From: salem_update-bounces@lists.oregonstate.edu on behalf of Mills, Jock
To: CAS DeanStaff; CAS Unit Leaders; Salem Update Listserv
Subject: [Salem Update] A budget update
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Here is a brief update on the budget for the 2009-11 biennium . . .

Sometime in late March or early April we expect to see what could be called the "shock and awe" or "all cuts" budget. It will be based on the February revenue projection which forecasted a $3.1 billion shortfall for next biennium, with an added standard deviation based on how previous forecasts have missed the mark. This will raise the projected shortfall to **$4.7 billion** to be taken from a roughly $16 billion general fund enterprise.

The forthcoming budget will likely reduce the projected shortfall by adding back projected contributions from the Education Stability Fund (ESF), Rainy Day Fund (RDF), and Federal Stimulus Package (FSP). How much of these funds will be used to reduce the projected shortfall remains to be determined. By next biennium, the ESF is projected to hold about $600 million and the RDF about $340 million. Release of these funds requires a super majority vote, and not all of the funds will be available. Ballpark figures for the availability of the FSP coming to Oregon for the 09-11 biennium are around $911 million. The legislature used approximately $380 million of the federal funds to re-balance the current biennium. If the May revenue forecast shows further declines in state revenues, some of the reserves and federal funds may be called upon in June to re-balance the current budget, so it is not clear how much of each of these funds will actually be applied to reduce next biennium's projected $4.7 billion shortfall.

Once the budget shortfall is identified [Shortfall = $4.7 – (EFS + RDF + FSP)], the forthcoming budget will then divvy the anticipated remaining revenues among the state's primary budgetary priorities – education, public safety, and health and welfare – based not on the budget the Governor proposed in December 2008, but on the proportion of the budget each activity shared in the budget adopted by the legislature in 2007.

How big could the cuts to higher education be? In a word, severe. For a point of reference, last week the Legislative Fiscal Office (LFO) asked all state agencies, including the University System to indicate how they would implement a 30% budget reduction. These reports are due to LFO next week.

In previous sessions, the legislative budget issued in mid-session has been called "the Co-Chairs' budget," but the co-chairs are not taking ownership of the forthcoming proposal: its primary purpose is to provide legislators and their constituents with a clear picture of how the impending shortfall will affect the public services and programs funded by the state.

Following issuance of this budget, probably the second or third week in April, the

Ways and Means Committee is expected to visit a number of areas around the state to take public testimony on the proposal, as it has done in previous legislative sessions. Presumably the committee members will hear:

- which programs should not be cut;
- which programs need more money; and possibly
- where more revenues should be derived to moderate the impact of the cuts.

So far this session the legislature has garnered attention for issuing a state stimulus package to encourage job growth, applying budgetary reductions for the current biennium, and proposing a number of tax increases, including increases in the corporate minimum, beer, wine, gas, and cigarette taxes. While all of these taxes have generated the expected opposition, the proposals have not been presented against the backdrop of major cuts to key state services. In the months between now and the May 15th forecast, the legislature will develop a clear picture of what is likely to happen if new revenues are not derived. It remains to be determined how any of the revenue sources identified above -- or new ones -- will significantly change the funding picture.

On the positive side, the public is generally unaware of the impacts of the impending revenue shortfall. To the degree that the general public is paying attention, the forthcoming budget will provide a teachable moment of how bad it is and who will be hurt, including children, the elderly and infirm. On the negative side, there is a persistent public perception that the shortfall can be solved by cutting government waste. Legislators and the Governor will need to navigate a balanced approach that protects the most vulnerable, prepares Oregon to compete economically, and shares the responsibility for balancing the budget between budget reductions and those who are seen as able to pay.

From here on, it will be a very bumpy ride.

A correction: Thanks to yet another astute reader, I would like to correct the misinformation I provided regarding the various deadlines that are in place for the consideration of bills in both chambers. I incorrectly characterized the April 17 deadline: Bills don't necessarily have to be HEARD in a committee in the chamber of their origin by that date – they must at least have a work session SCHEDULED by that date. So, conceivably a bill could be scheduled for a hearing and work session sometime between April 17 and April 28. In any case, by April 28 all House bills must be completed by House Committees and all Senate bills must be completed by Senate Committees, with the exception of Rules, Revenue and Ways and Means.

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