



Oregon

Theodore R. Kulongoski, Governor

Water Resources Department

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MEMORANDUM

TO: Water Resources Commission

FROM: Tracy Loudon, Administrative Services Administrator

SUBJECT: Agenda Item M, February 26, 2009
Water Resources Commission Meeting

Budget Update – impact of economic conditions on current and future biennia

I. Issue Statement and Background

The Office of Economic Analysis released January 16, 2009 an updated Economic and Revenue Forecast which forecasts additional reductions in revenue for the current 2007-09 biennium and next biennium, 2009-11. These reductions in revenue indicate a deeper recession than anticipated in the December 2008 forecast. These economic challenges have an impact on the Department's current budget and the Governor's Budget for 2009-11.

This is an informational report.

II. Discussion

The outlook for the Oregon economy is for a deeper recession than projected in the December 2008 forecast. Job losses are expected to be larger and lasting longer into the second half of 2009. Housing markets may still take longer to adjust. Inflation should be lower contributing to slow personal income growth.

Early indications from Department of Revenue reports show that fourth quarter estimated payments for tax year 2008 have fallen off by record levels. As a result, it is anticipated current biennium General Fund revenue will be dramatically lowered. It is conceivable that revenue may be lower than budgeted, by as much as \$800 million.

In September 2008, the forecast of General Fund revenue for 2009-11 was \$15.5 billion. In December 2008, that forecast was reduced to \$14.7 billion. With the rapid deterioration of the economy, the most recent forecast shows that there is a risk that General Fund revenue for the 2009-11 biennium may be below \$13.7 billion.

These forecasts will be updated again with the release of the March forecast on February 20.

The Governor's Recommended Budget. The Governor has recommended two new investments in the Department's budget. From the General Fund, these investments include two full-time equivalents (FTE) for Package #102, "Developing and Communicating an Integrated Water Resources Strategy." Another Package (#108, Implementation/Construction Grants), would invest \$2.5 million in lottery-backed bonds into the Umatilla Basin Aquifer Recovery Project, which is currently in the feasibility study stage with funds from the 2008 Legislative Session.

Additional changes include the reduction of seven FTE, \$125,000 in ground water study funds, and \$50,000 in attorney general funds. All of these represent reductions in the Department's General Fund Budget for 2009-11. Please see the attached one-pager, "2009-11 Governor's Recommended Budget," for additional details.

III. Summary

The State's General Fund revenue forecast has experienced significant reductions during the last few months due to the current recession, which is not expected to turn around until mid-2009. The Governor and Legislative leadership are working to balance the state budget by the end of the fiscal year, June 30, 2009. The effect of these deliberations on the budget of the Water Resources Department are unknown at this time, although we anticipate we will have additional information during the Commission meeting on February 25.

Attachments: 2009-11 Governor's Recommended Budget

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