

Date: September 15, 2011

Subject: September Washington State Revenue Forecast Reveals \$1.4b Deficit

Adjusted Revenue Estimates Produces Estimated \$1.4 billion Deficit in 2011-13

On Thursday, September 16, the Washington State Economic and Revenue Forecast Council (ERFC) released its [quarterly update](#) of State General Fund Revenues. The forecast reduced expected revenue for the upcoming 2011-13 biennium to \$30.3 billion, \$1.4 billion less than the previous forecast released in June. Although actual revenue collections from August to September were only .9% (\$9.5m) below the June forecast, and cumulative collections are only 1.2% (\$40.2m) below forecast, the deterioration of the outlook for future revenue growth is significant enough to produce the projected \$1.4 billion deficit for the biennium.

Even if the state used all of the 'rainy day' funds set aside in the last biennium, a \$1.3 billion deficit would remain. State officials indicated to the [Seattle PI](#) that a deficit of this magnitude would be difficult to address in a special session convened prior to the start of the regular session in January. Especially thorny will be the question of whether to pursue new revenues (tax increases) to close the deficit or rely solely on budget cuts again.

Economist Arun Raha, executive director of ERFC, again pointed to strong export growth in Washington State, as well as growth in the aerospace and software industries, particularly at Microsoft and Boeing. However, overall job growth remains incredibly slow, including zero net growth in the current quarter, with a gain of 17,000 private sector jobs, occurring alongside a loss of 17,000 government jobs. Additionally, housing prices remain low and consumer confidence levels measure as low as they did at the start of the downturn in 2008-9. Exacerbating the outlook further is a national context of political uncertainty and gridlock, combined with international debt crises and inflationary pressures in large emerging economies.

Implications for the University of Washington

Although 2011 year-over-year revenue growth is still somewhat close to original estimates (on track to be at least 7.8 above 2010 revenue), given the trajectory of downward adjustments the state has now made for revenue growth in 2012 (year-over-year growth assumption revised from 4.6 percent to 1.4 percent) and 2013 (from 7 percent to 4.5 percent), the 2011-13 deficit could easily continue to grow larger than \$1.4 billion over the ensuing quarters.

A \$1.4 billion deficit would be expected to necessitate another round of budget cuts for all state agencies, including the UW, and a larger deficit would clearly pose an even graver threat to state funding for higher education. We will continue to track and report on all state revenue trends, but it appears at this time that additional budget cuts, increasingly diversified revenue streams, and the continuing pursuit of regulatory freedom and business efficiencies are likely for the UW in the coming biennium.

For more information, please contact Jessica Thompson at jlthomp@uw.edu or at 202.624.1428