From:	salem_update-bounces@lists.oregonstate.edu on behalf of Mills, Jock
To:	CAS DeanStaff; CAS Unit Leaders; Salem Update Listserv
Subject:	[Salem Update] Further declines emerge for the current and futurebiennia
Date:	Friday, January 16, 2009 1:26:38 PM
Attachments:	NEWS RELEASE Statement by Governor Kulongoski on Mid-Quarter Revenue Report.msg Courtney addresses state budget picture.msg ATT16523873.txt

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This morning the House and Senate Revenue Committees got an update from State Economist Tom Potiowsky on the status of the state revenue projection for both the current and next biennia. Although the next quarterly forecast will not be issued until later in February, Potiowsky provided the legislators with a glimpse of the news to come. It is not good:

- The US and Oregon economies are undergoing a structural change. Previous forecasts predicted that GDP and employment would rebound to prior levels projected by 2015, the current projections do not.
- There have been substantial job losses in the last quarter of 2008.
- Capital gains, which constitute 9% of the personal income tax, will be significantly lower than previously projected due to stock market losses and deflating home prices.
- There is a fear that due to lower capital gains, estimated tax payments will result in overpayments and will trigger larger than normal refunds.
- We are now in the most severe recession since WWII.
- Revenues for the current biennium may be down by as much as another $300 to $600 million beyond the losses projected in the December 2008 forecast. And it could get worse.
- 2009-11 revenues will be lower than that predicted in December 2008 by well over $1 billion.
- Potiowsky and other economists are hopeful that the Federal stimulus package will produce positive effects and could therefore have a marked positive impact on these projections.
- Lottery revenues are also declining and will be lower in the next forecast.
- Potiowsky indicated that he expected a mild upturn by the 3rd quarter of 2009 and recovery by 2nd quarter of 2010, however, it won't be robust and it will not return to levels previously projected.

To put it into perspective, when the December forecast showed a $140 million shortfall, the Governor applied a 1.09% across-the-board reduction to state spending, the only tool available to him because the legislature was not in session at the time. That action translated to a $2.5 million reduction to OSU's Education and General (E&G) funds to be applied to the remaining six months of the current biennium and a $1.25 million reduction for the Statewide Public Service Programs (Agricultural Experiment Station, Extension, and Forest Research Laboratory). If an additional across-the-board reduction were applied to state agencies based on today's numbers, OSU's E&G exposure could be an additional $10 million. The statewides would face a $5 million reduction.

Now, with the legislature in session, today's news highlights one of the most pressing questions facing legislators: How will the legislature take the additional cuts needed to balance the books for the current biennium? Will the cuts be "targeted" on specific programs – and if so, on the basis of what criteria? Or, will the cuts continue to be across-the-board? For a number of reasons, the latter route may be more likely, including: lack of time to make rational decisions, fights over the criteria to be used in making the reductions, and the very high likelihood of creating enemies by targeting specific programs. Trying to target cuts for the current biennium will consume a lot of time and political capital when both resources are needed to achieve a balanced budget for the next biennium. Considering the alternatives, across-the-board actions may emerge as the most equitable course.

If the legislature were to attempt to undertake targeted reductions, the likely first step would be an examination of "fund balances," with the reasoning that entities with large fund balances for the current biennium haven't spent the money they have, and so can more readily absorb the reductions. The difficulty with this approach is that when consolidated across the state most entities may appear to have fund balances, including K-12 education, local government, and higher education. In addition, targeting fund balances can also be characterized as punishing good behavior. "You were prudent and didn't spend the money, so we're going to take it away."

If the legislature eventually decides to apply across-the-board reductions, it may opt to cut a higher amount than needed in order to preclude the need for additional reductions when revenues continue to fall, and to address some particularly hard hit entities. Given much of the attention on human service agencies over the last month and the potential increases in caseloads during difficult times, it would not be surprising if legislators chose to treat reductions for those programs differently. (See the release from President Courtney attached.)

It is too early to speculate how reductions of the magnitude described above will be distributed across the University in the remaining five or six months of the biennium. We will need more clarity in the coming weeks regarding what funds are on hand and what steps the Governor and Legislature are likely to take.

As to the next biennium, today's news indicates an additional loss of about $1 billion. While the legislature has more time to address the issues raised by these numbers, it is clear that further troubles on the horizon will induce budget writers to take whatever steps they can for the current biennium to avoid having to dip into the two reserve funds they have at hand – the Rainy Day Fund and the Educational Stability Fund. Those funds, roughly estimated to total to some $700 million will be much needed to address structural problems for the next biennium. But even they will be insufficient to address the fundament changes that will be necessary to balance the 2009-11 budget.

I have attached releases from the Governor and Senate President regarding today's news.

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