GOVERNOR KATE BROWN
PERS UAL TASK FORCE

Meeting 2: Status Update

August 28, 2017

10 am – 1 pm

PSU Board Room, Academic and Student Recreation Center

1.	Call to Order / Introduction	*Don*	10:00 - 10:05
2.	Briefing on Conflicts of Interest	*Misha Isaak* *Deputy General Counsel*	10:05 – 10:15
3.	Report on Public Comments	*Elana*	10:15 - 10:25
4.	Status Updates	*Task Force Members*	10:25 - 12:10

Task force members will lead a discussion of the areas for which they have responsibility, outlining the opportunities they've found so far, the remaining proposed work and a preliminary view of expected deliverables at the completion of the project.

5.	Summary of Focus Areas / Next Steps	*Don*	12:10 – 12:25
6.	Close of Public Session	*Don*	12:25 - 12:30
7.	Executive Session	*Don*	12:30 – 1:00

CONFLICTS OF INTEREST UNDER ORS 244.120

ORS 244.120

(1) [W]hen met with an actual or potential conflict of interest, a public official shall: ...

(c) [N]otify in writing the person who appointed the public official to office of the nature of the conflict, and request that the appointing authority dispose of the matter giving rise to the conflict. Upon receipt of the request, the appointing authority shall designate within a reasonable time an alternate to dispose of the matter, or shall direct the official to dispose of the matter in a manner specified by the appointing authority.

ORS 244.010

(1) **"Actual conflict of interest"** means any action or any decision or recommendation by a person acting in a capacity as a public official, the effect of which would be to the private pecuniary benefit or detriment of the person or the person's relative or any business with which the person or a relative of the person is associated unless the pecuniary benefit or detriment arises out of circumstances described in subsection (13) of this section.

(13) **"Potential conflict of interest"** means any action or any decision or recommendation by a person acting in a capacity as a public official, the effect of which could be to the private pecuniary benefit or detriment of the person or the person's relative, or a business with which the person or the person's relative is associated, unless the pecuniary benefit or detriment arises out of the following:

(a) An interest or membership in a particular business, industry, occupation or other class required by law as a prerequisite to the holding by the person of the office or position.

(b) Any action in the person's official capacity which would affect to the same degree a class consisting of all inhabitants of the state, or a smaller class consisting of an industry, occupation or other group including one of which or in which the person, or the person's relative or business with which the person or the person's relative is associated, is a member or is engaged.

(c) Membership in or membership on the board of directors of a nonprofit corporation that is tax-exempt under section 501(c) of the Internal Revenue Code.

(15) **"Public official"** means ... any person who, when an alleged violation of this chapter occurs, is serving the State of Oregon or any of its political subdivisions ... as an elected official, appointed official, employee or agent, irrespective of whether the person is compensated for the services.

(16) **"Relative"** means:

(a) The spouse, parent, stepparent, child, sibling, stepsibling, son-in-law or daughter-in-law of the public official or candidate;

(b) The parent, stepparent, child, sibling, stepsibling, son-in-law or daughter-in-law of the spouse of the public official or candidate;

(c) Any individual for whom the public official or candidate has a legal support obligation;

(d) Any individual for whom the public official provides benefits arising from the public official's public employment or from whom the public official receives benefits arising from that individual's employment; or

(e) Any individual from whom the candidate receives benefits arising from that individual's employment.

(3) **"Business with which the person is associated"** means:

(a) Any private business or closely held corporation of which the person or the person's relative is a director, officer, owner or employee, or agent or any private business or closely held corporation in which the person or the person's relative owns or has owned stock, another form of equity interest, stock options or debt instruments worth $1,000 or more at any point in the preceding calendar year;

(b) Any publicly held corporation in which the person or the person's relative owns or has owned $100,000 or more in stock or another form of equity interest, stock options or debt instruments at any point in the preceding calendar year;

(c) Any publicly held corporation of which the person or the person's relative is a director or officer; or

(d) For public officials required to file a statement of economic interest under ORS 244.050, any business listed as a source of income as required under ORS 244.060 (3).

GOVERNOR KATE BROWN
PERS UAL TASK FORCE

Draft Reports on Valuable Assets

August 27, 2017

Members of the Governor's PERS UAL Task Force are beginning their work to lay out for the Governor all of the various ways in which we might come up with $5 billion to pay down some of the unfunded liability that is driving the increase in PERS rates.

The following documents reflect the initial information Task Force members have gathered. These will ultimately become pieces of the Task Force's final report to the Governor, however there is significantly more work to do between now and then. Many of these recommendations have policy implications which may not be reflected in these draft documents but which will be included in the final report. Others may not be as financially beneficial as initially thought and may not be included in the report.

These are draft documents and while Task Force members and staff have worked to the best of their ability to ensure numbers are in the range of what will be included in the final report there may be significant changes to this information in the next 65 days.

August 25, 2017

TO: UAL Reduction Task Force

FROM: Cory Streisinger

RE: State Government/State Agency Policy Options

The following list of policy options are currently being reviewed in the State Government/State Agency area:

<u>Concept papers distributed</u>

Rainy Day Funds
Liquor Surcharge
Surcharge on Licenses, Permits and Other Fees
Increased Collection of State Debt
Lawsuit Settlements/Windfall Income

<u>Concept papers still in development</u>

State Office Building
Vacant land
State Data Center
Agency Reserves/Fund Balances
State Fairgrounds
State Hospital
Increased Lottery Revenue
Capital Gains Taxes
Unclaimed Property/Common School Fund
Interest Accruals
Fire Suppression Costs
Other Natural Resources

PERS UAL Reduction Task Force

Policy Option: Lawsuit Settlements/Windfall Income

Entities Impacted: Agencies and programs that would otherwise receive revenue from settlements and other windfalls.

Description of Policy Option: One-time or windfall revenues can come into the state budget from a variety of sources, but the largest source is generally the settlement of lawsuits filed by the state, such as the Tobacco Master Settlement Agreement, the Oracle litigation and the VW settlement. By their very nature, one-time funds are difficult to project. Over the past five biennia, the General Fund's receipts from lawsuit settlements have varied widely: $2 million in in 2009-11, nothing in 2011-13, $5 million in 2013-15, nothing in 2015-17, and $110 million in 2017-19.

Financial Opportunity: Impossible to predict.

Key Considerations:

- Legal settlements are structured through negotiation directed by the Attorney General, sometimes with court involvement. Often the terms of the settlement agreement will direct how the funds may be used. To maximize the use of settlement funds for reduction of the PERS UAL, the Attorney General would need to attempt to structure settlement agreements in a way that permits such use.

PERS UAL Reduction Task Force

Policy Option: Increased Collection of State Debt

Entities Impacted: Debts are owed to the majority of state agencies. The largest amounts of collectible debt are owed to three agencies: the Department of Revenue (primarily unpaid taxes); the Employment Department (primarily unpaid unemployment insurance and overpaid benefits); and the Judicial Department (primarily fines, fees and restitution).

Description of Policy Option: Over the last several years, the state has increased its efforts to collect liquidated and delinquent debt owed to the state. At the end of state fiscal year 2016, about $3.3 billion was owed to the state for various reasons from a variety of debtors. Based on recent agency reporting, about $1.1 billion is potentially collectible.

During state fiscal year 2016, the state collected a total of $562 million of liquidated and delinquent debt owed to the state from all debtors. Of this amount, about $247 million was owed to the state General Fund. If the state were able to increase those collections by five percent in state fiscal year 2017, the increase would be $28 million in total collections, and about $12 million specifically to the General Fund. If the state were able to maintain this increased collection over 10 years, it would be an increase of $280 million total funds and $120 million specifically to the state General Fund over 10 years. Increasing collections to 10 percent in state fiscal year 2017 and holding the increase for a decade would increase the 10-year total to $560 million total funds and $240 million specifically to the state General Fund.

Financial Opportunity: over $10M per year; potential range of $100M-$500M over ten years.

Key Considerations:

- Efforts to increase collections are already under way, with an Executive Order issued by the Governor and various bills passed by the Legislature during the last session. In addition, both the Department of Administrative Services and the Department of Revenue have added staff to increase collection efforts.
- Three of the top ten agencies to which funds are owing have legal restrictions on the use of funds collected on their behalf. These are collections of highway funds for ODOT, inmate restitution for the Judicial Branch and employment benefits for the Employment Department. None of these are included in the General Fund collection numbers mentioned above. Excluding them from the total funds collections would drop the state fiscal year 2016 collection numbers mentioned above by

about $95 million, bringing the total down from $562 million to about $467 million in state fiscal year 2016. It is unknown whether these restricted funds could be reached through setting up side accounts dedicated to the UAL associated with these agencies.

PERS UAL Reduction Task Force

Policy Option: Rainy Day Funds

Entities Impacted: Reducing the state Rainy Day Fund, or diverting future deposits to this Fund, would reduce the State's ability to weather significant downturns in the economy and corresponding reductions in state revenues. The primary programs affected would be those funded with the state General Fund, 96 percent of which goes to education, human services and public safety.

Description of Policy Option: The State maintains two budget stabilization funds: The Rainy Day Fund and the Education Stability Fund. The Rainy Day Fund receives all revenue collected from corporate income and excise taxes above the tax rate of 7.2 percent, and in addition, if the prior biennium ending balance is sufficient, up to one percent of the prior biennium's General Fund appropriations. The Education Stability Fund receives 18 percent of state lottery funds collected each biennium.

The Education Stability Fund is constitutionally restricted; it can be spent only by a three-fifths vote of the legislature, only for public education, and only if specific economic triggers occur or a state of emergency is declared. The Rainy Day Fund is statutory. It has the same economic trigger and three-fifths vote requirements as the Education Stability Fund; however, these can be changed by the legislature since the fund and its revenue sources are not constitutional. No more than two-thirds of the Rainy Day Fund can be appropriated in a single biennium.

At the end of the 2015-17 biennium, the state had a projected balance of $388.8 million in the Rainy Day Fund and $383.8 million the Education Stability Fund, for a combined total of $772.6 million. This combined total equates to about 4.2 percent of the projected biennial General Fund revenues for 2015-17. If the state can avoid a recession during 2017-19 and make all of the scheduled deposits anticipated for that biennium, the projected balance in the Rainy Day Fund will increase to $634.7 million and the projected balance in the Education Stability Fund will increase to $585.6 million, for a combined total of $1.2 billion. This would be equal to about 6.3 percent of projected General Fund revenues in 2017-19.

Under the current constitutional and statutory structure, the Rainy Day Fund is capped once it reaches 7.5 percent of the prior biennium's General Fund revenue total and the Education Stability Fund is capped once it reaches five percent. In effect, once capped the funds would combine to total about 12.5 percent of the prior biennium's General Fund revenue total.

Financial Opportunity: $100M-$500M

Key Considerations:

- For context, during the 2001 recession, General Fund revenues dropped by $1.5 billion (or 14 percent) over the course of the biennium. During the post-2008 recession, projected revenues for the 2009-11 biennium dropped by $3.6 billion (or 21 percent).
- Maintenance of reserves also supports the State's strong bond rating, which in turn reduces State borrowing costs. On the other hand, the size of the UAL also raises concerns in the bond market.
- The Legislature has drawn repeatedly from both the Rainy Day Fund and the Educational Stability Fund to balance budgets during economic downturns, but has not done so since the 2011-13 biennium.

PERS UAL Reduction Task Force

Policy Option: Surcharge on Licenses, Permits and Other Fees

Entities Impacted: Individuals and businesses who obtain licenses or permits or pay other fees for driving, recreation, obtaining services, maintaining their profession, etc. would have a cost increase. There would be some administrative impact on agencies – e.g. rulemaking to increase fee levels, accounting for surcharge revenue, and sending funds to the appropriate account. There is a potential for decreases in fee revenue if the surcharge results in decreased numbers of fee-payers

Description of Policy Option: Surcharges could be imposed as a percentage of existing fees, e.g. 1%, 5%, or 10%.

For the 2017-19 biennium, total state license and fee revenue is estimated at roughly $1.9 billion. This may be low as it does not include items accounted for in the state budget system as "Charges for Services." Major contributors by program area:

- Education $11.4 million (Primarily teachers' licenses)
- Human Services $32.2 million (Primarily public health)
- Public Safety $13.3 million (Primarily DOJ)
- Economic Development $66.3 million (Housing loan fees i.e. single and multi-family loan programs)
- Natural Resources $360.3 million (DEQ 100M, Ag. 30M, Parks 52M, Fish & Wildlife 130M, etc.)
- Transportation $824.0 million (Primarily ODOT vehicle registration & title fees)
- Consumer & Business $317.8 million (Primarily business fees and licenses)
- Administration $128.2 million (Secretary of State 85M, OLCC 31M, Revenue 10M, etc.)
- Judicial Department $148.9 million

Financial Opportunity: $10M-$100M per year; $100M-$1B over ten years

Key Considerations:

- "Charges for Services" are not included in these estimates. Examples include state agency payments to the Dept of Administrative Services for rent and administrative services; health insurance premiums paid by retirees and by state agencies and school districts for their employees; and Dept of Veterans Affairs charges for services at veteran homes. A charge-by-charge analysis would be needed to see whether any provide opportunities.

- By far the largest source of fee revenue is ODOT. Much of ODOT's fee revenue may have constitutional restrictions on its use. It is unknown whether these restrictions could be addressed by setting up a side account dedicating these funds to the UAL associated with ODOT.

PERS UAL Reduction Task Force

Policy Option: Liquor Surcharge

Entities Impacted: Liquor purchasers, including individual consumers and bars/restaurants selling liquor, would pay higher prices. Liquor agents' commissions would increase slightly due to the surcharge. Total sales might fall (reducing revenue to the state and counties as well as agents) if consumers reduce consumption or shift purchases to Washington.

Description of Policy Option: A surcharge could be imposed on all distilled spirit (liquor) sales in Oregon, calculated as a percentage of the retail sales price (e.g. 1%, 5%, or 10%).

For the 2017-19 biennium, the gross sales revenue for distilled spirits sales is projected at roughly $1.35 billion. However, as net sales increase, OLCC will incur larger bank card fees as well as increased agent's compensation expense (paid to retail liquor agents). Surcharge calculations would be net of these additional expenses.

Financial Opportunity: Under $10M (1% surcharge) to over $50M (10% surcharge) per year; over $50M (1%) to over $500M (10%) over ten years.

Key Considerations:

- OLCC is currently collecting a $0.50 per bottle surcharge on distilled liquor which is directed to the General Fund. Any new surcharge would be accounted for in a similar manner.
- When the State of Washington privatized its liquor operations, retail prices increased and resulted in increased cross-border sales along Oregon's northern border. As the price of distilled spirits in Oregon rises, the incentive to cross the border and purchase distilled spirits in Oregon as opposed to Washington may decline resulting in fewer sales.
- As prices of distilled spirits increase, consumers of alcohol may shift their consumption to beer/wine.

Preliminary Concepts for Monetizing Public Higher Education Assets
August 25, 2017

- Following the charge to the Task Force, I tried to be comprehensive and creative, including ideas that are controversial, difficult or will be ultimately rejected.

- I am mindful that a college or university, at its core, is its faculty, so the concept of monetizing higher education assets is a complex one.

- Preliminary meetings and calls with several (but not all) public universities and HECC were very useful; however the initial concepts presented here are my own.

- To provide scale, the table below summarizes FY16 audited financial statements for seven public universities, showing net assets (assets minus liabilities) by category, operating revenues, and the Public University Support Fund, which is the largest component of State support (other government appropriations not shown include capital / debt service support).

FY16 (millions)	EOU	SOU	WOU	OIT	PSU	OSU	UO	Total 7
Capital net assets	$49	$70	$56	$54	$234	$678	$761	$1,904
Unrestricted net assets	4	(2)	16	14	25	(25)	23	54
Capital + unrestricted	53	68	72	68	259	654	784	1,958
Restricted net assets	4	8	10	5	47	88	56	217
Total before foundation	57	76	82	73	306	741	840	2,175
Foundation net assets	12	27	13	22	96	648	1,020	1,837
Total with foundation	69	102	95	94	402	1,389	1,861	4,012
Tuition & fees	16	28	30	24	188	303	388	976
Grants & contracts	3	4	13	2	72	207	103	403
Auxiliary enterprises	5	13	20	8	85	155	175	462
Other operating revenue	1	5	3	1	12	55	27	104
Revenue before govt approp	25	50	66	35	357	720	693	1,946
Public Univ. Support Fund	19	20	22	24	76	102	63	326
Capitalized value (12.5x)	$239	$253	$279	$296	$954	$1,269	$783	$4,073
PUSF / tuition & fees	*123%*	*73%*	*74%*	*99%*	*41%*	*34%*	*16%*	*33%*

- Capitalized value of PUSF calculated over a 20 year time horizon, assuming 1.5% annual inflation and 7.2% discount rate, is 12.5 times the annual amount, or $4.1 billion.

- In addition, Community College Support Fund totals $550 million for the 2015-17 biennium or $275 million annually, for capitalized value of $3.4 billion. Community college tuition & fees total $279 million in FY16, about equal to the CCSF amount.

- Total capitalized value of PUSF and CCSF combined is $7.5 billion.

Concept I: Restructure a Research University from Public to Private (range > $1.5 billion)

- Convert institution to a non-profit legal structure with self-perpetuating board of trustees.
- Borrow ~$800 million to purchase capital + unrestricted net assets from State.
- Recapitalize with ~$3 billion in major philanthropy to create endowment sufficient to replace State appropriation and restore credit capacity (cash to debt ratio).
- State could gain ~$1.6 billion, half at restructuring and half from capitalized value of PUSF over 20 years.
- Major implications include level of philanthropy required, loss of public control, potential reduced access or higher cost for in-state students, need of most private research universities for large biomedical component, opportunity to create higher education environment in Oregon with both a major public and a major private research university.

Concept II: Consolidate Some Universities / Community Colleges (range ~$250 million)

- In FY16, four smaller public universities and 17 community colleges have PUSF + CCSF appropriations of $360 million and approximately equal tuition revenues of $377 million.
- Consolidate some of these 21 institutions to reduce duplication and presumably State appropriations required, targeting 5% or $225 million in capitalized value over 20 years, with possibility of selling some land and facilities.
- Major implications include reduced geographic coverage and diversity, reduced access and longer commutes for students and faculty, impact on local communities, potential for programs with greater scale and critical mass.

Concept III: Sell or Increase Revenues from Auxiliary Enterprises (range ~$50 million)

- 7 public universities have annual auxiliary enterprise revenues of $462 million.
- Sell or leverage those where rates could be increased, examples include parking, housing, food service, conference centers, hotels, retail, etc.
- Assuming 10% of auxiliary revenues fall into this category, and rates could be increased directly or as a result of sale by 10%, the capitalized value would be ~$58 million.
- Major implications include potential loss of control, higher costs faced by students and other customers, diversion of future earnings that institutions may have been counting on, reduced flexibility to use auxiliary facilities for academic purposes later.

PERS UAL Reduction Task Force – OLCC

DRAFT

The Oregon Liquor Control Commission ("OLCC") operates the wholesale and retail distribution of distilled spirits in Oregon, and regulates the alcohol and marijuana industries in the State. Profits generated by the distribution of distilled spirits, as well as licensing fees and excise taxes on beer and wine, cover the cost of regulation and generate funds for state and local governments. For the 2017 – 19 biennium, OLCC estimates it will distribute $574M to the State General Fund, cities and counties (the third largest funding source for the State, and the second largest for cities and counties).

Option Name: Manage the distilled spirits operations of OLCC to maximize profitability; dedicate incremental profits to PERS.

Option Description: Since its founding following the repeal of Prohibition in 1933, the mission of the OLCC has evolved and there have been numerous changes to its operating model. The current business model for distribution of distilled spirits reflects implicit public policy objectives and political considerations, as well as commercial decisions aimed at maximizing profitability. As a result, there may be opportunities to significantly improve profitability. The potential benefits of realizing these financial opportunities must of course be considered in concert with related non-financial implications. The best decision for the citizens of Oregon can only be made if the benefits and costs of potential actions are explicitly identified and quantified. A few illustrative areas of opportunity:

- Purchasing and Pricing – OLCC purchases distilled spirits products from manufacturers and distributors. The product cost paid by OLCC is set by the manufacturers and distributors, and retail prices are established by applying a fixed mark-up on product cost; the mark-up schedule is published by OLCC. Consider breaking the fixed connection between purchase cost and retail price. To maximize profitability, leverage scale to reduce the cost of product and set retail prices based on market demand.
- Distribution – Distilled spirits are sold in Oregon through ~263 retail stores contracted by OLCC; these stores receive a commission of ~9% of sales. In Oregon, there is one retail store selling distilled spirits for every 15,000 people. In 2012, the U.S. national average was 1 store for every 4,500 people (more recent data is not currently available). Over the last several years, OLCC has been working to expand the number of retail outlets. However, planned levels of expansion will still leave Oregon well short of the 2012 national average. Consider more extensive and rapid expansion of retail stores.
- Products are received in the OLCC warehouse, but the inventory is owned by the supplier until shipment to a store. Since retailers order products they wish to sell, and product is "purchased" by OLCC upon shipment to a store, OLCC inventory purchasing decisions are made by 263 retailers. Decentralized inventory ordering could restrict OLCC's ability to drive purchasing leverage and result in more excess or slow-moving inventory on store shelves and in the warehouse, reducing sales and margins. Consider centralizing purchasing and inventory management.
- Marketing and Promotion – OLCC is not currently permitted to market or promote distilled products, potentially resulting in lost sales and profits. Consider permitting marketing and product promotion.

While potentially beneficial, analyzing and implementing individual business model changes is unlikely to maximize the profitability of OLCC. The entire business model should be reviewed and an integrated strategy developed to maximize profitability as well as deliver the desired public policy goals for the people of Oregon.

- Governance - In addition to the operating model, an integrated strategy should also consider the appropriate governance model for the distilled spirits distribution arm of OLCC. Political institutions and government administrative processes are designed to achieve public policy objectives, and are often not the best model for governing a commercial enterprise. To unlock the full value of the OLCC asset for the benefit of the State, consider a more autonomous governance structure, responsible for delivering specific financial and public policy outcomes to the State, and answerable to a Board of Directors, but not bound by State political and administrative processes designed for State agencies. This could be achieved by evolving the legal structure of the OLCC distribution operation (e.g., spin-off to a public corporation) or selling the OLCC distilled spirits distribution operations and rights.

	Biennia			
	2017 – 19	**2019 – 2021**	**2021 – 2031**	**All Years**
Gross Capital Opportunity	?	?	?	?
Cost to Implement	?	?	?	?
Net PERS UAL reduction	?	?	?	?
Impact on other public budgets	?	?	?	?
Impact on non-public entities	?	?	?	?

Preliminary Implications / Considerations

- Managing OLCC differently may increase consumption of alcohol, as well as associated health and social issues; however, constraining the OLCC operating model may not be the most efficient or effective way to address these potential issues. The State may consider increasing investment in health and human services to prevent and address alcohol abuse, as well as step up enforcement of laws prohibiting underage drinking and DUII.
- Some current OLCC practices are intended to support the development of the Oregon distilled spirits industry. The costs and benefits of these practices should be specifically identified, and explicit decisions made whether to make these investments.
- Changes in distribution of distilled spirits may have implications for existing retail businesses; these implications should be analyzed and considered in any plans to implement such changes.

Option Name: Increase alcohol related fees and taxes; dedicate incremental revenue to PERS.

Option Description: Although benchmarking information is dated, it appears that Oregon's receipts from alcohol related taxes and license fees are among the lowest in the nation. Current fees and tax rates reflect historical and political considerations, and may not reflect conditions. For example, the excise taxes on beer and wine are 8¢ and 67¢ per gallon, respectively, and have not changed since 1977. Consider raising alcohol excise taxes and/or licensing fees; dedicate incremental revenue to PERS.

	Biennia			
	2017 – 19	**2019 – 2021**	**2021 – 2031**	**All Years**
Gross Capital Opportunity	?	?	?	?
Cost to Implement	?	?	?	?
Net PERS UAL reduction	?	?	?	?
Impact on other public budgets	?	?	?	?
Impact on non-public entities	?	?	?	?

Preliminary Implications / Considerations

- Changes in fees and taxes may have implications for existing businesses; these implications should be analyzed and considered in any plans to implement such changes.
- Higher beer and wine excise taxes, and alcohol licensing fees may increase prices for Oregon consumers.

PERS UAL Reduction Task Force – SAIF

DRAFT

Option Name: SAIF Step 1 – Transfer a portion of current SAIF surplus to PERS.

Option Description: Over time, SAIF's premium revenue and investment earnings have exceeded the amounts needed to cover operating expenses and actuarially estimated claims costs, generating a surplus. A portion of this surplus has been returned to policyholders (Oregon employers) in the form of dividends; over the last seven years, SAIF has paid out ~ $1.1B in dividends (over 30% of the premiums collected over the same period). Nevertheless, as of 2016 year-end, SAIF held $1.6B in surplus ($4.7B in investments less $3.1B in liabilities, including actuarially estimated claims reserves). To protect against adverse contingencies, regulators require insurance companies to maintain a certain minimum level of surplus (Risk Based Capital or "RBC"). Well-run insurance companies normally hold additional surplus to assure long-term financial viability. SAIF's current surplus is well above the RBC required by regulators. Oregon DOJ advises that the State has the right to legislatively direct the disposition of any surplus above the amount necessary to both cover claims and assure the fiscal soundness of SAIF. The determination of how much surplus is required to assure the fiscal soundness of SAIF is highly judgmental. Consider transferring some SAIF surplus to PERS.

	Biennia			
SAIF Step 1	**2017 – 19**	**2019 – 2021**	**2021 – 2031**	**All Years**
Gross Capital Opportunity	$500 – $1,000M	-	-	$500 - $1,000M
Cost to Implement	< $10M	-	-	< $10M
Net PERS UAL reduction	$490 – $990M	-	-	$490 - $990M
Impact on other public budgets	-	-	-	-
Impact on non-public entities	?	?	?	?

Preliminary Implications / Considerations

- If surplus is transferred out of SAIF, the investment portfolio and related earnings will shrink. For existing Oregon businesses and companies considering starting in, or relocating to, Oregon, the loss of investment earnings on the transferred surplus could increase employer premiums and/or reduce employer dividends versus a "do nothing" scenario. However, Oregon workers compensation premiums have fallen in recent years and are currently among the lowest in the U.S.
- Reduction of surplus below the level required to assure continued fiscal soundness is not recommended.

Option Name: SAIF Step 2 – Dedicate future extra surplus to PERS.

Option Description: SAIF's surplus rises and falls based upon many factors, including changes in loss experience, health care costs and investment returns. Also, if Step 1 is implemented, the investment portfolio and related earnings will shrink, potentially slowing the growth of SAIF's surplus. If in the future, SAIF's surplus rises above the level required to cover claims and assure the fiscal soundness of SAIF, consider transferring some or all extra surplus to PERS, either by paying dividends directly to the State or taxing dividends paid to policyholders.

	Biennia			
SAIF Step 2	**2017 – 19**	**2019 – 2021**	**2021 – 2031**	**All Years**
Gross Capital Opportunity	?	?	?	?
Cost to Implement	-	-	-	-
Net PERS UAL reduction	?	?	?	?
Impact on other public budgets	-	-	-	-
Impact on non-public entities	?	?	?	?

Preliminary Implications / Considerations

- For existing Oregon businesses and companies considering starting or relocating in Oregon, the transfer of surplus, and the reduction or elimination of dividends, could increase workers' compensation costs versus both the "do nothing" and the "Step 1 only" scenarios. As noted above, Oregon workers compensation premiums have fallen in recent years and are currently among the lowest in the U.S.
- Reduction of surplus below the level required to assure continued fiscal soundness is not recommended.

Option Name: SAIF Step 3 – Manage SAIF to directly benefit the citizens of Oregon, as well as employers and workers.

Option Description: SAIF's current non-profit business model is focused on serving Oregon workers and making workers' compensation coverage as inexpensive as possible. As a result, coverage is priced below cost and subsidized by returns on capital. Surplus is very conservatively managed and any amounts above levels deemed necessary are returned to policyholders in the form of dividends. Consider evolving SAIF's mission and operating model to seek to generate surplus for the benefit of the citizens of Oregon, while also providing quality, affordable workers' compensation coverage for Oregon workers and employers. Dedicate all or a portion of future SAIF surplus above necessary levels to PERS UAL.

	Biennia			
SAIF Step 3	**2017 – 19**	**2019 – 2021**	**2021 – 2031**	**All Years**
Gross Capital Opportunity	?	?	?	?
Cost to Implement	-	-	-	-
Net PERS UAL reduction	?	?	?	?
Impact on other public budgets	-	-	-	-
Impact on non-public entities	?	?	?	?

Preliminary Implications / Considerations

- Requires significant changes to SAIF's current mission and non-profit business model.
- Versus other scenarios, may increase workers' compensation costs for existing Oregon businesses and companies considering starting or relocating in Oregon. As noted above, Oregon workers compensation premiums have fallen in recent years and are currently among the lowest in the U.S.

Option Name: SAIF Step 4A – Back SAIF's obligations with the full faith and credit of the State.

Option Description: To protect against adverse contingencies, regulators require insurance companies to maintain a certain level of surplus (Risk Based Capital or "RBC"). If the liabilities of SAIF were backed by the full faith and credit of the State of Oregon, there would be less risk that SAIF would not be able to meet its obligations and hence SAIF could maintain a lower level of surplus. Consider backing SAIF with the full faith and credit of the State, and transferring the additional "extra surplus" to PERS.

	Biennia			
SAIF Step 4A	**2017 – 19**	**2019 – 2021**	**2021 – 2031**	**All Years**
Gross Capital Opportunity	$100 - $500M	-	-	$100 - $500M
Cost to Implement	<$10M	-	-	<$10M
Net PERS UAL reduction	$10 - $500M	-	-	$10 - $500M
Impact on other public budgets	-	-	-	-
Impact on non-public entities	?	?	?	?

Preliminary Implications / Considerations

- To have the desired impact on the RBC and release excess surplus, the State's backing of SAIF would need to be non-discretionary and not subject to uncertainty from the political process.
- The assumption of additional risk might have a negative impact on the State's credit rating and / or borrowing capacity.

Option Name: SAIF Step 4B – Transfer ownership of SAIF.

Option Description: SAIF's share of the workers' compensation insurance market in Oregon is currently over 50%; excluding the Assigned Risk Pool and self-insured employers, SAIF's share of the "competed market" is nearly 70%. SAIF's value as a "going concern" would in theory be the surplus above levels required to cover claims and assure fiscal soundness, plus the discounted value of the expected future cash flows that could be generated by the operation. This value could be realized by selling SAIF to its policyholders (i.e., mutualization), to private investors (via an IPO) or to another insurance company. Such a transaction might or might not include the transfer of existing investment assets and claims liabilities of SAIF. The net proceeds of a sale or IPO could be transferred to PERS.

	Biennia			
SAIF Step 4B	**2017 – 19**	**2019 – 2021**	**2021 – 2031**	**All Years**
Gross Capital Opportunity	?	-	-	?
Cost to Implement	?	-	-	-
Net PERS UAL reduction	?	-	-	?
Impact on other public budgets	-	-	-	-
Impact on non-public entities	?	?	?	?

Preliminary Implications / Considerations

- SAIF does not currently pay taxes to the State. If SAIF was transferred to a taxable entity, the State could levy taxes on the entity and receive ongoing revenue in addition to the net proceeds of a sale or IPO.
- The impact of these structural changes on employer workers' compensation costs could be significant, but are currently unknown.

Chair Blair & Task Force Members:

Below is a list of potential concepts that were borne out of discussions with stakeholders representing the League of Oregon Counties (LOC) and Special Districts Association of Oregon (SDAO). Additional assessment will be necessary if members of the task force believe these concepts should be pursued further.

Forfeiture & Debt Collection

By law county government is required to oversee all forfeiture and debt collection for governmental entities within the boundaries of their county. Once collected, by the county these obligations are then turned over to the jurisdiction owed. In lieu of returning these dollars directly to the jurisdiction owed, these dollars could be directed towards the UAL. Additionally any potential excess dollars from as an example, the sale of real property (in the case of forfeiture, or other means) could also be considered towards UAL.

Place sunset on existing pre-emptions that currently limit local governments ability to generate revenue

Under existing state law, local governments (e.g. county, city, special districts, school districts) are prohibited from raising revenues through many local option taxes. Some examples of these limitations but not limited to are property tax increases (Measures 5, 47/50) and tobacco tax ceilings. These restrictions have limited the ability for local governments to meet the increasing demands and needs for fire and police services as just a couple of examples that exacerbate local governments ability to provide services to their communities.

Eliminate Tax incremental Financing (Urban Renewal) for School Districts

Explore eliminating obligations for school districts as it relates to Urban Renewal that utilizes tax incremental financing. Review of this should be explored Other options to explore as it relates to tax incremental financing would be to take a percentage of TIF's and earmark some of this towards a UAL during the term of the TIF. Additionally, school districts portion of the TIF could then be utilized towards the UAL. Last year along, approximately $245 Million statewide were earmarked towards Urban Renewal.

Franchise Fees

Explore idea of allocating franchise fees to UAL. Alternatively, for those entities paying franchise fees (e.g. a water district) recognize actual cost to cover franchise costs and have additional franchise fee dollars from all PERS involved entities be directed to UAL.

Comcast Case

Dollars associated with this court decision to UAL

Water Rights

Significant complexities involved in this area. As a generalization, water rights held by most public entities are for "in-stream" purposes. In other words, to ensure that water levels and flow of streams are maintained rather than drying up due to demand outstripping flow.

Enterprise Zones/Data Centers

Significant resources are identified as it relates to enterprise zones and the prevalence and need for data collection to include need of state and local governments for storing electronic data. Two potential options for further evaluation and analysis: One, sunset subsidies as it relates to enterprise zones and identify these dollars towards UAL. Two, as requirement for enterprise zone declaration, require private data centers to store public entity data at fair market rate. In return, the cost associated with this necessary endeavor of public entities would then be earmarked towards UAL. A February, 2017 presentation entitled, "JLCIMT. *Statewide IT Overview",* identified that in 2013-14 non-personnel statewide IT Spending exceeded $604.5 million and projections for 2015-17 were anticipated to exceed $763 million. If in the establishment of an enterprise zone for data storage within the state are initiated, the potential for the agreement to require these data storage centers to maintain governments electronic storage may be possible. In turn, dollars identified for storage could then be used towards the UAL due to this private/public partnership as required in the Enterprise zone agreement.

Natural Resource Options

Discussion and emphasis on finding ways to leverage and utilize natural resource holdings was emphasized - particularly for county government. While no specific ideas were identified, further discussion and recognition of this should continue whether in this forum or others.

Special Districts by the Numbers

Of the **OVER 900 special districts** in Oregon, 20 special districts have assets and budgetary requirements over $10 Million and of the over **900** special districts, **only approximately 250** participate in PERS. In addition, general consensus from this stakeholder group is that they recognize the legacy cost obligation and recognize they are responsible for this liability and will budget accordingly.