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Kulongoski releases plan for 'reset' of state government

Portland Business Journal - by [Andy Giegerich](#) Business Journal staff writer

In a set of sweeping recommendations, Gov. Ted Kulongoski released a plan Friday to 'reset' state government.

The plan stemmed from the work of a "Reset Cabinet" that Kulongoski assembled last year.

Kulongoski charged the cabinet with crafting recommendations on new ways to generate revenue as well as manage the state's spending processes. Kulongoski will include the group's recommendations in his 2011-13 budget proposal, set to be released in late 2010.

The cabinet's final report contains 38 recommendations. It arrived as Kulongoski finalized \$577 million in budget cuts to address the state's latest budget shortfall.

The cabinet suggested the state create an emergency reserve fund while reforming the revenue kicker. The kicker returns money to residents if collected revenue during a biennium exceeds the state's projections. While the cabinet called for a constitutionally protected reserve fund, it stopped short of calling for a sales tax that some say would buffer Oregon's budget during recession. Other recommendations: The plan calls for combining school services and consolidating smaller districts in an effort to close gaps between thriving and struggling systems. The group also recommended that school employees negotiate collectively, as opposed to having each of Oregon's 197 districts negotiate separate contracts.

The cabinet also urged the creation of a "Strategy to Apply Reusable Technology" that would consolidate the state's various tech-innovation funding streams.

Such a fund should be between 12 percent and 15 percent of the state's general fund. The figure would approach the \$2 billion mark based on Oregon's current general fund. To meet the goal, the state would need to save more than 3 percent of the general fund-collected money each biennium.

Reforming the politically popular kicker, through a statewide vote, would go a long way toward establishing solid reserves.

"We must reform the kicker and create a constitutionally protected emergency reserve fund that ends our roller coaster budgeting," Kulongoski said. "We must stop the self-defeating policy of increasing taxes or slashing services as the answer to every economic downturn."

Yet the reset advisors told Kulongoski that while a sales tax would help stabilize Oregon's shaky revenue situation, it's not a "viable option" thanks to voter disdain.

"Even sales taxes showed declines in the most recent recession," cabinet members wrote in their final report. "Sales taxes are predicted to be a declining source of revenue in the long term as well, due to the growth in non-taxed Internet commerce. For these reasons, the cabinet does not recommend consideration of a sales tax at this time."

Among other specific recommendations:

- Schools could share business functions, and smaller school districts could be consolidated, by 2012 and 2014 respectively. The cabinet believes the state can provide "richer course offerings in math and science ... at lower costs."
- Oregon's public universities could face a 15 percent reduction from the amount the state provides it starting with the 2011-13 biennium. The schools could make up the drop through higher enrollments and by retaining more students, the group said.
- Oregon could adopt a "modern sentencing guidelines" system that would take the state's current prison bed capacity into account when considering sentences. The state could also "selectively adjust" Measure 11 sentences, or the state's strict sentencing of low- to mid-level crimes. The requirement, approved earlier this decade, boosted Oregon's prison population from 7,000 to 14,000.

"The time is now to find more effective and sustainable ways to use the hundreds of millions of dollars we spend on incarceration," Kulongoski said. "This does not mean that we stop holding criminals accountable – or shorten sentences of violent offenders. . . There are actions we can take to reduce some sentences for some offenders without sacrificing public safety – and ways to divert offenders from prison."

Oregon's public employees could pay more of their own benefits costs. In particular, the employees may need to help defray projected annual 10 percent health care cost increases. The employees could also kick in more money to address the expected \$350 million increases in costs for the Public Employees Retirement System. The retirement system is expected to face huge problems when baby boomer employees begin retiring over the next decade.

Kulongoski added that the state could reduce the 6 percent PERS contribution it makes to the retirement system. The governor and the cabinet also backed statewide collective bargaining for teachers.

"We need to make the labor costs of school employees as transparent to policy-makers and fair to taxpayers as the labor costs of state employees," he said. "For this reason, I believe the time has come to move to a system of statewide collective bargaining for teachers and school employees like other states do."

The technology proposals would reduce business costs by making data collection and sharing systems more uniform, Kulongoski said. Oregon has joined with officials in Illinois, Minnesota and Utah to create programs that better track services and detect fraud and abuse, he added.

Kulongoski acknowledged that the timing of his report — he leaves office in January — is unusual.

"It would be easy for me to leave the stage quietly and hand the next governor this problem without offering any solutions," he said. "That would be unfair to the citizens I have been proud to represent for the last 40 years in public office."

Kulongoski released the recommendations at Friday's City Club of Portland meeting in downtown

Portland. About 400 people attended the event.

During a question-and-answer period, he blamed Oregon's ballot initiative system for causing many of the state's budget headaches.

Anti-tax advocates in particular have used initiatives to reduce property taxes, typically a critical public revenue source.

"A lot of events are coming home to roost," Kulongoski said. "We have to use these measures to actually improve our quality of life."

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