

Revenue Review

Presented to
Washington Roundtable

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March 5, 2014
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**WASHINGTON STATE
ECONOMIC AND REVENUE FORECAST COUNCIL**

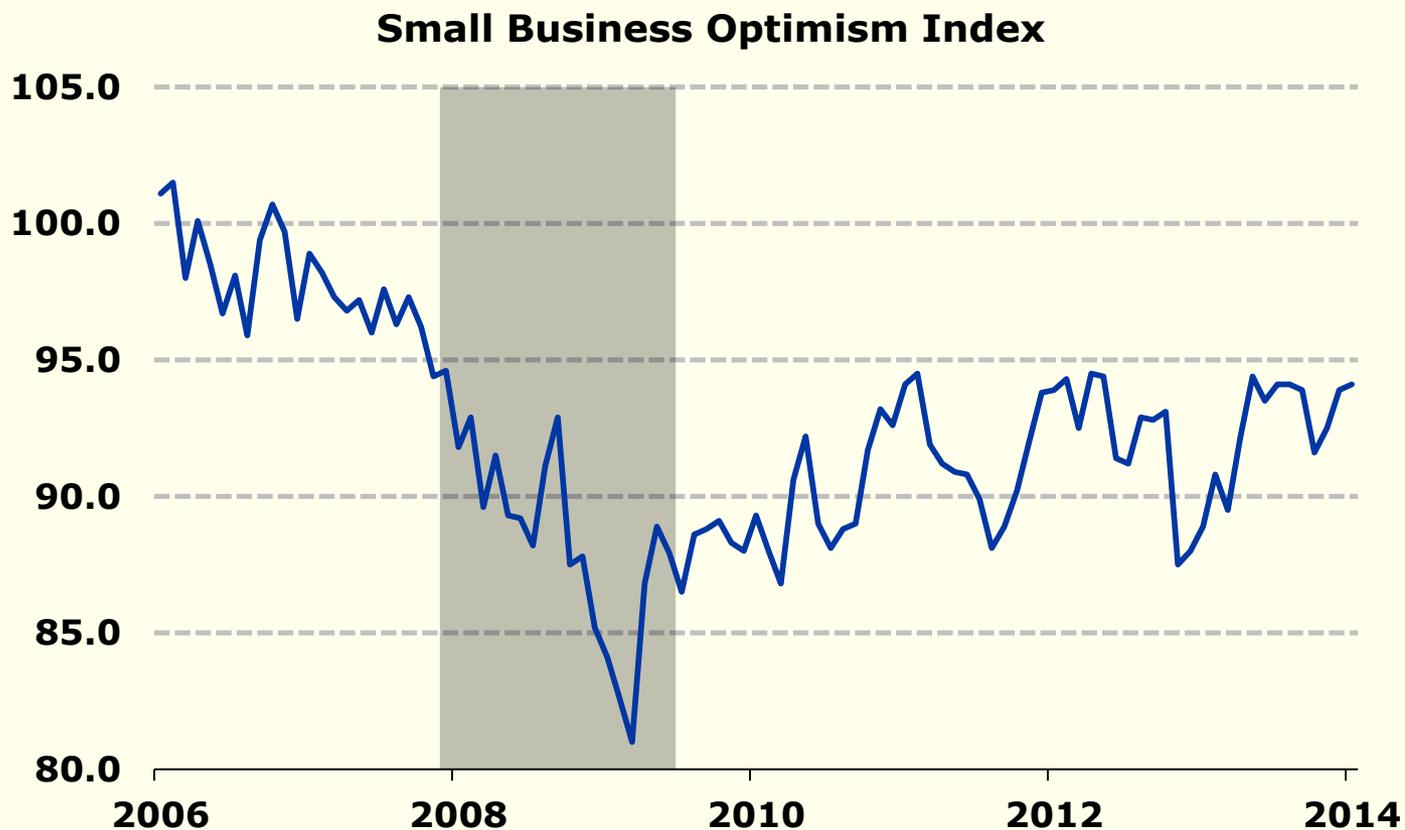


Summary

- The economic forecast is quite similar to November, with slightly stronger U.S. GDP and Washington employment
- Risks to the baseline are much the same as in November: the potential for slower Chinese economic growth and possible disruptions to the housing recovery; risks associated with federal fiscal policy have been reduced
- The GF-S revenue forecast has been increased by \$30 million for the 2013-15 biennium and by \$82 million for the 2015-17 biennium
- The Washington economy continues to grow slowly, with employment rising in most sectors except aerospace and federal government



Small business outlook up slightly in last three months



Source: National Federation of Independent Business; data through January 2014

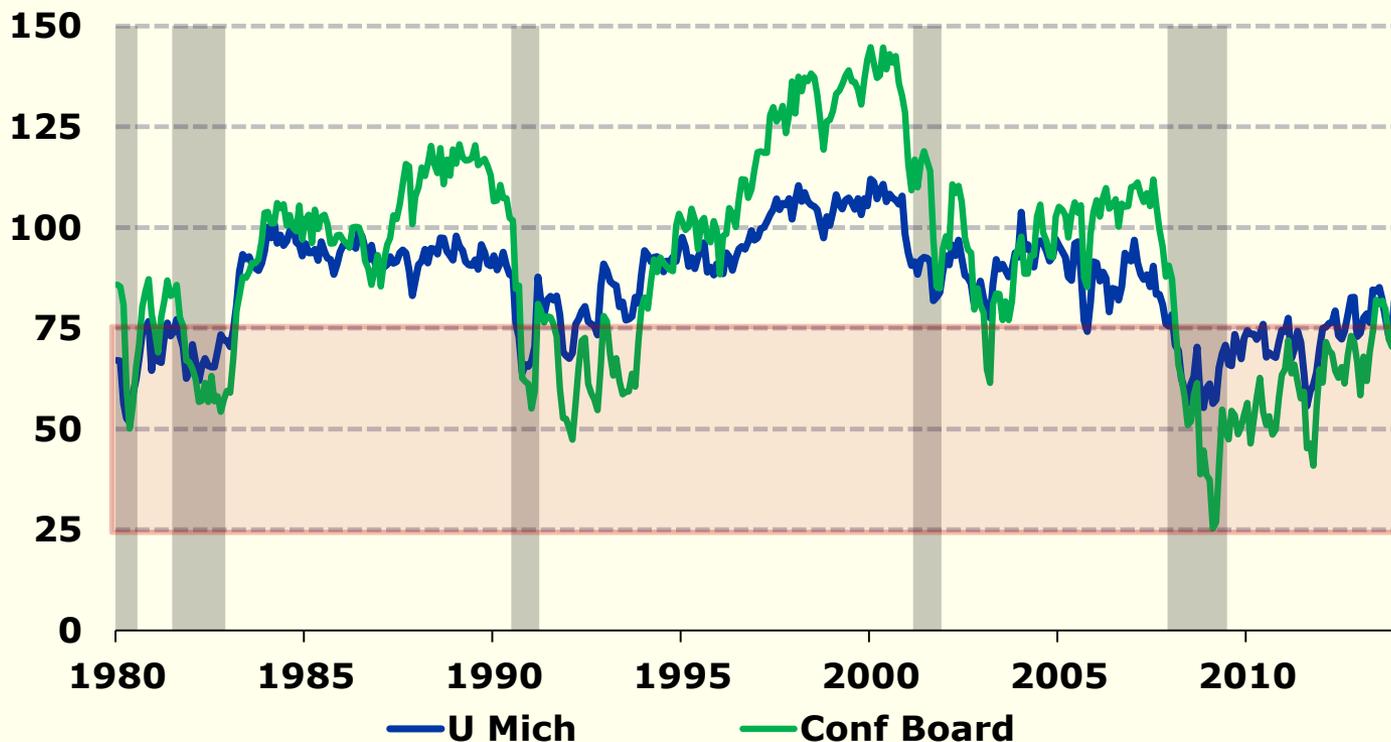


Consumer confidence has improved slightly over last three months

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Mich: 1966Q1 = 100, SA

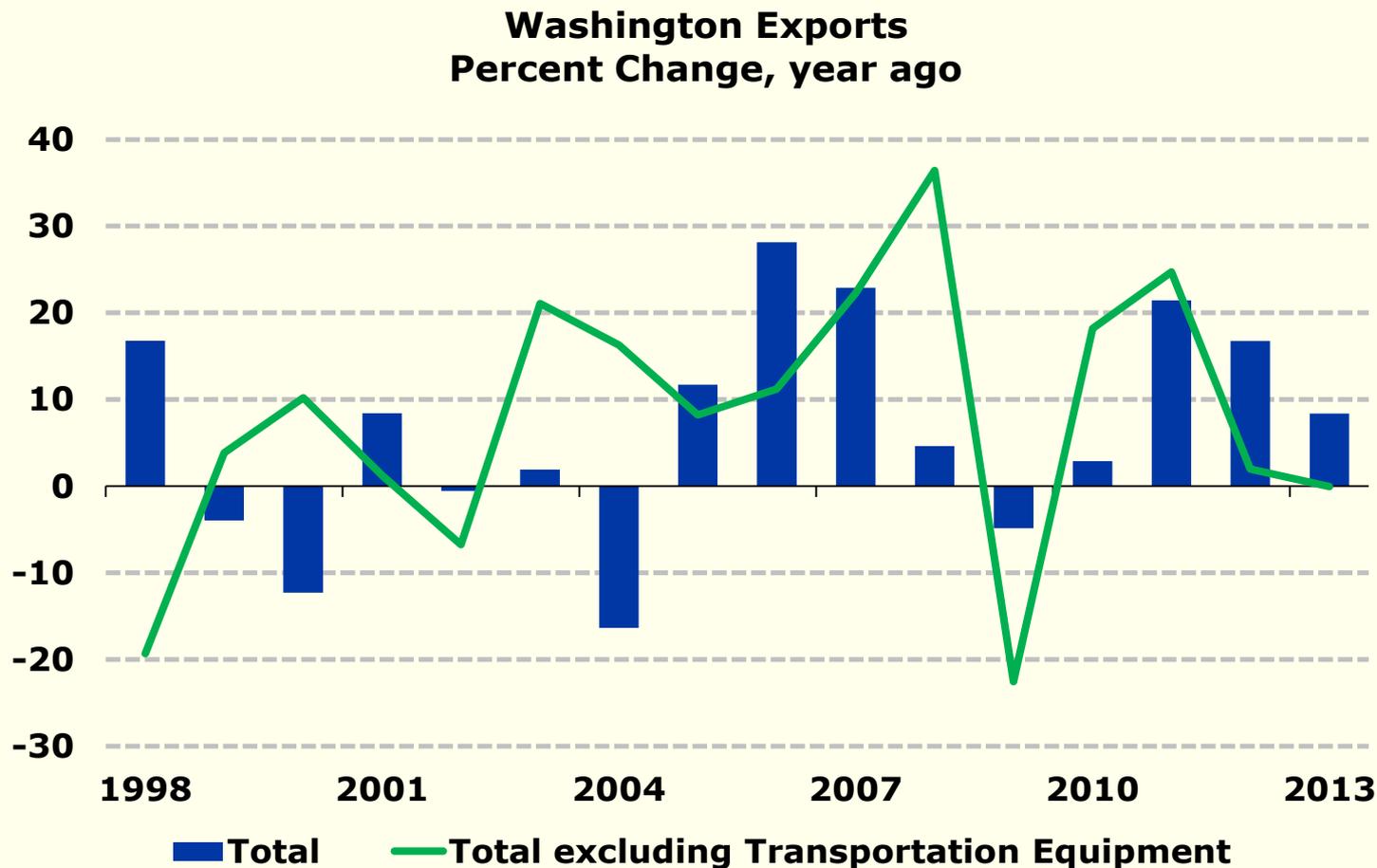
Conf Board: 1985 = 100, SA



Source: University of Michigan; Conference Board, data through January 2014



Washington export growth was weak in 2013

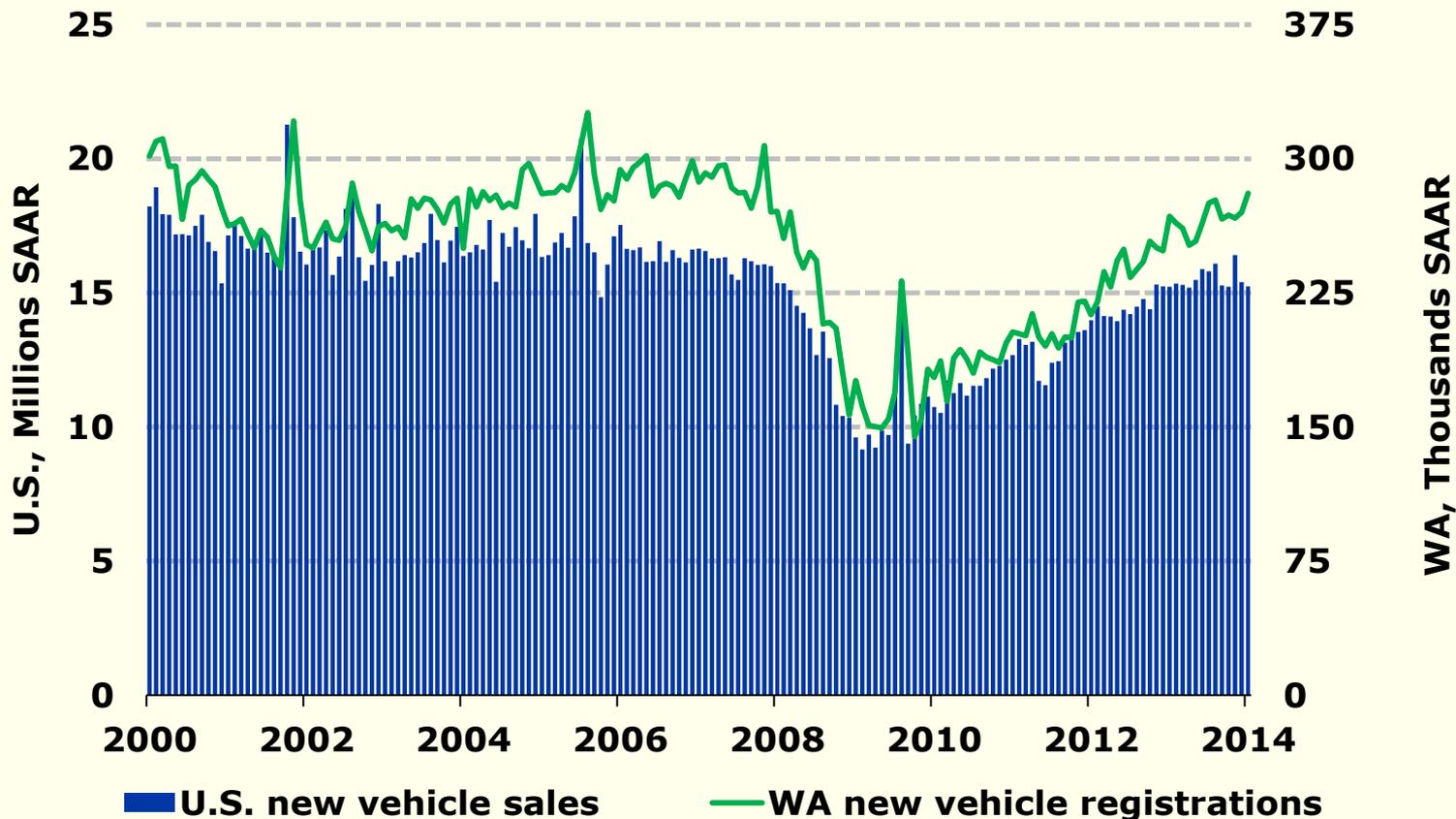


Source: WISER Trade Data; data through 2013



Vehicle sales trend remains positive

WA new vehicle registrations in January were up 4.8% year-over-year.

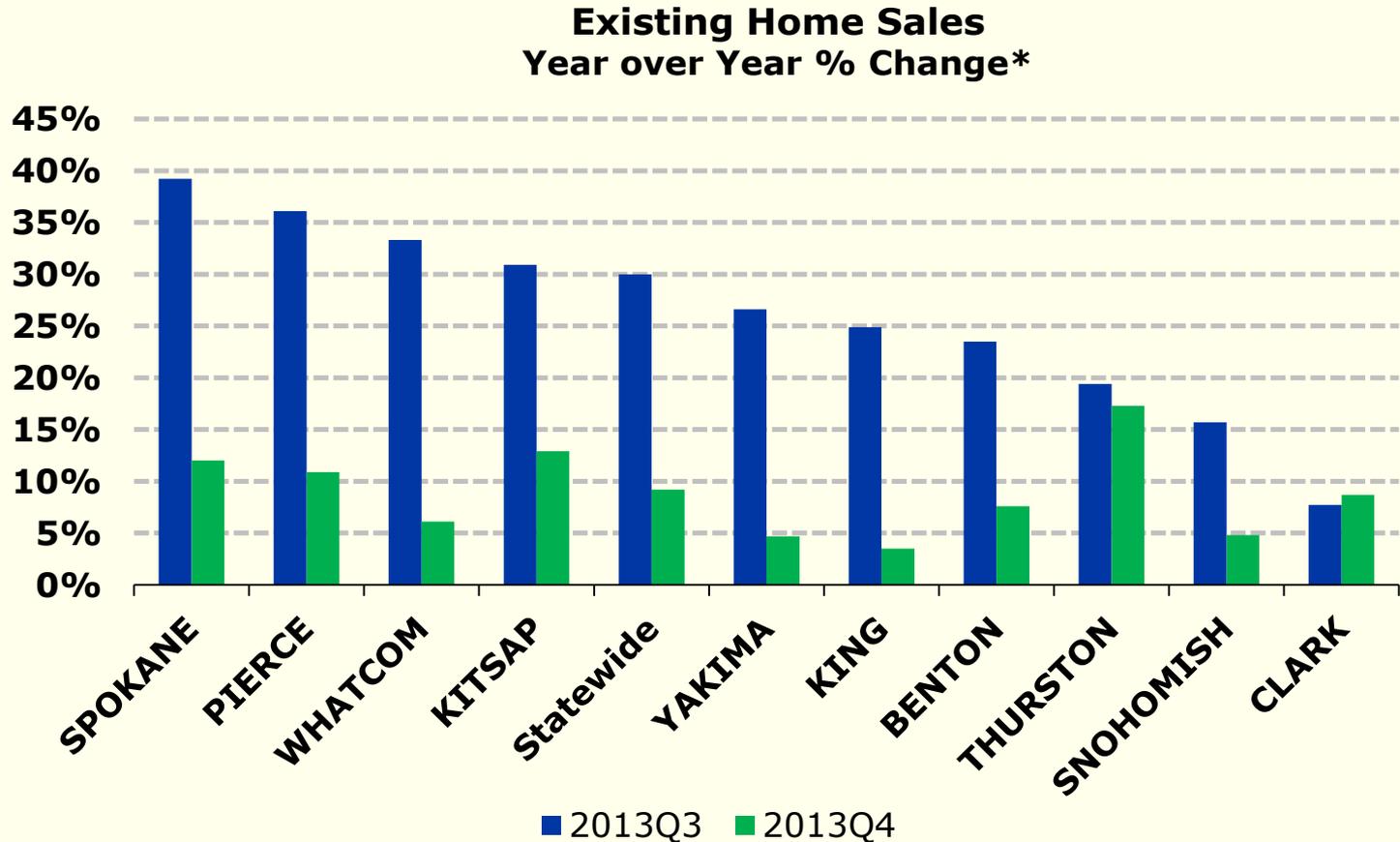


Sources: Autodata Corp., WA DOL; data through January 2014



Growth in existing home sales slowed in fourth quarter 2013

*Ten counties with highest existing home sales, 2013Q3



Source: WA Center for Real Estate Research, ERFC; 2013Q3 & Q4 data



New information since preliminary economic forecast

New Blue Chip forecast for real GDP growth

- 2014 growth rate increased from 2.8% to 2.9%
- 2015 - 2019 growth rates unchanged

U.S. employment change in January

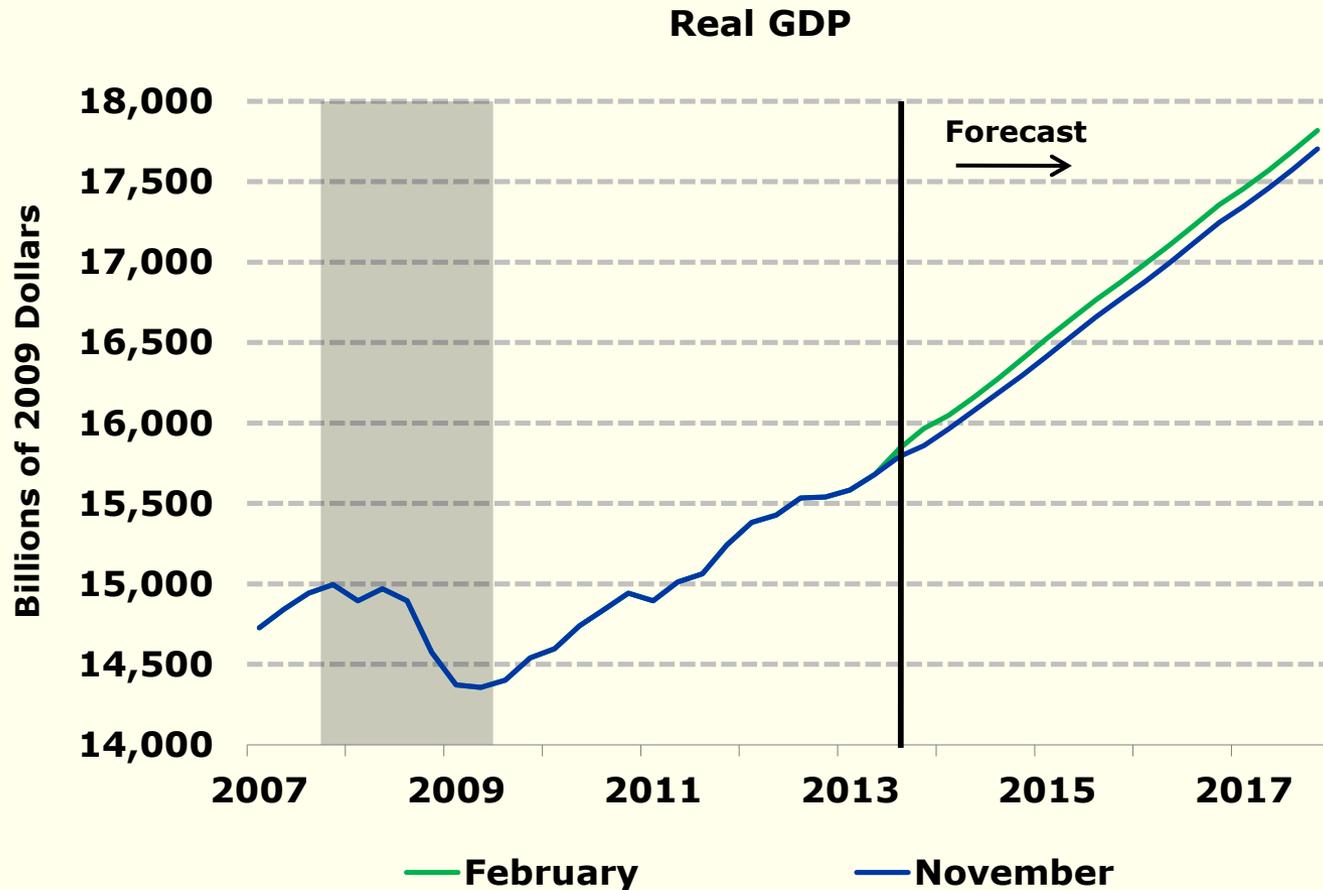
- 113,000; below 194,000 monthly change for 2013
- Unemployment rate decreased 0.1% to 6.6%

Debt ceiling suspended until March 2015



The Blue Chip forecast for GDP is up slightly from November

Real GDP growth is slightly higher through 2015

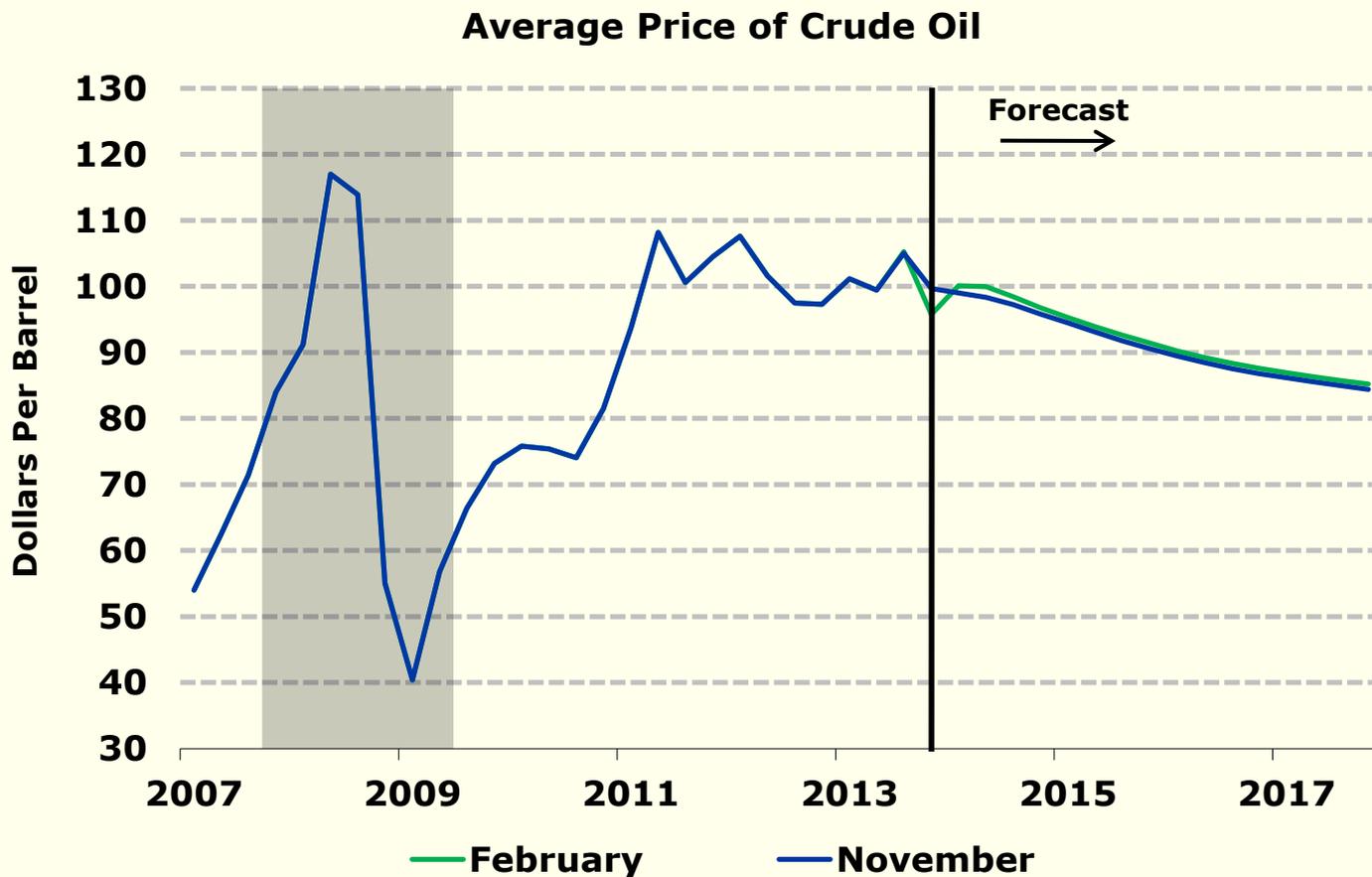


Source: Global Insight, ERFC February 2014 forecast; historical data through 2013Q4

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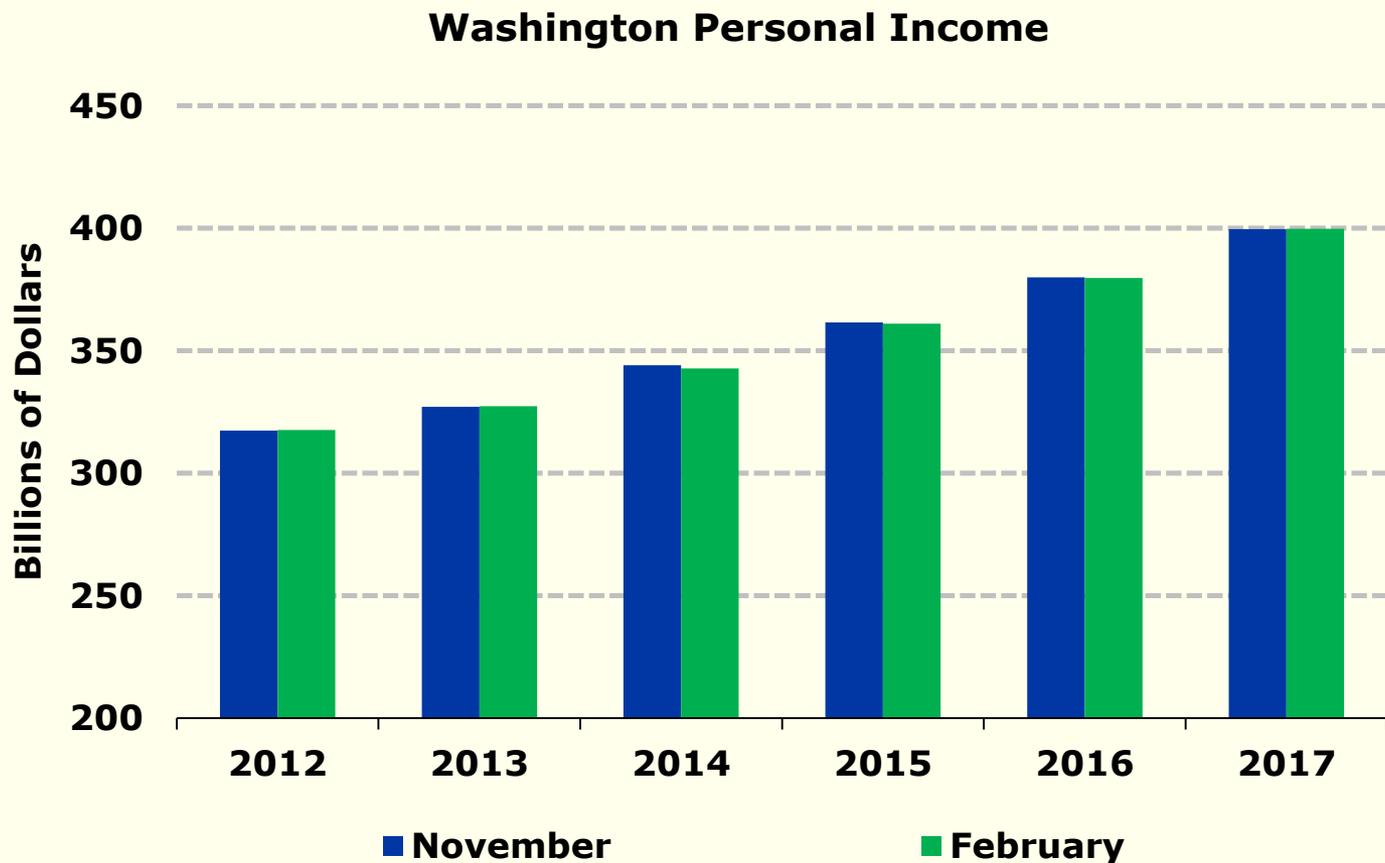
Oil prices are essentially unchanged



Source: DOE, ERFC February 2014 forecast; historical data through 2013Q4



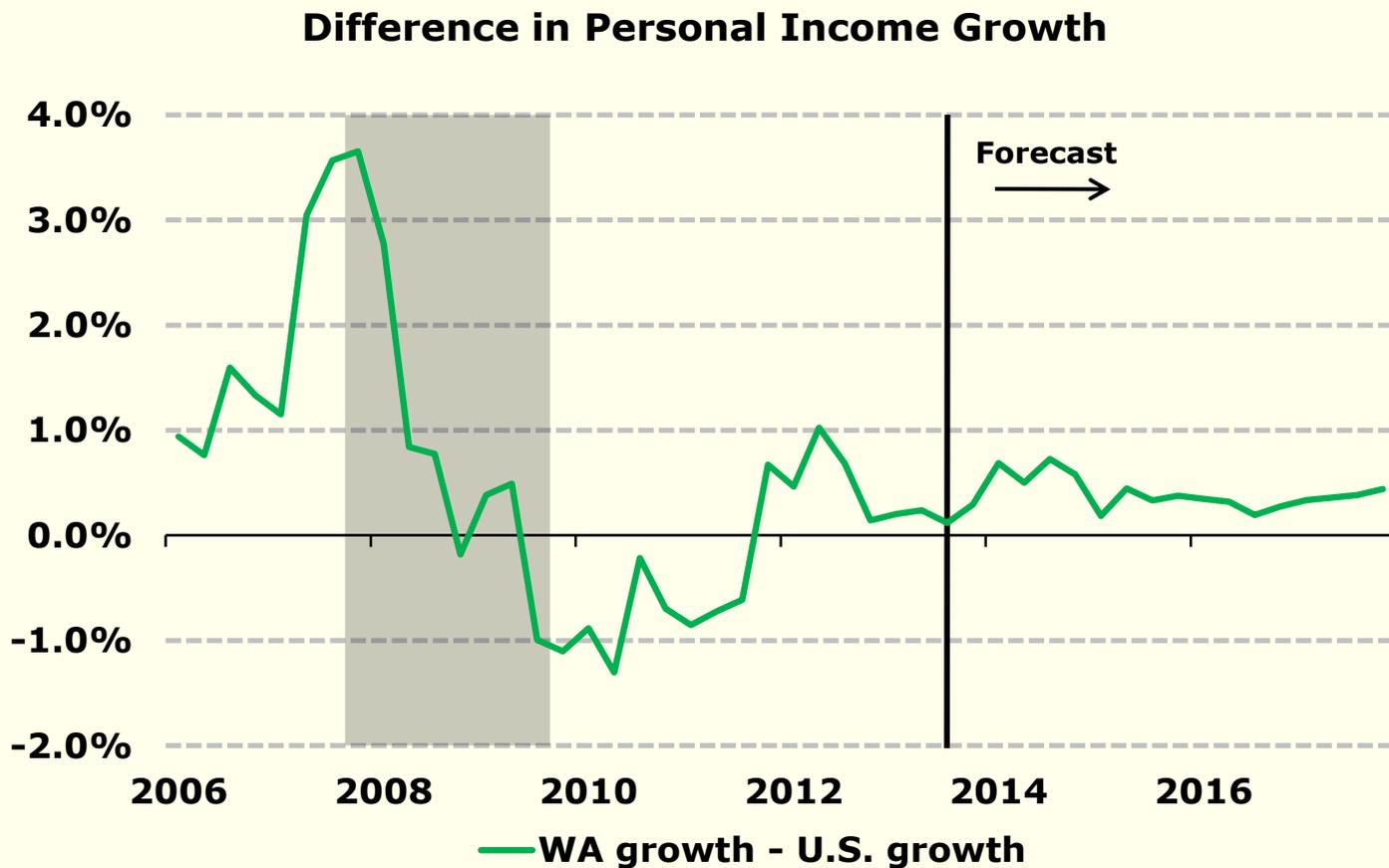
Washington personal income forecast is essentially unchanged...



Source: ERFC February 2014 forecast; historical data through 2012

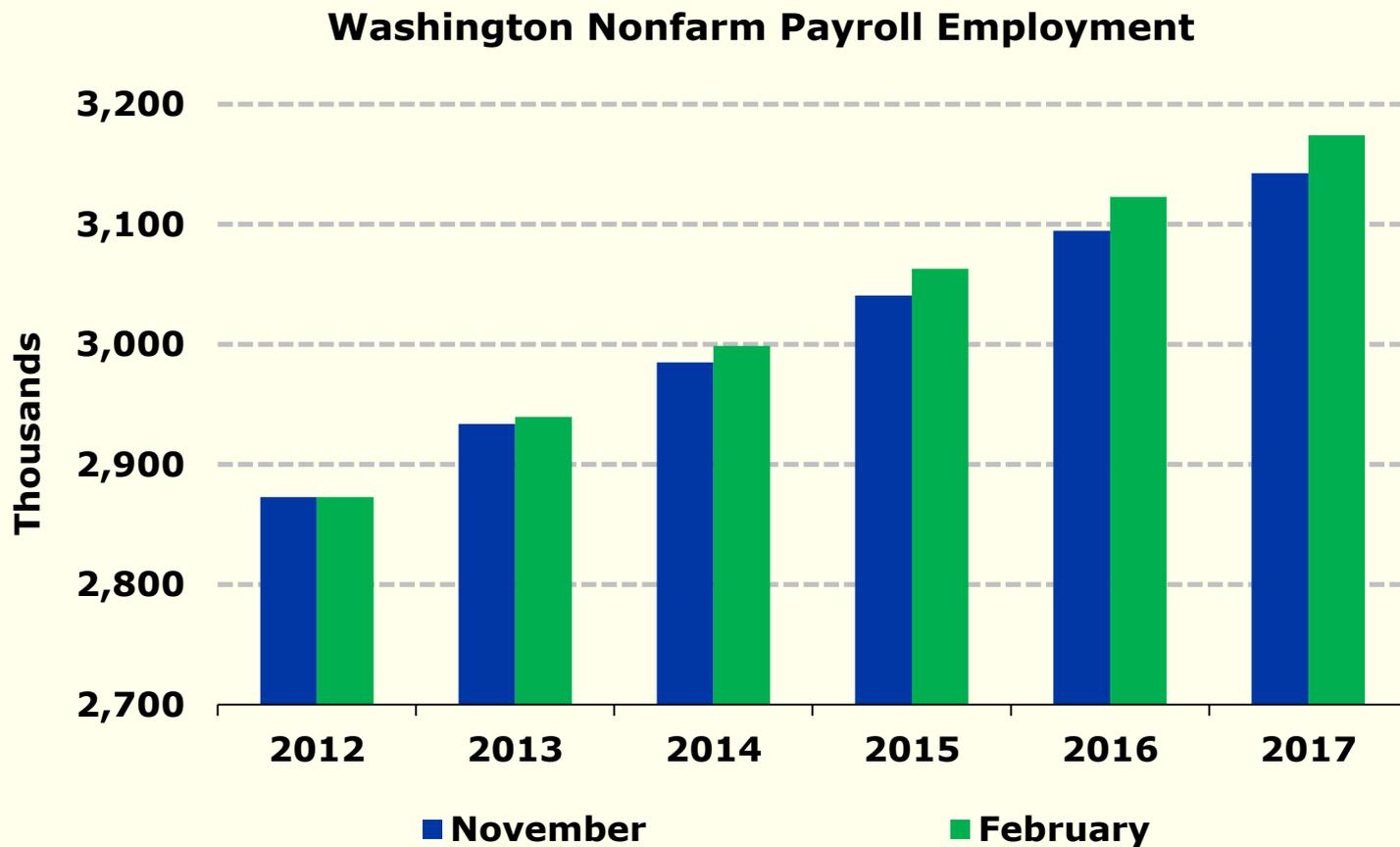


State personal income will grow slightly faster than the U.S.





Washington payroll employment forecast is slightly higher



Source: ERFC February 2014 forecast; historical data through 2013

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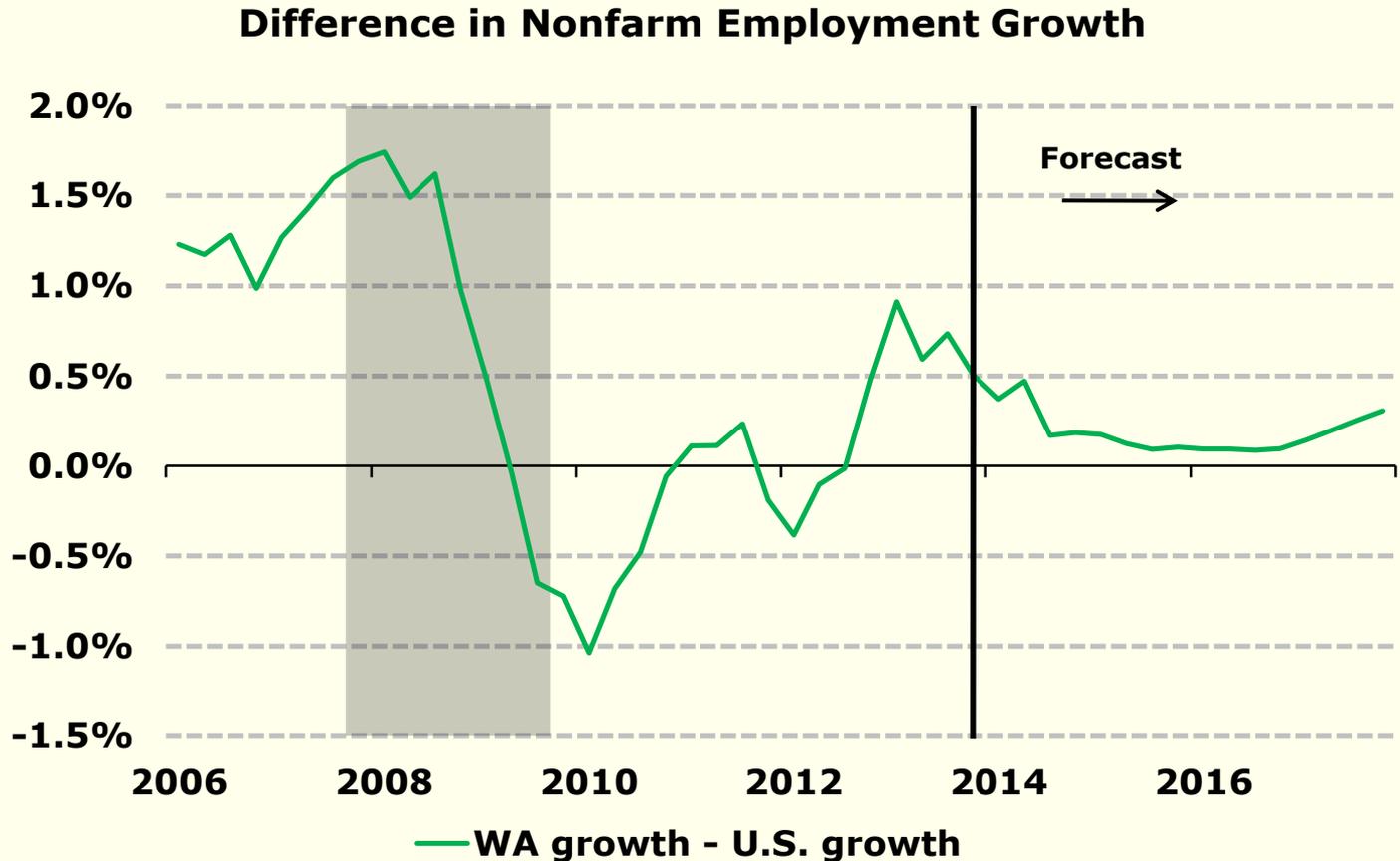


Washington employment will grow slightly faster than the U.S.

Date of regaining peak:

WA:
2014Q2

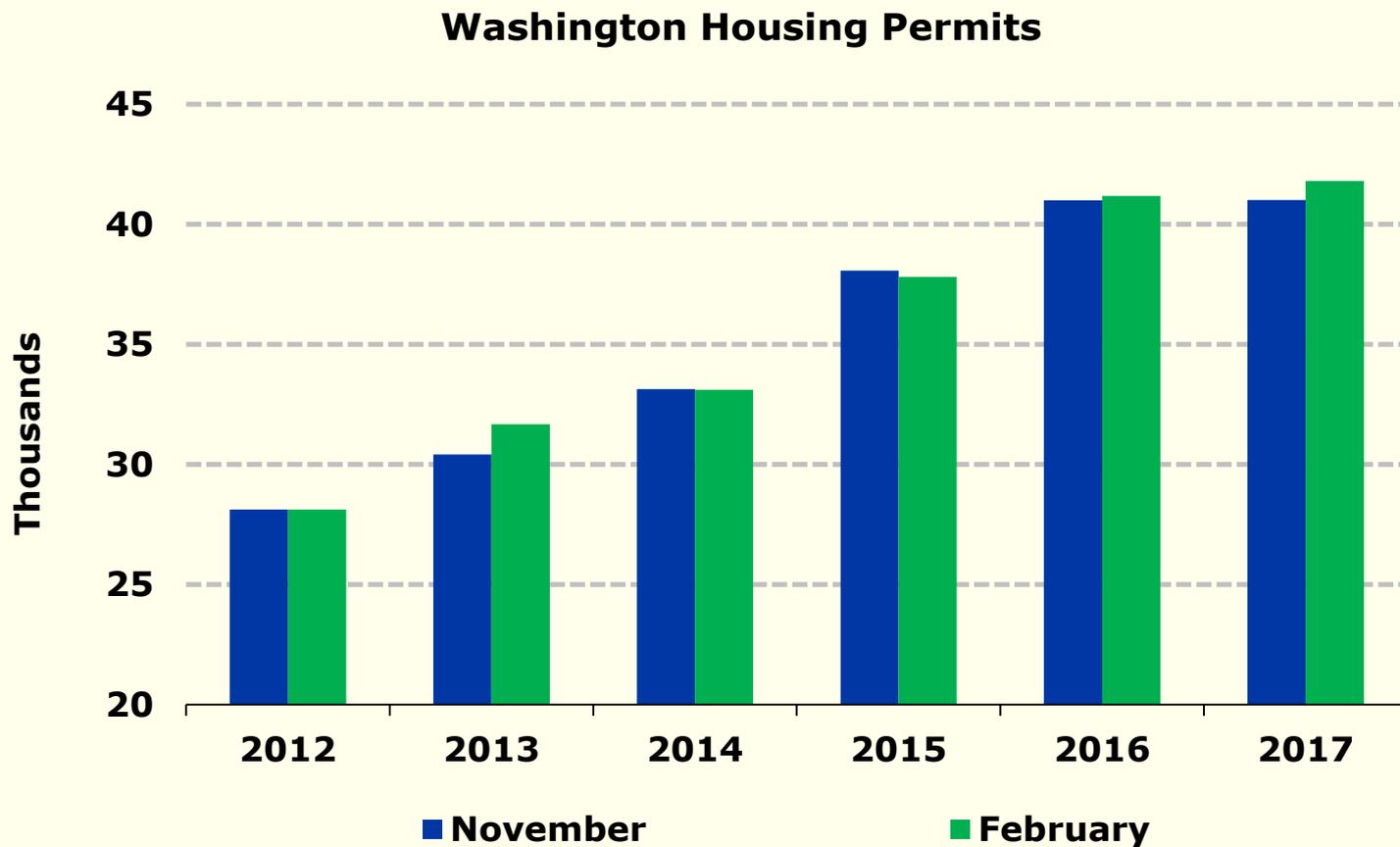
U.S.:
2014Q3



Source: ERFC February 2014 forecast; historical data through 2013Q4



Washington housing permits forecast is slightly higher in 2016 and 2017



Source: ERFC February 2014 forecast; historical data through 2013



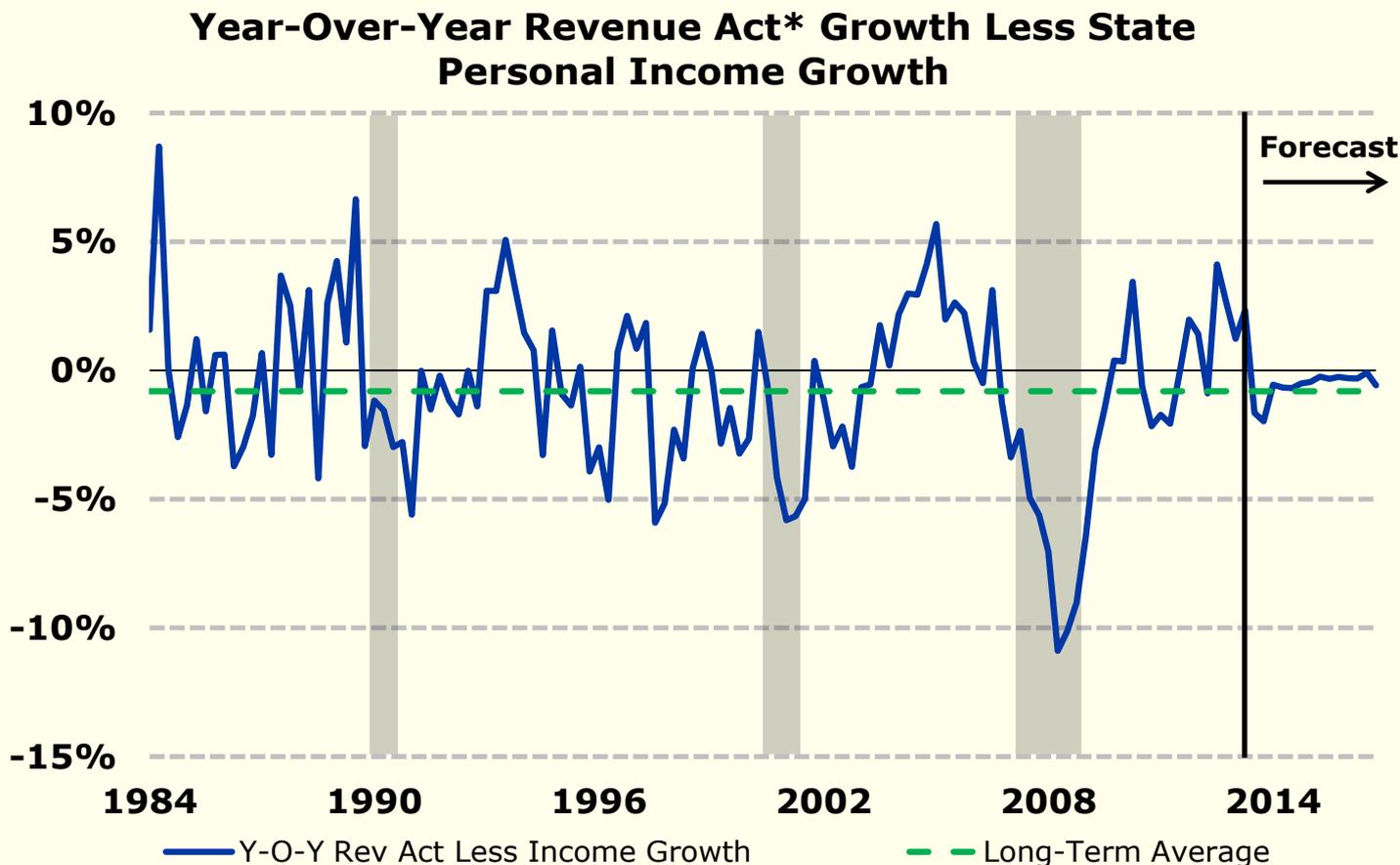
Forecasted Revenue Act growth relative to income is above the long-term average...

Revenue Act growth compared to income growth is forecasted to be slightly above the long-term average due to construction activity

The dip in the chart in mid-2013 through mid-2014 reflects the expiration of the B&O service tax surcharge

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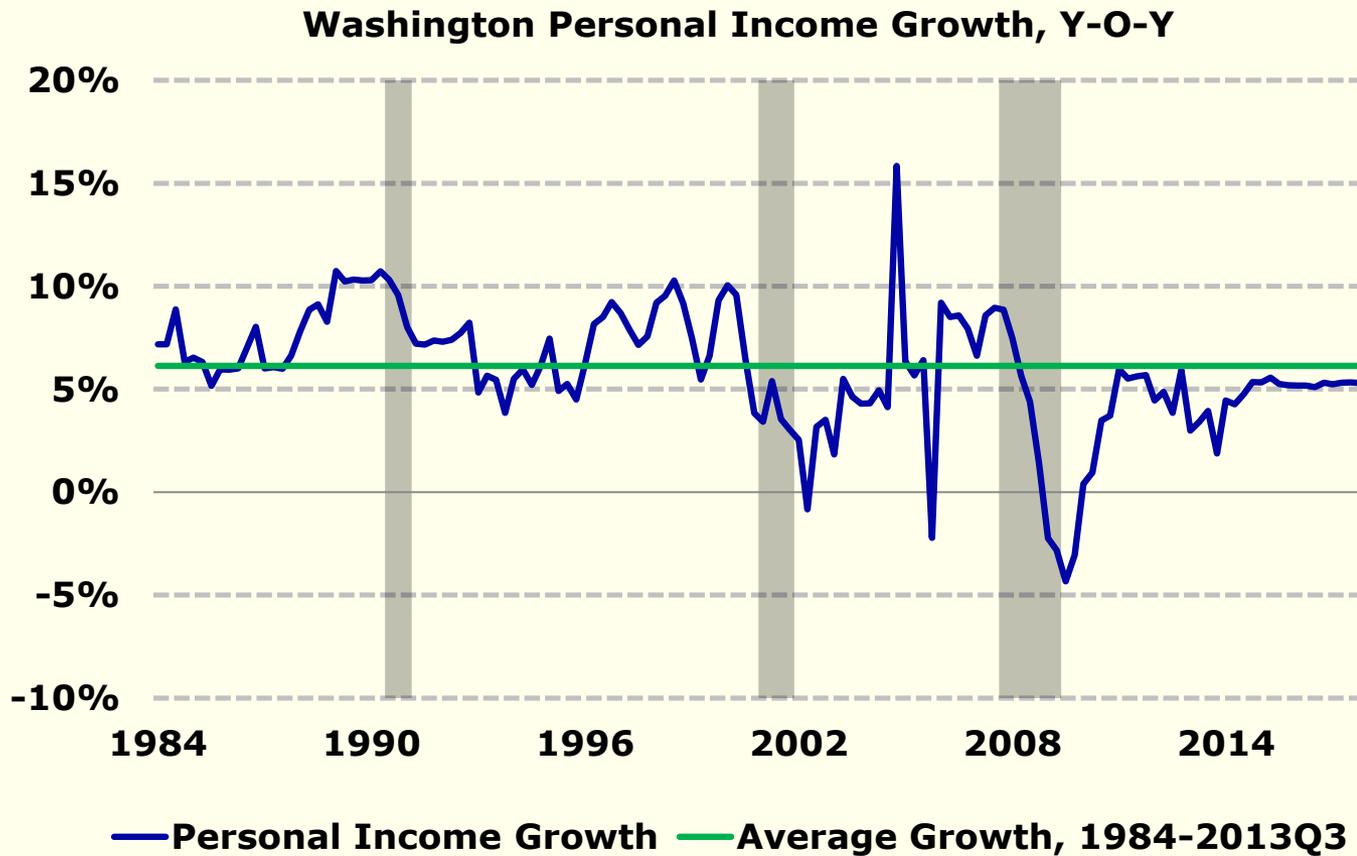
*Adjusted for large one-time payments and refunds and payments under the amnesty program

Source: ERFC; Quarterly revenue data through Q4 2013, February 2014 income estimates

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...but personal income is growing slowing



Source: BEA, ERFC; historical data through 2013Q3

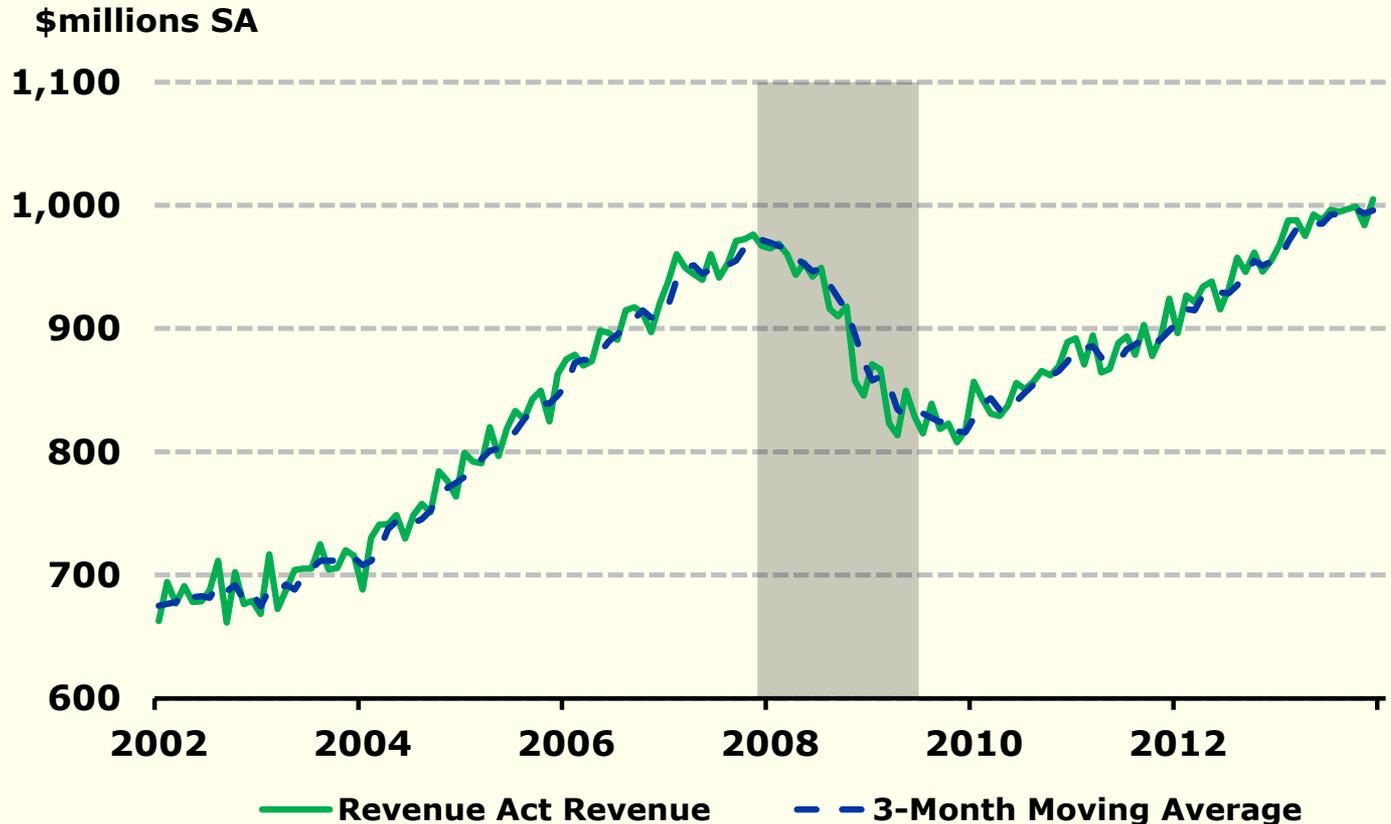


Rev Act collections still above pre-recession peak despite surtax sunset

Seasonally adjusted collections increased in the January 11th - February 10th collection period (December taxable activity)

The 0.3% B&O services surtax expired on July 1, 2013

The surtax brought in \$20-\$26 million per month



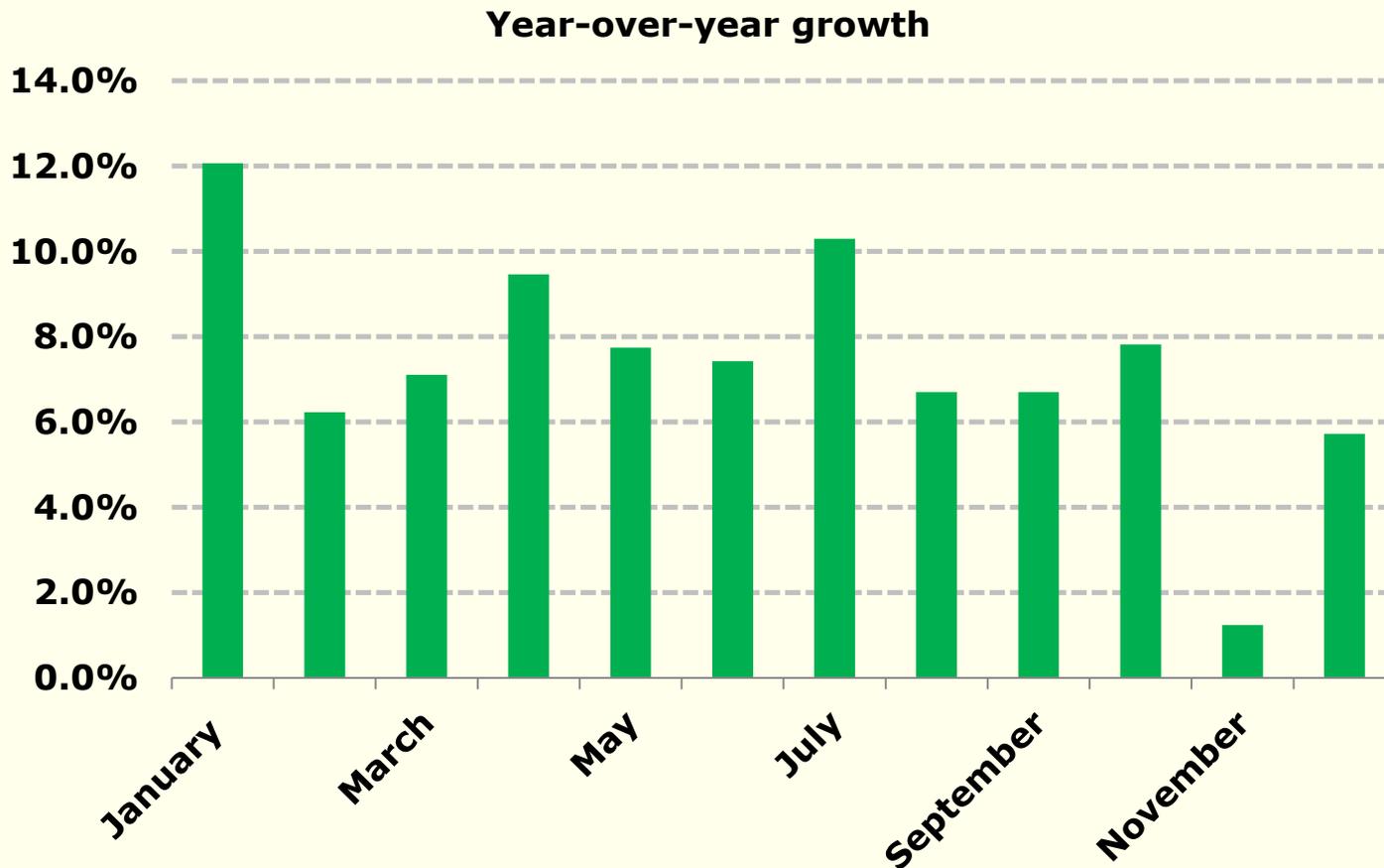
* Adjusted for large one-time transactions, amnesty payments and reporting frequency change, current definition of Revenue Act

Source: DOR and ERFC; monthly data through estimated December 2013 activity

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Sales tax growth has slowed in last two months

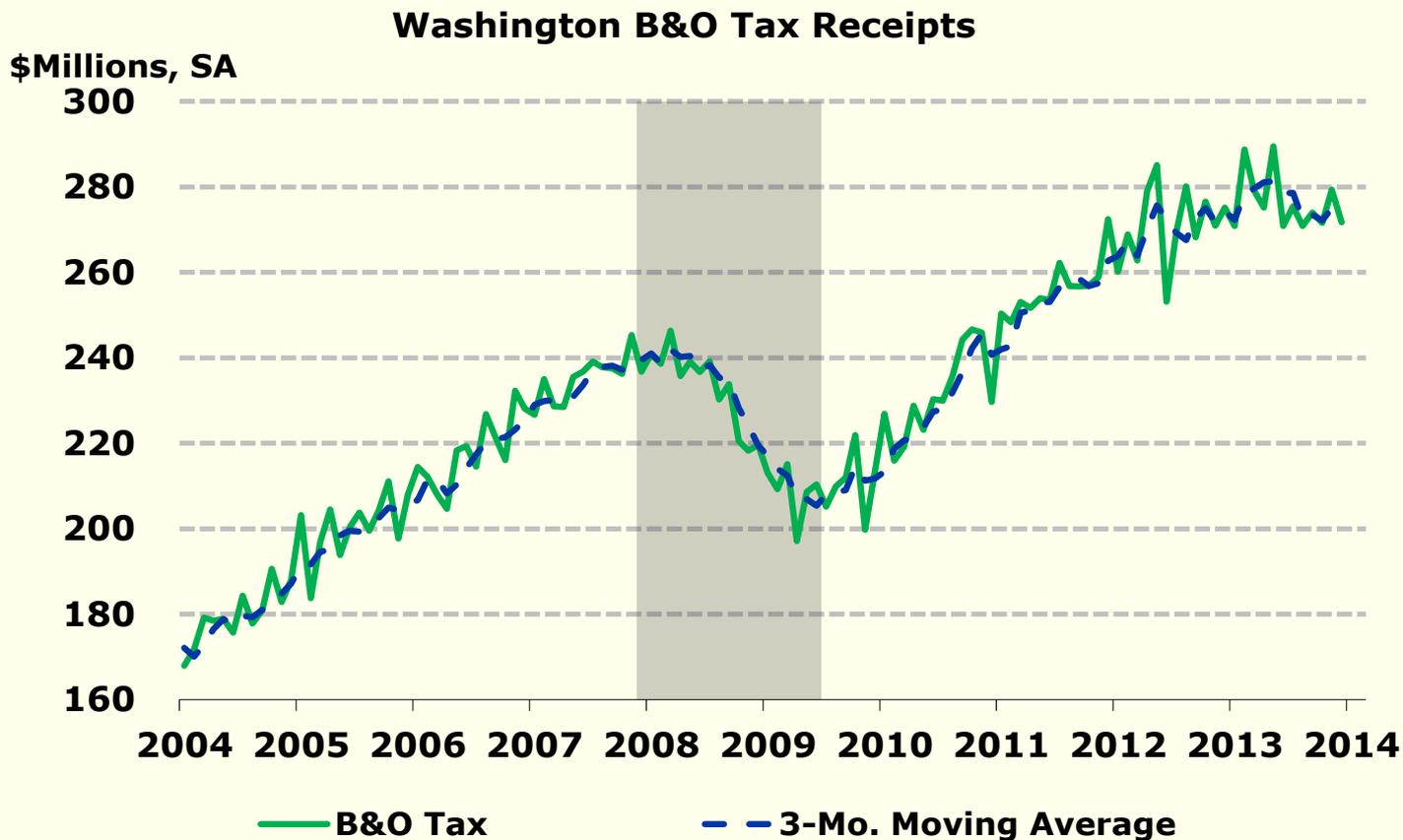


Source: ERFC; Monthly data through December 2013 preliminary activity



B&O collections show effects of service surcharge removal

The 0.3% B&O service tax surcharge, effective May 1, 2010 – June 30, 2013, generated \$20-\$25 million in taxes per month over the last fiscal year



Source: ERFC; Monthly data through December 2013 preliminary activity
Adjusted for taxpayer frequency shift, amnesty payments, and recent large refunds



Residential REET growth slowed in Q4 but commercial sales still going strong

The residential market is trending upward but growth slowed in Q4 2013

REET is currently being supported by large commercial sales

January sales of property worth \$10 million or more totaled \$675 million and December's sales totaled \$1 billion

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Seasonally Adjusted Taxable Real Estate Excise Activity



Source: ERFC; Monthly data through January 2014 preliminary



Forecast changes: General Fund State, 2013-2015 Biennium

November Forecast:

\$32,982 million

\$Millions	February Forecast				
	<u>Collection Experience</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$0	\$0	\$20	\$31,424	\$21
All other agencies	\$2	\$0	\$8	\$1,589	\$10
Total GF-S	\$2	\$0	\$29	\$33,013	\$30

* Detail may not add to total due to rounding

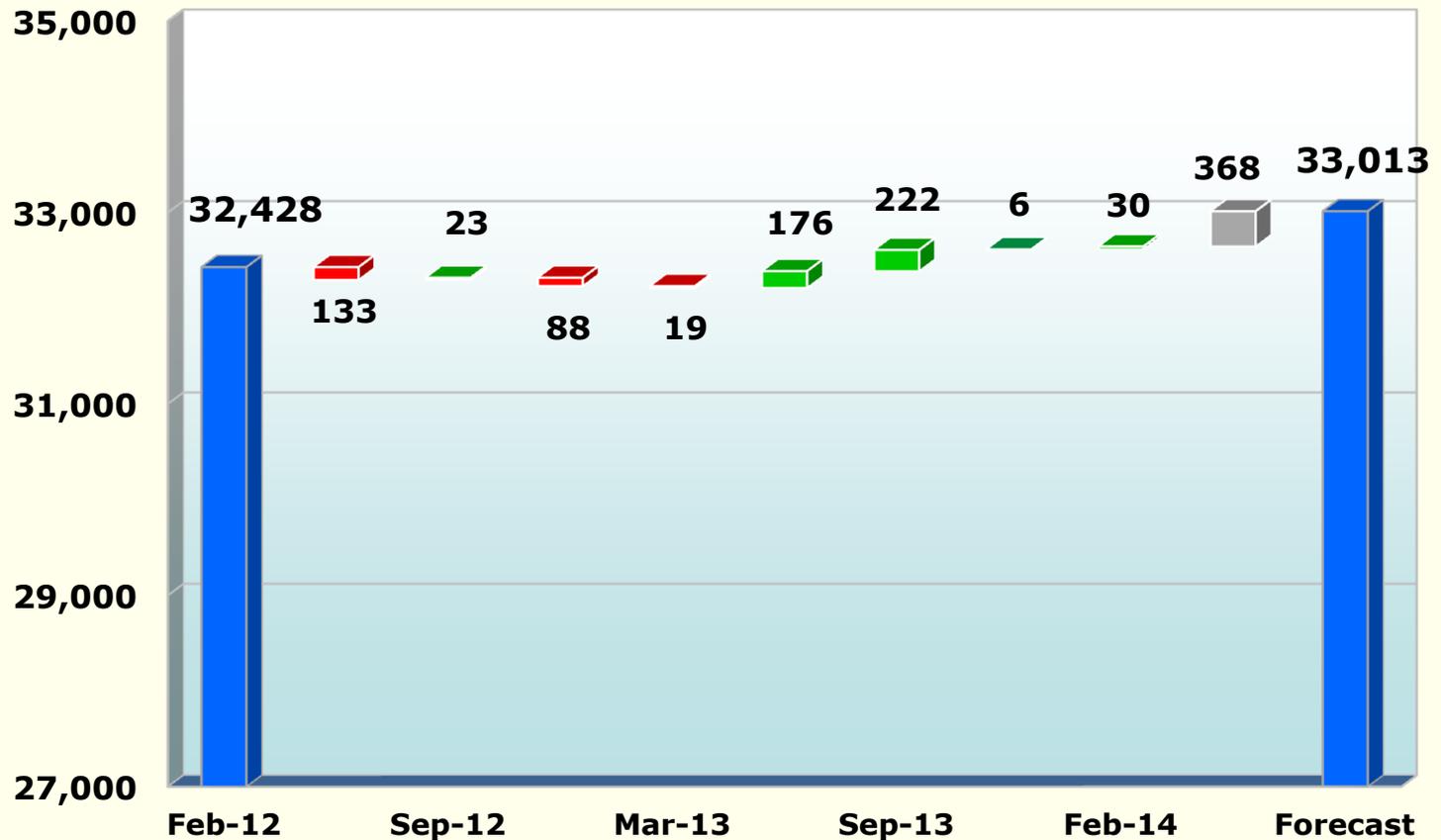


GF-S forecast revisions to the 2013-15 biennium

GF-S New Definition

Gray area
indicates total
noneconomic
change

\$Millions



Source: ERFC February 2012 – February 2014 forecasts



Forecast changes: General Fund State, 2015-2017 Biennium

November Forecast:

\$35,615 million

\$Millions	February Forecast			
	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$28	\$5	\$34,067	\$33
All other agencies	\$23	\$26	\$1,629	\$49
Total GF-S	\$51	\$31	\$35,697	\$82

* Detail may not add to total due to rounding



GF-S cannabis revenue estimates

Revenue estimates use assumptions based on research conducted by LCB contractor BOTEC Analysis

\$Millions

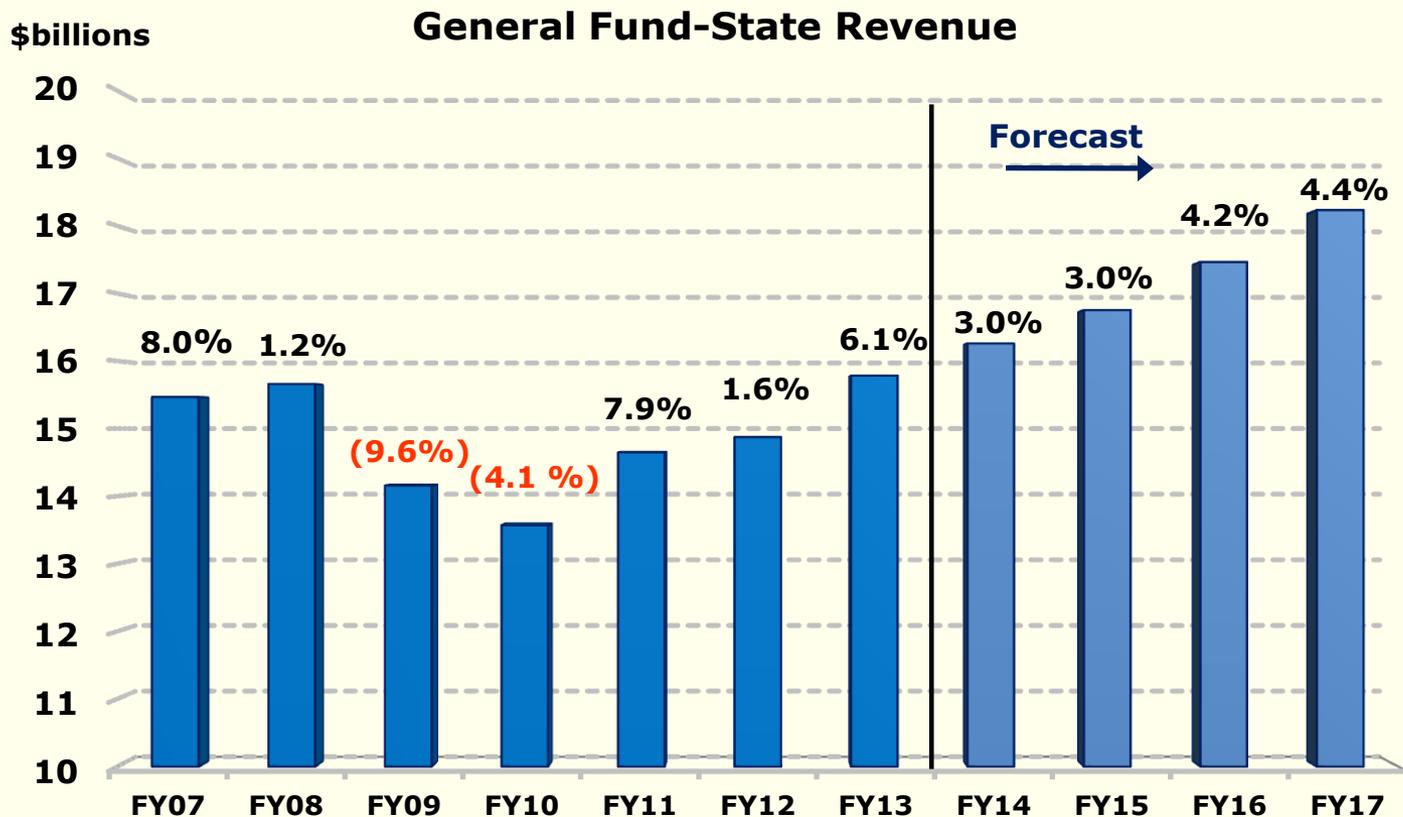
February Forecast

	<u>2013-15</u>	<u>2015-17</u>	<u>2017-19</u>
GF-S share of excise tax and license fees	\$0	\$22.9	\$63.0
Retail sales tax and B&O	\$0	\$28.3	\$75.4
Total	\$0	\$51.2	\$138.5

* Detail may not add to total due to rounding



General Fund-State* forecast by fiscal year





2013-15 Biennium alternative forecasts – cash basis

\$Millions	2013-15 Biennium	Difference From the baseline
February Baseline (55%)	\$33,013	
<u>February 2014 Alternative Forecasts</u>		
Optimistic (15%)	\$34,750	\$1,738
Pessimistic (30%)	\$30,961	(\$1,722)
Probability Weighted Average	\$32,757	(\$256)
GCEA*	\$33,094	\$81

*Based on the Governor's Council of Economic Advisors' assumptions



Conclusion

- The economic forecast is quite similar to November's forecast; we expect the slow pace of economic recovery to continue in both the U.S. and Washington economies
- We continue to expect the Washington economy to be slightly stronger than the U.S. economy
- GF-S revenues are expected to grow 7.7% between the 2011-13 and 2013-15 biennium and are expected to grow 8.1% between the 2013-15 and 2015-17 biennium
- The level of uncertainty in the baseline remains extremely high, and downside risks outweigh upside risks



Questions



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