From: salem_update-bounces@lists.oregonstate.edu on behalf of Mills, Jock
To: CAS DeanStaff; CAS Unit Leaders; Salem Update Listserv
Subject: [Salem Update] Economic Forecast -- shortfalls in the currentbiennium, cuts anticipated in the next
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Attachments: ATT7285796.txt

State Economist Tom Potiowsky provided legislators with the latest economic forecast this morning. He was joined by Josh Harwood who followed with how the forecast would affect state revenues for both the 2007-09 and the 2009-11 biennia.

For the current biennium: Since the May 2007 forecast that was used to build the state budget, we have gone from a projected $184 million surplus (funds that were projected to be available but had not been appropriated) to a $142 million deficit, a swing of some $326 million, or about a decline of 2.3% of the state's $13.9 billion General Fund expenditures. (These figures do not include the rainy day and education stability reserve funds – more on those later.)

For next biennium, if Oregon is to retain the same level of service that it sought to provide in the current biennium, legislators will need to approve a projected $17.3 billion budget – the so-called Essential Budget Level (EBL). This figure includes increased costs due to the passage this month of Ballot Measure 57, and roll up costs for programs the legislature expanded from the current biennium into the next biennium. Today's forecast for the 2009-11 biennium indicates, however, that revenues will be approximately $1.3 billion below that level, a shortfall of approximately 7.5%.

For the current biennium, the Governor responded with a release calling for across-the-board state agency reductions to meet the projected shortfall:

> "Today's forecast shows the depths of this recession and the economic uncertainty facing our state and our nation right now," Governor Kulongoski said. "This recession demands tough decisions and requires shared sacrifice – and today's action is the first of many difficult decisions that lie ahead."
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> Consistent with state law, this reduction will be equally distributed among state agency appropriations. At this time, the Department is estimating the reduction will equate to about 1.2 percent of each agency's biennial budget.

It is possible that subsequent forecasts could exacerbate the problem facing the state in the current biennium, in which case the Legislature would likely take additional steps. The next forecast is due in late February, although the state economist indicated today that he would provide more frequent reports on various indicators such as tax withholding rates and other factors that may indicate whether the state's revenue picture is getting worse or better. The next periodic report is due in January.

On December 1, the Governor will deliver his recommended budget for 2009-11 to the legislature. That budget will outline his plan for how the state will manage revenue reductions and cost increases. It may also include revenue increases such

as an increase in the cigarette tax and a corporate minimum tax. The Governor has asked state agencies, including the Oregon University System, to identify possible reductions heading into the next biennium. Most expect that his budget will not include any "policy option packages" -- budget increases.

Also provided in today's forecast is the status of two reserve funds. The balance in the "rainy day fund" established last session when the legislature retained corporate kicker funds rather than returning them to Oregon corporate income tax payers is currently $340 million. The provisions that established this fund did not contemplate its use during the current biennium. It is important to remember that these are "one time" funds: they can be released, but if they are used to support ongoing expenses, such as state employee salaries, the legislature will need to find additional revenues in the future to retain those positions, or would have to cut those positions in the future. In addition, the rainy day fund is not replenished – once spent, the money is gone.

The Education Stability Fund currently is projected at $393 million. That fund is replenished using 18% of lottery proceeds. Releasing both funds requires a 3/5's majority vote in both House and Senate. (The November election gave Democrats in each chamber a 3/5's majority – 18 in the Senate and 36 in the House.)

Whether or how the legislature may determine to use these funds is an unanswered question. Neither the Governor, nor any of the legislators who issued statements today following the release of the dismal economic news have called for use of these funds to address the potential budget reductions.

For those who would like more in depth information about the forecast, here is a link: http://www.oregon.gov/DAS/OEA/revenue.shtml#Most_Recent_Forecast

Here are some additional tidbits to consider:

- The Consumer Price Index showed a 1% decline since the last forecast, the largest drop ever.
- Oregon lost 24,000 jobs over the last year – 14,000 of them were lost in October.
- Oregon's housing market appears to be better positioned than most states and is not experiencing the same rate of sub-prime foreclosures. States with the biggest housing booms are also those with the biggest budgetary problems.
- The drop in energy prices since they spiked over the summer is equivalent to a $185 billion tax rebate.
- Oregon has a history of doing worse than other states in full grown recessions. We currently rank among the bottom ten in employment.
- Given the drop in consumer spending, states that rely more on sales taxes are worse off than those that rely on income taxes.
- Lottery revenues have shown a flattening and the smoking ban in lottery outlets may be compounding this problem.
- Credit markets pose the biggest risk to the state and will determine the speed and magnitude of the recovery.
- Actual improvements in the state's economy will likely not be evident until well

into 2009, and possibly early 2010. This leads many to expect an additional supplementary legislative session in February 2010.

And now a correction to yesterday's update . . . I somehow moved House Republican Leader Bruce Hanna some 60 miles south of his actual district. He hails from Roseburg, not Grants Pass. My apologies both to Representative Hanna and to State Rep. Ron Maurer who represents Grant Pass.

Questions, corrections, etc. do not hesitate to contact me.

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