



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

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April 11, 2007

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SUBJECT: April 10, 2007 REVENUE COLLECTION REPORT

Tax payments in the March 11 – April 10, 2007 period were very strong and higher than expected. Although the housing market has slowed, strong revenue growth indicates that the weakening housing market so far has had minimal effect on overall spending. General Fund-State (GFS) collections this month totaled \$937.7 million, exceeding the estimate for the period by \$47.2 million (5.3 percent). Revenue Act collections (sales, use, business and occupation and public utility taxes) and real estate excise tax payments accounted for most of the positive variance for the month. This month's variance is a little overstated due to a couple of special factors. The majority of the variance, however, reflects stronger than expected economic activity and consumer and business spending. The special factors this month were: (1) Revenue Act receipts included a large and unanticipated audit payment (\$11.0 million) and (2) real estate excise tax receipts this month included about \$10 million of local and Non General Fund monies that will be transferred out next month. Excluding these special factors, the variance for the month is \$26.2 million (2.9 percent). There are two very large "transfer of controlling interest" payments in the real estate excise total this month, including the largest single tax payment from any source ever received. This payment was anticipated in the March forecast.

Recent economic news continues to be generally positive. The U.S. economy added 180,000 jobs in March 2007, this was up from 113,000 in February and was more than most economists had expected. The surge in jobs helped push the U.S. unemployment rate down to 4.4 percent, from 4.5 percent in February. The Washington economy continued to add jobs as well. Washington has 61,000 more payroll jobs in February 2007 than a year ago and the state's unemployment rate is down to 4.5 percent from 4.6 percent in January 2007 and from 4.8 percent in February 2006. In other news, the Conference Board reported that the U.S. Index of Leading Indicators dropped 0.5 percent in February and a data revision has changed January's previously reported increase to a decrease. This Index has increased +0.2 percent over the last six months, but it is now below its year-ago level. The Conference Board also reported that its Index of Consumer Confidence declined 3.6 percent in March. This index had increased for four consecutive months prior the drop in March. The index is slightly below the year ago level.

Revenue Act collection growth remained strong this month. Tax payments this period primarily reflect February 2007 activity of monthly tax payers. Collections were 11.0 percent above the year-ago level (excluding special factors). This was up from last month's 9.9 percent gain and was the strongest monthly year-over-over gain since the 12.4 percent increase last August. Revenue growth remains well above the growth of both U.S. retail sales and state personal income. While there is as yet no sign of the slower revenue growth anticipated in the March 2007 forecast, the potential for the weakening housing market to spillover to the rest of the economy still remains high.

Preliminary information on tax payments by industry from taxpayers filing electronically indicates strong growth for most sectors in the March 11-April 10, 2007 period. Tax payments from firms in the retail trade and food services sector increased 7.3 percent. Last month retailers reported a 6.9 percent increase. Tax payments by businesses in the auto sector, the largest retail trade category, were up 8.9 percent from the year-ago month, after increasing 6.8 percent last month. Two of the twelve major retailing categories reported double-digit increases this month. The sectors with the strongest growth were electronics and appliance retailers (+15.1 percent) and non-store retailers (+10.0 percent). This month no non-retailing sector reported a year-over-year decline in tax payments; last month three retailing sectors reported a year-over-year drop in payments. Payments by firms in non-retail trade and food services sectors were up 8.7 percent as a whole for the month, up slightly from last month's 8.3 percent increase. Despite weakening real estate excise tax payments, excise taxes paid by the construction sector were very strong this month (+13.7 percent). Last month payments from the construction sector increased 9.9 percent. Other non-retail trade sectors with strong growth this month included: utilities (+12.7 percent), the finance and insurance sector (+13.6 percent), and wholesale trade (+8.3 percent). Only one major non-retail trade sector reported a year-over-year decline in tax payments this period: firms in the professional and scientific sector reported tax payments were 3.6 percent less than a year-ago. Tax payments by firms in construction and housing related sectors grew much faster than other sectors of the economy this month. Tax payment from construction related sectors were up 10.2 percent compared to 7.5 percent for all other sectors; last month construction related sector increase only 4.4 percent compared to 8.5 percent for all other sectors.

Non-Revenue Act General Fund taxes were \$8.7 million above the estimate for the month. Real estate excise (\$10.7 million), and property tax (+\$2.8 million) were higher than expected and more than offset weaker than expected cigarette (-\$574,000) tax, liquor tax (-\$236,000 and "other" (-\$4.1 million). Most of the "other" shortfall was due to less than expected unclaimed property transfers. This month's real estate excise tax total includes two very large transfers of controlling interest payments, one that was anticipated and one that was not. Real estate excise collections this month include some local and non General Fund monies that have yet to be transferred, thus overstating GFS collections; this accounts for the majority of the +\$10.7 million real estate excise tax variance.

Real estate activity, transfers of controlling interest aside, remains weak. Activity reported by the state's thirty-nine counties for the most recent period (closings February 27th through March 28, 2007) shows taxable activity 6.1 percent lower than a year-ago. Last month activity declined 10.7 percent. Taxable real estate activity has declined on a year-over-year basis five consecutive months and in six of the last seven months. Although the weakness in activity continues to be primarily due to a decline in the number of transactions, there is some indication of weakening in the growth of value per transaction. A breakdown of the number of transactions and average value per transaction is not yet available for March, but in February 2007, the number of transactions were 10.8 percent lower than a year-ago (the fifteenth consecutive monthly decline), while the average value per transaction showed no change; in January 2007, the value per transaction declined 1.0 percent which was the first monthly decline in the average value per transaction since April 2002.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$331,000 above the estimate for the month.

The attached Table 1 provides a comparison of collections with the March 2007 forecast for the March 11, 2007 – April 10, 2007 collection period and cumulatively since the March 2007 forecast. The cumulative variance reported in the table is similar to the variance for the month because the monthly estimates in the March forecast reflect actual collections through March 10, 2007. Differences between the monthly variance and the cumulative variance through April 10, 2007 reflect revisions to collection history since the March 2007 forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

TABLE 1
Revenue Collection Report
April 10, 2007 Collections Compared to the March 2007 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
March 11 - April 10, 2007				
Department of Revenue-Total	\$890,204	\$937,052	\$46,848	5.3%
Revenue Act** (1)	767,464	805,573	38,109	5.0%
Non-Revenue Act(2)	122,740	131,479	8,739	7.1%
Liquor Sales/Liter	10,639	10,403	(236)	-2.2%
Cigarette	4,434	3,860	(574)	-13.0%
Property (State School Levy)	(229)	2,596	2,826	-1231.9%
Estate	49	196	147	NC
Real Estate Excise	99,842	110,495	10,654	10.7%
Timber (state share)	0	0	0	NA
Other	8,006	3,928	(4,078)	-50.9%
Department of Licensing (2)	344	676	331	96.2%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$890,549	\$937,728	\$47,179	5.3%
Cumulative Variance Since the March 2007 Forecast (March 11, 2007 - April 10, 2007)				
Department of Revenue-Total	\$890,204	936,582	46,377	5.2%
Revenue Act** (3)	767,464	805,573	38,109	5.0%
Non-Revenue Act(4)	122,740	131,008	8,268	6.7%
Liquor Sales/Liter	10,639	10,403	(236)	-2.2%
Cigarette	4,434	3,860	(574)	-13.0%
Property (State School Levy)	(229)	2,596	2,826	-1231.9%
Estate	49	196	147	NA
Real Estate Excise	99,842	110,495	10,654	10.7%
Timber (state share)	0	(470)	(470.4)	NA
Other	8,006	3,928	(4,078)	-50.9%
Department of Licensing (4)	344	773	429	124.4%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$890,549	\$937,355	\$46,806	5.3%

1 Collections March 11 - April 10, 2007. Collections primarily reflect February 2007 activity of monthly taxpayers.

2 March 2007 collections.

3 Cumulative collections, estimates and variance since the March 2007 forecast; (March 11 - April 10, 2007) and revisions to history.

4 Cumulative collections, estimates and variance since the March 2007 forecast; (March 2007) and revisions to history.

5 Lottery transfers to the General Fund

* Based on the March 2007 economic and revenue forecast.

**The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

*** Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue and the Department of Licensing.

TABLE 2
March 10, 2007 Collection Report - Revised Data
Thousands of Dollars

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
Feb. 11 - March 10, 2007				
Department of Revenue-Total	\$862,219	\$864,180	\$1,961	0.2%
Revenue Act (1)	796,489	796,489	(0)	-0.0%
Non-Revenue Act(2)	65,730	67,691	1,961	3.0%
Liquor Sales/Liter	10,689	10,689	0	0.0%
Cigarette	3,408	3,408	0	0.0%
Property (State School Levy)-net	(15,824)	(15,824)	(0)	0.0%
Estate	73	73	(0)	-0.7%
Real Estate Excise	52,344	52,344	(0)	-0.0%
Timber (state share)	1,961	1,961	(0)	NA
Other	13,080	15,041	1,961	15.0%
Department of Licensing (2)	361	304	(57)	-15.9%
Lottery (2)	0	0	0	NA
Total General Fund-State***	862,581	864,484	\$1,903	0.2%

Cumulative Receipts: Feb. 11 - June 10, 2006 & Revisions to History

Department of Revenue-Total	\$4,680,735	\$4,674,790	(\$5,945)	-0.1%
Revenue Act (3)	3,646,214	3,643,173	(3,041)	-0.1%
Non-Revenue Act(4)	1,034,521	1,031,617	(2,904)	-0.3%
Liquor Sales/Liter	51,257	51,903	646	1.3%
Cigarette	15,308	15,308	(0)	-0.0%
Property (State School Levy)-net after transf	641,875	641,868	(7)	-0.0%
Estate	507	517	10	2.0%
Real Estate Excise	248,182	248,161	(21)	-0.0%
Timber (state share)	3,788	3,788	(0)	NA
Other	73,606	70,073	(3,533)	-4.8%
Department of Licensing (4)	965	972	7	0.7%
Lottery (4)	7,618	7,618	(0)	NA
Total General Fund-State***	\$4,689,318	\$4,683,380	(\$5,938)	-0.1%

Preliminary. Reported in the March 10, 2007 collection report.

1 Collections Feb. 11 - March 10, 2007. Collections primarily reflect January 2007 business activity of mo taxpayers.

2 February 1-28, 2007 collections.

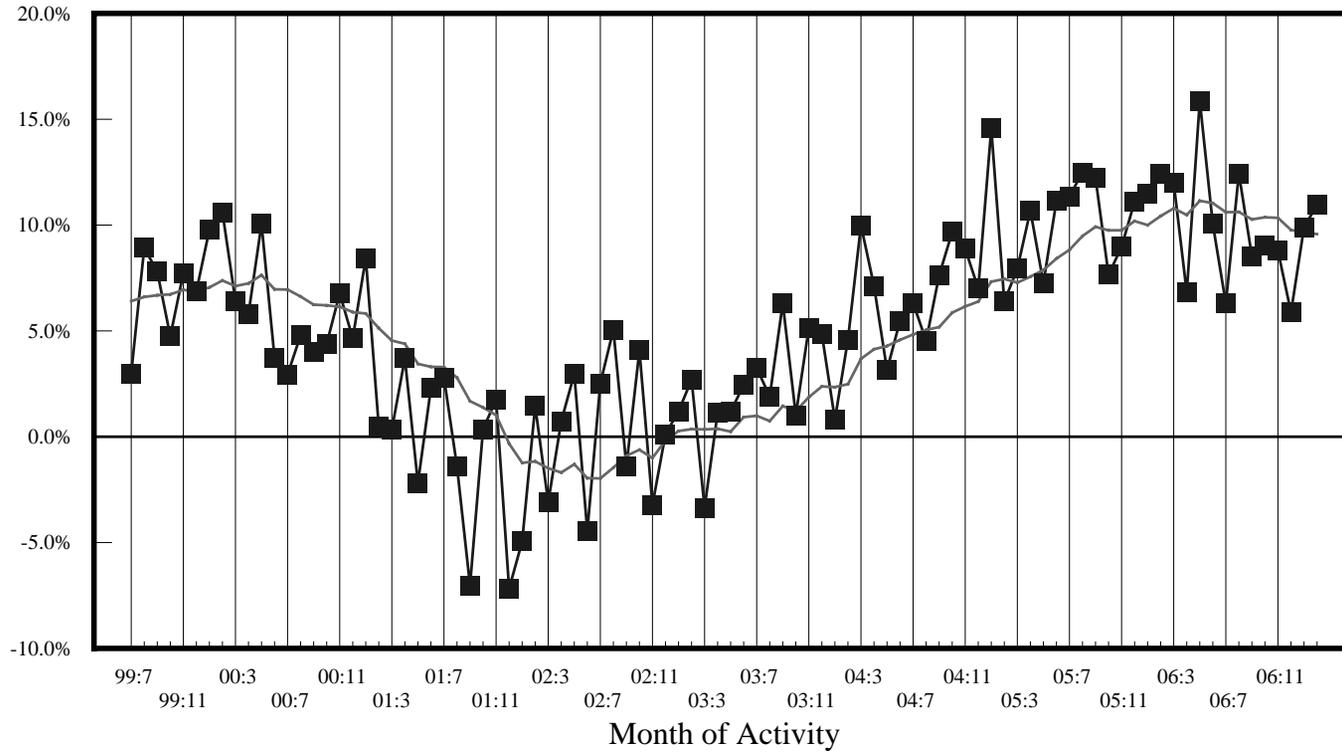
3 Cumulative receipts since the November 2006 forecast: Nov. 11-March 10,2007 & revisions to history.

4 Cumulative receipts since the Nov. 2006 forecast (Nov. 2006- Feb. 2006) & revisions to history.

* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

Revenue Act Net Collections

Year-over-Year Percent Change



■ Percent change from year-ago month
— Average Growth (twelve month moving average.)

*growth adjusted for new legislation and unusually large assessment payments/refunds etc.