

(ORIGINALLY PUBLISHED: FRIDAY, FEBRUARY 8, 2013)

Beaverton needs PERS reform

Nowhere in Oregon is the need for better school funding and PERS reform more painfully obvious than in crowded, cash-strapped Beaverton schools

Beaverton voters may be asked this May to pass a local-option levy to help keep class sizes from getting worse. They may also learn, to their dismay, that every penny freed up by the levy would be gobbled up by the next rate hike for PERS pensions.

Picture it: About \$12 million in new local taxes would come in the front door, and then \$12 million in new pension costs would immediately flow out the back door. This indefensible math underscores the necessity of PERS reform this legislative session — not just for balancing the next state budget, but for shoring up local confidence that the state has put itself on a responsible, sustainable path.

Otherwise, why would Beaverton voters approve a local-option levy? How could voters anywhere in Oregon feel convinced their local tax dollars would improve conditions for children and teachers in today's crowded, underfunded classrooms?

Local voters would — and should — feel a little foolish trying to solve the state's school funding problem if lawmakers don't tackle Oregon's biggest spending problem.

Beaverton, the state's third largest school district, has about 40,000 students and a general fund budget of about \$300 million. The district made big cuts last year for three main reasons: meager state funding, vanishing reserves and a PERS bill that had suddenly spiked by \$13 million. Parents and teachers are reeling over massive class sizes, a shorter school year and significant program cuts.

They're also terrified that this spring will bring more of the same. They've got good reason. Gov. John Kitzhaber's recommended \$6.1 billion school budget isn't quite big enough to stave off more cuts, and Democratic leaders in the Legislature seem characteristically cagey about tackling PERS.

Meanwhile, Beaverton's PERS tab is expected to rise another \$12 million in the coming school year, pushing the total general-fund hit to roughly \$33 million, district officials say.

That increase is the equivalent of two weeks of school or about 130 teachers, enough to fill a couple yellow school buses.

The volunteer Beaverton School Board is rightly desperate to avoid larger class sizes, not to mention more hours of anguished public testimony about diminished school quality. The board put PERS reform at the center of its 2013 legislative agenda, urging lawmakers to turn PERS into a "sustainable system for school districts and employees." Like the Portland School Board, which recently applauded the governor's reform efforts and warned that PERS rate hikes threaten to harm classrooms, Beaverton is hungry for state leadership.

Beaverton Superintendent Jeff Rose says he does see a way to stop cutting and start rebuilding. He says it would require a state funding level of about \$6.4 billion, plus PERS reform, plus a local-option levy. This is promising news. If the state delivers on PERS, Beaverton could feel good about passing a local-option levy and starting to restore class sizes to defensible levels.

But if lawmakers punt on pensions, leave rate hikes untouched and let Oregon taxpayers hold the bag, that same levy proposal would — and should — leave voters feeling like the Democrats' official ATM.

Per-student funding in Oregon is stubbornly below the national average, which limits schools' capacity and hurts teachers' working conditions. Lawmakers hoping to boost education funding will need to make tough budget choices and pay close attention to improving the state's business climate over the long haul.

But they'll also need to tackle PERS, despite the political difficulties and the threats of lawsuits. They can't just craft a PERS-free budget solution, as some Democrats are eager to do, while trying to pretend the monumental rate hikes shouldered by local taxpayers don't exist.

If they don't deal with PERS, we guarantee the public will notice. As Beaverton knows all too well, there's something about paying an extra \$13 million here and \$12 million there, with no relief in sight, that is pretty hard to miss.



Agenda 2013
Fix PERS

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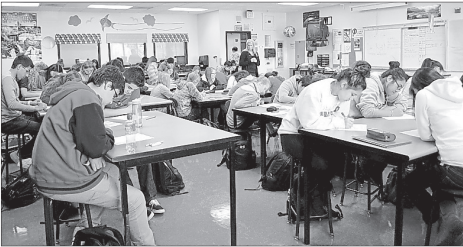
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Southridge High School teacher Brooke Mayo started the 2012-13 school year with 64 students in this IB Biology class. The school moved a few students to balance it out, giving her two classes of 54.



Read more of The Oregonian editorial board's priorities at ORnews/editorial-agenda-2013

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The Stump

National columnists

Charles Krauthammer says Republicans should call the president's sequester bluff: "The Republicans **finally have leverage**. They should use it. Obama capitalized on the automaticity of the expiring Bush tax cuts to get what he wanted at the fiscal cliff — higher tax rates. Republicans now have automaticity on their side. If they do nothing, the \$1.2 trillion in cuts go into effect."

Ruth Marcus explains her fascination with the story of King Richard III: "The Richard story is compelling in part because archaeologists' ability to apply the tools of **modern science to ancient history** is so cool — if blended with a bit of tweedy showmanship."

E.J. Dionne assesses the Republican Party's trend of rebranding: "The mixed news: A lot of the rebranding efforts are superficial yet nonetheless **reflect an awareness** that the party has been asking the wrong questions, talking about the wrong issues and limiting the range of voters it's been addressing."

Read and comment at The Stump.

200 wiseguy words

The Oregonian's David Sarasohn writes a short take of political commentary about PERS and public knowledge: "Before the Legislature's real PERS fight gets started, folks in Salem have resumed an argument from last time, to keep **PERS recipients' pensions** from public disclosure. Wednesday, Sen. Alan Bates, D-Medford, introduced a bill to stop pensions from being public information."

Read and comment at The Stump.

Opinion roundup

The Oregonian's Erik Lukens shares **links to opinions** from around the Web. Read and comment at The Stump.

Earthquake effects

"Regarding the article 'Report: Quake will bring vast devastation' (Feb. 5): This new, and very dire, assessment of the effects of a giant earthquake, caused by the Cascadia subduction zone, relies on science that has been known for more than 30 years. Better late than never. Thank you to the state of Oregon for admitting the obvious a generation and a half after the **subduction zone risks** were known. Though it is a pity that all this time has been lost, during which we might have been preparing," John D. Marshall of Beaverton writes at the public blog My Oregon, found at The Stump.

Laying over on a neighborhood

Heavy impact of a bus route change shows need to listen to locals

Not every bus route is a neighborhood amenity. Sometimes, it can seem more like a moving violation.

Last September, TriMet changed its No. 8 route, which had run to the Jubitz truck stop, ending it in Northeast Portland's Woodlawn neighborhood. The agency says the change saved \$500,000, as it faced a shortfall of \$12 million.

The change also sent dozens of buses a day turning around in the neighborhood, idling in flocks next to Woodlawn Park, circling the tight triangle that hosts the Firehouse restaurant. It's been an issue of noise and congestion and pollution, a particular problem for a restaurant with a popular outdoor patio.

"We've been through worse things," says Firehouse owner Matthew Busetto about the impact on the restaurant. "What concerns me most is how it will affect the neighborhood. Everybody knows that layovers are necessary, but (TriMet) did not do any proper community outreach."

Says TriMet spokesman Mary Fetsch, "We realize we did not communicate well."

Busetto speaks of a Woodlawn neighborhood that a few years ago was deep into gangs and drugs, and has been slowly pulling itself out, with new families buying homes and some businesses surfacing. He says the pervasive presence of the buses, and the complications of being at the end of a route, is hurting the neighborhood and its park as they try to rise. A neighborhood meeting earlier this week, he says, reflected continuing frustration — and lack of sleep.

"It wouldn't have happened in Alameda or Irvington," charges Busetto — an accusation that TriMet denies. "They thought we would just roll over. What we have going for us is that this affects our lives so dramatically we're not going to stop fighting."

TriMet now says that the line will begin to change in March, when 60 percent of the buses will no longer lay over on Northeast Dekum, and no more than four buses an hour will move around the triangle. If everything

works out, says the agency, by June the rest of the layovers are scheduled to move to a different location.

Busetto is dubious, claiming the neighborhood was made similar promises last September for last November, which TriMet denies. Last year's talks, says the agency, involved no commitments, only conversation.

The change TriMet now envisions would be a considerable improvement. And buses, as Busetto concedes, have to lay over somewhere, while TriMet has been fighting a hard fiscal battle on many fronts lately.

But the experience does underline the impact, however unintentional, that transit and transit reorganization can have on a neighborhood, and the need for sensitivity toward neighborhoods — even in the midst of all of TriMet's other problems.

There's a dramatic impact to buses repeatedly moving around a small, painstakingly developed urban triangle.

And also to a neighborhood that feels it's going in circles.

TAX REFORM THAT HITS HOME

It's time to cut the mortgage interest deduction

Would you support a tax reform measure that could help reduce the federal deficit, remove a needless distortion in the economy and make the system fairer?

Me too, which is why I'm taking aim at a sacred cow: the home interest mortgage deduction.

That's right, the mortgage interest deduction that every homeowner, including me, loves.

If you listen to homebuilders and real estate agents, they'll tell you that the mortgage interest deduction is what makes homeownership possible for millions of Americans.

Yet last year, homeownership in the United States, battered by mortgage foreclosures, sank to 65 percent, a 17-year low, while next door in Canada, where taxpayers don't get a deduction for mortgage interest, homeownership continues to rise, reaching more than 69 percent last year, according to Toronto's Financial Post.

The reason is that our mortgage interest deduction doesn't directly support homeownership; instead, it supports mortgage indebtedness, which isn't the same thing at all.

If the goal is really to increase homeownership, a better idea might be to offer a tax break aimed more precisely at middle-income families buying starter homes — a tax rebate for interest on the first \$200,000 in mortgage debt,

for example.

But that's not how the mortgage deduction works. First, it's only useful to people who itemize deductions, which only about 30 percent of taxpayers do. Second, it helps people with big mortgages more than those with small ones. Third, like all deductions, it helps people with the highest incomes (who get the equivalent of 39.6 percent of their mortgage interest knocked off their tax bill in the top bracket) more than people with lower incomes (who get 25 percent or less off if they itemize).

Moreover, if someone buys a vacation home, that mortgage interest is deductible too, as long as the total debt is under \$1 million.

But don't take it from me. Take it from the economists at the Mercatus Center, a mostly conservative think tank at Virginia's George Mason University.

"Most taxpayers do not benefit from this deduction at all, or receive a very small benefit," they wrote in a report issued last month. "The only taxpayers who do receive a large benefit are those in the upper income brackets. ... Its primary effect is to encourage Americans who would have already been able to afford a house to take on even more debt."

"Recent empirical research suggests that the mortgage interest deduction increases the size of homes purchased but not the overall rate of

homeownership," they wrote.

And it's not just conservatives: Policy wonks in both political parties believe that trimming the mortgage interest deduction is a good idea.

President Barack Obama has proposed limiting the value of tax deductions for upper-income taxpayers to 28 percent, even if they're paying a higher tax rate. But that idea hasn't caught fire.

Mitt Romney, last year's Republican presidential candidate, proposed eliminating all tax deductions for very-high-income taxpayers and putting a cap on deductions — \$17,000, for example — for the rest of us. (He wanted lower tax rates too.)

The co-chairmen of Obama's bipartisan debt commission, Alan Simpson and Erskine Bowles, offered a more homeowner-friendly proposal: a 12 percent tax credit that would go to all taxpayers, even low-income families, on mortgages up to \$500,000. (A credit directly reduces your taxes; a deduction merely reduces the amount of your income that's taxed.)

But wait, you and your real estate agent will say. Won't a change in the mortgage interest deduction knock a hole in home values?

Yes — at least at the high end, where high-bracket taxpayers take on million-dollar mortgages. At the lower end, where modest homes are bought by people of modest means? No effect on prices at all, economists say.

And even at the high end, the Mercatus report found, "it is likely to have little effect."

The Oregonian

Founded December 4, 1850.
Established as a daily February 4, 1861.
The Sunday Oregonian established December 4, 1881. Incorporating the Oregon Journal since 1982.

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