

RECESSION SCENARIOS:

HOW HAS OREGON
HISTORICALLY RESPONDED TO
NATIONAL RECESSIONS?

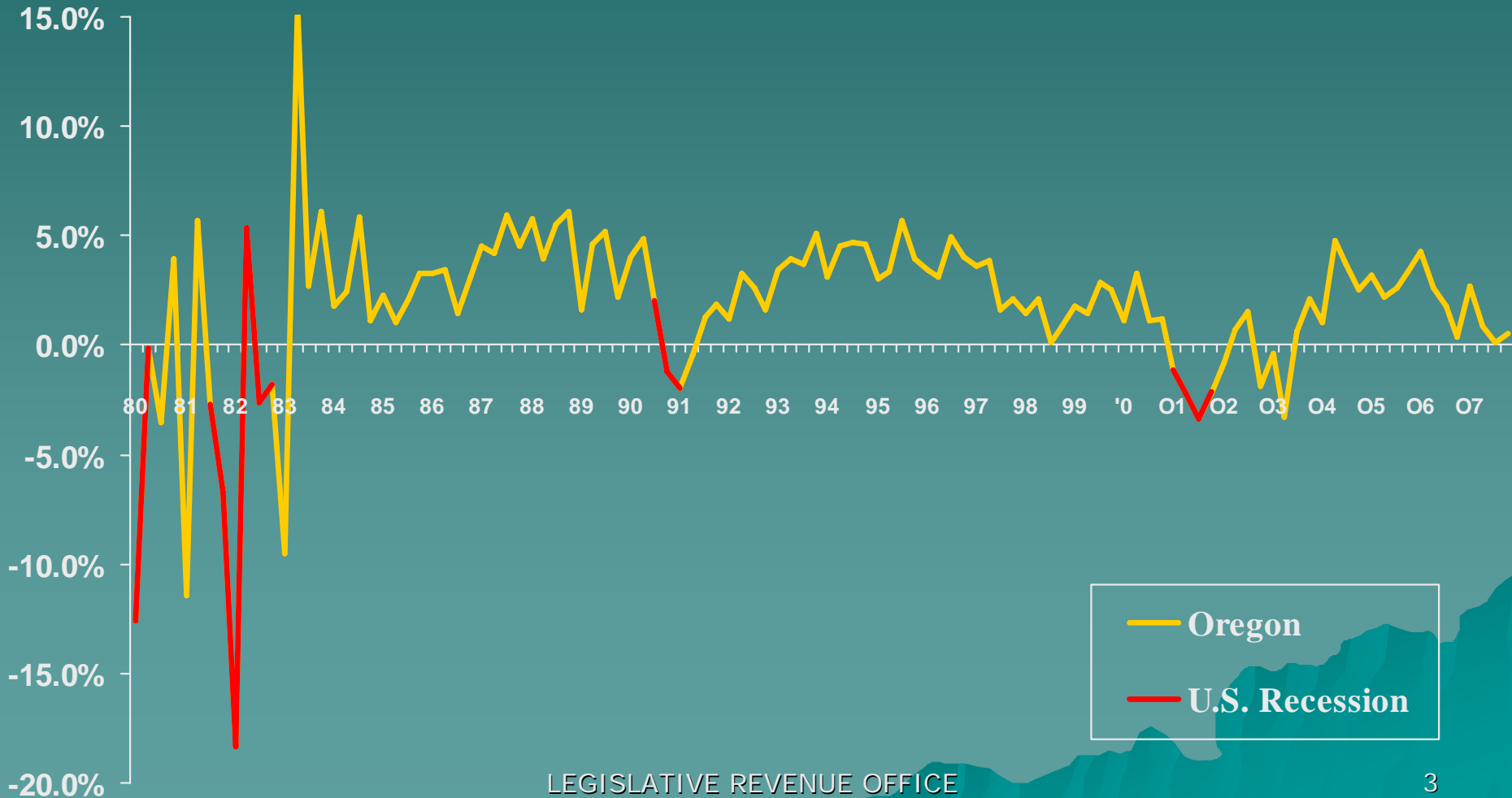
ARE WE FISCALLY PREPARED FOR
A RECESSION?

HISTORICAL IMPACT OF RECESSIONS ON OREGON

- ◆ CYCLICALLY SENSITIVE GOODS BASED ECONOMY
- ◆ RELIANCE ON HIGHLY ELASTIC INCOME TAXES
- ◆ POLICY COMPLICATIONS
 - KICKER
 - INITIATIVES

OREGON EMPLOYMENT DURING NATIONAL RECESSIONS

(QUARTERLY CHANGE AT SEASONALLY ADJUSTED ANNUAL RATE)



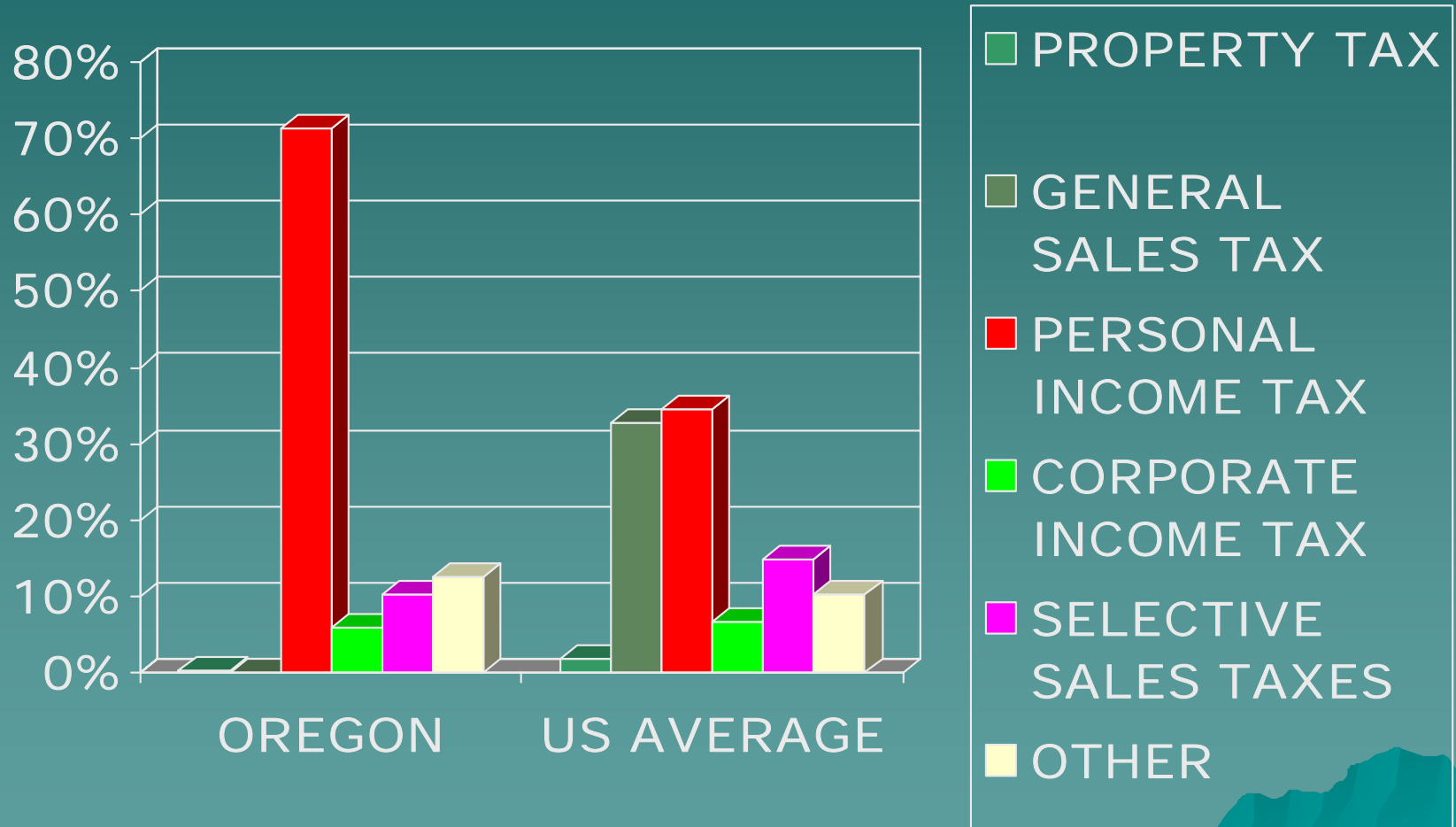
OREGON AMONG HARDEST HIT BY 2001 RECESSION

(FY2002 COMPARED TO FY2001)

	% CHANGE IN TAX REVENUE	RANK AMONG THE STATES
ALL STATES	-5.6	--
ALASKA	-28.1	50
OREGON	-20.3	49
CALIFORNIA	-17.6	48
MASS.	-14.6	47

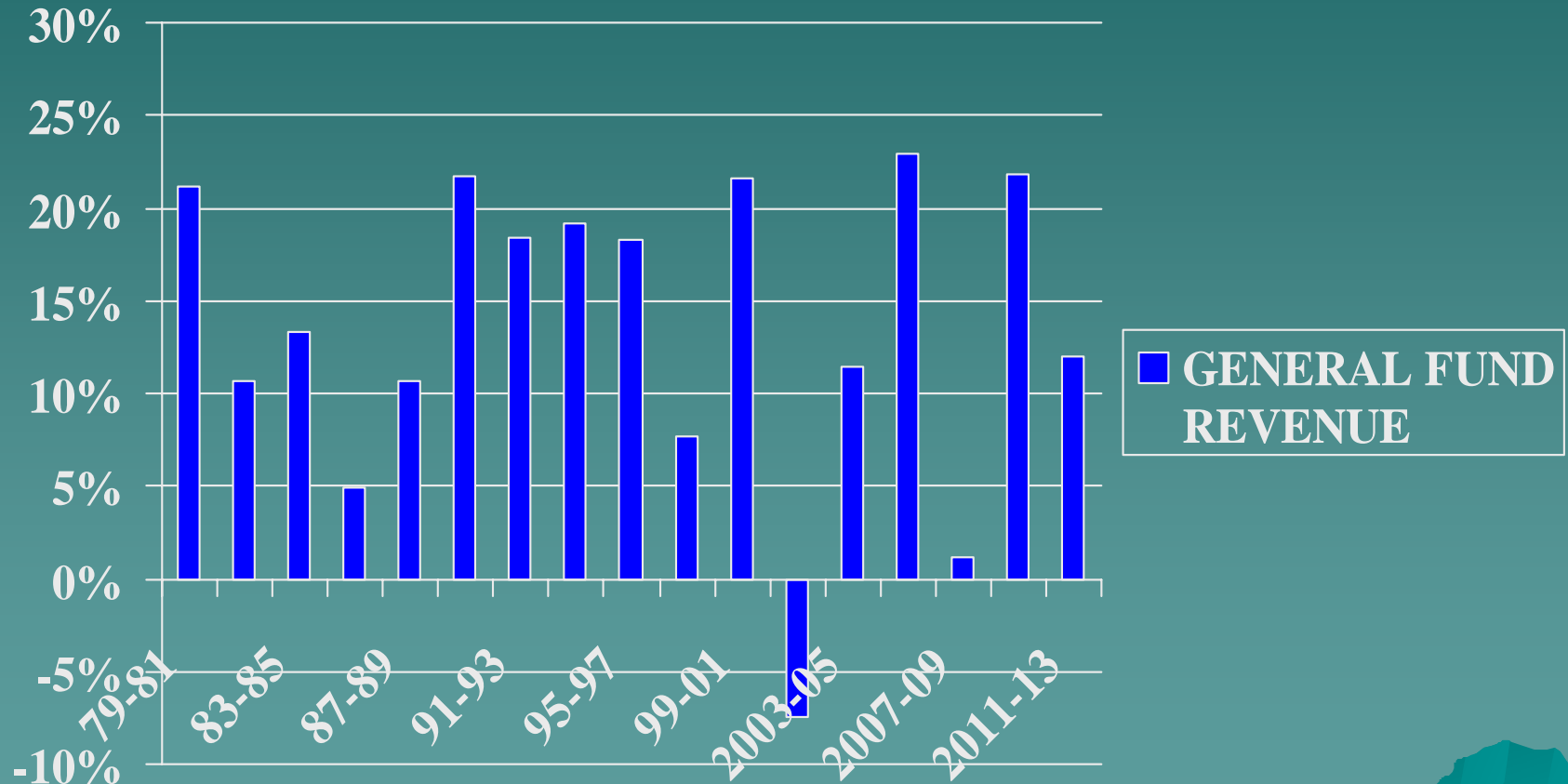
STATE TAXES BY SOURCE

(PERCENT OF STATE TAX COLLECTIONS IN FISCAL YEAR 2006)



2001 RECESSION: LARGEST FISCAL IMPACT OF POST WORLD WAR II ERA

(% CHANGE COMPARED TO PRECEEDING BIENNIUM)



ARE WE BETTER PREPARED FOR A RECESSION?

- ◆ RESERVE FUNDS
 - EDUCATION STABILITY FUND (2002)
 - RAINY DAY FUND (2007)



EDUCATION STABILITY FUND

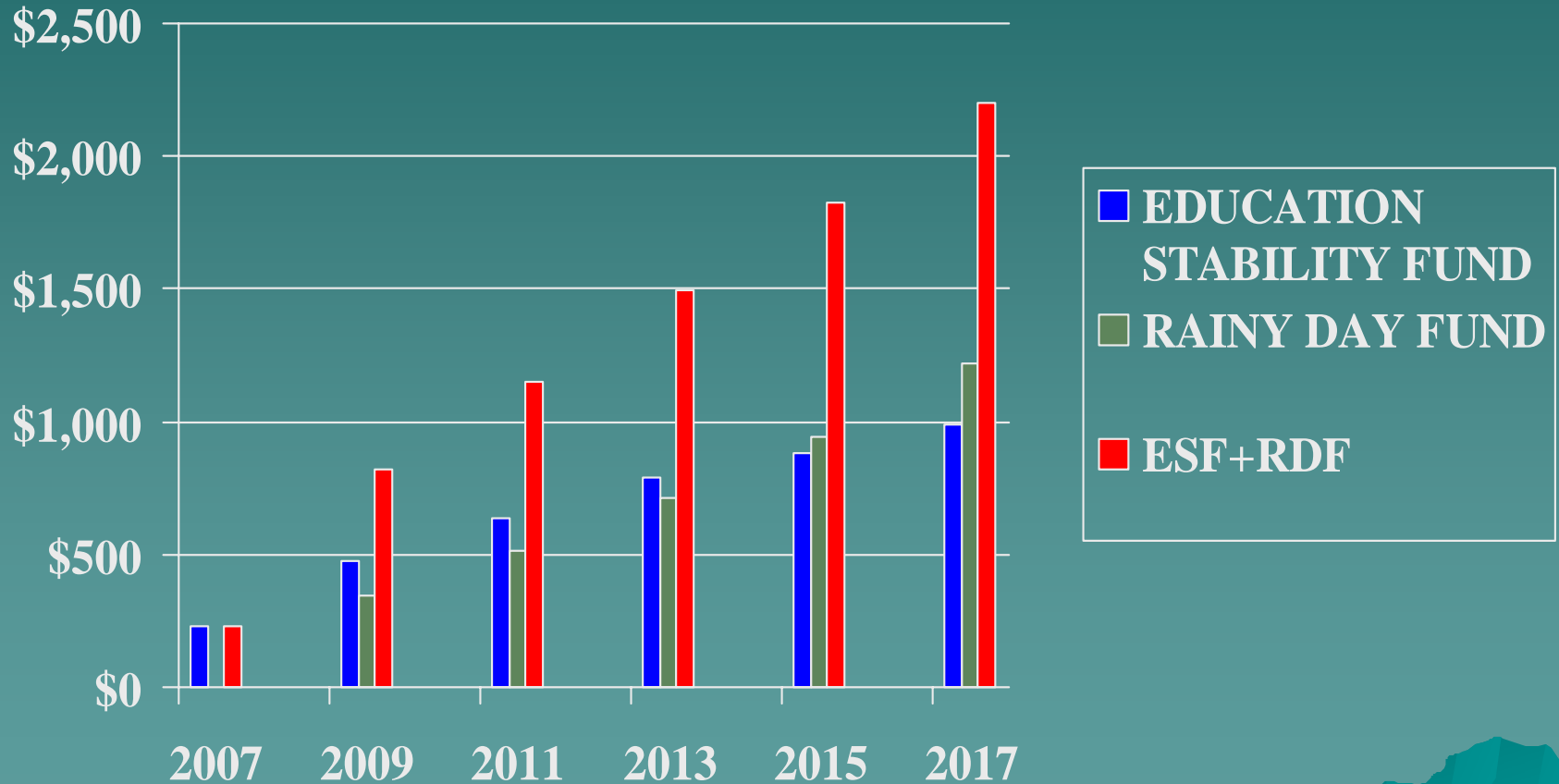
- ◆ STATUS: CONSTITUTIONAL
- ◆ REVENUE: 18% OF LOTTERY UNTIL CAP REACHED THEN 15% INTO CAPITAL MATCHING FUND
- ◆ TRIGGERS: (DECLINING EMPLOYMENT OR REVENUE 2% BELOW FORECAST OR EMERGENCY) + 3/5 VOTE
- ◆ USES: PUBLIC EDUCATION
- ◆ CAP: 5% OF GF REVENUE

RAINY DAY FUND

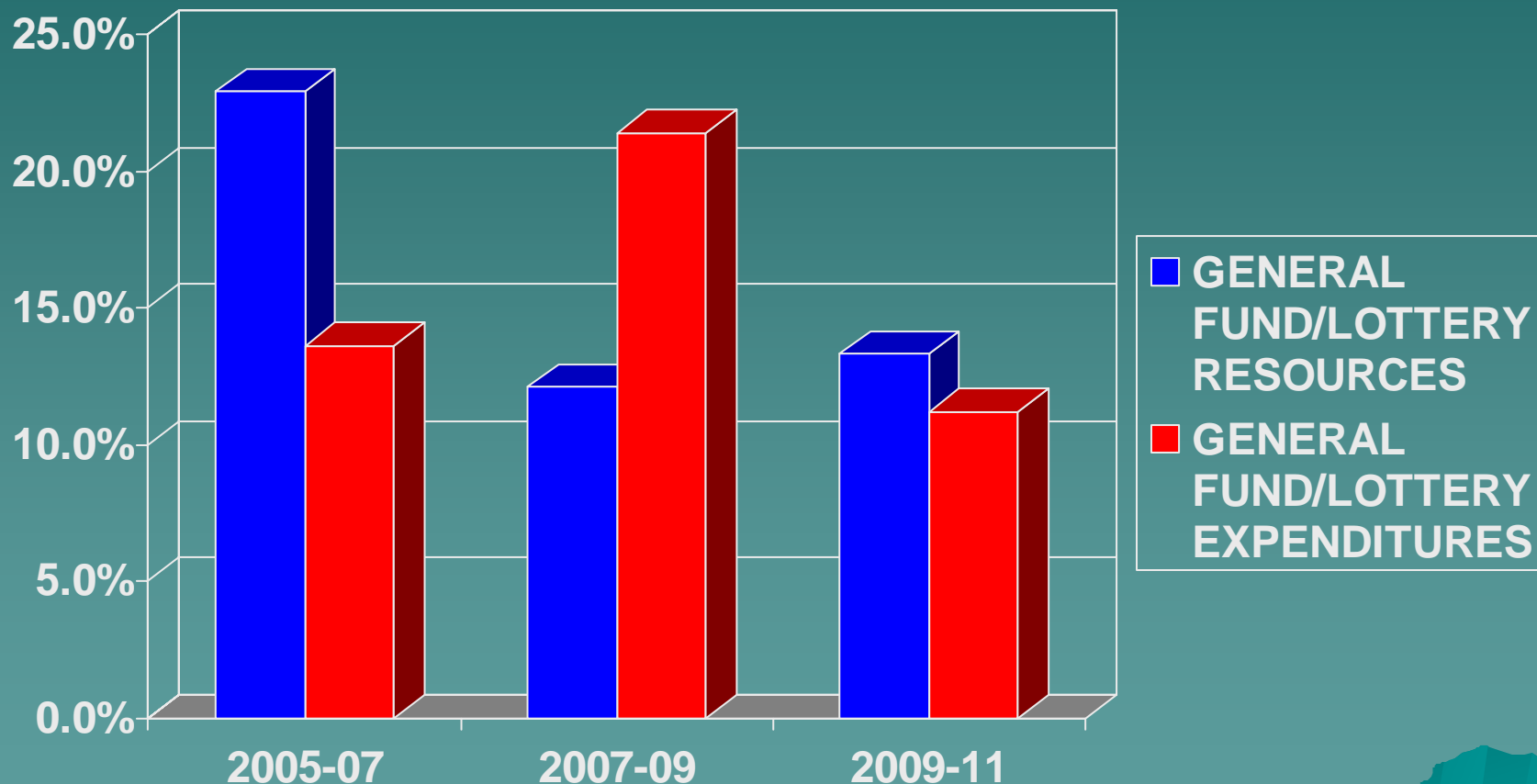
- ◆ STATUS: STATUTORY
- ◆ REVENUE: ONE-TIME CORP KICKER CREDIT + UP TO 1% OF GF APPROPRIATIONS IN PRIOR BIENNIUM (ENDING BALANCE) + INTEREST
- ◆ TRIGGERS: SAME AS ESF EXCEPT EMERGENCY DECLARATION
- ◆ WITHDRAWALS CANNOT EXCEED 2/3 PER BIENNIUM
- ◆ USES: GENERAL PURPOSE
- ◆ CAP: 7.5% OF GF REVENUE

PROJECTED RESERVE FUND BALANCES: TREND SCENARIO

(IN MILLIONS OF \$)



PROJECTED STATE RESOURCE & EXPENDITURE GROWTH



CURRENT BUDGET OUTLOOK

GENERAL FUND/LOTTERY RESOURCES & EXPENDITURES	2007-09 BIENNIUM (IN MILLIONS)
CURRENT RESOURCE PROJECTION EXCLUDING RESERVE FUNDS	\$15,402
CURRENT EXPENDITURE PROJECTION INCLUDING TANS	\$15,159
SURPLUS/SHORTFALL	+\$243

WHAT IS THE FORECAST RISK?

HISTORY OF GENERAL FUND REVENUE FORECASTS ADJUSTED FOR LEGISLATIVE ACTIONS

BIENNIUM	\$ DEVIATION (IN MILLIONS)	% DEVIATION
1981-83	-468	-15.0
1883-85	+102	+3.2
1985-87	+228	+7.1
1987-89	+216	+6.0
1989-91	+163	+3.6
1991-93	+78	+1.4
1993-95	+331	+5.3
1995-97	+770	+11.1
1997-99	+100	+1.2
1999-2001	+207	+2.1
2001-03	-2283	-20.6
2003-05	-300	-2.8
2005-07	+1415	+12.5
AVERAGE	+42/-71 W-O 05-07)	+1.2/+0.2 W-O 05-07)

BUDGET OUTLOOK WITH MODERATE RECESSION

GENERAL FUND/LOTTERY RESOURCES & EXPENDITURES	2007-09 BIENNIUM (IN MILLIONS)
RESOURCE PROJECTION WITH INCOME TAXES 5% BELOW FORECAST	\$14,788
CURRENT EXPENDITURE PROJECTION	\$15,159
SURPLUS/SHORTFALL	-\$371
AVAILABLE RESERVES UNDER CURRENT LAW	+\$359
SURPLUS/SHORTFALL WITH RESERVES	-\$13

BUDGET OUTLOOK WITH SEVERE RECESSION

GENERAL FUND/LOTTERY RESOURCES & EXPENDITURES	2007-09 BIENNIUM (IN MILLIONS)
RESOURCE PROJECTION WITH INCOME TAXES 10% BELOW FORECAST	\$14,174
CURRENT EXPENDITURE PROJECTION	\$15,159
SURPLUS/SHORTFALL	-\$985
AVAILABLE RESERVES UNDER CURRENT LAW	+\$359
SURPLUS/SHORTFALL WITH RESERVES	-\$627

BUDGET OUTLOOK WITH SEVERE RECESSION

GENERAL FUND/LOTTERY RESOURCES & EXPENDITURES	2007-09 BIENNIUM (IN MILLIONS)
RESOURCE PROJECTION WITH INCOME TAXES 10% BELOW FORECAST	\$14,174
CURRENT EXPENDITURE PROJECTION	\$15,159
SURPLUS/SHORTFALL	-\$985
AVAILABLE RESERVES WITH STATUTORY CHANGES	+\$726
SURPLUS/SHORTFALL WITH RESERVES	-\$259

CONCLUSIONS

- ◆ **IF RECESSION OCCURS IN 2007-09 BIENNIUM:**
- ◆ REVENUE IMPACT WILL BE DAMPENED BY TIMING AND OTHER FACTORS
- ◆ THE STATE IS PREPARED TO OFFSET THE ANTICIPATED REVENUE LOSSES FROM A MILD RECESSION WITHOUT STATUTORY CHANGES TO RESERVE FUNDS
- ◆ A DEEP RECESSION IS LIKELY TO FORCE SIGNIFICANT GENERAL FUND BUDGET CUTS
- ◆ STATUTORY MODIFICATIONS TO EXISTING RESERVE FUNDS WOULD REDUCE BUT NOT ELIMINATE THE BUDGET CUTS NEEDED TO RESTORE BALANCE UNDER THE DEEP RECESSION SCENARIO