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Wash revenue drops, deficit now close to \$9 B

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OLYMPIA, Wash. -- The wounded economy took another bite out of state government's checkbook on Thursday, pushing the budget deficit to nearly \$9 billion through mid-2011.

The new figure is the last major piece of financial guidance for state legislators as they prepare to unveil budget-balancing plans in the coming weeks.

But despite the massive pool of red ink and widespread talk of grim budget cuts, the Legislature still had no firm timeline Thursday for finishing secret negotiations and revealing its budgets to the public.

In the meantime, special interest groups have been working on ideas for a separate package of tax increases that voters could decide this fall.

That coalition - which includes hospitals and labor unions - is hoping voters will approve up to \$2 billion in higher taxes to offset the deepest of the budget cuts, which will include lower spending for education, human services, parks, state worker benefits and more.

The state's chief economist, Arun Raha, said there's still risk the economy will worsen, and no clear picture of when consumer confidence and healthy credit markets will return.

Raha reiterated that the nation's economy is in its worst state since the Great Depression. "That is not to say we are headed there - not by a long shot. But No. 2 isn't exactly great either," he deadpanned.

The roughly \$9 billion deficit is the difference between how much money is coming into the state, mostly through taxes, and how much it would cost to continue previous spending plans through the 2011 fiscal year.

The estimated shortfall also assumes saving several hundred million dollars as a cushion against further economic downturns.

That doesn't mean, however, that lawmakers have to cut state programs by \$9 billion.

The Legislature already has cut some spending, used federal stimulus money and transferred dollars from other accounts to begin addressing the problem. Those steps could be worth \$730 million in this year's budget, and translate to more savings later on.

So after accounting for ongoing savings, along with about \$3 billion in federal stimulus money and other one-time fixes, legislators are left hunting for about \$4.2 billion in actual cuts to state programs like health care, education and social services.

Lawmakers already have considered pay freezes and more expensive benefits for state workers, 10,000

fewer enrollment slots in higher education, cuts to the Basic Health plan for poorer Washingtonians, and a laundry list of other steps.

But they'll have to look for even more savings, said Sen. Rodney Tom, D-Medina, the No. 2 Democrat on the Senate budget committee.

"This is going to be a devastating budget," Tom said. "And the only way to get to \$4.2 billion is major cuts in every program. You're going to have program eliminations."

Raha expects the state economy to hit bottom in the third quarter of this year, with a slight uptick in growth during the fourth quarter. Unemployment in the state should peak at around 10 percent, Raha said, in the second quarter of 2010.

There are some early positive signs of economic life, Raha said, but it is still too early to tell whether they will take hold.

While personal income is growing in Washington, consumer spending continues to lag behind, supporting the notion that consumers are either unable or unwilling to spend money. That's a major problem for the state, since most of its general revenue comes from sales taxes.

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Legislature: <http://www.legl.wa.gov>