State Revenue Forecast Reduced

The state Forecast Council met Tuesday, November 20th, and reduced its forecast of general fund revenue for the 2001-03 biennium by $813.1 million. This is the first revenue forecast to reflect the effects of the September 11 terror attacks.

In September, state economists believed that a slowing national economy would avoid recession, and that stability of employment at the Boeing Company would provide a special prop for the Washington economy. Data released subsequently have shown that the economy was much weaker in late summer than had been believed. The national economy probably was in recession even before September 11th.

It now appears that the national recession will be mild. The layoffs at Boeing mean that this state’s economy will not get off so easy, however. As Chart 1 shows, the Forecast Council expects employment in the state to fall for several quarters, and to end the biennium at a level only slightly higher than last summer.

The implications for the state budget are summarized in the balance sheet on the following page.

In the two months since the Forecast Council last met, general fund receipts have totaled $67.1 million less than anticipated. As a result of the economic downturn, the Forecast Council has reduced its forecast for the remaining months of the biennium by $712.0 million. In addition, the passage of Initiatives 747 (limiting property taxes) and 773 (raising cigarette taxes) reduce general fund receipts for the 2001-03 biennium by $34.1 million.

Appropriations for the 2001-03 biennium now exceed expected revenues by $1,575 million. Even with transfers of $228 million into the general fund from other state accounts, the projected ending balance for the general fund is negative. The general fund shortfall of $747 million well exceeds the $384 million ending balance projected for the emergency reserve.
The legislature will come into session in January facing a serious budget crisis. The revenue drop is only part of the problem; there are also pressures on the spending side, which we will discuss in a forthcoming brief.

The Forecast Council will next revise the revenue forecast in February. At that time the state’s economist will have much better information on the course of the national recession.

![General Fund State Balance Sheet](image)