



STATE OF WASHINGTON  
ECONOMIC AND REVENUE FORECAST COUNCIL

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May 12, 2008

**TO:** Representative Jim McIntire, Chair  
Senator Joseph Zarelli  
Senator Craig Pridemore  
Representative Ed Orcutt  
Victor Moore, OFM, Director  
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**FROM:** Steve Lerch, Interim Director

**SUBJECT:** May 10, 2008 REVENUE COLLECTION REPORT

General Fund-State (GFS) tax payments weakened in the April 11, 2008 - May 10, 2008 collection period. Receipts for the month were \$32.4 million (2.8 percent) less than expected. Revenue Act (sales, B&O, use and public utility tax payments) receipts (-\$21.9 million) and real estate excise tax payments (-\$7.6 million) accounted for most of this period's shortfall, although most other major revenue sources were also weaker than expected this period. Collections this month are overstated due to an \$11.3 million accounting adjustment. This adjustment corrected a processing error that resulted in last month's collections being understated. Due to last month's large (\$40.7) unanticipated unclaimed property transfer collections remain \$28.1 above the estimate for the three months since the February 2008 forecast despite weakness this month. **Excluding special factors (this month's accounting adjustment and last month's unclaimed property transfer), collections are \$43.7 million (-3.7 percent) below the forecast for the month and are cumulatively \$13.6 million (0.5 percent) less than expected for the three months since the February 2008 forecast.**

#### Revenue Act Collections

- Revenue growth slowed significantly this month. Revenue Act receipts this period (primarily March 2008 business activity) were 0.7 percent below the year-ago level. This was the first year-over-year decline in Revenue Act receipts since March 2003. Last month Revenue Act receipts were up 4.7 percent (revised).
- The growth of Revenue Act receipts has decelerated from 8.9 percent in the first half of calendar 2007, to 5.9 in the third and fourth quarters of 2007 and to 2.3 percent in the first quarter of 2008.
- Preliminary industry detail of tax payments for the April 11-May 10 period from electronic filers shows weakness in most sectors.
  - Tax payments by firms in the retail trade sector were 4.5 percent below the year-ago level. Tax payments from the retail trade sector increased 0.1 percent last month, but had declined the previous two months.
  - Half of the twelve 3-digit NAICS retail sectors reported declines this month including: motor vehicle dealers (-13.1 percent), electronic and appliance stores (-4.7 percent), building materials/garden supply retailers (-6.9 percent), furniture stores (-9.1 percent), food and beverage stores (-3.4 percent) and apparel and accessory stores (-2.1 percent). The auto sector, the largest retail trade category has reported a year-over-year decline in tax payments for four consecutive months.
  - Only two retailing sectors reported good gains: drug and health stores were up 8.3 percent and payments from gas stations & convenience stores increased 7.5 percent.

Non-retailing sectors reported a 2.3 percent overall increase in tax payments; last month the increase was 7.7 percent. The construction sector reported only a 2.3 percent increase, payments from utilities declined 2.3 percent and businesses in the finance and insurance sector reported a 3.6 percent decline in payments.

### **Other Collections**

- Non-Revenue Act tax payments were \$11.8 million below the estimate for the month. Collections of most major Non-Revenue Act sources were less than expected: real estate excise tax payments were \$7.6 million less than expected, property tax was \$3.9 million less, cigarette tax was \$346,000 less, and liquor taxes were \$683,000 below expectations.
- There has been no improvement in real estate activity. April 2008 taxable real estate activity was 56.1 percent below the year-ago level. This is overstated due to the sale of more than two dozen extraordinarily high value commercial parcels in King County a year ago. Even after excluding these transactions, however, activity was still 34.2 percent below the year-ago level, which is only a slight improvement from the 37.5 percent decline the month before. Real estate activity has declined on a year-over-year basis, sixteen of the last eighteen months.
- The weakness in activity continues to be primarily due to a decline in transactions. A breakdown of the number of transactions and value per transaction is not available for April but for the month of March the number of transactions was 27.4 percent below the year-ago level while the average value per transaction declined 13.9 percent. Transactions have declined on a year-over-year basis twenty-seven of the past twenty-eight months. The value per transaction has declined on a year-over-year basis for six of the last seven months.
- Department of Licensing GFS collections, which primarily reflect payment of various licenses and fees, were \$1.3 million higher than expected this month. DOL collections are \$1.1 million above the forecast cumulatively since the February forecast.

The attached Table 1 compares collections with the February 2008 forecast for the April 11- May 10, 2008 collection period and cumulatively since the February 2008 forecast. Table 2 compares revised collection figures with the preliminary numbers reported in last month's collection report.

### **Economic News**

- The U.S. economy continues to weaken. The U.S. economy lost 20,000 jobs in April. While April's job loss number was less than in March, it was the fourth straight month payroll jobs have declined. The U.S. unemployment rate, however, dropped from 5.1 percent in March to 5.0 percent in April. Despite the drop, it is well above the year-ago rate (4.5 percent).
- Consumer's confidence in the economy continues to deteriorate. The Conference Board reported that its' Index of Consumer Confidence fell again in April. The index has now declined four consecutive months and is 44.2 percent below its July 2007 level (its cyclical high).
- The Conference Board also reported a bit of good news. The Conference Board's Index of Leading Indicators increased in April. It had declined the previous five months. The leading index has declined in eight of the last twelve months and is 2.0 percent below its year-ago level.
- The Washington economy lost 3,200 payroll jobs in March 2008. Despite the drop, March wage and salary jobs are still 1.5 percent above the year-ago level. The state's seasonally adjusted unemployment rate, however, jumped from 4.5 percent in February to 4.9 percent in March.

**Table 1**  
**Revenue Collection Report**  
**May 10, 2008 Collections Compared to the February 2008 Forecast**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Difference</u>	
			<u>Amount</u>	<u>Percent</u>
<b>April 11 - May 10, 2008</b>				
Department of Revenue-Total	\$1,168,012	\$1,134,359	(\$33,653)	-2.9%
Revenue Act** (1)	1,037,811	1,015,938	(21,873)	-2.1%
Non-Revenue Act(2)	130,201	118,420	(11,780)	-9.0%
Liquor Sales/Liter	12,742	12,059	(683)	-5.4%
Cigarette	3,931	3,585	(346)	-8.8%
Property (State School Levy)	39,896	36,009	(3,887)	-9.7%
Estate	203	110	(93)	-45.8%
Real Estate Excise	53,367	45,759	(7,608)	-14.3%
Timber (state share)	0	0	0	NA
Other	20,062	20,898	836	4.2%
Department of Licensing (2)	3,736	5,019	1,283	34.3%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$1,171,748	\$1,139,378	(\$32,370)	-2.8%
<b>Cumulative Variance Since the February Forecast (Feb. 11, 2008 - May 10, 2008)</b>				
Department of Revenue-Total	\$2,905,554	2,932,574	27,021	0.9%
Revenue Act** (3)	2,653,959	2,653,855	(105)	-0.0%
Non-Revenue Act(4)	251,594	278,720	27,126	10.8%
Liquor Sales/Liter	34,676	34,193	(483)	-1.4%
Cigarette	11,668	11,457	(210)	-1.8%
Property (State School Levy)	25,103	23,508	(1,595)	-6.4%
Estate	608	551	(57)	-9.3%
Real Estate Excise	139,882	127,349	(12,533)	-9.0%
Timber (state share)	1,569	1,563	(6.0)	-0.4%
Other	38,089	80,098	42,009	110.3%
Department of Licensing (4)	4,500	5,579	1,080	24.0%
Lottery (5)	0	0	0	NA
Total General Fund-State***	\$2,910,053	\$2,938,154	\$28,100	1.0%

1 Collections April 11 - May 10, 2008. Collections primarily reflect March 2008 activity of monthly taxpayers and Jan. - March activity of quarterly filers.

2 April 2008 collections.

3 Cumulative collections, estimates and variance since the February 2008 forecast; (Feb. 11 - May 10, 2007) and revisions to history.

4 Cumulative collections, estimates and variance since the February forecast; (February - April 2008) and revisions to history.

5 Lottery transfers to the General Fund

\* Based on the February 2008 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, 2008 Collection Report - Revised Data  
 Thousands of Dollars

Period/Source	Collections		Difference	
	Preliminary	Revised	Amount	Percent
<b>March 11 - April 10, 2008</b>				
Department of Revenue-Total	\$930,211	\$930,211	\$0	0.0%
Revenue Act (1)	819,602	819,602	(0)	-0.0%
Non-Revenue Act(2)	110,610	110,610	(0)	-0.0%
Liquor Sales/Liter	11,609	11,609	(0)	-0.0%
Cigarette	4,032	4,032	(0)	-0.0%
Property (State School Levy)-net	7,504	7,504	(0)	-0.0%
Estate	400	400	0	0.0%
Real Estate Excise	45,293	45,293	(0)	-0.0%
Timber (state share)	0	0	0	NA
Other	41,773	41,773	0	0.0%
Department of Licensing (2)	608	457	(151)	-24.8%
Lottery (2)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>930,819</b>	<b>930,669</b>	<b>(\$150)</b>	<b>-0.0%</b>

**Cumulative Receipts: Feb. 11 - April 10, 2008 & Revisions to History**

Department of Revenue-Total	\$1,798,216	\$1,798,216	(\$0)	-0.0%
Revenue Act (3)	1,637,916	1,637,916	0	0.0%
Non-Revenue Act(4)	160,299	160,299	0	0.0%
Liquor Sales/Liter	22,134	22,134	0	0.0%
Cigarette	7,873	7,873	(0)	-0.0%
Property (State School Levy)-net after transf	(12,501)	(12,501)	0	-0.0%
Estate	441	441	0	0.1%
Real Estate Excise	81,590	81,590	(0)	-0.0%
Timber (state share)	1,563	1,563	0	NA
Other	59,199	59,199	0	0.0%
Department of Licensing (4)	711	560	(151)	-21.2%
Lottery (4)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$1,798,926</b>	<b>\$1,798,776</b>	<b>(\$150)</b>	<b>-0.0%</b>

Preliminary. Reported in the April 10, 2008 collection report.

1 Collections Feb. 11 - April 10, 2008. Collections primarily reflect February 2008 business activity of monthly taxpayers.

2 March 1-31, 2008 collections.

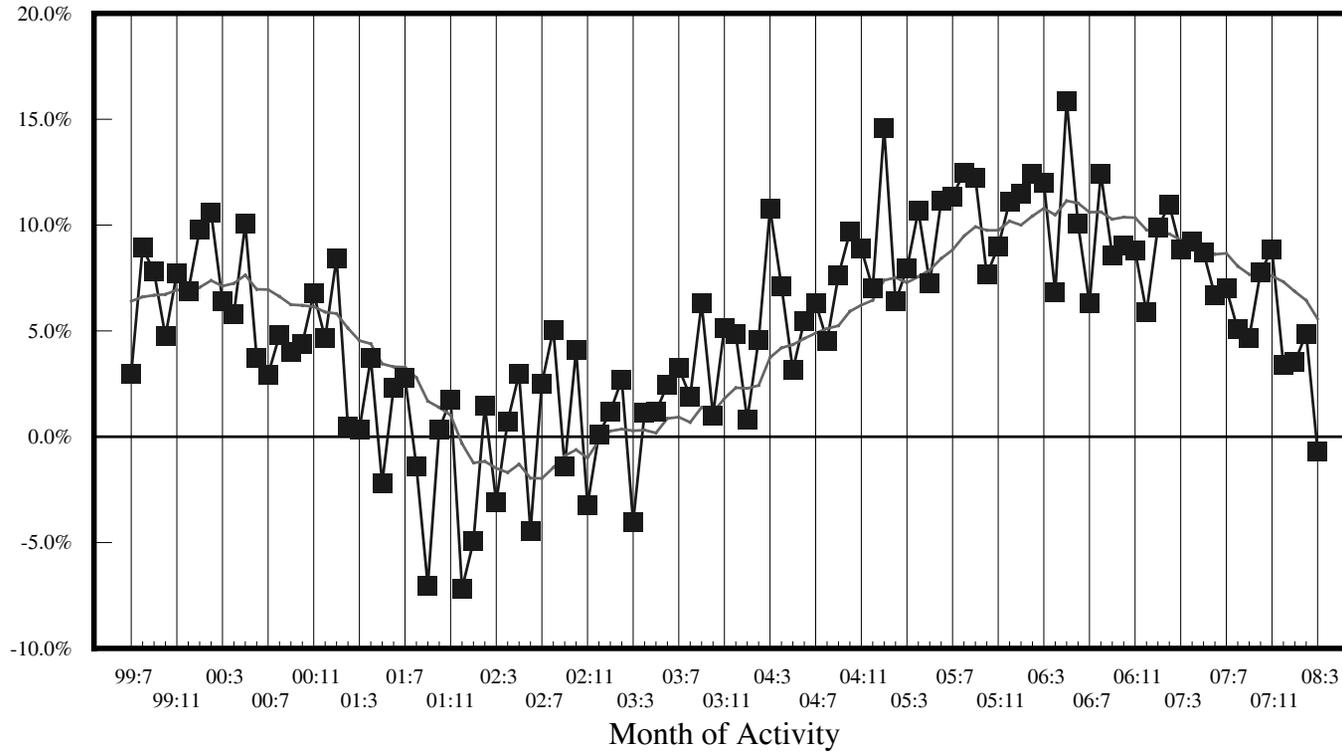
3 Cumulative receipts since the February 2008 forecast: March 11-April 10,2008 & revisions to history.

4 Cumulative receipts since the February 2008 forecast ( Jan. & Feb. 08) & 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.

