From: salem_update-bounces@lists.oregonstate.edu on behalf of Mills, Jock
To: CAS DeanStaff; CAS Unit Leaders; Salem Update Listserv
Subject: [Salem Update] March forecast shows declines in state revenues
Date: Friday, February 08, 2008 4:18:33 PM
Attachments: ATT4569619.txt

Today, the State Economist released the "March" quarterly economic and revenue forecast, several weeks early for the benefit of lawmakers who are in Salem for a month-long supplemental session. In short, projected General Fund revenues for the current biennium are down $153 million from the forecast used to construct the current state budget -- a 1.1% decrease out of a $14 billion budget.

While that number may not look so bad, and state economists said Oregon is not yet officially in a recession, the state could be later in the year. But they said it looks more like the 1990-91 recession, in which Oregon mirrored the nation, rather than the 2001-03 recession, in which Oregon was hurt much harder than the nation. Forecasters also said the range of variation could be as much as $400 million either way, leaving lawmakers with a great deal of uncertainty.

Legislators have next week to digest these projections and decide what changes to make in current state budgets, if any. On Tuesday of this week, the Ways and Means Co-chairs released "recommended budget adjustments" for the current biennium, that outlined potential increases and decreases under differing forecast scenarios. Unfortunately for those advocates in the Capitol seeking some modest increases in spending for a number of targeted programs this biennium, the forecast released today showed decreases that were beyond the "worser" of the two scenarios presented by the co-chairs. All agree that hopes for increased spending have been diminished, if not dashed, by today's forecast.

A note on the numbers: Some reports may show numbers higher than what you see here. For example, total General Fund and lottery revenues are down approximately $193 million from the December 2007 forecast. The co-chairs' scenarios were based on the expectation that forecasts could be down by as much as $125 million from the December forecast. But the appropriate measuring stick to use is how much revenues are down from the May 2007 forecast. That is the forecast that was used to establish the budget for the current biennium. By that measure, general fund and lottery revenues are actually down only $137,000. (General Fund revenues were down some $153 million, while the amount available under the lottery was actually up some $16 million. In fact, technically, it wasn't lottery revenues that were up, but between May and December, state lottery officials found some $20 million in lottery savings. Lottery sales are down some $17.5 million from the December forecast.) One final point on lottery sales: In the two weeks following the issuance of kicker checks last December, lottery sales exceeded forecasts by some $2 million. These two weeks showed the highest December lottery revenues since the program was enacted in 1985.

Implications for Higher Education:

Our greatest vulnerability is the $134 million the state legislature set aside for state employee salaries at the end of the 2007 session to be distributed at some point

during the current biennium. (The legislature set aside a similar amount during the 2005-07 biennium for distribution – which it did during the special session it held in April, 2006.)

Approximately $30 million of the salary package is destined for higher education. Salary decisions at all of the universities, as well as at state agencies, were made on the expectation that these funds would be released. If the legislature chooses not to release these funds, salary increases would not be rolled back. Rather, all state agencies, including higher education, would be forced to take programmatic reductions.

When the co-chairs issued their plans for the supplemental session earlier this week, they indicated that the decision to release these funds would not be made in February. Expecting further revenue reductions, they have opted to wait until June, pending the May economic forecast. If that forecast continues to show signs of decline, these funds are at extreme risk. It will be difficult enough for the Ways and Means Committee to release the funds even if the current forecast remains unchanged and does not worsen.

Complicating the legislature's future decisions is how the recently adopted economic recovery program in Washington, DC may affect state revenues in Oregon. While the economic stimulus may help on some fronts in terms of spurring national demand for Oregon products, state tax writers appear to be uncertain about how the federal actions will affect state revenues. More on that in the coming months . . . .

For more on the state economic forecast:
http://www.oea.das.state.or.us/DAS/OEA/revenue.shtml

Questions and comments, please do not hesitate to contact me.

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