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BRIEFLY

The revenue forecast announced Tuesday morning was immediately made out-of-date by the Boeing Company's layoff announcement.

Revenue Down

On Tuesday morning (9/18) the State Forecast Council adopted a revised Revenue Forecast for the General Fund that reduced reserves projected for the end of the current biennium by about 25 percent, from \$607 million to \$456 million. And Tuesday evening, the Boeing Company made an announcement that left the forecast immediately out-of-date.

The economic forecast upon which the revenue forecast was based did not anticipate last week's terrorist attacks on New York and Washington D.C. These attacks have increased the chance of a national recession and have had an especially severe impact on the outlook for our state's major manufacturer, the Boeing Company's commercial-airplanes group. Tuesday evening, Boeing announced it would lay off 20,000 to 30,000 workers. (Not all of these layoffs will occur here. Washington state is the home of about 63 percent of the commercial-airplanes group's employees.)

The impact of the new (though pre-attack) revenue forecast is shown in the balance sheet. Revenue in the 1999-2001 biennium, which ended June 30, is \$24 million less than had been anticipated. The impact of this shortfall is felt in the Emergency Reserve Fund: General Fund Balances are capped by law at 5 percent of annual revenues, with any excess spilling into the emergency reserve. As a result of the revenue reduction \$24 million, less was transferred from the General Fund to the emergency reserve than had been projected.

For the current (2001-03) biennium, the new revenue forecast is \$96 million below the figure anticipated when the legislature adjourned in late June. As a result the projected ending balance for the General Fund has been reduced to \$66 million from the previously forecast \$161 million.

The ending balance for the emergency reserve has dropped from \$446 million to \$390 million. In

General Fund State Balance Sheet (millions of dollars)

	1999-01	2001-03
Revenues		
June Forecast	21,285	22,099
Legislative Changes Not reflected in June Forecast	0	18
September Update	(24)	(96)
Total Current Revenue	21,261	22,022
Appropriations		
1999-01 Appropriations	20,851	
2001 Supplemental	195	
2001-03 Appropriations		22,783
Total Appropriations	21,046	22,783
General Fund Balance		
Beginning Balance	462	600
Adjustment	(1)	
Current Revenue less Appropriations	216	(762)
Transfers		
From Health Services Account	121	150
From Multimodal Transportation Account		70
From Treasurer's Service Account		8
To Emergency Reserve Fund	(198)	
Ending Balance	600	66
Emergency Reserve Fund		
Beginning Balance	536	460
Transfers		
From General Fund	198	
To Education Construction Account	(241)	
To Multimodal Transportation Account	(35)	(70)
Appropriations for Earthquake/Drought/Energy	(58)	(25)
Interest	60	25
Ending Balance	460	390

Source: Research Council compilation from Office of Financial Management and House and Senate Fiscal Committees balance sheet.



addition to the \$24 million reduction in the 1999-2001 transfer from the General Fund to the emergency reserve, the forecast interest earnings on the emergency reserve are reduced by about \$31 million.

Overall, the sum of the projected balances for the General Fund and the emergency reserve at the end of the 2001-2003 has fallen from \$607 million to \$456 million. This \$456 million represents a scant 2 percent of General Fund appropriations for the two-year period. Projected revenues exceed expenditures by \$762 million.

In our wrap up at the end of the legislative session, we noted:

Fiscal conservatives will not be pleased with [the] budget. It uses transfers of funds to substantially boost the Initiative 601 spending cap. Appropriations exceed current revenues by \$667 million and projected reserves at the end of the biennium are only 2.7 percent of biennial spending, raising serious questions of sustainability. (see ePB 01-20, July 6, 2001: *At Last a Budget*)

The new forecast puts the General Fund in a significantly tighter position. And this forecast appears quite optimistic in light of the Boeing announcement. The Forecast Council's economic forecast had aerospace employment growing by 600 in the final quarter of this year and by 1,700 in the first quarter of next year, and then holding fairly steady through the remainder of the biennium. The state now faces massive aerospace layoffs.

The resulting revenue loss could be several times the projected level of reserves. Stay tuned for the November revenue update.



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