From: salem_update-bounces@lists.oregonstate.edu on behalf of Mills, Jock
To: CAS Unit Leaders; CAS DeanStaff; Salem Update Listserv
Subject: [Salem Update] The latest revenue forecast
Date: Saturday, February 21, 2009 8:57:48 PM
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On Friday State Economist Tom Potiowsky provided an updated quarterly economic and revenue forecast. Here is a link to the entire shooting match:
http://www.oregon.gov/DAS/OEA/economic.shtml#Most_Recent_Forecast

The 2007-09 Biennium
In short, the forecast for the current biennium shows that expected revenues have fallen an additional $713 million since the last forecast was issued in December. When lottery losses are added to the mix, the total shortfall grows to some $850 million.

Before the end of the first week in March, this additional loss will spur legislative approval of additional cuts to state-funded activities. Over the last two weeks legislative budget writers first posted a list of projected cuts and then last week issued a revised list of recommended cuts, some of which were moderated by applying about 25% of Oregon's share of the federal stimulus package that was signed into law earlier in the week.

The following table charts the original reductions slated for the three education sectors (K-12, community colleges and the Oregon University System) and how they have been assisted by the federal stimulus package.

Co-Chairs' Proposed Education Reductions
2007-09 Biennium

	Initial Proposed Cut	**Co-chair Cut mitigated by Federal Stimulus Funding**	**Difference**
State School Fund (K-12)	$279 million	$167 million	$112 million
Community Colleges	$25 million	$7 million	$18 million
University System	$46 million	$46 million	0

In short the legislature has devoted about $130 million of the federal package to K-12 and community colleges. As currently proposed by the legislature, higher education will take a 5% cut, compared to 2.9% for K-12 and 1.29% for Community Colleges.

One potential reason for the higher cut to higher education is the existence of "fund balances" that legislators say can be drawn down at universities to cover the remainder of the biennium. During a hearing before the Ways and Means Education Subcommittee last Thursday, neither representatives for K-12 nor Community Colleges could, or would, indicate what their fund balances were.

K-12 fund balances are spread among 198 local districts, while community college balances are spread among 17 entities. Of course fund balances are not centralized among the 7 public universities. When looked at from the same perspective as K-12 and community colleges, university fund balances are spread among dozens and dozens of decentralized units, and "sweeping them up" to balance the state budget will result in real losses to students. The difference is that most of the brunt of the hit will occur in the next academic year. In essence, by sweeping up university fund balances, the legislature is putting higher education well behind the starting line for the next biennium compared to the other two education sectors.

More troubling, the five percent reductions may not be sufficient to balance the 2007-09 budget, given Friday's forecast, and the continued pressure from K-12 to reduce their cuts. Reducing K-12 cuts could only come by either devoting more federal stimulus funding to that sector, cutting more from others, or a combination of both. Last week State Superintendent of Public Education Susan Castillo was unable to tell the Ways and Means Education Subcommittee how many districts would have to cut more than five days from their schedules, nor how many would be able to get through the current school year without having to cut any days given their individual fund balances. Nevertheless there is a concerted push to keep any districts from cutting school days.

Also last week the Governor indicated that he was taking immediate steps to reduce state costs for the remainder of the current biennium and into the next one. He indicated a roll back of state executive salaries and the implementation of furloughs. At this time, it is not clear how either will be applied to higher education because we do not operate under the same pay scales. Neither action would be applied to classified employees. Pay freezes, roll backs and furloughs are expected to generate some $2.5 million savings for the current biennium.

The Governor also indicated that he will veto any bill that seeks to use the two state reserve funds – the education stability fund and the rainy day fund – to balance the current biennium. But if the next revenue forecast in May shows continued declines in revenues for the current biennium, the only option open to legislators will be to reach into those funds and the federal stimulus package to balance the budget. With less than six weeks remaining in the biennium, there simply isn't enough time left to cut budgets. Given the fact that the last three quarterly forecasts have shown continuous declines from the ones that preceded them, the chances are quite likely that the May forecast will continue to show a continued decline for the current biennium.

The 2009-11 Biennium

The forecast for the next biennium shows a $3 million decline in the revenues at a time when economists expect a significantly higher level of demand for state service. In percentage terms, this amounts to at least a 20% cut back across the board. Following the forecast Senate President Peter Courtney (D-Salem) indicated that the legislature would not be able to meet the revenue shortfalls next biennium solely through budget cuts or tax increases. Solving the state's problems would require a combination of both – in a yet to be determined way.

Moderating the shortfall is this existence of the state Education Stability Fund, the state Rainy Day Fund, and the federal stimulus package flowing to the state. Combined, the three funds are expected to total about $1.5 billion to be available over the next biennium, unless legislators tap into any of them to balance the current biennium.

Also creating uncertainty into the next biennium is the volatility of the economic forecasts. While the state economist indicated on Friday that he expects the state to bottom out by mid-year, and then to stay there until later in 2010, what happens if the federal stimulus works and the uncertainty that is crimping the financial markets is resolved? In short, under the state's "kicker" law revenues might increase by more than 2 percent by June 2011 over the forecast from May 2009. In that case, the entire amount over the forecast would be sent back to Oregon tax payers. The potential for "kicking" the kicker at a time when the state has experienced one of its most difficult financial challenges is leading many legislators to consider revisions to the process.

What Happens Next?

- Legislators will need to pass a bill that rebalances the current biennium within the first week of March, lest the Governor be forced to implement across the board reductions. (Given the disproportionate share of cuts to higher education, we should be so lucky.)

- Later in March the Ways and Means co-chairs are expected to issue a proposal for the 2009-11 biennium. Given the drop in revenues since the Governor's proposed budget was issued in

December, the numbers in his budget are obsolete. Whether he issues a rebalanced budget in the near term remains to be seen.

Questions/concerns/comments, please do not hesitate to contact me.

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