



STATE OF WASHINGTON  
ECONOMIC AND REVENUE FORECAST COUNCIL

*Capitol Plaza Building, PO Box 40912 • Olympia, Washington 98504-0912 • (360) 570-6100*

October 10, 2007

**TO:** Representative Jim McIntire, Chair  
Senator Joseph Zarelli  
Senator Craig Pridemore  
Representative Ed Orcutt  
Victor Moore, OFM, Director  
Cindi Holmstrom, DOR, Director

**FROM:** ChangMook Sohn, Director

**SUBJECT:** October 10, 2007 REVENUE COLLECTION REPORT

Tax payments in the September 11 – October 10, 2007 collection period totaled \$1,063.5 million. This was \$19.6 million (1.9 percent) above the estimate for the month. Higher than expected Revenue Act (sales, business and occupation, use and public utility taxes), cigarette and liquor tax payments more than offset weaker than expected real estate excise and property tax receipts for the month. This month's variance is overstated, however. Collections this period include three large (\$42.8 million), non-recurring audit payments that are not related to current economic activity. Excluding these payments, collections would be \$23.2 million (2.2 percent) less than the estimate for the month and \$22.5 million less cumulatively since the September 2007 forecast. The shortfall, excluding special factors, is nearly entirely due to much weaker than expected real estate excise tax collections.

Nationally, recent economic news has been mixed. The U.S. economy added 110,000 jobs in September, the largest gain since May. In addition, the August jobs number was revised up from a previously reported loss of 4,000 jobs to a gain of 89,000 jobs. Despite the better numbers, payroll jobs have increased on average only 97,000 a month in the last three months, well below the average of 189,000 a month in 2006 and 134,000 a month in the first half of 2007. Although the number of jobs increased in September, so did the U.S. unemployment rate. The U.S. unemployment rate rose from 4.6 percent in August to 4.7 percent in September. The Washington labor market still appears healthier than the nation as a whole. Washington added 10,400 non-farm jobs in August and now has 87,900 more payroll jobs than a year ago, a 3.1 year-over-year increase. Nationally the year-over-year increase was only 1.3 percent in August and 1.2 percent in September. Washington construction employment remains especially strong. Despite continued weakness in residential construction, construction employment in the state again increased on a year-over-year basis more than twice as fast as total jobs (7.4). Furthermore, the state's unemployment rate dropped from 4.9 percent in July to 4.6 percent in August. The August 2007 rate is 0.5 percent lower than a year-ago. In other news, the Conference Board reported that the U.S. Index of Leading Indicators fell sharply in August (-0.6 percent). The index has now declined two of the last three months, although it has increased (0.5 percent) in the last six months. The Conference Board also reported that its Index of Consumer Confidence fell for the second straight month in September. The index has declined four the last seven month and is at its lowest level since October 2005.

Revenue Act collections for the month (primarily reflecting August 2007 business activity) were 5.1 percent above the year-ago level (adjusted for special factors). This is the weakest increase since August 2004 and well below average growth for the last twelve months (8.1 percent). Last month Revenue Act receipts increased 7.0 percent. Although revenue growth has slowed, it hasn't stopped and is still reasonably healthy given the weak U.S. economy and on-going correction in the residential housing market.

Preliminary information on tax payments by industry, from taxpayers filing electronically, indicates moderate growth in the September 11-October 10, 2007 period (primarily August 2007 business activity). The retail trade sector was again weak, with tax payments up only 2.5 percent from a year-ago. This is a little weaker than last month's 3.8 percent gain and well below the 6.4 percent average increase for the last twelve months. Tax payments by businesses in the auto sector, the largest retail trade category, increased 0.2 percent this month, the second weakest growth for the year. Last month tax payment by auto retailers declined 2.5 percent. Other weak retailing sectors included: gasoline stations (-8.8 percent), electronics and appliance retailers (-0.2 percent), building materials/garden supply retailers (-1.3 percent), general merchandise stores (+1.4 percent) and furniture and appliance stores (+2.8 percent). Two retail trade sectors reported double-digit increases: apparel and accessories retailers (+14.7 percent) and non-store retailers (+10.1 percent). Payments by firms in non-retail trade and food services sectors increased 6.1 percent this period. Last month these sectors reported a 7.3 percent increase. Tax payments by businesses in the construction sector were up a still very strong 10.6 percent from the year-ago-month despite the ongoing correction in the residential housing market. Last month this sector reported a 12.8 percent increase. Other non-retail trade sectors with strong growth this month included: information (+15.6 percent) and professional, scientific and technical services (+8.7 percent). There was weakness in several major non-retail trade sectors this month, including: manufacturing (-4.8 percent) and finance and insurance (-6.1 percent).

Non-Revenue Act General Fund taxes were \$19.8 million below the estimate for the month. Much weaker than expected real estate excise tax payments (-\$18.1 million) accounted for most of the shortfall although property tax payments (-\$2.4 million) were also less than expected for the month. Cigarette (+\$425,000) and liquor tax payments (+\$696,000) were a little above the estimate for the month.

Taxable real estate activity reported by the state's thirty-nine counties for the most recent period (closings August 29<sup>th</sup> through September 26, 2007) was very weak, -25.8 percent below the year-ago level. This is the weakest monthly year-over-year drop since April 1995. Last month activity declined 5.1 percent. Activity in the residential housing market has been weak for sometime and the forecast assumes activity will remain weak. Activity has declined ten of the last twelve months with most of the weakness attributable to a drop in the number of transactions. Information on the number of transactions is not yet available for the current month, but last month the number of taxable real estate transactions was 18.5 percent below the year-ago level. Transactions have declined in twenty of the last twenty-one months.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$24,000 below the estimate for the month and are \$68,000 lower than the estimate cumulatively since the September 2007 forecast.

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

**TABLE 1**  
**Revenue Collection Report**  
**October 10, 2007 Collections Compared to the September 2007 Forecast**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
<b>Sept. 11 - October 10, 2007</b>				
Department of Revenue-Total	\$1,043,295	\$1,062,927	\$19,632	1.9%
Revenue Act** (1)	955,992	995,426	39,434	4.1%
Non-Revenue Act(2)	87,304	67,501	(19,803)	-22.7%
Liquor Sales/Liter	13,126	13,889	762	5.8%
Cigarette	3,948	4,373	425	10.8%
Property (State School Levy)	(10,426)	(12,842)	(2,416)	23.2%
Estate	84	4	(80)	NC
Real Estate Excise	76,243	58,154	(18,089)	-23.7%
Timber (state share)	0	0	0	NA
Other	4,329	3,924	(405)	-9.4%
Department of Licensing (2)	568	544	(24)	-4.2%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,043,863	\$1,063,471	\$19,608	1.9%
<b>Cumulative Variance Since the September 2007 Forecast (Sept. 11, 2007 - Oct. 10, 2007)</b>				
Department of Revenue-Total	\$1,043,295	1,063,694	20,399	2.0%
Revenue Act** (3)	955,992	995,426	39,434	4.1%
Non-Revenue Act(4)	87,304	68,268	(19,036)	-21.8%
Liquor Sales/Liter	13,126	13,823	696	5.3%
Cigarette	3,948	4,373	425	10.8%
Property (State School Levy)	(10,426)	(12,842)	(2,416)	23.2%
Estate	84	4	(80)	NA
Real Estate Excise	76,243	58,154	(18,089)	-23.7%
Timber (state share)	0	767	767.0	NA
Other	4,329	3,989	(340)	-7.8%
Department of Licensing (4)	568	500	(68)	-12.0%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,043,863	\$1,064,194	\$20,330	1.9%

1 Collections Sept. 11 - October 10, 2007. Collections primarily reflect August 2007 activity of monthly taxpayers.

2 September 2007 collections.

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

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

5 Lottery transfers to the General Fund

\* Based on the September 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**  
**September 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>
<b>August 11 - September 10, 2007</b>				
Department of Revenue-Total	\$1,020,996	\$1,021,763	\$767	0.1%
Revenue Act (1)	928,518	928,518	(0)	-0.0%
Non-Revenue Act(2)	92,478	93,245	767	0.8%
Liquor Sales/Liter	12,847	12,847	0	0.0%
Cigarette	4,766	4,766	0	0.0%
Property (State School Levy)-net	(17,616)	(17,616)	(0)	0.0%
Estate	885	885	0	0.0%
Real Estate Excise	83,683	83,683	(0)	-0.0%
Timber (state share)	1,862	2,649	787	NA
Other	6,031	6,031	(0)	-0.0%
Department of Licensing (2)	1,224	1,189	(35)	-2.8%
Lottery (2)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>1,022,229</b>	<b>1,022,952</b>	<b>\$723</b>	<b>0.1%</b>

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

Department of Revenue-Total	\$3,459,082	\$3,459,850	\$768	0.0%
Revenue Act (3)	2,917,586	2,917,586	(0)	-0.0%
Non-Revenue Act(4)	541,497	542,264	767	0.1%
Liquor Sales/Liter	41,420	41,420	0	0.0%
Cigarette	13,765	13,765	0	0.0%
Property (State School Levy)-net after transf	155,603	155,603	0	0.0%
Estate	774	774	(0)	-0.0%
Real Estate Excise	266,481	266,563	82	0.0%
Timber (state share)	1,882	2,649	767	NA
Other	61,571	61,490	(81)	-0.1%
Department of Licensing (4)	9,934	9,971	37	0.4%
Lottery (4)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$3,469,016</b>	<b>\$3,469,821</b>	<b>\$805</b>	<b>0.0%</b>

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

1 Collections Aug. 11 - Sept. 10, 2007. Collections primarily reflect July 2007 business activity of monthly taxpayers.

2 August 1-31, 2007 collections.

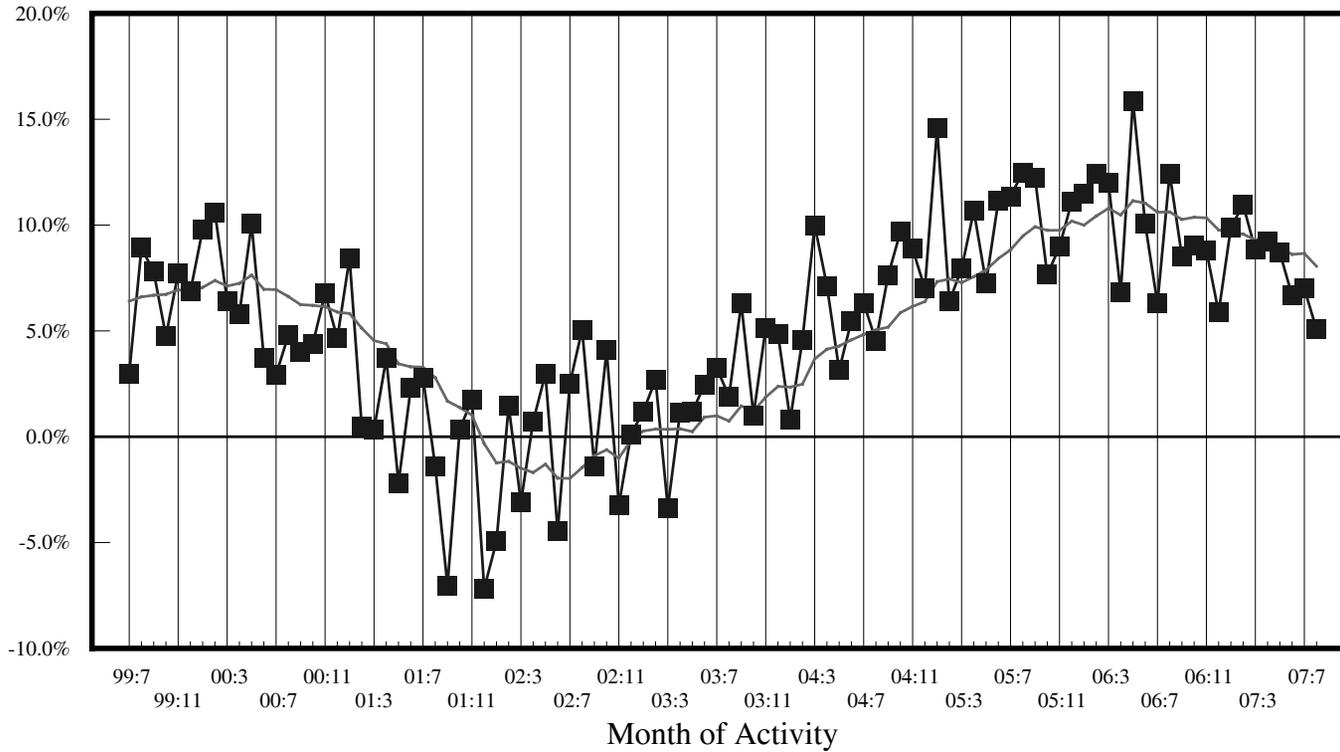
3 Cumulative receipts since the June 2007 forecast: June 11-Sept. 10,2007 & revisions to history.

4 Cumulative receipts since the June 2007 forecast ( June 2007- Aug 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.