



## Washington Research Council

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### BRIEFLY

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# Revenue Forecast Reduced

On Wednesday, March 19th, the Economic and Revenue Forecast Council adopted revised forecasts for general fund-state revenue for the 2001-03 and 2003-05 biennia. The revisions set the stage for intensified deliberations on the 2003-05 budget. Dr. Chang Mook Sohn, Executive Director of the Office of the Forecast Council, announced that the forecast for the current 2001-03 biennium was up by \$36.8 million, while the forecast for the upcoming 2003-05 biennium was down by \$238.3 million, for a net reduction of \$201.5 million.

Revised data show that the state recession lasted 15 months, from December 2000 to March 2002. Over this period, the state economy lost 86,900 jobs, with seasonally adjusted employment falling from 2,727,900 to 2,641,000. Dr. Sohn estimates that the state's economy has added only about 20,000 jobs in the year since the recession ended.

While the recession has technically ended, the economy continues to be extremely sluggish. Going forward, Dr. Sohn expects employment growth to remain anemic this year, then accelerate somewhat in 2004 and 2005. He has reduced the forecast of employment in the aerospace sector, reflecting the continuing difficulties in the airline industry. Also reduced is the forecast of employment in the lumber and wood products sector, in line with Weyerhaeuser's recent layoff announcements.

Chart 1 presents general fund balance sheets for the 2001-03 and 2003-05 biennia, incorporating the revised revenue forecasts, the supplemental budget agreed to by Senate and House conferees on March 18, and the 2003-05 spending plan proposed by Governor Locke in December. (See our Policy Brief "Governor's Budget Sets Priorities, Lives Within Means, PB 02-16, December 20, 2002.)

With the revised revenue forecast and the conferees' supplemental budget, the projected balance in the general fund at the end of the 2001-03 biennium would be \$269.8 million and, in-

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**CHART 1**

**General Fund-State Balance Sheet**

*Reflecting the March Revenue Forecast, House and Senate Conferees' 2003 Supplemental Budget, and the Governor's Proposed 2003-05 Budget*

<b>GENERAL FUND</b>	<b>2001-03</b>	<b>2003-05</b>
Beginning Fund Balance	599.1	269.8
November 2002 Revenue Forecast	21,126.2	22,689.7
March Update	36.8	(238.3)
Current Revenue Total	21,163.0	22,451.5
2001-03 Transfers and Other Adjustments	1,094.6	
2003-05 Revenue Adjustments:		
Elimination of I-728 Increase		220.7
SB 6835		60.0
Other Adjustments		(5.0)
2003-05 Transfers		94.3
<b>Total Resources (Revenue/Fund Balance)</b>	<b>22,856.7</b>	<b>23,091.3</b>
Current 2001-03 Appropriation	22,451.4	
Conferees' 2003 Supplemental Budget	135.5	
Governor's Proposed 2003-05 Budget Spending	22,586.9	22,979.4
<b>Projected Ending Fund Balance</b>	<b>269.8</b>	<b>111.9</b>
<b>EMERGENCY RESERVE FUND</b>		
Beginning Fund Balance	462.1	55.1
Transfers and Appropriations	(420.0)	
Actual/Estimated Interest Earnings	13.0	1.9
<b>Projected Ending Fund Balance</b>	<b>55.1</b>	<b>57.1</b>
<b>Total Reserves</b>	<b>324.9</b>	<b>169.0</b>

(Detail may not sum to totals due to rounding.)  
Source: WRC Compilation

cluding the Emergency Reserve Fund, total reserves would be \$324.9 million. With the Governor's proposed 2003-05 budget, then, the projected general fund balance at the end of that biennium would be \$111.9 million, and total reserves would be \$169.0 million. The often-cited rule of thumb that the budget reserve should be 5 percent of annual spending implies that budget writers should target \$575 million in reserves at the end of 2003-05. Against this standard, the governor's 2003-05 spending plan shows a gap of about \$400 million.

The war in Iraq is a source of worry. A quick victory would remove the cloud of uncertainty that has been hanging over the economy, and would most likely reduce the high levels of oil and gasoline prices, which function like a tax on the economy.

The baseline economic forecast assumes a short war and a decisive U. S. victory. While this is the conventional wisdom concerning the course of the war, it is also the most optimistic scenario for the economy. Budget writers should keep in mind that any other

outcome would likely result in a reduction in the revenue forecast when the Forecast Council next meets in June.

Last December, the governor proposed a budget based on his Priorities of Government planning process. It relied on current revenues, as he recognized that general tax increases would further damage a weakened economy. His approach is the right one. The new revenue forecast makes the legislature's job more difficult, while underscoring the fragility of the state economy. drugs with a \$1.8 million increase in administrative expenses.

