

**EMBARGOED**

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Revenue Review Meeting

September 15, 2011



WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL

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WASHINGTON STATE  
**ECONOMIC AND REVENUE FORECAST COUNCIL**

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## AGENDA

### **REVENUE REVIEW MEETING**

September 15, 2011  
10:00 a.m.

- De-facto approval of September 2, 2011 Economic Review Meeting Minutes
- Forecast Presentation
- Adoption of the Official Forecast

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STATE OF WASHINGTON

## ECONOMIC AND REVENUE FORECAST COUNCIL

Capitol Plaza Building, PO Box 40912 □ Olympia, Washington 98504-0912 □ (360) 534-1560

### **Meeting Minutes Economic Review**

September 2, 2011

John A. Cherberg, Hearing Room 3

#### **Economic and Revenue Forecast Council**

##### *Members Present*

Ed Orcutt, House of Representatives, Chair  
Ross Hunter, House of Representatives  
Ed Murray, Senate  
Joe Zarelli, Senate  
Suzan DelBene, Department of Revenue

##### *Staff*

Arun Raha, Executive Director, ERFC

#### **Call to Order**

The meeting was called to order by Representative Orcutt at 2:31 pm.

#### **Presentation on Economic Forecast**

Arun Raha presented information on the economic forecast. Dr. Raha summarized the forecast changes and provided background information on both the U.S and Washington economies.

Discussion ensued between members and Dr. Raha regarding availability and accuracy of historical data and Blue Chip's GDP consensus forecast for 2013. Concern was raised regarding using Blue Chip's GDP numbers that are not updated until October. In anticipation that the GDP number will be revised down, a request was made by the Council for a fifth scenario to be prepared with a modified 2013 GDP number.

#### **Motion**

Representative Hunter made a motion to approve the economic forecast as amended, seconded by Senator Zarelli. It was noted that there would be another month's worth of data available and that the forecast would be updated with this information. Council approved the motion at 3:27 pm.

**Motion**

Director DelBene made a motion to approve the meeting minutes from the June 16, 2011 meeting, seconded by Representative Hunter. Council approved the motion at 3:28 pm.

**Adjournment**

Meeting adjourned at 3:29 pm.

**Economic & Revenue Forecast Council  
State of Washington**



**Revenue Review: September 15, 2011**

**Executive Summary**

- In normal times, it would be hard to find a reason to explain the distress in Washington's economy, given all that it has going for it. Aerospace manufacturing and software publishing are in good health; as are the state's farming and export sectors. But these are not normal times. We are in the fragile aftermath of the Great Recession where a return to normalcy seems like a mirage in the desert – the closer we get to it, the further it moves away. Fear and uncertainty have overwhelmed consumer and business behavior. Political gridlock in the nation's capital gives little hope that the full toolkit of policy options will be acted on. In an increasingly interconnected world we are not immune to Europe's problems either, as they struggle with fiscally imprudent states on the periphery, trapped in a structurally dysfunctional union. Every time our state has looked like it would break out of the malaise, it has been sucked right back in.
- Revisions to U.S. real Gross Domestic Product (GDP) by the Bureau of Economic Analysis (BEA) show a much deeper recession than previously estimated, and a U.S. economy close to stall speed in the first half of this year. The much anticipated third quarter bounce-back has yet to happen. The outlook today is much weaker than it was in June. The Blue Chip Consensus real GDP growth forecasts, our objective starting point each forecast cycle, are now down to 1.6% and 2.2%, for 2011 and 2012, respectively. At the time of the revenue forecast in June those forecasts were: 2.6% real GDP growth this year, and 3.1% in the next. It appears that we are at best in for an extended period of muddle-through – slow economic and job growth, high unemployment, and weak confidence. The risk of a double-dip recession too has increased.
- Economic policy isn't much help either. While the monetary policy stance of the federal policy authority is quite clear, the same cannot be said of federal fiscal policy. The Federal Reserve has telegraphed that it is likely to keep short-term interest rates at "exceptionally low" levels through mid-2013. They have also not ruled out further quantitative easing to lower long-term interest rates, if conditions warrant. On the other hand, the fiscal policy stance of the federal government is anything but clear. Its options are limited both by political gridlock in Washington D.C. and the size of the current national debt. For macroeconomic policy to work well, both monetary and fiscal policies need to be working in tandem. That does not appear to be happening right now.
- The August employment report was extremely disappointing. There were zero net jobs created in the economy last month. Private employment grew by 17,000 while government jobs declined by 17,000. The picture was somewhat clouded by 45,000 striking workers in the information sector, who were counted as unemployed, but have since returned to work. On the other side,

- government hiring was overstated by 22,000 striking public employees returning to work in a mid-western state. Netting the two out, the zero net employment growth understates job growth by 23,000 jobs – still nothing to get excited about. The unemployment rate stayed steady at 9.1% in August and remains elevated. Both hours worked and average hourly wages fell - a worrying sign.
- Second quarter real GDP growth was revised downward by the BEA, a month after its revision of historical GDP growth rates mentioned earlier. Real GDP grew at a seasonally adjusted annualized rate (SAAR) of just 1.0% in the second quarter, down from the 1.3% previously estimated. Exports and changes in private inventory were revised downward. These were partly offset by upward revisions to nonresidential investment and personal consumption expenditures.
  - The Institute for Supply Management's purchasing manager indices are signaling slowing growth for the third quarter. The manufacturing index fell in August to 50.6, barely staying above the 50 level that indicates growth. The business activity index for services, which tends to lag in downturns, also fell to 55.6 – a still respectable number. Both the manufacturing and services indices have an employment sub-component, which like the aggregate, is declining.
  - Housing continues to bump along the bottom. Housing starts, new and existing home sales all fell in July. Prices remain weak. The Case-Shiller 20-city index fell 0.1% (SA) in June, and was 4.6% below a year ago. Prices are expected to stay weak as more foreclosed properties hit the market.
  - August light motor vehicle (LMV) sales were sluggish at 12.1 million (SAAR) units, and are still below their February peak. Nominal consumer spending grew 0.8% (SA) in July but consumer confidence measures are at their lowest since late 2008-early 2009, the free-fall stage of the recession, so it remains to be seen if this growth in spending will be sustained. In a separate measure, real retail sales were revised down for July and stayed flat in Aug, leaving them basically unchanged for 4 months. Real disposable income fell 0.1% (SA) in July.
  - Washington's job market has been weaker than was expected in June. The economy added 8,300 net new jobs in June, July, and August. The June forecast had expected 13,600 jobs. The manufacturing sector contributed 4,200 jobs thanks to 3,500 new aerospace jobs. Construction employment was up slightly in the last three months, adding 600 jobs. Private service-providing industries, which account for two out of three jobs in Washington, added only 3,800 jobs in the last three months, compared to the 15,600 that had been expected. Federal government employment was increased 1,300 during the last three months but this was more than offset by the loss of 1,600 state and local jobs. Consistent with the weak job growth, Washington's unemployment rate held steady at 9.3% in June, July, and August.
  - The BEA has yet to release data for the states comparable to its National Income & Product Accounts (NIPA) revision for GDP. We expect to see similar downward revisions at the state level and have therefore made adjustments

to our historical personal income data in anticipation of the upcoming revision. According to our current estimates, the peak-to-trough decline in Washington real personal income during the recession was actually 4.0% rather than the 1.6% we had previously believed. As of the second quarter of 2011, our new estimate of Washington personal income is \$4.6 billion (1.5%) lower than we thought it was when we made the June forecast.

- Single-family housing continues to languish. The 12,600 single-family permits (SAAR) in the second quarter of 2011 were the lowest since the second quarter of 2009 but multi-family permits came in at a relatively strong 13,400 units in the quarter. We believe the trend is positive in multi-family housing due to rising rents and declining apartment vacancies but multi-family permits are likely to retreat from the very high level reached in the second quarter. The outlook for single-family construction is flat to negative through 2012, due to the backlog of foreclosed homes yet to hit the market. However, we expect Washington's housing market to recover quicker than most of the nation since the foreclosure pipeline is drying up. As of the second quarter, we ranked 47 out of 50 in the number of mortgages that were 30 days past due.
- In our final September forecast, we have lowered the job growth forecast for 2011 to 1.1% from the 1.2% rate expected in the June forecast. We have also lowered our forecast for employment growth in 2012 and 2013 to 1.4% and 2.1% from the 2.2% per year expected in the June forecast. Our personal income growth forecast is now 4.9%, 3.0%, and 4.5% in 2011, 2012, and 2013 compared to 5.1%, 4.4%, and 5.3% earlier. Even with additional foreclosures appearing to be a finite problem, we do not expect to see a significant upturn in housing construction until the first quarter of 2013 which is two quarters later than assumed in June.
- Monthly revenue collections through September 10 were \$40 million (1.2%) below what we had expected in the period since the June forecast. \$14 million of the shortfall occurred in the 2009-11 biennium and \$26 million of the shortfall occurred in the current biennium.
- Weaker forecasted growth will subtract \$1,401 million in revenue for the remainder of the biennium. There is one small non-economic change to the forecast: the elimination of a retail sales tax credit upon the upcoming retirement of Safeco Field bonds, which will bring in an extra \$14 million. Combining the collection shortfall, non-economic change and forecast changes, total General Fund-State revenue for the current biennium is now expected to be \$1,413 million less than forecasted in June.
- The preliminary total of GF-S revenue for the 2009-11 biennium came in \$25 million lower than forecasted once non-monthly revenues were factored in.
- In summary, the new General Fund-State forecasts are:
  - 2011-13 biennium: \$30.3 billion, which is \$1,413 million lower than our previous forecast
  - 2009-11 biennium: \$28.2 billion, which is \$25 million lower than our previous forecast

**Downside Risks:**

- The level of uncertainty in the baseline is high. Downside risks are still elevated, and considerably higher than upside risks.
- Failure by the Congressional Super Committee to agree upon a deficit reduction deal that can pass both houses of Congress.
- Sovereign debt default in Europe.
- Consensus Blue Chip GDP forecasts are revised downward, especially 2013.
- Inflationary pressures from rising wages in India and China.
- Unexpected events – natural disasters, political upheaval, etc

**Upside Risks:**

- Underlying pent-up demand continues to drive the recovery.
- Hiring picks up, and triggers a virtuous cycle.

# Revenue Review

Presented to  
The Economic & Revenue Forecast Council

Arun Raha  
Chief Economist

September 15, 2011  
Olympia, Washington



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# Summary

- The economic outlook has weakened significantly since the June forecast
- Data revisions by the BEA show the U.S. economy close to stalling early this year
- We no longer expect growth to pick up momentum later this year – instead the most likely scenario is an extended period of muddle-through
- Revenues since the June forecast are \$40.2 million (1.2%) below forecast
- Preliminary total GF-S revenue for the last biennium came in \$25 million below the June forecast
- This forecast reduces expected GF-S revenues by \$1.4 billion in the current biennium

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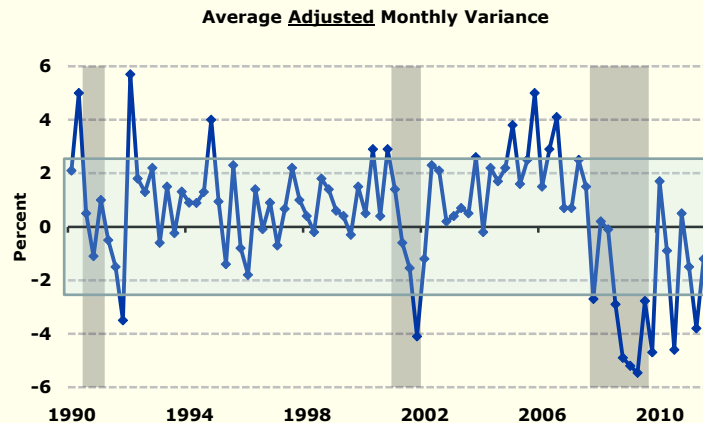


## Revenues are marginally below the June forecast

The variances reported here are net of one-time payments

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15 September 2011

Slide 2



Source: ERFC; collections through September 10, 2011

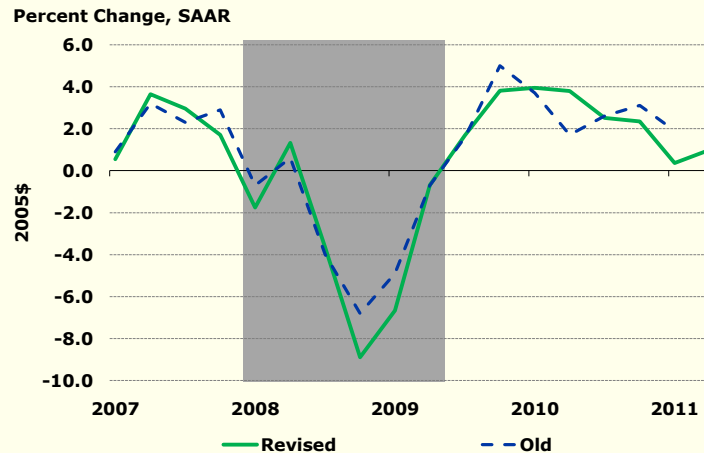
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## GDP revisions show the economy close to stalling in the first half

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Source: BEA; data through 2011 Q2 second estimate; revised 2003 Q1 onward

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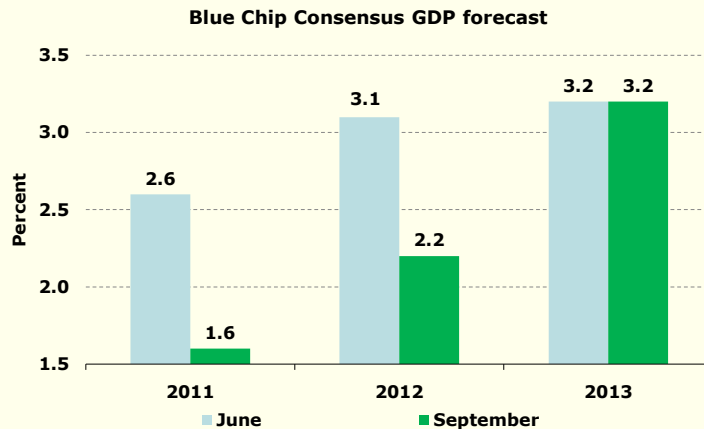


## The consensus near-term economic outlook has weakened since June

We have also produced an alternative forecast assuming 2.7% real GDP growth in 2013

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Source: Blue Chip Economic Indicators, data through September 2011

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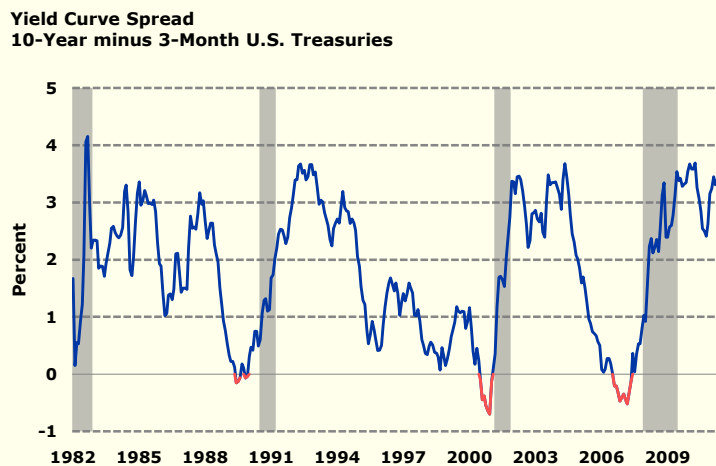


## The yield curve spread is shrinking

An inverted yield curve typically precedes a recession; a shrinking yield curve spread indicates weakening growth

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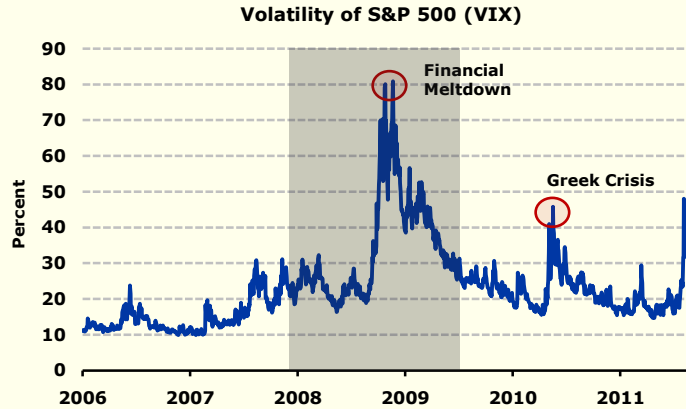


Source: Federal Reserve Board, ERFC; data through September 12, 2011

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## Stock market volatility has again spiked



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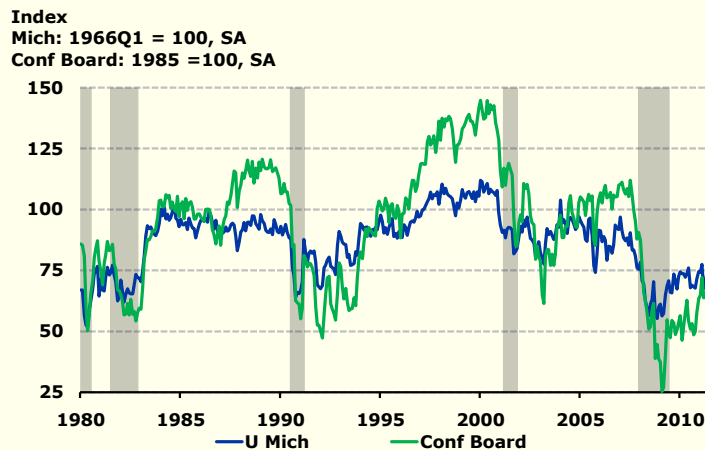
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Source: Yahoo! Finance; data through September 12, 2011

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## Consumer confidence is headed back down...



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Source: University of Michigan; Conference Board, data through August 2011

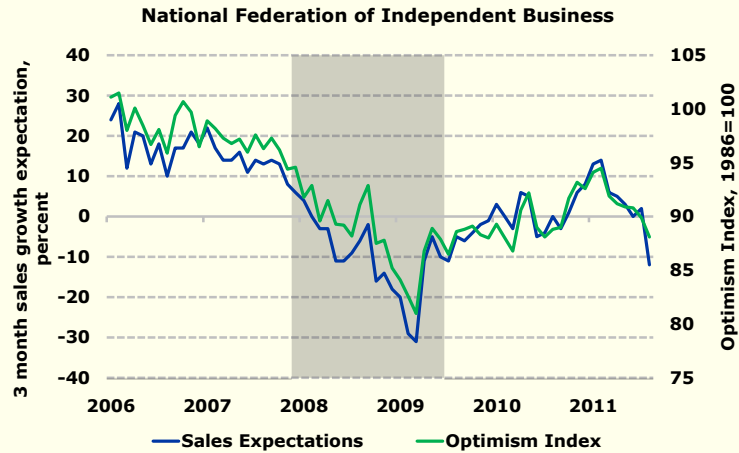
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## ...as are sales expectations and small business optimism

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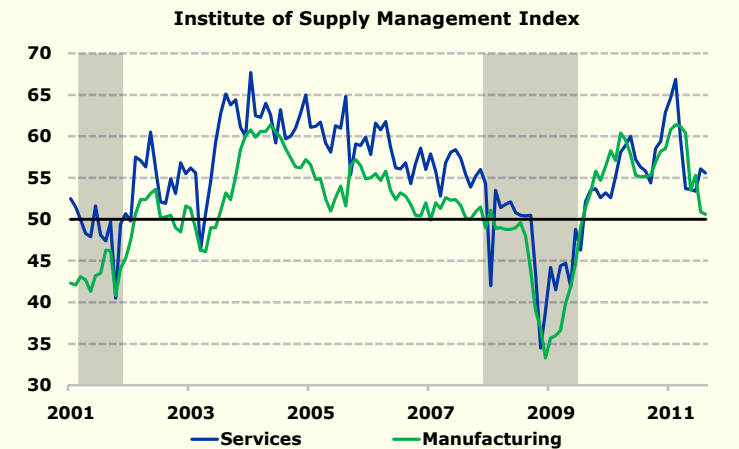


## Manufacturing and service sector growth is slowing

An index greater than 50, implies growth

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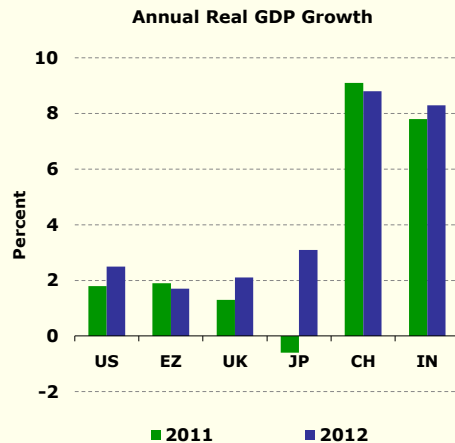
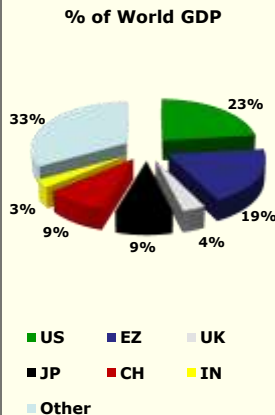


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## World GDP is expected to remain weak through 2012

Global GDP growth less than 3% implies the world economy is in recession



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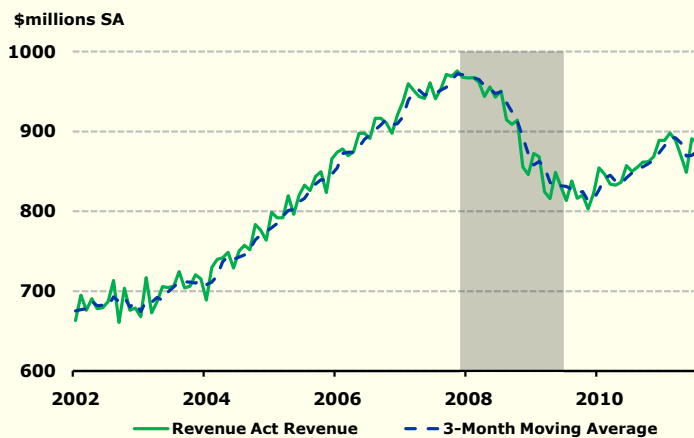
Source: Blue Chip Consensus, ERFC, World Bank; data through August 2011

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## Revenue Act growth stalled in the spring

Collections are still up year-over-year but have declined since the spring on a seasonally adjusted basis



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\* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through preliminary July 2011 activity

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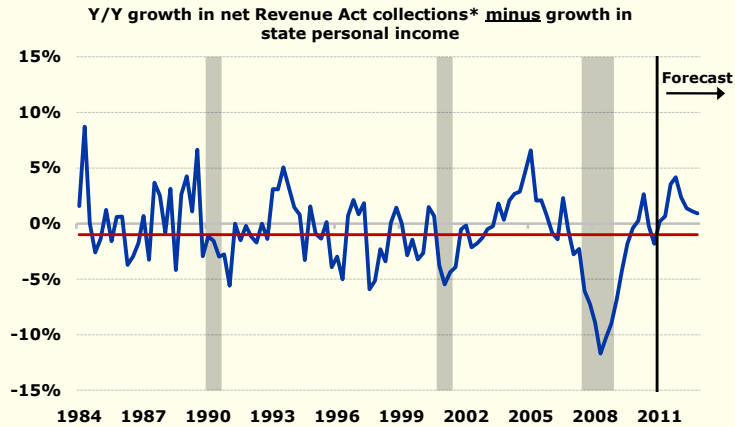


## Revenue growth relative to income

The spike in the forecast in the first half of 2012 is due to the slowdown in the first half of 2011...  
...which inflates year-over-year growth

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\*Current definition of Revenue Act, adjusted for large one time payments and refunds  
Source: ERFC; data through 2011Q2 estimated, September 2011 forecast

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## Forecast changes: General Fund State, 2011-2013 Biennium

**June Forecast:**  
**\$31,724 million**

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USD millions	September 2011 Forecast				Total Change*
	Collection Experience	Non-economic Change	Forecast Change	Forecast	
Dept. of Revenue	(\$25)	\$14	(\$1,378)	\$28,767	(\$1,389)
All other agencies	(\$1)	\$0	(\$23)	\$1,544	(\$24)
<b>Total GF-S</b>	<b>(\$26)</b>	<b>\$14</b>	<b>(\$1,401)</b>	<b>\$30,311</b>	<b>(\$1,413)</b>

\* Detail may not add to total due to rounding

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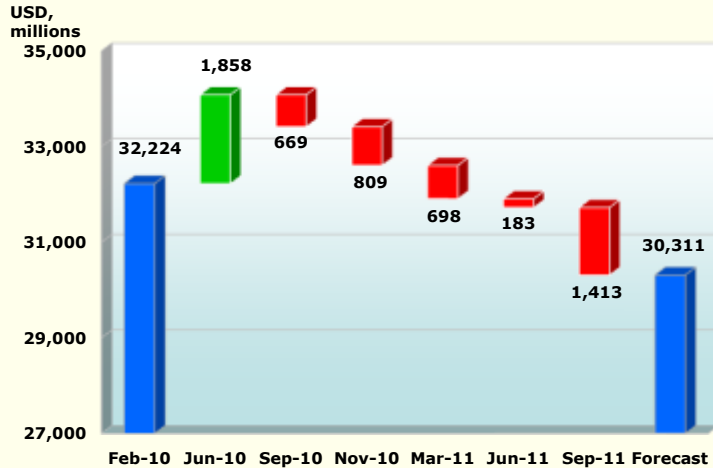


## Forecast revisions to the 2011-13 biennium

**GF-S  
New  
Definition**

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## Preliminary Total: General Fund State, 2009-2011 Biennium

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**USD  
millions**

	<u>June 2011 Forecast</u>	<u>Collection Experience</u>	<u>September 2011 Preliminary Total</u>
Dept. of Revenue	\$26,769	(\$14)	\$26,756
All other agencies	\$1,449	(\$11)	\$1,438
<b>Total GF-S</b>	<b>\$28,219</b>	<b>(\$25)</b>	<b>\$28,194</b>

\* Detail may not add to total due to rounding

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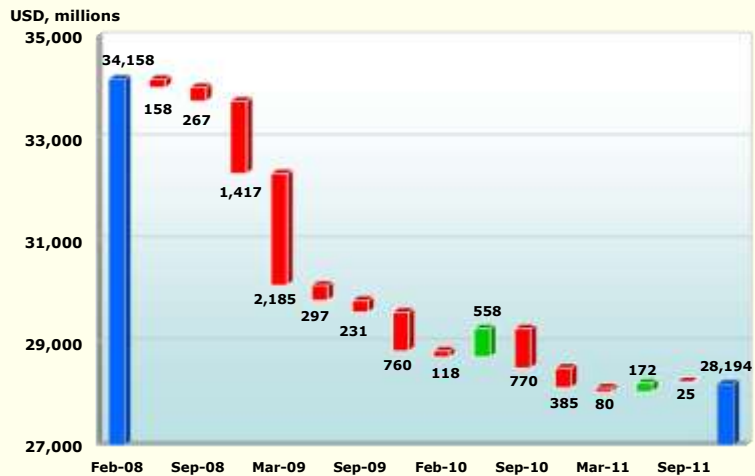


## Forecast revisions to the 2009-11 biennium

GF-S  
New  
Definition

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Source: ERFC; data through September 2011 forecast

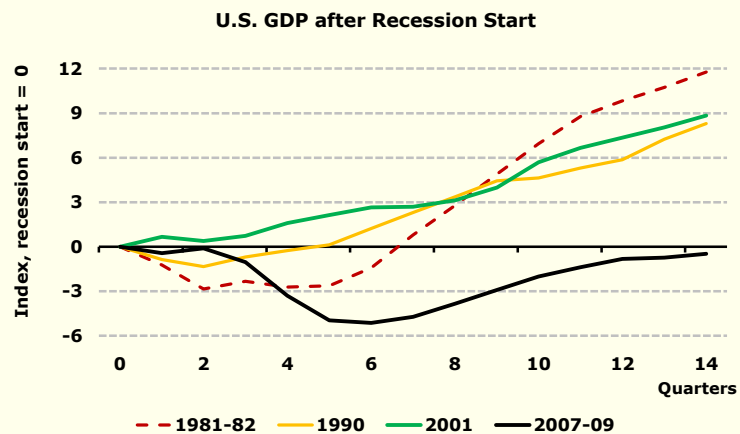
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## The U.S. economy still hasn't regained all the output lost

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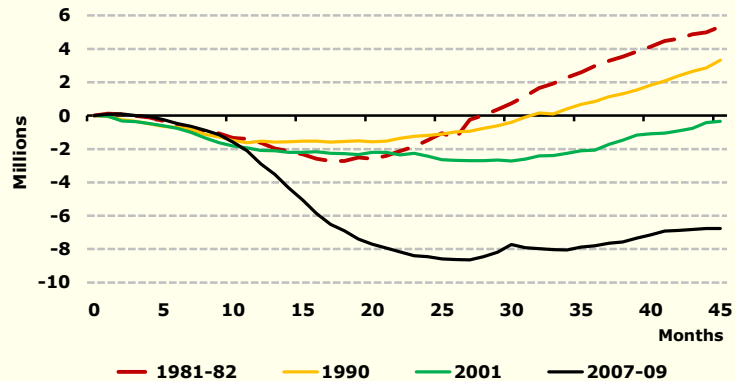
Source: BEA, ERFC; data through 2011 Q2

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## This has been the slowest recovery in U.S. employment

### U.S. Employment after Business Cycle Peak



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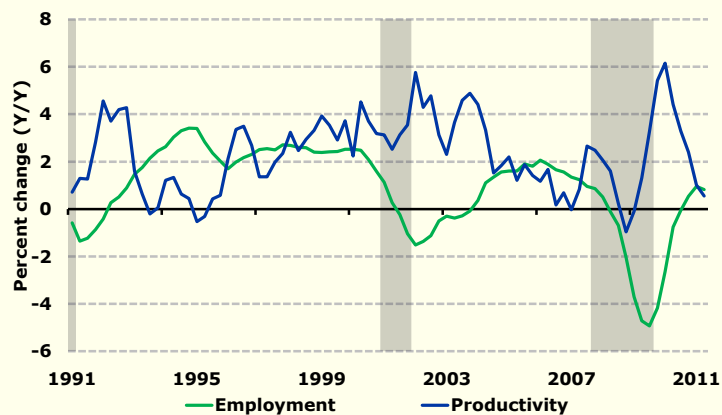
Source: BLS, ERFC; data through August 2011

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## Employment should pick up as labor productivity growth declines

### U.S. Employment & Labor Productivity Growth



Any increase in final demand will translate to job growth

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Source: BLS; data through 2011 Q2

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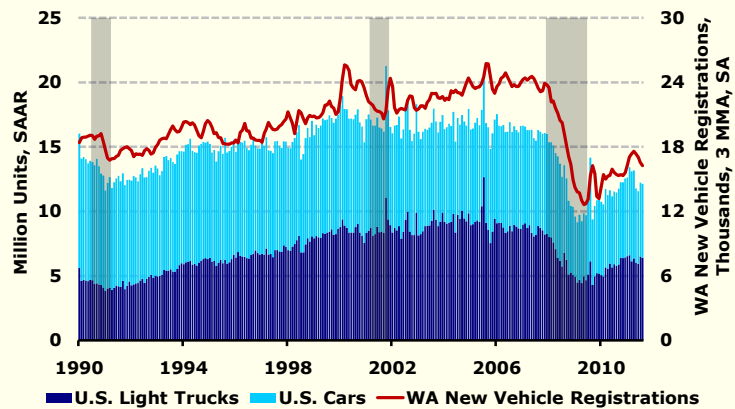


## U.S. LMV sales have been adversely affected by supply-chain issues

U.S. LMV sales fell 0.8% in August

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Source: Autodata Corporation, WA DOL; data through August 2011

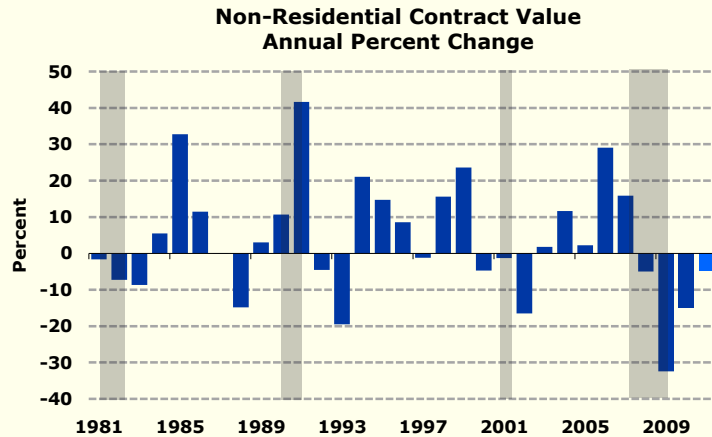
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## This is WA's worst downturn in non-residential construction in 30 years

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Source: McGraw-Hill Construction, data through July 2011

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## Home prices continue to decline

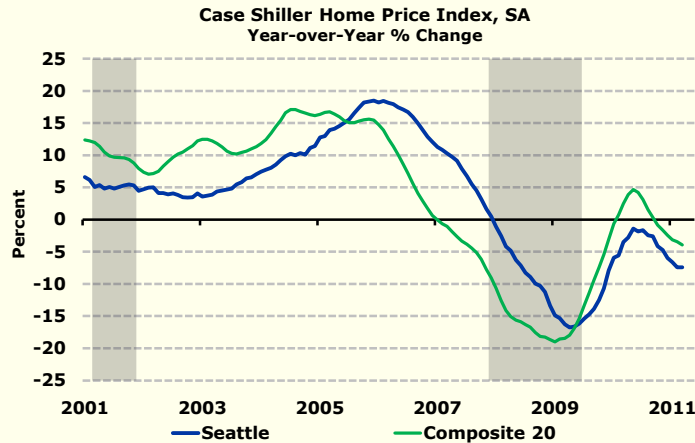
Jun 2011

U.S is  
down  
4.6%

SEA is  
down 6.4%

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Source: S&P/Case-Shiller; data through June 2011

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## More foreclosures can be expected...

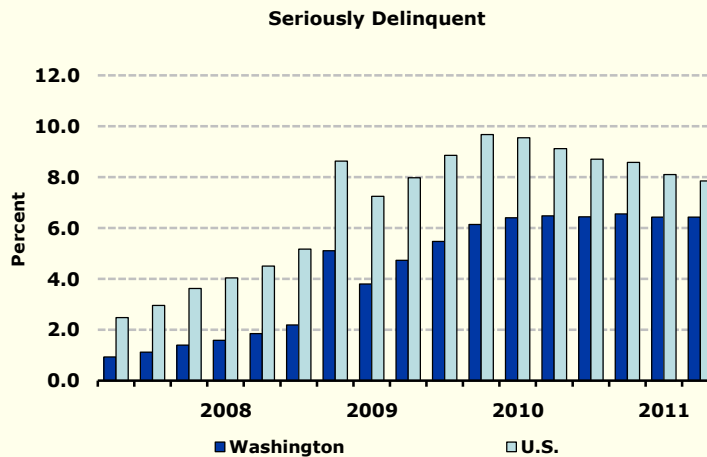
**WA Rank:**

**2011Q1 : 23**  
**2011Q2 : 23**

Seriously  
Delinquent =  
90+ Days Past  
Due or in  
foreclosure

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Source: Mortgage Bankers Association® National Delinquency Survey, data through 2011 Q2

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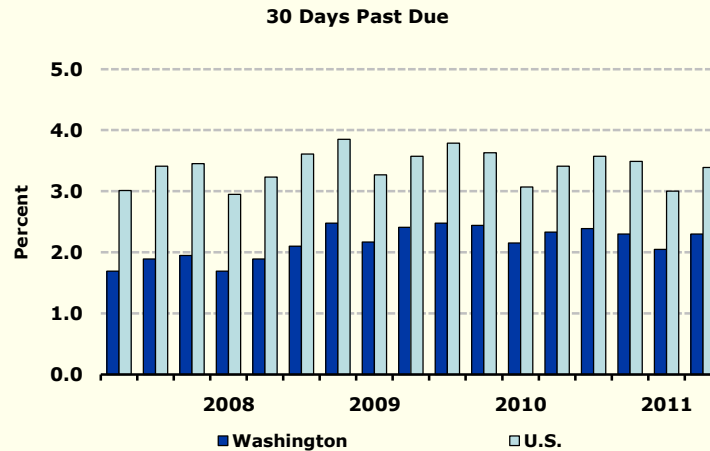
## ...but will eventually slow down

**WA Rank:**

**2011Q1: 47**  
**2011Q2: 47**

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Source: Mortgage Bankers Association® National Delinquency Survey, data through 2011 Q2

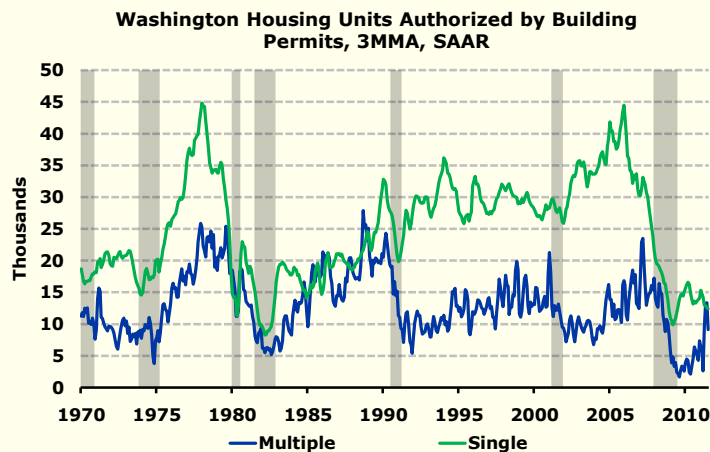
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## WA multi-family building permits are improving

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Source: U.S. Census Bureau; data through July 2011

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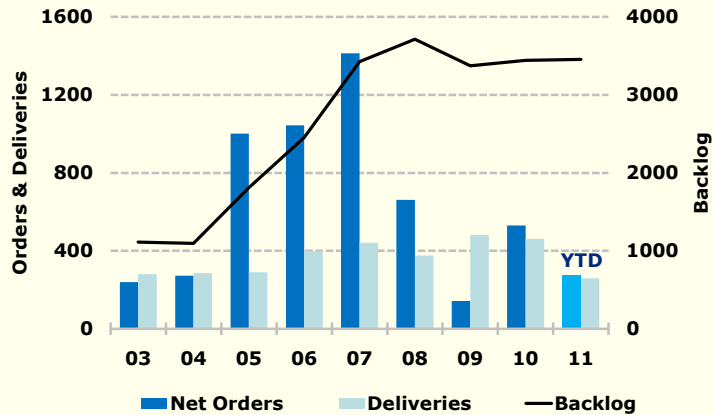


## Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker

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Source: Boeing, data through August 2011

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## Software publishing employment is growing

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Source: ERFC September 2011 forecast; actual through August 2011

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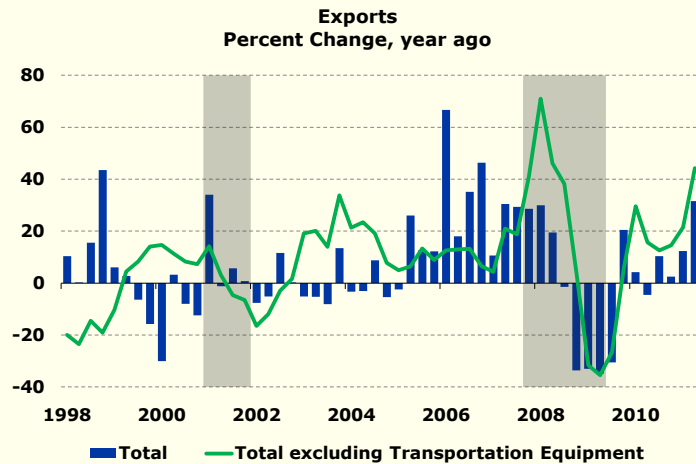


## WA export growth is strong, and will help state outperform in the recovery

Total exports were up 31.5% y/y in Q2

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Source: Wisser Trade Data; through 2011 Q2

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## WA employment is still in the hole

Peak to trough job losses

**1981-82:**

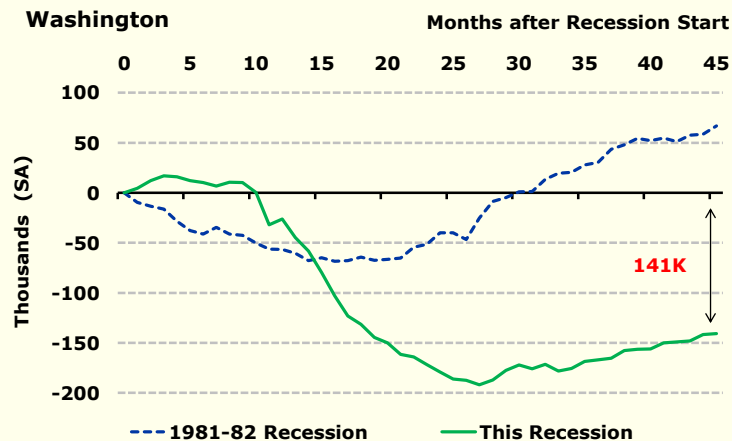
3.3% of labor force

**This time:**

5.4% of labor force

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Source: WA ESD, ERFC Kalman filtered; data through August 2011

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## WA employment will recover slightly faster than the U.S.

WA employment peaked 1 month after U.S. (Feb. 2008 vs. Jan. 2008)

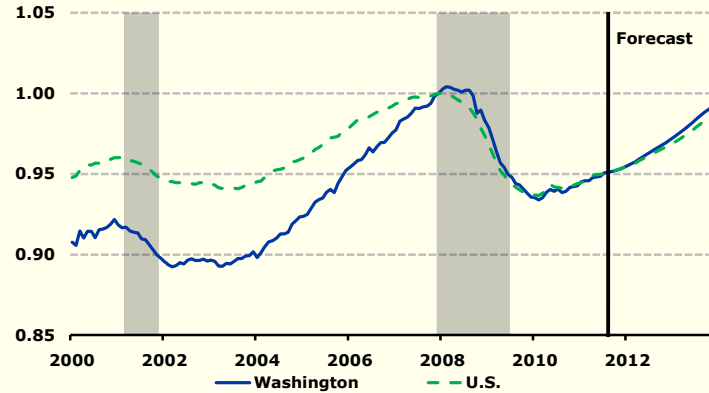
Both WA and the U.S. reached a trough in Feb. 2010

Both WA and the U.S. won't reach their previous peak until after 2013

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December 2007=1.0



Source: ERFC September 2011 forecast; actual through August 2011

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## WA personal income will recover faster than that of the U.S.

Date of regaining peak:

**WA:**

Nominal  
10Q4

Real  
11Q3

**U.S.:**

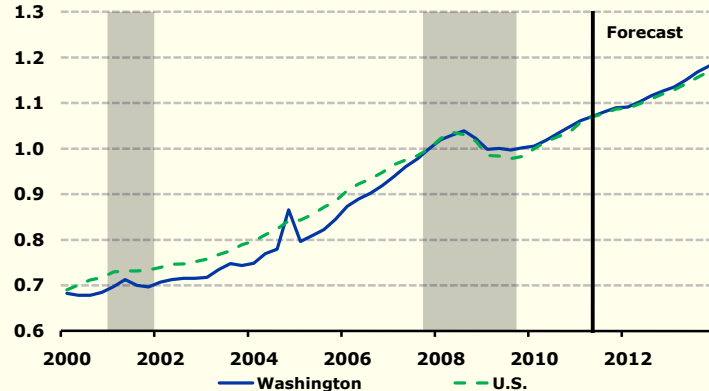
Nominal  
10Q4

Real  
11Q4

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2007Q4 = 1.0



Source: ERFC Preliminary September 2011 forecast; actual data through 2011Q2

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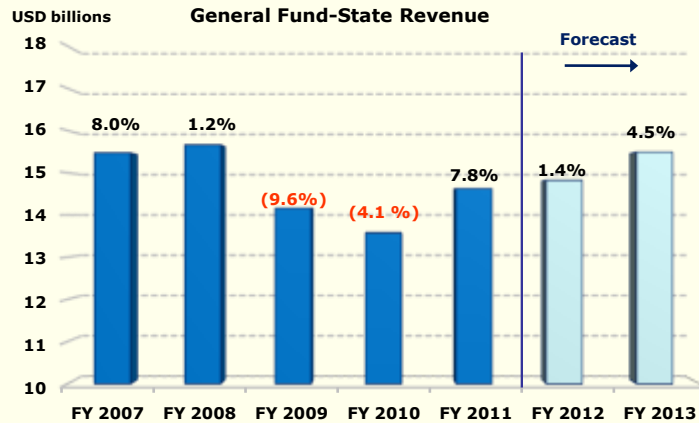


## General Fund\* forecast by fiscal year

FY 2011 revenues were boosted by one-time transfers of non-GF-S funds into the GF-S

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\*General Fund & Related Funds for FY 07-09, General Fund – new definition for FY 10-13  
Source: ERFC forecast, September 2011

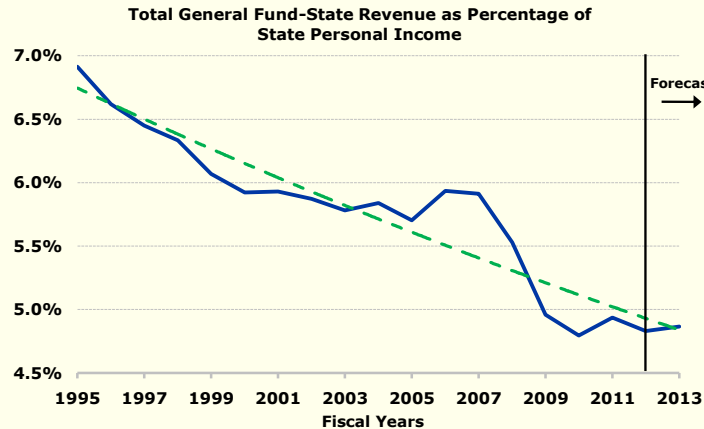
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## GF-S revenues as a share of personal income will be below trend until FY13

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\*Current definition of Revenue Act

Source: ERFC; data through FY 2011 estimated, September 2011 forecast

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## Real Per Capita General Fund\*- State Revenue

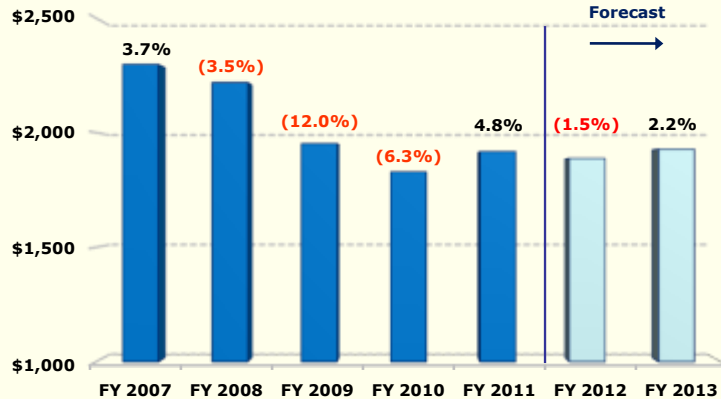
\* General Fund & Related Funds for FY 07-09

General Fund – new definition, for FY 10-13

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Per Capita GF-S\*, \$2005



Source: ERFC forecast, September 2011

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## 2011-13 Biennium alternative forecasts – cash basis

\*Baseline B assumes 2.7% real GDP growth in 2013

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\$Millions	2011-13 Biennium	Difference From the baseline
<b>Sept 2011 Baseline</b>	<b>\$30,311</b>	
<b>Baseline B*</b>	<b>\$30,295</b>	<b>(\$16)</b>
<b><u>Sept 2011 Alternative Forecasts</u></b>		
<b>Optimistic</b>	<b>\$32,557</b>	<b>\$2,247</b>
<b>Pessimistic</b>	<b>\$28,304</b>	<b>(\$2,006)</b>
<b>GCEA*</b>	<b>\$30,189</b>	<b>(\$122)</b>

\*Based on the Governor's Council of Economic Advisors' assumptions

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## Forecast changes: Lottery, cash basis

### Most of Lottery Revenue is Non-General Fund

Does not include one-time cash transfers

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### Lottery Revenue

USD Millions

	<u>June Forecast</u>	<u>September '11 Forecast</u>			<u>Sept.** Forecast</u>
		<u>Non-economic Change*</u>	<u>Economic Change</u>	<u>Total Change</u>	
2009-11 Biennium	<b>\$261.7</b>	\$0	\$1.9	\$1.9	<b>\$263.6</b>
2011-13 Biennium	<b>\$236.5</b>	\$8.5	\$0.2	\$8.7	<b>\$245.2</b>

\* Non-economic Change includes new games and changes in Lottery retained earnings

\*\* Detail may not add to total due to rounding

Source: ERFC forecast, September 2011

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## Conclusion

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- The forecast for the 2011-13 Biennium is \$1.4 billion lower due to the worsened economic outlook
- GF-S revenue for the last biennium came in \$25 million below the June forecast
- Revenues are expected to grow 7.5% between the 09-11 and 11-13 biennium
- The national and state economies appear headed for an extended period of muddle-through – slow economic and job growth, high unemployment and weak confidence
- The level of uncertainty in the baseline remains high, and downside risks outweigh upside risks

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# Questions

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15 September 2011

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360-534-1560

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**Changes to the General Fund-State Cash Forecast-by Agency**

Comparison of the September 2011 to the June 2011 Forecast

2009-11 Biennium

Millions of Dollars

	<u>June 2011 Forecast*</u>	<u>Collection Experience</u>	<u>September 2011 Preliminary Total</u>	<u>Forecast Variance<sup>#</sup></u>
Department of Revenue	\$26,769.1	(\$13.6)	\$26,755.5	(\$13.6)
All other Agencies	\$1,449.4	(\$11.3)	\$1,438.1	(\$11.3)
<b>Total General Fund-State</b>	<b>\$28,218.5</b>	<b>(\$24.9)</b>	<b>\$28,193.6</b>	<b>(\$24.9)</b>

\*Forecast for GF-S for the 2009-11 biennium adopted June 2011

<sup>#</sup>Details may not add due to rounding

**Changes to the General Fund-State Cash Forecast-by Agency**

Comparison of the September 2011 to the June 2011 Forecast

2011-13 Biennium

Millions of Dollars

	<u>June 2011 Forecast*</u>	<u>Collection Experience</u>	<u>Non-economic Changes**</u>	<u>Forecast Change</u>	<u>September 2011 Forecast</u>	<u>Total Change<sup>#</sup></u>
Department of Revenue	\$30,156.1	(\$25.1)	\$13.6	(\$1,377.6)	\$28,767.0	(\$1,389.1)
All other Agencies	\$1,567.6	(\$1.2)	\$0.0	(\$22.9)	\$1,543.5	(\$24.1)
<b>Total General Fund-State</b>	<b>\$31,723.7</b>	<b>(\$26.3)</b>	<b>\$13.6</b>	<b>(\$1,400.5)</b>	<b>\$30,310.5</b>	<b>(\$1,413.2)</b>

\*Forecast for GF-S for the 2011-13 biennium adopted June 2011

\*\*Expiration of local sales and use tax credit upon retirement of Safeco Field bonds

<sup>#</sup>Details may not add due to rounding

## Track Record for the 2009-11 General Fund-State Cash Forecast

February 2008 through September 2011

Cash Basis - Millions of Dollars

<u>Date of Forecast</u>	<u>Department of Revenue*</u>	<u>Other Agencies</u>	<u>Subtotal*</u>	<u>Non-Economic Changes**</u>	<u>Total Change</u>	<u>Total General Fund-State Cash Basis#</u>
<b>February 2008**</b>	\$32,443	\$1,715				\$34,158
<b>Changes to Forecast</b>						
June 2008	(85)	(28)	(112)	(46) #1	(158)	34,000
September 2008	(238)	(29)	(267)	0	(267)	33,733
November 2008	(1,376)	(77)	(1,453)	36 #2	(1,417)	32,316
March 2009	(2,030)	(94)	(2,124)	(61) #3	(2,185)	30,131
June 2009	(509)	(15)	(523)	226 #4	(297)	29,834
September 2009	(177)	(8)	(185)	(46) #5	(231)	29,603
November 2009	(752)	(8)	(760)	0	(760)	28,843
February 2010	9	23	32	(150) #6	(118)	28,725
June 2010	(192)	(52)	(245)	802 #7	558	29,282
September 2010	(742)	(23)	(765)	(5) #8	(770)	28,512
November 2010	(316)	(6)	(322)	(63) #9	(385)	28,127
March 2011	(185)	(5)	(191)	111 #10	(80)	28,047
June 2011	20	3	24	147 #11	171	28,218
September 2011	(14)	(11)	(25)	0	(25)	28,194
<b>Total change***:</b>						
From February 2008	(6,585)	(331)	(6,916)	951	(5,965)	
Percent change	(20.3)	(19.3)	(20.2)	2.8	(17.5)	

\* Excludes legislative, judicial, statutorily required or other major non-economic changes.

\*\* Includes legislative, judicial, statutorily required or other major non-economic changes.

\*\*\* Detail may not add to total due to rounding.

# New definition of General Fund-State per ESSB 5073

\*\* First official forecast for the 2009-11 biennium.

#1 Impact of 2008 legislation and budget driven revenue.

#2 Expiration of Sales Tax Exemption on Renewable Energy Equipment

#3 Adjustment of prior estimates of SST mitigation payments and voluntary taxes on internet sales

#4 Sum of 2009 legislation and budget-driven revenue

#5 Effects of Supreme Court decision on B&O taxes on interest earnings

#6 Effects of Supreme Court decision on B&O tax exemption for certain direct sellers minus expected assessment payments

#7 Sum of 2010 legislation and budget-driven revenue plus expected assessment payments, DOR fee change and DOL non-economic changes

#8 Reversal of DOR RTA administrative fee

#9 Effects of initiative 1107

#10 Effects of legislation from December 2010 session, shift of taxpayers from quarterly to monthly reporting, large expected refund

#11 Effects of 2011 legislative and budget-driven revenue change plus DOR fee change

**Track Record for the 2011-13 General Fund-State Cash Forecast**

February 2010 through September 2011  
 Cash Basis - Millions of Dollars

<u>Date of Forecast</u>	<u>Department of Revenue*</u>	<u>Other Agencies</u>	<u>Subtotal*</u>	<u>Non-Economic Changes**</u>	<u>Total Change</u>	<u>Total General Fund-State Cash Basis#</u>
<b>February 2010#</b>	\$30,658	\$1,566				\$32,224
<b>Changes to Forecast</b>						
June 2010	219	(21)	197	1,661 #1	1,858	34,083
September 2010	(610)	(48)	(659)	(10) #2	(669)	33,414
November 2010	(584)	(7)	(591)	(218) #3	(809)	32,605
March 2011	(640)	(29)	(668)	(30) #4	(698)	31,907
June 2011	(217)	(8)	(226)	43 #5	(183)	31,724
September 2011	(1403)	(24)	(1,427)	14 #6	(1,413)	30,311
<b>Total change***:</b>						
From February 2008	(3,236)	(137)	(3,373)	1,460	(1,914)	
Percent change	(10.6)	(8.8)	(10.5)	4.5	(5.9)	

\* Excludes legislative, judicial, statutorily required or other major non-economic changes.  
 \*\* Includes legislative, judicial, statutorily required or other major non-economic changes.  
 \*\*\* Detail may not add to total due to rounding.  
 # First official forecast for the 2011-13 biennium.  
 #1 Impact of 2010 legislation and budget driven revenue.  
 #2 Reversal of DOR RTA administrative fee  
 #3 Effects of Initiative 1107  
 #4 Effects of legislation from December 2010 session  
 #5 Effects of 2011 legislative and budget-driven revenue change, DOR fee change, and reduced future revenue due to 2011 amnesty program  
 #6 Expiration of local sales and use tax credit upon retirement of Safeco Field bonds

**Alternative Forecasts**

September 2011  
 2011-13 Biennium  
 Cash Basis - Millions of Dollars

	<u>2011-13 Biennium</u>	<u>Difference From the September 2011 Baseline</u>
September 2011 Baseline	\$30,311	
September 2011 Alternative Forecasts		
Optimistic	\$32,557	\$2,247
Pessimistic	\$28,304	(\$2,006)
GCEA*	\$30,189	(\$122)
Scenario B**	\$30,295	(\$16)

\* Based on the Governor's Council of Economic Advisors Assumptions.  
 \*\* 2.7% annual average real GDP growth in calendar year 2013

**Year-Over-Year Employment Growth by Industry  
(August 2010 to August 2011)  
Washington vs. U.S.**

	Washington		U.S
	(000)	% Chg.	% Chg.
<b>Total</b>	<b>37.5</b>	<b>1.3%</b>	<b>1.0%</b>
Aerospace Product and Parts Manufacturing	7.7	9.5%	NA
Software Publishers	2.2	4.3%	NA
Professional and Business Services	11.5	3.5%	3.0%
Mining and Logging	0.2	3.0%	12.1%
Manufacturing Excluding Aerospace	5.1	2.9%	NA
Retail Trade	6.6	2.1%	1.1%
Education and Health Services	7.3	1.9%	2.1%
Wholesale Trade	2.0	1.6%	1.7%
Transportation, Warehousing and Utilities	1.1	1.2%	1.8%
Information Excluding Software	0.4	0.8%	NA
Leisure and Hospitality	2.1	0.8%	1.2%
Other Services	0.4	0.4%	1.7%
State and Local Gov Education	0.8	0.3%	-2.1%
Financial Activities	-1.4	-1.0%	-0.1%
Construction	-2.5	-1.8%	0.3%
State and Local Gov Non-Education	-5.2	-2.5%	-1.7%
Information	2.6	2.5%	-2.9%
Manufacturing	12.8	5.0%	1.8%

Source: WA State ERFC Kalman filtered data, U.S. Bureau of Labor Statistics

**Electronic Filers\***

Year-over-year growth in payments, same taxpayers  
Percent

<b>NAICS/Sector</b>		<b>July-10</b>	<b>Aug-10</b>	<b>Sep-10</b>	<b>Oct-10</b>	<b>Nov-10</b>	<b>Dec-10</b>	<b>Jan -11</b>	<b>Feb-11</b>	<b>Mar-11</b>	<b>Apr-11</b>	<b>May-11</b>	<b>June-11</b>	<b>July-11</b>
441	Motor vehicles & parts	(0.5)	(16.4)	14.7	12.0	18.3	8.0	10.2	11.4	8.3	9.3	5.3	6.7	(0.3)
442	furniture and home furnishings	1.6	0.8	(0.8)	2.9	0.9	7.6	2.7	3.9	6.8	6.6	1.4	2.4	3.9
443	Electronics & appliances	18.0	7.9	4.8	12.3	16.1	10.8	35.4	7.0	5.2	28.9	12.5	3.2	4.6
444	Build. Mat./garden equip.	4.0	3.1	(2.3)	0.9	5.9	1.0	(3.6)	(8.9)	(11.5)	(3.3)	0.5	5.8	(0.9)
445	Food & beverage stores	(2.4)	7.2	6.4	9.0	9.5	3.5	2.1	2.3	(1.8)	1.8	2.1	(3.1)	(7.0)
446	Drug & health stores	6.4	6.4	5.8	5.5	8.8	2.3	3.8	3.5	7.1	5.9	4.8	0.9	(0.9)
447	Gas stations & convenience stores	11.3	12.5	7.7	12.7	12.5	5.5	8.4	9.4	8.3	10.4	12.7	5.8	2.3
448	Apparel & accessories	5.8	2.6	8.9	4.0	8.2	6.8	5.1	5.8	4.6	9.4	6.1	8.2	8.5
451	Sporting goods,toys,books,music	2.1	0.9	(1.2)	(0.1)	5.4	2.2	3.4	4.6	1.2	3.4	2.0	3.4	4.8
452	General merchandise stores	4.5	4.8	6.9	3.8	5.4	1.9	2.1	1.7	(1.2)	3.0	0.4	1.5	(1.0)
453	Miscellaneous retailers	(1.8)	1.3	5.2	1.9	1.7	(0.4)	4.0	6.8	(0.1)	2.6	(3.2)	0.6	7.1
454	Nonstore retailers	13.0	17.7	18.9	6.1	17.7	8.9	16.4	16.4	16.5	12.5	14.3	9.6	9.8
<b>44-45</b>	<b>Sub total: Retail Trade</b>	<b>3.4</b>	<b>(0.6)</b>	<b>7.1</b>	<b>6.2</b>	<b>9.4</b>	<b>4.4</b>	<b>6.8</b>	<b>4.8</b>	<b>2.4</b>	<b>6.3</b>	<b>3.4</b>	<b>3.6</b>	<b>1.1</b>
11	Agriculture,forestry,fishing	22.8	30.3	25.3	36.8	33.1	(7.8)	(4.3)	(26.8)	(22.2)	(1.1)	(9.0)	(11.2)	13.3
21	Mining	20.9	7.5	(6.2)	3.0	(12.3)	2.6	5.7	(14.8)	(12.0)	8.6	15.9	13.7	(14.6)
22	Utilities	3.4	1.0	0.1	(2.3)	5.6	2.2	5.9	11.8	14.6	4.3	7.0	17.1	(5.9)
23	Construction	(15.4)	(7.1)	(9.5)	(9.4)	(3.5)	(7.2)	(7.0)	(11.2)	(13.2)	(8.2)	(7.3)	(8.6)	(3.9)
31-33	Manufacturing	2.4	10.7	1.7	(9.6)	7.7	(5.7)	(0.3)	5.0	7.7	15.7	34.8	24.8	37.0
42	Wholesale trade	(0.2)	7.9	5.3	10.8	6.8	1.4	4.9	7.4	9.0	3.8	8.9	12.6	9.5
48-49	Transportation & Warehousing	8.5	10.6	7.5	17.5	29.3	6.8	10.3	16.3	8.7	25.1	19.9	(5.4)	14.5
51	Information (adjusted for one-time paym	2.4	5.7	0.3	(0.4)	(1.9)	1.9	11.4	12.9	10.0	13.2	4.8	5.1	12.7
52	Finance, insurance	27.8	16.4	(4.0)	0.3	0.7	19.1	11.1	18.2	10.6	1.4	(9.2)	2.2	0.8
53	Real Estate, rental & leasing	(1.2)	3.9	(2.3)	(1.6)	(1.1)	(1.1)	1.5	(1.6)	(0.9)	(2.6)	5.1	(0.3)	0.2
54	Professional, scientific & Tech. services	24.8	24.8	14.1	13.1	34.8	8.2	13.2	20.6	6.2	20.3	3.4	(3.4)	(3.5)
55-62	Management,education & health services	11.0	15.5	13.9	9.1	12.0	1.3	14.9	14.3	1.3	11.9	7.7	(0.2)	1.9
71	Arts, entertainment & recreation	3.9	(0.3)	(0.7)	5.2	(3.4)	3.7	0.3	9.0	1.5	3.2	(0.3)	(0.6)	1.8
72	Accommodation & food services	3.4	2.1	4.9	4.8	5.4	3.6	2.0	1.5	3.4	3.4	1.7	3.8	3.7
81	Other services	1.1	4.4	1.9	2.3	3.1	(3.3)	7.7	2.4	0.7	1.7	8.0	(2.0)	0.2
92,99,00	Public Administration & all other	(13.6)	(5.2)	10.0	3.0	14.8	(18.8)	(7.2)	(9.8)	(1.1)	16.5	(10.3)	(4.3)	7.0
<b>Total: All Industries</b>		<b>1.7</b>	<b>2.8</b>	<b>3.6</b>	<b>2.7</b>	<b>6.9</b>	<b>2.0</b>	<b>5.1</b>	<b>5.0</b>	<b>2.7</b>	<b>5.6</b>	<b>4.7</b>	<b>3.8</b>	<b>3.7</b>
<b>Addendum:</b>														
Retail trade & Food services		3.2	(0.5)	6.7	5.8	8.7	4.2	5.8	4.3	2.4	5.8	3.0	3.3	1.2
Non retail trade & food services		0.5	5.5	1.3	0.4	5.4	(0.0)	4.5	5.6	2.9	5.4	6.1	4.2	5.8
Accommodations		6.3	7.7	6.4	9.5	11.0	7.9	7.5	2.1	6.3	5.3	3.9	10.4	7.2
Retail trade & food service-except auto		4.1	4.0	5.1	4.4	6.8	3.6	4.9	2.9	1.1	5.0	2.6	2.6	1.6
Real estate/construction related		(9.2)	(3.4)	(6.8)	(6.0)	(1.3)	(4.0)	(4.5)	(8.2)	(9.9)	(5.4)	(3.4)	(3.9)	(2.2)
Total less real estate/construction related		4.6	4.4	6.3	5.0	8.8	3.1	7.2	7.8	5.4	8.1	6.5	5.6	5.1
Non retail trade		0.7	4.9	1.6	0.7	5.2	0.3	4.1	5.2	2.9	5.1	5.6	3.9	5.4

\*Electronic payments of EFT taxpayers and ELF taxpayers (includes some non-electronic payments of EFT taxpayers) received by two days after due date.

## Analysis for the Major Sources Based on Taxable Activity

Revenue Act Sources

September 2011 Baseline Forecast

Source/Fiscal Year	Percentage Change		Personal Income Elasticity**
	Tax Base Adjusted*	Personal Income <sup>1</sup>	
<b>I. Retail Sales</b>			
1992	6.8	7.3	0.9
1993	4.1	6.6	0.6
1994	6.4	5.2	1.2
1995	5.0	5.9	0.8
1996	3.0	6.0	0.5
1997	6.7	8.6	0.8
1998	8.0	8.4	0.9
1999	7.1	8.0	0.9
2000	8.0	8.9	0.9
2001	2.8	4.3	0.6
2002	(1.4)	1.6	(0.9)
2003	2.1	2.4	0.9
2004	4.6	4.4	1.1
2005	7.9	5.4	1.5
2006	10.1	8.2	1.2
2007	7.9	8.5	0.9
2008	2.7	8.2	0.3
2009	(10.4)	0.8	(12.6)
2010	(6.0)	(0.9)	6.6
2011	1.9	4.7	0.4
2012	2.7	3.6	0.8
2013	4.8	3.7	1.3
Average 1992-2010:	4.0	5.7	0.7
<b>II. Business &amp; Occupation</b>			
1992	5.9	7.3	0.8
1993	3.5	6.6	0.5
1994	3.1	5.2	0.6
1995	6.5	5.9	1.1
1996	4.3	6.0	0.7
1997	9.4	8.6	1.1
1998	7.3	8.4	0.9
1999	6.6	8.0	0.8
2000	5.6	8.9	0.6
2001	3.0	4.3	0.7
2002	(3.5)	1.6	(2.2)
2003	(1.6)	2.4	(0.7)
2004	6.8	4.4	1.6
2005	9.7	5.4	1.8
2006	11.2	8.2	1.4
2007	8.3	8.5	1.0
2008	6.9	8.2	0.8
2009	(8.8)	0.8	(10.7)
2010	(2.9)	(0.9)	3.2
2011	3.7	4.7	0.8
2012	2.5	3.6	0.7
2013	4.1	3.7	1.1
Average 1992-2010:	4.3	5.7	0.8

\* Based on constant base taxable data.

\*\* Percent changes in taxable activity divided by percent change in personal income.

<sup>1</sup> Income adjusted to exclude special dividend payment in fy 05.

## Analysis for the Major Sources Based on Taxable Activity

Revenue Act Sources

September 2011 Baseline Forecast

Source/Fiscal Year	Percentage Change		Personal Income Elasticity**
	Tax Base Adjusted*	Personal Income <sup>1</sup>	
III. Use			
1992	(0.6)	7.3	(0.1)
1993	7.6	6.6	1.2
1994	6.1	5.2	1.2
1995	6.4	5.9	1.1
1996	(1.9)	6.0	(0.3)
1997	(0.7)	8.6	(0.1)
1998	4.4	8.4	0.5
1999	(0.1)	8.0	(0.0)
2000	14.4	8.9	1.6
2001	8.4	4.3	1.9
2002	(5.8)	1.6	(3.6)
2003	(1.4)	2.4	(0.6)
2004	5.6	4.4	1.3
2005	14.0	5.4	2.6
2006	2.3	8.2	0.3
2007	9.0	8.5	1.1
2008	2.1	8.2	0.3
2009	(13.0)	0.8	(15.8)
2010	(5.9)	(0.9)	6.5
2011	11.4	4.7	2.4
2012	6.0	3.6	1.7
2013	5.9	3.7	1.6
Average 1992-2010:	2.7	5.7	0.5

## Total Revenue Act Receipts

September 2011 Baseline Forecast

Source/Fiscal Year	Percentage Change		Personal Income Elasticity**
	Tax Receipts <sup>#</sup>	Personal Income <sup>1</sup>	
Revenue Act			
1992	5.8	7.3	0.8
1993	6.1	6.6	0.9
1994	7.9	5.2	1.5
1995	6.3	5.9	1.1
1996	1.8	6.0	0.3
1997	5.3	8.6	0.6
1998	6.3	8.4	0.7
1999	4.2	8.0	0.5
2000	7.4	8.9	0.8
2001	3.9	4.3	0.9
2002	(1.7)	1.6	(1.0)
2003	1.0	2.4	0.4
2004	4.8	4.4	1.1
2005	7.6	5.4	1.4
2006	10.6	8.2	1.3
2007	8.3	8.5	1.0
2008	4.2	8.2	0.5
2009	(9.5)	0.8	(11.5)
2010	(5.3)	(0.9)	5.8
2011	8.1	4.7	1.7
2012	2.4	3.6	0.7
2013	5.2	3.7	1.4
Average 1992-2011:	4.2	5.6	0.7

\* Based on constant base taxable data.

\*\* Percent changes in taxable activity divided by percent change in personal income.

# Post-ESSB 5073 definition of Revenue Act

## Percent changes in tax receipts divided by percent change in personal income.

<sup>1</sup> Income adjusted to exclude special dividend payment in fy 05.

### General Fund-State: History and Forecast of Components

History and Forecast by Fiscal Year (Cash basis)

September 2011 - Millions of Dollars

	General Fund-State		Related Fund		General Fund-State plus Related Fund (current definition of GF-S)		Other Near General Fund**		Total Near General Fund	
	Level	% Chg.	Level	% Chg.	Level	% Chg.	Level	% Chg.	Level	% Chg.
History:										
FY 1995	\$8,551		\$248		\$8,799				\$8,799	
FY 1996	\$8,581	0.3%	\$353	42.6%	\$8,934	1.5%			\$8,934	1.5%
FY 1997	\$9,057	5.5%	\$392	11.1%	\$9,449	5.8%			\$9,449	5.8%
FY 1998	\$9,641	6.5%	\$416	6.1%	\$10,057	6.4%			\$10,057	6.4%
FY 1999	\$9,979	3.5%	\$435	4.5%	\$10,414	3.6%			\$10,414	3.6%
FY 2000	\$10,433	4.5%	\$634	45.9%	\$11,068	6.3%			\$11,068	6.3%
FY 2001	\$10,829	3.8%	\$731	15.2%	\$11,560	4.4%			\$11,560	4.4%
FY 2002	\$10,451	-3.5%	\$1,182	61.6%	\$11,632	0.6%			\$11,632	0.6%
FY 2003	\$10,690	2.3%	\$1,031	-12.7%	\$11,721	0.8%			\$11,721	0.8%
FY 2004	\$11,321	5.9%	\$1,037	0.6%	\$12,358	5.4%			\$12,358	5.4%
FY 2005	\$12,067	6.6%	\$969	-6.6%	\$13,036	5.5%			\$13,036	5.5%
FY 2006	\$13,329	10.5%	\$989	2.0%	\$14,318	9.8%	\$115		\$14,432	10.7%
FY 2007	\$14,443	8.4%	\$1,024	3.6%	\$15,467	8.0%	\$266	132.2%	\$15,734	9.0%
FY 2008	\$14,614	1.2%	\$1,045	2.0%	\$15,659	1.2%	\$213	-20.1%	\$15,872	0.9%
FY 2009	\$13,089	-10.4%	\$1,069	2.3%	\$14,158	-9.6%	\$224	5.4%	\$14,382	-9.4%
FY 2010*	\$13,571	3.7%	\$0	-100.0%	\$13,571	-4.1%	\$157	-29.9%	\$13,728	-4.6%
FY 2011*	\$14,623	7.8%	\$0	0.0%	\$14,623	7.8%	\$112	-29.0%	\$14,735	7.3%
Forecast:										
FY 2012*	\$14,822	1.4%	\$0	0.0%	\$14,822	1.4%	\$96	-14.0%	\$14,918	1.2%
FY 2013*	\$15,489	4.5%	\$0	0.0%	\$15,489	4.5%	\$91	-5.3%	\$15,580	4.4%
<b>Biennial Totals</b>										
<b>03-05 Biennium</b>	<b>\$23,389</b>	<b>10.6%</b>	<b>\$2,006</b>	<b>-9.3%</b>	<b>\$25,395</b>	<b>8.7%</b>	<b>\$0</b>	<b>NA</b>	<b>\$25,395</b>	<b>8.7%</b>
<b>05-07 Biennium</b>	<b>\$27,772</b>	<b>18.7%</b>	<b>\$2,013</b>	<b>0.3%</b>	<b>\$29,785</b>	<b>17.3%</b>	<b>\$381</b>	<b>NA</b>	<b>\$30,166</b>	<b>18.8%</b>
<b>07-09 Biennium</b>	<b>\$27,703</b>	<b>-0.2%</b>	<b>\$2,114</b>	<b>5.0%</b>	<b>\$29,817</b>	<b>0.1%</b>	<b>\$437</b>	<b>14.8%</b>	<b>\$30,254</b>	<b>0.3%</b>
<b>09-11 Biennium</b>	<b>\$28,194</b>	<b>1.8%</b>	<b>\$0</b>	<b>-100.0%</b>	<b>\$28,194</b>	<b>-5.4%</b>	<b>\$269</b>	<b>-38.5%</b>	<b>\$28,462</b>	<b>-5.9%</b>
<b>11-13 Biennium</b>	<b>\$30,311</b>	<b>7.5%</b>	<b>\$0</b>	<b>0.0%</b>	<b>\$30,311</b>	<b>7.5%</b>	<b>\$187</b>	<b>-30.5%</b>	<b>\$30,497</b>	<b>7.1%</b>

\*FY 2010-13: Current definition of GF-S per ESSB 5073 which includes funds previously classified as the "Related Fund"

\*\*Education legacy trust fund (plus pension stabilization fund interest FY 08, 09)

## U.S. Forecast Comparison

	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2009	2010	2011	2012	2013
<b>Real GDP (2005 USD billions)</b>											
September Forecast, Final	13,261	13,323	13,392	13,462	13,542	13,629	12,703	13,088	13,301	13,589	14,024
Percent Change	1.0%	1.9%	2.1%	2.1%	2.4%	2.6%	-3.5%	3.0%	1.6%	2.2%	3.2%
June Forecast	13,528	13,639	13,753	13,855	13,958	14,068	12,881	13,248	13,591	14,015	14,464
Percent Change	2.6%	3.3%	3.4%	3.0%	3.0%	3.2%	-2.6%	2.9%	2.6%	3.1%	3.2%
<b>Real Consumption (2005 USD billions)</b>											
September Forecast, Final	9,387	9,433	9,478	9,522	9,586	9,651	9,037	9,221	9,419	9,621	9,860
Percent Change	0.4%	2.0%	1.9%	1.9%	2.7%	2.8%	-1.9%	2.0%	2.1%	2.1%	2.5%
June Forecast	9,516	9,578	9,653	9,725	9,808	9,880	9,154	9,314	9,555	9,841	10,081
Percent Change	1.8%	2.6%	3.2%	3.0%	3.4%	3.0%	-1.2%	1.7%	2.6%	3.0%	2.4%
<b>Implicit Price Deflator, PCE (2005=1.00)</b>											
September Forecast, Final	1.136	1.142	1.143	1.146	1.147	1.152	1.092	1.111	1.137	1.150	1.166
Percent Change	3.2%	1.9%	0.4%	0.9%	0.6%	1.5%	0.2%	1.8%	2.3%	1.1%	1.4%
June Forecast	1.135	1.140	1.144	1.148	1.152	1.157	1.093	1.111	1.136	1.154	1.173
Percent Change	3.0%	1.8%	1.5%	1.4%	1.5%	1.6%	0.2%	1.7%	2.2%	1.6%	1.6%
<b>Real Personal Income (2005 USD billions)</b>											
September Forecast, Final	11,435	11,454	11,547	11,530	11,621	11,692	10,929	11,136	11,457	11,654	11,963
Percent Change	1.4%	0.7%	3.3%	-0.6%	3.2%	2.5%	-4.4%	1.9%	2.9%	1.7%	2.7%
June Forecast	11,523	11,610	11,702	11,697	11,786	11,878	11,144	11,286	11,579	11,833	12,199
Percent Change	1.4%	3.0%	3.2%	-0.2%	3.1%	3.2%	-1.9%	1.3%	2.6%	2.2%	3.1%
<b>Nonfarm Payroll Employment (Millions)</b>											
September Forecast, Final	131.0	131.2	131.5	131.9	132.4	132.9	130.8	129.8	131.1	132.6	135.0
Percent Change	1.4%	0.7%	0.9%	1.1%	1.6%	1.6%	-4.4%	-0.7%	1.0%	1.2%	1.8%
June Forecast	131.2	131.7	132.3	132.9	133.5	134.1	130.8	129.8	131.4	133.8	136.3
Percent Change	2.0%	1.5%	1.8%	1.9%	1.8%	1.8%	-4.4%	-0.7%	1.2%	1.8%	1.9%
<b>Unemployment Rate (Percent of Labor Force)</b>											
September Forecast, Final	9.1	9.1	9.2	9.1	9.1	9.0	9.3	9.6	9.1	9.0	8.3
June Forecast	8.9	8.7	8.6	8.4	8.3	8.1	9.3	9.6	8.8	8.2	7.4
<b>30 Year Fixed Mortgage Rate (Percent, average)</b>											
September Forecast, Final	4.7	4.3	4.0	4.2	4.6	4.9	5.0	4.7	4.5	4.7	5.0
June Forecast	4.7	4.7	4.8	5.0	5.1	5.1	5.0	4.7	4.8	5.1	5.8
<b>3 Month T-Bill Rate (Percent, average)</b>											
September Forecast, Final	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1
June Forecast	0.1	0.1	0.2	0.4	0.8	1.4	0.2	0.1	0.1	1.2	3.0

## Washington Forecast Comparison

	2011Q2	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2009	2010	2011	2012	2013
<b>Real Personal Income (2005 USD billions)</b>											
September Forecast, Final	265.1	266.3	268.2	267.9	270.2	272.5	257.6	259.7	266.1	271.2	279.4
Percent Change	0.3%	1.8%	3.0%	-0.6%	3.5%	3.4%	-2.9%	0.8%	2.5%	1.9%	3.1%
June Forecast	269.6	272.2	274.6	274.7	277.3	280.2	261.5	263.9	271.3	278.7	288.8
Percent Change	1.0%	3.9%	3.5%	0.2%	3.8%	4.3%	-0.6%	0.9%	2.8%	2.7%	3.6%
<b>Personal Income (USD billions)</b>											
September Forecast, Final	301.2	304.0	306.6	306.9	310.0	313.8	281.2	288.6	302.6	311.8	326.0
Percent Change	3.6%	3.8%	3.4%	0.4%	4.1%	5.0%	-2.7%	2.6%	4.9%	3.0%	4.5%
June Forecast	305.9	310.2	314.1	315.3	319.5	324.2	285.7	293.2	308.2	321.8	338.9
Percent Change	4.1%	5.8%	5.1%	1.6%	5.4%	6.0%	-0.5%	2.6%	5.1%	4.4%	5.3%
<b>Nonfarm Payroll Employment (Thousands)</b>											
September Forecast, Final	2811	2819	2825	2835	2848	2861	2822	2783	2815	2855	2915
Percent Change	1.1%	1.2%	0.8%	1.4%	1.9%	1.9%	-4.6%	-1.4%	1.1%	1.4%	2.1%
June Forecast	2810	2822	2838	2855	2872	2889	2822	2783	2818	2881	2945
Percent Change	1.5%	1.7%	2.2%	2.4%	2.4%	2.4%	-4.6%	-1.4%	1.2%	2.2%	2.2%
<b>Unemployment Rate (Percent of Labor Force)</b>											
September Forecast, Final	9.2	9.3	9.4	9.3	9.3	9.2	9.3	9.6	9.3	9.2	8.5
June Forecast	9.1	8.9	8.8	8.6	8.5	8.3	9.3	9.6	9.0	8.4	7.7
<b>Manufacturing Employment (Thousands)</b>											
September Forecast, Final	266.6	270.4	271.6	273.1	276.2	278.3	265.5	257.9	267.8	276.9	284.4
Percent Change	6.1%	5.9%	1.9%	2.2%	4.5%	3.1%	-8.8%	-2.8%	3.8%	3.4%	2.7%
June Forecast	264.7	267.1	269.7	272.8	276.6	279.1	265.5	257.9	265.9	277.5	287.9
Percent Change	4.3%	3.6%	4.0%	4.7%	5.6%	3.8%	-8.8%	-2.8%	3.1%	4.4%	3.8%
<b>Construction Employment (Thousands)</b>											
September Forecast, Final	137.6	138.3	137.7	138.0	138.4	139.1	159.7	141.1	137.8	138.7	143.9
Percent Change	0.5%	1.8%	-1.5%	0.7%	1.3%	1.8%	-20.4%	-11.6%	-2.3%	0.7%	3.7%
June Forecast	138.0	137.0	137.0	137.8	139.5	141.6	159.7	141.1	137.4	140.7	149.4
Percent Change	1.2%	-2.7%	-0.2%	2.6%	4.9%	6.3%	-20.4%	-11.6%	-2.6%	2.4%	6.2%
<b>Housing Permits (Thousands)</b>											
September Forecast, Final	25.9	20.1	19.4	20.0	20.9	21.7	17.0	20.7	20.6	21.3	27.6
Percent Change	455.9%	-63.8%	-13.2%	13.3%	18.1%	15.9%	-41.2%	21.6%	-0.5%	3.3%	29.6%
June Forecast	22.2	20.3	21.0	21.7	23.0	25.4	17.0	20.7	20.1	24.6	33.7
Percent Change	198.2%	-29.7%	13.3%	14.5%	27.0%	48.7%	-41.2%	21.6%	-2.9%	22.2%	37.4%

**Governor's Council of Economic Advisor's Forecast**  
September 2, 2011

**Calendar Years**

	2011	2012	2013
<b>U.S.</b>			
<b>Real GDP</b>			
<i>Growth</i>			
ERFC	1.6	2.2	3.2
GCEA Average	1.4	1.9	2.6
<b>Real Consumption</b>			
<i>Growth</i>			
ERFC	2.1	2.1	2.5
GCEA Average	1.8	1.8	2.3
<b>Implicit Price Deflator, PCE</b>			
<i>Growth</i>			
ERFC	2.3	1.1	1.4
GCEA Average	2.3	1.6	1.9
<b>Mortgage Rate</b>			
<i>Percent</i>			
ERFC	4.5	4.7	5.0
GCEA Average	4.5	4.6	5.1
<b>Oil Price (WTI)</b>			
<i>USD per barrel</i>			
ERFC	94.3	91.2	92.3
GCEA Average	91.5	89.5	91.2

**What is the probability of another recession beginning with 12 months?**

39%

**Washington State**

**Real Personal Income**

*Growth*

ERFC	2.5	1.9	3.1
GCEA Average	2.3	1.9	2.4

**Wage and Salary Employment**

*Growth*

ERFC	1.1	1.4	2.1
GCEA Average	1.2	1.3	1.9

**Manufacturing Employment**

*Growth*

ERFC	3.8	3.4	2.7
GCEA Average	3.2	3.0	2.9

**Construction Employment**

*Growth*

ERFC	-2.3	0.7	3.7
GCEA Average	-2.2	0.2	3.1

**Housing Permits**

*Thousands of authorized units*

ERFC	20.6	21.3	27.6
GCEA Average	20.5	21.8	26.4

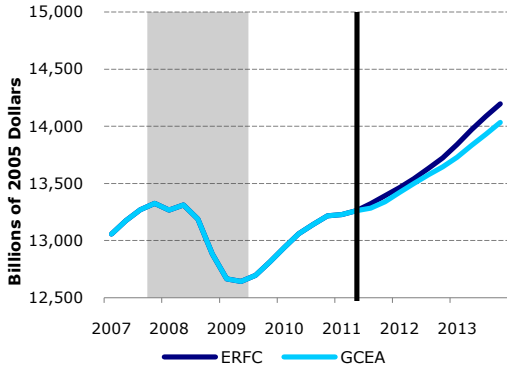
**Washington Average Annual Wage**

*Growth*

ERFC	2.1	2.5	3.1
GCEA Average	1.9	2.2	2.7

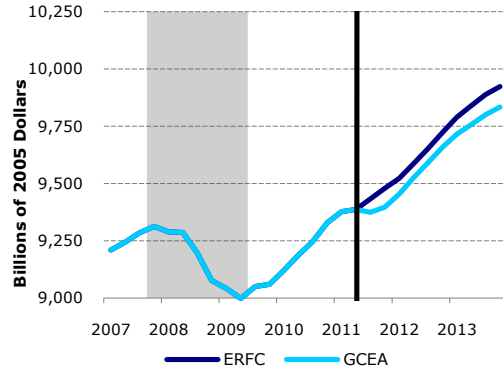
# U.S. Forecast Comparison

### Real GDP



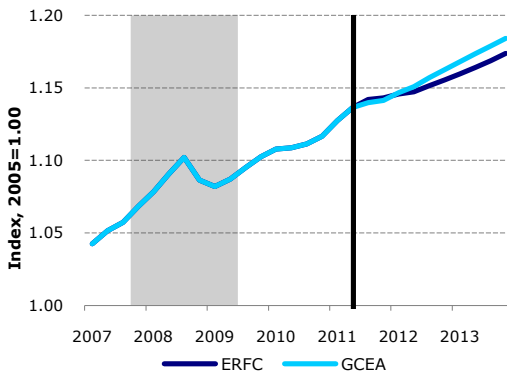
Source: BEA, ERFC, GCEA; Actual data through 2011 Q2

### Real Consumption



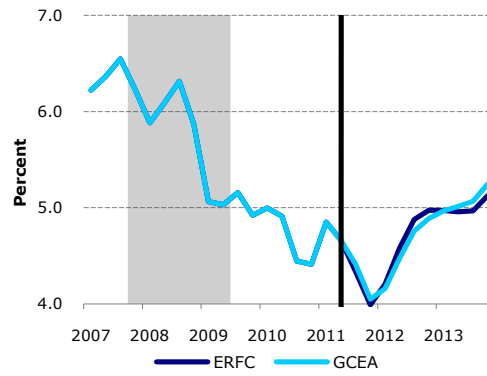
Source: BEA, ERFC, GCEA; Actual data through 2011 Q2

### Implicit Price Deflator, PCE



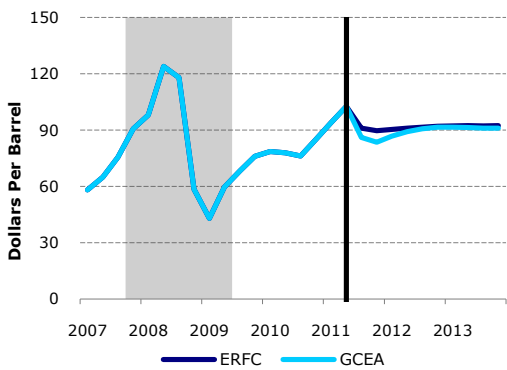
Source: BEA, ERFC, GCEA; Actual data through 2011 Q2

### Mortgage Rate



Source: Freddie Mac, ERFC, GCEA; Actual data through 2011

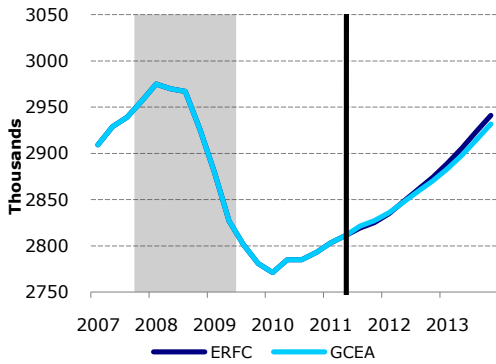
### WTI Oil Price



Source: EIA, ERFC, GCEA; Actual data through 2011 Q2

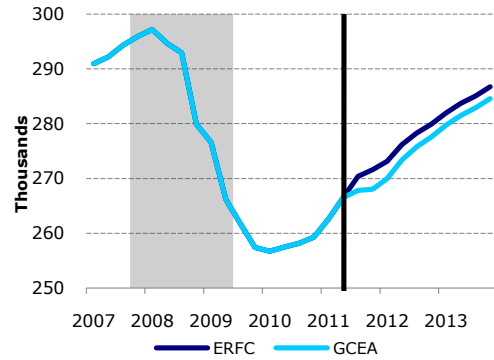
# Washington Forecast Comparison

### Nonfarm Payroll Employment



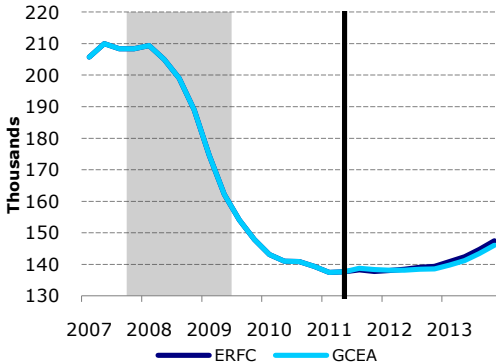
Source: ESD, ERFC, GCEA; Actual data through 2011 Q2

### Manufacturing Employment



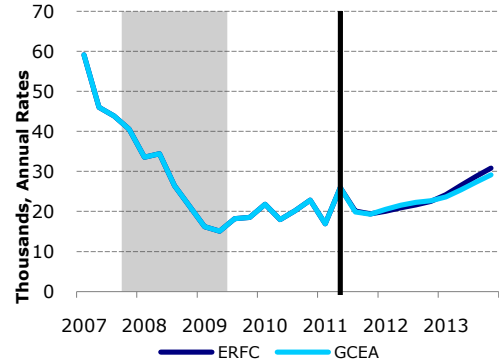
Source: ESD, ERFC, GCEA; Actual data through 2011 Q2

### Construction Employment



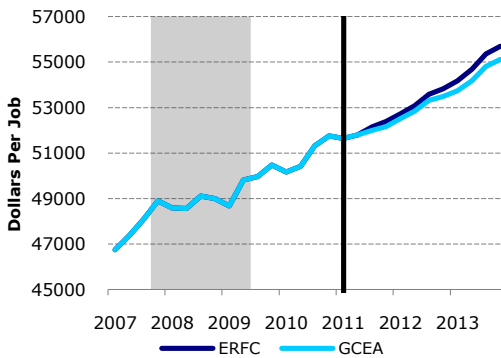
Source: ESD, ERFC, GCEA; Actual data through 2011 Q2

### Housing Units Authorized



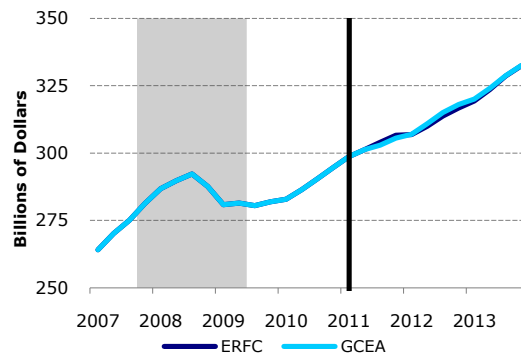
Source: Census, ERFC, GCEA; Actual data through 2011 Q2

### Average Annual Wage



Source: BEA, ESD, ERFC, GCEA; Actual data through 2011 Q1

### Personal Income



Source: BEA, ERFC, GCEA; Actual data through 2011 Q1

## Revenue Forecast Variance

Thousands of Dollars

### Cumulative Variance Since the June Forecast (June 11, 2011 - September 10, 2011)

Period/Source	Estimate*	Actual	Difference	
			Amount	Percent
Department of Revenue-Total	\$3,422,243	\$3,382,639	(\$39,603)	-1.2%
Revenue Act	2,779,395	2,699,418	(79,977)	-2.9%
Non-Revenue Act	642,848	683,222	40,374	6.3%
Liquor Sales/Liter	52,104	52,467	363	0.7%
Cigarette	185,294	187,872	2,578	1.4%
Property (State School Levy)	175,177	201,668	26,491	15.1%
Real Estate Excise	102,251	115,841	13,590	13.3%
Timber (state share)	1,583	1,166	(417)	-26.3%
Other	126,438	124,207	(2,231)	-1.8%
Department of Licensing	10,612	10,665	53	0.5%
Lottery	6,888	6,651	(237)	-3.4%
Administrative Office of the Courts	24,810	24,374	(436)	-1.8%
<b>Total General Fund-State**</b>	<b>\$3,464,553</b>	<b>\$3,424,329</b>	<b>(\$40,224)</b>	<b>-1.2%</b>
<b>Total Excluding Special Factors***</b>	<b>\$3,464,553</b>	<b>\$3,424,686</b>	<b>(\$39,867)</b>	<b>-1.2%</b>

\* Based on the June 2011 economic and revenue forecast.

\*\* Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue, Department of Licensing, Lottery Commission and Administrative Office of the Courts.

\*\*\* Total payments plus net of large one-time refunds and assessment payments

### General Fund-State Cash Estimates - Other Agencies

Comparison of September 2011 to June 2011 Forecast  
2009-11 Biennium  
(Amounts in Millions)

Source/Agency	June 2011 Baseline	Non-Economic Changes	Forecast Changes	Sept. 2011 Baseline	Total Changes
Department of Licensing	\$34.3	\$0.0	\$0.5	\$34.8	\$0.5
Insurance Commissioner Insurance Premiums	\$799.7	\$0.0	\$0.5	\$800.2	\$0.5
Liquor Control Board Liquor Profits and Fees	\$77.6	\$0.0	(\$3.6)	\$74.0	(\$3.6)
Beer and Wine Surtax	\$111.8	\$0.0	\$2.2	\$113.9	\$2.2
Lottery Commission Lottery Revenue	\$21.7	\$0.0	(\$0.2)	\$21.5	(\$0.2)
State Treasurer Interest Earnings	(\$12.2)	\$0.0	\$1.9	(\$10.3)	\$1.9
Office of Financial Management Other Agencies	\$219.4	\$0.0	(\$12.9)	\$206.5	(\$12.9)
Administrative Office of the Courts Fines and Forfeitures	\$197.0	\$0.0	\$0.3	\$197.4	\$0.3
<b>Total General Fund-State</b>	<b>\$1,449.4</b>	<b>\$0.0</b>	<b>(\$11.3)</b>	<b>\$1,438.1</b>	<b>(\$11.3)</b>

### General Fund-State Cash Estimates - Other Agencies

Comparison of September 2011 Baseline to Alternative Forecasts  
2009-11 Biennium  
(Amounts in Millions)

Source/Agency	Optimistic	Baseline	Pessimistic
Department of Licensing	\$34.8	\$34.8	\$34.8
Insurance Commissioner Insurance Premiums	\$800.2	\$800.2	\$800.2
Liquor Control Board Liquor Profits and Fees	\$74.0	\$74.0	\$74.0
Beer and Wine Surtax	\$113.9	\$113.9	\$113.9
Lottery Commission Lottery Revenue	\$21.5	\$21.5	\$21.5
State Treasurer Interest Earnings	(\$10.3)	(\$10.3)	(\$10.3)
Office of Financial Management Other Agencies	\$206.5	\$206.5	\$206.5
Administrative Office of the Courts Fines and Forfeitures	\$197.4	\$197.4	\$197.4
<b>Total General Fund-State</b>	<b>\$1,438.1</b>	<b>\$1,438.1</b>	<b>\$1,438.1</b>
Change from Baseline	\$0.0		\$0.0

\* Detail may not total due to rounding.

### General Fund-State GAAP Estimates - Other Agencies

Comparison of September 2011 to June 2011 Forecast  
2009-11 Biennium  
(Amounts in Millions)

Source/Agency	June 2011 Baseline	Non-Economic Changes	Forecast Changes	Sept. 2011 Baseline	Total Changes
Department of Licensing	\$34.3	\$0.0	\$0.5	\$34.8	\$0.5
Insurance Commissioner Insurance Premiums	\$799.7	\$0.0	\$0.5	\$800.2	\$0.5
Liquor Control Board Liquor Profits and Fees	\$77.6	\$0.0	(\$3.6)	\$74.0	(\$3.6)
Beer and Wine Surtax	\$111.8	\$0.0	\$2.2	\$113.9	\$2.2
Lottery Commission Lottery Revenue	\$18.1	\$0.0	\$1.8	\$19.9	\$1.8
State Treasurer Interest Earnings	(\$14.8)	\$0.0	\$2.1	(\$12.7)	\$2.1
Office of Financial Management Other Agencies	\$219.4	\$0.0	(\$12.9)	\$206.5	(\$12.9)
Administrative Office of the Courts Fines and Forfeitures	\$197.0	\$0.0	\$0.3	\$197.4	\$0.3
<b>Total General Fund-State</b>	<b>\$1,443.1</b>	<b>\$0.0</b>	<b>(\$9.1)</b>	<b>\$1,434.0</b>	<b>(\$9.1)</b>

### General Fund-State GAAP Estimates - Other Agencies

Comparison of September 2011 Baseline to Alternative Forecasts  
2009-11 Biennium  
(Amounts in Millions)

Source/Agency	Optimistic	Baseline	Pessimistic
Department of Licensing	\$34.8	\$34.8	\$34.8
Insurance Commissioner Insurance Premiums	\$800.2	\$800.2	\$800.2
Liquor Control Board Liquor Profits and Fees	\$74.0	\$74.0	\$74.0
Beer and Wine Surtax	\$113.9	\$113.9	\$113.9
Lottery Commission Lottery Revenue	\$19.9	\$19.9	\$19.9
State Treasurer Interest Earnings	(\$12.7)	(\$12.7)	(\$12.7)
Office of Financial Management Other Agencies	\$206.5	\$206.5	\$206.5
Administrative Office of the Courts Fines and Forfeitures	\$197.4	\$197.4	\$197.4
<b>Total General Fund-State</b>	<b>\$1,434.0</b>	<b>\$1,434.0</b>	<b>\$1,434.0</b>
Change from Baseline	\$0.0		\$0.0

\* Detail may not total due to rounding.

### General Fund-State Cash Estimates - Other Agencies

Comparison of September 2011 to June 2011 Forecast  
2011-13 Biennium  
(Amounts in Millions)

Source/Agency	June 2011 Baseline	Non-Economic Changes	Forecast Changes	Sept. 2011 Baseline	Total Changes
Department of Licensing	\$36.9	\$0.0	(\$1.6)	\$35.4	(\$1.6)
Insurance Commissioner Insurance Premiums	\$861.5	\$0.0	\$0.0	\$861.5	\$0.0
Liquor Control Board Liquor Profits and Fees	\$84.0	\$0.0	\$0.7	\$84.8	\$0.7
Beer and Wine Surtax	\$155.8	\$0.0	\$4.4	\$160.2	\$4.4
Lottery Commission Lottery Revenue	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
State Treasurer Interest Earnings	(\$1.2)	\$0.0	(\$17.6)	(\$18.8)	(\$17.6)
Office of Financial Management Other Agencies	\$227.0	\$0.0	\$0.4	\$227.4	\$0.4
Administrative Office of the Courts Fines and Forfeitures	\$203.5	\$0.0	(\$10.5)	\$193.0	(\$10.5)
<b>Total General Fund-State</b>	<b>\$1,567.6</b>	<b>\$0.0</b>	<b>(\$24.1)</b>	<b>\$1,543.5</b>	<b>(\$24.1)</b>

### General Fund-State Cash Estimates - Other Agencies

Comparison of September 2011 Baseline to Alternative Forecasts  
2011-13 Biennium  
(Amounts in Millions)

Source/Agency	Optimistic	Baseline	Pessimistic
Department of Licensing	\$36.4	\$35.4	\$34.3
Insurance Commissioner Insurance Premiums	\$883.1	\$861.5	\$840.0
Liquor Control Board Liquor Profits and Fees	\$86.5	\$84.8	\$83.1
Beer and Wine Surtax	\$163.4	\$160.2	\$157.0
Lottery Commission Lottery Revenue	\$0.0	\$0.0	\$0.0
State Treasurer Interest Earnings	\$7.4	(\$18.8)	(\$28.7)
Office of Financial Management Other Agencies	\$238.8	\$227.4	\$216.0
Administrative Office of the Courts Fines and Forfeitures	\$199.5	\$193.0	\$186.7
<b>Total General Fund-State</b>	<b>\$1,615.1</b>	<b>\$1,543.5</b>	<b>\$1,488.5</b>
Change from Baseline	\$71.5		(\$55.0)

\* Detail may not total due to rounding.

### General Fund-State GAAP Estimates - Other Agencies

Comparison of September 2011 to June 2011 Forecast  
2011-13 Biennium  
(Amounts in Millions)

Source/Agency	June 2011 Baseline	Non-Economic Changes	Forecast Changes	Sept. 2011 Baseline	Total Changes
Department of Licensing	\$36.9	\$0.0	(\$1.6)	\$35.4	(\$1.6)
Insurance Commissioner Insurance Premiums	\$861.5	\$0.0	\$0.0	\$861.5	\$0.0
Liquor Control Board Liquor Profits and Fees	\$84.0	\$0.0	\$0.7	\$84.8	\$0.7
Beer and Wine Surtax	\$155.8	\$0.0	\$4.4	\$160.2	\$4.4
Lottery Commission Lottery Revenue	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
State Treasurer Interest Earnings	\$0.1	\$0.0	(\$19.3)	(\$19.2)	(\$19.3)
Office of Financial Management Other Agencies	\$227.0	\$0.0	\$0.4	\$227.4	\$0.4
Administrative Office of the Courts Fines and Forfeitures	\$203.5	\$0.0	(\$10.5)	\$193.0	(\$10.5)
<b>Total General Fund-State</b>	<b>\$1,569.0</b>	<b>\$0.0</b>	<b>(\$25.8)</b>	<b>\$1,543.2</b>	<b>(\$25.8)</b>

### General Fund-State GAAP Estimates - Other Agencies

Comparison of September 2011 Baseline to Alternative Forecasts  
2011-13 Biennium  
(Amounts in Millions)

Source/Agency	Optimistic	Baseline	Pessimistic
Department of Licensing	\$36.4	\$35.4	\$34.3
Insurance Commissioner Insurance Premiums	\$883.1	\$861.5	\$840.0
Liquor Control Board Liquor Profits and Fees	\$86.5	\$84.8	\$83.1
Beer and Wine Surtax	\$163.4	\$160.2	\$157.0
Lottery Commission Lottery Revenue	\$0.0	\$0.0	\$0.0
State Treasurer Interest Earnings	\$7.0	(\$19.2)	(\$29.0)
Office of Financial Management Other Agencies	\$238.8	\$227.4	\$216.0
Administrative Office of the Courts Fines and Forfeitures	\$199.5	\$193.0	\$186.7
<b>Total General Fund-State</b>	<b>\$1,614.7</b>	<b>\$1,543.2</b>	<b>\$1,488.1</b>
Change from Baseline	\$71.5		(\$55.0)

\* Detail may not total due to rounding.

**2009-11 and 2011-13 Enacted Budget Balance Sheet**  
**General Fund-State (and Budget Stabilization Account)**  
Dollars in Millions

	2009-11	2011-13
<b>RESOURCES</b>		
Beginning Fund Balance	189.3	(109.5)
June 2011 Forecast	28,218.5	31,723.7
September 2011 Update	(24.9)	(1,413.2)
<b>Current Revenue Totals</b>	<b>28,193.6</b>	<b>30,310.5</b>
Transfer to Budget Stabilization Account	(247.4)	(279.8)
Transfer from Budget Stabilization Account	268.3	-
Enacted Fund Transfers	1,326.7	244.6
Prior Period Adjustments	18.7	-
<b>Total Resources (including beginning fund balance)</b>	<b>29,749.2</b>	<b>30,165.8</b>
<b>EXPENDITURES</b>		
<b>2009-11 and 2011-13 Enacted Budgets</b>	<b>29,858.7</b>	<b>31,721.0</b>
<b>RESERVES</b>		
<b>Projected General Fund Ending Balance</b>	<b>(109.5)</b>	<b>(1,555.2)</b>
Budget Stabilization Account Beginning Balance	21.4	0.6
Transfer from General Fund and Interest Earnings	247.5	279.8
Transfer to General Fund	(268.3)	-
<b>Projected Budget Stabilization Account Ending Balance</b>	<b>0.6</b>	<b>280.4</b>
<b>Total Reserves (General Fund plus Budget Stabilization)</b>	<b>(108.9)</b>	<b>(1,274.8)</b>

Source: House and Senate Fiscal Committees and the Office of Financial Management  
September 2011