



March 2011

State Revenue Forecast and Budget Status

This report provides an update on the state's revenue and budget status for the 2009-11 and 2011-13 biennia. No Higher Education Coordinating Board (HECB) action is requested.

Overview

The March 2011 forecast of state revenue for the remainder of fiscal year 2011 and the 2011-13 biennium has been lowered.¹ The revised revenue forecast will require further reductions in the current (2009-11) state operating biennial budget and decreases the amount of General Fund revenue previously assumed available for the 2011-13 biennium state's operating budget.

These reductions in anticipated state General Fund revenue will likely result in decreased state spending for higher education, which is the largest "discretionary" part of the state budget. Such reductions would further erode core higher education services, priorities, and goals in the areas of college affordability, enrollment opportunities, and the state's postsecondary educational attainment level.

These consequences of reduced state spending for higher education will represent a central consideration of the Board in preparing its December 2011 update to the state's strategic master plan for higher education.

State Revenue Status

The March 2011 Economic and Revenue Forecast, adopted on March 17, 2011 by the Washington Economic and Revenue Forecast Council, lowers anticipated General Fund revenue for the remainder of the current (2009-11) biennium and the 2011-13 biennium.

¹ *March Revenue Forecast Update*: Washington Economic and Revenue Forecast Council, March 17, 2011.

The revised General Fund forecasts are summarized in Illustration 1. This illustration also shows General Fund revenue for the 2007-09 biennium.

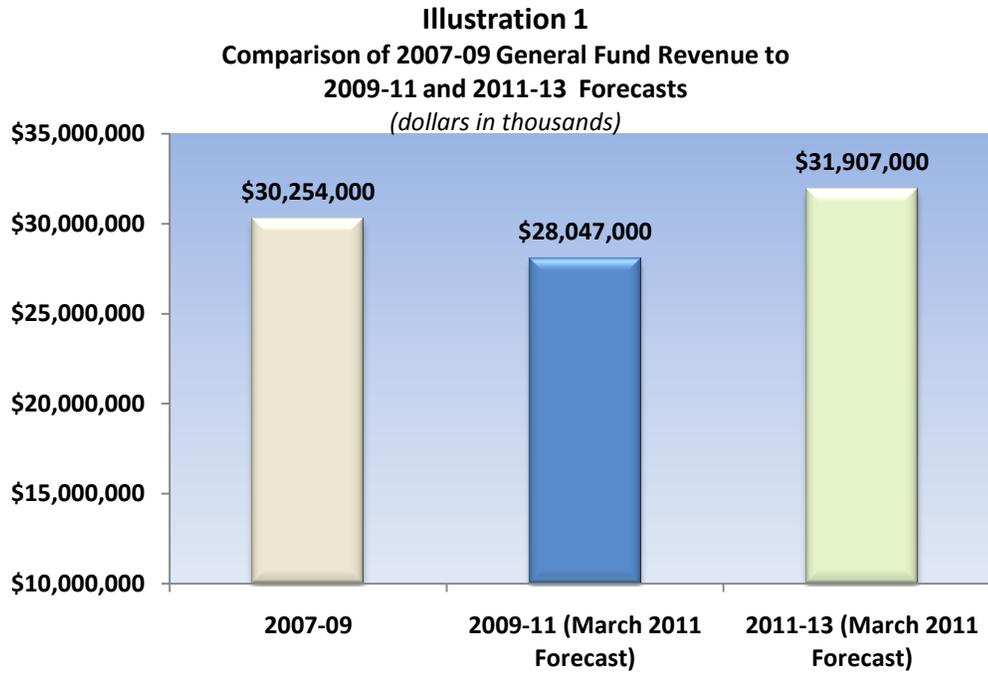
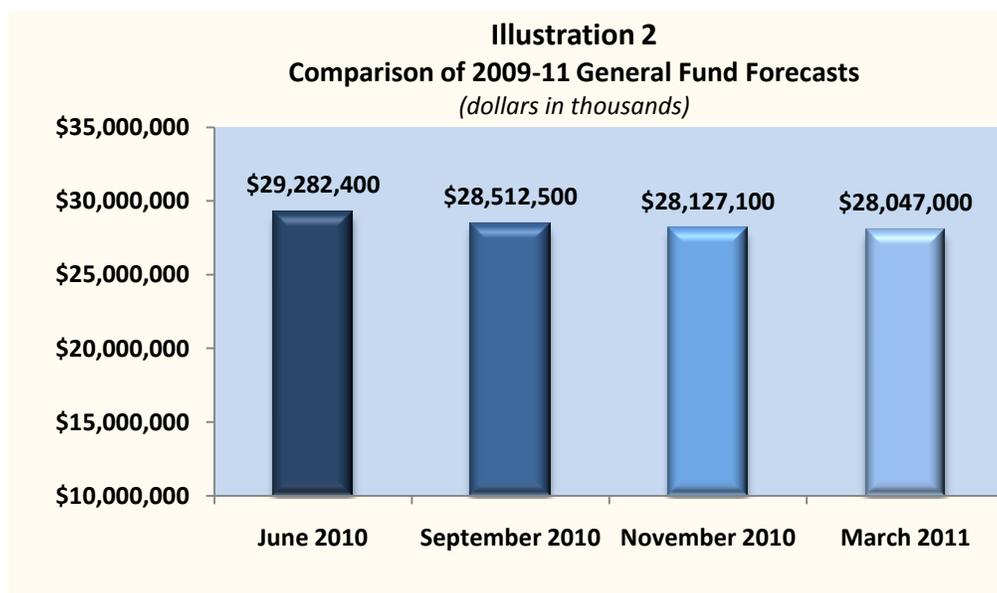
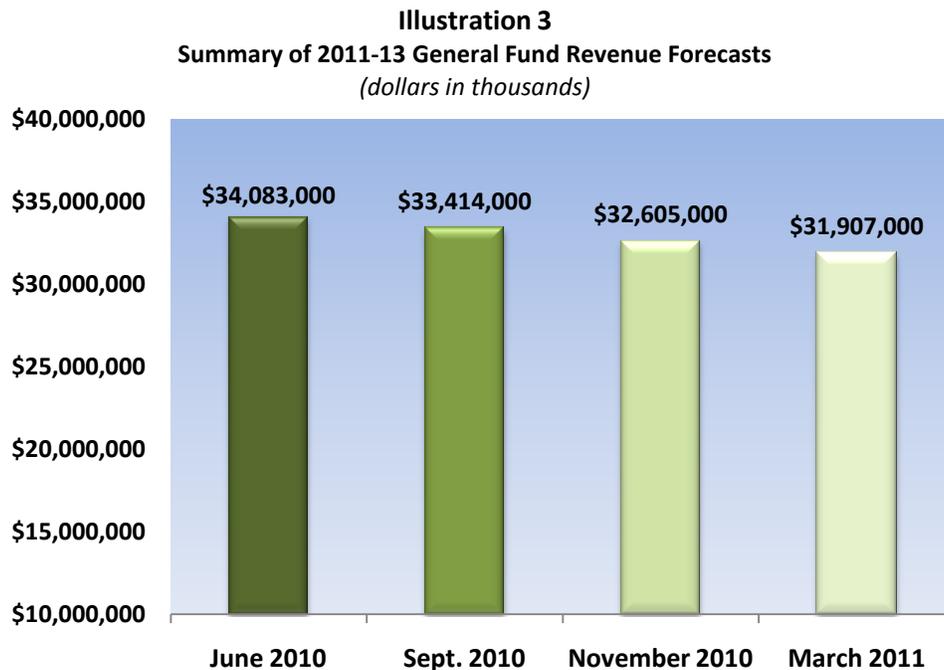


Illustration 2 compares the General Fund revenue forecast history for the current, 2009-11, biennium. The March 2011 forecast is about \$80 million lower than the November 2010 forecast – a decline of less than three-tenths of one percent (-.28%).



The General Fund revenue forecast history for the 2011-13 biennium is summarized in Illustration 3. The March 2011 forecast is about \$698 million lower than the November 2010 forecast – a decline of about two percent (-2.2%).



Summary

In presenting his March 2011 forecast, Dr. Arun Raha, Executive Director of the Economic and Revenue Forecast Council, prefaced his forecast with the following introduction.

“The economic outlook remains clouded with a great deal of uncertainty. Recent geopolitical developments have cast yet another shadow over the economic recovery. First, we had the volatility in oil prices because of political unrest in the Middle East. Now we have the tragedy in Japan, the world’s third largest economy, and one of the state’s leading trade partners. It is a fluid and fast-changing situation.”

Dr. Raha’s comments are presented to highlight the uncertainty of the state’s budget stability and, in particular, state funding for higher education, which is the largest discretionary component of the state budget. This uncertainty is reflected in the following discussion of the implications of the new revenue forecast on higher education.

Higher Education Operating Budget Implications²

State lawmakers are now developing a revised spending plan for the current (2009-11) biennium as well as the state budget for the 2011-13 biennium. The revision to the current 2009-11 budget will be the fourth supplemental budget reduction made for the current biennium.³ Presumably, these budgets will be adopted prior to the end of the current legislative session (April 24, 2011) and will be based on the March 2011 revenue forecast.⁴

Providing specific fiscal estimates of the impact of the March 2011 revenue forecast on the current and 2011-13 state appropriations to higher education would, at this time, be premature. These impacts will be determined by the Legislature and will reflect a number of decisions reflecting overall state budget priorities and policies. Accordingly, the information presented below is intended to provide a background or context for these pending legislative decisions.

2009-11 Biennium

The March 2011 revenue forecast will require a revised spending plan for the current (2009-11) biennium. Specifically, a deficit of \$80 million is now estimated for 2009-11.⁵ This deficit does not, though, leave an ending balance or reserve. It is, therefore, reasonable to assume that reductions in current (2009-11) appropriations will be greater than the \$80 million reduction in forecasted General Fund revenue.

2011-13 Biennium

On November 16, 2010, the Board adopted a higher education system operating budget recommendation of \$3.34 billion for the 2011-13 biennium.⁶ That recommendation was based on the September 2010 General Fund Revenue Forecast of \$33.4 billion, and assumed that higher education would receive ten percent of General Fund revenue.

When adopting its 2011-13 recommendation, the Board emphasized that this spending level regrettably represented only a “survival budget” for public higher education. Specifically the Board’s recommendation funded only higher education’s (then) current service level and a modest (\$33 million) budget increase to provide financial aid to 4,400 of the 18,000 students who are eligible but cannot be served by State Need Grant due to budget reductions.⁷

On December 15, 2010, Governor Gregoire released her budget proposal for the 2011-13 biennium. Her proposal was based on the November 2010 General Fund Revenue Forecast of \$32.6 billion, which was about \$810 million less than the 2011-13 revenue assumption used by the Board in developing its higher education spending recommendation for 2011-13.

² This discussion concerns state appropriations for higher education. Staff will present a summary of legislative proposals concerning tuition levels and tuition setting authority at the Board’s March 2011 meeting.

³ Appendices A and B provide a summary listing of total state and higher education budgets since 2007-09 and information on budget changes for the public institutions and the HECB.

⁴ The next revenue forecast will be issued in mid-June 2011.

⁵ The March 17, 2011 Balance Sheet is provided in Attachment C.

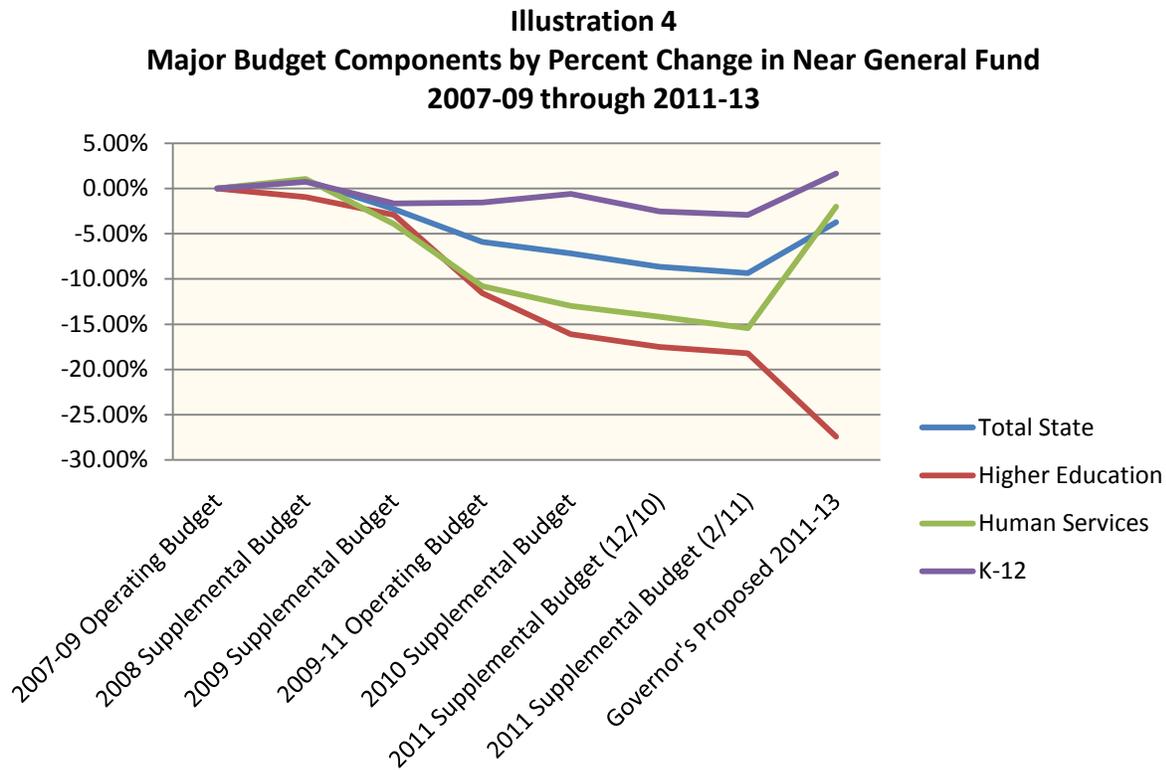
⁶ HECB Resolution 10-30.

⁷ See: HECB 2011-13 Higher Education Budget Recommendations (November 2010) available at: <http://www.hecb.wa.gov/boardmtgs/documents/TAB62011-13BudgetRecs-Update12-8.pdf>.

The Governor’s budget proposal called for a significantly lower budget for higher education than recommended by the Board. Specifically, the Governor proposed \$2.7 billion for higher education, about 8.3 percent of her recommended total (General Fund) state budget.

Operating Budget History and Current Status

Illustration 4 shows how the major components of the state operating budget have changed as a percent of the 2007-09 biennial budget. This illustration is presented to provide a context for the Board when considering upcoming legislative decisions about the allocation of funds for the upcoming 2011-13 biennium.



2011-13 Capital Budget

No legislative proposal or action on the 2011-13 Capital Budget is anticipated prior to April 2011. HECB staff has been advised that the House Capital Budget Committee will release its 2011-13 Capital Budget proposal following the release of the House Ways and Means Committee 2011-13 Operating Budget proposal.

State and Higher Education Near General Fund Budgets: 2007-09 through 2011-13

(dollars in thousands)

	<u>Enacted</u>	<u>Amount (in thousands)</u>	<u>% Change from 2007- 09 Budget</u>	<u>Higher Education % Share</u>
2007-2009 Biennium				
2007-09 Operating Budget	May 2007		NA	
Total State		\$33,364,407	NA	
Higher Education		\$3,689,446	NA	11.1%
2008 Supplemental Budget	April 2008			
Total State		\$33,655,219	0.87%	
Higher Education		\$3,653,746	-0.97%	10.9%
2009 Supplemental Budget	May 2009			
Total State		\$32,597,107	-2.30%	
Higher Education		\$3,581,124	-2.94%	11.0%
2009-11 Biennium				
2009-11 Operating Budget	May 2009			
Total State		\$31,388,596	-5.92%	
Higher Education		\$3,262,624	-11.57%	10.4%
2010 Supplemental Budget	May 2010			
Total State		\$30,971,022	-7.17%	
Higher Education		\$3,094,912	-16.11%	10.0%
2011 Supplemental Budget #1	Dec. 11, 2010			
Total State		\$30,480,668	-8.64%	
Higher Education		\$3,043,824	-17.50%	10.0%
2011 Supplemental Budget #2	Feb. 17, 2011			
Total State		\$30,238,484	-9.37%	
Higher Education		\$3,017,898	-18.20%	10.0%
2011-13 Biennium				
Governor's 2011-13 Operating	Dec. 15, 2010			
Total State		\$32,124,000	-3.72%	
Higher Education		\$2,677,390	-27.43%	8.3%

State Near General Fund Operating Budgets: Higher Education Detail

(dollars in thousands)

	<u>UW</u>	<u>WSU</u>	<u>EWU</u>	<u>CWU</u>	<u>TESC</u>	<u>WWU</u>	<u>CTC</u>	<u>HECB</u>	<u>SIRTI</u>	<u>Total Higher Education</u>
2007-2009 Biennium										
2007-09 Operating Budget May 2007	\$806,919	\$508,614	\$119,154	\$117,414	\$64,559	\$148,478	\$1,448,199	\$472,602	\$3,507	\$3,689,446
2008 Supplemental Budget April 2008	\$792,417	\$503,371	\$117,301	\$116,138	\$63,773	\$146,392	\$1,436,724	\$474,167	\$3,463	\$3,653,746
2009 Supplemental Budget May 2009	\$775,634	\$492,354	\$114,188	\$113,515	\$62,445	\$143,069	\$1,404,620	\$471,913	\$3,386	\$3,581,124
2009-11 Biennium										
2009-11 Operating Budget May 2009	\$621,090	\$409,437	\$91,568	\$86,940	\$48,827	\$108,929	\$1,357,705	\$534,919	\$3,209	\$3,262,624
2010 Supplemental Budget May 2010	\$595,197	\$382,080	\$87,396	\$83,104	\$44,436	\$104,454	\$1,356,584	\$438,573	\$3,088	\$3,094,912
2011 Supplemental Budget December 11, 2010	\$583,811	\$374,596	\$85,856	\$81,684	\$43,659	\$102,422	\$1,330,135	\$438,573	\$3,088	\$3,043,824
2011 Supplemental Budget February 17, 2011	\$583,811	\$374,596	\$85,856	\$81,684	\$43,659	\$102,422	\$1,330,135	\$412,810	\$2,925	\$3,017,898
Percent Change: 2-17-11 Supplemental to 2007-09 Biennial Budget	-27.65%	-26.35%	-27.95%	-30.43%	-32.37%	-31.02%	-8.15%	-12.65%	-16.60%	-18.20%
2011-13 Biennium										
Governor's Proposal and Percent Change from:	\$451,436	\$317,920	\$74,450	\$73,250	\$39,257	\$85,155	\$1,168,634	\$464,639	\$2,649	\$2,677,390
2007-09 Biennial Budget	-44.05%	-37.49%	-37.52%	-37.61%	-39.19%	-42.65%	-19.30%	-1.68%	-24.47%	-27.43%
2-17-11 Supplemental	-22.67%	-15.13%	-13.29%	-10.33%	-10.08%	-16.86%	-12.14%	12.56%	-9.44%	-11.28%

2009-11 Enacted Budget Balance Sheet
Including Supplemental Budgets
General Fund-State
(dollars in millions)

Resources	
Beginning Fund Balance	189.3
November 2010 Forecast	28,127.1
December 2010 Legislation with Revenue Impacts	70.3
March 2011 Update (excluding December 2010 legislation)	(150.1)
Current Revenue Totals	28,047.2
Transfer to Budget Stabilization Account	(245.5)
Transfer from Budget Stabilization Account	267.0
Previously Enacted Fund Transfers	1,225.7
Prior Period Adjustments	(4.5)
Fund Transfers HB 3225 and ESHB 1086	185.0
Total Resources (including beginning fund balance)	29,664.2
Expenditures	
2009-11 Enacted Budget (including supplemental)	30,465.2
December 2010 (HB 3225)	(487.9)
February 2011 (ESHB 1086)	(240.8)
Governor's Vetoes of ESHB 1086	6.4
	29,743.0
Reserves	
Projected General Fund Ending Balance	(78.8)
Budget Stabilization Account Beginning Balance	21.4
Transfer from General Fund and Interest Earnings	245.6
Transfer to General Fund	(267.0)
Projected Budget Stabilization Account Ending Balance	0.0
Total Reserves (General Fund plus Budget Stabilization)	(78.8)