

# **2002 Budget Outlook**

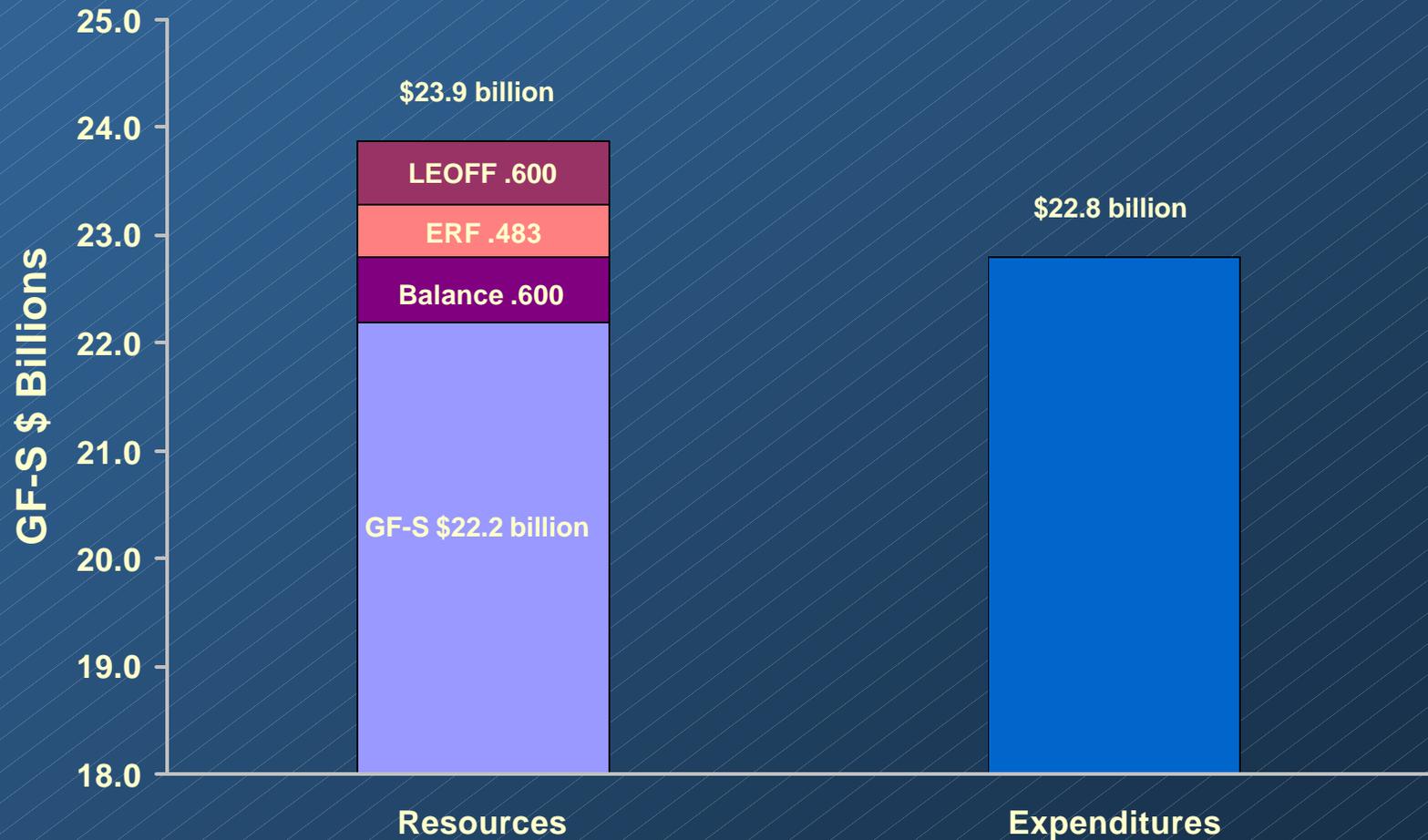
**SENATE WAYS & MEANS COMMITTEE**

*NOVEMBER 29, 2001*

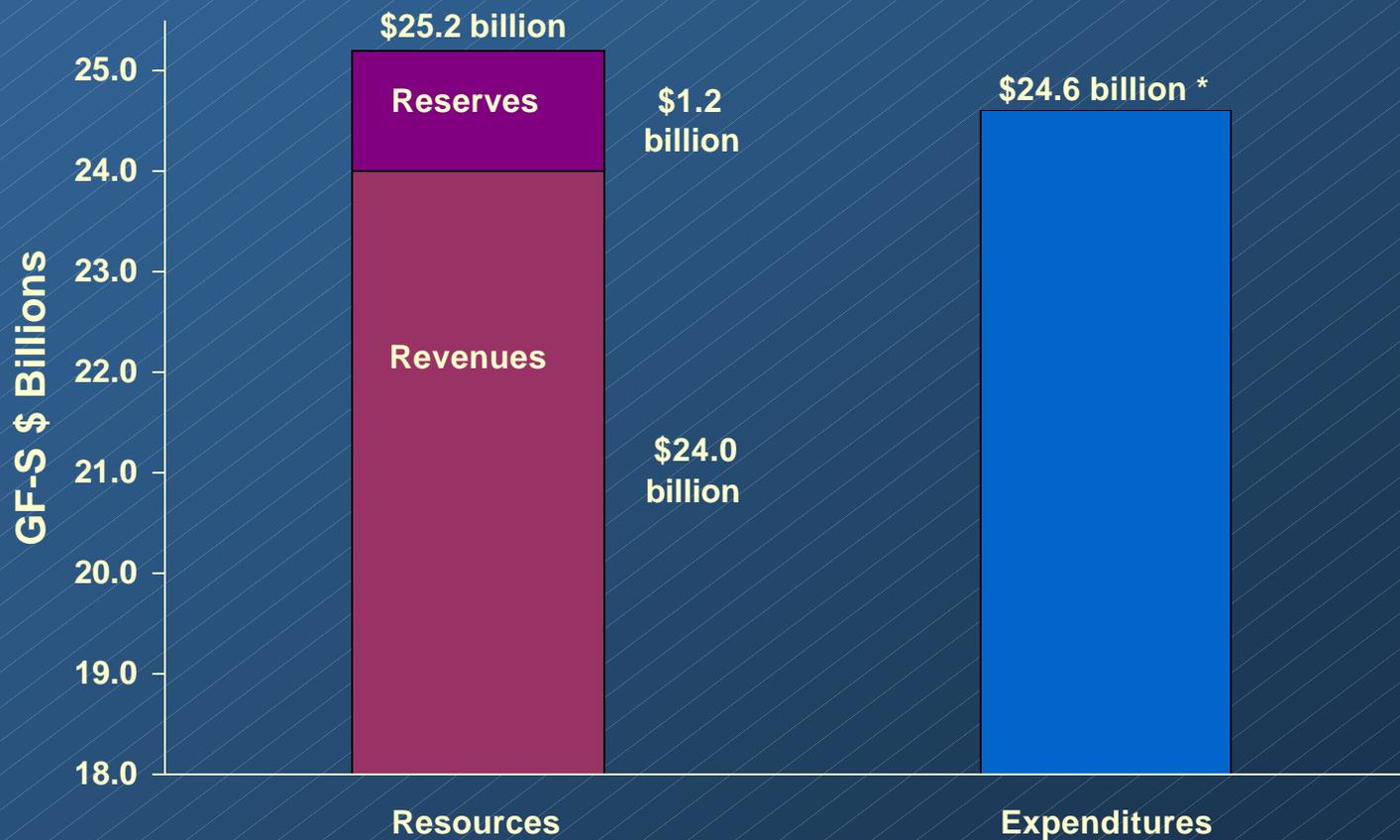
# Part One

## **The Current Fiscal Situation**

# In June, the budget appeared sustainable, in 2001-03, and ...



# ... and thru the 2003-05 biennium

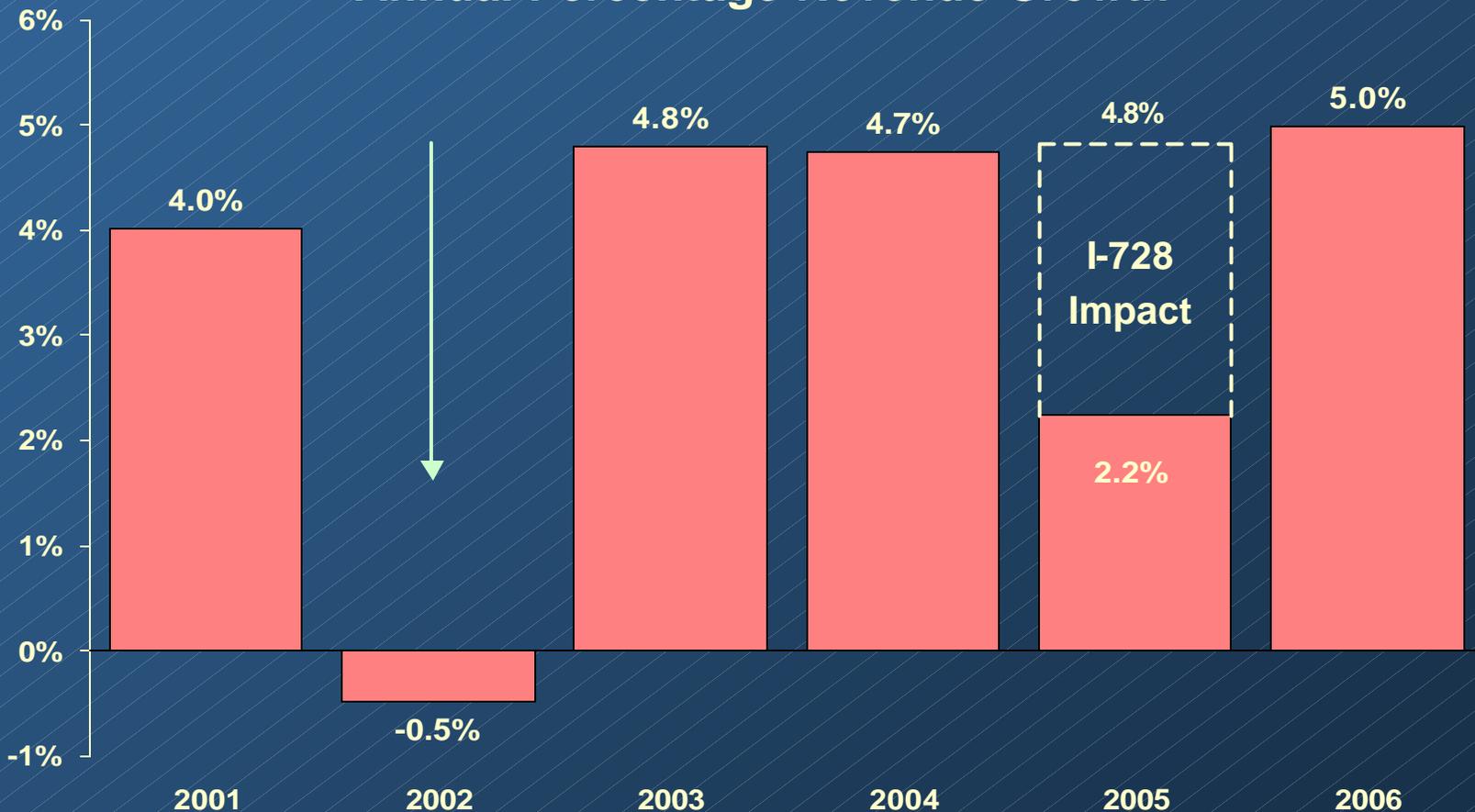


\* Based on average growth from FY2000 to FY2003

# The current revenue downturn was expected to be temporary ...

(Based on June 2001 Revenue Forecast)

## Annual Percentage Revenue Growth



# ... and the state had significant reserves

(Dollars in Millions)

<b>Ending Fund Balance</b>	<b>\$ 600</b>
<b>Emergency Reserve Fund</b>	<b>483</b>
<b>LEOFF Surplus</b>	<b>600</b>
<b>TOTAL</b>	<b>\$1,683</b>

# During the summer, the fiscal picture worsened

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- The Legislature did not enact the LEOFF Bill (SB 6166) which reduced the state's total reserves by \$600 million, and created a \$125 million budget hole for transportation and tort liability.
- The economy went into recession and the September revenue forecast was adjusted down by \$101 million.

# 2002 supplemental budget needs continued to grow

(Dollars in Millions)

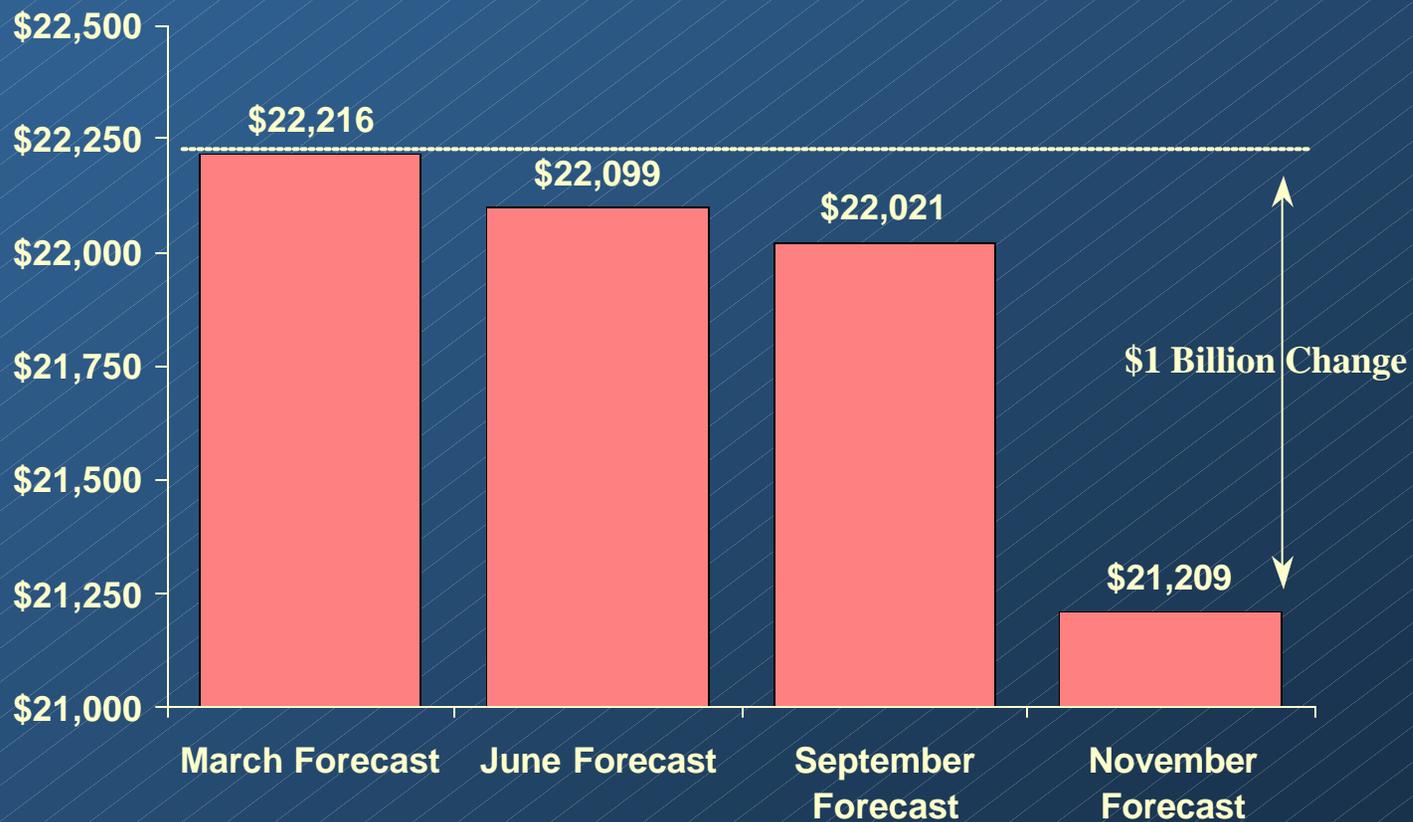
<p><b>Public Schools</b> The new enrollment forecast is up nearly 7,000 students in FY 2002 and 11,000 in FY 2003. Also, there is a need for additional funds for the FY2003 I-732 cost of living increase, levy equalization, and non instructional related costs.</p>	<p><b>\$125</b></p>
<p><b>Caseloads and Other Mandatory Costs</b> Caseload and other mandatory cost increases for Corrections and DSHS.</p>	<p><b>\$ 50</b></p>
<p><b>Summer 2001 Firefighting Costs</b></p>	<p><b>\$ 25</b></p>
<p><b>Tort Claims and Lawsuits</b> In addition to an estimated liability of \$25 million for torts, the state is facing a number of high cost lawsuits for K-12 salaries, part time faculty retirement benefits and foster care payments.</p>	<p><b>\$150</b></p>
<p><b>Total</b></p>	<p><b>\$350</b></p>

# The September 11<sup>th</sup> terrorist attacks made the state's economy much worse ...

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- Boeing has announced layoffs of 20,000 to 30,000 employees due to the crisis in the airline industry.
- The November 2001 revenue forecast was reduced by an additional \$813 million, primarily in response to the post-September 11<sup>th</sup> Boeing workforce reduction.
- Washington State's unemployment rate of 6.6% is now the highest in the nation.

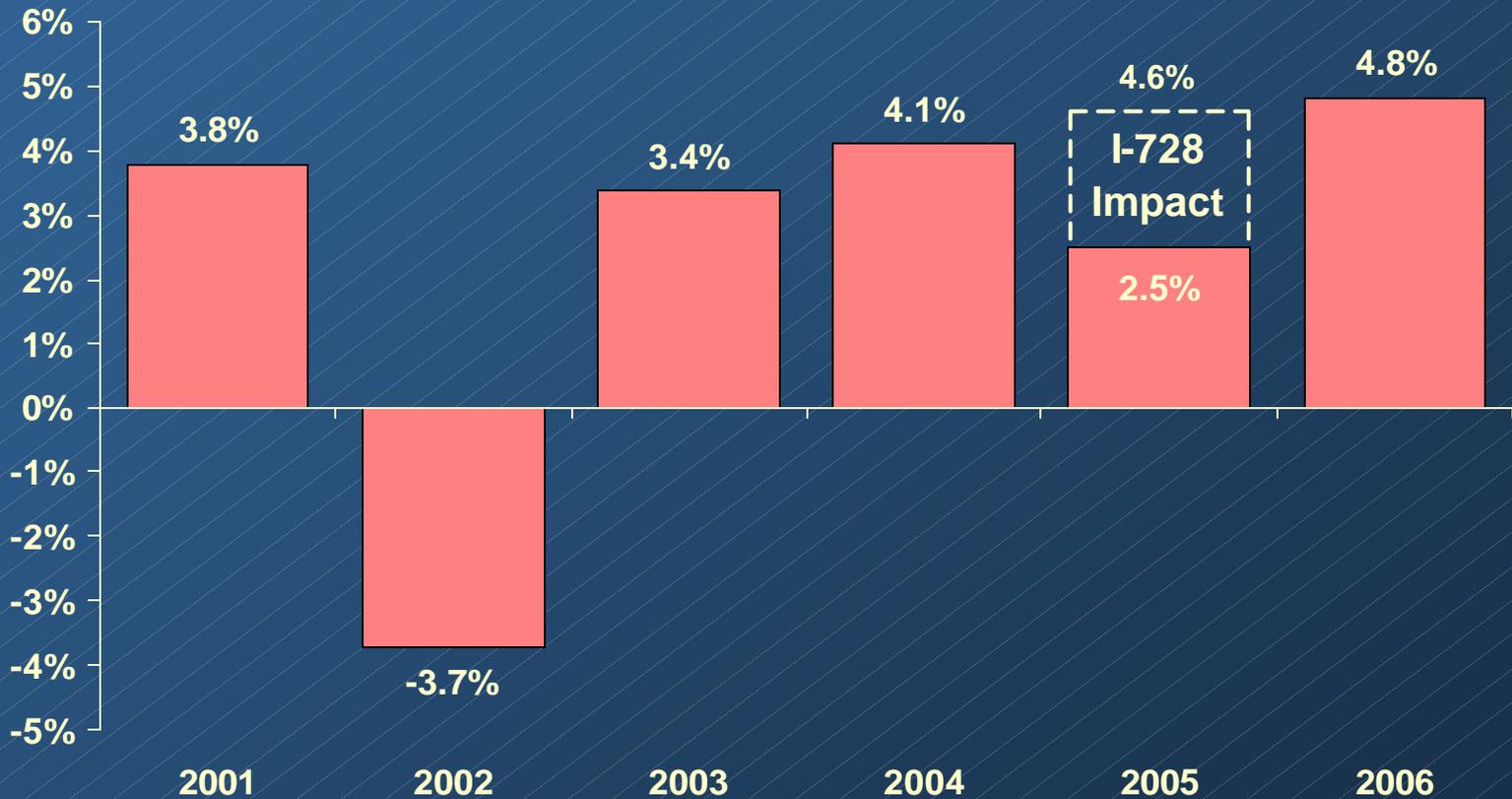
# And now the forecast of 2001-03 General Fund revenues has suddenly decreased



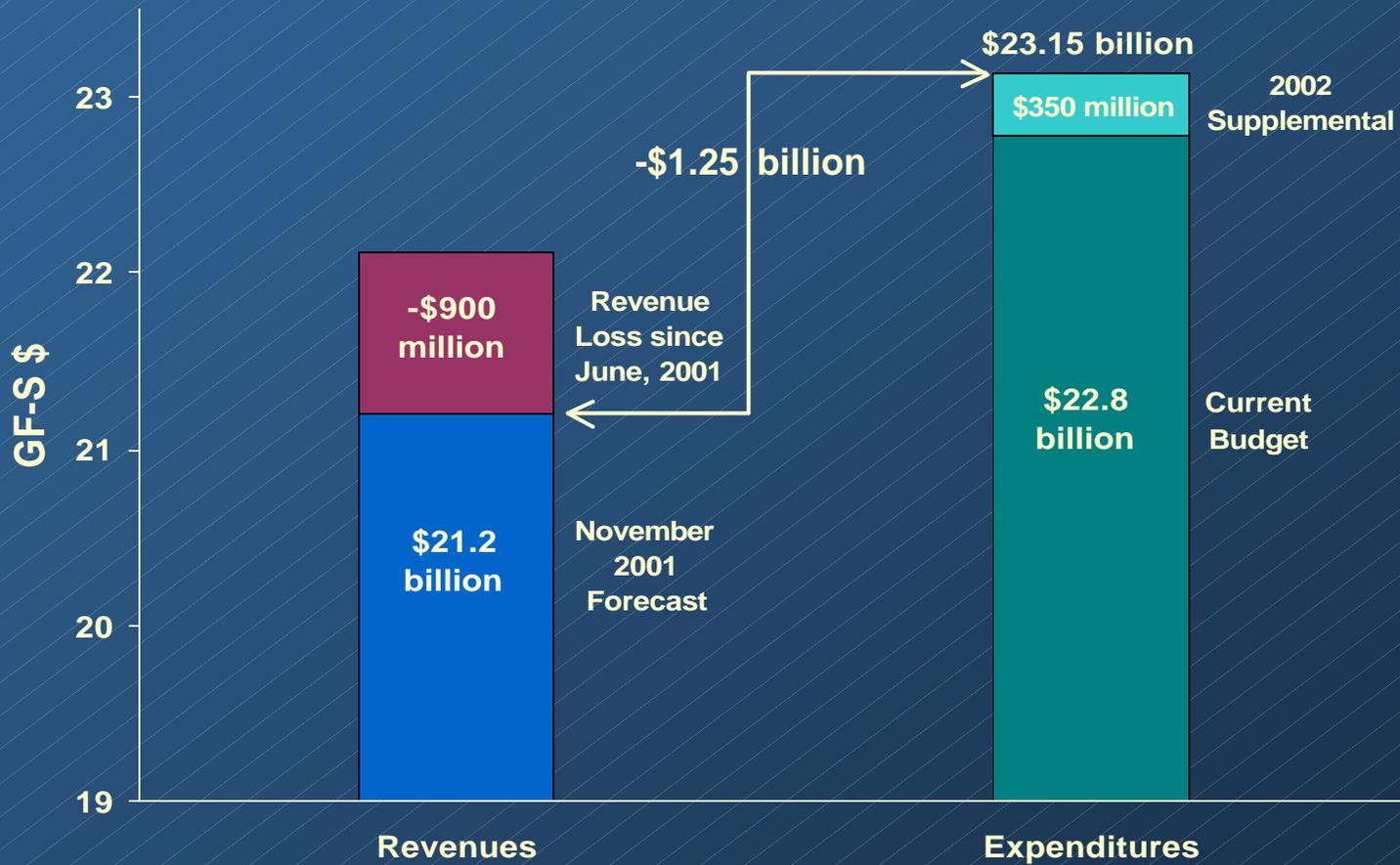
# This time, the revenue downturn is expected to be deeper and longer lasting

(Based on November 2001 Revenue Forecast)

## Annual Percentage Revenue Growth



# Revenue losses of more than \$900 million and increased budget needs of \$350 million since June will require a major reworking of the 2001-03 budget

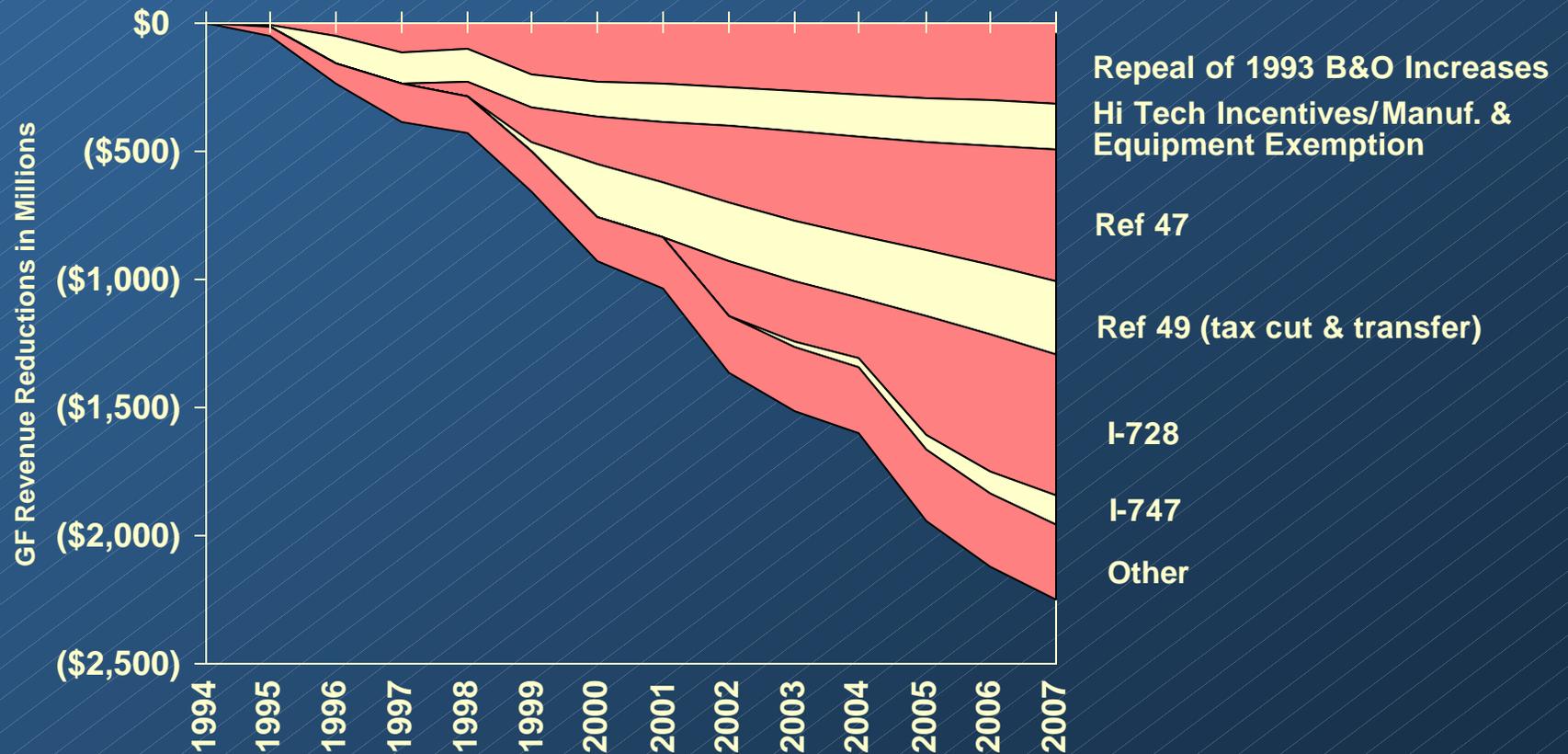


## Part Two

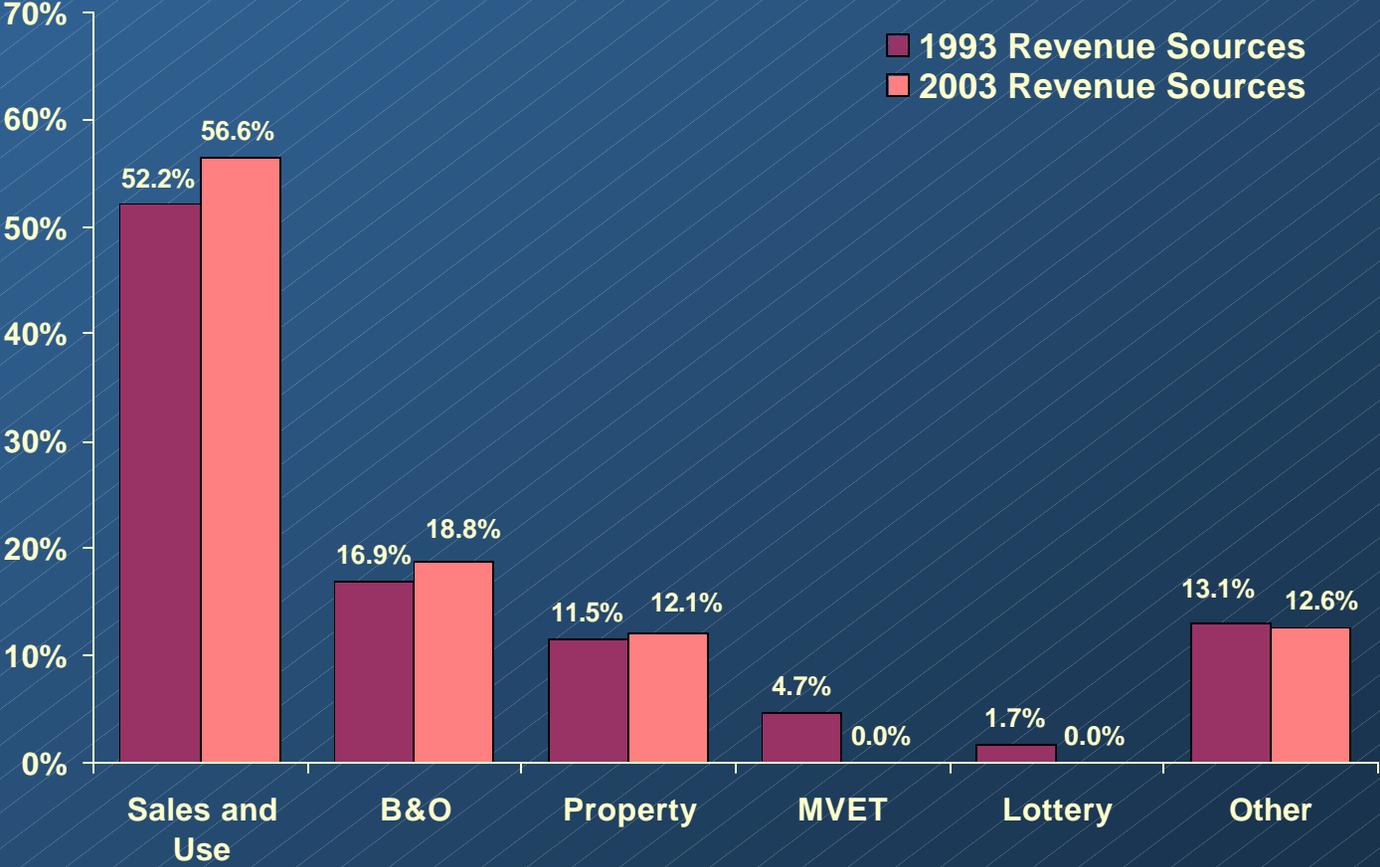
# Perspectives on Revenues and Expenditures

# Where Has all the Revenue Gone?

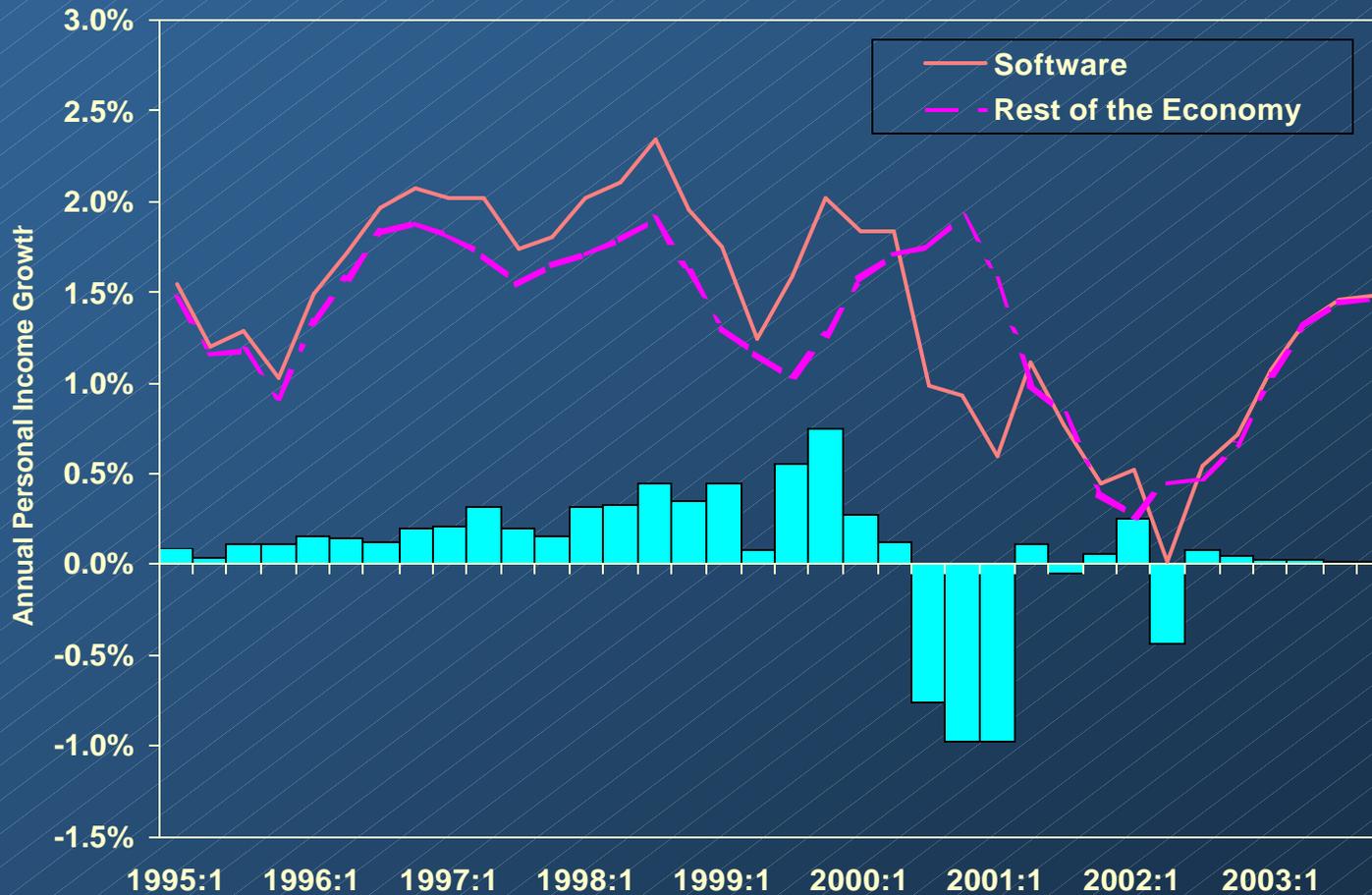
(Reductions to General Fund revenue since 1993)



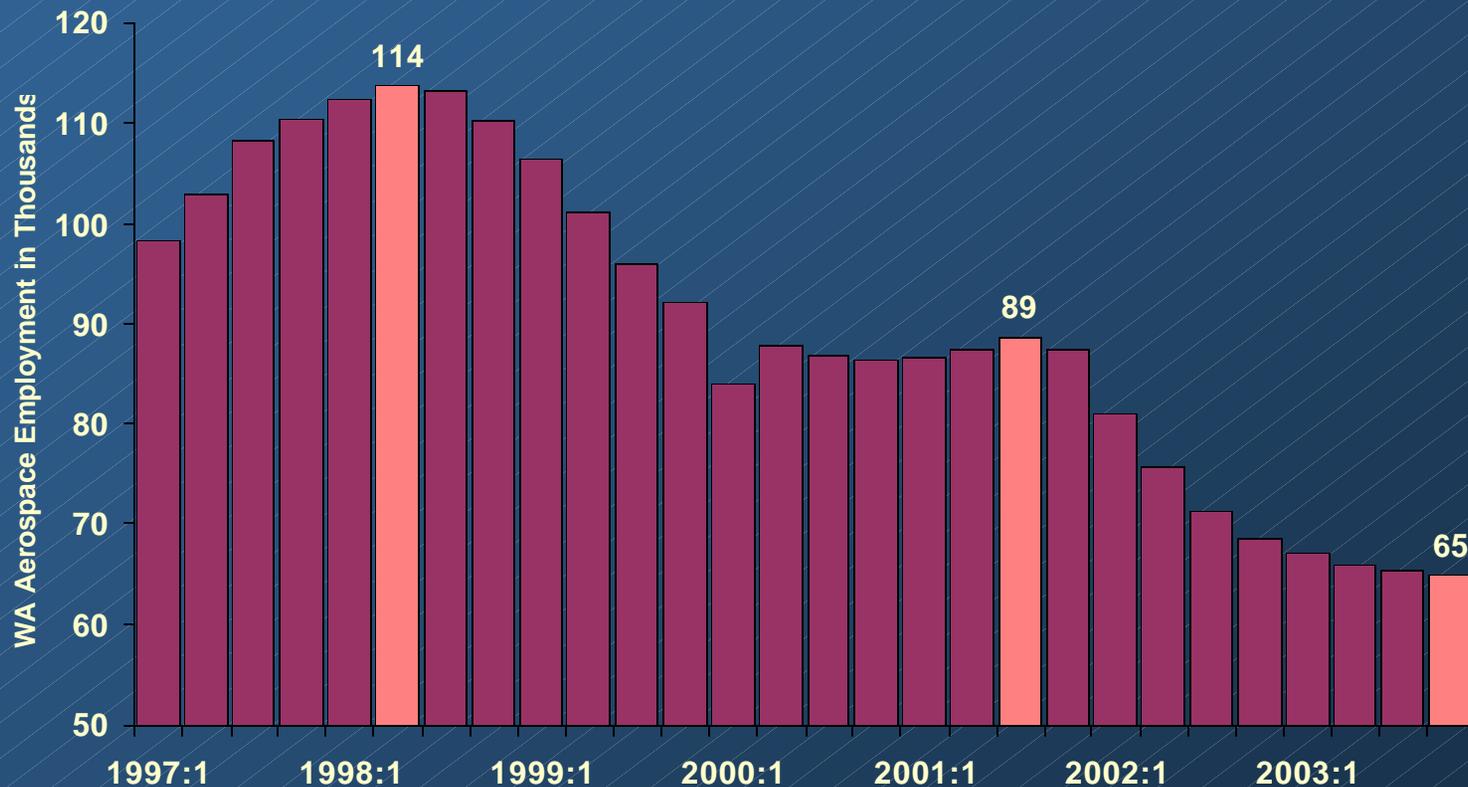
# The composition of Washington general fund revenue has shifted toward the sales tax and away from the MVET and lottery since 1993



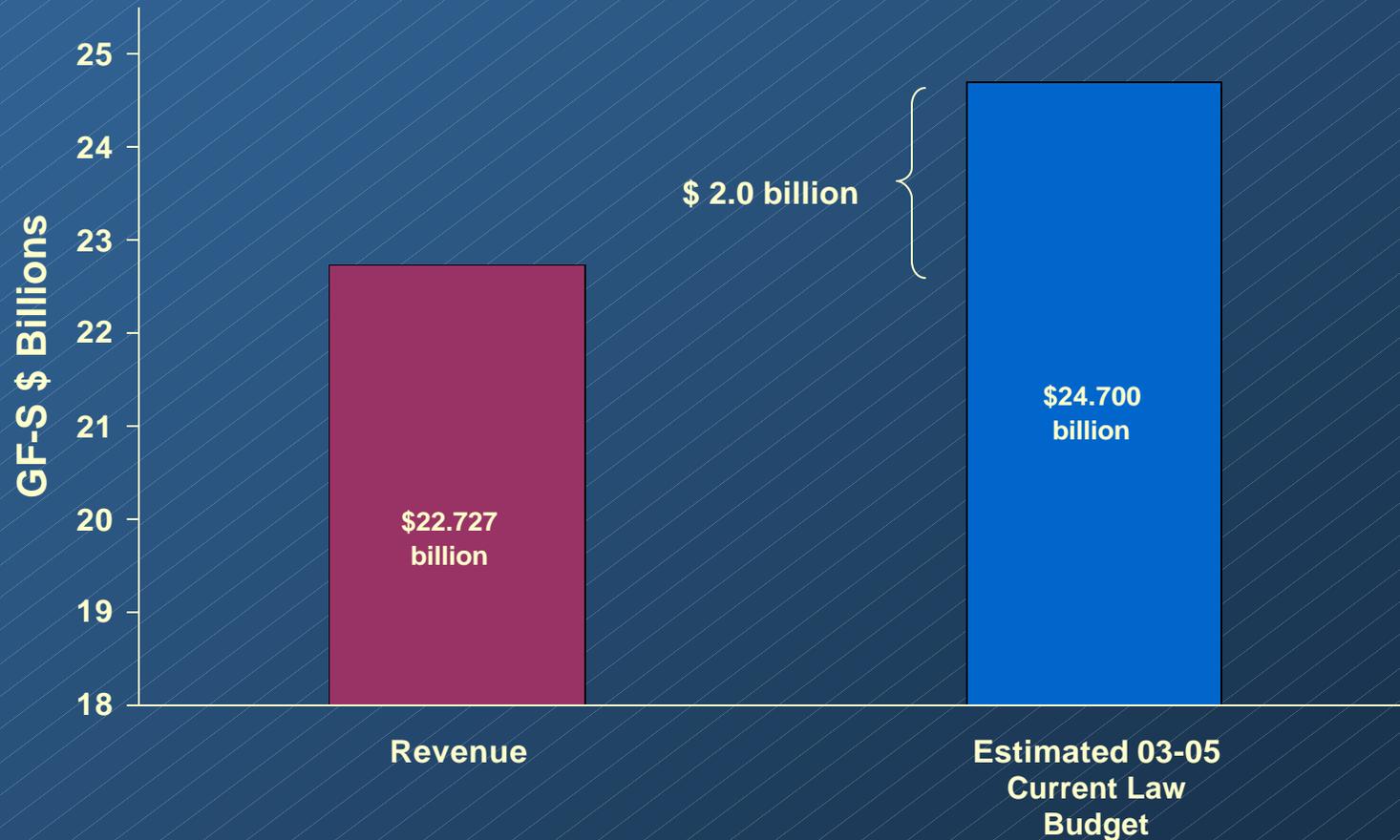
# The boost to Washington personal income from the growth in the software industry has ended



# Aerospace employment has already decreased substantially since 1998 and now, the November forecast projects a similar reduction over the next few years

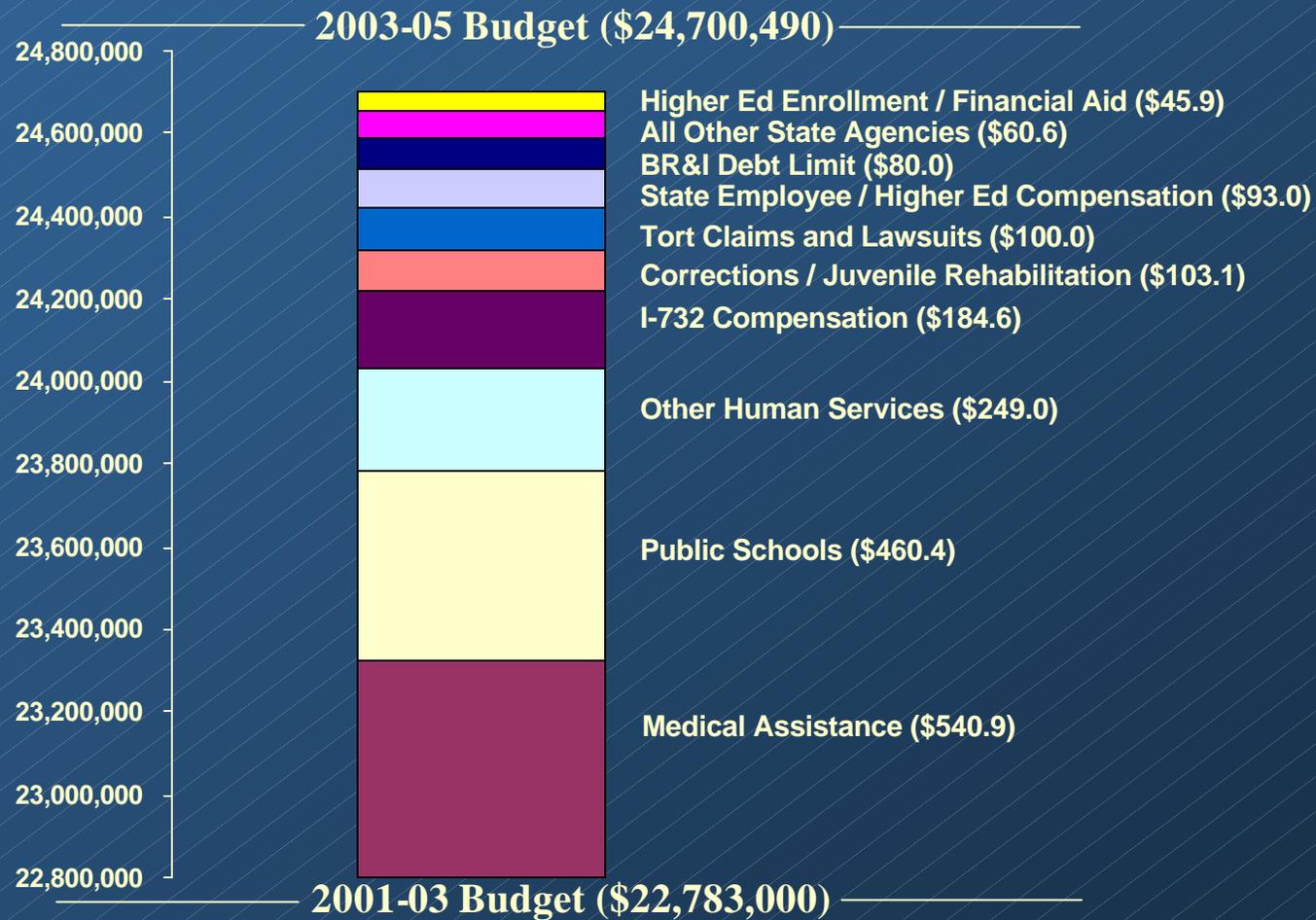


# Closing the 2001-03 budget deficit “may not” solve the projected 2003-05 shortfall

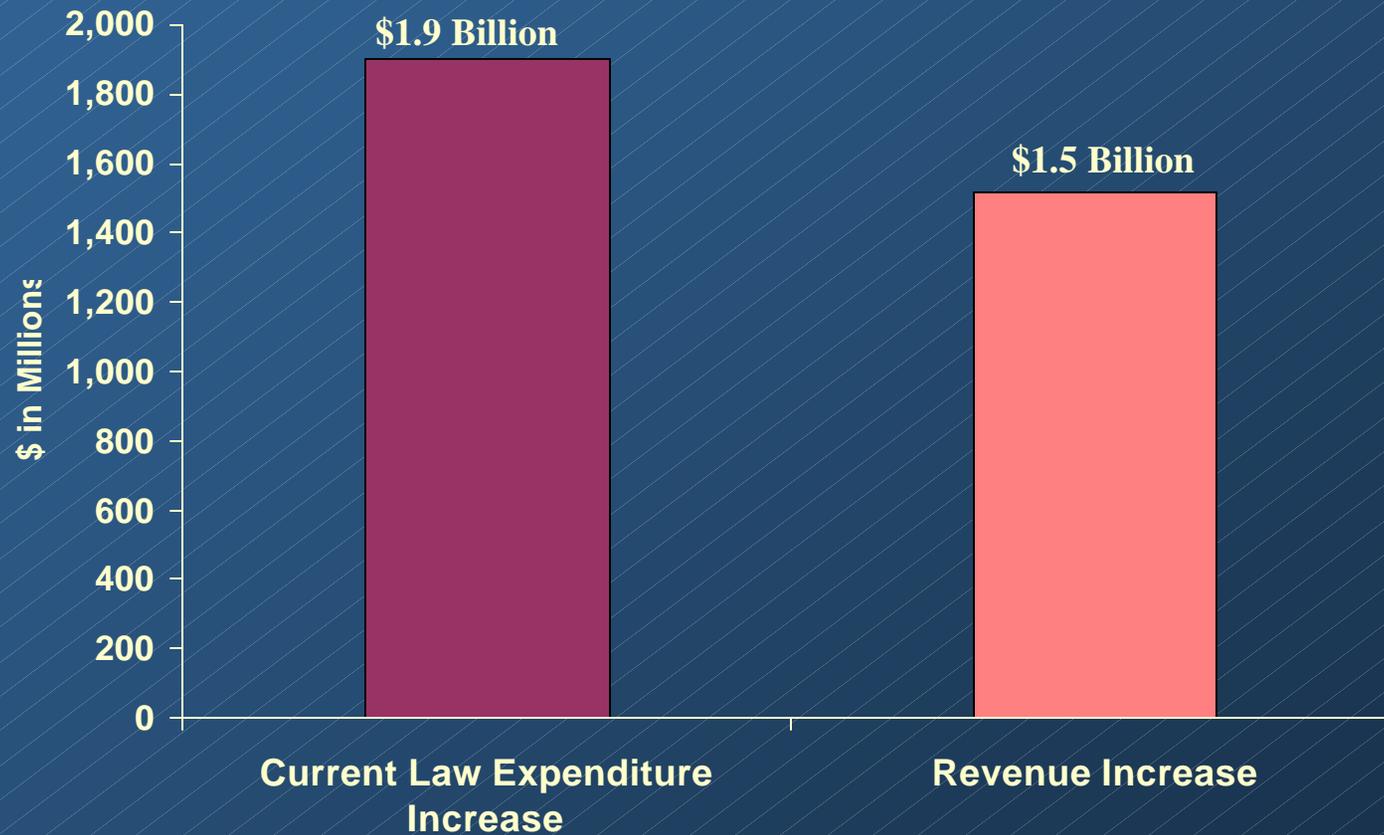


\* Based on the annual growth rate from FY 2000 to FY 2003

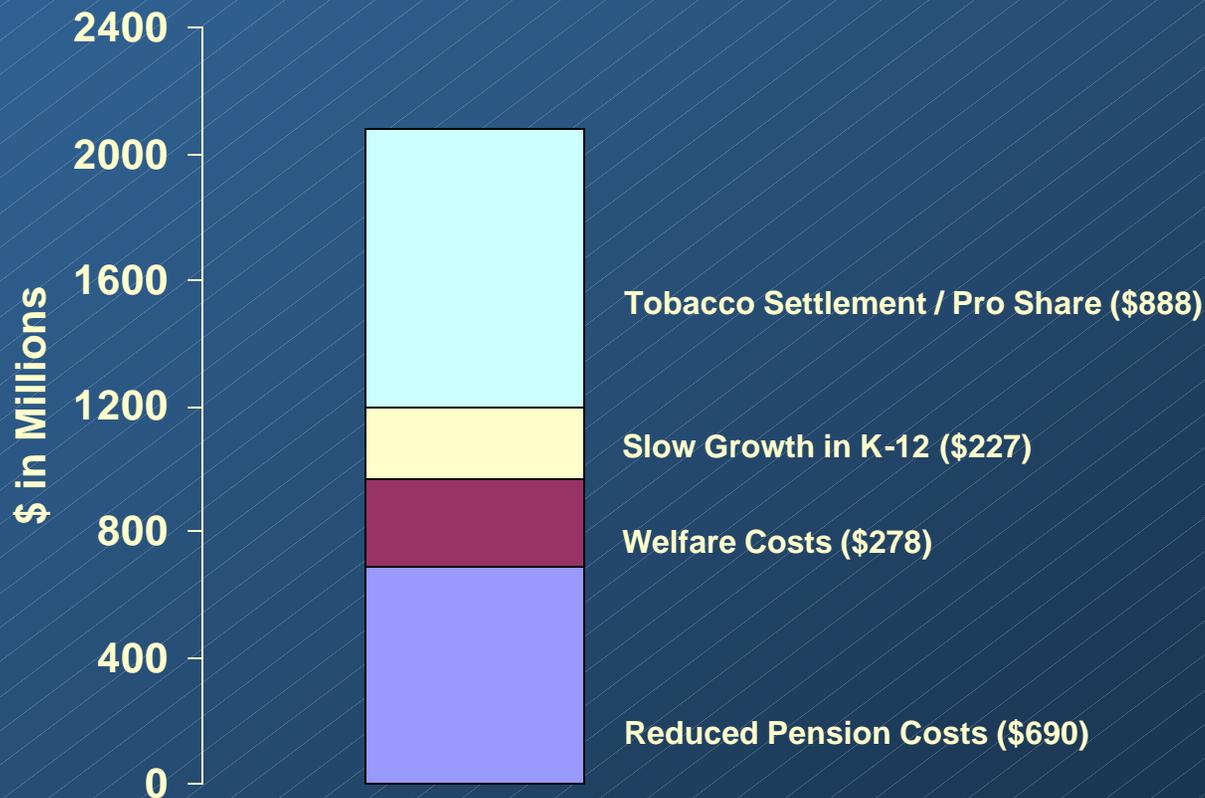
# The 2003-05 current law budget is estimated to increase by \$1.9 billion ....



... but, revenues will only increase by \$1.5 billion

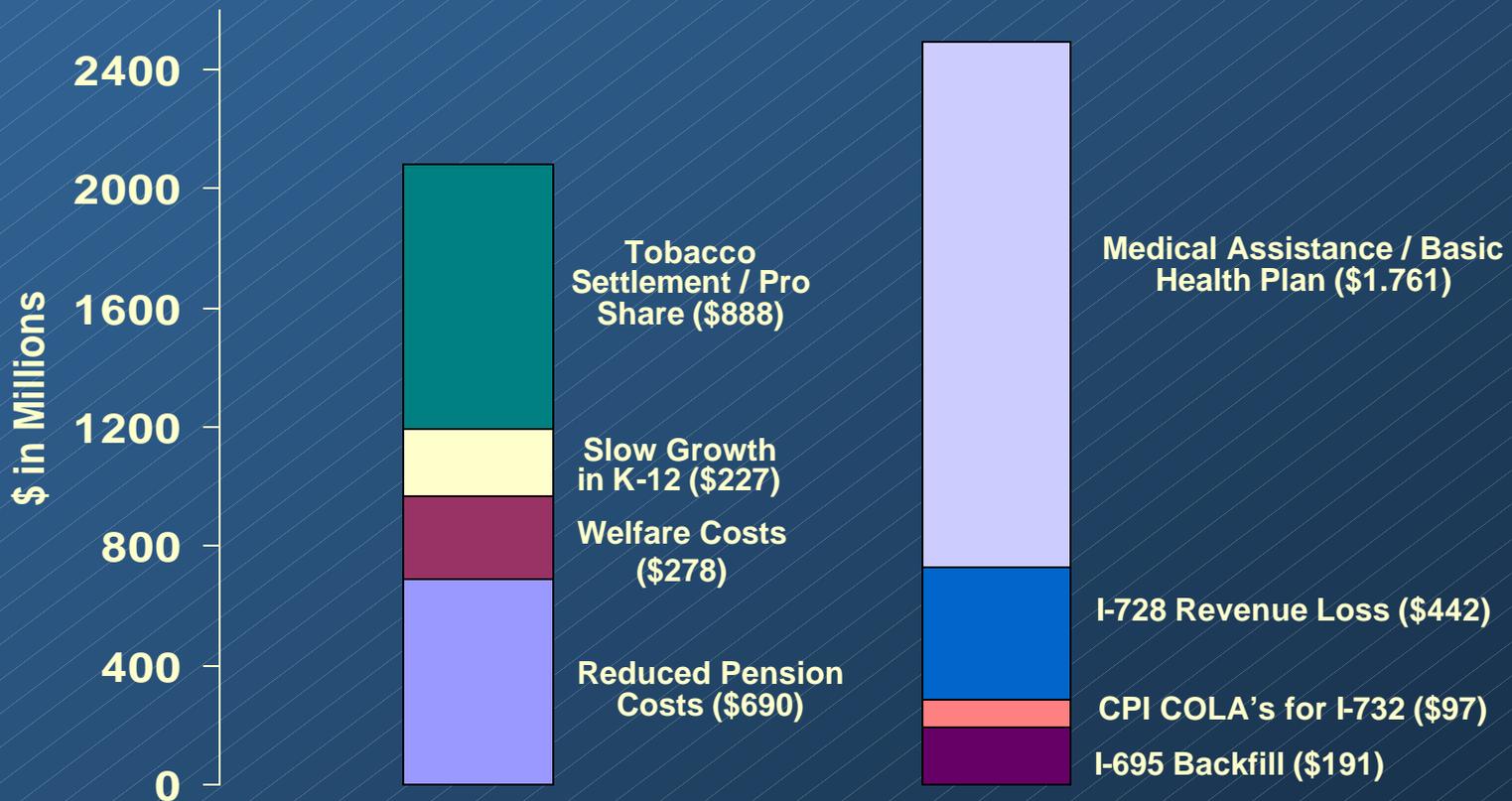


# Reduced budget pressures in pensions, welfare and public schools, along with some new revenue have helped balance budgets during the last two biennia\*



\* Includes both the General Fund and the Health Service Account changes from 1997-99 to 2001-03.

# But the increased cost of health care and budget pressures from initiatives have more than offset these savings



# The 2002 legislature must make some difficult fiscal choices

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- How much of the current problem do you want to address in the 2002 session?
  - Early action makes the long term situation easier to manage
  - An over reaction could cause needless hardships
- How big a reserve do you want to leave at the end of 2005?
- Shall the solution include both revenue and expenditure changes? In what proportion?
- How can we prudently use one-time reserves without creating an unsustainable budget in future biennia?

## Part Three

# Capital Budget Update

# Revenue Forecasts

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- The September GF revenue forecast was reduced by \$101 million.
- In November the forecast was reduced by an additional \$813 million.
- These forecast changes reduced “general state revenues” by almost \$800 million for the biennium.

# The 7% Statutory Debt Limit

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- Principal and interest payments on general obligation bonds may not exceed 7% of the average of prior 3 years “general state revenues”
- Therefore, the reduction in the revenue forecast significantly reduced the 7% debt limit.

# OFM's "Pause"

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- After the job layoff announcement by the Boeing Company in September, OFM announced a "pause" in approvals of many expenditures from the State Building Construction Account.
- As it turns out, OFM correctly anticipated the significant reduction in the November revenue forecast, which results in a debt limit which is as much as \$200 million lower than anticipated when the capital budget was enacted in June.

# Possible responses to a lower debt limit

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- Cut the capital budget by \$200 million now and in each biennium in the near future.
- Increase the statutory debt limit from 7% to 7.3% or higher.
- Modify the definition of “state general revenues” or the calculation of the debt limit.
- Expand the current list of types of debt that is exempt from the statutory debt limit.