

State economists may see \$2B shortfall

COVID pandemic, economic slowdown wreak havoc on Oregon revenue figures

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Salem Statesman Journal
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The state's projected general fund revenue dropped by \$1.9 billion for this biennium due to the coronavirus pandemic and corresponding economic slowdown, according to the latest revenue forecast released Wednesday.

Including declines in lottery funds and the new corporate activity tax, Oregon's revenue for the 2019-2021 biennium is projected to be down by nearly \$2.7 billion compared to the March economic forecast.

Estimates for the next two bienniums show declines of \$4.38 billion in 2021-2023 and \$3.38 billion in 2023-2025.

"With this particular recession, it was unique in that it became clear overnight that not only were we in a recession, but that it was going to be a severe one," said state economist Mark McMullen.

Less revenue means the state has less money to spend on a variety of core state functions, such as funding public schools and the state police. Unlike the federal government, Oregon cannot run a deficit.

State agencies have already examined how they could reduce their expenses to conform to budget cuts.

By law, the state has until the end of the biennium — July 1, 2021 — to balance the budget. But cuts are harder the closer the state gets to that deadline as money is spent at previously budgeted levels in the interim.

It is anticipated that lawmakers will convene a special session of the Legislature sometime this summer to re-balance the budgets.

"The latest forecast for state revenue makes it clear that we have tough choices ahead," Gov. Kate Brown said in a statement. "We will need to tighten our belts. I am working with legislative leaders to preserve critical state services, find efficiencies, and prepare for potential budget cuts."

Brown added that additional action from the federal government will be needed to bridge Oregon's budget gap.

"Oregon families are hurting and have been forced to make significant budget cuts," House Republican Leader Christine Drazan, R-Canby, said in a statement. "Now the state must take reasonable actions to bring the budget in line with declining revenues."

Oregon's regions affected differently

The state's various regions and business sectors are seeing different impacts from this recession and have a variety of recovery outlooks.

State economists indicated that the North Coast, Southwestern and Central regions were among the hardest hit. Those areas, along with the Rogue Valley, could also anticipate stronger headwinds as they work toward recovery.

The Portland region fared the best by their estimation, with less impact and expected tailwinds toward recovery. The Willamette Valley region was somewhere in the middle, having been impacted less than other regions but with more expected challenges in recovery.

"We knew the forecast was going to be down, really down," Senate President Peter Courtney, D-Salem, said in a statement. "We have the nerve, the



The Oregon State Capitol on Nov. 13, 2018, in Salem. STATESMAN JOURNAL FILE

moxie, to get through this. It will take coming together and working together as never before."

Economic impact could last years

Looking ahead to 2027, state economists estimated that industries will experience structural changes and permanent damage at different rates.

Those relatively unaffected with less than a 1% decline in employment forecasted include professional and business services, leisure and hospitality and wholesale.

Retail employment seven years from now is projected 7% below the previous forecast, making it the hardest-hit sector. Manufacturing and natural resources were next, with declines around 4.5%.

"These are sectors that never come out of a recession intact," said state economist Josh Lehner. "We think there will be some lasting damage here. You can't turn the lights off on some of these manufacturing sectors ... and then flip the switch back on and expect everything to be O.K."

It was a dire picture of Oregon's future fiscal health painted by state economists, but not without some good news.

Oregon has \$1.6 billion squirreled away in two reserve funds, the Education Stability Fund and the Rainy Day Fund. Those dollars can be used by lawmakers to counteract some of the loss in revenue.

The stock market has already recovered around half of what it lost during its steep decline in February and March. Economists predict the duration and depth of stock market contraction will be less than half as long and deep as during the Great Recession in 2007.

The tax season is also still ongoing after the state and federal government extended the tax filing deadline to July 15. McMullen said they estimate tax payments to come in above forecast.

"All good news in terms of the still-incomplete tax season," McMullen said. "Of course, this, again, is overwhelmed by the economic outlook."

Better days are ahead

As far as recovery outlook, McMullen said the economic recovery is tied directly to the public health concerns. If Oregon can reopen steadily in phases as proposed by the governor's office and not see a spike in cases, economic recovery will also begin.

State economists estimate there will be a 38% rebound in employment within the first year after the recession, but slower growth afterward. They estimate it will take nearly five years for the state will return to prerecession peak employment.

Spending has also been revised lower, with pent-up demand providing a short-term "V-shape" recovery, but it leveling out with persistent damage in the range of 10% below the previous

forecast two years out.

Income is also expected to steadily decline to 10% below the previous forecast.

Oregon's coronavirus-related job losses are near 400,000 and the unemployment rate is 14.2%.

"The state must focus on how it can support business in the monumental task of bringing those lost jobs back, so Oregonians can start earning incomes again — which in turn will generate tax revenue for important public services, like education, our social safety net and health care," said Sandra McDonough, president and CEO of Oregon Business and Industry.

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