



THEODORE R. KULONGOSKI
Governor

August 17, 2010

The Honorable Peter Courtney, Senate President
Oregon Senate
900 Court St. NE, S-201
Salem, OR 97301

The Honorable Dave Hunt, Speaker of the House
Oregon House of Representatives
900 Court St. NE, H-269
Salem, OR 97301

Dear President Courtney and Speaker Hunt:

This letter is to make you aware of the likely impact of the September revenue forecast on the state's General Fund budget for the current biennium and the actions we should consider to bring that budget back into balance.

As you know, the Congress and the President approved a package of financial assistance for schools and state Medicaid programs earlier this week. This assistance will amount to \$262 million for our state – \$118 million in additional federal support (known as Education Jobs) for Oregon school districts and \$144 million in additional federal resources (FMAP) to support health care programs for low-income Oregonians.

These additional federal funds are sorely needed to make up for the revenue losses we have continued to suffer in this recession-damaged economy. Unfortunately, it now appears that the ongoing effects of this recession will continue to undermine our budget. At the same time Congress was passing the new financial assistance package for states and local school districts, national economists were downgrading their projections for the growth of the national economy in the coming months. In light of these economic changes, the Oregon Office of Economic Analysis sent me the attached letter indicating the September 2010 forecast will likely be down by another \$200 million to \$500 million for the General Fund.

On August 26, we will know the magnitude of the expected deficit for the remainder of this biennium. Even after August 26, we must be prepared to address three more quarterly revenue forecasts before the end of this biennium on June 30, 2011. Those will come to us in

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December 2010, February 2011 and May 2011. After nine negative forecasts over the past 27 months, it will be prudent to expect and to plan for continuing challenges ahead of us.

I am hoping we can come to an agreement on how to resolve the deficit if the forecast materializes as expected, so we can bring the state budget back into balance for this biennium. I am attaching a message to this effect that will be sent to all agency heads by Budget Director George Naughton today. With nine months remaining in this biennium, we still have time to implement reductions; but if we wait much longer, that opportunity may not be available.

Because of the uncertainty of economic and revenue trends over the next nine months, I remain opposed to using the state reserves at this time.

Also, I strongly believe we should not use the additional federal Medicaid resources to increase spending above current levels. Instead, I would like to see these resources retained as a caseload reserve in DHS to carry us through the remainder of this biennium.

We know there will be some exceptions, such as the need to avoid the closure of prisons and meet our maintenance of effort obligations for community corrections and for education. Those exceptions, however, can be addressed through the Emergency Board process or during the regular session that will begin on February 1, 2011.

Finally, I will submit an application to Secretary of Education Arne Duncan by the end of this month to ensure the award of Oregon's share of the Education Jobs funds for our local school districts, and I look forward to the necessary actions by the Emergency Board to facilitate the distribution of these funds to our local school districts. However, I am planning to send a letter to school superintendents to advise them of the current state fiscal situation and to recommend that they remain prudent in planning for the coming school year in light of these continuing economic realities.

I look forward to working with you to address these challenges prior to the release of the revenue forecast on August 26.

Sincerely,



THEODORE R. KULONGOSKI
Governor

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CC: Senator Richard Devlin, Senate Majority Leader
Representative Mary Nolan, House Majority Leader
Representative Peter Buckley