

OYA *In the Loop*

January 20, 2009

Greetings!

I want to pass on to you the most recent budget news. This morning at the agency heads meeting, we received a revenue update for 2007-09 and 2009-11, and we discussed the possible consequences of those estimates.

Central to Oregon's revenue projections are jobs because we are heavily dependent on income taxes. The United States has lost about 1.9 million jobs and 73 percent of them were lost from September through December 2008. Oregon has lost about 35,000 jobs and about 64 percent of them were lost from September through November 2008. That sudden and rapid drop in employment explains the continuing loss of revenues beyond what we expected just a month and a half ago. The U.S. unemployment rate is expected to reach 9 percent, and Oregon's is expected to exceed 10 percent.

We were told today that for the remainder of the 2007-09 biennium we will have from \$300 to \$600 million general funds less than forecasted in December. Remember that as the result of the December forecast, the Governor ordered agencies to plan for \$142 million in general fund reductions across agency appropriations. The \$300 to \$600 million shortfall we were told about today is in addition to the \$142 million reduction we are already scheduled to take. Moreover, the estimate for 2009-11 is \$1 billion greater than the December forecast, which means that we are looking at a \$2.2 billion shortfall for 2009-11.

The initial focus of the legislature will be to balance the 2007-09 biennium. Representatives from the Department of Administrative Services, Budget and Management Division, are working with the Legislative Fiscal Office (LFO) to determine how to do that. They are examining closely the proposed reductions that each agency submitted (in 5 percent increments up to 20 percent) to LFO earlier. However, balancing the 2007-09 budget using those proposals will be very difficult because of the short time we have until the biennium ends. So we now wait, anticipating instructions from Budget and Management and LFO about what the next steps are for balancing the 2007-09 budget, and I expect that we will be asked to reduce more but I can't say, at this time, what that might look like.

The Governor and the Senate President are very reluctant to use the reserves (about \$780 million) we have to balance this budget because they are fearful that we haven't yet hit the bottom of the recession. They do not want to spend the reserves only to learn that we might need to cut still more. This decision rings true to me. I have seen a lot over the years, and I know that until we hit the bottom of the recession the subsequent estimates

about revenue will be worse. Having worked through the recession in the early 1980's when the Oregon unemployment rates exceeded 12 percent and observing the reductions needed to balance then, I think the Governor and the Senate President are wise in resisting the temptation of using the reserves at this time.

We have hope that the Obama administration will help the states with an aggressive stimulus package. We think Oregon might receive from \$100 million to \$350 million in additional Medicaid funds in 2007-09. We are hopeful that the Medicaid dollars for 2009-11 will also increase, but we do not have an estimate yet. We do expect from \$400 million to \$800 million in 2009-11 for an Education Block Grant. In all, we expect the federal government to send about \$1.8 billion to Oregon over the next two years or so.

The thing to remember about these new Medicaid, education, or other federal dollars is that they will free up general funds for the legislature to use to fund their priorities. Therefore, there is an opportunity for all agencies to benefit from the receipt of these dollars. The legislature, in consultation with the Governor, will decide how to allocate the dollars across the agencies.

The agency heads were asked to generate savings, short of lay-offs. We will need to hold vacancies and look for other ways to save. I will talk with you more about that in the coming days.

For now, I remain hopeful and thankful. I am hopeful that we can solve this budget problem with minimum impact to the youth we serve and to our employees. I am thankful that I live in the United States and in Oregon, and I am thankful that I work with all of you who are dedicated to our mission. We will be challenged, but we will persevere by relying on one another for strength and encouragement.

Thank you for all that each of you does for the youth we serve.

Bobby