



STATE OF WASHINGTON

## ECONOMIC AND REVENUE FORECAST COUNCIL

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January 11, 2007

**TO:** Representative Jim McIntire, Chair  
Senator Joseph Zarelli  
Senator Craig Pridemore  
Representative Ed Orcutt  
Victor Moore, OFM, Director  
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**FROM:** Chuck Gusak, Senior Revenue Forecaster  
Economic and Revenue Forecast Council

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

General Fund-State (GFS) collections totaled \$1,155.1 million in the December 11, 2006 – January 10, 2007 period. Tax payments in the current period were \$53.3 million (4.8 percent) above the estimate for the month and are up \$66.9 million (2.7 percent) cumulatively since the November forecast. Revenue Act receipts (Sales, use, business and occupation and public utility taxes) accounted for more than the total variance for the month, exceeding the estimate by \$56.2 million. GFS collections from other sources were \$3.0 million below the estimate for the month primarily due to weaker than expected real estate tax payments. **Most of this month's higher than expected revenue is due to special factors, not to stronger than expected growth. Collections this month include \$44.0 million from three unusually large audit payments and a large refund.** Excluding these payments and refund, collections were only \$9.3 million (0.8 percent) more than expected for the month and are \$22.9 million (0.9 percent) above the estimate cumulatively since the November forecast. Special factors aside, tax collections in the last two months indicate that the November forecast remains pretty much on track.

Recent economic news has been generally positive and indicates a still healthy, but slowing economy. Nationally, real Gross Domestic Product (GDP) increased 2.0 percent in the third quarter of 2006, faster than preliminary numbers and faster than assumed in the November forecast. However, growth in the third quarter was down from 2.6 percent in the second quarter and 5.6 percent in the first quarter of 2006. The U.S. economy added 167,000 new jobs in December a little higher than the 154,000 last month (revised) but about the same as the average gain in calendar 2005. The U.S. unemployment rate remained unchanged at 4.5 percent in December. Washington added 4,900 payroll jobs in November, but the state's unemployment rate rose from 4.8 percent in October to 5.0 percent in November. In other news, the Conference Board reported that the U.S. Index of Leading Indicators increased in November for the third consecutive month. This Index has increased slightly (+0.2 percent) over the last six months but is still below its January 2006 level. The Conference Board also reported that its Index of Consumer Confidence which increased in November was up again in December. With the gains the last two months, this index is just 0.7 percent below its cyclical high reached in April 2006.

Revenue Act collections were \$56.2 million above the estimate this month. Most of this variance (\$44.0 million) was due to special factors (three large audit payments partially offset by an unusually large refund). Excluding special factors, Revenue Act receipts this period (primarily November 2006 activity) were \$12.2 million higher than expected. Revenue Act collections for the month were 9.2 percent above the year-ago level (adjusting for special factors). Growth this month is about the same as last month (+9.0 percent) but a

little less than the average for the last 12 months (10.4 percent). Revenue Act is still growing much faster than retail sales nationally (+5.6 percent) as well as state personal income (+7.5 percent).

Preliminary information on tax payments by industry from taxpayers filing electronically shows some slowing although many sectors of the economy are still reporting moderate to strong growth. Tax payments by firms in the retail trade and food services sector increased 7.4 percent. Last month retailers reported a 9.5 percent increase. The biggest change from last month was in the auto sectors. Tax payments by businesses in the auto sector, the largest retail trade category, were up 5.0 percent from the year-ago month, after increasing 9.5 percent last month. Excluding autos, the retail trade sector increased 8.1 percent, down from 9.5 percent last month. Only two of the twelve major retailing categories reported double-digit increases this month. The sectors with the strongest growth were general merchandise stores (+17.9 percent), and non-store retailers (+11.8 percent). Two sectors reported year-over-year declines: building materials and garden supply retailers (-0.3 percent) and furniture and home furnishings retailers (-0.1 percent). Payments by firms in non-retail trade and food services sectors were up 9.4 percent as a whole for the month. Last month tax payments from the non-retail trade sector increased 9.8 percent. Despite weakening real estate excise tax payments, excise taxes paid by the construction sector remained strong this month (+10.6 percent), though not quite as strong as last month (+11.9 percent). In addition to the construction sector, double-digit growth was reported by the manufacturing sector (+32.6 percent). No major non-retail trade sector reported a year-over-year decline in tax payments this period. For the second month in a row, tax payments by firms in construction and housing related sectors grew a little slower than other sectors of the economy. This month's preliminary data shows tax payment from construction related sectors up 7.2 percent compared to 8.8 percent for all other sectors.

Non-Revenue Act General Fund taxes were \$3.0 million below the estimate for the month. Real estate excise (-\$5.1 million), liquor (-\$522,000), and cigarette (-\$575,000) tax payments were a little less than the estimate for the month, more than offsetting stronger than expected property tax, estate tax and "other" (primarily unclaimed property transfers) for the month. Cumulatively, non-revenue act receipts are \$5.0 million less than expected in the two months since the November forecast.

Real estate payments this month reflect closings reported by counties for the November 30th through December 27<sup>th</sup>, 2006 period. Activity based on tax payments indicates slower growth of real estate activity. Activity for the month was 10.7 percent lower than a year-ago. Last months activity declined 2.3 percent. While taxable real estate activity has declined three of the last four months, it was still up 4.7 percent for calendar year 2006. The weakness in activity is due primarily 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 last month, the number of transactions were 14.3 percent lower than a year-ago (the twelfth consecutive monthly decline), while the average value per transaction increased 13.9 percent.

Department of Licensing General Fund-State collections, which primarily reflect payments of various licenses and fees, were \$101,000 above the estimate for the month and are \$97,000 higher for the two months since the November forecast.

The attached Table 1 provides a comparison of collections with the November 2006 forecast for the December 11, 2006 –January 10, 2007 collection period and cumulatively since the November forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's collection report.

**TABLE 1**  
**Revenue Collection Report**  
**January 10, 2007 Collections Compared to the November 2006 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. 11,06 - January 10, 2007</b>				
Department of Revenue-Total	\$1,101,643	\$1,154,834	\$53,191	4.8%
Revenue Act** (1)	826,765	882,920	56,155	6.8%
Non-Revenue Act(2)	274,878	271,914	(2,964)	-1.1%
Liquor Sales/Liter	12,439	11,918	(522)	-4.2%
Cigarette	4,188	3,613	(575)	-13.7%
Property (State School Levy)	181,340	181,460	120	0.1%
Estate	88	577	490	NC
Real Estate Excise	71,113	66,004	(5,110)	-7.2%
Timber (state share)	0	0	0	NA
Other	5,709	8,342	2,633	46.1%
Department of Licensing (2)	156	257	101	64.9%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,101,799	\$1,155,091	\$53,292	4.8%
<b>Cumulative Variance Since the November 2006 Forecast (Dec. 11, 2006 - Jan. 10, 2007)</b>				
Department of Revenue-Total	\$2,511,843	2,578,675	66,832	2.7%
Revenue Act** (3)	1,628,910	1,700,792	71,881	4.4%
Non-Revenue Act(4)	882,933	877,884	(5,049)	-0.6%
Liquor Sales/Liter	24,326	23,503	(823)	-3.4%
Cigarette	8,184	7,823	(361)	-4.4%
Property (State School Levy)	670,770	671,636	866	0.1%
Estate	176	652	476	NA
Real Estate Excise	136,168	129,878	(6,290)	-4.6%
Timber (state share)	2,445	1,827	(618)	-25.3%
Other	40,864	42,565	1,701	4.2%
Department of Licensing (4)	343	440	97	28.4%
Lottery (5)	7,617	7,618	1	0.0%
Total General Fund-State***	\$2,519,803	\$2,586,733	\$66,930	2.7%

1 Collections Dec. 11 - Jan. 10, 2007. Collections primarily reflect November 2006 activity of monthly taxpayers.

2 December 2006 collections.

3 Cumulative collections, estimates and variance since the November 2006 forecast; (Nov. 11 - January 10, 2007) and revisions to history.

4 Cumulative collections, estimates and variance since the November 2006 forecast; (Nov. and Dec. 2006) and revisions to history.

5 Lottery transfers to the General Fund

\* Based on the November 2006 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, 2006 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 - December 10, 2006				
Department of Revenue-Total	\$1,420,794	\$1,420,794	(\$0)	-0.0%
Revenue Act (1)	814,831	814,831	0	0.0%
Non-Revenue Act(2)	605,963	605,963	(0)	-0.0%
Liquor Sales/Liter	11,585	11,585	0	0.0%
Cigarette	4,210	4,210	(0)	-0.0%
Property (State School Levy)-net	490,169	490,169	0	0.0%
Estate	75	75	(0)	-0.5%
Real Estate Excise	63,874	63,874	0	0.0%
Timber (state share)	1,827	1,827	(0)	NA
Other	34,223	34,223	(0)	-0.0%
Department of Licensing (2)	232	247	15	6.4%
Lottery (2)	7,618	7,618	(0)	NA
<b>Total General Fund-State***</b>	<b>1,428,644</b>	<b>1,428,658</b>	<b>\$14</b>	<b>0.0%</b>

**Cumulative Receipts: Nov. 11 - December 10, 2006 & Revisions to History**

Department of Revenue-Total	\$1,423,841	\$1,423,842	\$1	0.0%
Revenue Act (3)	817,872	817,872	(0)	-0.0%
Non-Revenue Act(4)	605,970	605,970	(0)	-0.0%
Liquor Sales/Liter	11,585	11,585	0	0.0%
Cigarette	4,210	4,210	(0)	-0.0%
Property (State School Levy)-net after transf	490,177	490,177	(0)	-0.0%
Estate	75	75	(0)	-0.5%
Real Estate Excise	63,874	63,874	0	0.0%
Timber (state share)	1,827	1,827	(0)	NA
Other	34,223	34,223	(0)	-0.0%
Department of Licensing (4)	168	267	99	58.9%
Lottery (4)	7,618	7,618	(0)	NA
<b>Total General Fund-State***</b>	<b>\$1,431,627</b>	<b>1,431,726</b>	<b>\$99</b>	<b>0.0%</b>

Preliminary. Reported in the December 10, 2006 collection report.

1 Collections Nov. 11 - December 10, 2006. Collections primarily reflect Oct. 2006 business activity of monthly taxpayers.

2 November 1-30, 2006 collections.

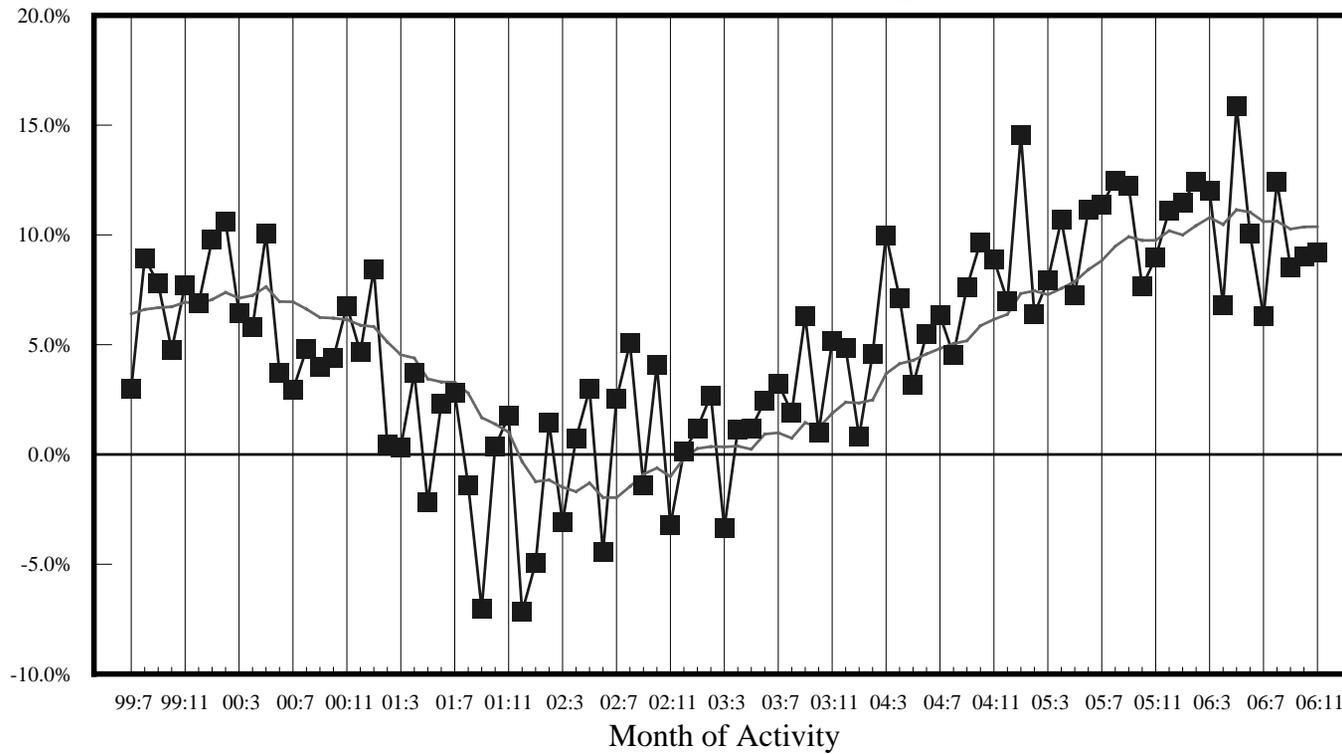
3 Cumulative receipts since the Nov. 2006 forecast: Nov. 11-Dec. 10,2006 & revisions to history.

4 Cumulative receipts since the November 2006 forecast (November 2006) & 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.