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.

[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.

---

[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.