The Oregonian

Looming PERS vote on key rate will set pension fund's direction

By Ted Sickinger
July 26, 2017

The board of Oregon's underfunded public pension system will vote Friday on a key change that has far-reaching implications for the fund and public agencies that pay into it.

The question is whether, and by how much, to lower the assumption about how much the pension system's investments will earn, on average, over the next two decades.

That politically fraught decision is sure to be a significant moment in the ongoing debate over the fund, as the vote will affect employee benefits, employer budgets, public services and even Oregon's long-term economic competitiveness.

At present, the Public Employees Retirement System Board assumes its investments will earn 7.5 percent a year. But many market experts believe that's magical thinking, a gross overestimate that hides the true size of today's pension deficit, minimizes required contributions from government employers to protect other budget priorities, and kicks the problem down road.

Economists tend to agree. Many contend public funds ought to be using what's known as a risk-free interest rate to value pension liabilities, one that might be in neighborhood of 5 percent today. Using that math, PERS's unfunded actuarial liability would be closer to $50 billion instead of the $22 billion based on current assumptions.

That won't fly politically, because public employers would see their required payments to the system skyrocket to pay off the higher deficit, vaporizing budgets around the state. But given low interest rates and a lackluster outlook for equities -- despite Wall Street's current Trump bump -- experts are almost universally lowering their projected returns for pension funds and other institutional investors.

The citizens panel that oversees PERS investments has gone out of its way to guide the board to a lower rate. The Oregon Investment Council recently adopted an internal estimate of 7.1 percent, based on projections by a consultant that does the most detailed analysis of Oregon's investment portfolio, as well as those of four other consultants. But it's not binding on the PERS Board.

Oregon's actuary, Milliman Inc., estimates that PERS will earn an average of 6.7 percent on its investments during the next two decades. If the board doesn't reduce its current assumption, Milliman told its members in May, it will include a note flagging the discrepancy in its next report card on the system. That's the kind of feedback that credit ratings agencies take into consideration, a domino effect that is currently playing out in Illinois, where the state's credit rating is flirting with "junk" status.

The PERS Board, whose members are appointed by the governor, has already telegraphed its intention to lower the rate. The question now is how low they'll go and how much pain that will add to what already is expected to be an excruciating budget problem in 2019.

John Thomas, a Eugene businessman who chairs the PERS Board, says he intends to have a full and frank discussion of the data at Friday's meeting. If the board votes for something higher than what's being recommended, he said,"we better have some very specific reasons and methodologies to back that up. I personally don't see where those changes would be."

Lawrence Furnstahl, chief financial officer of Oregon Health & Science University, represents employers on the PERS board. The system's cost is ultimately dictated by actual investment returns, not the board's assumption, he said. "So, to me, the best approach is to try to be neither too optimistic nor too pessimistic, using the available data to select the best estimate for the next 20-year time horizon."

That Goldilocks scenario almost never materializes, and while conservatism dictates a lower rate, even a small change in the assumption packs a financial wallop. Lowering it from 7.5 to 7 percent would boost the system's deficit by about 20 percent, or $4.5 billion. In turn, that would require employers to come up with an extra $760 million in PERS contributions in the two-year budget cycle that begins in July 2019.

That's on top of the $885 million rate increase that just took place for the current biennium, the additional $1 billion that's already baked into the system's 2019 outlook, and a similar jump in required contributions expected in 2021.

The PERS Board was reorganized in 2003 to give members with no financial interest in the system three of the five seats, and a voting majority. The board is supposed to be above the political fray, guarding the system's financial solvency while trying to give employers steady and predictable rates. But the pressure is there, nonetheless.

The system's critics tend to aim their ire at political leaders, whether for past giveaways to public employees or the present unwillingness to act on money-saving fixes that would cut member benefits.

But the PERS Board, through its control of arcane economic assumptions and rate-setting rules, exercises enormous control over benefit levels, required contributions and ultimately public budgets around the state.

John Tapogna, president of the consulting firm EcoNorthwest, points out that the state and its municipalities are constitutionally prohibited from running general fund deficits. But they can use the PERS fund to accomplish deficit spending, underpaying what they owe and financing current operating costs with what amounts to long-term debt.

That takes the cooperation of the PERS Board, which has a number of economic levers it can manipulate to dial in a desired outcome. Relative to most other state systems, Oregon's has been more conservative in its assumptions. But there's no avoiding the fact that it has, over time, allowed employers and legislators to underfund the system.

Every two years, for example, the board resets employers' contribution rates to reflect both the cost of pension benefits that accrue each year, plus a surcharge to help pay off any accumulated deficit. To protect budgets, however, it has adopted rules that limit any change in contribution rates from one budget period to the next. It's called a rate collar.

The chunk of costs being deferred today is extreme. Given the size of the current pension deficit, for instance, required contributions from employers should have jumped by about $2.4 billion for the two-year period that began July 1. Instead, the PERS Board collared the increase to $885 million.

The $1.5 billion contribution deferral is effectively a loan to employers from the PERS fund, one that accrues interest at 7.5 percent a year. School districts are responsible for about 32 percent, or $480 million, of that loan, which mean they're borrowing from PERS to finance the statewide equivalent of almost two weeks of school each year.

That's just this biennium. Under almost any scenario, the borrowing will continue in 2019.

The problem is snowballing. The less aggressive the PERS Board is in raising rates today, the higher the burden becomes, and the longer it persists.

"The more we put it off, the more it will feel like a chronic condition we can never free ourselves from," Tapogna said. "Pretty soon, it's not a problem into the 2030s, but into 2040 and beyond."

Over time, the debt will erode public education, public safety and other services to the point where Oregon become a less attractive place to live, locate a company or do business.

"We're hurting the most needy in our state because we're not willing to take it on and deal with it now," said Katy Durant, a commercial real estate broker and investor who served on the Oregon Investment Council until this year. "We're ready to leave it to our kids. ... At some point our kids are going to be stupid to come back here."

Opinions obviously vary on how to deal with the problem. More taxes. More pension benefit cuts. Both. Or neither, which is what legislative leaders and Gov. Kate Brown accomplished last month when they punted efforts to achieve a tax increase/pension cut bargain until 2019.

Brown has appointed a task force to find one-time sources of cash to pay down the pension debt. But for now, the problem lands back with the PERS Board.

Public employee unions contacted by The Oregonian/OregonLive declined to comment on what the board should do, saying it would be inappropriate to try to influence deliberations.

Marc Feldesman, a retired professor at Portland State University who writes his own blog, Oregon PERS Information, showed no such reticence. He puts the blame squarely on employers and the board.

"The real problem is employers underfunding the system out of their own self-interest and then blaming members and retirees for the system shortfalls."

Many employers support a different solution – cutting employee benefits that they believe are too generous. But they're also urging the PERS Board to adopt conservative assumptions and reveal the real scope of the problem.

"If they're trying to cover someone politically, stop it," said Jim Green, deputy executive director of the Oregon School Boards Association. "The system needs to be looked at and reformed, and keeping the assumed rate high, or using rate collars is just allowing policymakers at the state level to say, 'It's really not that bad.'

"Well guess what? It really is that bad."

Willamette Week

A Portland City Contractor Loses All the Personal Belongings of Gilligan, the Former Mayor of Slough Town

Portland is required to store personal items swept out of homeless camps. The contractor didn’t.

By Rachel Monahan
July 25, 2017

Gilligan is a handy fellow.

Last year, the homeless Portland man used a screwdriver, an ax and wrenches to build himself a tiny home on a raft in the Columbia Slough, complete with a wood stove, hand-crank washing machine and nearby heated shower. He figured those simple tools would help him build his next home.

To the security guards who tossed his camp, they were apparently trash.

The failure of a city contractor to store Gilligan's personal belongings has thrown his life into turmoil—and seems to violate the terms of a legal settlement. Gilligan now has only cardboard boxes for shelter, a tarp slung over the top of them.

The company, Pacific Patrol Services, has a contract with the city's facilities office—worth $117,557 this past year—to help Portland police clean out homeless camps. One of its responsibilities is to remove personal belongings during camp sweeps and store them for 30 days.

The storage requirement is a condition of a legal settlement the city signed in 2012 with six homeless plaintiffs represented by the Oregon Law Center. The settlement in Anderson v. City of Portland says the city must post advance notice of camp sweeps and keep "for storage any item that is reasonably recognizable as belonging to a person and that has apparent use."

But earlier this month, Pacific Patrol Services assisted in sweeping a homeless camp in the Northeast Portland neighborhood of Parkrose—and has admitted to not keeping the items it cleaned out of the site.

Danny Ferren, 40, who goes by the name Gilligan, is a familiar face to WW readers. He was the founder of a floating homeless camp in the Columbia Slough called "Slough Town." The welcoming reception given to Gilligan by residents of Parkrose was featured in a cover story last year.

In the July 11 sweep of a camp on city property along Northeast 122nd Avenue and Airport Way, Gilligan lost nearly all his belongings, including construction tools, a heavy-duty bike trailer he'd made himself, barrels for making a new raft, his straight-edge razor for shaving, and spare bike parts.

On July 20, he telephoned Pacific Patrol Services and recorded the call. The tape, which he shared with *WW*, includes the voice of a security officer admitting the company didn't keep Gilligan's belongings, including the bike trailer.

"It…shouldn't have been thrown away," says Cy Torrey, the person at Pacific Patrol Services to whom Gilligan was directed.

Pacific Patrol Services is a Portland-based security firm that provides guards for a number of downtown clients, including city parks. In 2014, it won a contract to assist the city with homeless camp sweeps.

Torrey goes on to tell Gilligan the employee responsible no longer works for the company.

"I'm upset with this situation," Gilligan tells Torrey, "because you're saying you threw away everything I had. I had to borrow a bar of soap to take a bath afterward."

Although homeless people have long complained that cleanup crews take a cavalier approach to their personal possessions during camp sweeps, the phone call marks the first occasion in which a security officer admits to failing to store belongings.

The city gives crews some discretion in what they can throw out and what they must store. Any item containing food can be treated as garbage, the city says. But Gilligan's bike trailer and tools appear to meet the settlement definition of items that must be stored, says Monica Goracke of the Oregon Law Center. "Without knowing anything about the actual items you list," she adds, "I would say that items of that description should be stored."

It's not clear what action the city will take. Spokeswoman Jen Clodius of the Office of Management and Finance says the city has the right to terminate its contract if Pacific Patrol Services fails to follow city policy.

"It's possible that nothing at the site was salvageable," says Clodius, who sent along photos of the site. "If anything was discarded that should have been kept, the City would do a complete investigation then decide a path forward. It is unlikely that we would terminate a contract based on one violation."

Neither Pacific Patrol Services nor Torrey responded to *WW*'s requests for comment.

OPB

Seattle, Portland See Biggest Increase In Home Prices Nationwide

By Ericka Cruz Guevarra
July 25, 2017

Seattle and Portland have seen the biggest increase in home prices among 20 of the largest metropolitan areas nationwide.

According to data from S&P CoreLogic Case-Shiller, Seattle has seen a 12.3 percent increase in home prices year-over-year in March, the highest of all 20 metro areas.

Seattle was followed by Portland, where home prices increased 9.2 percent year-over-year. Home prices in Dallas increased 8.6 percent.

That’s compared to cities like San Francisco, the epicenter of an infamous housing affordability crisis. San Francisco saw a 5.1 percent year-over-year increase in home prices.

According to the new data, an unusually low inventory of homes for sale accounts for the rise in prices.

Seattle has seen a 1.79 percent monthly change in its home price NSA index. That index indicates the changes in the total value of all existing single-family housing stock.

Portland, meanwhile, has seen a 1.26 percent monthly change. Nationally, that number is 0.98 percent.

The analysis adds there is no telling when rising prices and mortgage rates will force a housing slowdown. Seattle and Portland were also compared to cities like Las Vegas, San Diego, New York, Miami, Atlanta and Chicago.