



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

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June 11, 2007

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SUBJECT: June 10, 2007 REVENUE COLLECTION REPORT

Tax payments in the May 11 – June 10, 2007 collection period continue to grow faster than expected, reflecting a still very strong state economy. Collections this month are \$143.9 million higher than the estimate, however, collections this period are overstated due to a change in the timing of property tax payments. A portion of property tax payments that were expected next month were received this period instead, accounting for \$123 million of this month's variance. Adjusting for this timing anomaly, collections are \$20.9 million, 1.5 percent higher than expected. This month's positive variance boosts the cumulative variance since the March forecast to \$284.8 million. Adjusting for special factors (the timing of property tax payments this month and large non-recurring payments in the last two months), the cumulative variance is much smaller, \$83.8 million, 2.5 percent. Revenue Act (sales, use, b&O, public utility tax) payments were \$20.5 million higher than expected and accounted for nearly all of the positive adjusted variance this month. Cigarette and estate tax payments were also a little higher than expected. Real estate excise tax payments, liquor taxes and the "other" category were all a little less than expected. Consumer and business spending continues to grow and for the most part appears unaffected by higher gas prices or the weak residential housing market. The forecast, however, continues to assume that eventually higher interest rates, high energy prices and a slower pace of home equity withdrawal will become a drag on spending and revenue growth.

Recent economic data is once again generally positive. U.S. payroll employment rose 157,000 in May from a downward revised 80,000 gain in April. May's increase was a little better than most economists had expected but even with the improvement in May, the average monthly increase for the year-to-date remains less than the average increase in both calendar 2006 and 2005. May's unemployment rate remained unchanged from April at 4.5 percent. At the state level, Washington's employment continues to increase. Washington now has 64,400 more payroll jobs than a year ago and job gains in April 2007 have helped push the state's unemployment rate down to 4.4 percent in April from 4.6 percent in March. In other news, the Conference Board reported that the U.S. Index of Leading Indicators fell 0.5 percent in April after increasing in March. This index has declined or remained unchanged in three of the last six months during which time it declined at an annualized rate of 0.4 percent. The Conference Board also reported that its Index of Consumer Confidence increased in May after declining in March and April. The index is 2.9 percent below its cyclical peak reached in February 2007 but is 3.2 percent above its year-ago level.

For the month Revenue Act collection growth was again stronger than expected. Collections for the month were 9.2 percent above the year-ago level. Last month collections increased 8.8 percent. Receipts this period primarily reflect April 2007 activity of monthly tax payers. Revenue growth has averaged 9.6 percent in the last three months and 8.8 percent for the first ten months of fiscal 2007. Growth in the retail trade sector of the economy appears to have decelerated this month (see preliminary industry detail below), but overall revenue growth remains strong and continues to outpace both U.S. retail sales and state personal income.

Preliminary information on tax payments by industry from taxpayers filing electronically indicates solid overall growth in the May 11-June 10, 2007 period. However, for the first time since the last recession there

is a clear sign of slowing growth in the retail trade sector, at least for the month. Tax payments by firms in the retail trade and food services sector increased only 4.4 percent this period. Last month retailers reported a 7.7 percent increase. Tax payments by businesses in the auto sector, the largest retail trade category, were up 4.0 percent from the year-ago month, after increasing 7.5 percent last month. The sectors with the strongest growth were non-store retailers (+18.0 percent) and drug and health stores (+10.7 percent). These sectors are relatively small, accounting for only 2.2 percent of total payments. The weakest sector in the retail trade category was the electronics and appliance sector which reported an 8.5 percent decline in tax payments this period. Other weak sectors were building materials and garden equipment stores (+1.4 percent) and furniture and home furnishings retailers (+1.7 percent). Payments by firms in non-retail trade and food services sectors reported much stronger overall growth (+8.9 percent). Last month non retailing sectors reported a 6.6 percent increase in tax payments. Despite a weak residential real estate market, excise taxes paid by the construction sector remained very strong this period (+12.9 percent). Last month payments from the construction sector increased 13.3 percent. Other non-retail trade sectors with strong growth this month included: professional, scientific and technical services (+21.0 percent), accommodations (+8.9 percent), wholesale trade (+12.2 percent) and the finance and insurance sector (+11.8 percent). The only major non-retail trade sector reporting a year-over-year decline in tax payments this period was manufacturing which reported a 1.8 percent drop.

For the month Non-Revenue Act General Fund taxes were \$122.4 million above the estimate. However, virtually this entire amount was due to a large variance in property tax that is believed to be solely due to a change in timing of payments. Normally the bulk of first half property tax payments are reported to the state in May and June, with about half of this two month total coming in May. This year the transmittals from the counties to the state were much faster than normal, resulting in much more than normal payments in May which should be offset by less revenue in June. The change in the timing produced an estimated \$123 million more than expected revenue, which accounts for nearly the entire non-revenue act variance for the month. Excluding this timing anomaly, non-revenue act receipts are just \$622,000 less than the estimate for the month. Real estate excise, (-\$2.9 million), other (-\$635,000) and liquor taxes (-\$538,000) were less than expected, while property (+\$2.8 million), estate (+\$449,000) and cigarette tax payments (+\$224,000) were higher than expected. Cumulatively for the three months since the March forecast Non-Revenue Act GFS collections are \$191.3 million above the forecast. However, adjusting for special factors (the timing of property tax payments this month and unusually large non-reoccurring real estate excise tax payments last month) non-revenue act receipts are only \$1.3 million less than expected.

Taxable real estate activity reported by the state's thirty-nine counties for the most recent period (closings April 27th through May 29, 2007) was 5.1 percent below the year-ago level. Last month activity increase 46.1 percent due to some extraordinary large commercial sales. Excluding these sales, last month's was down 2.3 percent. Last month's large commercial sales aside, statewide taxable real estate activity has declined on a year-over-year basis seven consecutive months and eight of the last nine 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 May, but in April 2007, the number of transactions were 8.4 percent lower than a year-ago (the seventeenth consecutive monthly decline).

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$1.0 million above the estimate both for the month and cumulatively for the three months since the March forecast.

The attached Table 1 provides a comparison of collections with the March 2007 forecast for the May 11, 2007 – June 10, 2007 collection period and cumulatively 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
June 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>
May 11 - June 10, 2007				
Department of Revenue-Total	\$1,392,404	\$1,535,239	\$142,835	10.3%
Revenue Act** (1)	818,206	838,663	20,457	2.5%
Non-Revenue Act(2)	574,198	696,576	122,378	21.3%
Liquor Sales/Liter	11,668	11,130	(538)	-4.6%
Cigarette	4,364	4,588	224	5.1%
Property (State School Levy)	462,723	588,539	125,816	27.2%
Estate	49	498	449	NC
Real Estate Excise	76,080	73,131	(2,949)	-3.9%
Timber (state share)	1,531	1,542	12	0.8%
Other	17,783	17,148	(635)	-3.6%
Department of Licensing (2)	4,291	5,316	1,026	23.9%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,396,695	\$1,540,555	\$143,861	10.3%
Cumulative Variance Since the March 2007 Forecast (March 11, 2007 - June 10, 2007)				
Department of Revenue-Total	\$3,411,315	3,695,123	283,808	8.3%
Revenue Act** (3)	2,565,654	2,658,141	92,488	3.6%
Non-Revenue Act(4)	845,661	1,036,982	191,321	22.6%
Liquor Sales/Liter	34,380	33,793	(587)	-1.7%
Cigarette	12,760	12,631	(129)	-1.0%
Property (State School Levy)	507,574	629,005	121,431	23.9%
Estate	147	2,802	2,655	NA
Real Estate Excise	245,828	310,097	64,270	26.1%
Timber (state share)	1,531	1,072	(458.7)	-30.0%
Other	43,442	47,581	4,139	9.5%
Department of Licensing (4)	8,606	9,641	1,035	12.0%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$3,419,921	\$3,704,764	\$284,843	8.3%

1 Collections May 11 - June 10, 2007. Collections primarily reflect April 2007 activity of monthly taxpayers.

2 May 1-31, 2007 collections.

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

4 Cumulative collections, estimates and variance since the March 2007 forecast; (March, April & May 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
May 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>
April 11 - May 10, 2007				
Department of Revenue-Total	\$1,223,302	\$1,223,302	\$0	0.0%
Revenue Act (1)	1,013,905	1,013,905	(0)	-0.0%
Non-Revenue Act(2)	209,398	209,398	(0)	-0.0%
Liquor Sales/Liter	12,260	12,260	0	0.0%
Cigarette	4,184	4,184	0	0.0%
Property (State School Levy)-net	37,870	37,870	(0)	-0.0%
Estate	2,107	2,107	0	0.0%
Real Estate Excise	126,471	126,471	0	0.0%
Timber (state share)	0	0	0	NA
Other	26,505	26,505	0	0.0%
Department of Licensing (2)	3,719	3,618	(101)	-2.7%
Lottery (2)	0	0	0	NA
Total General Fund-State***	1,227,022	1,226,920	(\$102)	-0.0%
Cumulative Receipts: Mar. 11 - May 10, 2006 & Revisions to History				
Department of Revenue-Total	\$2,159,884	\$2,159,884	\$0	0.0%
Revenue Act (3)	1,819,478	1,819,478	0	0.0%
Non-Revenue Act(4)	340,406	340,406	(0)	-0.0%
Liquor Sales/Liter	22,663	22,663	0	0.0%
Cigarette	8,044	8,044	(0)	-0.0%
Property (State School Levy)-net after transf	40,466	40,466	(0)	-0.0%
Estate	2,304	2,314	10	0.4%
Real Estate Excise	236,967	236,967	(0)	-0.0%
Timber (state share)	(470)	(470)	(0)	NA
Other	30,433	30,423	(10)	-0.0%
Department of Licensing (4)	4,427	4,285	(142)	-3.2%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$2,164,311	\$2,164,169	(\$142)	-0.0%

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

1 Collections April 11 - May 10, 2007. Collections primarily reflect March 2007 business activity of monthly taxpayers, and Jan.-March 2007 activity of quarterly filers.

2 April 1-30, 2007 collections.

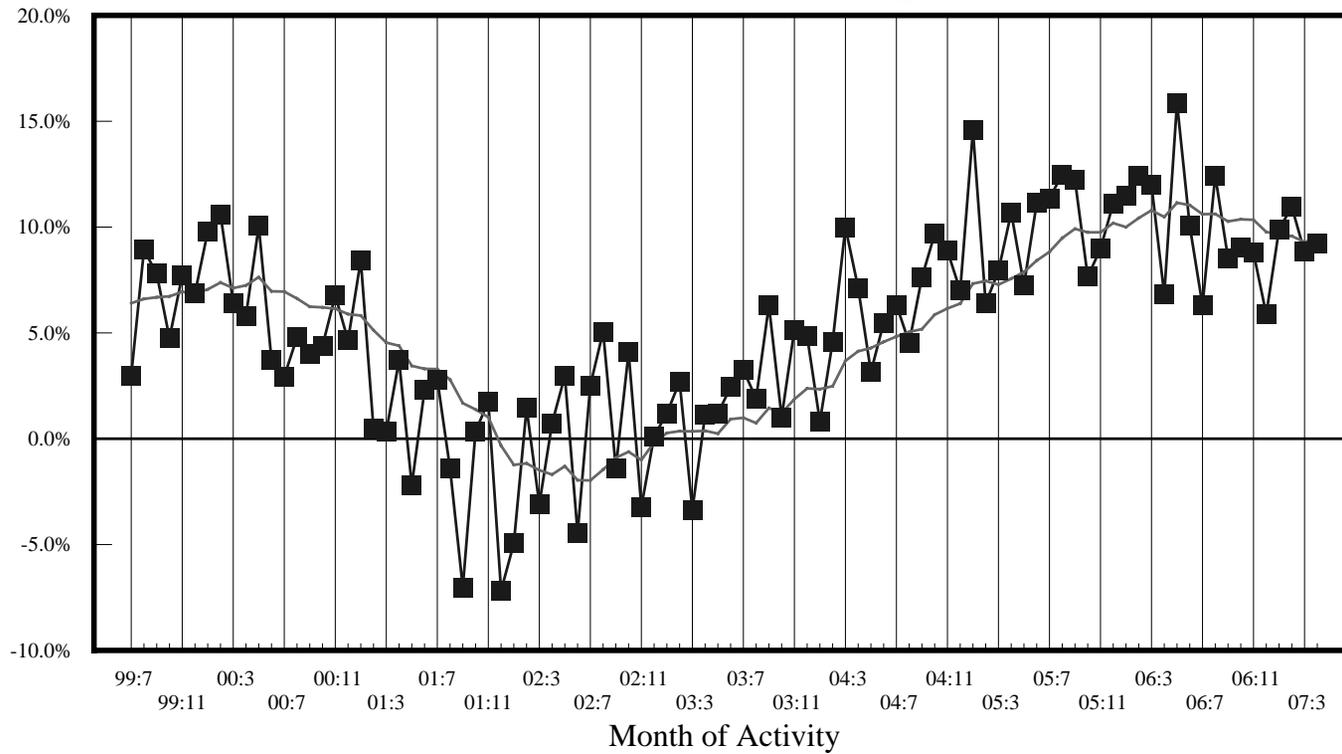
3 Cumulative receipts since the March 2007 forecast: March 11-May 10,2007 & revisions to history.

4 Cumulative receipts since the March 2007 forecast (March and April 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.