



STATE OF WASHINGTON
ECONOMIC AND REVENUE FORECAST COUNCIL

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December 11, 2007

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SUBJECT: December 10, 2007 REVENUE COLLECTION REPORT

Tax payments in the November 11 – December 10, 2007 collection period grew faster than expected despite weaker home sales and slower employment growth. Collections this month were \$84.3 million (5.5 percent) higher than the estimate. This variance, however, is way overstated due to a change in the timing of property tax payments and to an unusually large audit payment. A portion of property tax payments that were expected next month were received this period instead, accounting for an estimated \$69.7 million of this month's variance. Adjusting for special factors (the property tax timing anomaly and a large audit payment), collections this month were only \$10.5 million, 0.7 percent higher than expected. Revenue Act (sales, use, b&O, public utility tax) payments were \$22.7 million higher than expected for the month but real estate excise tax payments continue to weaken and were \$10.1 million below the estimate. Most other major taxes were a little higher than expected this period. Collections this month indicate that although economic growth is slowing and conditions in the housing market have worsened, overall the November forecast appears to be on track.

Recent economic data continues to be mixed. The U.S. economy added 94,000 payroll jobs in November. The number of jobs added in November was less than last month's revised increase of 170,000, but it was a little better than the June through September average gain of 75,000. The November unemployment rate remained unchanged from September and October at 4.7 percent. At the state level, Washington's employment continues to increase. Washington now has 84,900 more payroll jobs than a year ago and job gains in October 2007 have helped push the state's unemployment rate down to 4.4 percent in October from 4.7 percent in September. In other news, the Conference Board reported that the U.S. Index of Leading Indicators fell 0.5 percent in October after increasing 0.1 percent in September. This index has declined or remained unchanged for six of the last ten months at its lowest level since September 2005. The Conference Board also reported that its Index of Consumer Confidence fell again in November. This index has decline for four consecutive months and in seven of the last nine months. This index is at its lowest point since October 2005.

For the month Revenue Act collection growth was stronger than expected. Receipts this period primarily reflect October 2007 activity of monthly tax payers. Collections for the month were 7.8 percent above the year-ago level after adjusting for special factors. Last month collections increased only 4.7 percent. While growth this month is the strongest in five months, it remains below gains earlier in the year. Revenue growth has averaged just 5.8 percent in the last three months compared to 8.9 percent in the first six months of calendar 2007.

Preliminary information on tax payments by industry from taxpayers filing electronically indicates moderate growth overall growth in the November 11 to December 10, 2007 period. Tax payments by firms in the retail trade and food services sector increased 5.4 percent this period. Last month retailers reported a 2.1 percent increase. Tax payments by businesses in the auto sector, the largest retail trade category, were up 0.9 percent from the year-ago month, after declining 3.5 percent last month. Other weak retail trade sectors

include: furniture stores (+0.4 percent) and building materials/garden equipment stores (-5.0 percent). Sectors with strong growth include: food & beverage stores (+24.9 percent), non store retailers (+17.3 percent), and sporting goods, toys, books and music retailers (+11.8 percent). Payments by firms in non-retail trade and food services sectors reported stronger overall growth (+8.5 percent). Last month non retailing sectors reported a 4.6 percent increase in tax payments. Despite a weak residential real estate market, excise taxes paid by the construction sector still remain strong this period. Payment by businesses in the construction sector reported a year-over-year gain of 17.6 percent. Last month payments from the construction sector increased 7.3 percent. Other non-retail trade sectors with strong growth this month included: professional, scientific and technical services (+20.4 percent), accommodations (+8.7 percent), and wholesale trade (+9.5 percent). Weak non retail trade sectors include: manufacturing (-7.7 percent) and the finance and insurance sector (+1.6 percent).

For the month Non-Revenue Act General Fund taxes were \$61.8 million above the estimate. However, most of this was due to a very large positive property tax (state levy) variance that is believed to be solely due to a change in timing of payments. Normally the bulk of second half property tax payments are reported to the state in November and December, with about seventy percent of this two month total coming in November. This year the transmittals from the counties to the state were much faster than in the past, resulting in much more than normal payments in November. This is expected to be offset by fewer receipts in December. The change in the timing produced an estimated \$69.7 million more than expected revenue, which accounts for more than the entire non-revenue act variance for the month. Excluding this timing anomaly, non-revenue act receipts are \$7.9 million less than the estimate for the month. Weaker than expected real estate activity accounted for this shortfall. Real estate excise collections were \$10.1 below the estimate for the month while other major non revenue act sources were a little higher than expected for the month.

Housing activity continues to weaken. Taxable real estate activity reported by the state's thirty-nine counties for the most recent period (closings October 29th through November 28, 2007) was 31.3 percent below the year-ago level. The month before activity declined 22.6 percent and two month's ago it was down 25.8 percent. Activity has declined on a year-over-year basis for four consecutive months and twelve of the last fifteen months. The 31.3 percent decline this month was the biggest drop since 1991. The weakness in activity continues to be primarily due to a decline in the number of transactions. A breakdown of the number of transactions and average value per transaction is not yet available for November, but in October 2007, the number of transactions were 19.5 percent lower than a year-ago while the average value per transaction decline 3.8 percent.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$181,000 below the estimate both for the month and a revision to last month's total results in a cumulatively shortfall of \$270,000.

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

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

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
Nov. 11 - Dec. 10, 2007				
Department of Revenue-Total	\$1,520,880	\$1,605,390	\$84,511	5.6%
Revenue Act** (1)	878,389	901,074	22,685	2.6%
Non-Revenue Act(2)	642,491	704,316	61,825	9.6%
Liquor Sales/Liter	12,182	12,636	454	3.7%
Cigarette	4,064	4,272	208	5.1%
Property (State School Levy)	510,724	580,330	69,607	13.6%
Estate	16	240	224	NC
Real Estate Excise	74,377	64,238	(10,139)	-13.6%
Timber (state share)	1,784	2,083	299	16.8%
Other	39,343	40,516	1,173	3.0%
Department of Licensing (2)	250	69	(181)	-72.3%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,521,130	\$1,605,459	\$84,329	5.5%
Cumulative Variance Since the November 2007 Forecast (Nov. 11, 2007 - Dec. 10, 2007)				
Department of Revenue-Total	\$1,520,880	1,605,390	84,511	5.6%
Revenue Act** (3)	878,389	901,074	22,685	2.6%
Non-Revenue Act(4)	642,491	704,316	61,825	9.6%
Liquor Sales/Liter	12,182	12,636	454	3.7%
Cigarette	4,064	4,272	208	5.1%
Property (State School Levy)	510,724	580,330	69,607	13.6%
Estate	16	240	224	NA
Real Estate Excise	74,377	64,238	(10,139)	-13.6%
Timber (state share)	1,784	2,083	299.3	16.8%
Other	39,343	40,516	1,173	3.0%
Department of Licensing (4)	339	69	(270)	-79.6%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,521,218	\$1,605,459	\$84,241	5.5%

1 Collections Nov. 11 - Dec. 10, 2007. Collections primarily reflect October 2007 activity of monthly taxpayers.

2 November 2007 collections.

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

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

5 Lottery transfers to the General Fund

* Based on the November 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
Nov. 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>
Oct 11 -Nov. 10, 2007				
Department of Revenue-Total	\$1,216,074	\$1,216,074	\$0	0.0%
Revenue Act (1)	1,079,748	1,079,748	(0)	-0.0%
Non-Revenue Act(2)	136,326	136,326	0	0.0%
Liquor Sales/Liter	11,862	11,862	0	0.0%
Cigarette	4,778	4,778	0	0.0%
Property (State School Levy)-net	9,170	9,170	0	0.0%
Estate	205	205	0	0.2%
Real Estate Excise	62,354	62,354	0	0.0%
Timber (state share)	0	0	0	NA
Other	47,956	47,956	(0)	-0.0%
Department of Licensing (2)	399	310	(89)	-22.2%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,216,473	1,216,385	(\$88)	-0.0%

Cumulative Receipts: Sept. 11 - Nov 10, 2007 & Revisions to History

Department of Revenue-Total	\$2,279,001	\$2,279,001	\$0	0.0%
Revenue Act (3)	2,075,174	2,075,174	(0)	-0.0%
Non-Revenue Act(4)	203,827	203,827	0	0.0%
Liquor Sales/Liter	25,685	25,751	66	0.3%
Cigarette	9,151	9,151	0	0.0%
Property (State School Levy)-net after transf	(3,672)	(3,672)	0	-0.0%
Estate	209	209	0	0.1%
Real Estate Excise	120,508	120,508	0	0.0%
Timber (state share)	0	0	0	NA
Other	51,945	51,880	(65)	-0.1%
Department of Licensing (4)	819	775	(44)	-5.4%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$2,279,820	\$2,279,776	(\$44)	-0.0%

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

1 Collections Oct. 11 - Nov. 10, 2006. Collections primarily reflect Sept. 2007 business activity of monthly taxpayers and q3, 2007 activity of quarterly filers.

2 October 1-31, 2007 collections.

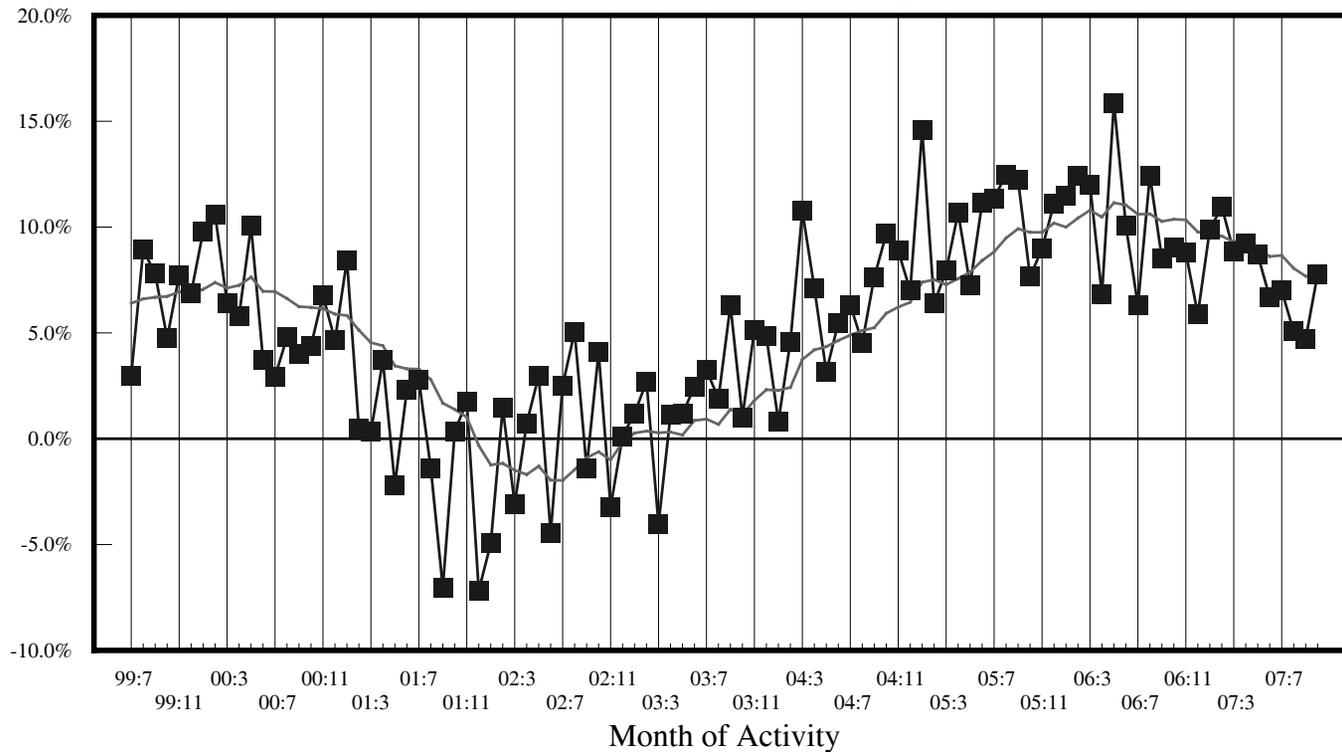
3 Cumulative receipts since the Sept. 2007 forecast: Sept. 11-Nov. 10,2007 & revisions to history.

4 Cumulative receipts since the Sept. 2007 forecast (Sept. & Oct. 2007) & 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.