EMBARGOED

until February 17, 2016 10:00 am PST when it will be published at www.erfc.wa.gov

Revenue Review Meeting

February 17, 2016

WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL

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WASHINGTON STATE

ECONOMIC AND REVENUE FORECAST COUNCIL

AGENDA

REVENUE REVIEW MEETING

February 17, 2016
10:00 a.m.

- Call to order
- Approval meeting minutes from February 3, 2016
- Budget Outlook Adoption
- Economic & Revenue Forecast
- 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

February 3, 2016

John A Cherberg, Conference Room A/B/C

Economic and Revenue Forecast Council

Members Present
Andy Hill, Senate, Chair
Hans Dunshee, House of Representatives
Terry Nealey, House of Representatives
David Schumacher, Office of Financial Management
Vikki Smith, Department of Revenue

Staff
Steve Lerch, Executive Director, ERFC

Call to Order
The meeting was called to order by Senator Hill at 3:10 p.m.

Motion
Representative Nealey made a motion to approve the meeting minutes from the November 18, 2015 meeting, seconded by Representative Dunshee. Council approved the motion at 3:12 p.m.

Motion
Representative Dunshee made a motion to approve the meeting minutes from the January 27, 2016 meeting, seconded by Director Smith. Council approved the motion at 3:13 p.m.

Presentation on the Economic Forecast
Dr. Lerch presented information on the economic forecast. Dr. Lerch summarized the forecast changes and provided background information on both the U.S. and Washington economies. Discussion ensued regarding timing of audit payments, manufacturing and mining employment, and influence of gas prices on consumers.

Adjournment
Meeting adjourned at 3:28 p.m.

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February 17, 2016

To: Economic and Revenue Forecast Council

From: State Budget Outlook Work Group

Subject: Managed Care Expenditure Growth Rates

On January 27, the Economic and Revenue Forecast Council requested that the enacted K-12 expenditures be broken into discrete groupings and for more information on managed care expenditure growth rates and possible alternatives.

K-12

The attached Outlook shows the K-12 expenditures broken into discrete groupings.

Low-income health care

Generally for the purposes of the Outlook, budget expenditures are grouped and increased by the growth rates adopted by the Economic and Revenue Forecast Council (ERFC) in the fall of 2014. Low-income health care expenditures, which include not only managed care rates but caseloads, utilization, and other service related expenditures, are assumed to grow by 3.22 percent per year from FY 2017.

Managed Care

The enacted budget assumed a 2 percent increase in rates in each fiscal year. Starting on January 1, 2016, managed care rates increased between 3 and 22 percent for different population groups as shown below:

- Family - 3.3%
- SCHIP – 19.9%
- Blind Disabled – 13.0%
- COPES – 22.6%
- Newly Eligible – 2.8%

The ERFC questioned if the 3.22 growth rate for the low-income health care expenditures should be applied to the managed care rate increase. If the Council opted to not apply the 3.22 percent growth rate for managed care rates, the Outlook expenditures would be reduced by approximately $13 million in the 2017-19 biennium.

Governor's Proposed Budget January 2016

(Near GF-S & Opportunity Pathways Account, Dollars in Millions)

	FY 2016	FY 2017	2015-17	FY 2018	FY 2019	2017-19
Beginning Balance	1,011	878	1,011	264	(388)	264
Current Revenues						
November 2015 Revenue Forecast	18,627	19,288	37,916	20,229	21,098	41,327
Additional Revenue Based on 4.5% Growth Rate Assumption	-	-	-	-	-	-
	18,627	19,288	37,916	20,229	21,098	41,327
Other Resource Changes						
Transfer to BSA	(184)	(190)	(373)	(199)	(207)	(406)
Extraordinary Revenue to BSA	-	(136)	(136)	-	(248)	(248)
Extraordinary Revenue from BSA to GF-S	-	136	136	-	248	248
Prior Period Adjustments	20	20	41	20	20	41
2015 Session Transfers and Other Resource Changes (Net)	96	82	178	51	51	101
Proposed Fund Transfers	22	20	42	-	-	-
Proposed Tax Changes (K-12 Recruit/Retention)	-	101	101	111	115	226
Total Revenues and Resources (Including Beginning Balance)	**19,593**	**20,200**	**38,915**	**20,477**	**20,689**	**41,554**
Enacted Appropriations	**18,639**	**19,580**	**38,219**	**20,494**	**21,036**	**41,530**
K-12 (excluding 2015 PL K-3 and All day K)	8,564	8,864	17,428	8,992	9,184	18,175
K-3 Class Size	83	268	350	524	590	1,114
All Day K	55	125	180	151	158	309
All Other Apporpriations	9,937	10,324	20,261	10,827	11,105	21,931
	-	-	-	-	-	-
2016 Supplemental Maintenance Level	**250**	**270**	**520**	**223**	**214**	**437**
K-12 Education	(6)	(10)	(16)	(9)	(9)	(18)
Local Effort Assistance	10	13	24	(6)	(22)	(29)
Higher Education	(0)	2	2	2	2	5
Dept of Early Learning	0	0	0	0	0	0
Mental Health/Dev. Disabilities/Long Term Care	6	44	50	44	46	90
IP Overtime and Informal Supports	14	40	53	31	32	63
Corrections/JRA/SCC	13	14	27	11	11	22
Children's/Economic Svcs	3	13	16	13	13	27
Low Income Health Care	9	0	9	0	0	0
Hepatitis C Treatment	(22)	5	(16)	(3)	(3)	(6)
Managed Care Rates	65	133	198	137	142	279
Debt Service	(8)	(8)	(15)	(8)	(8)	(17)
All Other	17	22	40	10	10	19
Fires	149	0	149	-	-	-
2016 Supplemental Policy Level	**(88)**	**173**	**85**	**235**	**239**	**473**
K-12 Education	-	2	2	2	2	3
McCleary Fines	16	-	16	-	-	-
Higher Education	-	1	1	1	1	2
Dept of Early Learning	-	5	5	5	5	10
Child Care CBA	-	14	14	14	14	28
Mental Health/Dev. Disabilities/Long Term Care	(13)	(2)	(15)	(0)	(0)	(0)
State Hospitals Enhancement	17	19	36	19	20	38
Community MH Enhancement	-	13	13	12	13	25
Corrections/JRA/SCC	2	3	5	2	2	4
Children's/Economic Svcs	(7)	(3)	(11)	5	5	11
Low Income Health Care	5	12	17	12	12	25
Healthier WA & Waiver Savings Restoration	20	40	59	41	42	83
All Other	5	7	13	5	5	11
Fires	(170)	(21)	(191)	-	-	-
Moore Settlement	36	-	36	-	-	-
Teacher Recruitment and Retention	-	85	85	117	118	234
Actual/Estimated Reversions	(86)	(86)	(173)	(86)	(86)	(173)
Revised Appropriations	***18,715***	***19,937***	***38,652***	***20,865***	***21,402***	***42,267***
Projected Unrestricted Ending Balance	**878**	**264**	**264**	**(388)**	**(714)**	**(714)**
Budget Stabilization Account						
Beginning Balance	513	520	513	716	929	716
Transfer From GFS	184	190	373	199	207	406
Reversions from BSA expenditures	-	0	0	-	-	-
Extraordinary Revenue to BSA	-	136	136	-	248	248
Extraordinary Revenue from BSA to GF-S	-	(136)	(136)	-	(248)	(248)
Appropriations from BSA	(178)	-	(178)	-	-	-
Interest Earnings	1	6	8	14	28	42
Ending BSA Balance	***520***	***716***	***716***	***929***	***1,164***	***1,164***
Combined Near GF-S Total & BSA Ending Balance	***1,398***	***980***	***980***	***541***	***450***	***450***

** Totals may not tie fiscal year due to rounding.

Governor's Proposed Budget January 2016 (with HCA adjustment)

(Near GF-S & Opportunity Pathways Account, Dollars in Millions)

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Combined Near GF-S Total & BSA Ending Balance	***1,398***	***980***	***980***	***545***	***463***	***463***

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Economic & Revenue Forecast Council
State of Washington

Economic & Revenue Review: February 17, 2016

Executive Summary

United States

- The final U.S. economic forecast is based on the February releases of the Global Insight forecast and the Blue Chip forecast of real GDP growth. Global Insight is now assuming that the Federal Reserve will raise the Federal funds interest rate twice this year (rather than four times, as assumed in November). Both rate changes are assumed to be an increase of 0.25%.

- The economic forecast uses the first estimate of fourth quarter 2015 real GDP growth of 0.7% (SAAR); this gives a 2.4% annual growth rate for 2015. Incorporating the February Blue Chip forecast of real GDP growth, the forecast assumes a 2.1% real GDP growth for 2016, down from the 2.6% rate assumed in the November forecast, and 2.4% real GDP growth for 2017, down from the 2.5% rate assumed in November. Real GDP growth for 2018 and 2019 are unchanged from November at 2.4% and 2.2%.

- Our oil price forecast continues to rely on the futures markets, primarily the Brent (North Sea) oil price but also the West Texas Intermediate (WTI) benchmark. This forecast was based on the Tuesday, February 10, 2016 closing prices for Brent and WTI futures. Futures prices for both have decreased considerably since the November forecast. The price of U.S. benchmark West Texas Intermediate crude oil in 2016 is expected to average $35 per barrel, down from $52 in the November forecast. Oil prices are expected to gradually rise to $50 per barrel by the end of 2021.

- After increasing in December, the two major consumer confidence measures again moved in opposite directions in their most recent readings. The University of Michigan index of consumer sentiment declined 0.6 points in January and another 1.3 points in February, while the Conference Board index of consumer confidence rose 1.8 points to 98.1. The University of Michigan survey data cited the negative impact of stock market volatility and slower economic growth on consumer sentiment; the increase in the Conference Board index was due to a slightly more optimistic view of business conditions and the labor market over the next six months.

- Home sales in December were strong while construction activity was slightly weaker. However, 2015 was a very positive year for residential real estate. December housing starts decreased by 2.5% (SA) compared to November but total starts for 2015 were 10.8% above their 2014 level. Housing units authorized by building permits in December decreased by 3.9% (SA) compared to November; total 2015 building permits were 12.0% above their 2014 level. Existing home sales increased in December by 14.7% (SA) compared to November. The 5.46 million sales of homes and condominiums in 2015 were the highest annual total since 2006. New single family home sales in December were also strong, increasing by 10.8% (SA) above their November level. A total of 501,000 new single family homes were sold in

2015, the highest level since 2007. The seasonally-adjusted Case-Shiller national home price index for November was 0.9% above its October level and 5.3% above its year-ago level.

- Factors inside and outside the state account for the high level of risk to the forecast. A slowing global economy, the negative impact of a stronger dollar on exports, weaker manufacturing activity and volatile stock markets all remain major threats to the U.S. and Washington economies. Lower unemployment rates, rising wages and a stronger housing market suggest potential upside risks to the forecast.

Washington

- We have three months of new Washington employment data since the November forecast was released. Total nonfarm payroll employment rose 23,900 (seasonally adjusted) in November, December, and January, 10,400 more than the 13,500 expected in the November forecast. The variance in job growth was mostly in goods-producing sectors. Construction employment rose 5,400 in the three-month period compared to a 100 job decline expected in the forecast. Manufacturing employment rose 800 compared to an expected decline of 900 jobs. Services-providing sectors added 14,900 net new jobs in November, December, and January compared to the forecast of 12,700 new jobs and government payrolls expanded by 2,900 jobs compared to the forecast of 1,800 jobs.
- We have also incorporated another quarter of benchmark employment data from the Quarterly Census of Employment and Wages (QCEW). The new QCEW data and other revisions lowered the estimated level of total employment in October 2015 by 2,100 jobs. As a result of the downward revision to history and stronger-than-expected growth, the net effect is 8,300 (0.3%) more jobs in January 2016 than expected in the November forecast.
- As in November, we assume a gradual decline in aerospace employment through 2019. We project no change in aerospace employment in the final two years of the forecast. We continue to believe that this downturn will be relatively mild due to the large backlog of orders. The current reductions are due to improvements in productivity rather than reductions in production.
- In December, the Bureau of Economic Analysis released estimates for state personal income through the third quarter of 2015. We have incorporated the new BEA estimates as well as additional Washington Quarterly Census of Employment and Wages (QCEW) and other wage data also through the third quarter. Our current estimate of Washington personal income in the third quarter of 2015 is $372.5 billion which is $1.5 billion (0.4%) higher than assumed in the November forecast.
- Washington housing permits improved to 36,600 units (SAAR) in the fourth quarter of 2015 from 36,200 units in the third quarter. The November forecast projected 36,400 units in the fourth quarter. Single-family permits totaled 21,500 units in the fourth quarter compared to the forecast of 19,600 units but 15,200 multi-family units were permitted compared to the forecast of 16,800 units. The estimates for all four quarters of 2015 have been adjusted to reflect the preliminary annual estimate from the Census Bureau.

- Seattle home prices surged in August, September, October, and November after three months of essentially no change. According to the S&P/Case-Shiller Home Price Indices, seasonally adjusted Seattle area home prices jumped 0.8% in August, 0.9% in September, 1.3% in October, and 1.2% in November following changes of -0.4%, 0.2%, and 0.0% in May, June, and July. Seattle home prices are up 9.7% over the previous November and are 40.8% higher than the November 2011 trough. Seattle area home prices have recovered to just 2.2% below the May 2007 peak.
- Seattle area consumer price inflation remains moderate thanks to declining energy costs. Over the last year, from December 2014 to December 2015, consumer prices in the Seattle area rose 2.2% compared to 0.7% for the U.S. city average. Core prices, which exclude food and energy, were up 2.8% in Seattle compared to 2.1% for the nation. The higher Seattle inflation is largely due to more rapid growth in shelter costs. During the year, shelter costs in Seattle rose 5.0% compared to 3.2% for the nation. However, even with shelter excluded, Seattle inflation was higher at +0.6% compared to -0.6% for the nation.
- The Institute of Supply Management - Western Washington Index (ISM-WW) remained in positive territory for a second consecutive month. The index, which measures conditions in the manufacturing sector, rose to 57.2 in January from 54.5 in December and 50.0 in November (index values above 50 indicate positive growth while values below 50 indicate contraction). The previous three months were all below 50. Prior to August 2015, the index had been above 50 in every month since July 2009. The employment and inventories components improved in January but the production, orders, and deliveries components worsened.
- Washington car and truck sales reached a yet another post-recession high. Seasonally adjusted new vehicle registrations increased 7.1% in January to 340,300 (SAAR). Registrations were up 19.0% over the previous January.
- Fourth quarter exports were down 11.4% from the fourth quarter of 2014. Transportation equipment exports (mostly Boeing planes) declined 6.3% over the year. Exports other than transportation equipment were 18.1% lower than a year ago. The drop likely reflects the negative influence of a stronger dollar and weak economic growth abroad. For the year as a whole, Washington exports fell 4.5% from 2014 to 2015. This was the first annual decline in Washington exports since 2009.
- Overall, our February 2016 forecast for Washington State is lower than the November forecast. Washington employment is expected to grow 2.0% this year, slightly better than the 1.8% expected in the November forecast. The forecast for average annual employment growth from 2017 through 2019 is 1.2% per year, down from 1.4% in the November forecast. We expect employment to grow at an average rate of 1.1% per year in 2020 and 2021. Our forecast for nominal personal income growth this year is 4.2%, down from 4.8% in the November forecast. Our forecast for nominal personal income growth from 2017 through 2019 averages 4.9% per year, also down from 5.3% in the November forecast. We expect personal income to grow at an average rate of 4.7% per year in 2020 and 2021.

Revenue

- Cumulative General Fund-State (GF-S) revenue collections from November 11, 2015 through February 10, 2016 were $39 million (0.8%) higher than forecasted in November.
- The weaker February economic forecast has resulted in a decrease in projected revenue. The main forecast changes driving the decrease were lower state real personal income, lower inflation, and lower building permits.
- Forecasted revenue for the current (2015-17) biennium was lowered by $67 million, a decrease of only 0.2%. Decreases in forecasted retail sales and B&O taxes were partially offset by the $39 million collection surplus, an increase in forecasted real estate excise taxes and increased distributions of Lottery funds to the GF-S due to the recent record Powerball jackpot.
- Forecasted GF-S revenue for the 2015-17 biennium is now $37.137 billion, an increase of 10.3% above that of the 2013-15 biennium.
- Forecasted revenue for the 2017-19 biennium was lowered by $442 million, a decrease of 1.1%. Most of the decrease was is retail sales and B&O taxes. Forecasted property tax receipts also suffered a $24 million decline due to forecasted inflation of less than one percent in the second quarter of 2016, which lowered the allowed 2017 levy and all future levies (the state levy is only allowed to increase by 1% per year or the rate of second quarter inflation, whichever is less).
- Forecasted GF-S revenue for the 2017-19 biennium is now $40.125 billion, 8.0% more than that of the 2015-17 biennium.
- The initial forecast of GF-S revenue for the 2019-21 biennium is $43.441 billion, 8.3% more than that of the 2017-19 biennium.

Revenue Review

Presented to
The Economic & Revenue Forecast Council

Steve Lerch
Executive Director

February 17, 2016
Olympia, Washington

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ECONOMIC AND REVENUE FORECAST COUNCIL

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Summary

- The economic forecast does not expect a recession but does assume slower growth in the U.S. and WA economies compared to November
- The forecast assumes the Federal Reserve will increase interest rates twice this year instead of four times as assumed in November
- Risks to the baseline include slowing economic growth in the U.S. and globally, impact of a stronger dollar on exports, and weaker manufacturing activity
- The GF-S revenue forecast has been decreased by $67 million for the 2015-17 biennium and decreased by $442 million for the 2017-19 biennium

Revenue Review
February 17, 2016

Slide 1

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

New information since February preliminary economic forecast

U.S. GDP growth data and forecast

- 4th quarter 2015 initial estimate = 0.7% (annual rate); preliminary forecast assumed 1.2%, November forecast assumed 2.7%
- 2016 Blue Chip decreased from 2.6% in November, 2.5% in preliminary to 2.1%; 2017 decreased from 2.5% to 2.4%

U.S. Employment data

- 151,000 net new jobs in January; November and December revised down by combined 2,000 jobs

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Slide 2

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

Economic news continues to suggest risks to forecast

Upside:

- Falling unemployment
- Rising wage growth
- Stronger housing starts and home sales (new and existing)
- Falling oil, gasoline prices

Downside:

- Slowing global economy
- Slower U.S. GDP growth
- Negative impact of stronger dollar on exports
- Weaker manufacturing activity

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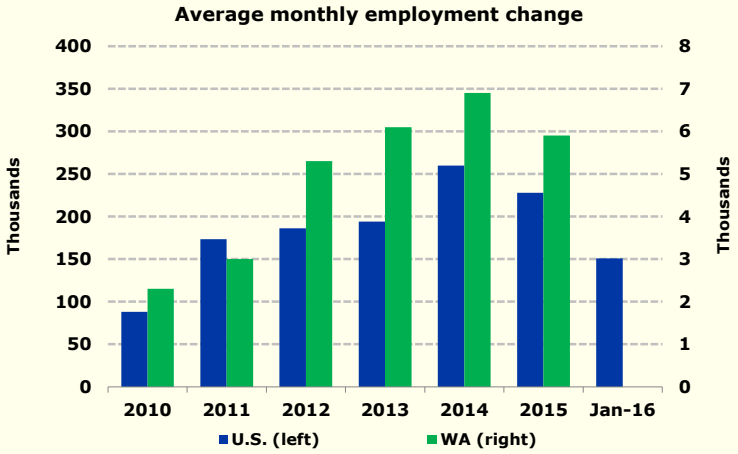
February 17, 2016

Slide 3

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

Job creation slightly weaker in 2015 than 2014; U.S. off to slow start in January



Source: Bureau of Labor Statistics, ERFC; U.S data through Jan. 2016, WA data through Dec. 2015

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February 17, 2016

Slide 4

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

Average U.S. wage growth has turned positive but is not accelerating

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Slide 5

Source: U.S. Bureau of Labor Statistics, data through Dec. 2015

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Number of long-term unemployed workers remains above pre-recession levels

Long-term unemployed as share of all unemployed:

Apr. 2010: 45%

Jan. 2016: 27%

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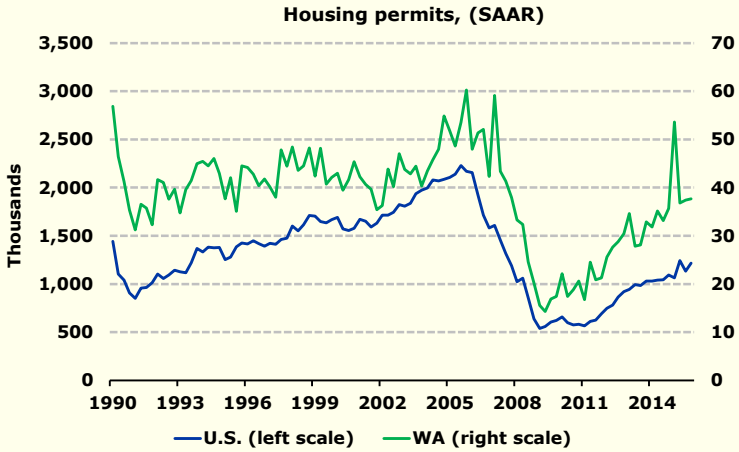
Slide 6

Source: Bureau of Labor Statistics; data through January 2016

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

Both U.S. and WA housing permits trending up since 2011



Source: U.S. Census Bureau, data through 2015 Q4

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Slide 7

Global GDP growth has slowed

Source: International Monetary Fund, Jan. 2016; historic data through 2014

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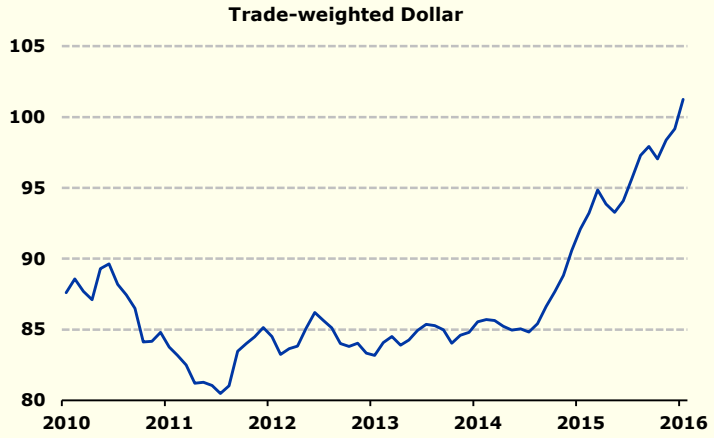
February 17, 2016

Slide 8

The dollar has increased in value relative to currencies of U.S. trading partners



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Slide 9

Source: Federal Reserve; data through January 2016

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Washington exports declined in 2015 for first time since 2009

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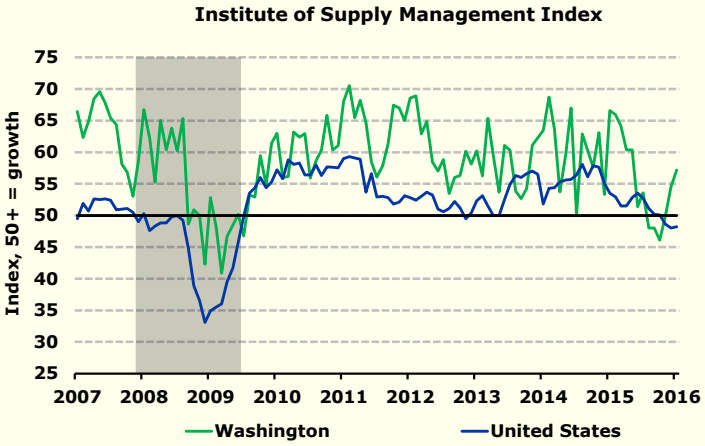
Slide 10

Source: WISERTrade, annual data through 2015

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

Manufacturing: slowing nationally, improving in Washington



Source: ISM; data through January 2016

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

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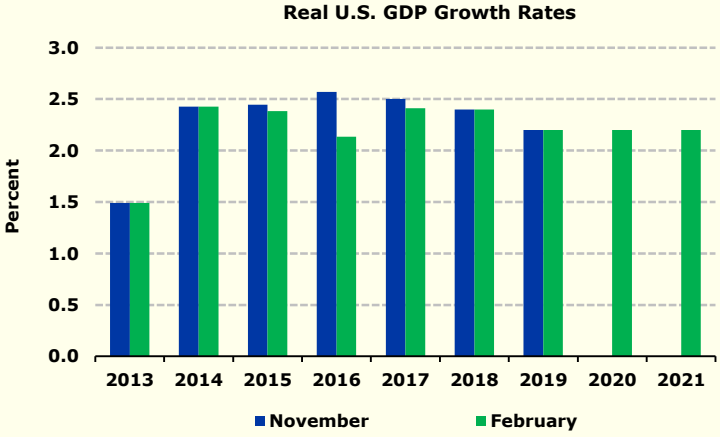
Forecasted real GDP growth is lower in 2015, 2016 & 2017 compared to the November forecast



Source: ERFC February 2016 forecast; historical data through 2015

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

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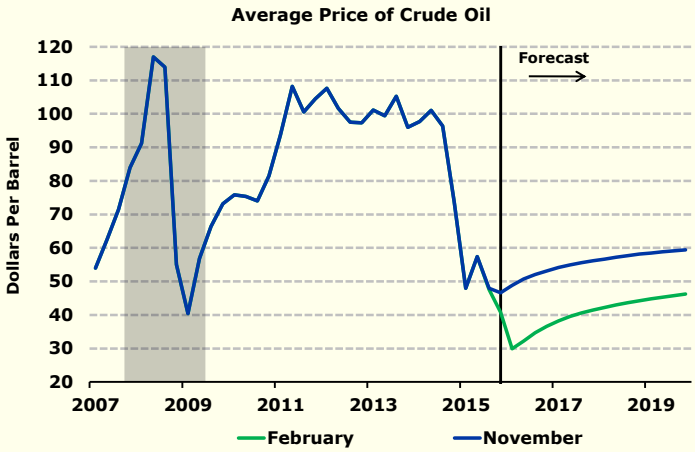
Oil prices have fallen since the November forecast



Source: DOE, ERFC February 2016 forecast; historical data through 2015Q4

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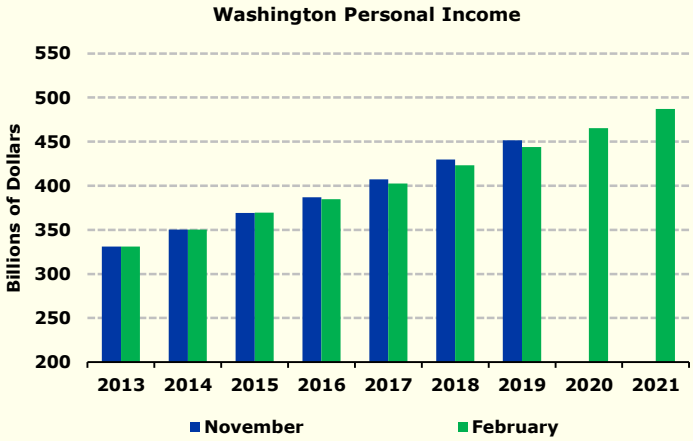
Washington personal income is lower in 2016 – 2019 compared to the November forecast



Source: ERFC February 2016 forecast; historical data through 2015

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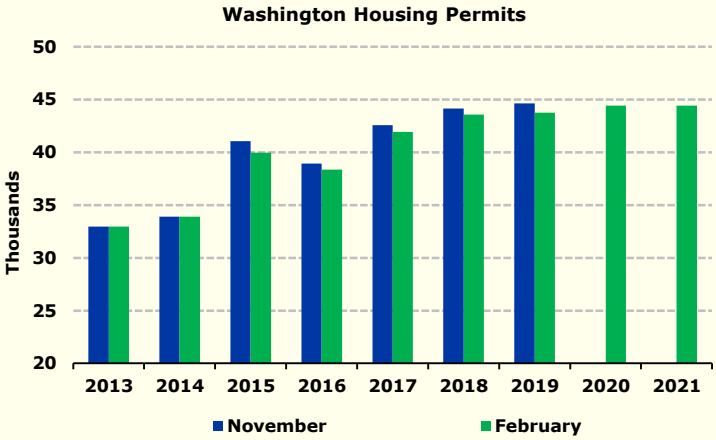
Washington housing permits forecast is slightly lower than in November



Source: ERFC February 2016 forecast; historical data through 2015

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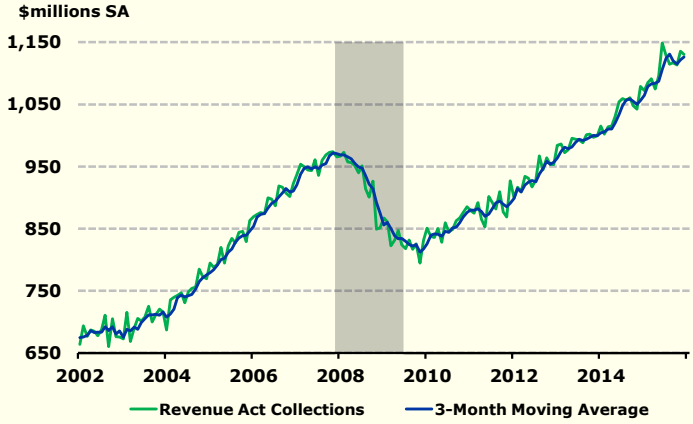
Revenue Act collections close to previous trend after spike in August collections



* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act
Source: DOR and ERFC; monthly data through estimated December 2015 activity

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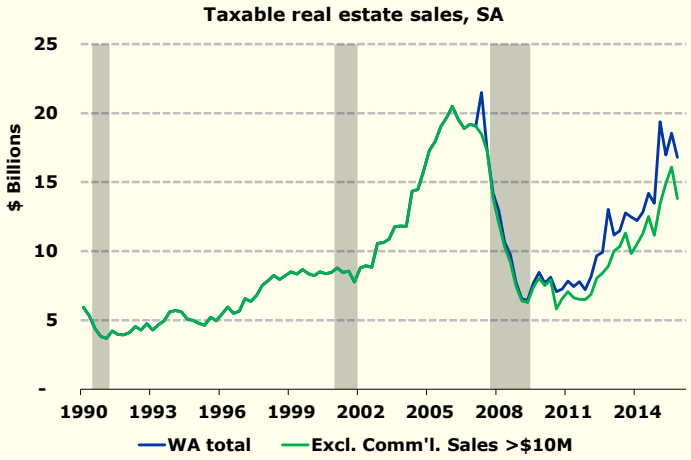
Large commercial property sales have had major impact on REET collections

Residential taxable activity and smaller commercial sales grew rapidly for the first 3 quarters of 2015 but declined in the 4th quarter.

Large commercial property sales are expected to decrease from the elevated levels of the past few years.



Source: ERFC, data through 2015 Q4

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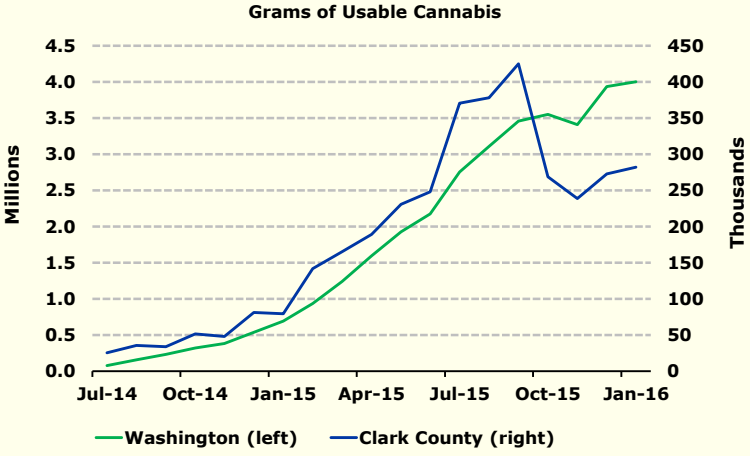
Oregon legalization may have affected Clark County but statewide sales continued to grow

Prior to legal retail sales in Oregon, Clark County accounted for 12% of total sales by quantity.

In January, Clark County accounted for 7% of total sales by quantity.



Source: WA LCB; data through January 2016

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Cannabis excise tax and license fee estimates

Total change from November forecast:

•2015-17
-$0.2 M

•2017-19
-$13.9 M

$Millions	February Forecast		
	2013-15	**2015-17**	**2017-19**
GF-S share of excise tax and license fees	$15	$133	$224
Non-GF	$52	$300	$467
Total	**$67**	**$433**	**$691**

* Detail may not add to total due to rounding
Source: ERFC, LCB, BOTEC Analysis

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WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

Factors reducing revenue forecast

- Lower U.S. and international growth slows purchases of WA goods & services nationally and internationally
- Lower WA personal income forecast reduces consumer spending
- Lower forecast for housing permits reduces construction receipts
- Lower inflation slows price increases, reduces property tax growth
- Lower oil, gas prices reduce receipts from refineries, gas stations

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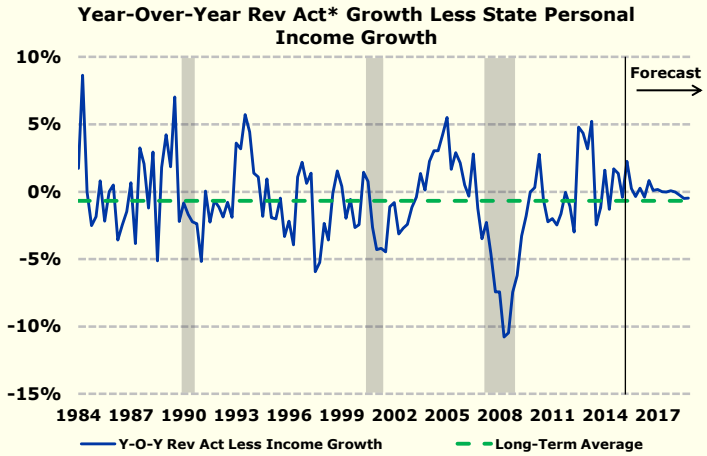
WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

Rev Act growth relative to income is projected to slow



*Adjusted for large one-time payments and refunds and payments under the amnesty program
Source: ERFC; Quarterly revenue data through Q4 2015, February 2016 income estimates

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Forecast changes: General Fund State, 2015-2017 Biennium

November Forecast:

$37,204 million

$Millions	**February Forecast**				
	Collection Experience	Non-economic Change	Forecast Change	Forecast	Total Change*
Dept. of Revenue	$40	$0	($141)	$35,238	($101)
All other agencies	($1)	$0	$35	$1,900	$34
Total GF-S	**$39**	**$0**	**($106)**	**$37,137**	**($67)**

* Detail may not add to total due to rounding

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

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2015-17 Biennium alternative forecasts – cash basis

$Millions	2015-17 Biennium	Difference From the baseline
February 2016 Baseline (55%)	**$37,137**	
February 2016 Alternative Forecasts		
Optimistic (15%)	**$38,705**	**$1,568**
Pessimistic (30%)	**$35,617**	**($1,520)**
Probability Weighted Average	**$36,916**	**($221)**
GCEA*	**$37,082**	**($55)**

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

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WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

Forecast changes: General Fund State, 2017-2019 Biennium

November Forecast:

$40,568 million

$Millions	February Forecast			
	Non-economic Change	Forecast Change	Forecast	Total Change*
Dept. of Revenue	$0	($449)	$37,981	($449)
All other agencies	$0	$7	$2,144	$7
Total GF-S	**$0**	**($442)**	**$40,125**	**($442)**

* Detail may not add to total due to rounding

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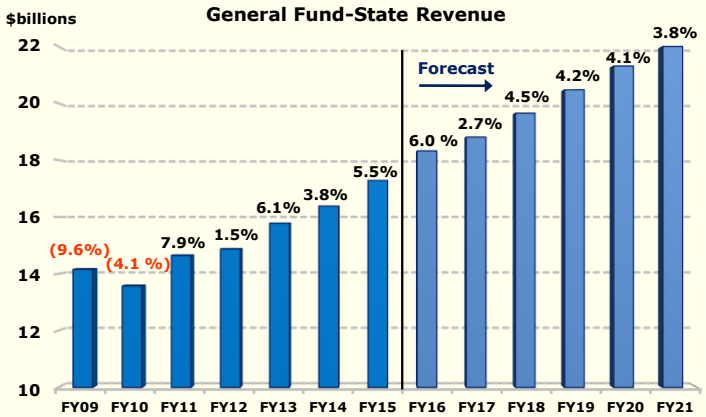
WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

General Fund-State* forecast by fiscal year



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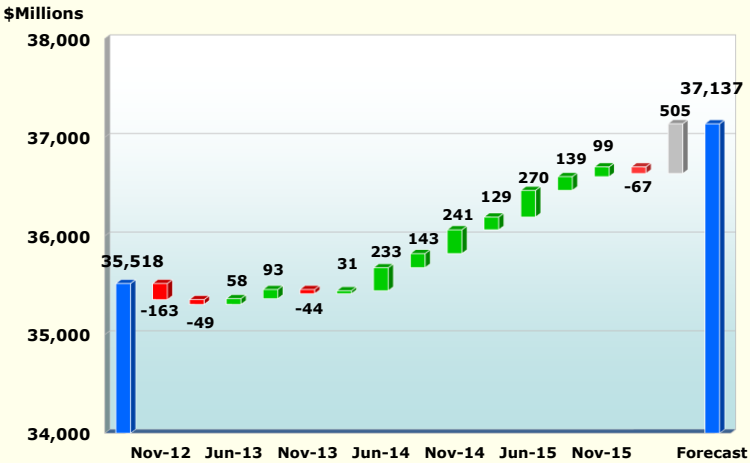
*General Fund-State & Related Funds for FY 07-09, General Fund-State new definition for FY 10-17
Source: ERFC forecast, February 2016

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

GF-S forecast revisions to the 2015-17 biennium



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Source: ERFC September 2012 – February 2016 forecasts
Gray area indicates total noneconomic change

WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

Conclusion

- The economic forecast expects slower growth in U.S. GDP, WA personal income and WA employment than in November
- We continue to expect the WA economy to outperform the U.S. by a small margin
- GF-S revenues are expected to grow 10.3% between the 2013-15 and 2015-17 biennia and 8.0% between the 2015-17 and 2017-19 biennia
- The level of uncertainty in the baseline remains elevated, with downside risks outweighing upside risks

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WASHINGTON STATE ECONOMIC AND REVENUE FORECAST COUNCIL

Questions

Economic & Revenue Forecast Council
1025 E. Union Avenue, Suite 544
Olympia WA 98504-0912

www.erfc.wa.gov
360-534-1560

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Changes to the General Fund-State Cash Forecast-by Agency
Comparison of the February 2016 to the November 2015 Forecast
2015-17 Biennium
Millions of Dollars

	November 2015 Forecast*	Collection Experience	Non-economic Changes**	Forecast Change	February 2016 Forecast	Total Change#
Department of Revenue	$35,338.2	$40.1	$0.0	($140.8)	$35,237.6	($100.7)
All other Agencies	$1,866.2	($1.1)	$0.0	$34.6	$1,899.7	$33.5
Total General Fund-State	**$37,204.4**	**$39.0**	**$0.0**	**($106.2)**	**$37,137.3**	**($67.2)**

*Forecast for GF-S for the 2015-17 biennium adopted November 18, 2015
**Sum of large audit expected audit payments
#Details may not add due to rounding

Total Changes to General Fund-State, Education Legacy Trust Account and Washington Opportunity Pathways Account Forecasts
Comparison of the February 2016 to the November 2015 Forecast
2015-17 Biennium
Cash Forecast; Millions of Dollars

	November 2015 Forecast*	Non-economic Changes	Forecast Change	February 2016 Forecast	Total Change#
General Fund-State	$37,204.4	$0.0	($67.2)	$37,137.3	($67.2)
Education Legacy Trust Account	$445.9	$0.0	($8.5)	$437.4	($8.5)
WA Opportunity Pathways Account	$265.2	$0.0	($2.5)	$262.7	($2.5)
Total	**$37,915.6**	**$0.0**	**($78.2)**	**$37,837.4**	**($78.2)**

*Forecast for GF-S for the 2015-17 biennium adopted November 18, 2015
#Details may not add due to rounding

Total Changes to General Fund-State, Education Legacy Trust Account and Washington Opportunity Pathways Account Forecasts
Comparison of the February 2016 to the November 2015 Forecast
2017-19 Biennium
Cash Forecast; Millions of Dollars

	November 2015 Forecast*	Non-economic Changes	Forecast Change	February 2016 Forecast	Total Change#
General Fund-State	$40,567.5	$0.0	($442.2)	$40,125.3	($442.2)
Education Legacy Trust Account	$505.0	$0.0	$8.5	$513.5	$8.5
WA Opportunity Pathways Account	$254.9	$0.0	($1.9)	$253.0	($1.9)
Total	**$41,327.4**	**$0.0**	**($435.6)**	**$40,891.8**	**($435.6)**

*Forecast for GF-S for the 2017-19 biennium adopted November 18, 2015
#Details may not add due to rounding

Track Record for the 2015-17 General Fund-State Cash Forecast
September 2012 through February 2016
Cash Basis - Millions of Dollars

Date of Forecast	Department of Revenue*	Other Agencies	Subtotal*	Non-Economic Changes**	Total Change	Total General Fund-State Cash Basis
September 2012 [#]	*$34,102*	*$1,416*				*$35,518*
Changes to Forecast						
November 2012	(196)	33	(163)	0	(163)	35,355
March 2013	(92)	44	(49)	0	(49)	35,306
June 2013	56	2	58	(7) [#1]	51	35,357
September 2013	95	(2)	93	249 [#2]	342	35,699
November 2013	(47)	3	(44)	(41) [#3]	(85)	35,615
February 2014	5	26	31	51 [#4]	82	35,697
June 2014	194	40	233	5 [#5]	238	35,935
September 2014	168	(25)	143	0	143	36,078
November 2014	239	3	241	0	241	36,319
February 2015	108	22	129	0	129	36,449
June 2015	201	70	270	39 [#6]	309	36,758
September 2015	80	60	139	193 [#7]	333	37,091
November 2015	107	(8)	99	15 [#8]	113	37,204
February 2016	(101)	33	(67)	0	(67)	37,137
Total change*:**						
From September 2012	816	299	1,115	504	1,619	
Percent change	2.4	21.1	3.1	1.4	4.6	

Track Record for the 2017-19 General Fund-State Cash Forecast
February 2014 through February 2016
Cash Basis - Millions of Dollars

Date of Forecast	Department of Revenue*	Other Agencies	Subtotal*	Non-Economic Changes**	Total Change	Total General Fund-State Cash Basis
February 2014 [##]	*$36,887*	*$1,823*				*$38,710*
Changes to Forecast						
June 2014	265	50	315	(1) [#5]	313	39,023
September 2014	227	(63)	164	0	164	39,188
November 2014	388	26	415	0	415	39,602
February 2015	126	28	154	0	154	39,757
June 2015	257	64	321	122 [#6]	443	40,200
September 2015	4	47	52	286 [#7]	338	40,538
November 2015	35	(5)	30	0	30	40,567
February 2016	(449)	7	(442)	0	(442)	40,125
Total change*:**						
From February 2014	855	154	1,008	407	1,415	
Percent change	2.3	8.4	2.6	1.1	3.7	

* 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 2015-17 biennium.
[##] First official forecast for the 2017-19 biennium.
#1 Transfer of GF-S funds to Child and Family Reinvestment Account
#2 Legislative and budget-driven revenue changes from 2013 second special session
#3 Re-classification of prior period adjustments as non-revenue resources, tobacco settlement arbitration payment to state.
#4 Cannabis excise taxes and fees plus retail sales and B&O taxes on cannabis production and sales resulting from Initiative 502
#5 Sum of legislative and budget-driven revenue changes from the 2014 regular legislative session
#6 Legislative revenue changes from 2015 regular legislative session
#7 Legislative and budget driven revenue changes from 2015 special legislative sessions
#8 Sum of large expected audit payments

Analysis for the Major Sources Based on Taxable Activity
Revenue Act Sources
February 2016 Baseline Forecast

Source/Fiscal Year	Percentage Change Tax Base Adjusted*	Percentage Change Personal Income[1]	Personal Income Elasticity**
I. Retail Sales			
2000	8.0	8.2	1.0
2001	2.8	4.0	0.7
2002	(1.4)	1.6	(0.9)
2003	2.1	3.3	0.6
2004	4.6	4.7	1.0
2005	7.9	(2.6)	(3.0)
2006	10.1	16.8	0.6
2007	7.9	7.9	1.0
2008	2.7	8.1	0.3
2009	(10.4)	(0.1)	91.7
2010	(5.4)	(1.4)	3.9
2011	1.8	4.9	0.4
2012	4.1	6.2	0.7
2013	6.7	4.6	1.5
2014	5.8	3.0	1.9
2015	8.1	6.0	1.3
2016	5.6	4.9	1.1
2017	4.1	4.0	1.0
2018	4.8	5.0	1.0
2019	4.5	5.0	0.9
2020	4.4	4.8	0.9
2021	4.0	4.8	0.8
Average 2000-2015:	3.0	4.4	0.7
II. Business & Occupation			
2000	5.6	8.2	0.7
2001	3.0	4.0	0.7
2002	(3.5)	1.6	(2.3)
2003	(1.6)	3.3	(0.5)
2004	6.8	4.7	1.4
2005	9.7	(2.6)	(3.7)
2006	11.2	16.8	0.7
2007	8.3	7.9	1.0
2008	6.9	8.1	0.8
2009	(8.8)	(0.1)	77.8
2010	(2.9)	(1.4)	2.1
2011	4.6	4.9	0.9
2012	8.0	6.2	1.3
2013	6.5	4.6	1.4
2014	5.4	3.0	1.8
2015	5.4	6.0	0.9
2016	4.2	4.9	0.9
2017	5.2	4.0	1.3
2018	5.4	5.0	1.1
2019	5.2	5.0	1.0
2020	5.0	4.8	1.0
2021	4.5	4.8	1.0
Average 1998-2015:	3.8	4.4	0.9

* Based on constant base taxable data.
** Percent changes in taxable activity divided by percent change in personal income.
[1] Income adjusted to exclude special dividend payment in fy 05.

Analysis for the Major Sources Based on Taxable Activity
Revenue Act Sources
February 2016 Baseline Forecast

Source/Fiscal Year		Percentage Change Tax Base Adjusted*	Percentage Change Personal Income[1]	Personal Income Elasticity**
III. Use				
	2000	14.4	8.2	1.8
	2001	8.4	4.0	2.1
	2002	(5.8)	1.6	(3.7)
	2003	(1.4)	3.3	(0.4)
	2004	5.6	4.7	1.2
	2005	14.0	(2.6)	(5.4)
	2006	2.3	16.8	0.1
	2007	9.0	7.9	1.1
	2008	2.1	8.1	0.3
	2009	(13.0)	(0.1)	115.4
	2010	(5.9)	(1.4)	4.2
	2011	11.4	4.9	2.3
	2012	1.9	6.2	0.3
	2013	7.4	4.6	1.6
	2014	9.7	3.0	3.2
	2015	8.9	6.0	1.5
	2016	1.8	4.9	0.4
	2017	2.4	4.0	0.6
	2018	5.5	5.0	1.1
	2019	4.6	5.0	0.9
	2020	4.2	4.8	0.9
	2021	3.8	4.8	0.8
Average 1998-2015:		3.4	4.4	0.8

Total Revenue Act Receipts
February 2016 Baseline Forecast

Source/Fiscal Year		Percentage Change Tax Receipts#	Percentage Change Personal Income[1]	Personal Income Elasticity##
Revenue Act	2000	7.4	8.2	0.9
	2001	3.9	4.0	1.0
	2002	(1.7)	1.6	(1.1)
	2003	1.0	3.3	0.3
	2004	4.8	4.7	1.0
	2005	7.6	(2.6)	(2.9)
	2006	10.6	16.8	0.6
	2007	8.3	7.9	1.0
	2008	4.2	8.1	0.5
	2009	(9.5)	(0.1)	84.2
	2010	(5.3)	(1.4)	3.8
	2011	8.1	4.9	1.7
	2012	1.3	6.2	0.2
	2013	5.9	4.6	1.3
	2014	4.6	3.0	1.5
	2015	5.6	6.0	0.9
	2016	7.2	4.9	1.5
	2017	3.5	4.0	0.9
	2018	5.0	5.0	1.0
	2019	4.7	5.0	0.9
	2020	4.6	4.8	1.0
	2021	4.3	4.8	0.9
Average 1998-2015:		3.5	4.4	0.8

* 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.
[1] Income adjusted to exclude special dividend payment in fy 05.

General Fund-State, Education Legacy Trust Account and Opportunity Pathways Account
History and Forecast by Fiscal Year (Cash basis)
February 2016 - Millions of Dollars

	General Fund-State (GF-S) (current defintion)		Education Legacy Trust Fund* (ELTA)		Total GF-S plus ELTA		WA Opportunity Pathways Account (OPA)		Total GF-S plus ELTA and OPA	
	Level	**% Chg.**	**Level**	**% Chg.**	**Level**	**% Chg.**	**Level**	**% Chg.**	**Level**	**% Chg.**
History:										
FY 1997	$9,449	5.8%			$9,449	5.8%			$9,449	5.8%
FY 1998	$10,057	6.4%			$10,057	6.4%			$10,057	6.4%
FY 1999	$10,414	3.6%			$10,414	3.6%			$10,414	3.6%
FY 2000	$11,068	6.3%			$11,068	6.3%			$11,068	6.3%
FY 2001	$11,560	4.4%			$11,560	4.4%			$11,560	4.4%
FY 2002	$11,632	0.6%			$11,632	0.6%			$11,632	0.6%
FY 2003	$11,721	0.8%			$11,721	0.8%			$11,721	0.8%
FY 2004	$12,358	5.4%			$12,358	5.4%			$12,358	5.4%
FY 2005	$13,036	5.5%			$13,036	5.5%			$13,036	5.5%
FY 2006	$14,318	9.8%	$115		$14,432	10.7%			$14,432	10.7%
FY 2007	$15,467	8.0%	$266	132.2%	$15,734	9.0%			$15,734	9.0%
FY 2008	$15,659	1.2%	$213	-20.1%	$15,872	0.9%			$15,872	0.9%
FY 2009	$14,158	-9.6%	$224	5.4%	$14,382	-9.4%			$14,382	-9.4%
FY 2010	$13,571	-4.1%	$157	-29.9%	$13,728	-4.6%			$13,728	-4.6%
FY 2011	$14,648	7.9%	$112	-29.0%	$14,759	7.5%	$99		$14,859	8.2%
FY 2012	$14,874	1.5%	$114	2.3%	$14,988	1.6%	$118	19.1%	$15,107	1.7%
FY 2013	$15,783	6.1%	$101	-11.5%	$15,884	6.0%	$126	5.9%	$16,009	6.0%
FY 2014	$16,383	3.8%	$197	95.3%	$16,580	4.4%	$114	-9.4%	$16,694	4.3%
FY 2015	$17,283	5.5%	$207	5.0%	$17,491	5.5%	$120	5.7%	$17,611	5.5%
Forecast:										
FY 2016	$18,326	6.0%	$201	-3.1%	$18,527	5.9%	$133	10.6%	$18,660	6.0%
FY 2017	$18,812	2.7%	$236	17.7%	$19,048	2.8%	$130	-2.5%	$19,178	2.8%
FY 2018	$19,651	4.5%	$243	2.8%	$19,894	4.4%	$127	-2.2%	$20,021	4.4%
FY 2019	$20,474	4.2%	$270	11.3%	$20,745	4.3%	$126	-0.6%	$20,871	4.2%
FY 2020	$21,311	4.1%	$232	-14.3%	$21,543	3.9%	$128	1.5%	$21,671	3.8%
FY 2021	$22,130	3.8%	$237	2.2%	$22,367	3.8%	$128	-0.4%	$22,494	3.8%
Biennial Totals										
05-07 Biennium	**$29,785**	**17.3%**	**$381**	**NA**	**$30,166**	**18.8%**	**$0**	**NA**	**$30,166**	**18.8%**
07-09 Biennium	**$29,817**	**0.1%**	**$437**	**14.8%**	**$30,254**	**0.3%**	**$0**	**NA**	**$30,254**	**0.3%**
09-11 Biennium	**$28,218**	**-5.4%**	**$269**	**-38.5%**	**$28,487**	**-5.8%**	**$99**	**NA**	**$28,586**	**-5.5%**
11-13 Biennium	**$30,657**	**8.6%**	**$215**	**-19.9%**	**$30,872**	**8.4%**	**$244**	**145.2%**	**$31,116**	**8.8%**
13-15 Biennium	**$33,666**	**9.8%**	**$405**	**88.0%**	**$34,071**	**10.4%**	**$234**	**-4.1%**	**$34,305**	**10.2%**
15-17 Biennium	**$37,137**	**10.3%**	**$437**	**8.1%**	**$37,575**	**10.3%**	**$263**	**12.3%**	**$37,837**	**10.3%**
17-19 Biennium	**$40,125**	**8.0%**	**$514**	**17.4%**	**$40,639**	**8.2%**	**$253**	**-3.7%**	**$40,892**	**8.1%**
19-21 Biennium	**$43,441**	**8.3%**	**$469**	**-8.7%**	**$43,910**	**8.0%**	**$256**	**1.0%**	**$44,166**	**8.0%**

*Education legacy trust fund excluding FY 14 and FY 15 lottery fund transfers. Includes pension stabilization fund interest in FY 08 and FY 09.

General Fund-State Cash Estimates - Other Agencies
Comparison of the February 2016 and November 2015 forecasts
2015-17 Biennium
(Amounts in Millions)

Source/Agency	November 2015 Baseline	Non-Economic Changes	Economic Changes	February 2016 Baseline	Total Changes
Department of Licensing Taxes and Fees	$36.6	$0.0	$0.3	$37.0	$0.3
Insurance Commissioner Insurance Premiums	$1,096.9	$0.0	$0.8	$1,097.7	$0.8
Liquor Control Board Taxes, Licenses, and Fees	$343.2	$0.0	$2.9	$346.1	$2.9
Lottery Commission Lottery Revenue	$4.9	$0.0	$27.1	$32.0	$27.1
State Treasurer Interest Earnings	$10.0	$0.0	$2.7	$12.7	$2.7
Office of Financial Management Other Agencies	$207.2	$0.0	$7.2	$214.4	$7.2
Administrative Office of the Courts Fines and Forfeitures	$167.3	$0.0	($7.6)	$159.7	($7.6)
Total General Fund-State	**$1,866.2**	**$0.0**	**$33.5**	**$1,899.7**	**$33.5**

General Fund-State GAAP Estimates - Other Agencies
Comparison of the February 2016 and November 2015 forecasts
2015-17 Biennium
(Amounts in Millions)

Source/Agency	November 2015 Baseline	Non-Economic Changes	Economic Changes	February 2016 Baseline	Total Changes
Department of Licensing Taxes and Fees	$36.6	$0.0	$0.3	$37.0	$0.3
Insurance Commissioner Insurance Premiums	$1,096.9	$0.0	$0.8	$1,097.7	$0.8
Liquor Control Board Taxes, Licenses, and Fees	$343.2	$0.0	$2.9	$346.1	$2.9
Lottery Commission Lottery Revenue	$15.0	$0.0	$27.1	$42.0	$27.1
State Treasurer Interest Earnings	$9.8	$0.0	$2.8	$12.6	$2.8
Office of Financial Management Other Agencies	$207.2	$0.0	$7.2	$214.4	$7.2
Administrative Office of the Courts Fines and Forfeitures	$167.3	$0.0	($7.6)	$159.7	($7.6)
Total General Fund-State	**$1,876.0**	**$0.0**	**$33.6**	**$1,909.6**	**$33.6**

* Detail may not total due to rounding.

General Fund-State Cash Estimates - Other Agencies
Comparison of the February 2016 and November 2015 forecasts
2017-19 Biennium
(Amounts in Millions)

Source/Agency	November 2015 Baseline	Non-Economic Changes	Economic Changes	February 2016 Baseline	Total Changes
Department of Licensing Taxes and Fees	$37.2	$0.0	($0.1)	$37.1	($0.1)
Insurance Commissioner Insurance Premiums	$1,183.3	$0.0	$0.7	$1,184.1	$0.7
Liquor Control Board Taxes, Licenses, and Fees	$470.6	$0.0	($8.4)	$462.2	($8.4)
Lottery Commission Lottery Revenue	$21.2	$0.0	$15.1	$36.3	$15.1
State Treasurer Interest Earnings	$42.2	$0.0	$12.0	$54.2	$12.0
Office of Financial Management Other Agencies	$205.9	$0.0	($2.1)	$203.9	($2.1)
Administrative Office of the Courts Fines and Forfeitures	$176.8	$0.0	($10.6)	$166.2	($10.6)
Total General Fund-State	**$2,137.4**	**$0.0**	**$6.7**	**$2,144.1**	**$6.7**

General Fund-State GAAP Estimates - Other Agencies
Comparison of the February 2016 and November 2015 forecasts
2017-19 Biennium
(Amounts in Millions)

Source/Agency	November 2015 Baseline	Non-Economic Changes	Economic Changes	February 2016 Baseline	Total Changes
Department of Licensing Taxes and Fees	$37.2	$0.0	($0.1)	$37.1	($0.1)
Insurance Commissioner Insurance Premiums	$1,183.3	$0.0	$0.7	$1,184.1	$0.7
Liquor Control Board Taxes, Licenses, and Fees	$470.6	$0.0	($8.4)	$462.2	($8.4)
Lottery Commission Lottery Revenue	$23.7	$0.0	$13.6	$37.3	$13.6
State Treasurer Interest Earnings	$43.8	$0.0	$12.5	$56.3	$12.5
Office of Financial Management Other Agencies	$205.9	$0.0	($2.1)	$203.9	($2.1)
Administrative Office of the Courts Fines and Forfeitures	$176.8	$0.0	($10.6)	$166.2	($10.6)
Total General Fund-State	**$2,141.5**	**$0.0**	**$5.7**	**$2,147.2**	**$5.7**

* Detail may not total due to rounding.

Lottery transfers by fund
(cash basis, millions of dollars)

	Lottery: Total Transfers:*	General Fund	Mariners Stadium	Exhibition Center & Stadium	Student Achievement Account	School Construction Account	Problem Gambling Account	Economic Development Account	Opportunity Pathways Account	Veteran's VIP Account	Education Legacy Trust Account	Gambling Revolving Account
2004	113.3	0.0	4.0	7.3	76.5	25.5			0.0	0.0	0.0	0.0
2005	112.2	4.3	4.2	7.6	0.0	96.2			0.0	0.0	0.0	0.0
2003-05 Biennium	225.6	4.3	8.2	14.9	76.5	121.7			0.0	0.0	0.0	0.0
2006	125.1	1.9	4.4	7.9	0.0	107.8	0.2	3.0	0.0	0.0	0.0	0.0
2007	120.6	7.6	4.5	8.2	0.0	97.0	0.3	3.0	0.0	0.0	0.0	0.0
2005-07 Biennium	245.7	9.5	8.9	16.1	0.0	204.8	0.4	6.0	0.0	0.0	0.0	0.0
2008	124.1	0.0	4.7	8.5	0.0	106.9	0.3	3.7	0.0	0.0	0.0	0.0
2009	122.2	11.1	4.9	8.9	0.0	94.4	0.2	2.7	0.0	0.0	0.0	0.0
2007-09 Biennium	246.4	11.1	9.6	17.4	0.0	201.3	0.5	6.4	0.0	0.0	0.0	0.0
2010	126.4	12.9	5.1	9.2	0.0	95.6	0.3	3.3	0.0	0.0	0.0	0.0
2011	137.2	8.6	5.3	9.6	0.0	9.4	0.3	4.5	99.5	0.0	0.0	0.0
2009-11 Biennium	263.6	21.5	10.4	18.8	0.0	105.0	0.5	7.9	99.5	0.0	0.0	0.0
2012	135.1	0.0	2.7	10.0	0.0	0.0	0.3	3.3	118.5	0.2	0.0	0.0
2013	139.7	0.0	0.0	10.4	0.0	0.0	0.3	3.5	125.5	0.0	0.0	0.0
2011-13 Biennium	274.8	0.0	2.7	20.4	0.0	0.0	0.6	6.9	244.0	0.2	0.0	0.0
2014	147.9	9.3	0.0	10.8	0.0	0.0	0.3	3.7	113.7	0.0	10.1	0.0
2015	143.1	0.6	0.0	11.2	0.0	0.0	0.3	4.7	120.2	0.0	6.1	0.0
2013-15 Biennium	291.0	9.9	0.0	22.0	0.0	0.0	0.6	8.4	233.9	0.0	16.1	0.0
2016	166.2	16.7	0.0	11.7	0.0	0.0	0.4	4.4	133.0	0.0	0.0	0.0
2017	161.8	15.3	0.0	12.2	0.0	0.0	0.3	3.8	129.7	0.0	0.0	0.5
2015-17 Biennium	328.0	32.0	0.0	23.8	0.0	0.0	0.7	8.2	262.7	0.0	0.0	0.5
2018	160.9	16.7	0.0	12.6	0.0	0.0	0.3	3.8	126.9	0.0	0.0	0.5
2019	163.5	19.6	0.0	13.1	0.0	0.0	0.3	3.8	126.1	0.0	0.0	0.5
2017-19 Biennium	324.4	36.3	0.0	25.8	0.0	0.0	0.7	7.6	253.0	0.0	0.0	1.0
2020	168.1	21.7	0.0	13.7	0.0	0.0	0.3	3.8	128.1	0.0	0.0	0.5
2021	169.1	22.7	0.0	14.2	0.0	0.0	0.3	3.8	127.6	0.0	0.0	0.5
2019-21 Biennium	337.2	44.4	0.0	27.9	0.0	0.0	0.7	7.6	255.6	0.0	0.0	1.0

* Total Transfers are equal to total sales less total expenses (prizes, cost of sales, administration etc.)

Source: Lottery Commission, ERFC

U.S. Forecast Comparison

	2015Q4	2016Q1	2016Q2	2016Q3	2015	2016	2017	2018	2019	2020	2021
Real GDP (Billions of 2009 Dollars)											
February Forecast	16,442	16,532	16,638	16,744	16,342	16,691	17,093	17,503	17,889	18,282	18,684
Percent Change	*0.7%*	*2.2%*	*2.6%*	*2.6%*	*2.4%*	*2.1%*	*2.4%*	*2.4%*	*2.2%*	*2.2%*	*2.2%*
November Forecast	16,503	16,612	16,722	16,826	16,352	16,772	17,191	17,604	17,991	---	---
Percent Change	*2.7%*	*2.7%*	*2.7%*	*2.5%*	*2.4%*	*2.6%*	*2.5%*	*2.4%*	*2.2%*	---	---
Real Consumption (Billions of 2009 Dollars)											
February Forecast	11,323	11,395	11,472	11,549	11,211	11,510	11,803	12,086	12,364	12,649	12,927
Percent Change	*2.2%*	*2.6%*	*2.7%*	*2.7%*	*3.1%*	*2.7%*	*2.5%*	*2.4%*	*2.3%*	*2.3%*	*2.2%*
November Forecast	11,355	11,436	11,515	11,587	11,221	11,548	11,837	12,121	12,400	---	---
Percent Change	*3.1%*	*2.9%*	*2.8%*	*2.5%*	*3.2%*	*2.9%*	*2.5%*	*2.4%*	*2.3%*	---	---
Implicit Price Deflator, PCE (2009=1.00)											
February Forecast	1.098	1.098	1.100	1.103	1.094	1.102	1.120	1.141	1.161	1.181	1.202
Percent Change	*0.1%*	*0.0%*	*0.7%*	*1.2%*	*0.3%*	*0.7%*	*1.6%*	*1.8%*	*1.8%*	*1.7%*	*1.7%*
November Forecast	1.100	1.102	1.107	1.112	1.095	1.110	1.131	1.152	1.171	---	---
Percent Change	*0.9%*	*0.8%*	*1.7%*	*1.9%*	*0.3%*	*1.4%*	*1.9%*	*1.8%*	*1.7%*	---	---
Real Personal Income (Billions of 2009 Dollars)											
February Forecast	14,215	14,345	14,404	14,487	14,034	14,450	14,834	15,243	15,655	16,054	16,448
Percent Change	*3.5%*	*3.7%*	*1.6%*	*2.3%*	*4.2%*	*3.0%*	*2.7%*	*2.8%*	*2.7%*	*2.5%*	*2.5%*
November Forecast	14,137	14,264	14,348	14,441	13,984	14,394	14,813	15,266	15,700	---	---
Percent Change	*3.2%*	*3.6%*	*2.4%*	*2.6%*	*3.8%*	*2.9%*	*2.9%*	*3.1%*	*2.8%*	---	---
Nonfarm Payroll Employment (Millions)											
February Forecast	142.9	143.5	144.1	144.5	141.8	144.3	145.8	147.0	148.2	149.3	150.3
Percent Change	*2.0%*	*1.8%*	*1.7%*	*1.2%*	*2.1%*	*1.7%*	*1.0%*	*0.9%*	*0.8%*	*0.8%*	*0.6%*
November Forecast	142.8	143.5	144.0	144.4	141.9	144.2	145.9	147.4	148.5	---	---
Percent Change	*1.6%*	*1.8%*	*1.5%*	*1.1%*	*2.1%*	*1.6%*	*1.2%*	*1.1%*	*0.8%*	---	---
Unemployment Rate (Percent of Labor Force)											
February Forecast	5.0	4.8	4.8	4.8	5.3	4.8	4.8	4.7	4.8	4.8	4.9
November Forecast	5.0	5.0	4.9	4.9	5.3	4.9	4.9	4.9	5.0	---	---
30 Year Fixed Mortgage Rate (Percent, average)											
February Forecast	3.9	3.9	4.0	4.1	3.9	4.1	4.4	5.0	5.6	5.6	5.6
November Forecast	3.9	4.2	4.4	4.5	3.9	4.4	4.7	5.2	5.7	---	---
3 Month T-Bill Rate (Percent, average)											
February Forecast	0.1	0.3	0.5	0.6	0.1	0.5	1.4	2.3	2.8	2.8	2.8
November Forecast	0.1	0.5	0.7	0.9	0.1	0.8	1.8	2.8	3.0	---	---

Washington Forecast Comparison

	2015Q4	2016Q1	2016Q2	2016Q3	2015	2016	2017	2018	2019	2020	2021
Real Personal Income (Billions of 2009 Dollars)											
February Forecast	341.4	347.4	348.4	350.2	337.7	349.2	359.4	370.8	382.3	393.8	405.4
Percent Change	*2.3%*	*7.2%*	*1.1%*	*2.1%*	*5.2%*	*3.4%*	*2.9%*	*3.2%*	*3.1%*	*3.0%*	*2.9%*
November Forecast	340.8	346.0	347.7	349.7	337.2	348.6	360.2	373.0	385.5	---	---
Percent Change	*3.2%*	*6.2%*	*2.0%*	*2.4%*	*5.0%*	*3.4%*	*3.3%*	*3.6%*	*3.3%*	---	---
Personal Income (Billions of Dollars)											
February Forecast	374.8	381.4	383.1	386.2	369.6	385.0	402.7	423.1	444.0	465.3	487.2
Percent Change	*2.4%*	*7.2%*	*1.8%*	*3.3%*	*5.5%*	*4.2%*	*4.6%*	*5.1%*	*5.0%*	*4.8%*	*4.7%*
November Forecast	374.7	381.2	384.7	388.8	369.1	386.8	407.4	429.6	451.6	---	---
Percent Change	*4.1%*	*7.1%*	*3.7%*	*4.3%*	*5.4%*	*4.8%*	*5.3%*	*5.5%*	*5.1%*	---	---
Nonfarm Payroll Employment (Thousands)											
February Forecast	3184	3205	3218	3227	3158	3222	3262	3301	3340	3380	3415
Percent Change	*2.0%*	*2.7%*	*1.6%*	*1.2%*	*2.8%*	*2.0%*	*1.2%*	*1.2%*	*1.2%*	*1.2%*	*1.1%*
November Forecast	3183	3197	3209	3219	3159	3214	3263	3312	3353	---	---
Percent Change	*1.7%*	*1.7%*	*1.6%*	*1.3%*	*2.8%*	*1.8%*	*1.5%*	*1.5%*	*1.3%*	---	---
Unemployment Rate (Percent of Labor Force)											
February Forecast	5.3	5.4	5.4	5.3	5.5	5.3	5.2	5.1	5.1	5.1	5.1
November Forecast	5.2	5.2	5.2	5.2	5.5	5.2	5.2	5.2	5.3	---	---
Manufacturing Employment (Thousands)											
February Forecast	287.7	288.2	287.5	286.5	289.1	287.3	287.7	288.9	290.5	292.1	295.0
Percent Change	*-2.8%*	*0.6%*	*-0.9%*	*-1.4%*	*0.3%*	*-0.6%*	*0.1%*	*0.4%*	*0.5%*	*0.6%*	*1.0%*
November Forecast	287.9	286.9	286.6	286.5	289.2	287.0	288.5	289.8	291.2	---	---
Percent Change	*-2.6%*	*-1.3%*	*-0.5%*	*0.0%*	*0.4%*	*-0.8%*	*0.5%*	*0.5%*	*0.5%*	---	---
Construction Employment (Thousands)											
February Forecast	173.5	177.0	176.5	176.8	172.5	177.0	181.6	189.4	195.2	200.4	203.5
Percent Change	*4.1%*	*8.4%*	*-1.2%*	*0.8%*	*8.3%*	*2.6%*	*2.6%*	*4.3%*	*3.1%*	*2.6%*	*1.6%*
November Forecast	173.5	173.5	173.3	174.3	172.8	174.2	181.5	190.1	195.5	---	---
Percent Change	*1.4%*	*0.0%*	*-0.4%*	*2.4%*	*8.5%*	*0.8%*	*4.2%*	*4.8%*	*2.9%*	---	---
Housing Permits (Thousands)											
February Forecast	36.6	37.4	38.0	38.3	40.0	38.3	41.9	43.6	43.7	44.4	44.4
Percent Change	*4.4%*	*8.7%*	*6.8%*	*3.2%*	*17.9%*	*-4.1%*	*9.4%*	*3.9%*	*0.4%*	*1.5%*	*0.0%*
November Forecast	36.4	37.4	38.5	39.4	41.0	38.9	42.6	44.1	44.6	---	---
Percent Change	*-10.2%*	*11.6%*	*12.1%*	*10.3%*	*21.1%*	*-5.2%*	*9.4%*	*3.7%*	*1.1%*	---	---

Lottery transfers by fund
(gaap basis, millions of dollars)

	Lottery: Total Transfers:*	General Fund	Mariners Stadium	Exhibition Center & Stadium	Student Achievement Account	School Construction Account	Problem Gambling Account	Economic Development Account	Opportunity Pathways Account	Veteran's VIP Account	Education Legacy Trust Account	Gambling Revolving Account
2004	113.3	0.0	4.0	7.3	76.5	25.5			0.0	0.0	0.0	0.0
2005	112.2	4.3	4.2	7.6	0.0	96.2			0.0	0.0	0.0	0.0
2003-05 Biennium	225.6	4.3	8.2	14.9	76.5	121.7			0.0	0.0	0.0	0.0
2006	125.1	1.9	4.4	7.9	0.0	107.8	0.2	3.0	0.0	0.0	0.0	0.0
2007	120.6	7.6	4.5	8.2	0.0	97.0	0.3	3.0	0.0	0.0	0.0	0.0
2005-07 Biennium	245.7	9.5	8.9	16.1	0.0	204.8	0.4	6.0	0.0	0.0	0.0	0.0
2008	124.1	0.0	4.7	8.5	0.0	106.9	0.3	3.7	0.0	0.0	0.0	0.0
2009	122.2	11.1	4.9	8.9	0.0	94.4	0.2	2.7	0.0	0.0	0.0	0.0
2007-09 Biennium	246.4	11.1	9.6	17.4	0.0	201.3	0.5	6.4	0.0	0.0	0.0	0.0
2010	129.4	12.9	5.1	9.2	0.0	97.4	0.3	4.6	0.0	0.0	0.0	0.0
2011	138.2	7.0	5.3	9.6	0.0	0.0	0.3	3.7	112.3	0.0	0.0	0.0
2009-11 Biennium	267.6	19.9	10.4	18.8	0.0	97.4	0.5	8.3	112.3	0.0	0.0	0.0
2012	138.0	0.0	2.7	10.0	0.0	0.0	0.3	3.0	121.8	0.2	0.0	0.0
2013	139.2	9.3	0.0	10.4	0.0	0.0	0.3	3.6	115.5	0.0	0.0	0.0
2011-13 Biennium	277.2	9.3	2.7	20.4	0.0	0.0	0.6	6.6	237.4	0.2	0.0	0.0
2014	147.7	0.6	0.0	10.8	0.0	0.0	0.3	4.0	121.9	0.0	10.1	0.0
2015	141.3	0.0	0.0	11.2	0.0	0.0	0.3	4.7	119.0	0.0	6.1	0.0
2013-15 Biennium	288.9	0.6	0.0	22.0	0.0	0.0	0.6	8.7	240.9	0.0	16.1	0.0
2016	172.1	27.0	0.0	11.7	0.0	0.0	0.3	3.5	129.1	0.0	0.0	0.5
2017	158.6	15.0	0.0	12.2	0.0	0.0	0.3	3.8	126.7	0.0	0.0	0.5
2015-17 Biennium	330.7	42.0	0.0	23.8	0.0	0.0	0.7	7.3	255.8	0.0	0.0	1.0
2018	161.1	17.7	0.0	12.6	0.0	0.0	0.3	3.8	126.1	0.0	0.0	0.5
2019	163.5	19.6	0.0	13.1	0.0	0.0	0.3	3.8	126.1	0.0	0.0	0.5
2017-19 Biennium	324.6	37.3	0.0	25.8	0.0	0.0	0.7	7.6	252.2	0.0	0.0	1.0
2020	166.2	21.7	0.0	13.7	0.0	0.0	0.3	3.8	126.2	0.0	0.0	0.5
2021	168.4	22.7	0.0	14.2	0.0	0.0	0.3	3.8	126.8	0.0	0.0	0.5
2019-21 Biennium	334.6	44.4	0.0	27.9	0.0	0.0	0.7	7.6	253.0	0.0	0.0	1.0

* Total Transfers are equal to total sales less total expenses (prizes, cost of sales, administration etc.)

Source: Lottery Commission, ERFC

February 2016
Alternative Forecasts
Millions of Dollars

Cash Basis

2015-17 Biennium

	2015-17 Biennium	Difference From the February 2016 Baseline
February 2016 Baseline (55%)	$37,137	
February 2016 Alternative Forecasts		
Optimistic (15%)	$38,705	$1,568
Pessimistic (30%)	$35,617	($1,520)
Probability Weighted Average	$36,916	($221)
GCEA*	$37,082	($55)

2017-19 Biennium

	2017-19 Biennium	Difference From the February 2016 Baseline
February 2016 Baseline (55%)	$40,125	
February 2016 Alternative Forecasts		
Optimistic (15%)	$43,826	$3,701
Pessimistic (30%)	$36,500	($3,625)
Probability Weighted Average	$39,593	($533)
GCEA*	$39,924	($202)

* Based on the Governor's Council of Economic Advisors Assumptions.

Governor's Council of Economic Advisor's Forecast **Calendar Years**

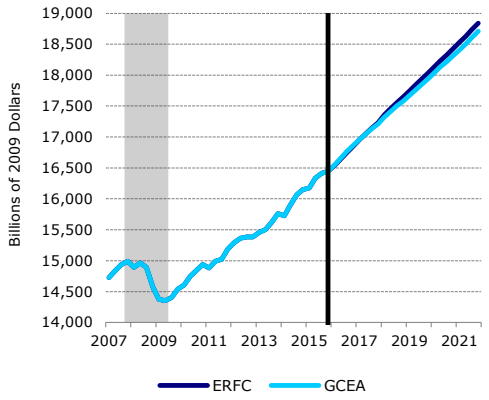
	2016	2017	2018	2019	2020	2021
U.S.						
Real GDP						
Growth						
ERFC	2.1	2.4	2.4	2.2	2.2	2.2
GCEA Average	2.2	2.3	2.2	2.0	2.1	2.1
Real Consumption						
Growth						
ERFC	2.7	2.5	2.4	2.3	2.3	2.2
GCEA Average	2.5	2.4	2.3	2.2	2.2	2.2
Implicit Price Deflator, PCE						
Growth						
ERFC	0.7	1.6	1.8	1.8	1.7	1.7
GCEA Average	0.9	1.5	1.7	1.8	1.8	1.9
Mortgage Rate						
Percent						
ERFC	4.1	4.4	5.0	5.6	5.6	5.6
GCEA Average	4.2	4.5	4.8	4.8	4.9	5.0
Oil Price (Brent)						
Dollars per barrel						
ERFC	35.2	41.9	45.7	48.2	50.3	51.7
GCEA Average	38.5	43.2	46.5	49.3	51.9	52.9

What will the top of the target range for Fed funds be at the end of 2016? 0.67%

Washington State						
Real Personal Income						
Growth						
ERFC	3.4	2.9	3.2	3.1	3.0	2.9
GCEA Average	2.9	2.7	2.9	2.9	2.7	2.8
Wage and Salary Employment						
Growth						
ERFC	2.0	1.2	1.2	1.2	1.2	1.1
GCEA Average	1.7	1.3	1.2	1.2	1.1	1.1
Manufacturing Employment						
Growth						
ERFC	-0.6	0.1	0.4	0.5	0.6	1.0
GCEA Average	-0.7	0.0	0.1	0.1	0.1	0.1
Construction Employment						
Growth						
ERFC	2.6	2.6	4.3	3.1	2.6	1.6
GCEA Average	1.6	2.6	2.3	2.3	2.0	1.3
Housing Permits						
Thousands of authorized units						
ERFC	38.3	41.9	43.6	43.7	44.4	44.4
GCEA Average	39.2	41.4	41.7	41.5	41.9	42.0
Washington Average Annual Wage						
Growth						
ERFC	2.8	3.2	3.3	3.3	3.3	3.5
GCEA Average	3.0	3.1	3.2	3.1	3.1	3.2

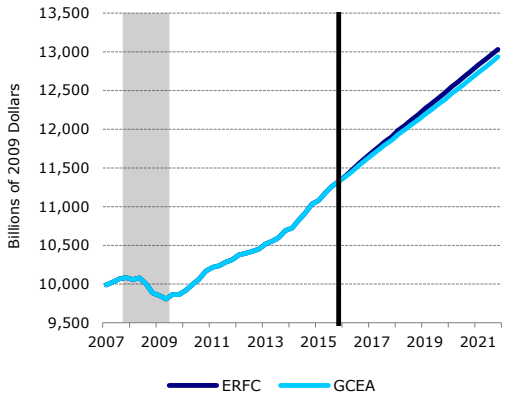
U.S. Forecast Comparison

Real GDP



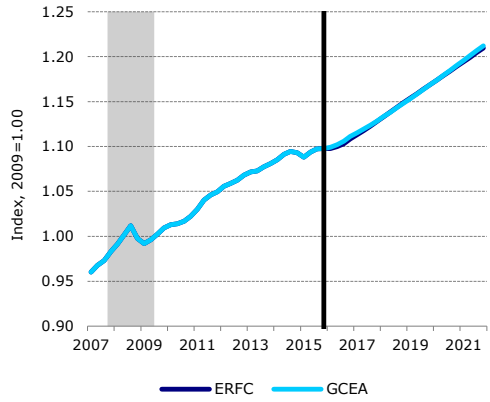
Source: BEA, ERFC, GCEA; data through 2015 Q4

Real Consumption



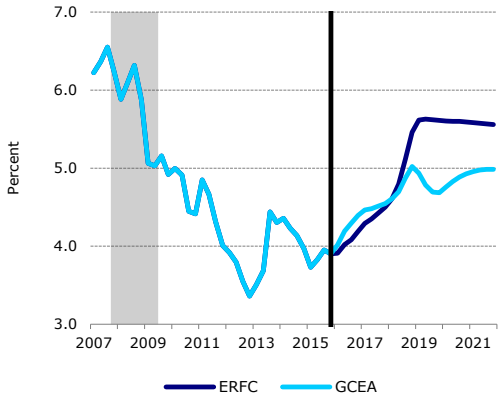
Source: BEA, ERFC, GCEA; data through 2015 Q4

Implicit Price Deflator, PCE



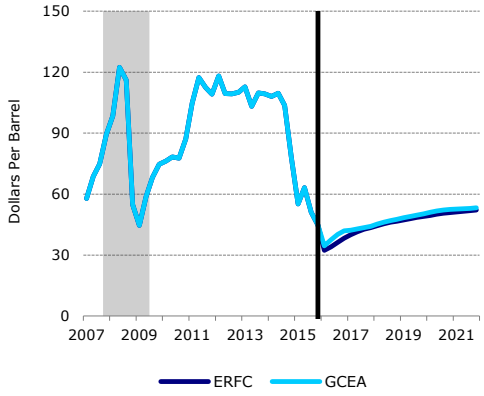
Source: BEA, ERFC, GCEA; data through 2015 Q4

Mortgage Rate



Source: Freddie Mac, ERFC, GCEA; data through 2015 Q4

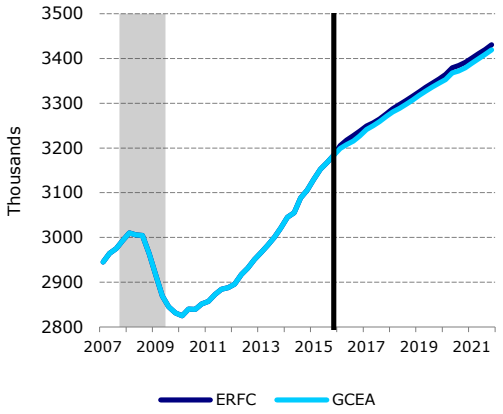
Brent Oil Price



Source: EIA, ERFC, GCEA; data through 2015 Q4

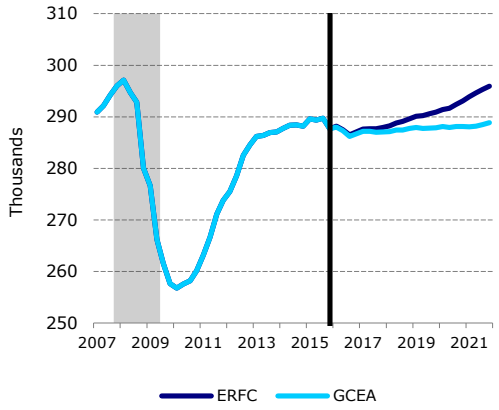
Washington Forecast Comparison

Nonfarm Payroll Employment



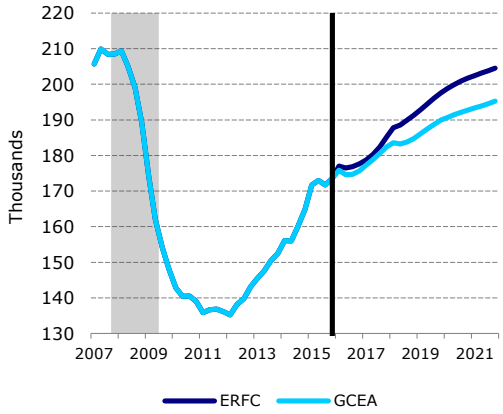
Source: ESD, ERFC, GCEA; data through 2015 Q4

Manufacturing Employment



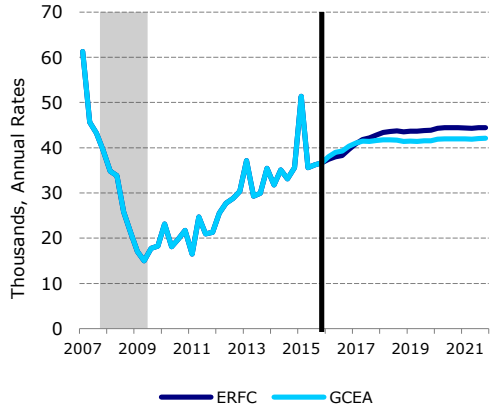
Source: ESD, ERFC, GCEA; data through 2015 Q4

Construction Employment



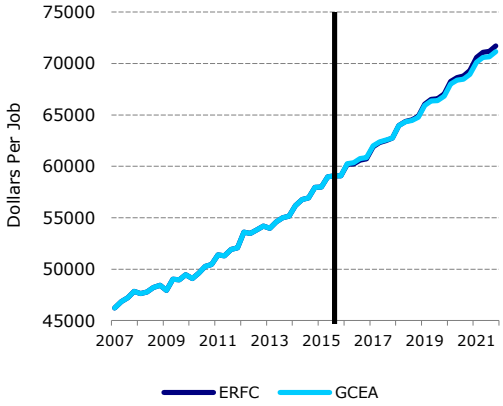
Source: ESD, ERFC, GCEA; data through 2015 Q4

Housing Units Authorized



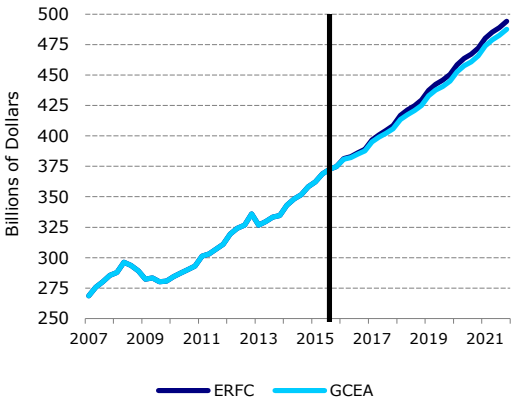
Source: Census, ERFC, GCEA; data through 2015 Q4

Average Annual Wage



Source: BEA, ERFC, GCEA; data through 2015 Q3

Personal Income



Source: BEA, ERFC, GCEA; data through 2015 Q3

2015-17 Enacted Budget Balance Sheet

General Fund-State (GFS), Education Legacy Trust Account (ELTA), Opportunity Pathways Account (OPA) and Budget Stabilization Account

Dollars in Millions

	2015-17		
	GFS	ELTA and OPA	TOTAL
RESOURCES			
Beginning Fund Balance	**990.9**	**20.3**	**1,011.2**
November 2015 Revenue Forecast	37,204.4	711.2	37,915.6
February 2016 Change	(67.2)	(11.0)	(78.2)
Current Revenue Totals	**37,137.3**	**700.2**	**37,837.4**
Transfer to Budget Stabilization Account (BSA)	(373.3)		(373.3)
Previously Enacted Fund Transfers	178.0	-	178.0
Prior Period Adjustments	40.8		40.8
2015 Legislative Sessions			
Extraordinary Revenue Growth transfer to BSA	(135.9)		(135.9)
Transfer back from BSA	135.9		135.9
Total Resources (including beginning fund balance)	**37,973.7**	**720.5**	**38,694.2**
EXPENDITURES			
Enacted Budgets			
Enacted 2015-17 Budget	37,507.3	711.9	38,219.2
Actual and Assumed Reversions	(172.5)		(172.5)
Total Expenditures	**37,334.8**	**711.9**	**38,046.7**
RESERVES			
Projected Ending GFS, ELTA & OPA Balances	**638.9**	**8.6**	**647.5**
Budget Stabilization Account			
Budget Stabilization Account Beginning Balance	513.1		513.1
Transfer from General Fund and Interest Earnings	515.3		515.3
Transfer to General Fund	(135.9)		(135.9)
Projected Budget Stabilization Account Ending Balance	**892.5**		**892.5**
Total Reserves (Including Budget Stabilization)	**1,531.4**	**8.6**	**1,539.9**