FISCAL IMPACT OF PROPOSED LEGISLATION **Measure: SB 1067 - A**
79th Oregon Legislative Assembly – 2017 Regular Session
Legislative Fiscal Office

Only Impacts on Original or Engrossed Versions are Considered Official

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Date:	July 3, 2017

Measure Description:
Provides numerous changes to processes and programs to reduce and contain state government costs.

Government Unit(s) Affected:
Statewide

Summary of Expenditure Impact:
Savings associated with the measure are indeterminate at this time. Many of the provisions are designed to reduce future costs and it is unknown what the costs would be without the provisions of the measure to prevent such costs from occurring. It is anticipated that there will be savings of at least $93.8 million General Fund and $177.7 million Total Funds in the 2019-21 biennium due to the changes relating to the Public Employees' Benefit Board (PEBB) and the Oregon Educators Benefit Board (OEBB). These savings will increase in future biennia to approximately $112 million General Fund and $214.2 million Total Funds when the changes will be in effect for a full biennium. Other provisions in the measure will result in direct and indirect savings beginning in 2019-21. Generally, any costs to state agencies, other than those for the Department of Revenue (DOR), related to the measure are anticipated to be minimal. DOR will have costs related to the implementation of provisions regarding debt collection; those costs are indeterminate, but are expected to be recovered from fees on collections.

Taking into consideration the fully biennialized estimate of actions that result in direct savings, funds freed up to be redeployed, and actions taken during the 2017-19 budget process that are to be considered in future budget development, the direct savings and future cost avoidance are estimated to be approximately $1 billion Total Funds.

Analysis:
The measure makes several changes to the budget process and to specific programs and services to reduce and contain state government costs and to reduce the growth of such costs going forward. Changes in the measure include:

- Requires legislative review of reclassification of positions by state agencies
- Requires legislative review of agency long-term vacancies
- Requires additional reporting on collective bargaining changes
- Reduces the cap on state government FTE from 1.5% to 1.0% of the state population
- Requires the Legislative Fiscal Office (LFO) to study the Lottery Commission administrative costs and transfer rate prior to the odd-numbered year session
- Requires a study of state procurement practices to achieve savings
- Authorizes LFO to update current service level assumptions from what is used to prepare the Governor's budget proposal
- Sets a target of 2% of replacement value to be spent on deferred maintenance each biennium
- Modifies the law regarding PERS side accounts (pre-paid employer contributions) and requires the Governor's budget proposal to include recommendations on funds available for additional side account deposits
- Limits PERS contingency reserve fund to $50 million

- Ensures that communications regarding the PERS unfunded accrued liability includes information on side accounts
- Requires the Legislature to establish a minimum project amount to be eligible for bond financing; projects below that amount need to be funded with cash
- Centralizes debt collection activity in state government in the Department of Revenue and further specifies changes to debt collection processes and reporting
- Requires PEBB and OEBB to establish an executive committee to develop a plan for the merger of the boards and to begin to combine administrative functions and operations
- Requires PEBB and OEBB to adopt methodologies designed to limit growth in premium or per member health plan costs to 3.4% per year
- Eliminates "double coverage" for PEBB and OEBB employees who have family members also employed by a PEBB or OEBB employer.
- Ties hospital rates for PEBB and OEBB to a percentage of Medicare rates for most hospitals
- Establishes effective dates

It is anticipated that the measure will save at least $93.8 million General Fund and $177.7 million Total Funds in the 2019-21 biennium from the changes to health benefit plans under PEBB and OEBB. These savings will increase to approximately $112 million General Fund and $214.2 million Total Funds when the measure is fully biennialized. In addition, the 3.4% growth limit prevents future costs and has been built into 2017-19 budgets. For context, the actuary for PEBB considers standard medical trend to be at about 7.2% growth in costs per year. For PEBB only, the difference in cost between 7.2% and the 3.4% is about $30 million General Fund and $69.2 million Total Funds per biennium.

Changes related to the PERS contingency reserve fund that limit the fund to $50 million result in the PERS Board being able to redeploy the excess funds. As of January 31, 2017, the Contingency Reserve held $583.7 million, so $533.7 million will be able to be redeployed; the Board has already considered redeploying $345.8 million of the funds to the Benefits-in-Force Reserve account to support future benefit payments and reduce the unfunded actuarial liability.

Several of the changes in the measure are to establish in law the process that was used this session that resulted in reductions to agency budgets, including the removal of 339 positions that have been vacant for an extended period of time. Savings from removal of such positions in the 2017-19 budget are estimated to be $16 million General Fund and $38.9 million Total Funds. In addition, an increase to the vacancy factor and limits on the inclusion of standard inflation for services and supplies and on state agency travel generated additional savings of $66.9 million General Fund and $160.3 million Total Funds for 2017-19. These changes lower and reset the base budget for 2019-21 and future biennia.

In addition to direct savings, the measure puts in place restrictions and processes that are intended to institute prudent financial principles, constrain future budgetary growth, and produce additional reductions in agency costs during future budget preparation cycles. These changes include the additional legislative review of agency actions, including the Lottery Commission administrative costs and transfer rate and state procurement practices; the cap on state FTE; changes to the bonding process; and the centralization and modification of debt collection practices.

While there will be costs for the Department of Revenue to implement the changes regarding debt collection, those costs are indeterminate at this time and will be considered during the February 2018 session. Any costs to the agency for the new provisions are anticipated to be covered by collection fees added to the outstanding debt. In addition, it is expected that over time there will be improved recoveries as a result of the new debt collection processes. Some agencies have identified that they anticipate having potential savings and/or costs related to the changes, but the amounts are indeterminate and any potential costs are generally anticipated to be minimal.