From:	salem_update-bounces@lists.oregonstate.edu on behalf of Mills, Jock
To:	CAS DeanStaff; CAS Unit Leaders; Salem Update Listserv
Subject:	[Salem Update] Revenue forecast confirms continued declines
Date:	Thursday, August 28, 2008 12:55:23 PM
Attachments:	NEWS RELEASE Statement by Governor Ted Kulongoski on September Forecast.msg ATT17670837.txt

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Today in a joint session of the House and Senate Revenue Committees legislators received a gloomy revenue forecast for the current biennium with lingering implications for the next one. From the June forecast revenues for the current 2007-09 biennium are projected to be down by $119.2 million. The June forecast had shown an anomalous bump from the bleak February 2008 forecast due to a one time increase in capital gains receipts. In effect, the forecast today confirms that the state is in a recession and revenues will not recover through the remainder of the biennium and well into the next.

In June, the projected ending fund balance for the biennium was approximately $140 million. Today's forecast shows the ending fund balance down to just $24 million. If future forecasts – the next is due in December – show revenues falling by more than the ending fund balance, legislators will need to rebalance budgets for the remaining six months of the current biennium when they convene in 2009.

- If rebalancing the state budget is necessary, one of the first places legislators will look is projected ending fund balances across state agencies, including the University System.

Perhaps more troubling is what the current forecast projects for the 2009-11 biennium. A number of factors will make balancing the state's budget next legislative session extremely difficult:

- The current forecast shows a decline of some $240 million in revenues for the next biennium from the last forecast.

- Because the current recession is expected to last well into 2009, there will be no tangible evidence of any increase in revenues through the first six months of 2009 to pay for programs to be included in the next budget cycle.

- Guidelines for writing budgets for the next biennium include a 5-6 percent inflationary increase over the next two years. However, today's forecast shows inflation is approximately 5-6 percent *per year*. As a result every agency's "Essential Budget Level" will reflect a reduction due to inflation.

- Forecasters indicated revenues available next biennium could be reduced by $1.1 billion if voters pass Ballot Measure 59 in November. It is projected to create deeper reductions in future biennia. (Ballot Measure 59 would make all federal taxes paid by Oregon taxpayers fully deductable on their state tax returns. Under current law, deductions for federal income taxes are limited to $5,600. According to the fiscal analysis of the measure, about 500,000 Oregon taxpayers will directly benefit from this measure. The other 1.3 million taxpayers who are below the $5,600 threshold will continue to subtract all of the federal taxes they pay under current limits and will see no change in the Oregon taxes they pay.)

- Finally, a number of other ballot measures will mandate spending for corrections and other programs. To the extent that revenues are down, and inflation is not reflected in budgets, meeting these requirements can only be met through reducing spending elsewhere. (It is possible that legislators may consider some ways of raising new revenues, but while the state suffers through a lingering recession during the first six months of 2009, it is hard to imagine where the political momentum for such initiatives will come from.)

Two funds continue to grow that could be available to help the legislature weather through economic tough times:

- The Education Stability Fund which continually receives 18 percent of lottery sales continues to grow. Its balance is projected to be $396 million at the end of the current biennium. Releases from the Educational Stability Fund can be used for "public education" but require a 3/5 vote in each chamber (18 votes in the Senate, 36 votes in the House) as well as meeting a number of economic triggers.

- The Rainy Day Fund established last session through the transfer of the corporate income tax kicker is projected to be $341 million. Release of these funds also requires a 3/5 vote. Unlike the Education Stability Fund, however, the Rainy Day Fund does not have an automatic source of replenishment. It is "one time" money.

Possible risks that could worsen the picture in the coming months include:

- Further declines in the housing market and construction -- housing permits are down 62 percent from last year, but Oregon has yet to see the catastrophic losses experienced in other markets such as Miami and Las Vegas;

- A credit crunch that would affect access to cash for even the most solvent businesses;

- Energy costs that could create particular difficulties during the winter heating season; and

- Continued increases in inflation.

In short, the current recession is characterized as shallow and lingering. It is not as deep as the 2001 recession, but it is projected to last well into 2009 with no significant increases in state revenues until 2010.

Lottery revenues are expected to grow slightly over the coming biennia, but in the near term receipts from video games are projected to decline due to the implementation of smoking restrictions in lottery outlets.

There is at least one upside in today's forecast: Exports from Oregon continue to be up significantly over previous years. This is due to both the decreased value of the dollar abroad and to increased agricultural yields, particularly in the wheat market.

For the initiated, the link below will take you to the complete economic and revenue forecast:
http://www.oregon.gov/DAS/OEA/revenue.shtml

I have attached statements released today from Governor Kulongoski and the House Republicans.

<<NEWS RELEASE: Statement by Governor Ted Kulongoski on September Forecast>>

http://www.leg.state.or.us/press_releases/hro_082808.pdf

Questions, concerns, etc. please do not hesitate to contact me.

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