided by Ed Deery, Research Analyst, PEBB in an email on March 15, 2011.

[73] Information received from OPDP, regarding potential cost savings of agencies joining OPDP, projection from Missy Dolan, OPDP staff.

[74] OPDP provided a page from the 2008 Washington report that documents the savings for WPEBB from joining the Washington OPDP. The full report has not yet been released.

[75] The market basket study for Clackamas County was conducted by Premier and Maxor in 2010.

[76] Annual savings come from $750,000 DOC, $135,000 OYA, $1,100,000 OEBB, $6,500,000 PEBB.

- Local governments and other eligible organizations such as managed care and mental health organizations should be encouraged to participate in the OPDP, if not required to do so to qualify for state funding.

Creating Cross Agency Collaboration: DAS Duplication

The Department of Administrative Services (DAS) provides a variety of administrative services to small agencies to help minimize staff through the "Shared Client Services" program (SCS), which covers such areas as payroll, accounting budget development, and procurement.[77] Participation in the SCS program allows small agencies to avoid dedicating staff time to administrative processes, thereby saving the agency money and maximizing the agency's ability to deliver core services.

There are 45 small agencies, defined as having 75 or fewer full-time equivalent (FTE) positions eligible to use the SCS program. However, since agencies have a choice of whether to use SCS, not all the eligible agencies are taking advantage of this cost-effective program. Currently 20 agencies participate in SCS: 12 licensing agencies, 6 governing agencies, and 2 hearings agencies.[78] In addition to the 20 agencies served, the SCS program also provides support to the Office of the Governor. These are agencies ranging in size from 3 FTE to 75 FTE. This means that there are 25 additional small agencies that could be utilizing the SCS program.[79]

Potential Cost Savings

If all eligible agencies participated in SCS, the state could avoid widespread duplication of administrative services and save a significant amount of money. The example of the Oregon Student Aid Commission (OSAC) illustrates the potential cost savings that could be realized if all small state agencies participated in the SCS program.

OSAC, a small agency with 28 FTE, has a full-time position dedicated to payroll for which it pays just over $100,000 per biennium for total compensation costs.[80] If DAS handled payroll through the SCS program for the 2011-13 biennium, the charge would be $29.19 per FTE per month, or $19,615.68**,** resulting in about $80,000 in savings or 80% of current costs.[81]

If each of the 25 agencies not currently participating in the SCS program realized similar efficiencies by switching over, and we believe many would do better than OSAC, the total cost savings could approach $2 million a year.

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[77] http://oregon.gov/DAS/SCD/SCS/about_us.shtml

[78] List of participating agencies from the DAS website, State Controller Division, Fast Facts-2010 (www.oregon.gov/DAS/SCD/docs/SCD_FASTFACTS.pdf, page 3).

[79] Analysis of SEIU-requested data from the Department of Administrative Services Payroll Division. Department of Administrative Services, "State of Oregon Executive Branch Current Employees and Positions by Agency with Budget Split Information," Asset Class 2 Data, As of 1/21/2011, Report Date 1/26/2011.

[80] Data is from the 2009-11 Legislatively Approved Budget for OSAC. This position is 1.00 FTE at salary range 19 covering salary and OPE.

[81] The charge for this service is from the Legislatively Approved Budget for DAS, 2009-2011 ($29.19 x 28 FTE x 24 months).

Recommendations

- Agencies under 75 FTE should have to use SCS or document that they can provide the service for cheaper. This could result in approximately $2 million in savings a year, $4 million a biennium.

- Agencies should do an analysis on all services that can be used at DAS to see if there are additional potential cost savings.

Increasing Collections to Support Services: Medicaid Fraud Collections

One area where Oregon could improve its efficiency and add dollars to the state budget is Medicaid fraud collections. As Deputy Secretary William Corr, U.S. Department of Health and Human Services recently noted, “Health care fraud is a national problem, prevalent at the federal and state level as well as private insurance programs.”[82] Medicaid fraud results in fewer dollars being spent on legitimate health care costs and strains state and federal budgets. States get matching funds from the federal government to combat Medicaid fraud—for every $1 states contribute, they receive $3 from the federal government.[83] Oregon ranked 21st in recouping Medicaid fraud money per federal grant dollar spent in 2008, slightly above the national average.[84] Improving our Medicaid fraud collections rate could result in significant additional funds. As Missouri’s Attorney General Chris Koster says: "In these times of dwindling state budgets, recovering Medicaid funds back for the state is like a windfall.”[85]

Oregon’s Medicaid fraud collections are done by the Oregon State Medicaid Fraud Control Unit (SMFCU) within the Department of Justice. This unit currently has 11.5 FTE.[86] Devoting resources to recovering Medicaid fraud dollars is extremely cost-efficient, and in some areas we are doing better than the national average. As the chart below details, for every state and federal dollar invested in the SMFCU, in 2009 the unit recovered $10.55 and in 2010 it recovered $8.69, making the average return on investment for those two years $9.62.[87] Oregon's return on investment per budgeted dollar in 2009 was double the national average that year, $5.23.[88]

Evaluating recoveries per staff person dedicated to the SMFCU is another measure of efficiency. In 2009, the unit recovered $1.7 million per staff person and in 2010 it

[82] William Corr, Deputy Director, U.S. Department of Health and Human Services, before the Committee on Appropriations, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, U.S. House of Representatives, March 4, 2010, available at http://www.hhs.gov/asl/testify/2010/03/t20100304a.html.
[83] DHHS, State Medicaid Fraud Control Units Annual Report FY 2007, p.1, oig.hhs.gov/fraud/mfcu/annual_reports/mfcu_2007.pdf.
[84] *Oregon AG Hires Medicaid Fraud Prosecutor*, Legal News Line, 2/12/10, http://www.legalnewsline.com/news/225542-oregon-ag-hires-medicaid-fraud-prosecutor.
[85] Missouri Attorney General Chris Koster, from Attorney General's News Release, June 29, 2010. http://ago.mo.gov/newsreleases/2010/Missouri_again_gains_national_attention_in_Medicaid_fraud_recovery_state_ranks_among_top_five_in_five_important_categories_/
[86] National Association of Medicaid Fraud Control Units, Statistical Survey of State Medicaid Fraud Control Units, 2010, p. 6.
[87] National Association of Medicaid Fraud Control Units, Statistical Survey of State Medicaid Fraud Control Units, Fiscal Year 2009 and 2010 editions, p. 13. Department of Health and Human Services, Office of Inspector General, Statistical Information for FY 09, p. 3.
[88] State Medicaid Fraud Control Units Grant Expenditures and Statistical Accomplishments, FY 2009, http://oig.hhs.gov/fraud/mfcu/files/State%20MFCU%20Grant%20Expenditures%20and%20Statistical%20Accomplishment%20FY2009.pdf.

recovered $1.2 million.[89] Using 2009 data, Oregon ranks fourth in the country for Medicaid recoveries per staff person, indicating that our staff are efficient in maximizing the resources available to them.[90]

FY	SMFCU Budget (incl. fed match) (a)	Medicaid Recoveries (b, c)	Return on Investment per budgeted dollar	Staff (d)	Return on Investment per staff
2009	$1,600,000	$16,886,708	$10.55	10	$1,688,670
2010	$1,600,000	$13,900,000	$8.69	11.5	$1,208,695

Sources:

(a) National Association of Medicaid Fraud Control Units, Statistical Survey of State Medicaid Fraud Control Units, 2009 and 2010 editions, p. 13.

(b) 2009 figure: DHHS State Medicaid Fraud Control Unit Statistical Information for FY 09, p. 3.

(c) 2010 figure: Report from Legislative Fiscal Office, email March 12, 2011 and conversation with Rodney Hopkinson, Director of Oregon Medicaid Fraud control unit, March 21, 2011.

(d) National Association of Medicaid Fraud Control Units, Statistical Survey of State Medicaid Fraud Control Units, 2009 and 2010 editions, p. 6.

The two states with the highest total recovery amounts in 2009 were California and New York. The California fraud collections staff brought in $6.42 for every $1 spent and New York brought in $3.71 for every $1 spent.[91] In spite of our high return on investment, Oregon spends much less on Medicaid fraud recovery than many other states. Given our high return on investment, this is clearly not due to staff inefficiencies but instead caused by not having enough staff assigned to collections.[92]

The Department of Justice is expected to request four additional positions for the SMFCU in their 2011 – 13 budget which should increase the total amount of collections. Given Oregon's high return on investment, these positions will pay for themselves and collect an estimated additional $4 million per year, $8 million a biennium. Yet we believe that this may not go far enough. The Legislature should work with the Department of Justice to see how many staff the agency could use and continue to have a strong return on investment. It should be assumed that as the department adds staff the return on investment per dollar may decrease, but even the national average return on investment warrants an investment of additional staff.

89 State Medical Fraud Control Units' Statistical Information for Fiscal Year 2009, Department of Health and Human Services, Office of Inspector General.

90 State Medical Fraud Control Units' Statistical Information for Fiscal Year 2009, Department of Health and Human Services, Office of Inspector General.

91 State Medical Fraud Control Units' Statistical Information for Fiscal Year 2009, Department of Health and Human Services, Office of Inspector General. Total Budget amount calculated by taking federal award/3+federal award. Generally, the budget amount is comprised of a 3:1 ratio of federal to state dollars. DHHS, State Medicaid Fraud Control Units Annual Report FY 2007, p.1.

92 State Medical Fraud Control Units' Statistical Information for Fiscal Year 2009, Department of Health and Human Services, Office of Inspector General.

Recovered money goes back to the Oregon Health Plan/Medicaid. Generally, roughly 60% of this money is used to cover Oregon's matching requirements for Medicaid. Even though these funds don't go directly to the General Fund, more fraud recoveries means less money that needs to come from the General Fund to support the Oregon Health Plan.[93]

Recommendations

- Given the high return on investment for Medicaid fraud collections, the Legislature should approve the Department of Justice's request for additional staffing. This is estimated to add $8 million dollars to Oregon in the next biennium.

- The Legislature should work with DOJ to see if additional staff could continue to bring in a high return on investment. If more than four staff could continue to bring in additional revenue, the Legislature should work to fund additional positions.

[93] DOJ data provided by email on March 11, 2011.

Increasing Tax Collections by the Department of Revenue

Oregonians who willingly pay their taxes are facing service cuts in part because others don't pay. Improving the way the state collects taxes will not solve our state's entire budget shortfall, but it can be a part of the solution. An efficient and effective Oregon Department of Revenue (DOR) is the key to collecting more of the taxes that are already owed.

A 2010 audit conducted by the Secretary of State's office exposed deep flaws in management practices at the DOR which collects $14 billion per biennium, raising 94% of the state's general fund.[94] Auditors found that the DOR's failure to apply "best practices" to filing enforcement, tax return auditing, and collection of tax debt significantly contributed to a staggering "tax gap"—the difference between personal income tax owed to Oregon and what the DOR collects—of $1.25 billion.[95]

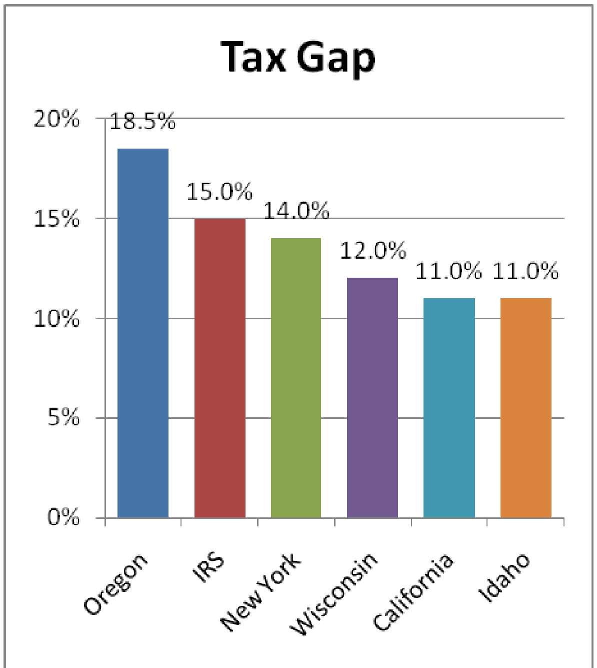
The DOR stated in its 2009 report to the legislature that 18.5% of personal income tax owed went uncollected in 2006.[96] Few states have comparable statistics regarding their tax gap, but the graph below illustrates that Oregon's gap (measured by percent of taxpayers who have not paid what they owe) is much greater than others.[97]

[94] *Oregon Department of Revenue Agency Overview," 2009. January 2009,* p. 6. ww.oregon.gov/DOR/docs/800-552-1web.pdf.

[95] Oregon Department of Revenue, *2009 Report on Personal Income Tax Compliance in Oregon. January 2009,* p. 4. http://www.oregon.gov/DOR/docs/800-552web.pdf.

[96] *Ibid,* p. 4.

[97] The tax gap data provided by the IRS, California, Wisconsin, and Idaho constitute an estimate of the combined corporate and personal income tax. However Oregon and NewYork's estimates of their tax gaps are limited to personal income taxes.



Sources: Oregon, [98] IRS[99], New York,[100] Wisconsin,[101] California,[102] Idaho[103]

Audits by the Secretary of State (SOS) and research by SEIU have revealed several troubling issues. These issues, left unchecked, will continue to result in the general fund being shortchanged.

If the DOR reallocates existing resources, implements agency-wide improvements recommended by frontline workers, and adopts industry "best practices," the department could significantly increase the amount of taxes collected.

Solution: Shrink the Tax-Gap

We believe that reducing the Oregon personal income tax gap to the IRS level, 15%, over the next five years is a reasonably attainable goal. If the agency reduced the tax gap by half a percentage point in the first year of the 2011 – 2013 biennium to 18% (still well above the tax gap faced by other states and the IRS) it could create an additional $34.4 million by 2012. Reducing the gap an additional .75% each following year over the next five years would make Oregon's rate the same as the IRS rate, 15%, by 2016. This would yield an additional $727 million to the General Fund by 2017 (see table below).

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[98] *Ibid*, p. 4.

[99] Internal Revenue Service, *Reducing the Federal Tax Gap,* August 2007, p. 2, http://www.irs.gov/pub/irs-news/tax_gap_report_final_080207_linked.pdf.

[100] New York State Department of Taxation & Finance Office of Tax Policy Analysis, *New York State Personal Income Tax Compliance Study,* October 2005, p. 6, http://www.taxadmin.org/fta/meet/05rev_est/bolognino.pdf.

[101] Institute for Wisconsin's Future, *Wisconsin's Billion Dollar Tax Gap*, April 2010, p. 6, http://www.wisconsinsfuture.org/publications_pdfs/tax/TAX_GAPApril_2010.pdf.

[102] California Franchise Tax Board, *Tax Gap Plan,* 2006, p. 4, http://www.ftb.ca.gov/aboutFTB/TaxGapStratPlan.pdf.

[103] Idaho Tax Commission, *Idaho's Tax Gap,* November 2009, p. 7, http://tax.idaho.gov/reports/EPB00658_11-17-2009.pdf.

It is important to note that the tax gap measures uncollected *personal income tax* only. *The DOR has not measured the Oregon corporate tax gap.* It is likely that more could be collected if the corporate tax gap were evaluated and addressed with similarly comprehensive solutions. The practical recommendations outlined below, which use existing resources, could inject millions more into the state budget and reduce the amount of cuts to essential services.

Fiscal Year	Estimated Personal Tax Liability (a)	Tax Gap Without Reforms	Tax Gap Percentage after Legislative and Administrative Reforms (b)	Estimated Tax Gap after Legislative & Administrative Reforms	Current Year Benefit of Legislative and Administrative Reforms	Cumulative benefit of Legislative and Administrative Reforms
2010-11	**$6,744,324,324**	$1,247,700,000	18.50%	$1,247,700,000	$0	-
2011-12	**$6,879,210,811**	$1,272,654,000	18.00%	$1,238,257,946	$34,396,054	$34,396,054
2012-13	**$7,016,795,027**	$1,298,107,080	17.25%	$1,210,397,142	$87,709,938	$122,105,992
2013-14	**$7,157,130,928**	$1,324,069,222	16.50%	$1,180,926,603	$143,142,619	$265,248,610
2014-15	**$7,300,273,546**	$1,350,550,606	15.75%	$1,149,793,084	$200,757,523	$466,006,133
2015-16	**$7,446,279,017**	$1,377,561,618	15.00%	$1,116,941,853	$260,619,766	$726,625,899

(a) Assumes an annual rate of growth in personal income of 2% per year, consistent with DAS forecasts for 2011 and 2012.

(b) Incremental decrease .5% the first year and .75% each year thereafter until the tax gap is the same as the IRS rate.

Source: "2009 Report on Personal Income Tax Compliance in Oregon," Oregon Department of Revenue, p. 4.

Reforms Needed to Shrink the Tax Gap

1. Adopt Tax-Collection Best Practices

The SOS auditors included a study of "best practices" from the IRS and several other states that suggest good performance measures are integral to effective tax collection.[104] The ability to make informed decisions about priorities and allocation of resources depends on the use of performance indicators. "DOR does not know whether it is achieving its objectives efficiently and effectively," the audit found, "because it does not track the data relevant to analyze practices that maximize return on investment."[105] "DOR does not appear to track all the information necessary to fulfill our audit steps."

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[104] Oregon 2010 Secretary of State Audit Notes, "Findings_Collections Best Practices," p. 5.
[105] *Ibid*, p. 5.

The auditors concluded after numerous meetings with DOR staff, “the information DOR has is not in a format that lends itself to large-scale analysis. Without this information and analysis, DOR may lack solid basis for making good decisions and improving the collection process to ensure efficient and effective achievement of agency objectives."[106]

In contrast, other states have performance measures on which they report to the legislature, allowing for clear analysis of collection activities. For example, Idaho, Montana, and Minnesota have produced reports to their legislatures that track compliance initiatives relative to what they cost, which can indicate areas for improvement and measure the cost effectiveness of policies and practices.[107] The Oregon DOR does not know how much it costs to collect on each account or when efforts exceed benefits, leading to uninformed decisions about where to focus efforts.[108] Better reporting measures used by DOR would not only allow return on investment analysis, it would facilitate the evaluation and improvement of policies that affect collection.

2. Change Policies and Procedures that Hinder Tax Collection

Changing DOR policies could result in significant improvements in tax collection and help shrink the tax gap. According to DOR staff, management policies regarding filing enforcement not only fail to promote success but actually hinder the reduction of any past years' tax gap. Specifically, the DOR should change policies regarding identification of non-filers, the number of years DOR staff are required to work non-filing cases, and the collection of delinquent tax debt.

Recently, a policy was enacted that prohibited staff from seeking past-due payments for all available years that a taxpayer had failed to file an Oregon return. Severely limiting the number of years that staff can attempt to collect past-due taxes related to non-filed returns keeps DOR from collecting on a larger pool of due taxes and contributes to Oregon’s astronomical tax gap.

In addition, the SOS audit revealed the DOR's approach to identifying non-filers is ineffective and not comprehensive. The discovery of non-filers is not a result of systemic assessment but simply a result of staff stumbling upon non-filers during their daily business.[109] There are options available to the DOR for easily and systematically

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[106] Secretary of State Audit Interview Notes on Data Collections Practices, p. 1.
[107] "Idaho's Tax Gap," Idaho Tax Commission, November 2009, p. 12, http://tax.idaho.gov/reports/EPB00658_11-17-2009.pdf;"A Record of Effective, Efficient, Tax Administration," Montana Department of Revenue, January 2011. http://revenue.mt.gov/content/committees/2011-legislative-session/DOR-Unitary-Business.pdf; "Expanded Tax Compliance Initiatives, Minnesota Department of Revenue, March 2010. http://taxes.state.mn.us/legal_policy/Documents/other_supporting_content_InitiativeRpt10_11_%20Final_032010.pdf.
[108] Oregon 2010 Secretary of State Audit Notes, "Findings_Collections Best Practices," p. 5.
[109] Oregon Secretary of State Audit Notes, "Finding_Non Filers can be found using IRS data," 12/29/09, p. 1-2.

identifying individuals who do not file their taxes. The DOR receives annual data from the IRS on Oregon filers. The IRS provides all states with information pertaining to returns filed, income reported, and other data. Many states use this information to determine their own non-filers. DOR receives this information, however, the SOS stated that DOR failed to fully utilize the data or make a strategic plan to bring non-filers into compliance.[110] The SOS took a small sample of these non-filers and determined that 66,000 non-filers in 2007 owed $109 million in state income tax for that year alone. The SOS conservatively estimates that about half of that amount could be collected over five years. We believe that if DOR analyzed IRS data annually to identify non-filers and implemented other comprehensive improvements, the amount that could be collected could increase gradually to $727 million in five years, as outlined in the table above.

Auditing policies at DOR are also not facilitating growth in state revenue. One auditor stated that DOR management lacks a clear vision on what comprises the tax gap and how to address it. Auditing staff are often left without adequate case loads demonstrating a clear failure to maximize staff abilities and identify areas of tax abuse which leads to underpayment of taxes.[111]

The collections process is another area of improvement identified in the SOS audit. It found that the DOR's collections process is extremely slow, with agents not establishing phone contact with taxpayers for 8 to 20 months after receiving the case.[112] Since new cases are generally more easily collectible than old cases, it is important that DOR's processes facilitate early contact with taxpayers. According to the DOR, one of the contributing factors for the lack of timely contact is that the caseload for collections agents is too high, which raises questions about whether the allocation of resources is adequate to maximize collections.[113]

3. Reallocate Resources to Maximize Tax Collection

If resources were shifted from inefficient programs to those that maximize collections, DOR workers are confident that the agency would vastly increase state revenues needed for public services. In particular we believe that identifying and utilizing the most cost-effective technological tools, scaling back on expensive private collections contracts, and using proven techniques for prioritizing collection targets would work exceptionally well.

One of the biggest limitations to collections is the lack of adequate tools to track and prioritize cases, identify non-filers, perform audits, and collect revenues. The SOS concluded that the current technology used by the department is not adequately

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[110] *Ibid*, p. 2.
[111] Interview with Mary Stewart, DOR Tax Auditor, February 2011.
[112] Oregon Secretary of State Audit, "Strategies for Increasing Personal Income Tax Compliance and Revenue Collections," August 2010, p. 18.
[113] *Ibid.*

equipped to identify federal tax return filers who failed to file Oregon returns.[114] DOR staff experiences suggest that resources are not allocated efficiently and staff lack many important, yet cost effective, tools such as LexisNexis.

As Lynn Cromer, DOR employee notes: "Part of a field collector's job is locating taxpayers and then making field visits if required. Some tools we currently use to locate taxpayers do not offer the most current information available. We have, in some situations, ended up visiting addresses that are no longer current. There are research tools available that offer more current information, but have been told by management that they cost too much. I think if we end up driving from Salem to a location in Medford only to find out that they are no longer there, it ends up costing much more in staff wages and travel expenses than the cost for a more efficient research tool."

Unfortunately, one DOR attempt to improve technological tools appears to be misguided. The agency recently created a Strategic Planning Division to implement and oversee DOR's "transformation" into a "model of a 21st century tax administration" allocating about $2 million a year for salaries of a staff top-heavy with managers — 65% of the 20 employees are managers.[115] Rather than implementing a strategic holistic plan aimed at reducing the tax gap as other states like California have done, this new division is taking a narrow approach focused on promoting a "core systems replacement (CSR)." The proposed CSR, a customized computer system overhaul, will cost a projected $92 million over 7 years.[116] While frontline workers and the Secretary of State agree that DOR computer systems need enhancement to manage performance,[117] this seems like an unnecessarily expensive upgrade.

Idaho Case Study

Idaho recently tackled challenges presented by antiquated tax administration software similar to those Oregon faces. In 2002, Idaho replaced its computer program for an estimated $25 million in today's dollars.[118] This "off the shelf" system acts as a data warehouse to consolidate information so that federal returns can be used to identify non- state filers, automate processes, and allow strategic prioritization of cases. This same system is used in 17 states, and in Idaho it increased revenues and improved services to taxpayers.[119] In fact, the project's cost was completely offset in the first

[114] Oregon Secretary of State 2010 Audit Report Notes, "Findings with Agency 1-26-2010", p. 4-5.
[115] Department of Administrative Services, "State of Oregon Executive Branch Current Employees and Positions by Agency with Budget Split Information," Asset Class 2 Data, As of 1/21/2011, Report Date 1/26/2011. Provided to SEIU upon request.
[116] Legislative Fiscal Office, *Analysis of 2011-13 Current Service Level*, January 2011, p. 243. http://library.state.or.us/repository/2011/201101311107251/2011-13.pdf.
[117] Oregon Secretary of State 2010 Audit Report Notes, "Findings with Agency 1-26-2010.
[118] "Idaho State Tax Commission FY 2012 JFAC Presentation," slide 15, 2/3/11. Current cost is what the system would cost in 2011 in today's dollars.
[119] Oregon Secretary of State 2010 Audit Report notes, "Best Practices_Idaho Case Study GENTAX," p. 2.

year.[120] According to the DOR's timeline, the $92 million customized system will not be fully functional until 2015 or 2016, and even that may be uncertain due to de-bugging and frequent modifications that need to occur in customized systems.[121] During the time it takes to become fully functional, our gap may continue to increase in addition to our costs for such an exorbitantly priced system. This could be addressed instead by facilitating immediate improvements to the existing system, or purchasing the "off the shelf" system Idaho and many other states use.

The information technology officer at the Idaho State Tax Commission stated that in the first two years collections increased by $36 million simply because of the efficiency of the new system.[122] Undoubtedly, updated computer software will improve some of the DOR's capacity. However, before the SPD embarks on a costly core systems replacement endeavor it should a) consider agency-wide solutions instead of limited technological improvements, and b) ensure that it has exhausted much less costly software alternatives identified through best practices.

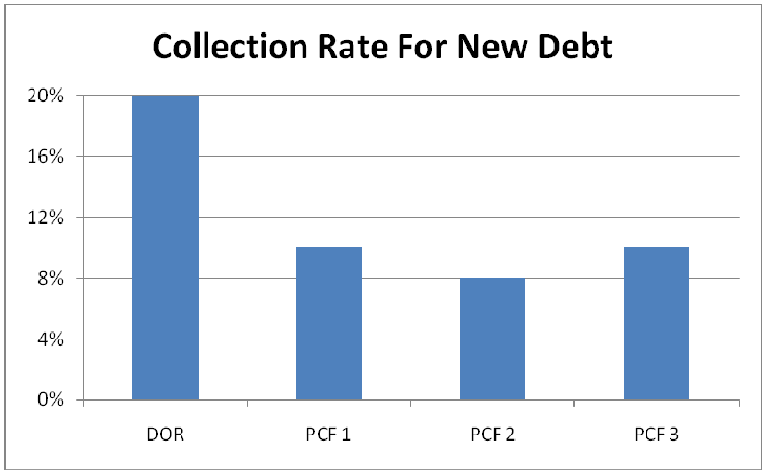
DOR Study: Private Collections Less Effective than In-House Staff

The use of contracted private collection firms (PCF) raises other questions about the efficient allocation of resources. Various state agencies, including the DOR, contract with numerous collection firms through the Department of Administrative Service's statewide contract. The price agreement contained in that contract allows these firms to earn a commission of 16% to 23% for most collections.[123]

Some in the DOR contend that these collections firms add value since they often have research tools that the agency lacks, such as those that help find debtors who have moved out of state. However, the DOR and the Legislature should consider whether purchasing these relatively simple tools would prove more cost effective.

The DOR conducted its own double-blind study released in February 2011, which found that private collection firms had a much lower success rate (between 8% – 10%) than in-house DOR staff (20%) on new debt cases.[124] While the study was limited to a small number of accounts, the findings reveal that when faced with the same types of cases, the in-house staff is more effective. [125]

[120] Gentax Idaho State Commission: A Case Study, 2003,p. 6, http://www.gentax.com/documents/ISTC%20A%20Case%20Study.pdf.
Oregon Secretary of State 2010 Audit Report notes, "Best Practices_Idaho Case Study GENTAX," p. 1.
[121] 2011 Department of Revenue Presentation to the Ways and Means Committee.
[122] Mike Dennison, *Idaho praises software Montana is now using,* Great Falls Tribune, 14 April 2004, http://www.fastenterprises.com/news/montana/GreatFallsTribune041404.pdf.
[123] Secretary of State's Audit Notes, "Statewide Contract_RFP," p. 1.
[124] DOR PTAC Collection Agency Program Assessment, 2/8/11.
[125]Memo from Oregon Department of Revenue Director to SEIU, 2/24/10.



Source: DOR PTAC Collection Agency Program Assessment, 2/8/11.

An IRS study had similar findings. After comparing in-house collection rates to those of contracted firms, the study concluded that employing in-house collection agents was cheaper and more effective than hiring agents working in private firms, a finding that resulted in the IRS ending its contracts with private firms.[126] IRS Commissioner Douglas Shulman stated, "After a thorough review of the program, I have decided not to renew the contracts [with private collection firms]. I believe this work is best done by IRS employees."[127]

Given that private firms collected only 1.3% of the debt assigned to them by DOR in 2009,[128] the agency's policy of delegating cases to private collection firms should be questioned.

Return on Investment

Our recommendations will help to improve DOR collections agency-wide with existing resources, but in addition to optimizing those resources the legislature should consider whether some added resources would pay for themselves many times over. To do so, it would have to analyze return on investment figures for Oregon and other state revenue departments around the country. Unfortunately, the DOR's inability or unwillingness to track return on investment makes it impossible to compare Oregon's track record to those of other states. However, a small sampling of states that do track this information reveals an average 9 to 1 return on investment ratio, meaning additional investments in

[126] Internal Revenue Service, *Private Debt Collection: Cost-Effectiveness Study*, March 2009, http://serrano.house.gov/media/pdfs/PDC_Cost_Effectiveness_Study_March_2009.pdf; http://www.irs.gov/newsroom/article/0,,id=205021,00.html. "IRS Nixes Private Collection Contracts," *Accounting Today,* 6 March 2009, http://www.accountingtoday.com/news/30927-1.html.

[127] Jessica Silver-Greenberg and Peter Carbonara. *Are Private Debt Collectors a Bad Bet for Cities?* BusinessWeek, 12 March 2009, http://www.businessweek.com/magazine/content/09_12/b4124068343179.htm.

[128] Secretary of State Audit, "Strategies for Increasing Personal Income Tax Compliance and Revenue Collections, August 2010, p. 14-15.

state revenue departments result in significant gains in state funds.[129] **Without this information, DOR will likely continue to make uninformed decisions about resource allocation.**

Recommendations

Many of our recommendations can be adopted without legislative action, but as a new director is hired for the DOR, it is incumbent on the Legislature and the Governor to lay out a clear work plan to tackle Oregon's $1.2 billion tax gap.

- Support HB 2519, which would require the Secretary of State to conduct a performance audit of the DOR every four years— and go further to assure these audits are properly conducted. The 2010 audit found that the DOR lacks specific data to properly inform an audit. HB 2519 should be amended to mandate that the DOR establish clear performance measures and benchmarks and statistical annual reporting on operations and outcomes by division, information that would be integral for the Secretary of State to perform comprehensive quadrennial audits and for the legislature to evaluate the DOR's annual performance.
- Mandate a study of the corporate tax gap in the next biennium.
- Evaluate current management policies and adopt those which promote the greatest filing enforcement, and audit and collection practices, such as expanding previous-year filing enforcement and requiring annual matching of IRS returns to identify non-filers.
- Require the DOR to adopt a strategic plan to address the tax gap with performance measures, benchmarks, and timelines.
- Review resource allocations, including function, staff composition, and technological needs for increased revenue collection, prior to investing $92 million in a "core systems replacement" that may prove unnecessary.
- Eliminate private collection contracts for the DOR since studies show they are ineffective and costly compared to what can be accomplished internally with or without additional resources. This action may require further legislation authorizing DOR staff to continue to collect on accounts more than a year past due.
- Mandate established performance measures for all other agencies that use private collection firms.

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[129] "Idaho's Tax Gap," Idaho Tax Commission, November 2009, p. 12, http://tax.idaho.gov/reports/EPB00658_11-17-2009.pdf.

Increasing Tax Collections to Support Services: Reduce Spending on Ineffective Corporate Tax Expenditures

Oregon currently chooses to spend over $12 billion a biennium on income tax expenditures (which include tax credits, deductions, and exclusions), all of which come out of the General Fund. According to the Governor's proposed budget, we will spend more on income tax expenditures than on public safety and public schools combined.[130]

Over the 2011 – 2013 biennium $621 million will be spent on corporate income tax expenditures, ostensibly to encourage economic development or environmental protection.[131] Since Oregon already has one of the lowest effective business tax rates in the country, [132] it seems unnecessary to effect further reductions in the name of improving the state's competitive business position. At a time when education and human services face deep cuts, we should be reviewing all of our spending decisions to make sure they are efficient, effective, and necessary.[133]

Unlike direct spending programs, which are subject to biennial legislative review, tax expenditures are often extended indefinitely without evaluation, continuing to drain revenue from the General Budget without an analysis of whether they are achieving their goal.

One measure of tax expenditures the State does issue, the Tax Expenditure Report (TER), provides a good overview of expenditures' revenue impact but it does a poor job of evaluating the efficacy of the expenditures. At a minimum, these expenditures should face the same scrutiny that other programs are facing. Even if these programs were subject to regular review, it would be difficult to assess whether they are successfully meeting their goals since most tax expenditure programs do not have clearly defined purposes or performance measures. As the state copes to fund very basic services, Oregon is spending $12 billion without stringent performance measures required to justify the spending.

In the 2011–13 biennium, 23 income tax expenditures are scheduled to sunset.[134] The Governor has proposed extending all of these at a projected cost of nearly $285.5

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[130] Governor's Proposed 2011-13 budget, p. B-3, D-1; Tax Expenditure Report, 2011-13, p. 5.
[131] Tax Expenditure Report, 2011-13, p. 6.
[132] "Total state and local business taxes," Ernst & Young, 2010, p.12, www.cost.org/WorkArea/DownloadAsset.aspx?id=69656.

[134] Tax Expenditure Report, 2011-13, p. 7-8.

million.[135] That's $285.5 million not available to stabilize class sizes, preserve a full academic year, keep seniors in their homes or provide adequate care for the mentally ill. Since these tax expenditures are scheduled to sunset, we have an opportunity to start a careful evaluation process—an exercise that our research suggests would call some of these programs into serious question, resulting in significant cost savings.

We have evaluated two corporate tax expenditure programs which are both scheduled to sunset in the coming biennium—the Oregon Business Energy Tax Credit and the Film Production Tax Credit—to assess their effectiveness and identify ways to reduce unnecessary spending. These programs spend money inefficiently, fail to accomplish their stated (or unstated) goals, and cost Oregonians hundreds of millions of dollars.

1) Scalping the Oregon Business Energy Tax Credit

The Business Energy Tax Credit (BETC) is Oregon's most expensive and rapidly increasing corporate tax expenditure. Oregon is projected to spend $290 million on the BETC in the 2011-13 biennium.[136] The purpose of the program is to encourage business investments in renewable energy. However, the program has spun out of control. Currently half the cost of this program is spent on companies who have made no investments in renewable energy.

This is due to a provision that allows third-party corporations to reduce their state income tax bill by purchasing the generous BETC credits (up to 50% of the cost of the energy project) at a discount from those who have invested in renewable energy. There is no requirement that these third-party corporations profiting from the BETC invest in renewable energy directly. This is clearly a misapplication of the program and an inefficient use of Oregon's general fund dollars.

Between 2005 and 2009, the amount of scalped credits claimed by these third parties was approximately $71.5 million per year, or $286 million over the entire period**.** In other words, half of the cost of BETC per year ($145 million) went to corporations that had nothing to do with the alternative energy project for which the credit was originally issued.[137] Because these third-party corporations were able to purchase these credits at a discount, they only paid $201.9 million, pocketing a profit of $84.2 million. Clearly, a program that was created to encourage business investment in renewable energy has turned into a program where tax breaks are up for bid.

Just three out-of-state corporations purchased 41% of the value of all BETC credits sold in a four-year period—US Bank (20%), Wal-Mart (12%) and Costco (9%), manipulating

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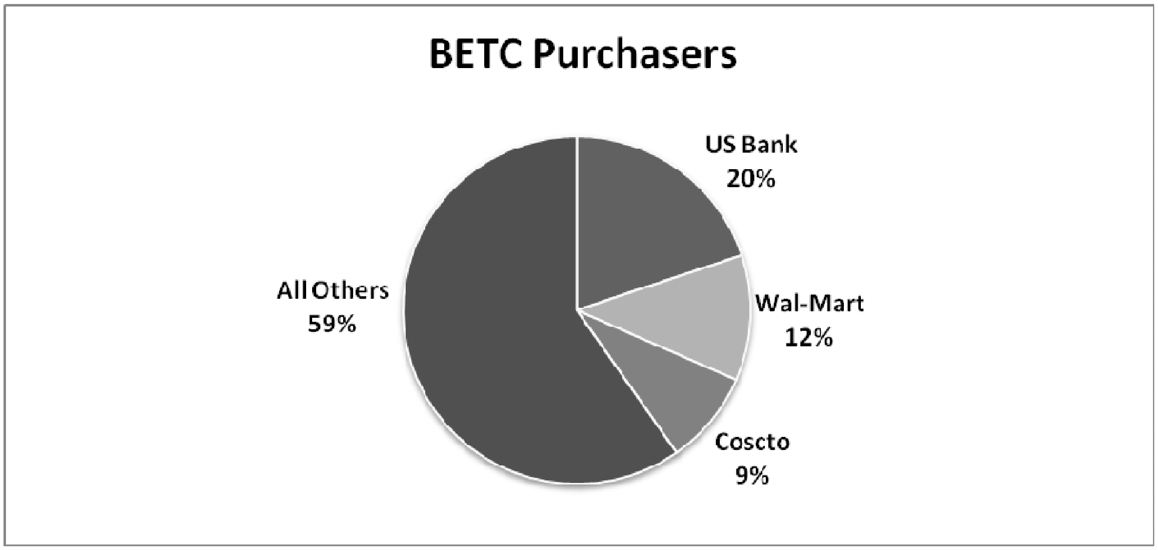
[135] Governor's Proposed Balanced Budget, p. L3-4; Tax Expenditure Report, 2011-13, p. 7-8. The sum of these expenditures excludes those under $100,000 since the exact value under that threshold is not stated in the Tax Expenditure Report.
[136] State of Oregon Tax Expenditure Report, 2011-13, p. 183.
[137] $290 million current BETC cost per biennium is equal to $145 million per year.

tax loopholes to reduce their tax liability and siphoning off state funds for needed services. [138]



Source: Analysis of Department of Energy data on Pass Through Credits, 2005-2009.

What is even more disturbing is that state agencies and local governments, which don't pay taxes and therefore don't need the tax credit, can scalp their credits as well. The result is a confounding system allowing third-party corporations to use government projects on renewable energy to enhance their own profits. So instead of spending on essential services for Oregonians, between 2005 and 2009 we spent $3.9 million allowing corporations to claim credits that came from state agency renewable energy projects for which they paid only $2.9 million, reaping a $1 million profit at the expense of state projects.[139] If we add in local government projects from the same four-year period, the total amount claimed in tax credits by third parties was $36.8 million. However, these third-parties purchased these credits for only $27 million—a profit of $9.8 over four years.

Example of How it Works: US Bank

US Bank tops the list of corporations that take advantage of this scalping scheme. US Bank purchased credits 361 times in four years and paid approximately $39 million for the right to claim $57 million in credits—a profit of nearly $18 million.[140] In its most lucrative deal, US Bank purchased a credit from Klondike Wind Power in 2008 for $7.4 million, and then claimed $11 million in credits, pocketing over $3.6 million with a 49% return on its investment.

[138] Analysis of Department of Energy data on Pass Through Credits, 2005-2009.
[139] *Ibid.*
[140] *Ibid.*

Encouraging Renewable Energy without Giving Corporate Tax Breaks

State agencies, school districts, and local governments should be encouraged to make energy upgrades. Projects to upgrade public buildings create jobs and save money over time. But since governmental entities don't have a tax liability it doesn't make sense for them to use the BETC credit to offset the cost of the project. Instead, we should explore alternative mechanisms to fund public renewable energy projects in a sensible and efficient way. It is costing the state more to have public agencies go through the BETC than it would to set up a direct grant program through the Department of Energy to encourage renewable energy upgrades to public buildings. This type of program would create the financing that public entities need while avoiding creating an unearned windfall for corporations at the expense of Oregon taxpayers.

2) Film Production Tax Credit Promotes Inefficiency

Unlike other states that offer tax credits or deductions for film production,[141] Oregon subsidizes the industry directly. The goal of the program is to encourage film and video production in the state. This is accomplished by giving production companies money through an investment fund.[142] Wealthy contributors donate to the investment fund and for every $90 to $95 they put into the fund, the state gives them back $100 in the form of a tax credit. All of this investment occurs before taxes are assessed and the contributors make a five to ten percent profit from the state. The program has the authority to issue up to $15 million in tax credits in a biennium.[143] If that maximum is reached, the donors' profit from the state is $1.5 million and the film fund only gets $13.5 million. This expenditure is a clear example of inefficiency in our state budget and a misuse of the tax expenditure system. While Oregon may decide that it is good pubic policy to encourage film and video production, does it make sense to give money to wealthy investors instead of those involved in the film industry?

The Governor has proposed expanding the Film Production Tax Credit by extending the sunset for another six years, nearly tripling the state's maximum spending on the credit from $15 million to $40 million a biennium, and allowing donors to get up to 20% of their investment back through the credit.[144] These increases would result in taxpayers paying between $4 and $8 million over the biennium to the wealthy investors.[145] Simply changing this program to a direct spending program would avoid this $4 to $8 million loss in state funds**.**

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[141] Michigan State Law, Section 125.2029. Louisiana State Law §6007, Connecticut, OLR Research Report, July 22, 2008,http://cga.ct.gov/2008/rpt/2008-R-0410.htm.
[142] Tax Expenditure Report, p. 147.
[143] *Ibid.*
[144] See HB 2167 (introduced).
[145] SEIU Analysis of HB 2167 effects.

Potential Cost Savings

These two programs are just a sample of the state's corporate tax expenditures, but they offer compelling evidence that something is amiss. The Governor has asserted that Oregon must find a new way of doing business. We should thoughtfully evaluate whether we continue providing backdoor boondoggles at the expense of education, public safety, and other public services. There may be good rationale for a number of income tax expenditure programs that successfully encourage economic development and renewable energy.

Until we implement a systematic review of our current spending on income tax expenditures, we won't know if those funds are providing a jumpstart to our economy or shifting money from education and other services to large out-of-state corporations. If the legislature implemented our recommendations, Oregon could realize up to nearly $143 million in General Fund cost savings over the next biennium.[146] These funds could be used to backfill the proposed cuts to education, human services, and public safety.

Recommendations:

- The legislature should cut the budget for renewing income tax expenditures scheduled to sunset in the 2011-13 biennium in half. This would result in an additional $142,750,000 to stimulate growth in our economy.[147]

- Given our financial situation we can't afford to spend more money on new tax expenditures. Therefore, the legislature should freeze the creation of any new income tax expenditures during the upcoming biennium.

- Increase transparency and accountability in the income tax expenditure structure to ensure that the expenditures are doing what they were intended; support HB 2517 and HB 2825. Specifically, all expenditures should be written into statute with a clear stated purpose, performance measures, and a timeline/authority designated for periodic review. HB 2517 would require any new or renewed expenditure to have these provisions. Additionally, information regarding the purpose, expenditure applicant name, amount of expenditure and promised and actual results (ex. number of jobs created, reduction in emissions, etc.) should be made available to the public on the transparency website, as HB 2825 proposes.

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[146] The $142,750,000 figure is half of the $285,500,000 revenue impact of the sunsetting income tax expenditures during the 2011-13 biennium. We did not include the savings from the changes to the BETC because some savings were already taken into consideration by reducing sun-setting expenditures by 1/2. We do believe that preventing the scalping of the BETC could save significant resources in the coming biennium.

[147] Tax Expenditure Report, 2011-13, p. 7-8. Total value of sun-setting credits is $285.5 million/3= $95 million.

- Eliminate the ability for entities to scalp the BETC.[148] Instead, only those responsible for the renewable energy project should be able to claim the full value of the credit. To continue to encourage public development of renewable energy projects which create jobs and save money over the long term, the state should set up a direct spending program that encourages schools, local government and state agencies to make energy upgrades. Of the $71 million per year in BETC credits claimed by third-parties over a four year period, $21 million went directly to the profit margin of corporations.[149] On state and local government projects alone, the third parties paid only $6.8 million for the right to claim $9.2 million in credits per year, reaping a profit of $2.4 million. Instead of rewarding corporations that have nothing to do with direct investments in renewable energy, the state should set up a fund that would give the full credit value of $9.2 million directly to state and local public entities (they only received $6.8 million in payments, so they would be getting a greater benefit than under the current program which allows them only to get a portion of the credit value).[150] This would result in a total savings for the state of approximately $62million per year.[151] We have not noted this savings in our overall savings calculations, since this would be an alternative to cutting sun-setting expenditures in half.[152]

Annualized Estimates of BETC Pass Throughs 2005-2009

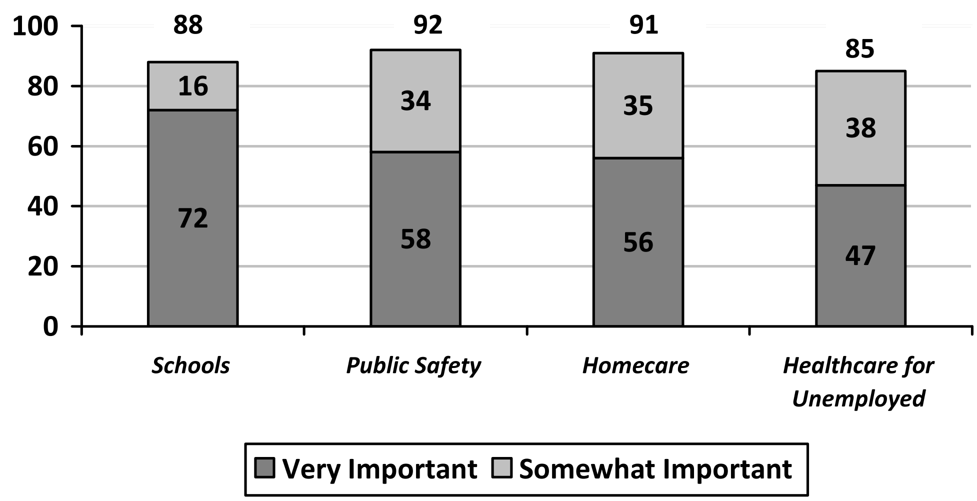
	Price at which Third Party Purchased Credit	Credit Value claimed by Third-Party	Profit
All Sold Credits	$50,484,317	$71,540,724	$21,056,407
State and local government credits	$6,779,301	$9,215,267	$2,435,966
SAVINGS		$62,325,457	

- Make the Film Production Tax Credit into a direct spending program to save up to $8 million over the biennium.

[148] Analysis of Department of Energy data on Pass Through Credits, 2005-2009. Average total value of sold credits is $71 million.
[149] Analysis of Department of Energy data on Pass Through Credits, 2005-2009.
[150] *Ibid.*
[151] This number may be overstated slightly since many of the companies which sold their credit in favor of an immediate cash benefit would decide to take the credit rather than forgoing the credit altogether. There is no way to know how many would be able to benefit from the credit, however, so an exact figure is unable to be determined.
[152] 84% of the cost of sun-setting expenditures will be a result of the BETC, so to avoid double-counting we included the proposed savings of abolishing the ability to sell BETC credits as an alternative, not in addition to the reduction in sun-setting expenditures.

Means-Testing Personal Income Tax Expenditures

The $500 million in savings and revenue identified in previous sections through effecting efficiencies, maximizing existing revenue sources and cutting inappropriate corporate tax breaks, would go a long way to protect critical services in the coming biennium, but still falls short of solving the budget crisis in a way that prevents a level of cuts to senior services, education, and public safety that most Oregonians consider unacceptable. A March 2011 poll done by Greenburg Quinlan Rosner Research of 600 registered voters found that Oregonians continue to value public services. For example, when asked how important it is to protect certain services from funding cuts—very important, somewhat important, a little important, or not at all important—most services slated for reductions had high levels of support.[153]

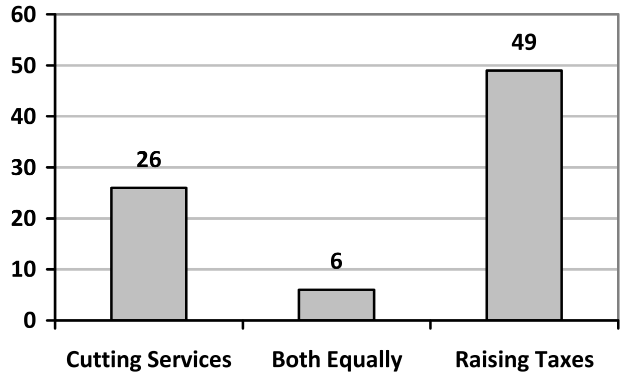


Question from poll: Now I'd like to read you a list of services that the state provides. After I read each item, please tell me how important it is to protect that item from funding cuts, very important, somewhat important, a little important, or not at all important.

Not only do voters firmly believe in supporting services, they continue to believe that some tax increases may be necessary to maintain services. When presented with two options for closing the budget gap, many more voters thought it may be necessary to raise taxes than cut services.

[153] Poll of 600 registered voters, March 3-8, 2011, done by Greenburg Quinlan Rosner Research.

Question from the poll: The state now faces a budget deficit of more than $3.5 billion out of a total budget of $17 billion. In order to close this gap, should the state place more emphasis on raising taxes or cutting services like education, health care, and public safety?



Voters believe that before cutting public school funding and home care for our seniors, we should ask the wealthy to pay a little extra. When asked if they supported limiting the amount of mortgage interest deductible on income taxes to $15,000, impacting homes worth more than $1 million, 66% favored creating the limitation. [154]

Overwhelmingly, the deliberations coming from the Legislature so far this session have been centered on budget cuts that will eliminate funding for needed programs, resulting in a shortened school calendar, compelling seniors to leave their homes for lack of care, and directing officials to release youth offenders before they have received their necessary treatment. Just two weeks ago, while drastic cuts were on the table, legislators were willing to vote to increase the gap by an additional $93 million in tax breaks for corporations.[155] In addition, legislators are seriously considering proposals to reduce capital gains taxes for successful investors and renew dubious tax expenditures that are scheduled to sunset. With all the talk of tax breaks, there has barely been a mention of balancing deep program cuts that affect the low and middle-income with shared sacrifice from those Oregonians still doing very well.

The massive budget shortfall cannot be remedied by a single-pronged approach to cutting services for low- and middle-income Oregonians. There will need to be some sobering cuts in the 2011 – 13 biennium even if legislators follow the road map to a half-billion dollars in budget relief we have already drawn, and state workers are prepared to come to the table to share in the sacrifice. However, the scope of our problem should be addressed with a multi-pronged approach that balances deliberate cuts while pursuing opportunities to grow our state budget, and looking to those who are not otherwise facing cuts to start chipping in more. The Legislature should look to personal income tax expenditures as a part of the solution.

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[154] Poll of 600 registered voters, March 3-8, 2011, done by Greenburg Quinlan Rosner Research.
[155] "Business, Republicans Score Victory on Oregon Tax Bill; Senate Leaders say they'll concur", The Oregonian, March 7, 2011, http://www.oregonlive.com/politics/index.ssf/2011/03/business_republicans_score_vic.html.

Similar to corporate tax expenditures, Oregon also offers tax incentives to individuals to encourage behavior. Many of them have laudable goals, such as helping to make home ownership, college education, and medical expenses more affordable. However, a review of Oregon's income tax expenditures suggests that many disproportionately benefit the wealthy. Making slight adjustments to the amount of money the wealthiest Oregonian's receive in expenditures would result in significant General Fund cost savings.

In fact, a study by the Oregon Center for Public Policy shows that limiting eligibility for just four expenditures to taxpayers earning under $250,000 would yield $14.1 million per year.[156]

As the chart below shows, Oregonians earning more than $250,000 per year benefit the most from these four expenditures. This analysis raises questions about who benefits from Oregon's income tax expenditures, whether these programs are meeting their goals and whether they reflect Oregon's priorities given current circumstances. At the least, this information warrants a comprehensive analysis of all expenditures to identify potential cost savings and to ensure that our tax expenditure programs are as effective as possible.

		Share of Total Value of Expenditure Among Income Group:		
Expenditure	**Share going to those over $250,000**	**Top 20%**	**Middle**	**Bottom 20%**
Residential Energy Tax Credit	$815,622	55%	11%	2%
Cultural Trust Credit	$653,735	80%	4%	1%
529 OR College Savings Plan deduction	$9,673,041	83%	3%	1%
Film Production Credit	$2,970,736	95%	too few to report	too few to report
Total	**$14,113,134**			

Source: OCPP analysis of 2008 Full Year Taxpayer data from Oregon Department of Revenue

We believe that all our income tax expenditures should be designed to address a specific need or policy priority, contain performance measures, and be regularly evaluated to see whether the programs are meeting their goals. Our investigation shows that based on these criteria, some of Oregon's income tax expenditures may be unnecessary and unwise.

[156] Oregon Center for Public Policy memorandum, "Who's Primarily Getting Some Popular Tax Breaks?" 1/25/11.

Solution: Limit the Amount the Wealthiest Oregonians Can Receive in Tax Expenditures

Senior Medical Deduction

All qualifying taxpayers who itemize deductions can deduct from federal taxable income the portion of their medical and dental expenses that exceeds 7.5% of their adjusted gross income. [157] Oregon is the only state that allows seniors 62 or over to deduct 100% of medical and dental expenses from income taxes, a program known as the Senior Medical Deduction.[158] In the 2011–13 biennium, Oregon is expected to spend $148.1 million on this program.[159] Simply limiting the allowable deductions to 80% instead of 100% of medical and dental costs for taxpayers earning over $250,000—a very modest adjustment still well above the federal allowance—would result in an additional $9.5 million a year in revenue.[160] The Legislature could also consider changing the Senior Medical Deduction more substantially in order to preserve care for those facing cuts by earmarking savings for senior programs.

Means Test Tax Deductions for Wealthy Oregonians

Tax expenditure programs and other allowable deductions disproportionately benefit wealthier people. During these tough times when the budget choices involve forcing seniors from their homes and shutting schoolhouse doors, policies that forgo hundreds of millions of dollars in taxes each year merit a look.

Most Oregonians believe the Legislature should arrive at a balanced budget solution that truly spares vulnerable Oregonians from the kind of cuts in the Governor's proposed budget even if it involves seeking additional revenue from those relatively unaffected by the economic downturn.

Taking that approach, we priced out two simple changes that would only affect the way the wealthiest Oregonians file taxes:

1. Oregon allows all taxpayers to take the same deductions on state tax returns that they claim on federal returns. We priced out the savings from limiting the amount of itemized federal tax deductions that the 41,000 Oregon taxpayers who report earning over $200,000 a year can apply on state returns to 85% of what is currently allowable.

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[157] Tax Expenditure Report, 2011-13, p. 112.
[158] "Hard Choices: Something must give in Oregon's budget," Oregonian, 9/25/10, http://www.oregonlive.com/politics/index.ssf/2010/09/hard_choices_something_must_gi.html.
[159] Tax Expenditure Report, 2011-13, p. 112.
[160] SEIU Analysis of Oregon Personal Income Tax Annual Statistics for tax year 2008, All Returns & Full Year Resident Returns (by AGI), Table H.

2. We also limited state-specific income tax credits for taxpayers who earn over $250,000 a year to 85% of what is currently allowable.

These two options combined would save the state $260.8 million per year and $521.6 million in a biennium.[161] It should be noted that we were limited in our analysis by our access to detailed data on tax credits and deductions. We would support limiting both the federal and state deductions to $200,000 or $250,000. We just did not have access to the data to price out those options.

Other sections of this report detail ways that the state can save a half-billion dollars in the coming biennium through more efficiency and prudent application of corporate tax expenditures. These are just two options that, combined, would raise another half-billion dollars from personal income tax expenditures. A billion dollars in budget relief will not spare Oregonians from the impact of cuts that will be enacted as the Legislature attempts to close a $3.5 billion gap. But it will provide a modicum of balance and speak to the sense of fairness to which most Oregonians aspire.

Recommendations

- Given the current state of the economy, do not pass a tax cut on capital gains or any additional personal income tax expenditures not directly tied to job creation for 2011–13 biennium.

- Mandate that every tax expenditure program be designed to address a specific need or policy priority, contain performance measures, and be subject to regular evaluation to determine whether it is meeting its goals.

- Revamp the senior medical tax deduction

- Reduce by 15% the amount of itemized federal deductions taxpayers reporting over $200,000 can claim as well as 15% on state-specific credits for those making over $250,000 to produce an additional $522 million in the 2011–13 biennium. Alternatively, the Legislature could identify and enact other means-tested adjustments that produce a similar amount of budget relief.

[161] Individual Income and Tax Data, by State, 2008.

Total Savings Indentified for 2011 – 13 Biennium

Proposal	General Fund Savings	Total Fund Savings
Management/Staff Ratios	$71,004,424	$253,587,228
Services and Supplies Reduction	$107,230,367	$747,704,006
DOC Projections	$23,400,000	$23,400,000
Agencies Joining OPDP	$1,770,000	$16,970,000
DAS Duplication	Unknown	$4,000,000
Medicaid Fraud Unit Staffing	$8,000,000	$8,000,000
Dept. of Revenue Reforms	$122,105,992	$122,105,992
Corporate Tax Expenditures	$142,750,000	$142,750,000
Subtotal	**$476,260,783**	**$1,318,517,226**
Individual Tax Expenditures	$521,600,000	$521,600,000
Total Savings	**$997,860,783**	**$1,840,117,226**

Appendix A

Department of Administrative Services, "State of Oregon Executive Branch Current Employees and Positions by Agency with Budget Split Information," Asset Class 2 Data, As of 1/21/2011, Report Date 1/26/2011. Excludes: Judicial Branch, Legislative Branch, Oregon Lottery, Oregon University System, and Temporary and Board Employees.

Appendix A contains supervisory and managerial ratios for all executive branch agencies based on all (filled and unfilled) positions, as of January 21, 2011.

Agency	Supervisory Positions (S)	Worker Positions (W)	Managerial Nonsupervisory Positions (M)	Supervisory Ratio (W+M)/S	Managerial Ratio W/(S+M)
ACCOUNTANCY, OREGON BOARD OF	1	5	1	6.0	2.5
ADMINISTRATIVE SRVCS, DEPT OF	123	597	172	6.3	2.0
ADVOCACY COMMISSIONS OFFICE, O	1		1	1.0	0.0
AGRICULTURE, DEPT OF	65	460	5	7.2	6.6
AVIATION, DEPARTMENT OF	5	11	1	2.4	1.8
BLIND, COMMISSION FOR THE	6	45	2	7.8	5.6
CHILDREN & FAMILIES COMMISSION	6	21	3	4.0	2.3
CHIROPRACTIC EXAMINERS, BRD OF	1	4		4.0	4.0
COMM COLL/WRKFRCE DEV, DEPT OF	9	49	6	6.1	3.3
CONSTRUCTION CONTRACTORS BOARD	10	70	1	7.1	6.4
CONSUMER AND BUS SRVCS, DEPT O	143	881	57	6.6	4.4
CORRECTIONS, DEPT OF	439	4188	83	9.7	8.0
COUNSELORS & THERAPIST BRD	1		3	3.0	0.0
CRIMINAL JUSTICE COMMISSION	2	3	5	4.0	0.4
DENTISTRY, BOARD OF	3	4		1.3	1.3
DIETICIANS, BRD OF EXAMNRS OF	1			0.0	0.0
DISTRICT ATTORNEYS/DEPUTIES		36		N/A	N/A
EDUCATION, DEPT OF	56	371	11	6.8	5.5
EMPLOYMENT DEPT	148	1521	25	10.4	8.8
EMPLOYMENT RELATIONS BOARD	3	8	2	3.3	1.6
ENERGY, DEPARTMENT OF	20	102	14	5.8	3.0
ENVIRONMENTAL QUALITY, DEPT OF	78	717	27	9.5	6.8
FISH & WILDLIFE, DEPT OF	215	1296	14	6.1	5.7
FOREST RESOURCES INST, OREGON		10		N/A	N/A
FORESTRY, DEPT OF	175	1056	14	6.1	5.6
GEOLOGY & MINERAL IND, DEPT OF	4	39	1	10.0	7.8
GOVERNMENT ETHICS COMMISSION	1	6	1	7.0	3.0
GOVERNOR, OFFICE OF THE	20		51	2.6	0.0
HOUSING & COMM SRVCS, DEPT OF	27	147	23	6.3	2.9
HUMAN SERVICES, DEPARTMENT OF	1422	10463	414	7.6	5.7
JUSTICE, DEPARTMENT OF	137	1199	26	8.9	7.4
LABOR & INDUSTRIES, BUREAU OF	17	89	4	5.5	4.2

LAND CONSERV & DEV, DEPT OF	9	77	9	9.6	4.3
LAND USE BOARD OF APPEALS	3	3		1.0	1.0
Agency	Supervisory Positions (S)	Worker Positions (W)	Managerial Nonsupervisory Positions (M)	Supervisory Ratio (W+M)/S	Managerial Ratio W/(S+M)
LANDS, DEPARTMENT OF STATE	17	92	4	5.6	4.4
LIBRARY, OREGON STATE	6	38		6.3	6.3
LICENSED SOCIAL WORKERS BOARD	1	4		4.0	4.0
LIQUOR CONTROL COMMISSION	28	212	6	7.8	6.2
LONG TERM CARE OMBUDSMAN	1	9	1	10.0	4.5
MARINE BOARD	6	35	2	6.2	4.4
MEDICAL IMAGING, BOARD	1	2		2.0	2.0
MILITARY, DEPT OF	53	524	20	10.3	7.2
MORTUARY AND CEMETERY BOARD	2	4	1	2.5	1.3
NATUROPATHIC MEDICINE, BOARD	1	2		2.0	2.0
NURSING, BOARD OF	5	36	8	8.8	2.8
OCCUPATIONAL THERAPY, BOARD	1			0.0	0.0
OR BUSINESS DEV DEPT	22	78	33	5.0	1.4
OR HEALTH LICENSING AGENCY	5	30	1	6.2	5.0
OREGON MEDICAL BOARD	9	31	3	3.8	2.6
PARKS & RECREATION, DEPT OF	116	752	21	6.7	5.5
PAROLE/POST PRISON SUPV, BRD O	2	13	2	7.5	3.3
PHARMACY, OREGON BOARD OF	4	15	2	4.3	2.5
POLICE, OREGON STATE	228	1081	15	4.8	4.4
PRIVATE HEALTH PARTNERSHIPS	7	74	3	11.0	7.4
PSYCHIATRIC SECURITY REVIEW BR	1	4	3	7.0	1.0
PSYCHOLOGISTS EXAMINERS BRD	1	3		3.0	3.0
PUBLIC DEFENSE SERVICES	10	59		5.9	5.9
PUBLIC EMPS RETIREMENT SYSTEM	42	306	21	7.8	4.9
PUBLIC SAFETY STANDARDS & TRNG	20	374	7	19.1	13.9
PUBLIC UTILITY COMMISSION	26	104	5	4.2	3.4
RACING COMMISSION	8	9	4	1.6	0.8
REAL ESTATE AGENCY	6	22	4	4.3	2.2
REVENUE, DEPARTMENT OF	96	987	32	10.6	7.7
SECRETARY OF STATE	62	142		2.3	2.3
SPEECH PATHOLOGY/AUDIOLOGY	1		1	1.0	0.0
STUDENT ASSISTANCE COMMISSION	5	26	1	5.4	4.3
TAX PRACTITIONERS, ST BRD OF	1	2	1	3.0	1.0
TEACHER STANDARDS & PRACTICES	5	20	1	4.2	3.3
TRANSPORTATION, DEPT OF	478	4161	161	9.0	6.5
TREASURY, OREGON STATE	20	66		3.3	3.3
VETERANS' AFFAIRS, DEPT OF	17	92	4	5.6	4.4
VETERINARY MED EXAMINING BRD	1	1	1	2.0	0.5
WATER RESOURCES, DEPT OF	22	120	6	5.7	4.3
WATERSHED ENHANCEMENT BOARD	7	24		3.4	3.4
YOUTH AUTHORITY, OREGON	130	1020	36	8.1	6.1
TOTALS	4625	34052	1386	7.7	5.7

These represent rounded ratios; calculations were performed on un-rounded ratios.

Research Process and Team

This report is the product of collaboration between frontline state workers and SEIU researchers. We began by asking our members, the people who work on the frontlines every day, to identify efficiencies that could lead to savings in their agencies. About 1,600 workers— about one in ten of the state workers the union represents— responded. SEIU researchers then began exhaustive research into some of the most promising suggestions. The research developed by SEIU researchers, which was based on public records, interviews, and budget information, was then compiled into this report.

SEIU Research Team

Gary Weeks served for over six years as the Director of the Department of Human Services under Governors Kitzhaber and Kulongoski. He has also been director of four other state agencies and for the past four years served as President/CEO of the Washington Health Care Association.

Mary Stewart has been a resident of Oregon since 1974 and held various banking and accounting positions through out that time. She spent seven years with Dunn & Bradstreet as a business analyst and fraud investigator and currently works with the Oregon Department of Revenue as a personal income tax auditor.

Eric Lotke is Senior Policy Analyst at SEIU. In previous years he was Research Director at the Institute for America's Future and Executive Director of the DC Prisoners' Legal Services Project. An attorney, Mr. Lotke has taught classes at Georgetown, George Washington, and the District of Columbia schools of law.

Pooja Bhatt is a lead SEIU 503 researcher for this project. Ms. Bhatt previously served as the National Campaign Coordinator and Researcher in India for UNI Global Union and as a Researcher with SEIU 49.

Andrew Boeger is a Senior Researcher with SEIU 503. He began working for SEIU nine years ago after leaving a career as an academic historian.

Inga Nelson is currently completing graduate work at Portland State University. Prior to joining the research team at SEIU 503 she spent over a decade working on legislative and policy issues for public employee unions, including NEA and AFT state affiliates, and non-profit organizations.

Justin St James is an attorney who earned his B.A. at Wake Forest University and J.D. from the University of Oregon Law. Prior to joining the SEIU 503 research team he was the Campaign Manager for the 2010 Riley for State Senate campaign.

Janelle Sorenson is a former attorney and college professor. Before joining the research team at SEIU 503, she was most recently the Coalition Outreach Director for the statewide Ballot Measure 76 campaign.

John Johns is a CPA and researcher with SEIU International. He is an internationally recognized speaker on state and local government finance management issues. Prior to joining SEIU he was a finance director.

Melissa Unger has worked at SEIU 503 for the past 3 years. During her time at SEIU she has worked on budgets for all the state agencies where SEIU represents members. Before joining SEIU she was the executive director for the Oregon Student Association.

Summary of Cost Saving Ideas from Member Survey Responses

March 17, 2017

Ideas Applicable Statewide or Across More than One Department

1. **Electronic Records.** Many respondents supported the idea of a more robust implementation of electronic records (i.e. "going paperless"). One worker shared that some units in ODOT still use paper timecards. A few had concerns about the security of electronic records, particularly medical records. There was interest in being able to share electronic files between different agencies. A few respondents complained of having to print electronic records for submission to courts.
2. **Technology Upgrades.** On a related theme, some respondents voiced frustration with antiquated, slow, and very old computer systems. Several also stated that workers need more and better training on new technology when it is purchased. One suggested the installation of high speed scanners at high volume customer service counters. Another suggested, "We could have an app for submitting our mileage each month for reimbursement instead of spending at least an hour each month filling it out on the computer/ copying it from our log sheets in our vehicles." #68
3. **IT Contracting.** Several respondents voiced concerns about IT contracting. In some cases, contractors were hired when there were available staff to perform the work. In other cases, more contractors were hired than needed, creating confusion and wasting money. The biggest concern was the excessive cost of IT contracting. In some cases, IT contractors are not properly vetted and cannot do the work.
4. **Fraud & Debts.** Some respondents noted that there should be increased and improved fraud detection, overpayment collection and debt collection. One respondent suggested that agencies should consider paying DOJ an hourly rate for investigative services and many noted the lack of coordination between DHS and DOJ on child support payments and overall work.
5. **Managerial Bloat.** Several respondents stated that some units and programs are still stop-heavy with an excessive number of managerial employees.
6. **Overpaying for Supplies.** Many respondents stated that the State is overpaying for supplies because it requires purchases to be made at specified suppliers. Much of the focus of this was on office supplies; one respondent stated, "How about we get a contract with Dollar Tree or Big Lots, instead of Office Depot or Office World!" This is also a problem with caterers. One respondent suggested that a possible solution would be for the State to buy office supplies in bulk centrally, and distribute them to the agencies at cost. One respondent suggested that the State should buy cars and other stuff at Federal auctions.
7. **Excessive Spending on Travel.** Many respondents expressed concerns about travel expenses. Some urged greater use of Skype and videoconferencing. Others urged that trainings—for staff and for homecare workers—be done in more locations and in publicly-owned buildings rather than hotels. And some respondents suggested that tax auditors and fraud detection specialists be stationed in branch offices rather than being domiciled in Salem.
8. **Empty Positions**. Compare FTE to cost centers in agencies. Eliminate ghost positions (and rumored ghost units).
9. **Disposal of Surplus** The State's process for disposing of surplus or outdated equipment and supplies is so cumbersome that money is lost by storing stuff indefinitely. That State should revamp this process, and consider just putting stuff on eBay.

Cost Savings within Specific Departments and Units

Our respondents had many cost savings and efficiency ideas that are specific to particular departments, divisions, programs, units, and, in some cases, particular offices.

Department of Human Services/Oregon Health Authority

The largest number of responses—32% of the total--came from DHS workers, and another 15% came from OHA employees.

1. Eliminate loopholes that allow people to hide assets which would disqualify them from eligibility for benefits at DHS.
2. All services should be available in one place. Not two places. (DHS)
3. Put OHP back in the field offices.
4. After 5 – 9 years of LEAN improvements at DHS, we don't need another layer of LEAN bureaucrats.
5. Create one unified data service for all Public Health.
6. We contract out too many services that could be performed by State Staff if we would HIRE people to do this work. Areas of concern are Doctor's, Nursing, and IT.
7. Increase X-ray and Radioactive Materials License fees.
8. Raise licensing fees for facilities under Health Care Regulation & Quality Improvement jurisdiction; raise hemodialysis technician certification fees; raise fees on EMS technician licensure; raise fees on EMS-mobile (ambulance) licensure; raise fees for siting new hospitals w/in Oregon (through Certificate of Need Program in Health Care Regulation & Quality Improvement).
9. There are several programs which have been held ransom by vendors. One example is Patient-Centered Primary Care Home (PCPCH) Program mandated by the legislature in 2009. The State of Oregon does not choose to 'Employ" a Clinical Advisor and over time, we have ONE individual who we contract with that has the knowledge and experience to perform this work. This individual knows he is the only person and basically has us over a barrel...costing Millions over a 5-year contract period. We need to have this knowledge transferred to a state employee.
10. Eliminate expensive paper checks in DHS and move to an EBT card completely.
11. Use bilingual staff instead of $75 per hour telephone-based translators.

12. **ODDS/IDD**
    a. ODDS and VR need a single electronic case management system for ID/D employment clients.
    b. Increase civil penalty fees for licensing at DHS, including ODDS
    c. Currently, OHA has authority to approve a dynavox, which is an adaptive communication device that costs several thousand dollars. They cannot, however, purchase an iPad with software, which serves the same function at a fraction of the cost. Shifting to bulk purchasing agreements and common sense approaches would save significant amounts.
    d. Charge more per bed to foster home providers. They currently pay $20 a bed. Increase this to create revenue.
    e. My program (dd services) currently splits Medicaid determination and service determination between apd and county dd programs. If the Medicaid determination was transferred to dd programs it would reduce duplicative work, reduce duplicative forms, and increase efficiency of apd staff to manage current workload. There is also no electronic case management system for

dd and no universal case management system between apd and dd. Having one system would reduce gaps in Medicaid coverage and increase efficiency. (DHS)

f. Collaboration is needed for high cost cases in DHS and OHA. Managers are concerned about their "turf" rather than best serving individuals across programs. ODDS could be combined organizationally with APD and be under OHA instead of DHS (reduce duplication and inventing "the wheel" by each agency) Case management for ODDS clients could be provided by Community Developmental Disabilities Programs only instead of operating two or more case management entities in each county by
g. having brokerages. (Contrary to the law for counties first right of refusal?)

13. **Child Welfare.**
    a. Paperwork required of foster parents could be done more efficiently online
    b. More interns and volunteers needed to transport children to visits.
    c. Eligibility reimbursement accuracies and timeliness can be increased with better training. TCM reimbursement can be increased by fixing MMIS ICD-10 codes that are causing denial.
    d. Too much unneeded paperwork that does not make children safer.
    e. I've suggested reaching out to local Universities to talk to social welfare/social work students who are needing to complete practicums before graduating. If DHS could have volunteers or practicum students help with managing some of the easier tasks that a Case Manager is saddled with it would be a huge relief and would give Case Managers more time to focus on details and person centered-planning.

14. APD
    a. Get rid of support staff managers.
    b. Charge long term care facilities for revisits due to noncompliance.

15. SSP
    a. Policy could be changed to return unused SNAP and TANF benefits from EBT cards at 3 months instead of 12 months. (DHS)
    b. The ONE intake model for SSP branches creates inefficiencies by rotating workers every day.

16. OSH
    a. OSH, get rid of so many unnecessary RN'S in Management positions. 1 nurse manager & 3 other nurses on one patient unit with 26 clients is over kill. Get rid of "Lean" program & CPS positions. Look at their salaries & they can work overtime?
    b. At the Oregon State Hospital, we do not use the ePayroll system, instead we have a time keeping program called AP that requires a department called Centralized Time Keeping to transcribe our time from API into ePayroll. Since implementing API, I spend more time reviewing my time and asking for error corrections than when I could enter my own time. As I do not want any of the current CTO workers to lose their jobs, my suggestion is to leave the 24/7 positions such as nursing under the CTO, but make salaried Professional positions responsible for our own timekeeping. Currently several contractors have been hired by the CTO, and this does not seem like a good use of scarce dollars when many employees at OSH can enter their own time, and in fact many of us did it for years before API and the CTO were implemented.

Department of Justice

1. Increase fees for modifications, DNA testing. Charge for process serving.
2. Allow wage garnishments for blood test judgments related to paternity testing. possible law change.
3. We could charge more for activating services. We only charge $1.00. SSD DOJ

4. ABC Legal needs to be monitored and audited to verify that their "attempts for services" were requested and authorized for the date and times done! There are many, many charges being billed without any checkpoints or audits being done!
5. Some Touch Pay Kiosks in DOJ/DCS don't work properly and don't provide a receipt, which is needed for court.
6. Child Support workers spend too much time chasing people who cannot pay.

ODOT/DMV

1. More constraints on change orders on highway construction projects. These often follow very low bids.
2. Setting up direct fax from desktop instead of printing the document then faxing it from the same machine. Less paper used.
3. One and done - if we could create a call in dispatch TOCS and it could automatically turn on VMS boards to warn traveling public and activate HAR (highway advisory radio) .
4. Raise DMV test and registration fees.
5. Enforcement of fines against railroads, with the money coming to the State instead of the federal government.

Department of Revenue

1. More tax auditors in Medford.
2. Create DOR team in Salem dedicated solely to written objections, conference, and magistrate cases. It is inefficient to have auditors drive from field offices to Salem.
3. Have Revenue Agent 1's work the self-assessed (didn't pay with return) debt.
4. Revenue: stop using outside collection agencies. Make DOR collection agency for all municipal and state debt.
5. Credit card swipe machine needed at front counter of DOR offices.

Higher Education

1. Buy printers and copiers.
2. Too short staffed to monitor accounts payable.
3. Use text to communicate with clients. More responsive to text than voicemails. Google Voice/Text can be used for free. Why are we still paying AT&T for long distance?
4. Accept credit cards at student accounts window (Higher Ed)
5. Create a Friends of the Library program for campus libraries.

ODFW

A lot of the contracted construction jobs don't get proper supervision and have setbacks that sometimes cost the agency more money.

Forestry

Charge for burning permits. 400 in one year at one unit issued at no cost.

PERS

1. Bring IAP/OPSRP in house and drop Voya 7
2. Have system notify other staff members when a member film request is already being worked on.