



STATE OF WASHINGTON  
**ECONOMIC AND REVENUE FORECAST COUNCIL**

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January 11, 2008

**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:** January 10, 2008 REVENUE COLLECTION REPORT

General Fund-State (GFS) tax payments totaled \$1,112.5 million in the December 11, 2007-January 10, 2008 collection period. Collections for the month were \$27.9 million (2.4 percent) less than expected, however, the shortfall was solely due to a change in the timing of property tax payments, not to weaker than expected economic activity. Excluding the property tax, GFS receipts were \$42.0 million (4.4 percent) above the estimate for the month. Most of this was due to stronger than expected Revenue Act (sales, use, business and occupation, and public utility taxes) growth. This month receipts included some unusually large audit payments (\$7.5 million); however, most of the positive variance was due to stronger than expected consumer and business spending. Tax payments this period indicate that the weakness in housing or the strain in the financial sector has yet to significantly affect the broader economy in Washington. Collections this month reduce the cumulative variance since the November 2007 forecast to \$56.6 million (2.1percent). The cumulative variance adjusted for special factors is \$45.0 million (1.7 percent).

Recent economic data is mostly negative. The U.S. economy added just 18,000 payroll jobs in December, the smallest increase since August 2002. In addition, the U.S. unemployment rate increased from 4.7 percent in November to 5.0 percent in December. This is the largest single month increase in six years. At the state level, Washington's employment continues to increase. Washington now has 78,600 more payroll jobs than a year ago (+2.7 percent) and state's unemployment rate inched down to 4.7 percent in November from 4.8 percent in October. In other news, the Conference Board reported that the U.S. Index of Leading Indicators fell 0.4 percent in November. This index also fell last month and has declined or remained unchanged for seven of the last eleven months. The Conference Board also reported that its Index of Consumer Confidence rose slightly in December, the first increase since July. Despite the increase, the index is 20.3 percent below its July 2007 level.

For the month Revenue Act collection growth was again stronger than expected. Receipts this period primarily reflect November 2007 activity of monthly tax payers. Collections for the month were 8.8 percent above the year-ago level after adjusting for special factors. This is better than last month's 7.8 percent increase and is the strongest since April 2007. After slowing in August and September, activity the last two months has unexpectedly improved despite a deteriorating housing sector. Growth still remains below the increases reported earlier in the year and the forecast still expects it to weaken in the first half of calendar 2008. Revenue growth has averaged 6.6 percent in the last five 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 to strong growth in the December 11, 2007 to January 10, 2008 period. Tax payments by firms in the retail trade sector increased 5.7 percent this period. Last month retailers reported a 5.4 percent increase, however, two months ago the increase was only 2.1 percent. For the month, tax payments by businesses in the auto sector, the largest retail trade category, were up 3.0 percent from a year-ago, after posting a 0.9 percent gain last month. Several retail trade sectors reported strong growth this month including: non-store

retailers (+13.2 percent), general merchandise stores (+11.7 percent), drug and health stores (+11.2 percent), gasoline stations (+10.4 percent), and sporting goods, toys, books and music retailers (+10.0 percent). Most housing related retail sectors reported weak growth: electronics and appliance retailers (-8.7 percent), food stores (-4.8 percent, and building materials/garden equipment stores (+1.6 percent). The overall increase in tax payments reported by businesses in non-retail trade sectors was 11.0 percent. Last month non-retailing sectors reported an 8.5 percent increase. Despite a weak residential real estate market, excise taxes paid by the construction sector still remain strong. Payment by businesses in the construction sector reported a year-over-year gain of 17.8 percent. Last month's payments from the construction sector increased 17.6 percent, but two months ago the gain was only 7.3 percent. Other non-retail trade sectors with strong growth this month included: professional, scientific and technical services (+13.6 percent), accommodations (+9.4 percent), transportation and warehousing (+14.4 percent), finance and insurance (+10.4 percent) and wholesale trade (+14.4 percent).

For the month Non-Revenue Act General Fund taxes were \$69.8 million below the estimate. Virtually the entire shortfall this month was due to property taxes (-\$69.9 million) and was the result of a change in the timing of payments. This month's property tax shortfall offsets the large positive variance reported in last month's collection report. Cumulatively, in the two months since the November forecast property tax collections are very close to the estimate (-\$304,000). Most other major taxes were close to the estimate for the month. Excluding the property tax timing anomaly, non-revenue act receipts are \$0.1 million above the estimate for the month. Cumulatively, for the two months since the November forecast Non-Revenue Act receipts are \$8.0 million less than expected primarily due to last month's weaker than expected real estate excise tax payments.

Although real estate excise tax payments were close to the estimate this month, real estate activity remains weak. Taxable real estate activity reported by the state's thirty-nine counties for the most recent period (closings November 25<sup>th</sup> through December 28, 2007) was 17.9 percent below the year-ago level. As weak as this is, it is an improvement from last month's 31.3 percent drop. Activity has declined on a year-over-year basis for five consecutive months and thirteen of the last sixteen months. 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 December, but in November 2007, the number of transactions were 21.6 percent lower than a year-ago while the average value per transaction declined 12.3 percent.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$153,000 above the estimate for the month and are \$68,000 higher than expected in the two months since the November forecast.

The attached Table 1 provides a comparison of collections with the November 2007 forecast for the December 11, 2007 – January 10, 2008 collection period and cumulatively since the November 2007 forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

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Attachments

**TABLE 1**  
**Revenue Collection Report**  
**January 10, 2008 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>
<b>Dec. 11 - Jan. 10, 2008</b>				
Department of Revenue-Total	\$1,140,093	\$1,112,066	(\$28,027)	-2.5%
Revenue Act** (1)	876,394	918,156	41,762	4.8%
Non-Revenue Act(2)	263,699	193,911	(69,789)	-26.5%
Liquor Sales/Liter	13,202	12,866	(335)	-2.5%
Cigarette	4,050	3,750	(300)	-7.4%
Property (State School Levy)	189,785	119,874	(69,911)	-36.8%
Estate	16	3,411	3,395	NC
Real Estate Excise	51,525	52,311	786	1.5%
Timber (state share)	0	0	0	NA
Other	5,121	1,698	(3,422)	-66.8%
Department of Licensing (2)	239	393	153	64.2%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,140,332	\$1,112,459	(\$27,873)	-2.4%
<b>Cumulative Variance Since the November 2007 Forecast (Nov. 11, 2007 - Jan. 10, 2008)</b>				
Department of Revenue-Total	\$2,660,973	2,717,457	56,484	2.1%
Revenue Act** (3)	1,754,783	1,819,230	64,447	3.7%
Non-Revenue Act(4)	906,190	898,226	(7,964)	-0.9%
Liquor Sales/Liter	25,384	25,502	118	0.5%
Cigarette	8,114	8,022	(93)	-1.1%
Property (State School Levy)	700,509	700,205	(304)	-0.0%
Estate	32	3,650	3,618	NA
Real Estate Excise	125,902	116,549	(9,353)	-7.4%
Timber (state share)	1,784	2,083	299.3	16.8%
Other	44,464	42,215	(2,249)	-5.1%
Department of Licensing (4)	578	646	68	11.8%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$2,661,551	\$2,718,103	\$56,552	2.1%

1 Collections Dec. 11 - Jan. 10, 2008. Collections primarily reflect November 2007 activity of monthly taxpayers.

2 December 2007 collections.

3 Cumulative collections, estimates and variance since the November 2007 forecast; (Nov. 11 - Jan. 10, 2008) and revisions to history.

4 Cumulative collections, estimates and variance since the November forecast; (November & December 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**  
**December 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>
Nov. 11 - Dec. 10, 2007				
Department of Revenue-Total	\$1,605,390	\$1,605,390	\$0	0.0%
Revenue Act (1)	901,074	901,074	0	0.0%
Non-Revenue Act(2)	704,316	704,316	(0)	-0.0%
Liquor Sales/Liter	12,636	12,636	(0)	-0.0%
Cigarette	4,272	4,272	(0)	-0.0%
Property (State School Levy)-net	580,330	580,330	0	0.0%
Estate	240	240	(0)	-0.2%
Real Estate Excise	64,238	64,238	0	0.0%
Timber (state share)	2,083	2,083	0	NA
Other	40,516	40,516	0	0.0%
Department of Licensing (2)	69	310	241	349.6%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,605,459	1,605,700	\$241	0.0%

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

Department of Revenue-Total	\$1,605,390	\$1,605,390	\$0	0.0%
Revenue Act (3)	901,074	901,074	0	0.0%
Non-Revenue Act(4)	704,316	704,316	(0)	-0.0%
Liquor Sales/Liter	12,636	12,636	(0)	-0.0%
Cigarette	4,272	4,272	(0)	-0.0%
Property (State School Levy)-net after transf	580,330	580,330	0	0.0%
Estate	240	240	(0)	-0.2%
Real Estate Excise	64,238	64,238	0	0.0%
Timber (state share)	2,083	2,083	0	NA
Other	40,518	40,516	(2)	-0.0%
Department of Licensing (4)	69	254	185	267.5%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$1,605,459	1,605,644	\$185	0.0%

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

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

2 Nov. 1-30, 2007 collections.

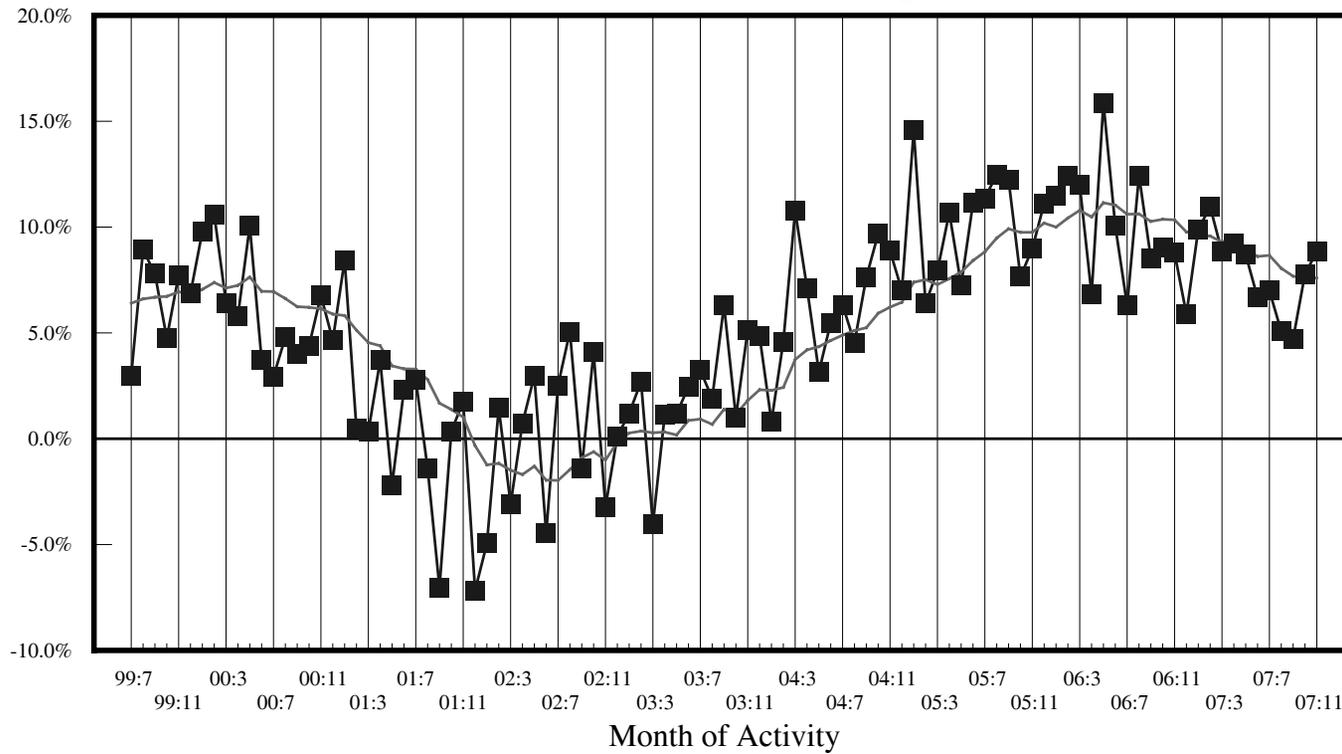
3 Cumulative receipts since the Nov. 2007 forecast: Nov 11-Dec. 10,2007 & revisions to history.

4 Cumulative receipts since the Nov. 2007 forecast (Nov. 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.