



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

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February 12, 2007

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FROM: ChangMook Sohn, Director

SUBJECT: February 10, 2007 REVENUE COLLECTION REPORT

General Fund-State (GFS) collections totaled \$1,240.1 million in the January 11 – February 10, 2007 period. Tax payments this month were \$30.3 million (2.4 percent) below the estimate, however, due to more than expected receipts in the previous two months, collections remain \$36.6 million (1.0 percent) higher than expected cumulatively since the November forecast. Revenue Act collections (sales, use, business and occupation and public utility taxes) were \$39.6 million below the estimate for the month. Other sources were \$9.2 million more than expected this period primarily due to higher than expected real estate tax payments. Revenue growth slowed this month after four months of near-double digit increases. While the weakening housing market has undoubtedly contributed to the slower growth, some of the weakness this month may be weather related. In addition, special factors overstate this month's shortfall; they also overstate the cumulative positive variance. For the month, the estimate assumed an \$11 million audit payment would be made. That payment was not received; it was paid last month instead. Cumulatively, there is a net +\$34.5 million of unusually large and unexpected payments/refunds in the last three months. Excluding special factors, collections are \$19.3 million (1.5 percent) less than expected for the month and are \$3.6 million (0.1 percent) above the estimate cumulatively since the November forecast. Special factors aside, tax collections for the last three months as a whole indicate that the November forecast is still pretty much on track.

Recent economic news again has been generally positive and indicates a still healthy economy. The Bureau of Economic Analysis reported that real Gross Domestic Product (GDP) increased 3.5 percent in the fourth quarter of 2006, faster than both the second and third quarters and faster than assumed in the November forecast. However, the weakness in housing was still evident as residential investment fell 19.2 percent in the fourth quarter. The labor market remains healthy with the U.S. economy adding 111,000 new jobs in January 2007. January's unemployment rate remained unchanged at 4.6 percent. Washington continued to add payroll jobs in December and our state's unemployment rate was 5.0 percent in December. This is unchanged from November and down from 5.2 percent a year ago. In other news, the Conference Board reported that the U.S. Index of Leading Indicators increased 0.9 percent in December but revisions have changed previously reported gains in October and November to a decline in October and to no change in November. This Index has increased slightly (+0.1 percent) over the last six months but is below its year ago level. The Conference Board also reported that its Index of Consumer Confidence increased again in January. This index has increased for three consecutive months and is at its highest level since 2002.

Revenue Act collection growth slowed noticeably this month. Collections were 5.9 percent above the year-ago level (excluding special factors); this is the smallest gain since August 2004. Last month's collections increased 8.8 percent (revised). Collections this period primarily reflect December activity of monthly tax payers and October through December activity of quarterly filers. While December activity was relatively weak, growth for the fourth quarter of 2006 as a whole was still a solid 7.7 percent. Growth in the fourth quarter was a little weaker than last quarter (9.1 percent) but it was still better than retail sales nationally (5.1

percent) and as good as the growth of state personal income (+7.5 percent). Weaker December activity was the first real sign of the slower growth expected in the November forecast. What is not clear is whether slowing will continue or whether December's weakness turns out to be a weather related aberration.

Preliminary information on tax payments by industry from taxpayers filing electronically shows clear slowing in many sectors of the economy, although some sectors are still reporting moderate to strong growth. Tax payments by firms in the retail trade and food services sector increased 7.7 percent. Last month retailers reported a 7.4 percent increase. Tax payments by businesses in the auto sector, the largest retail trade category, were up 2.5 percent from the year-ago month, after increasing 5.0 percent last month. Only two of the twelve major retailing categories reported double-digit increases this month. The sectors with the strongest growth were general merchandise stores (+20.2 percent), and gas stations and convenience stores (+11.7 percent). Three sectors reported year-over-year declines: sporting goods, toy and book stores (-9.5 percent), miscellaneous retailers (-2.1 percent) and building materials and garden supply retailers (-0.9 percent). Payments by firms in non-retail trade and food services sectors were up only 3.5 percent as a whole for the month. Last month tax payments from the non-retail trade sector increased 9.4 percent. Despite weakening real estate excise tax payments, excise taxes paid by the construction sector remained relatively strong this month (+7.5 percent), though not as strong as last month (+10.6 percent). The only non-retail trade sector reporting double-digit growth this month was the finance and insurance sector (+36.7 percent). Several major non-retail trade sectors reported a year-over-year decline in tax payments this period: firms in the wholesale trade sector reported a 2.7 percent decline; tax payment of businesses in the professional, scientific and technical services sector were down 11.8 percent, and businesses in the transportation and warehousing sector reported a 0.5 percent decline. Tax payments by firms in construction and housing related sectors grew about the same as in other sectors of the economy. This month's preliminary data shows tax payment from construction related sectors up 5.7 percent compared to 5.6 percent for all other sectors.

Non-Revenue Act General Fund taxes were \$9.2 million above the estimate for the month. Real estate excise (\$9.9 million) and property tax (+\$910,000) payments were higher than expected and more than offset weaker than expected cigarette (-\$123,000) tax, liquor tax (-\$651,000 and "other" payments (-\$520,000). Real estate excise tax payments this month included late payments from the previous two months which accounts for this month's large positive real estate excise tax variance. Cumulatively in the three months since the November 2006 forecast Non Revenue receipts are close to the forecast, just \$4.1 million higher than expected.

Real estate payments this month primarily reflect closings reported by counties for the December 28, 2006 through January 29, 2007. In addition real estate payments this month include some late payments from prior periods. Real estate activity in the most recent period was 5.3 percent lower than a year-ago. Last months activity declined 10.5 percent. Taxable real estate activity has declined four of the last five months. The weakness in activity continues to be due primarily 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 January, but last month, the number of transactions were 17.1 percent lower than a year-ago (the thirteenth consecutive monthly decline), while the average value per transaction increased 7.6 percent.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$88,000 above the estimate for the month and are \$194,000 higher for the three months since the November forecast.

The attached Table 1 provides a comparison of collections with the November 2006 forecast for the January 11, 2007 –February 10, 2007 collection period and cumulatively since the November forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

TABLE 1
Revenue Collection Report
February 10, 2007 Collections Compared to the November 2006 Forecast
Thousands of Dollars

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
Jan. 11,07 - February 10, 2007				
Department of Revenue-Total	\$1,270,224	\$1,239,400	(\$30,824)	-2.4%
Revenue Act** (1)	1,188,497	1,148,492	(40,005)	-3.4%
Non-Revenue Act(2)	81,727	90,907	9,180	11.2%
Liquor Sales/Liter	17,716	17,065	(651)	-3.7%
Cigarette	4,199	4,076	(123)	-2.9%
Property (State School Levy)	(14,847)	(13,937)	910	-6.1%
Estate	88	(217)	(305)	NC
Real Estate Excise	56,090	65,960	9,870	17.6%
Timber (state share)	0	0	0	NA
Other	18,482	17,961	(520)	-2.8%
Department of Licensing (2)	145	233	88	60.3%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,270,370	\$1,239,633	(\$30,737)	-2.4%
Cumulative Variance Since the November 2006 Forecast (Nov. 11, 2006 - Feb. 10, 2007)				
Department of Revenue-Total	\$3,782,067	3,818,066	35,999	1.0%
Revenue Act** (3)	2,817,407	2,849,275	31,867	1.1%
Non-Revenue Act(4)	964,660	968,791	4,131	0.4%
Liquor Sales/Liter	42,042	40,567	(1,475)	-3.5%
Cigarette	12,383	11,899	(484)	-3.9%
Property (State School Levy)	655,923	657,699	1,776	0.3%
Estate	263	435	171	NA
Real Estate Excise	192,257	195,838	3,580	1.9%
Timber (state share)	2,445	1,827	(618)	-25.3%
Other	59,346	60,526	1,180	2.0%
Department of Licensing (4)	488	682	194	39.7%
Lottery (5)	7,617	7,618	1	0.0%
Total General Fund-State***	\$3,790,172	\$3,826,365	\$36,193	1.0%

1 Collections Jan. 11 - Feb. 10, 2007. Collections primarily reflect December 2006 activity of monthly taxpayers, Q4, 2006 activity of quarterly filers and annual 2006 activity of annual filers.

2 January 2007 collections.

3 Cumulative collections, estimates and variance since the November 2006 forecast; (Nov. 11 - February 10, 2007) and revisions to history.

4 Cumulative collections, estimates and variance since the Nov. 2006 forecast; (Nov. 2006 - Jan. 2007) and revisions to history.

5 Lottery transfers to the General Fund

* Based on the November 2006 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
January 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>
Dec. 11 - January 10, 2007				
Department of Revenue-Total	\$1,154,834	\$1,154,825	(\$9)	-0.0%
Revenue Act (1)	882,920	882,911	(9)	-0.0%
Non-Revenue Act(2)	271,914	271,914	(0)	-0.0%
Liquor Sales/Liter	11,918	11,918	(0)	-0.0%
Cigarette	3,613	3,613	0	0.0%
Property (State School Levy)-net	181,460	181,460	(0)	-0.0%
Estate	577	577	0	0.1%
Real Estate Excise	66,004	66,004	(0)	-0.0%
Timber (state share)	0	0	0	NA
Other	8,342	8,342	0	0.0%
Department of Licensing (2)	257	266	9	3.3%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,155,091	1,155,090	(\$1)	-0.0%

Cumulative Receipts: Nov. 11, 2006 - January 10, 2007 & Revisions to History

Department of Revenue-Total	\$2,578,675	\$2,578,666	(\$9)	-0.0%
Revenue Act (3)	1,700,792	1,700,783	(9)	-0.0%
Non-Revenue Act(4)	877,884	877,884	(0)	-0.0%
Liquor Sales/Liter	23,503	23,503	(0)	-0.0%
Cigarette	7,823	7,823	0	0.0%
Property (State School Levy)-net after transf	671,636	671,636	0	0.0%
Estate	652	652	(0)	-0.0%
Real Estate Excise	129,873	129,878	5	0.0%
Timber (state share)	1,827	1,827	(0)	NA
Other	42,565	42,565	(0)	-0.0%
Department of Licensing (4)	440	533	93	21.0%
Lottery (4)	7,618	7,618	(0)	NA
Total General Fund-State***	\$2,586,733	2,586,817	\$84	0.0%

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

1 Collections Nov. 11 - January 10, 2006. Collections primarily reflect Nov. 2006 business activity of monthly taxpayers.

2 December 1-31, 2006 collections.

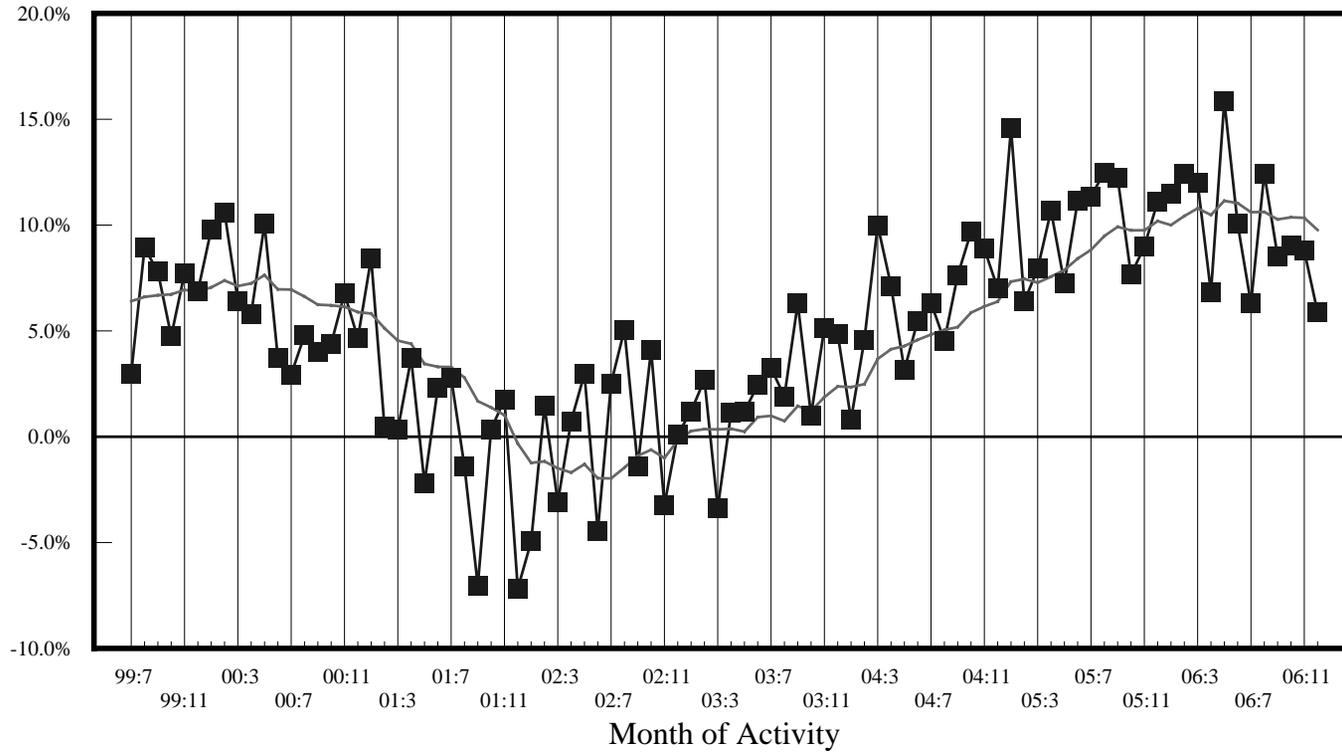
3 Cumulative receipts since the Nov. 2006 forecast: Nov. 11-January 10,2007 & revisions to history.

4 Cumulative receipts since the November 2006 forecast (November 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.