

February 20, 2009

To: President Wim Wiewel, Provost Roy Koch, Vice President Cassie McVeety, Vice President Henry Lazenby, AVP Carl Mack, Director Michael Fung,
Director Jesse Cornett, Assistant Director Mary Moller

From: VP Lindsay A. Desrochers

Re: Oregon State Revenue Forecast 2/20/09 and Governor's
Initial Actions to Meet the Projected Shortfalls

The State Economist has made his 2/20/09 presentation to the Legislature concerning the State economy and in particular the State Revenue projection for the duration of this year and for the next biennium.

The bottom line finding is that the recession identified in December 08 is deepening, most directly demonstrated by steep increases in job losses and what is now a 9% unemployment level (projected to go to 10% or above within the year).

For the 2007-09 current biennium, the State is looking at a roughly \$855.3 total shortfall. This represents about 5% of the State's total biennial budget, but the actions to respond to this shortfall must all be achieved within the last quarter of the biennium which we are now within. These actions began in December when the Governor mandated a first round of reductions and OUS participated in this reduction at about 1.09%. The remaining shortfall, \$713.1m, accumulated between November and today, must also be managed and represents another approximate 4% reduction, of which OUS must take another \$37m. A bill is currently running in the State Legislature to mandate additional reductions of approximately \$350m with a likely implementation date of March 1, 2009. For Portland State, this represents approximately another \$7.9m. The President has approved a plan to manage to this requirement.

For the 2009-11 biennium the State is now looking at a shortfall of about \$3 billion. The shortfall has grown just since December by \$1.7 billion. This reduction in revenues will likely necessitate double digit reductions in state expenditures in the next two years. The original Governor's Recommended Budget presented in December must now be substantially revised. Legislative action on the next biennial budget is just beginning. We do not yet have instructions or guidance on what level of reduction OUS should plan for in the coming biennium.

Another important development is the recent announcement by the Governor as to how he proposes to deploy the funds provided by the national stimulus bill, The American Recovery and Reinvestment Act, which, combined with the two state reserves (Rainy Day Fund and Education Stability Fund), provides \$2.2 billion “safety net.” He has indicated that these funds must be distributed cautiously between the remainder of this year and the next two years (next biennium). He has developed a 20/40/40 approach which uses only 20% of the funds this year for all state programs and 40% for each of the following two years. This is a reflection of his concern that shortfalls in the next biennium are very substantial and resources will be needed even more in that period to cover essential services.

There are additional important pending actions by the Governor and/or Legislature which could have immediate effects on OUS which we are following and will report when additional information is available.