



STATE OF WASHINGTON

ECONOMIC AND REVENUE FORECAST COUNCIL

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May 11, 2007

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SUBJECT: May 10, 2007 REVENUE COLLECTION REPORT

Tax payments in the April 11 – May 10, 2007 period continue to be very strong and once again exceeded the forecast. The variance this month is very large in part due to much stronger than expected spending and in part due to some unusually large, non re-occurring payments. General Fund-State (GFS) collections this month were \$94.3 million (8.3 percent) above the forecast. This increases the cumulative variance for the two months since the March forecast to \$141.1 million (7.0 percent). Once again Revenue Act collections (sales, use, business and occupation and public utility taxes) and real estate excise tax payments accounted for most of the positive variance for the month. The Revenue Act variance for the month (+\$33.9 million) reflects stronger than expected economic activity and consumer and business spending, however, the large real estate excise tax variance (+\$58.7 million) is due to three unusually large and unexpected payments, not an improving housing sector. Excluding these transactions, GFS receipts would still be substantially higher than expected for the month (+\$37.3 million, 3.3 percent) as well as cumulatively (+\$68.1 million, 3.1 percent), but nearly all of the variance would be due to higher Revenue Act tax payments not real estate excise tax receipts.

Although strong revenue growth indicates a very healthy state economy, recent economic news nationally points to slower economic growth for the nation as a whole. Real Gross Domestic Product (GDP) growth slowed to 1.3 percent in first quarter of 2007. This is the weakest increase since the first quarter of 2003 and is well below what was expected in the March forecast. The U.S. economy added only 88,000 jobs in April 2007, the weakest increase since November 2004. April's employment gain was well below a downward revised March number of 177,000 jobs and less than what most economists had been expecting. The weak jobs gain helped push the U.S. unemployment rate up to 4.5 percent in April from 4.4 percent in March. At the state level, Washington's employment continues to increase. Washington now has 62,700 more payroll jobs than a year ago and job gains in March has helped push the state's unemployment rate down to 4.6 percent from 4.8 percent in February. In other news, the Conference Board reported that the U.S. Index of Leading Indicators increase 0.1 percent in March after two months of declines. The Conference Board also reported that its Index of Consumer Confidence declined for the second straight month in April, after reaching its highest level since the 2001 recession in February 2007.

For the month Revenue Act collection growth was again stronger than expected. Collections were 8.8 percent above the year-ago level, a little less than last month's 11.0 percent increase. Receipts this period primarily reflect March 2007 activity of monthly tax payers and the first quarter of 2007 activity of quarterly filers. Revenue growth for the first quarter of 2007 as a whole was a very strong 9.8 percent, up from 7.7 percent last quarter. Revenue Act collections continue to grow much faster than U.S. retail sales and state personal income. The March forecast expected the weak housing sector to be a significant drag on spending and revenue growth. A very strong aerospace and software sector and good job growth so far has negated the housing drag on overall spending. Slower growth is still expected to occur, however, its onset continues to be

pushed further out into the future.

Preliminary information on tax payments by industry from taxpayers filing electronically indicates strong growth for most sectors in the April 11-May 10, 2007 period. Tax payments from firms in the retail trade and food services sector increased 7.7 percent. Last month retailers reported a 7.3 percent increase. Tax payments by businesses in the auto sector, the largest retail trade category, were up 7.5 percent from the year-ago month, after increasing 8.9 percent last month. Two of the twelve major retailing categories reported double-digit increases this month. The sectors with the strongest growth were apparel and accessories retailers (+15.2 percent) and general merchandise stores (+11.1 percent). The weakest growth in the retail trade sector this period was a 1.2 percent increase reported by the building materials sector. Payments by firms in non-retail trade and food services sectors were up 6.6 percent as a whole for the month; last month non retailing sectors increased 8.7 percent. Despite a weak residential real estate market, excise taxes paid by the construction sector were again very strong this month (+13.3 percent). Last month payments from the construction sector increased 13.7 percent. Other non-retail trade sectors with strong growth this month included: accommodations (+10.9 percent) and the finance and insurance sector (+13.3 percent). Only one major non-retail trade sector reported a year-over-year decline in tax payments this period: firms in the transportation and warehouse sector reported payments 5.3 percent less than a year-ago. This month tax payments by firms in construction and housing related sectors grew somewhat faster (9.1 percent) than other sectors of the economy (6.5 percent).

For the month Non-Revenue Act General Fund taxes were \$60.7 million above the estimate. Real estate excise (\$56.7 million) accounted for most of the variance, although estate tax payments (+\$2.1 million) and other (+\$8.9 million), primarily brokered nature gas and unclaimed property transfers, were also higher than expected this month. Cumulative for the two months since the March forecast Non Revenue Act GFS collections are \$68.9 million above the forecast. Again, higher than expected real estate excise tax payments accounts for nearly the entire amount (\$67.2 million). The huge real estate excise tax variance month is primarily due to three large, non reoccurring transactions this month. Excluding these transactions, Non Revenue act variance would be +\$3.7 million for the month and \$1.9 million cumulatively for the two months since the March 2007 forecast.

Taxable real estate activity reported by the state's thirty-nine counties for the most recent period (closings March 28th through April 26, 2007) was 46.1 percent above the year-ago level. Taxable activity was up 123.3 percent in King County and down 7.3 percent for the rest of the state. The huge increase is due to the sale of more than two dozen parcels of commercial property in King County. Excluding these sales, real estate activity remains weak, with activity statewide down 2.3 percent from a year-ago. Last month activity declined 6.6 percent statewide. Statewide taxable real estate activity (adjusted) has declined on a year-over-year basis six consecutive months and in seven of the last seven 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 April, but in March 2007, the number of transactions were 14.7 percent lower than a year-ago (the sixteenth consecutive monthly decline), while the average value per transaction increase 9.5 percent.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$223,000 below the estimate for the month but are \$111,00 higher than expected in the two months since the March forecast.

The attached Table 1 provides a comparison of collections with the March 2007 forecast for the April 11, 2007 – May 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
May 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>
April 11 - May 10, 2007				
Department of Revenue-Total	\$1,128,707	\$1,223,302	\$94,596	8.4%
Revenue Act** (1)	979,983	1,013,905	33,922	3.5%
Non-Revenue Act(2)	148,724	209,398	60,674	40.8%
Liquor Sales/Liter	12,073	12,260	188	1.6%
Cigarette	3,962	4,184	222	5.6%
Property (State School Levy)	45,080	37,870	(7,210)	-16.0%
Estate	49	2,107	2,059	NC
Real Estate Excise	69,907	126,471	56,565	80.9%
Timber (state share)	0	0	0	NA
Other	17,653	26,505	8,852	50.1%
Department of Licensing (2)	3,971	3,719	(252)	-6.3%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,132,678	\$1,227,022	\$94,344	8.3%
Cumulative Variance Since the March 2007 Forecast (March 11, 2007 - May 10, 2007)				
Department of Revenue-Total	\$2,018,911	2,159,884	140,973	7.0%
Revenue Act** (3)	1,747,447	1,819,478	72,031	4.1%
Non-Revenue Act(4)	271,464	340,406	68,942	25.4%
Liquor Sales/Liter	22,712	22,663	(48)	-0.2%
Cigarette	8,396	8,044	(353)	-4.2%
Property (State School Levy)	44,851	40,466	(4,385)	-9.8%
Estate	98	2,304	2,206	NA
Real Estate Excise	169,748	236,967	67,218	39.6%
Timber (state share)	0	(470)	(470.4)	NA
Other	25,659	30,433	4,774	18.6%
Department of Licensing (4)	4,315	4,427	111	2.6%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$2,023,226	\$2,164,311	\$141,084	7.0%

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

2 April 1-30, 2007 collections.

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

4 Cumulative collections, estimates and variance since the March 2007 forecast; (March and April 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
April 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>
March 11 - April 10, 2007				
Department of Revenue-Total	\$937,052	\$937,052	\$0	0.0%
Revenue Act (1)	805,573	805,573	0	0.0%
Non-Revenue Act(2)	131,479	131,479	(0)	-0.0%
Liquor Sales/Liter	10,403	10,403	0	0.0%
Cigarette	3,860	3,860	(0)	-0.0%
Property (State School Levy)-net	2,596	2,596	0	0.0%
Estate	196	196	0	0.1%
Real Estate Excise	110,495	110,495	0	0.0%
Timber (state share)	0	0	0	NA
Other	3,928	3,928	0	0.0%
Department of Licensing (2)	676	610	(66)	-9.8%
Lottery (2)	0	0	0	NA
Total General Fund-State***	937,728	937,662	(\$66)	-0.0%

Cumulative Receipts: Mar. 11 - April 10, 2006 & Revisions to History

Department of Revenue-Total	\$936,582	\$936,582	(\$0)	-0.0%
Revenue Act (3)	805,573	805,573	0	0.0%
Non-Revenue Act(4)	131,008	131,008	0	0.0%
Liquor Sales/Liter	10,403	10,403	0	0.0%
Cigarette	3,860	3,860	(0)	-0.0%
Property (State School Levy)-net after transf	2,596	2,596	0	0.0%
Estate	196	206	10	5.2%
Real Estate Excise	110,495	110,495	0	0.0%
Timber (state share)	(470)	(470)	(0)	NA
Other	3,928	3,918	(10)	-0.2%
Department of Licensing (4)	773	667	(106)	-13.7%
Lottery (4)	0	0	0	NA
Total General Fund-State***	\$937,355	\$937,249	(\$106)	-0.0%

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

1 Collections Mar. 11 - April 10, 2007. Collections primarily reflect February 2007 business activity of mor taxpayers.

2 March 1-31, 2007 collections.

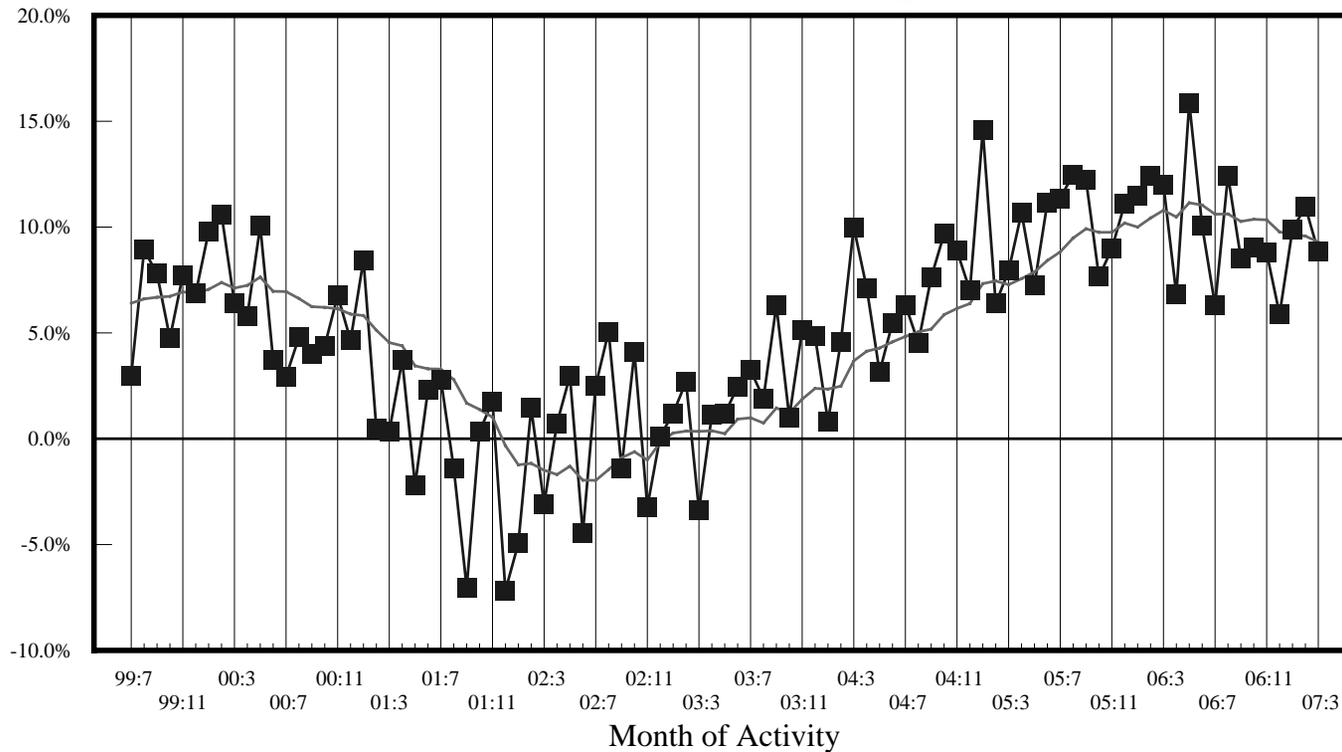
3 Cumulative receipts since the March 2007 forecast: March 11-April' 10,2007 & revisions to history.

4 Cumulative receipts since the March 2007 forecast (March 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.