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*until November 17, 2011 10:00 am PST when it will be published at  
www.ercf.wa.gov*

Revenue Review Meeting

November 17, 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**

November 17, 2011  
10:00 a.m.

- De-facto approval of November 4, 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**

November 4, 2011

John A. Cherberg, Hearing Room 3

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

##### *Members Present*

Ross Hunter, House of Representatives  
Joe Zarelli, Senate  
Suzan DelBene, Department of Revenue  
Marty Brown, Office of Financial  
Management

##### *Staff*

Arun Raha, Executive Director, ERFC

#### **Call to Order**

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

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

Dr. 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 Business & Occupation taxes, Gross Domestic Product (GDP) growth, and construction employment.

#### **Motion**

Director DelBene made a motion to approve the meeting minutes from the September 15, 2011 meeting, seconded by Director Brown. Council approved the motion at 2:32 pm.

#### **Adjournment**

Meeting adjourned at 3:07 pm.

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



**Revenue Review: November 17, 2011**

**Executive Summary**

- The economy is performing as expected in our September forecast. In the two months since that forecast there have been no unpleasant surprises, despite the high level of uncertainty in the baseline. The biggest threat to the U.S. economy remains the sovereign debt crisis in southern Europe. If the contagion spreads from Greece to Italy or any of the other countries at risk, and from there to European banks, then U.S. banks are not immune to the peril from the unwinding of losses; nor is the U.S. economy. This is reflected in the increased recent volatility in equity markets. A secondary risk to the recovery is the political gridlock in Washington D.C. that has fiscal policy sitting it out on the sidelines. This has led to a steady erosion of both consumer and business confidence. Our current economic forecast is very similar to our September forecast, with the same muddle-through conditions expected for the rest of the biennium, along with a high degree of downside risk.
- The main threats to Washington's economy today lie well outside our region. It seems that for every step forward that Europe takes in resolving its financial mess it takes half a step backward, adding to global financial volatility and nervousness. The key for the U.S. and consequently Washington economies is whether the European policy authorities can be successful in containing a sovereign debt crisis in Southern Europe from turning into a full blown European banking crisis. The former would do some damage, but the latter would be devastating.
- Political gridlock in the nation's capital has shown no signs of improvement since our last forecast. The bipartisan Congressional Super Committee continues to work behind closed doors and we won't know until later this month what kind of debt reduction strategy will be agreed upon or the magnitude of the spending cuts or tax increases. If agreement is not reached to cut \$1.5 trillion of debt over the next ten years, and passed by Congress, then automatic cuts in both military and non-military spending will be triggered Jan 1, 2013.
- Our current forecast is based on the November 2011 Global Insight U.S. macro forecast, modified as usual by the November Blue Chip Consensus GDP forecast and the NYMEX futures prices for West Texas Intermediate (WTI) crude oil as of November 4, 2011. In addition, this forecast discounts the possibility of any significant discretionary fiscal policy prior to the next general election. Therefore, as we did in September, we have removed from our forecast Global Insight's assumption that the current payroll tax cuts and unemployment benefits will be extended into next year.
- Absent Congressional action, the Bush/Obama tax cuts are scheduled to sunset at the end of 2012. Global Insight's U.S. forecast captures the

possibility that these tax cuts may not be extended either partly or wholly by assuming a tighter fiscal policy stance in 2013. We have retained that Global Insight assumption in our forecast.

- Unlike the discordant notes from fiscal policy, the stance of monetary policy has been quite clear. At their meeting on November 2, the Federal Open Market Committee reiterated yet again its intention to continue its easy money policy. However, it looks increasingly as if the economy is caught in a classic “Liquidity Trap” where monetary policy playing a lone hand has lost its effectiveness. In such conditions, for macroeconomic policy to be effective, both monetary and fiscal policies need to be working in tandem. That does not appear likely right now.
- Data releases since the September forecast have been mildly encouraging, but only because expectations were so low. Real gross domestic product (GDP) grew at a seasonally adjusted annualized rate of 2.5% (SAAR) in the third quarter, almost twice as fast as the second quarter’s 1.3% (SAAR), but still modest. Real consumer spending grew 2.4% (SAAR) in the third quarter, but its sustainability is questionable since real disposable personal income fell by 1.7% (SAAR) over the same period. The September savings rate has dropped to 3.6%, well below its post-recession peak of 5.8% in June of 2010.
- Housing remains weak. Although housing starts improved to 658,000 (SAAR) units in September, it was mainly due to the volatile multi-family segment. More importantly for the future, housing permits fell 5% to 594,000 (SAAR). New home sales, which are a small fraction of the market, grew 5.7% to 313,000 (SAAR) units. Existing home sales fell 3% to 4.9 million (SAAR) units. The Case-Shiller 20-city index was flat in August, and was 3.9% below a year ago. Prices are expected to stay weak as more foreclosed properties hit the market.
- Real GDP is now back up to its pre-recession peak, but it is being produced with 6.8 million fewer jobs. Growth in jobs has been excruciatingly slow in this recovery. The economy added just 80,000 net new jobs in October, although the previous two months were revised up a combined 102,000. Cutbacks in the public sector continue to weigh down the employment recovery with cuts of 24,000 across all levels of government. Almost 14 million people remained unemployed. Earnings rose by 5 cents to \$23.19 per hour, although growth in worker pay has failed to keep up with inflation over the past 12 months. The unemployment rate dipped slightly to 9.0% from 9.1%, but is still elevated.
- Industrial production grew 0.7% (SA) in October, following two flat months. The Institute for Supply Management’s manufacturing Purchasing Managers Index for October fell by eight-tenths of a percentage point to 50.8, barely above the break-even 50 mark, which indicates growth. The non-manufacturing index which fell one-tenths of a percentage point to 52.9 also indicates continuing growth in services, albeit at a marginally slower rate. Core capital goods orders (i.e. durables excluding aircraft and military) which are a proxy for business investment, rose 2.4% (SA) in September.
- Consumer confidence is in the doldrums looking for direction. The Conference Board’s index dropped to 39.8 in October, its lowest reading since March



2009. The University of Michigan consumer sentiment measure moved up modestly to 64.2 in its preliminary November reading, but remains at historically low levels.

- Light motor vehicle (LMV) sales ticked up 1.2% (SA) in October to 13.3 million (SAAR) units. This is more a testament to replacement demand and easing supply chain disruptions, rather than a return of confidence.
- We expect Washington's economy to outperform the U.S. in the recovery. Boeing and Microsoft are both hiring again. The aerospace sector has added 9,100 jobs since May 2010, which is 3,100 more than the number lost during the recession, while the software sector has added 1,900 jobs since December 2009, making up for most of the 2,500 jobs lost during the recession. The state's farming and export sectors are also doing well. Washington exports were up 29% in the third quarter of this year compared to the previous year. Construction, however, remains weak and has a disproportionately negative impact on revenue. Although the state economy appears to be turning around, we face significant risks from the global and national economies.
- We estimate that the Washington economy gained just 500 net new jobs in the two months since the September forecast was released. We had expected a modest gain of 3,600 jobs. The private sector added 5,600 jobs in September and October, only slightly less than the 5,900 jobs we had expected, however government shed 5,100 jobs in the last two months which was much worse than the 2,300 government jobs we had expected to lose. The steep decline in public sector jobs was due to the loss of 5,600 state and local education jobs. We do not think education employment will continue to decline at this pace. The large decline in September coincided with the beginning of the school year and probably reflected past budget decisions. The manufacturing sector continues to shine, thanks largely to a resurgent aerospace industry. Manufacturing employment grew by 2,200 in the last two months, led by 1,300 net new aerospace jobs. Construction employment edged up by 100. Private service-providing industries gained 3,300 jobs in September and October. We had expected an increase of 5,800 private service-providing jobs.
- One of our state's advantages in the current recovery are our exports and in particular exports to the growing economies in the Pacific Rim. Washington State exports rose 29% in the third quarter of 2011 compared to the third quarter of 2010. Exports of transportation equipment (mostly Boeing planes) were up 22% compared to the previous year. Transportation equipment exports normally account for about 50% of our exports. Excluding transportation equipment, exports were up 35% over the year. Exports of manufactured products other than transportation equipment were up 40% and exports of agricultural products, second only to transportation equipment in value, were up 27%.
- The recovery in Washington, as in the nation, has been driven largely by the manufacturing sector. In Washington, growth in manufacturing has been led by 9,100 new aerospace jobs but other manufacturing industries have also added 7,100 jobs since December 2009. The Institute of Supply Management - Western Washington Index, which measures strength in the manufacturing

- sector, has now indicated growth since August 2009 (index readings above 50 indicate expansion). The composite index rose to 65.6 in October from 56.5 in September. In an encouraging sign for the future, the orders component rose to 80.0 from 50.0 while the production component increased to 77.8 from 60.0
- Inflation in Seattle will be about 2.6% this year based on consumer price data now available through October 2011. This compares favorably to the 3.2% inflation rate expected for the U.S. city average in 2011. Headline inflation in Seattle, as in the nation, has been amplified by rising food and energy costs. Now that these are easing we expect more moderate inflation in the future. The forecast expects Seattle consumer prices to rise 1.8% in 2012 and 1.6% in 2013.
  - Total housing permits came in at 21,200 units (SAAR) in the third quarter of 2011 which was slightly better than the 20,100 we had expected but down from 25,900 units in the second quarter. As expected, multi-family permits dropped sharply in the third quarter to 7,800 units from an unusually strong 13,400 units in the second quarter. Single-family permits edged up from 12,600 units in the second quarter to a still weak 13,400 units in the third quarter. We continue to believe the trend is positive in multi-family housing due to rising rents and declining apartment vacancies. The outlook for single-family construction is flat to negative. Regional home prices are experiencing a double-dip. According to the S&P/Case-Shiller Home Price Indices through August 2011, Seattle home prices have declined in each of the last three months and are down 6.1% from the previous August.
  - In our final November forecast, we have increased the job growth forecast for 2011 to 1.2% from the 1.1% rate expected in the September forecast based on an upward revision to the employment data for the first half of the year. We have slightly reduced our job growth forecast for the second half of 2011. We have also lowered our forecast for employment growth in 2012 and 2013 to 1.2% and 1.9% from the 1.4% and 2.1% expected in the September forecast. Our final November personal income growth forecast for 2011 is unchanged at 4.9%. We have lowered our forecast for personal income growth in 2012 to 2.8% from 3.0% expected in the November forecast but raised our forecast in 2013 to 4.7% from 4.5%. Even though the new forecast for personal income *growth* is similar to the September forecast, the *level* is lower throughout the forecast due to a downward revision to the historical data.
  - Monthly revenue collections through November 10 were \$12 million (0.5%) below what we had expected in the period since the September forecast.
  - The passage of Initiative 1183 is expected to increase revenue by \$57 million in the current biennium. This non-economic forecast change will be offset by a scheduled \$19 million refund of B&O taxes for a total non-economic forecast increase of \$38 million.
  - Weaker forecasted growth will subtract \$148 million in revenue for the remainder of the biennium. Combining the collection shortfall, non-economic change and forecast changes, total General Fund-State revenue for the

current biennium is now expected to be \$122 million less than forecasted in September.

- The final total of GF-S revenue for the 2009-11 biennium came in \$25 million higher than the preliminary total.
- In summary, the new General Fund-State forecasts are:
  - 2011-13 biennium: \$30.2 billion, which is \$122 million lower than our previous forecast
  - 2009-11 biennium: \$28.2 billion, which is \$25 million higher than our previous estimate

**Downside Risks:**

- The level of uncertainty in the baseline is high. Downside risks are still very elevated.
- Sovereign debt default contagion in Europe. The damage from a voluntary restructuring of Greek debt, it appears can be contained at the moment. The focus of the fears has now shifted to Italian sovereign debt. Italy is too big to bail out, but can make good on its debt with a little help from the rest of Europe and a strict austerity program for itself. The next steps taken by the new Italian government and the European Central Bank under its new leadership will be crucial in determining the outcome. If Italy fails, our baseline forecast will be invalidated.
- A series of sovereign debt defaults would trigger a European banking crisis which in turn would affect U.S. banks. Credit would tighten and economic activity would shrink, pushing the U.S. back into another recession.
- Failure by the Congressional Super Committee to agree upon a deficit reduction deal that can pass both houses of Congress.
- Inflationary pressures from rising wages in India and China. The chances of a hard landing in China (growth<5%), however, appear to be receding.
- 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.
- European governments are able to build a firewall around their banks, so the sovereign debt crisis does not turn into a banking crisis.
- Political gridlock in the nation's capital eases.

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# Revenue Review

Presented to  
The Economic & Revenue Forecast Council

Arun Raha  
Chief Economist

November 17, 2011  
Olympia, Washington



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# Summary

- Events are unfolding as expected in the September forecast
- However, the uncertainty in the baseline remains very high, mostly due to out-of-state factors
- Within WA, there is fiscal drag from declining state and local government budgets
- Revenue growth has been restrained due to a stagnant construction sector
- Revenues since the September forecast are \$12 million (0.5%) below expectations
- This forecast reduces expected GF-S revenues by \$122 million in the current biennium

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Revenue Review  
17 November 2011

Slide 1



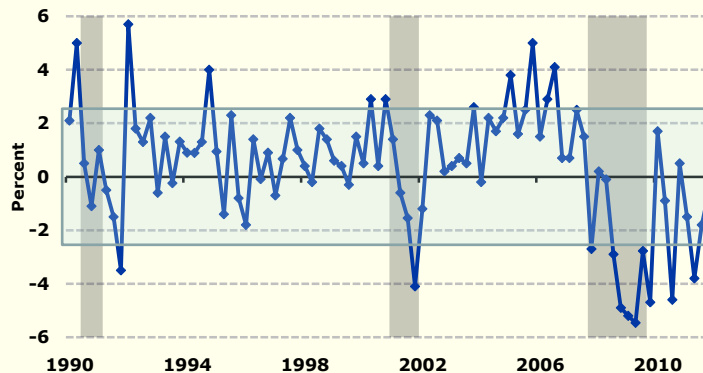
## Revenues have come in close to the September forecast

The variances reported here are net of one-time payments

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Slide 2

Average Adjusted Monthly Variance



Source: ERFC; collections through Nov.10, 2011

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## The state's risk matrix shows most risks from outside state

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Washington's  
Economy

EUROPE Sovereign Debt  
GRE ITA IRL ESP POR

EUROPE Banks DEU FRA U.S. Banks

Political Gridlock In Washington DC  
• Debt limit debate  
• Super Committee

Weak consumer and business confidence

<b>State of Washington</b>	<b><i>Pluses</i></b>	<b><i>Minuses</i></b>
	Aerospace Software Exports Agriculture	Construction State & Local Government

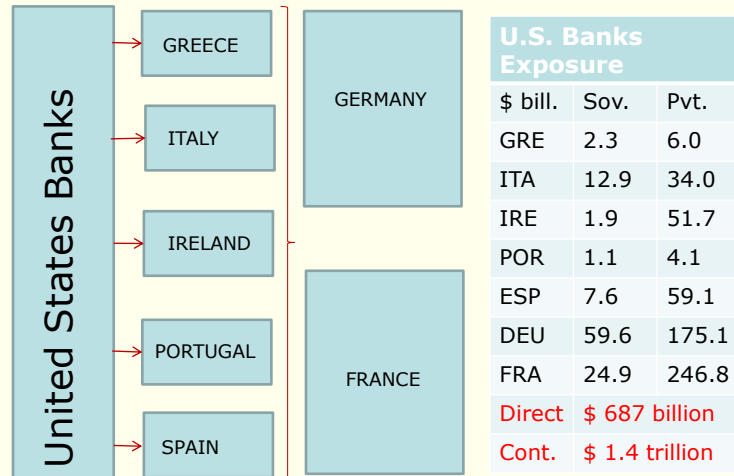
Source: ERFC

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## U.S. banks' exposure to Europe is worrying



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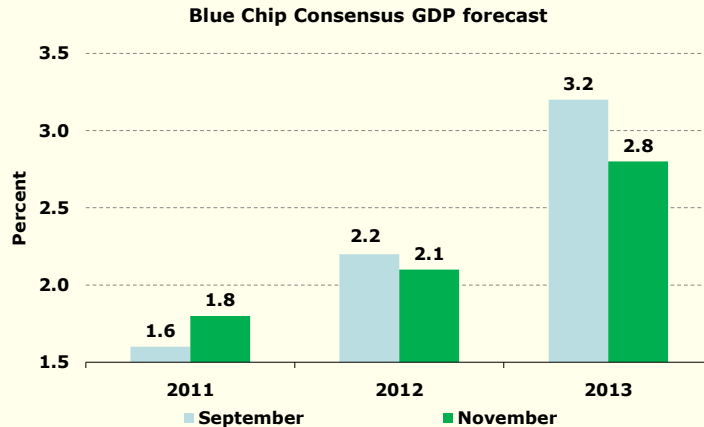
Slide 4

Source: Bank of International Settlements, 2011 Q2

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## The consensus economic outlook is marginally weaker in the out years



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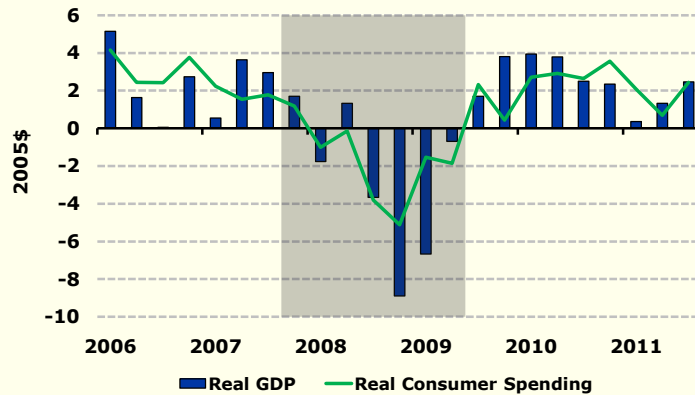
Source: Blue Chip Economic Indicators, data through November 2011

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## Consumer spending growth is improving, but is it sustainable?

Percent growth, SAAR



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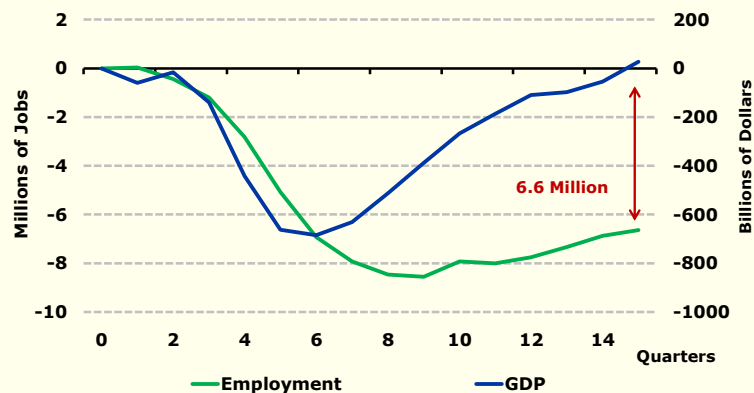
Source: BEA, data through 2011 Q3, advance estimate

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## The U.S. economy is now producing its pre-recession output with fewer jobs

U.S. GDP and Employment after Recession Start



Data normalized to recession start, 2007Q4 = 0

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Source: BEA, BLS, ERFC; data through 2011 Q3

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## Labor productivity growth has slowed job growth

Any increase in final demand will translate to job growth after labor productivity declines

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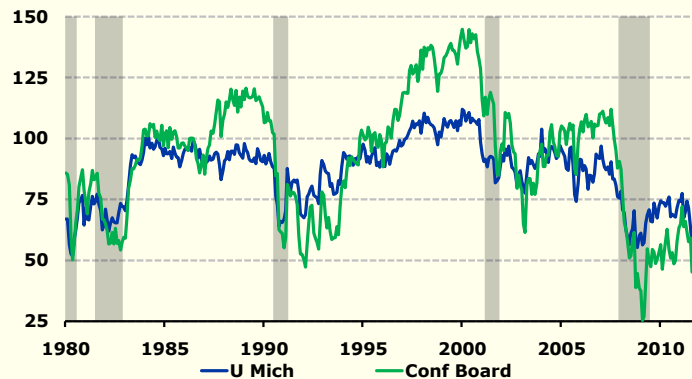
Source: BLS; data through 2011 Q3

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## Consumer confidence is very weak...

Index  
Mich: 1966Q1 = 100, SA  
Conf Board: 1985 = 100, SA



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

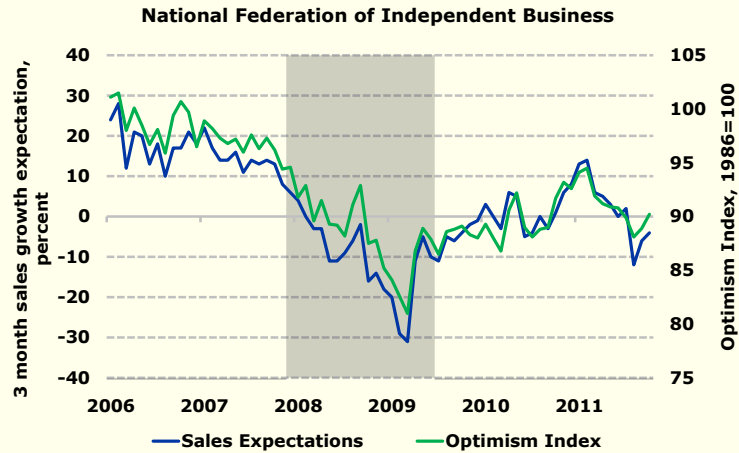
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## ...as are sales expectations and small business optimism



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Source: National Federation of Independent Business; data through October 2011

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## Stock market volatility has again spiked



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Source: Yahoo! Finance; data through November 14, 2011

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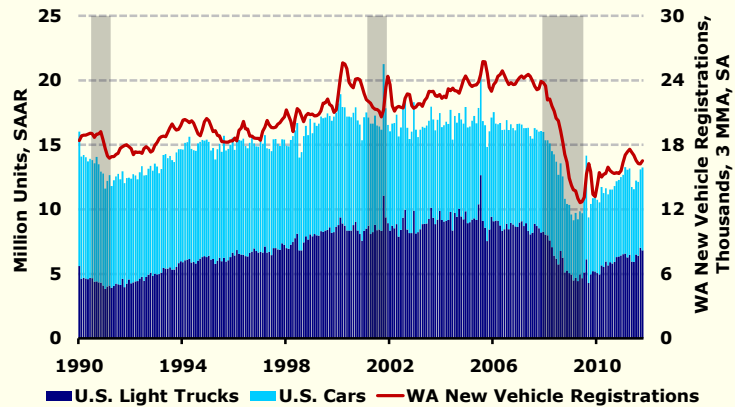


## U.S. LMV sales are recovering slowly from supply chain disruptions

U.S. LMV sales increased 1.2% in October

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

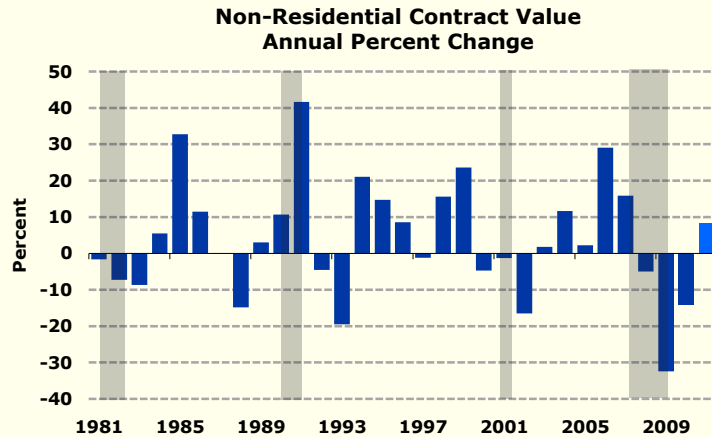
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## WA non-residential contracts have turned up for the first time in four years

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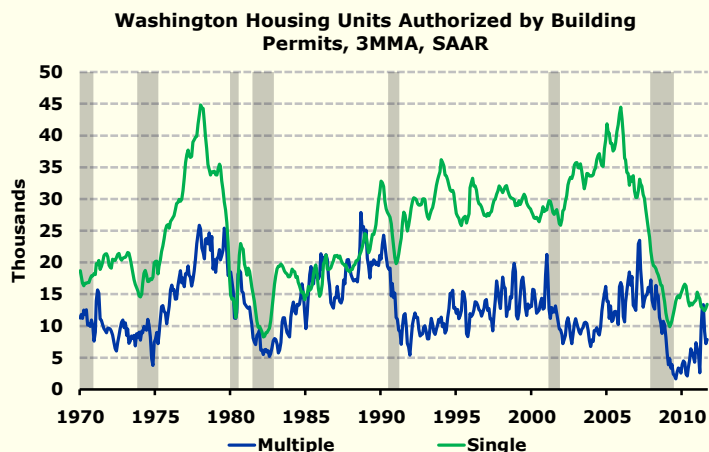


Source: McGraw-Hill Construction, data through October 2011

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## WA multi-family building permits are improving



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

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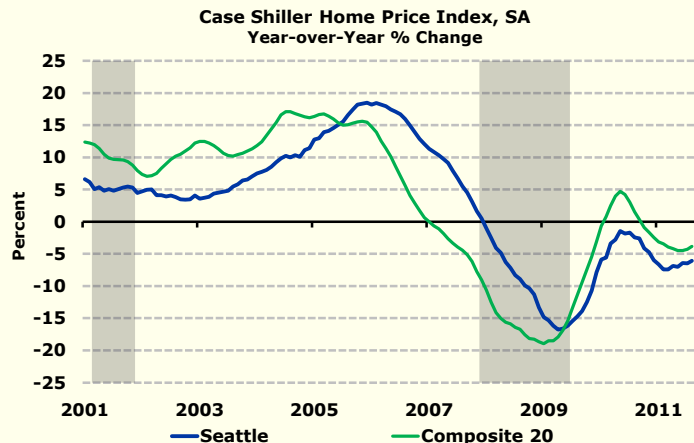


## Single-family home prices continue to decline

Aug 2011

U.S. is  
down  
3.9%

SEA is  
down 6.1%



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

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## More foreclosures can be expected...

### WA Rank:

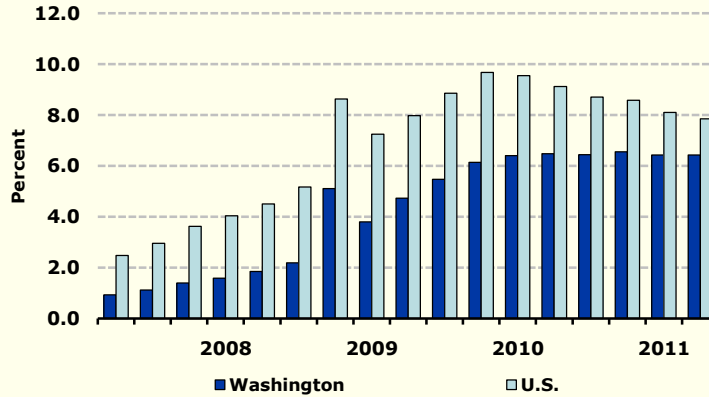
2011Q1 : 23  
2011Q2 : 23

Seriously  
Delinquent =  
90+ Days  
Past Due or  
in foreclosure

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### Seriously Delinquent



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

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## ...but will eventually slow down

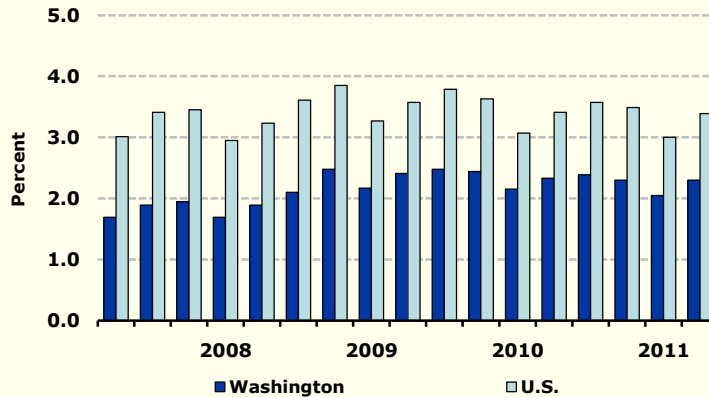
### WA Rank:

2011Q1: 47  
2011Q2: 47

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### 30 Days Past Due



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

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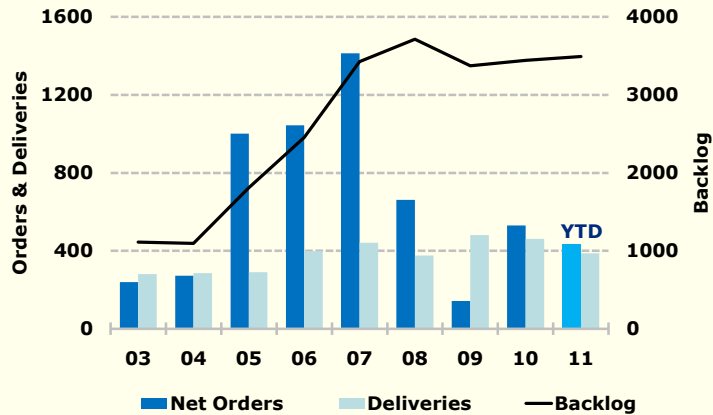


## Boeing has over 7 years of commercial orders on its books

Excludes the military's new refueling tanker

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Source: Boeing, data through November 2011

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## Software publishing employment is growing

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Source: ERFC November 2011 forecast; actual through October 2011

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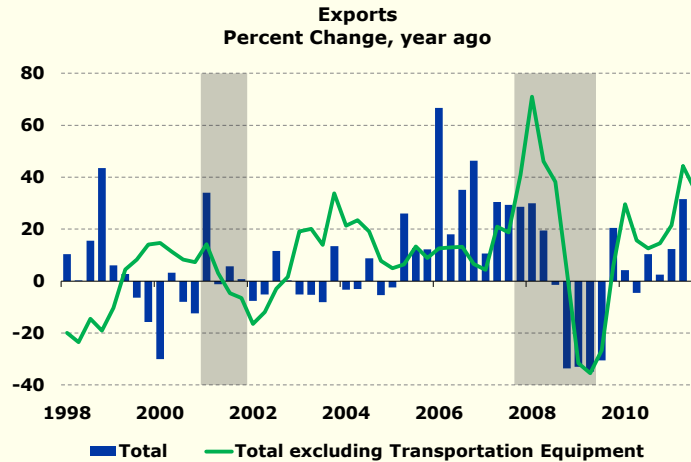


## WA export growth is strong, and will help state outperform in the recovery

Total exports were up 29% y/y in Q3

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Source: Wiser Trade Data; through 2011 Q3

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## Recent free trade agreements will benefit the state

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	Rank	USD	%	Key Industries	Detail
South Korea	4 <sup>th</sup>	\$2.7 Billion	5.1%	Agriculture, Transportation Equipment	92% of trans equip barriers eliminated immediately, 2/3 of ag barriers
Panama	27 <sup>th</sup>	\$315 million	0.6%	Transportation Equipment	Over 90% of aerospace exports become duty free immediately
Colombia	50 <sup>th</sup>	\$56 million	0.1%	Petroleum, Chemicals, Machinery	Majority of exports become duty free immediately

Source: U.S. Department of Commerce, Wiser Trade; data through 2010

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## WA employment is still in the hole

Peak to  
trough job  
losses

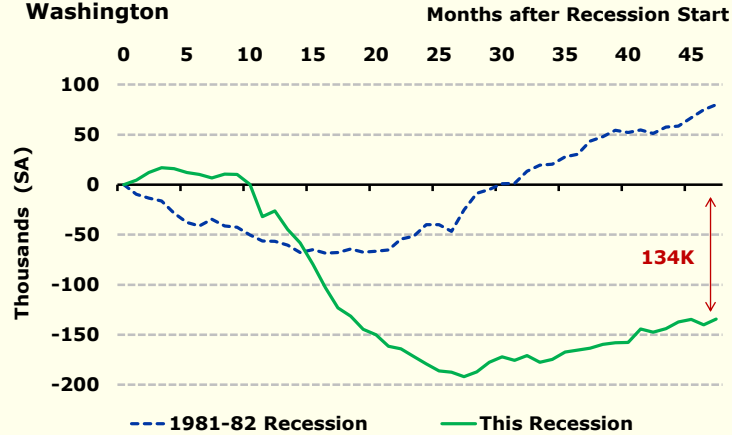
**1981-82:**  
3.3% of  
labor force

**This time:**  
5.4% of  
labor force

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### Washington



Source: WA ESD, ERFC Kalman filtered; data through October 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)

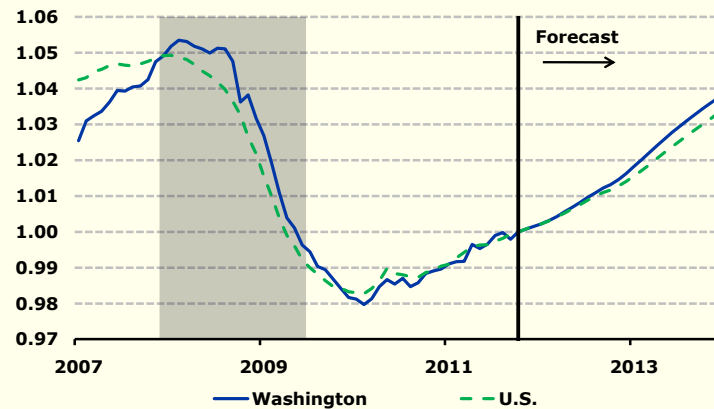
Both WA and the U.S. reached a trough in Feb. 2010

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

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October 2011 = 1.0



Source: ERFC November 2011 forecast; actual through October 2011

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

Date of regaining peak:

**WA:**

Nominal  
2011Q1

Real  
2012Q2

**U.S.:**

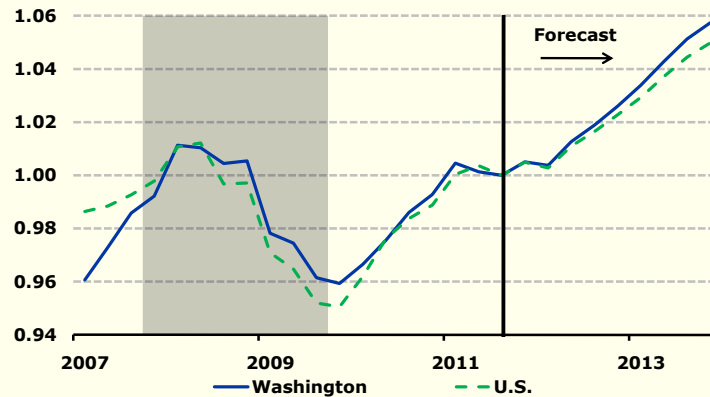
Nominal  
2010Q4

Real  
2012Q3

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2011Q3 = 1.0



Source: ERFC November 2011 forecast; actual data through 2011Q3

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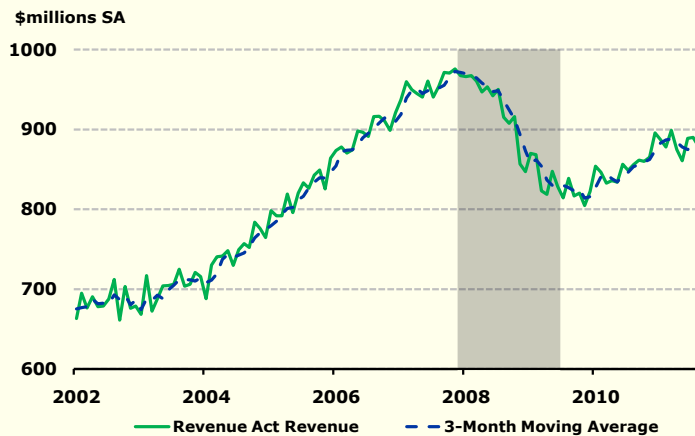


## Revenue Act collections are recovering slowly from their summer slump

Preliminary year-over-year growth, adjusted for shift in payment patterns, is estimated at 3.6% in the October 11-November 10 collection period

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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 September 2011 preliminary activity

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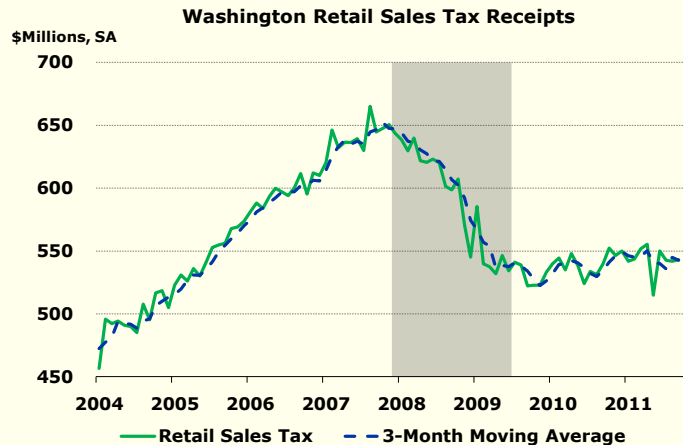


## Sales tax receipts have been flat to declining in recent months

Preliminary seasonally adjusted sales tax receipts were up 0.6% year-over-year for September activity

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Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change  
Source: ERFC; Monthly data through September 2011 preliminary activity

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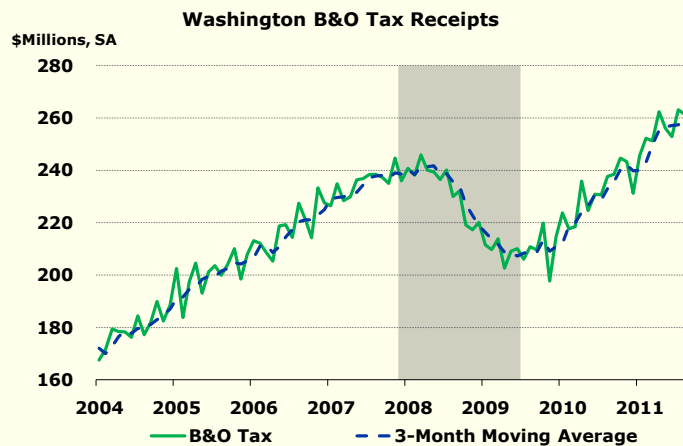


## B&O tax still growing but growth rate is slowing

Receipts have surpassed their pre-recession peak and continue to trend upward after a lull in the early spring

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Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change  
Source: ERFC; Monthly data through September 2011 preliminary activity

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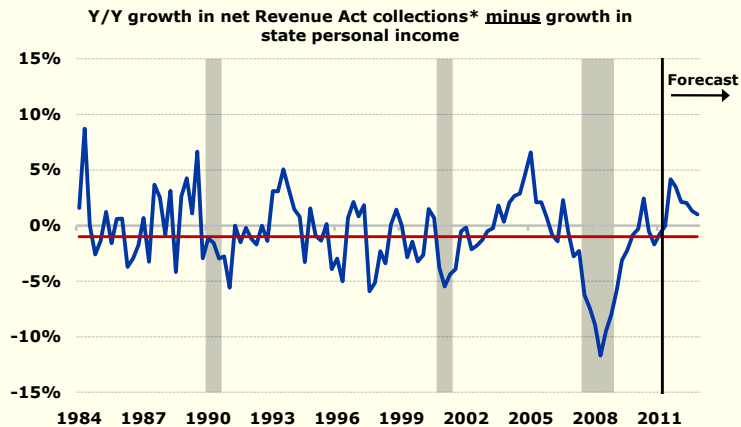


## Revenue growth relative to income is turning up

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, November 2011 forecast

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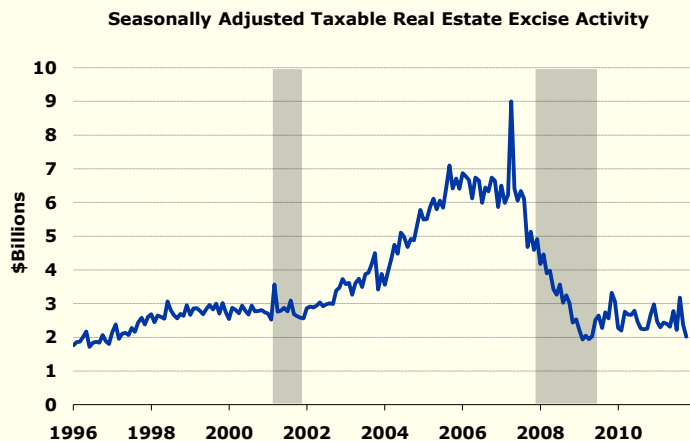


## REET is bumping along the bottom

Payments received for September and October activity slumped once again, decreasing 21% year-over-year

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Source: ERFC; monthly data through October 2011

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

**September Forecast:**  
**\$30,311 million**

USD millions	November 2011 Forecast				Total Change*
	Collection Experience	Non-economic Change	Forecast Change	Forecast	
Dept. of Revenue	(\$13)	(\$3)	(\$147)	\$28,605	(\$162)
All other agencies	\$1	\$41	(\$2)	\$1,584	\$40
<b>Total GF-S</b>	<b>(\$12)</b>	<b>\$38</b>	<b>(\$148)</b>	<b>\$30,188</b>	<b>(\$122)</b>

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\* Detail may not add to total due to rounding

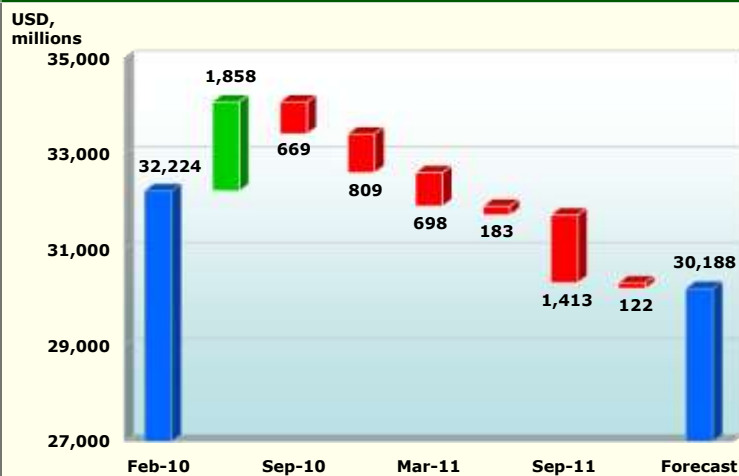
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## Forecast revisions to the 2011-13 biennium

**GF-S New Definition**



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Source: ERFC; data through November 2011 forecast

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## Final Total\*: General Fund State, 2009-2011 Biennium

USD millions

	<u>September 2011 Preliminary Total</u>	<u>Collection Revision</u>	<u>November 2011 Final Total</u>
Dept. of Revenue	\$26,756	\$0	\$26,756
All other agencies	\$1,438	\$25	\$1,463
<b>Total GF-S**</b>	<b>\$28,194</b>	<b>\$25</b>	<b>\$28,218</b>

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

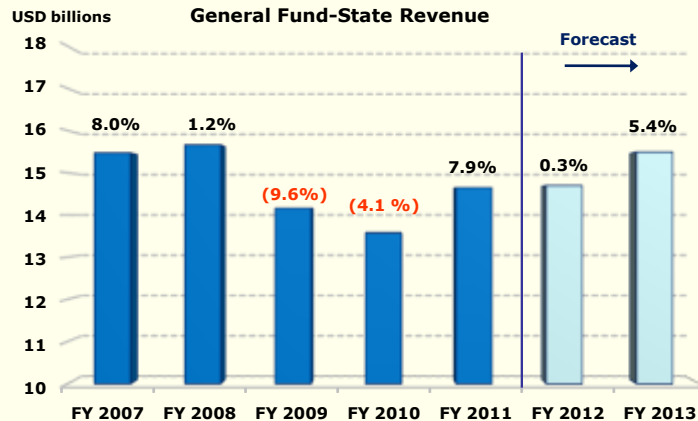
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## General Fund\* forecast by fiscal year

FY 2011 revenues were boosted by tax amnesty program and 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: ERF forecast, November 2011

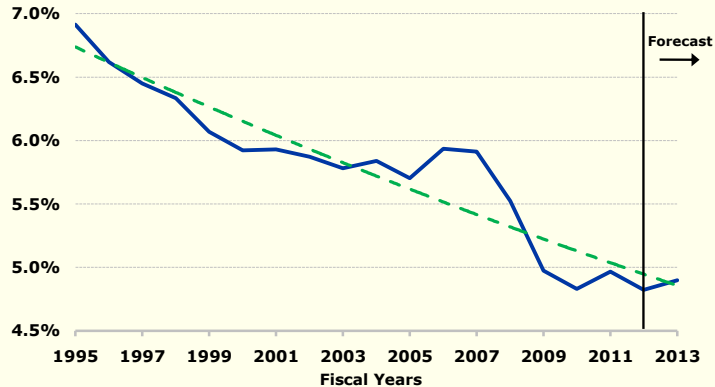
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## GF-S revenues as a share of personal income will be below trend until FY13

Total General Fund-State Revenue as Percentage of State Personal Income



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\*Current definition of Revenue Act

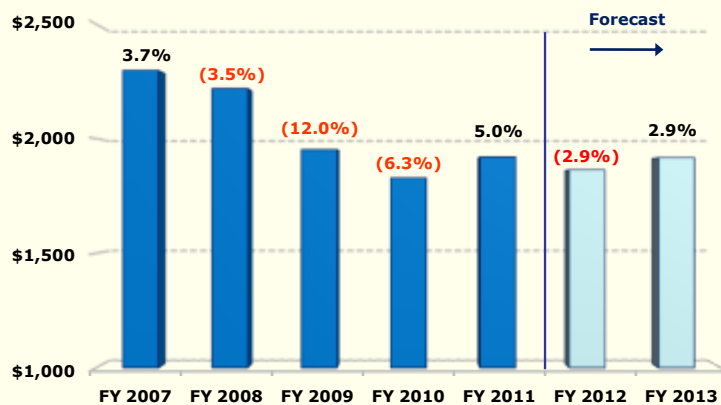
Source: ERFC; data through FY 2011, November 2011 forecast

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

Per Capita GF-S\*, \$2005



\* General Fund & Related Funds for FY 2007-2009

General Fund - new definition, for FY 2010-2013

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Source: ERFC forecast, November 2011

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## 2011-13 Biennium alternative forecasts – cash basis

	2011-13 Biennium	Difference From the baseline
<b>\$Millions</b>		
<b>Nov 2011 Baseline (50%)</b>	<b>\$30,188</b>	
<b><u>Nov 2011 Alternative Forecasts</u></b>		
<b>Optimistic (10%)</b>	<b>\$32,204</b>	<b>\$2,016</b>
<b>Pessimistic (40%)</b>	<b>\$28,208</b>	<b>(\$1,980)</b>
<b>Probability Weighted Average</b>	<b>\$29,598</b>	<b>(\$591)</b>
<b>GCEA*</b>	<b>\$30,127</b>	<b>(\$61)</b>

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

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## Forecast changes: Lottery, cash basis

<b>Most of Lottery Revenue is Non-General Fund</b>  Does not include one- time cash transfers	<b>Lottery Revenue</b>					USD Millions
	<b>November '11 Forecast</b>					
	<b>Sept Forecast</b>	<b>Non- economic Change*</b>	<b>Economic Change**</b>	<b>Total Change</b>	<b>Nov*** Forecast</b>	
2009-11 Biennium	<b>\$263.6</b>	0.0	0.0	0.0	<b>\$263.6</b>	
2011-13 Biennium	<b>\$245.2</b>	<b>(0.4)</b>	<b>(9.6)</b>	<b>(10.0)</b>	<b>\$235.2</b>	

\* Change includes impact of I-1183  
 \*\* Most of the change is due to increased costs  
 \*\*\* Detail may not add to total due to rounding

Source: ERFC forecast, November 2011

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## Conclusion

- The forecast for the 2011-13 Biennium is \$122 million lower
- Revenues are expected to grow 7.0% between the 2009-11 and 2011-13 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 extremely high, and downside risks outweigh upside risks
- In our February 2012 forecast, we will provide our first forecast for the 2013-15 biennium

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## Questions



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

[www.ercf.wa.gov](http://www.ercf.wa.gov)  
360-534-1560

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

Comparison of the November 2011 to the September 2011 Forecast

### 2011-13 Biennium

Millions of Dollars

	September 2011 Forecast*	Collection Experience	Non-economic Changes**	Forecast Change	November 2011 Forecast	Total Change#
Department of Revenue	\$28,767.0	(\$12.6)	(\$3.2)	(\$146.6)	\$28,604.7	(\$162.3)
All other Agencies	\$1,543.5	\$0.7	\$40.9	(\$1.6)	\$1,583.6	\$40.1
<b>Total General Fund-State</b>	<b>\$30,310.5</b>	<b>(\$11.8)</b>	<b>\$37.8</b>	<b>(\$148.1)</b>	<b>\$30,188.3</b>	<b>(\$122.2)</b>

### 2009-11 Biennium

Millions of Dollars

	September 2011 Preliminary Total	Collection Revision	November 2011 Final Total	Total Revision#
Department of Revenue	\$26,755.5	\$0.0	\$26,755.5	\$0.0
All other Agencies	\$1,438.1	\$24.5	\$1,462.6	\$24.5
<b>Total General Fund-State</b>	<b>\$28,193.6</b>	<b>\$24.5</b>	<b>\$28,218.1</b>	<b>\$24.5</b>

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

\*\*DOR: \$15.8 million additional B&O and liquor sales/liter tax due to initiative 1183 minus scheduled \$19 million DOR refund.

Other agencies (LCB): \$40.9 million from I-1183 license fees

#Details may not add due to rounding

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

February 2010 through November 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
November 2011	(159)	(1)	(160)	38 #7	(122)	30,188
<b>Total change***:</b>						
From February 2008	(3,395)	(138)	(3,533)	1,497	(2,036)	
Percent change	(11.1)	(8.8)	(11.0)	4.6	(6.3)	

\* 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

#7 Effects of initiative 1183 minus large DOR refund

**Alternative Forecasts**

November 2011

2011-13 Biennium

Cash Basis - Millions of Dollars

	<u>2011-13 Biennium</u>	<u>Difference From the November 2011 Baseline</u>
November 2011 Baseline (50%)	\$30,188	
November 2011 Alternative Forecasts		
Optimistic (10%)	\$32,204	\$2,016
Pessimistic (40%)	\$28,208	(\$1,980)
Probability Weighted Average	\$29,598	(\$591)
GCEA*	\$30,127	(\$61)

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

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

	Washington		U.S
	(000)	% Chg.	% Chg.
<b>Total</b>	<b>33.0</b>	<b>1.2%</b>	<b>1.1%</b>
Aerospace Product and Parts Manufacturing	8.2	10.2%	NA
Wholesale Trade	4.0	3.3%	1.5%
Manufacturing Excluding Aerospace	5.6	3.1%	NA
Professional and Business Services	9.0	2.7%	3.2%
Software Publishers	1.3	2.6%	NA
Other Services	2.0	1.9%	0.7%
Retail Trade	5.8	1.9%	1.2%
Leisure and Hospitality	4.7	1.8%	1.6%
Mining and Logging	0.1	1.7%	10.8%
Education and Health Services	5.4	1.4%	2.2%
Transportation, Warehousing and Utilities	0.4	0.4%	1.7%
Information Excluding Software	0.0	0.0%	NA
Construction	-1.8	-1.3%	0.3%
Financial Activities	-1.8	-1.3%	-0.1%
State and Local Gov Non-Education	-3.8	-1.8%	-1.8%
State and Local Gov Education	-6.1	-2.6%	-0.9%
Information	1.3	1.2%	-1.6%
Manufacturing	13.8	5.3%	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>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>	<b>Aug-11</b>	<b>Sep-11</b>
441	Motor vehicles & parts	14.7	12.0	18.3	8.0	10.2	11.4	8.3	9.3	5.3	6.7	(0.3)	2.7	4.9
442	furniture and home furnishings	(0.8)	2.9	0.9	7.6	2.7	3.9	6.8	6.6	1.4	2.4	3.9	6.4	5.3
443	Electronics & appliances	4.8	12.3	16.1	10.8	35.4	7.0	5.2	28.9	12.5	3.2	4.6	11.5	7.4
444	Build. Mat./garden equip.	(2.3)	0.9	5.9	1.0	(3.6)	(8.9)	(11.5)	(3.3)	0.5	5.8	(0.9)	6.2	4.7
445	Food & beverage stores	6.4	9.0	9.5	3.5	2.1	2.3	(1.8)	1.8	2.1	(3.1)	(7.0)	7.8	(11.5)
446	Drug & health stores	5.8	5.5	8.8	2.3	3.8	3.5	7.1	5.9	4.8	0.9	(0.9)	3.5	4.9
447	Gas stations & convenience stores	7.7	12.7	12.5	5.5	8.4	9.4	8.3	10.4	12.7	5.8	2.3	7.3	8.2
448	Apparel & accessories	8.9	4.0	8.2	6.8	5.1	5.8	4.6	9.4	6.1	8.2	8.5	3.6	3.3
451	Sporting goods,toys,books,music	(1.2)	(0.1)	5.4	2.2	3.4	4.6	1.2	3.4	2.0	3.4	4.8	6.4	1.8
452	General merchandise stores	6.9	3.8	5.4	1.9	2.1	1.7	(1.2)	3.0	0.4	1.5	(1.0)	(0.4)	(0.9)
453	Miscellaneous retailers	5.2	1.9	1.7	(0.4)	4.0	6.8	(0.1)	2.6	(3.2)	0.6	7.1	2.9	(4.9)
454	Nonstore retailers	18.9	6.1	17.7	8.9	16.4	16.4	16.5	12.5	14.3	9.6	9.8	14.3	5.4
<b>44-45</b>	<b>Sub total: Retail Trade</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>	<b>4.3</b>	<b>1.4</b>
11	Agriculture,forestry,fishing	25.3	36.8	33.1	(7.8)	(4.3)	(26.8)	(22.2)	(1.1)	(9.0)	(11.2)	13.3	20.5	2.2
21	Mining	(6.2)	3.0	(12.3)	2.6	5.7	(14.8)	(12.0)	8.6	15.9	13.7	(14.6)	16.1	4.4
22	Utilities	0.1	(2.3)	5.6	2.2	5.9	11.8	14.6	4.3	7.0	17.1	(5.9)	(3.1)	1.5
23	Construction	(9.5)	(9.4)	(3.5)	(7.2)	(7.0)	(11.2)	(13.2)	(8.2)	(7.3)	(8.6)	(3.9)	(3.3)	(4.7)
31-33	Manufacturing	1.7	(9.6)	7.7	(5.7)	(0.3)	5.0	7.7	15.7	34.8	24.8	37.0	17.9	3.9
42	Wholesale trade	5.3	10.8	6.8	1.4	4.9	7.4	9.0	3.8	8.9	12.6	9.5	13.3	4.4
48-49	Transportation & Warehousing	7.5	17.5	29.3	6.8	10.3	16.3	8.7	25.1	19.9	(5.4)	14.5	13.0	6.5
51	Information (adjusted for one-time paym	0.3	(0.4)	(1.9)	1.9	11.4	12.9	10.0	13.2	4.8	5.1	12.7	10.0	14.5
52	Finance, insurance	(4.0)	0.3	0.7	19.1	11.1	18.2	10.6	1.4	(9.2)	2.2	0.8	(3.4)	1.8
53	Real Estate, rental & leasing	(2.3)	(1.6)	(1.1)	(1.1)	1.5	(1.6)	(0.9)	(2.6)	5.1	(0.3)	0.2	5.0	2.2
54	Professional, scientific & Tech. services	14.1	13.1	34.8	8.2	13.2	20.6	6.2	20.3	3.4	(3.4)	(3.5)	3.7	(7.7)
55-62	Management,education & health services	13.9	9.1	12.0	1.3	14.9	14.3	1.3	11.9	7.7	(0.2)	1.9	6.4	(5.5)
71	Arts, entertainment & recreation	(0.7)	5.2	(3.4)	3.7	0.3	9.0	1.5	3.2	(0.3)	(0.6)	1.8	4.5	(2.2)
72	Accommodation & food services	4.9	4.8	5.4	3.6	2.0	1.5	3.4	3.4	1.7	3.8	3.7	4.7	2.5
81	Other services	1.9	2.3	3.1	(3.3)	7.7	2.4	0.7	1.7	8.0	(2.0)	0.2	7.0	(0.6)
92,99,00	Public Administration & all other	10.0	3.0	14.8	(18.8)	(7.2)	(9.8)	(1.1)	16.5	(10.3)	(4.3)	7.0	1.9	(12.5)
<b>Total: All Industries</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>5.2</b>	<b>0.9</b>
<b>Addendum:</b>														
Retail trade & Food services		6.7	5.8	8.7	4.2	5.8	4.3	2.4	5.8	3.0	3.3	1.2	4.1	1.4
Non retail trade & food services		1.3	0.4	5.4	(0.0)	4.5	5.6	2.9	5.4	6.1	4.2	5.8	6.0	0.6
Accommodations		6.4	9.5	11.0	7.9	7.5	2.1	6.3	5.3	3.9	10.4	7.2	7.8	5.4
Retail trade & food service-except auto		5.1	4.4	6.8	3.6	4.9	2.9	1.1	5.0	2.6	2.6	1.6	4.4	0.6
Real estate/construction related		(6.8)	(6.0)	(1.3)	(4.0)	(4.5)	(8.2)	(9.9)	(5.4)	(3.4)	(3.9)	(2.2)	0.1	(1.6)
Total less real estate/construction related		6.3	5.0	8.8	3.1	7.2	7.8	5.4	8.1	6.5	5.6	5.1	6.4	1.5
Non retail trade		1.6	0.7	5.2	0.3	4.1	5.2	2.9	5.1	5.6	3.9	5.4	5.7	0.6

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

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**Analysis for the Major Sources Based on Taxable Activity**

Revenue Act Sources

November 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	8.4	0.3
2009	(10.4)	0.4	(27.8)
2010	(6.0)	(1.3)	4.8
2011	1.8	4.9	0.4
2012	2.8	3.3	0.9
2013	4.7	3.8	1.2
Average 1992-2010:	4.0	5.6	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	8.4	0.8
2009	(8.8)	0.4	(23.6)
2010	(2.9)	(1.3)	2.3
2011	3.7	4.9	0.7
2012	2.4	3.3	0.7
2013	3.8	3.8	1.0
Average 1992-2010:	4.3	5.6	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

November 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	8.4	0.3
2009	(13.0)	0.4	(35.0)
2010	(5.9)	(1.3)	4.7
2011	11.4	4.9	2.3
2012	6.0	3.3	1.8
2013	6.5	3.8	1.7
Average 1992-2010:	2.7	5.6	0.5

## Total Revenue Act Receipts

November 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	8.4	0.5
2009	(9.5)	0.4	(25.5)
2010	(5.3)	(1.3)	4.2
2011	8.1	4.9	1.6
2012	1.5	3.3	0.5
2013	5.7	3.8	1.5
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)

November 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	\$14,648	7.9%	\$0	0.0%	\$14,648	7.9%	\$112	-29.0%	\$14,759	7.5%
Forecast:										
FY 2012	\$14,697	0.3%	\$0	0.0%	\$14,697	0.3%	\$95	-14.8%	\$14,792	0.2%
FY 2013	\$15,491	5.4%	\$0	0.0%	\$15,491	5.4%	\$84	-11.7%	\$15,575	5.3%
<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>\$28,218</b>	<b>1.9%</b>	<b>\$0</b>	<b>-100.0%</b>	<b>\$28,218</b>	<b>-5.4%</b>	<b>\$269</b>	<b>-38.5%</b>	<b>\$28,487</b>	<b>-5.8%</b>
<b>11-13 Biennium</b>	<b>\$30,188</b>	<b>7.0%</b>	<b>\$0</b>	<b>0.0%</b>	<b>\$30,188</b>	<b>7.0%</b>	<b>\$179</b>	<b>-33.4%</b>	<b>\$30,367</b>	<b>6.6%</b>

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

## U.S. Forecast Comparison

	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2009	2010	2011	2012	2013
<b>Real GDP (2005 USD billions)</b>											
November Forecast, Final	13,353	13,429	13,491	13,563	13,643	13,729	12,703	13,088	13,320	13,606	13,987
Percent Change	2.5%	2.3%	1.9%	2.2%	2.4%	2.6%	-3.5%	3.0%	1.8%	2.1%	2.8%
September Forecast	13,323	13,392	13,462	13,542	13,629	13,724	12,703	13,088	13,301	13,589	14,024
Percent Change	1.9%	2.1%	2.1%	2.4%	2.6%	2.8%	-3.5%	3.0%	1.6%	2.2%	3.2%
<b>Real Consumption (2005 USD billions)</b>											
November Forecast, Final	9,450	9,510	9,554	9,614	9,671	9,726	9,037	9,221	9,432	9,641	9,857
Percent Change	2.4%	2.6%	1.9%	2.5%	2.4%	2.3%	-1.9%	2.0%	2.3%	2.2%	2.2%
September Forecast	9,433	9,478	9,522	9,586	9,651	9,723	9,037	9,221	9,419	9,621	9,860
Percent Change	2.0%	1.9%	1.9%	2.7%	2.8%	3.0%	-1.9%	2.0%	2.1%	2.1%	2.5%
<b>Implicit Price Deflator, PCE (2005=1.00)</b>											
November Forecast, Final	1.143	1.148	1.151	1.153	1.158	1.162	1.092	1.111	1.139	1.156	1.175
Percent Change	2.4%	1.7%	1.2%	0.5%	1.7%	1.5%	0.2%	1.8%	2.5%	1.5%	1.6%
September Forecast	1.142	1.143	1.146	1.147	1.152	1.155	1.092	1.111	1.137	1.150	1.166
Percent Change	1.9%	0.4%	0.9%	0.6%	1.5%	1.3%	0.2%	1.8%	2.3%	1.1%	1.4%
<b>Real Personal Income (2005 USD billions)</b>											
November Forecast, Final	11,390	11,446	11,421	11,514	11,577	11,648	10,929	11,136	11,415	11,540	11,847
Percent Change	-1.4%	2.0%	-0.9%	3.3%	2.2%	2.5%	-4.4%	1.9%	2.5%	1.1%	2.7%
September Forecast	11,454	11,547	11,530	11,621	11,692	11,771	10,929	11,136	11,457	11,654	11,963
Percent Change	0.7%	3.3%	-0.6%	3.2%	2.5%	2.7%	-4.4%	1.9%	2.9%	1.7%	2.7%
<b>Nonfarm Payroll Employment (Millions)</b>											
November Forecast, Final	131.2	131.6	131.9	132.4	132.8	133.2	130.8	129.8	131.1	132.6	134.7
Percent Change	0.7%	1.1%	1.0%	1.3%	1.4%	1.2%	-4.4%	-0.7%	1.0%	1.1%	1.6%
September Forecast	131.2	131.5	131.9	132.4	132.9	133.4	130.8	129.8	131.1	132.6	135.0
Percent Change	0.7%	0.9%	1.1%	1.6%	1.6%	1.5%	-4.4%	-0.7%	1.0%	1.2%	1.8%
<b>Unemployment Rate (Percent of Labor Force)</b>											
November Forecast, Final	9.1	9.0	9.0	8.9	8.9	8.8	9.3	9.6	9.0	8.9	8.5
September Forecast	9.1	9.2	9.1	9.1	9.0	8.9	9.3	9.6	9.1	9.0	8.3
<b>30 Year Fixed Mortgage Rate (Percent, average)</b>											
November Forecast, Final	4.3	4.0	4.1	4.5	4.8	4.9	5.0	4.7	4.5	4.6	5.0
September Forecast	4.3	4.0	4.2	4.6	4.9	5.0	5.0	4.7	4.5	4.7	5.0
<b>3 Month T-Bill Rate (Percent, average)</b>											
November Forecast, Final	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1
September Forecast	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1

## Washington Forecast Comparison

	2011Q3	2011Q4	2012Q1	2012Q2	2012Q3	2012Q4	2009	2010	2011	2012	2013
<b>Real Personal Income (2005 USD billions)</b>											
November Forecast, Final	264.5	264.7	264.6	267.0	269.4	270.1	255.3	258.4	264.5	267.8	275.9
Percent Change	1.4%	0.3%	-0.2%	3.7%	3.6%	1.1%	-3.9%	1.2%	2.4%	1.2%	3.0%
September Forecast	266.3	268.2	267.9	270.2	272.5	274.1	257.6	259.7	266.1	271.2	279.4
Percent Change	1.8%	3.0%	-0.6%	3.5%	3.4%	2.5%	-2.9%	0.8%	2.5%	1.9%	3.1%
<b>Personal Income (USD billions)</b>											
November Forecast, Final	302.4	303.9	304.7	307.8	311.8	313.8	278.7	287.1	301.2	309.5	324.2
Percent Change	3.7%	2.0%	1.0%	4.2%	5.3%	2.6%	-3.7%	3.0%	4.9%	2.8%	4.7%
September Forecast	304.0	306.6	306.9	310.0	313.8	316.7	281.2	288.6	302.6	311.8	326.0
Percent Change	3.8%	3.4%	0.4%	4.1%	5.0%	3.9%	-2.7%	2.6%	4.9%	3.0%	4.5%
<b>Nonfarm Payroll Employment (Thousands)</b>											
November Forecast, Final	2823	2828	2835	2845	2857	2867	2822	2784	2817	2851	2906
Percent Change	1.1%	0.7%	1.0%	1.5%	1.6%	1.5%	-4.6%	-1.4%	1.2%	1.2%	1.9%
September Forecast	2819	2825	2835	2848	2861	2874	2822	2783	2815	2855	2915
Percent Change	1.2%	0.8%	1.4%	1.9%	1.9%	1.8%	-4.6%	-1.4%	1.1%	1.4%	2.1%
<b>Unemployment Rate (Percent of Labor Force)</b>											
November Forecast, Final	9.3	9.1	9.1	9.1	9.1	9.0	9.3	9.6	9.2	9.1	8.7
September Forecast	9.3	9.4	9.3	9.3	9.2	9.0	9.3	9.6	9.3	9.2	8.5
<b>Manufacturing Employment (Thousands)</b>											
November Forecast, Final	270.0	272.7	273.7	275.1	276.2	277.7	265.5	257.9	267.9	275.7	281.2
Percent Change	5.8%	4.0%	1.5%	2.2%	1.6%	2.2%	-8.8%	-2.8%	3.8%	2.9%	2.0%
September Forecast	270.4	271.6	273.1	276.2	278.3	279.9	265.5	257.9	267.8	276.9	284.4
Percent Change	5.9%	1.9%	2.2%	4.5%	3.1%	2.4%	-8.8%	-2.8%	3.8%	3.4%	2.7%
<b>Construction Employment (Thousands)</b>											
November Forecast, Final	138.5	138.6	138.5	139.2	140.0	140.6	159.7	141.1	137.9	139.6	144.5
Percent Change	2.3%	0.3%	-0.3%	2.0%	2.2%	1.7%	-20.4%	-11.6%	-2.2%	1.2%	3.5%
September Forecast	138.3	137.7	138.0	138.4	139.1	139.4	159.7	141.1	137.8	138.7	143.9
Percent Change	1.8%	-1.5%	0.7%	1.3%	1.8%	0.9%	-20.4%	-11.6%	-2.3%	0.7%	3.7%
<b>Housing Permits (Thousands)</b>											
November Forecast, Final	21.2	19.4	19.5	20.1	20.9	21.8	17.0	20.7	20.9	20.5	26.2
Percent Change	-55.1%	-30.1%	0.7%	12.9%	16.9%	19.5%	-41.2%	21.6%	0.9%	-1.6%	27.6%
September Forecast	20.1	19.4	20.0	20.9	21.7	22.5	17.0	20.7	20.6	21.3	27.6
Percent Change	-63.8%	-13.2%	13.3%	18.1%	15.9%	16.0%	-41.2%	21.6%	-0.5%	3.3%	29.6%

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

**Calendar Years**

November 4, 2011

	2011	2012	2013
<b>U.S.</b>			
<b>Real GDP</b>			
<i>Growth</i>			
ERFC	1.8	2.1	2.8
GCEA Average	1.6	1.8	2.4
<b>Real Consumption</b>			
<i>Growth</i>			
ERFC	2.3	2.2	2.2
GCEA Average	2.0	1.8	2.2
<b>Implicit Price Deflator, PCE</b>			
<i>Growth</i>			
ERFC	2.5	1.5	1.6
GCEA Average	2.5	1.8	2.1
<b>Mortgage Rate</b>			
<i>Percent</i>			
ERFC	4.5	4.6	5.0
GCEA Average	4.5	4.5	4.8
<b>Oil Price (WTI)</b>			
<i>USD per barrel</i>			
ERFC	94.5	93.7	92.1
GCEA Average	92.2	85.2	86.0

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

62%

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

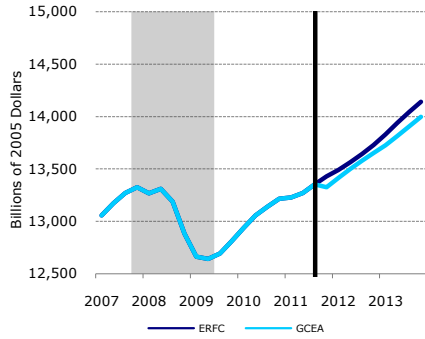
38%

**Washington State  
Real Personal Income**

<i>Growth</i>			
ERFC	2.4	1.2	3.0
GCEA Average	2.4	1.8	2.2
<b>Wage and Salary Employment</b>			
<i>Growth</i>			
ERFC	1.2	1.2	1.9
GCEA Average	1.1	1.2	1.8
<b>Manufacturing Employment</b>			
<i>Growth</i>			
ERFC	3.8	2.9	2.0
GCEA Average	3.6	2.8	2.0
<b>Construction Employment</b>			
<i>Growth</i>			
ERFC	-2.2	1.2	3.5
GCEA Average	-2.1	0.3	1.7
<b>Housing Permits</b>			
<i>Thousands of authorized units</i>			
ERFC	20.9	20.5	26.2
GCEA Average	20.8	21.4	24.6
<b>Washington Average Annual Wage</b>			
<i>Growth</i>			
ERFC	2.9	2.2	3.2
GCEA Average	3.0	2.4	2.6

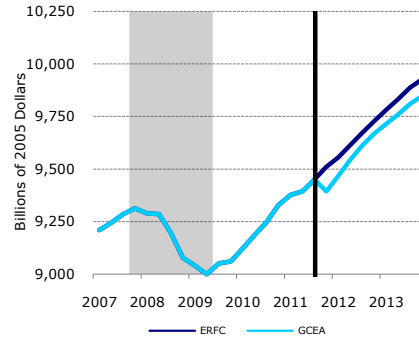
## U.S. Forecast Comparison

**Real GDP**



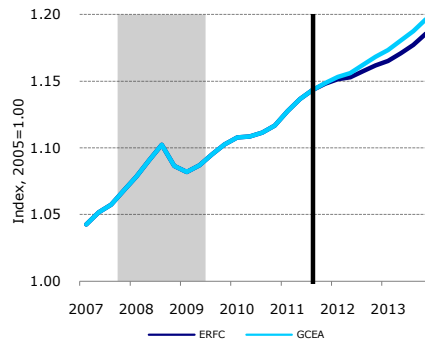
Source: BEA, ERFC, GCEA; Actual data through 2011 Q3

**Real Consumption**



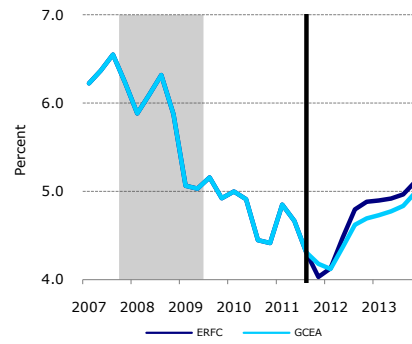
Source: BEA, ERFC, GCEA; Actual data through 2011 Q3

**Implicit Price Deflator, PCE**



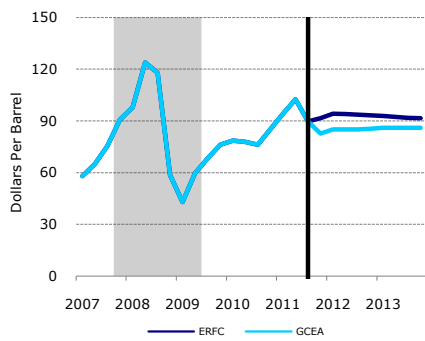
Source: BEA, ERFC, GCEA; Actual data through 2011 Q3

**Mortgage Rate**



Source: Freddie Mac, ERFC, GCEA; Actual data through 2011 Q3

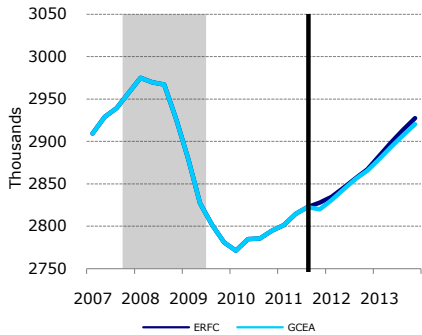
**WTI Oil Price**



Source: EIA, ERFC, GCEA; Actual data through 2011 Q3

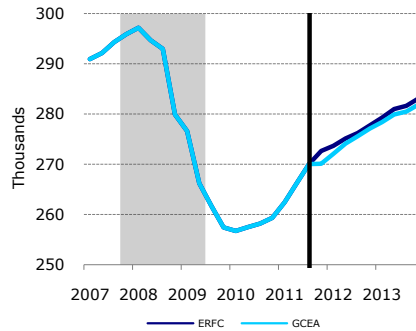
# Washington Forecast Comparison

**Nonfarm Payroll Employment**



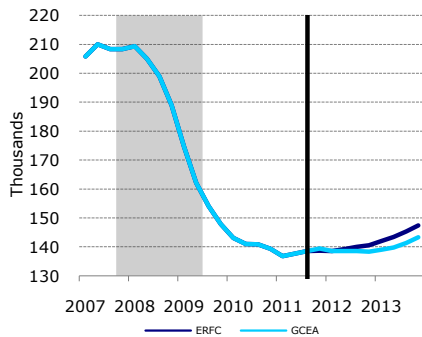
Source: ESD, ERFC, GCEA; Actual data through 2011 Q3

**Manufacturing Employment**



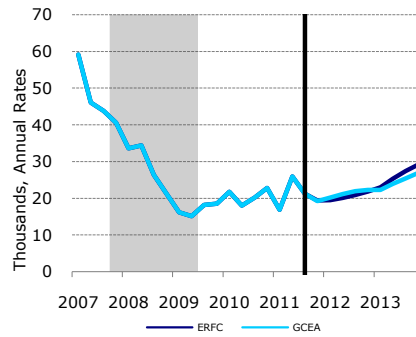
Source: ESD, ERFC, GCEA; Actual data through 2011 Q3

**Construction Employment**



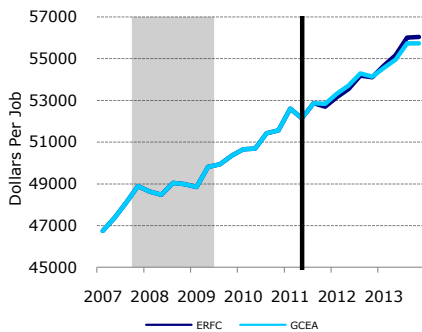
Source: ESD, ERFC, GCEA; Actual data through 2011 Q3

**Housing Units Authorized**



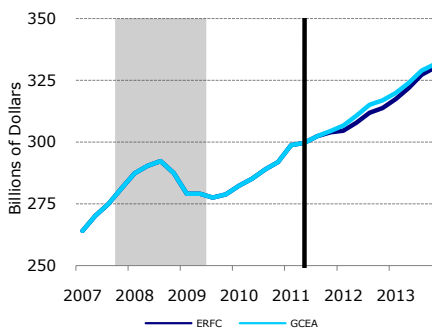
Source: Census, ERFC, GCEA; Actual data through 2011 Q3

**Average Annual Wage**



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

**Personal Income**



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

**General Fund-State Cash Forecast  
Summary of Changes to GF-S Forecast  
2011-13 Biennium  
Millions of Dollars**

	Collection Experience: September 11 -November 10, 2011			Remainder of the Biennium (12/11/11 - 6/30/13)		Total Change 2011-13 Biennium
	Actual Variance*	Special Factors	Variance Excluding Special Factors	Forecast Change	Other	
Revenue Act**	(\$9.2)	\$6.5	(\$15.7)	(\$108.6)	(\$12.7)	(\$130.5)
Non Revenue Act	(\$3.4)	(\$6.5)	\$3.1	(\$38.1)	\$9.5	(\$32.0)
Property tax	\$6.8	\$0.0	\$6.8	(\$7.2)	\$0.0	(\$0.4)
Real estate ex. tax	(\$6.4)	\$0.0	(\$6.4)	(\$27.6)	\$0.0	(\$33.9)
Cigarette	(\$2.3)	\$0.0	(\$2.3)	\$3.2	\$0.0	\$0.9
other	(\$1.6)	(\$6.5)	\$4.9	(\$6.4)	\$9.5	\$1.5
Department of Revenue Subtotal	(\$12.6)	\$0.0	(\$12.6)	(\$146.6)	(\$3.2)	(\$162.3)
Department of Licensing	\$0.1	\$0.0	\$0.1	(\$0.2)	\$0.0	(\$0.1)
Lottery	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Administrative Office of the Courts	\$0.7	\$0.0	\$0.7	(\$0.7)	\$0.0	(\$0.0)
All Other	NA	\$0.0	NA	(\$0.7)	\$40.9	\$40.2
<b>Total General Fund-State</b>	<b>(\$11.8)</b>	<b>\$0.0</b>	<b>(\$11.8)</b>	<b>(\$148.1)</b>	<b>\$37.8</b>	<b>(\$122.2)</b>

\*Variance since the last (September 2011) forecast (September 11 - November 10, 2011)

\*\*Retail sales, business & occupation, use, public utilities and tobacco products taxes and penalties & interest

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

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

Source/Agency	September 2011 Baseline	Non-Economic Changes	Forecast Changes	November 2011 Baseline	Total Changes
Department of Licensing	\$34.8	\$0.0	(\$0.1)	\$34.7	(\$0.1)
Insurance Commissioner Insurance Premiums	\$800.2	\$0.0	\$0.0	\$800.2	\$0.0
Liquor Control Board Liquor Profits and Fees	\$74.0	\$0.0	\$0.0	\$74.0	\$0.0
Beer and Wine Surtax	\$113.9	\$0.0	\$0.0	\$113.9	\$0.0
Lottery Commission Lottery Revenue	\$21.5	\$0.0	\$0.0	\$21.5	\$0.0
State Treasurer Interest Earnings	(\$10.3)	\$0.0	\$0.0	(\$10.3)	\$0.0
Office of Financial Management Other Agencies	\$206.5	\$0.0	\$24.6	\$231.2	\$24.6
Administrative Office of the Courts Fines and Forfeitures	\$197.4	\$0.0	(\$0.0)	\$197.3	(\$0.0)
<b>Total General Fund-State</b>	<b>\$1,438.1</b>	<b>\$0.0</b>	<b>\$24.5</b>	<b>\$1,462.6</b>	<b>\$24.5</b>

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

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

Source/Agency	Optimistic	Baseline	Pessimistic
Department of Licensing	\$34.7	\$34.7	\$34.7
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	\$231.2	\$231.2	\$231.2
Administrative Office of the Courts Fines and Forfeitures	\$197.3	\$197.3	\$197.3
<b>Total General Fund-State</b>	<b>\$1,462.6</b>	<b>\$1,462.6</b>	<b>\$1,462.6</b>
Change from Baseline	\$0.0		\$0.0

\* Detail may not total due to rounding.



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

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

Source/Agency	September 2011 Baseline	Non-Economic Changes	Forecast Changes	November 2011 Baseline	Total Changes
Department of Licensing	\$34.8	\$0.0	(\$0.1)	\$34.7	(\$0.1)
Insurance Commissioner Insurance Premiums	\$800.2	\$0.0	\$0.0	\$800.2	\$0.0
Liquor Control Board Liquor Profits and Fees	\$74.0	\$0.0	\$0.0	\$74.0	\$0.0
Beer and Wine Surtax	\$113.9	\$0.0	\$0.0	\$113.9	\$0.0
Lottery Commission Lottery Revenue	\$19.9	\$0.0	\$0.0	\$19.9	\$0.0
State Treasurer Interest Earnings	(\$12.7)	\$0.0	\$0.0	(\$12.7)	\$0.0
Office of Financial Management Other Agencies	\$206.5	\$0.0	\$24.6	\$231.2	\$24.6
Administrative Office of the Courts Fines and Forfeitures	\$197.4	\$0.0	(\$0.0)	\$197.3	(\$0.0)
<b>Total General Fund-State</b>	<b>\$1,434.0</b>	<b>\$0.0</b>	<b>\$24.5</b>	<b>\$1,458.6</b>	<b>\$24.5</b>

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

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

Source/Agency	Optimistic	Baseline	Pessimistic
Department of Licensing	\$34.7	\$34.7	\$34.7
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	\$231.2	\$231.2	\$231.2
Administrative Office of the Courts Fines and Forfeitures	\$197.3	\$197.3	\$197.3
<b>Total General Fund-State</b>	<b>\$1,458.6</b>	<b>\$1,458.6</b>	<b>\$1,458.6</b>
Change from Baseline	\$0.0		\$0.0

\* Detail may not total due to rounding.

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

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

Source/Agency	September 2011 Baseline	Non-Economic Changes	Forecast Changes	November 2011 Baseline	Total Changes
Department of Licensing	\$35.4	\$0.0	(\$1.3)	\$34.1	(\$1.3)
Insurance Commissioner Insurance Premiums	\$861.5	\$0.0	\$0.0	\$861.5	\$0.0
Liquor Control Board Liquor Profits and Fees	\$84.8	\$40.9	\$8.1	\$133.8	\$49.0
Beer and Wine Surtax	\$160.2	\$0.0	\$0.0	\$160.2	\$0.0
Lottery Commission Lottery Revenue	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
State Treasurer Interest Earnings	(\$18.8)	\$0.0	(\$7.4)	(\$26.2)	(\$7.4)
Office of Financial Management Other Agencies	\$227.4	\$0.0	\$0.0	\$227.4	\$0.0
Administrative Office of the Courts Fines and Forfeitures	\$193.0	\$0.0	(\$0.2)	\$192.8	(\$0.2)
<b>Total General Fund-State</b>	<b>\$1,543.5</b>	<b>\$40.9</b>	<b>(\$0.8)</b>	<b>\$1,583.6</b>	<b>\$40.1</b>

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

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

Source/Agency	Optimistic	Baseline	Pessimistic
Department of Licensing	\$35.1	\$34.1	\$33.1
Insurance Commissioner Insurance Premiums	\$883.1	\$861.5	\$840.0
Liquor Control Board Liquor Profits and Fees	\$136.4	\$133.8	\$131.1
Beer and Wine Surtax	\$163.4	\$160.2	\$157.0
Lottery Commission Lottery Revenue	\$0.0	\$0.0	\$0.0
State Treasurer Interest Earnings	(\$7.1)	(\$26.2)	(\$31.2)
Office of Financial Management Other Agencies	\$238.8	\$227.4	\$216.0
Administrative Office of the Courts Fines and Forfeitures	\$199.3	\$192.8	\$185.4
<b>Total General Fund-State</b>	<b>\$1,649.1</b>	<b>\$1,583.6</b>	<b>\$1,531.4</b>
Change from Baseline	\$65.5		(\$52.2)

\* Detail may not total due to rounding.

**General Fund-State GAAP Estimates - Other Agencies**  
 Comparison of November 2011 to September 2011 Forecast  
 2011-13 Biennium  
 (Amounts in Millions)

Source/Agency	September 2011 Baseline	Non-Economic Changes	Forecast Changes	November 2011 Baseline	Total Changes
Department of Licensing	\$35.4	\$0.0	(\$1.3)	\$34.1	(\$1.3)
Insurance Commissioner Insurance Premiums	\$861.5	\$0.0	\$0.0	\$861.5	\$0.0
Liquor Control Board Liquor Profits and Fees	\$84.8	\$40.9	\$8.1	\$133.8	\$49.0
Beer and Wine Surtax	\$160.2	\$0.0	\$0.0	\$160.2	\$0.0
Lottery Commission Lottery Revenue	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
State Treasurer Interest Earnings	(\$19.2)	\$0.0	(\$7.8)	(\$27.0)	(\$7.8)
Office of Financial Management Other Agencies	\$227.4	\$0.0	\$0.0	\$227.4	\$0.0
Administrative Office of the Courts Fines and Forfeitures	\$193.0	\$0.0	(\$0.2)	\$192.8	(\$0.2)
<b>Total General Fund-State</b>	<b>\$1,543.2</b>	<b>\$40.9</b>	<b>(\$1.3)</b>	<b>\$1,582.8</b>	<b>\$39.6</b>

**General Fund-State GAAP Estimates - Other Agencies**  
 Comparison of November 2011 Baseline to Alternative Forecasts  
 2011-13 Biennium  
 (Amounts in Millions)

Source/Agency	Optimistic	Baseline	Pessimistic
Department of Licensing	\$35.1	\$34.1	\$33.1
Insurance Commissioner Insurance Premiums	\$883.1	\$861.5	\$840.0
Liquor Control Board Liquor Profits and Fees	\$136.4	\$133.8	\$131.1
Beer and Wine Surtax	\$163.4	\$160.2	\$157.0
Lottery Commission Lottery Revenue	\$0.0	\$0.0	\$0.0
State Treasurer Interest Earnings	(\$6.3)	(\$27.0)	(\$32.2)
Office of Financial Management Other Agencies	\$238.8	\$227.4	\$216.0
Administrative Office of the Courts Fines and Forfeitures	\$199.3	\$192.8	\$185.4
<b>Total General Fund-State</b>	<b>\$1,649.8</b>	<b>\$1,582.8</b>	<b>\$1,530.4</b>
Change from Baseline	\$67.0		(\$52.4)

\* 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	(92.0)
September 2011 Forecast	28,193.6	30,310.5
November 2011 Update	24.5	(122.2)
<b>Current Revenue Totals</b>	<b>28,218.1</b>	<b>30,188.3</b>
Transfer to Budget Stabilization Account	(247.4)	(265.7)
Transfer from Budget Stabilization Account	268.3	-
Enacted Fund Transfers	1,326.7	244.1
Alignment to the Comprehensive Financial Statements	11.7	-
<b>Total Resources (including beginning fund balance)</b>	<b>29,766.7</b>	<b>30,074.7</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>(92.0)</b>	<b>(1,646.3)</b>
Budget Stabilization Account Beginning Balance	21.4	0.6
Transfer from General Fund and Interest Earnings	247.5	265.7
Transfer to General Fund	(268.3)	-
<b>Projected Budget Stabilization Account Ending Balance</b>	<b>0.6</b>	<b>266.3</b>
<b>Total Reserves (General Fund plus Budget Stabilization)</b>	<b>(91.4)</b>	<b>(1,380.0)</b>