



Oregon

The Big Dipper: Another Rollercoaster Ride for the Oregon Economy

Salem, Oregon

March 20, 2009



Recent Oregon Economy Facts

- 9.9% unemployment rate for January 2009 (January US rate is 7.6%) is up from the latest lowest rate of 5.0% in April 2007. Oregon's unemployment rate for June 5.5% matched the US rate. Oregon's rate had been above the US rate for past 12 years.
- 41st fastest job growth at -2.6% for all states for December 2008 over December 2007.
- Total nonfarm employment dropped -2.5% year-over-year for the 4th quarter of 2008 (preliminary data). Job losses (S.A.) for February thru June, and August thru December 2008.
- 3.8% personal income growth for 3rd quarter of 2008 over 3rd quarter of 2007. Annualized 3rd quarter 2008 growth at 1.1%.
- Oregon exports fell 6.0% in the 4th quarter compared to the same period last year and finished 2008 up 17% over 2007. (Export growth is expected to continue to decline with global economic slowing)



Historical Comparison

Recession	1981-82	1980-82	1990-91		2001		2008-?? *	
	U.S.	Oregon	U.S.	Oregon	U.S.	Oregon	U.S.	Oregon
Employment								
Loss (in 000s)	2,734.3	123.3	1,498.3	12.3	2,657.3	60.1	5,943.5	100.7
% Change	(2.99)	(11.50)	(1.37)	(0.97)	(2.01)	(3.69)	(4.31)	(5.79)
Duration								
Peak-to-Trough	5 Qtrs	12 Qtrs	5 Qtrs	3 Qtrs	9 Qtrs	10 Qtrs	8 Qtrs	8 Qtrs
Return to Peak	8 Qtrs	28 Qtrs	10 Qtrs	5 Qtrs	15 Qtrs	16 Qtrs	18 Qtrs	19 Qtrs

* Estimates based on Global Insight and OEA forecasts

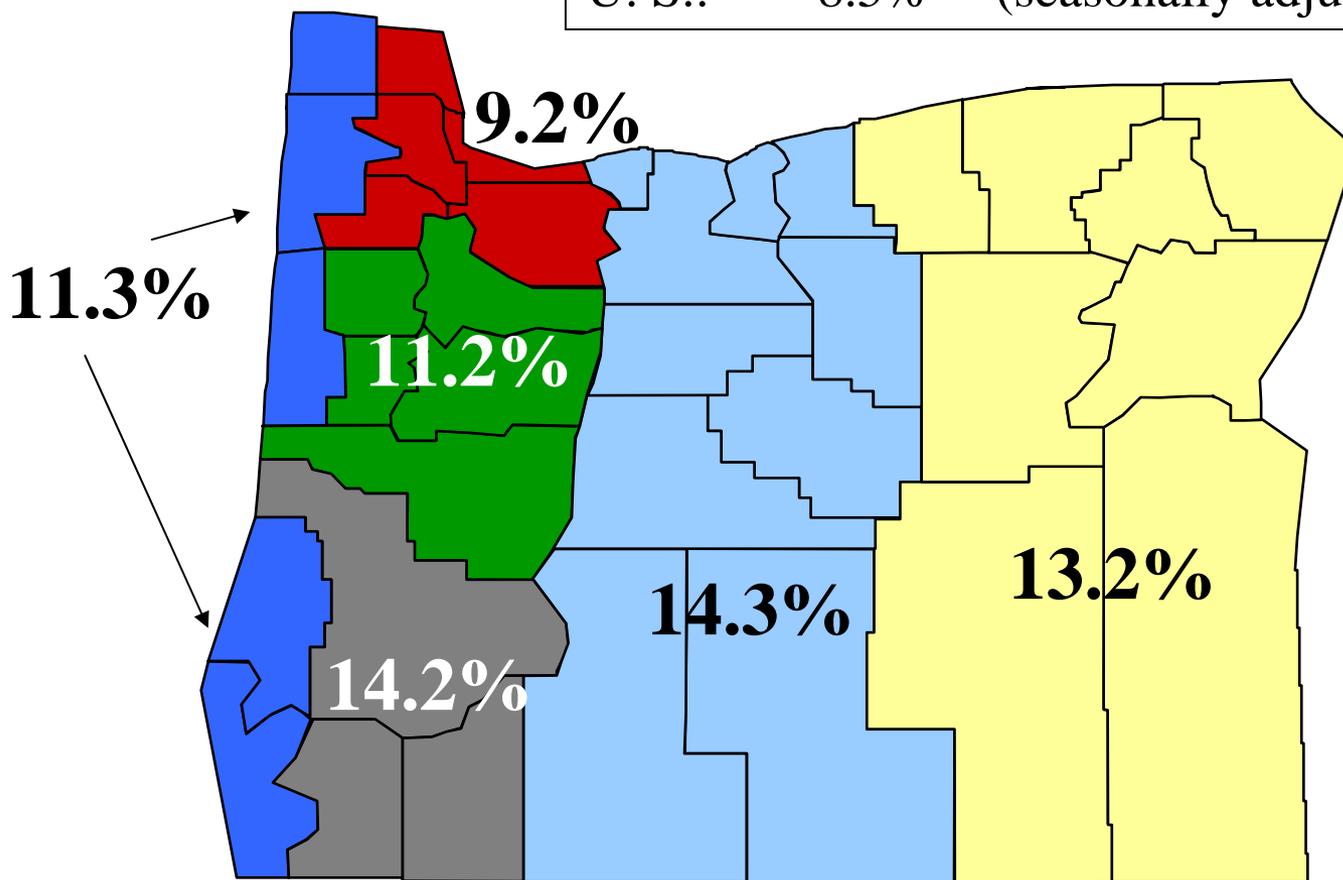




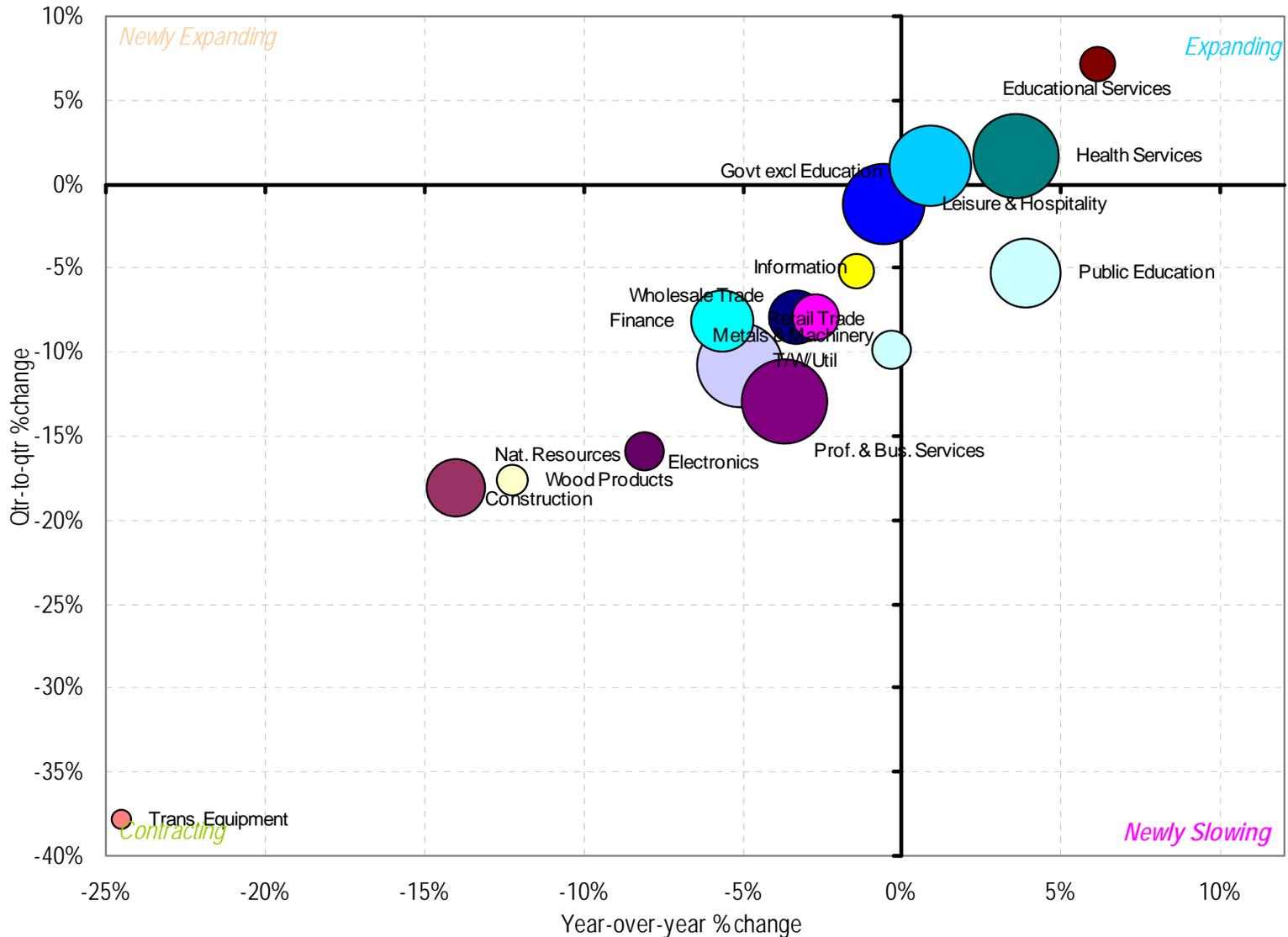
Unemployment Rate by Region, January 2009

(Not seasonally adjusted for counties)

Oregon:	10.9%	(seasonally adjusted: 9.9%)
U. S.:	8.5%	(seasonally adjusted: 7.6%)



The southwest flight continues... (4th Quarter 2008)





Mortgage Loans

- 5.1 percent of all loans past due (4th Quarter, 2008)
 - Higher than the 3.7 percent in 2001
 - Oregon ranks 6th best nationally

Subprime Mortgage Loans (Dec 2008)			
	<u>U.S.</u>	<u>Oregon</u>	<u>OR Rank</u>
Loans per 1,000 housing units	19.5	16.6	28th
% 90 days past due	12.3%	9.1%	42nd
% in foreclosure	11.2%	8.0%	28th
Avg FICO Score	617	630	3rd
FICO < 600	38.8%	28.6%	49th
ARMs Resetting in Next 12 Months	18.5%	28.0%	2nd





Remember, we were likely in a recession before the full force of the financial crisis hit...

- Oregon does not have an extensive financial activities sector.
- Housing is down but surviving better than CA, AZ, NV, FL and many other states.
- Sales tax states are having a harder time relative to income tax states. The consumer is MIA.
- Strong correlation between states that had the biggest housing bubble and the biggest budget problems.
- Oregon will fare worse to the extent the recession is full blown across all sectors.





General Fund Revenue Forecast

- Large decreases in near-term
 - BI 07-09 down \$713.1 million
 - Concentrated in personal income taxes, though corporate also revised downward
 - 4th quarter estimated payments prelude to dismal April reconciliations
- Both extension of breadth and depth of current conditions leads to dramatic drop for 2009-11
 - \$1.7 *billion* lower than December
- Now forecasted to be longer, deeper drop than 2001-03.





Lottery Revenue Forecast

- “Perfect Storm”
 - Economic slowdown
 - Weather
 - Smoking restrictions
 - Lower gas prices
- Increased administrative savings keep 2007-09 programs “whole”
- Sales expected to decline 14% relative to 2007-09 (not including admin. savings)





Risks to Forecast

- Timing and nature of rebound – particularly for lottery and capital gains.
- Inflationary factors – currently expecting low inflation in near term to dampen any wage and salary increases.
- Global economy – potential for long-term weakness in export industries.





Financial and Management Factors

- As of the March 2009 Forecast, 2007-09 biennium revenues are now projected to be \$973.1 million lower than Close of Session Forecast in June 2007

2007-09 General Fund and Lottery Revenues March 2009 vs. Close of Session Forecast Summary (\$ in Millions)				
Revenue Source	March 2009 Forecast	Close of Session Forecast (June 2007)	Difference	Percent Change
General Fund				
Personal Income Taxes ⁽¹⁾	\$ 10,372.2	\$ 11,183.2	\$ (811.0)	(7.3)%
Corporate Income Taxes	748.8	920.9	(172.1)	(18.7)%
All Others	897.4	888.5	8.9	1.0%
Total General Fund	\$ 12,018.4	\$ 12,992.6	\$ (974.2)	(7.5)%
Lottery Revenues	1,317.2	1,316.1	1.1	0.1%
Total General Fund and Lottery Revenues	\$ 13,335.6	\$ 14,308.7	\$ (973.1)	(6.8)%

⁽¹⁾ Net of Personal Income Tax Kicker estimated at \$1.1 billion at close of session; final kicker was \$1.084 billion.





Financial and Management Factors

Deficit Reduction Initiatives Already in Progress before March 2009 Forecast

- State was already in the process of balancing the budget for the remainder of the 2007-09 biennium
- Subsequent to the release of the December Revenue Forecast, the Governor implemented General Fund budget cuts of \$140 million
 - This equates to a cut of about 1.1% of each agency's biennial appropriation, but because the cut comes in the final 6 months of the biennium, it is closer to a 4-5% reduction of the amount agencies still have left to spend
 - Under the Governor's statutory authority to avoid a deficit, all agency budgets need to be reduced equally
- As it became apparent that economic conditions were declining more rapidly than anticipated, the Legislature requested proposals for larger expenditure reductions





Financial and Management Factors

2007-09 Deficit Reduction Plan

- March 2009 Forecast projects a net General Fund deficit, after taking into account a planned ending balance for the current biennium, of \$855 million
- In anticipation of the March 2009 Forecast, the Legislative Assembly's Joint Committee on Ways and Means announced a plan to address the revenue shortfall
 - Spending reductions of \$311 million, including
 - \$116.0 million from K-12 Education
 - \$65.0 million from Other Education
 - \$56.9 million from Public Safety
 - \$27.1 million from Human Services
 - Federal stimulus contributions totaling \$401 million
 - \$230 million for Medicaid
 - \$171 million for Education
 - \$147.6 million from other available funds, including \$53.2 million previously appropriated to the Emergency Fund
 - \$2.5 million in salary freezes and roll-backs for State managers and executives
- Governor and Legislature do not plan to tap Oregon's ESF and RDF reserves at this time
- Next full economic and revenue forecast is expected to be released May 15, 2009





Financial and Management Factors

Oregon's Budget Reserves Available in 2007-09

- Education Stability Fund (“ESF”)
 - 18% of biennial net Lottery revenues are dedicated to this reserve account
 - Withdrawal subject to economic and financial triggers
 - Projected balance in 2007-09 is about \$392 million
- Rainy Day Fund (“RDF”)
 - Seeded with Oregon’s 2005-07 Corporate Kicker of \$319.3 million plus interest earnings on the RDF
 - Automatic transfer of up to 1% of General Fund expenditures from the ending fund balance at the end of each biennium
 - Up to 2/3rd of balance available for withdrawal per biennium, subject to economic and financial triggers
 - Projected balance at end of 2007-09 is about \$340 million
- Federal Economic Stimulus Package
 - Approximately \$2.4 billion total resources available to Oregon (excluding competitive grants), of which \$1.4 billion can be applied to General Fund deficit
 - Current plan is to use \$401 million in 2007-09 biennium



Financial and Management Factors

Oregon's Budget Reserves

Budgeted Reserves (\$ Millions)			
	2005-07 (Actual) ⁽²⁾	2007-09 (Projected)	2009-11 (Projected) ⁽³⁾
Education Stability Fund	\$ 179	\$ 392	\$ 527
Rainy Day Fund ⁽¹⁾	--	340	366
DHS Caseload Reserve (Provider Taxes)	--	--	212
Ending Balance/Emergency Fund	<u>319</u>	<u>--</u>	<u>130</u>
TOTAL	\$ 498	\$ 732	\$ 1,235

⁽¹⁾ Reflects initial deposit and interest earnings

⁽²⁾ Ending Balance net of \$1.08 billion in personal "kicker"; transferred to RDF in FY 2008

⁽³⁾ Reflects Governor's proposed 2009-11 recommended budget and March 2009 Forecast

- Approximately \$990 million in federal stimulus funds available for General Fund needs
- Cash balance of \$679.1 million in ESF and RDF reserves as of December 31, 2008
- Current projections show \$732 million in budget reserves at end of 2007- 09 biennium
 - 5.4 % of biennial General Fund expenditures or 10.8% on an annual basis
 - Compares favorably to NASBO's 7.0% projected average ending FY 2009 General Fund balance

