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## Reset plan for Oregon budget wouldn't balance it

Many of governor's proposals also face political difficulties

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Even if Oregon were to adopt all of the recommendations by a panel commissioned by Gov. Ted Kulongoski to "reset" state government, the estimated savings would be less than what is needed to balance future budgets.

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**Video:** <http://www.statesmanjournal.com/live>">Watch a replay of Gov. Kulongoski's speech at the Portland City Club

**Read the report:** <http://www.statesmanjournal.com/assets/pdf/J0160072625.PDF>">Reset Cabinet's recommendations

**Speech:** <http://www.statesmanjournal.com/assets/pdf/J0160074625.PDF>"> Read Gov. Kulongoski's speech as prepared for delivery

**Website:** [http://governor.oregon.gov/Gov/governor\\_reset\\_cabinet/reset\\_state\\_govt.shtml](http://governor.oregon.gov/Gov/governor_reset_cabinet/reset_state_govt.shtml)">Governor Kulongoski's Reset Cabinet website

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As Kulongoski acknowledged in his speech Friday to the Portland City Club, nearly every interest group can find fault with one or more of the recommendations. Many groups did afterward — and their opposition indicates that many of the recommendations will face political difficulties, either with legislators or voters.

"As difficult and dramatic as these recommendations are, they are not going to be enough," said Lane Shetterly, a lawyer from Dallas who sat on the panel.

"There are still some of the old-fashioned machinations that are going to have to come into play to balance the next budget. But at the same time, if you knock off that \$1 billion in the next cycle, you are 'resetting' that base of (government) costs going forward — and it does pay dividends down the road."

The panel's report estimates that \$1.5 billion would be saved from the tax-supported general fund, which pays for most state services and aid to schools, over the next two budget cycles from mid-2011 to mid-2015.

The Democratic chief executive named the seven members of the panel last fall, months before the Legislature's budget analysts projected a gap of \$2.5 billion between anticipated tax collections and current services in the 2011-13 budget cycle. But Kulongoski said then that even when Oregon emerges from the worst economic downturn since the Great Depression 80 years ago, tax collections will not grow fast enough to match the state's current obligations.

Shetterly returned to his law practice in 2007 after seven years as a Republican state representative from the Mid-Valley — and a two-time leader of the Oregon House committee that writes tax legislation — and more than three years as director of the state land-use agency.

## 'Kicker' resurfaces

In 2007 and 2008, after Shetterly left office, he led a task force whose main recommendation was to divert part of excess income-tax collections, which individual taxpayers receive in the form of "kicker" checks, to build up state budget reserves. The money is rebated when collections exceed projections by 2 percent or more.

Lawmakers took no action on that proposal in 2009 or in their February session, despite Kulongoski's urging that it be taken up.

Kulongoski restated his call for such action, although the likelihood of such rebates for individual taxpayers in 2011 is dim. The outlook is different for corporate income taxes, which were projected in the latest forecast May 25 to be over the threshold by \$14 million.

Shetterly wrote the report's section on "revenue stability" — and the call for kicker modification is the only proposal by the "reset" panel in this section.

"We made the decision early on that the reality is that voters are not going to support a broad-based general tax increase to raise revenues up to our spending level," he said.

"We're looking at bringing the cost curve down to meet revenues, as opposed to raising revenues. If we allowed ourselves just to imagine new revenue, then this report would be worthless."

## Health costs

While Kulongoski talked about the kicker modification, education, public safety and employee benefits, the 85-page report covers other topics that Kulongoski did not mention in his speech.

Among them are health care and human services, which account for about a quarter of the state's discretionary spending from the tax-supported general fund and lottery proceeds — and two-thirds of Oregon's federal grants, which are earmarked for specific programs. For every dollar put up by the state for many of these programs, the federal government supplies two dollars.

The biggest is Medicaid, which in the current budget cycle receives 70 percent from the federal government — up 8 percentage points from recent cycles — and 30 percent from the state. Although much of the state's share is in the form of earmarked cigarette and hospital taxes, just under \$1 billion comes from the general fund.

The "reset" report recommends that annual growth in health-care spending be held to 5 percent annually — about half the recent increase in medical costs, which far outpace the Consumer Price Index. Legislative budget analysts have assumed 13 percent growth in the Oregon Health Plan over the next two-year cycle, 3 percentage points higher than the stated goal.

Shaving the projected increase by 1 percentage point a year would save Oregon an estimated \$21 billion in the next 10 years, including \$330 million from the state general fund. If costs of the Oregon Health Plan for low-income people were held to 5 percent annually, \$24 million would be saved in the 2011-13 budget cycle.

"Rising costs of health care are bankrupting the state, businesses and families," said Dr. Bruce Goldberg, director of the Department of Human Services.

"This isn't just an issue for state government. We all use the same health-care system. What this report calls out is that we need to be disciplined, and we need to find ways to do this."

Goldberg said the state has an opportunity to rein in costs through its new Oregon Health Authority, which combines most health functions in a single unit within the Department of Human Services. He is its director-designate.

Like its counterparts in other states, the Oregon Health Plan would expand dramatically in the next three years, when federal health-care legislation signed by President Obama last spring requires

states to expand coverage.

## Senior spending

Although Medicaid provides health insurance for low-income people, the bulk of its spending in most states is for nursing-home and other care for older people who also must spend down their assets.

As the population ages, costs of long-term care are projected to go up.

"It's going to become our biggest Medicaid expense — and it's over 30 percent now," Goldberg said.

"Every state is looking to do now what we have done over the past few years. For us, the question is what we do to invent the next round of policy changes."

For the past three decades, starting with the creation of Oregon Project Independence in 1977, Oregon has developed a system of in-home and community-based care as alternatives to keep older people out of nursing homes and hospitals as long as possible.

The panel recommends steps to develop low-cost services that will keep seniors safe, healthy and independent at home, reduce the need for publicly paid long-term care, and decrease the percentage of Oregon's long-term care budget spent on nursing-home care by better coordinating and managing health care and long-term-care resources.

Jerry Cohen, state director of AARP Oregon, said he's pleased all those ideas were adopted.

"Yet they all are predicated on building on the strength of Oregon's existing system," he said. "At the very time we are trying to remodel and upgrade that system, given our changing demographics, we're destroying the foundations that hold everything in place."

Recent spending cuts that Kulongoski ordered to eliminate a projected \$577 million shortfall in tax collections go in the other direction. They eliminate Oregon Project Independence — which relies heavily on the general fund — and cut federally funded personal and in-home care for thousands of seniors.

Although many spending cuts technically take effect on Thursday, these cuts require notice to caregivers and their clients. The first notices go out this week.

Goldberg said under the 1951 allotment law the governor invoked to make the cuts, they had to be across the board in general-fund spending.

"We had to take 10 percent from senior services, and the reality is that we had to go where the dollars are," Goldberg said.

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Oregon gubernatorial candidates John Kitzhaber and Chris Dudley had put forth their own ideas for changes to state government. Page 9A

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