

# Revenue Forecast

Presented to  
House Finance Committee

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Executive Director

December 5, 2014  
Olympia, Washington



**WASHINGTON STATE  
ECONOMIC AND REVENUE FORECAST COUNCIL**

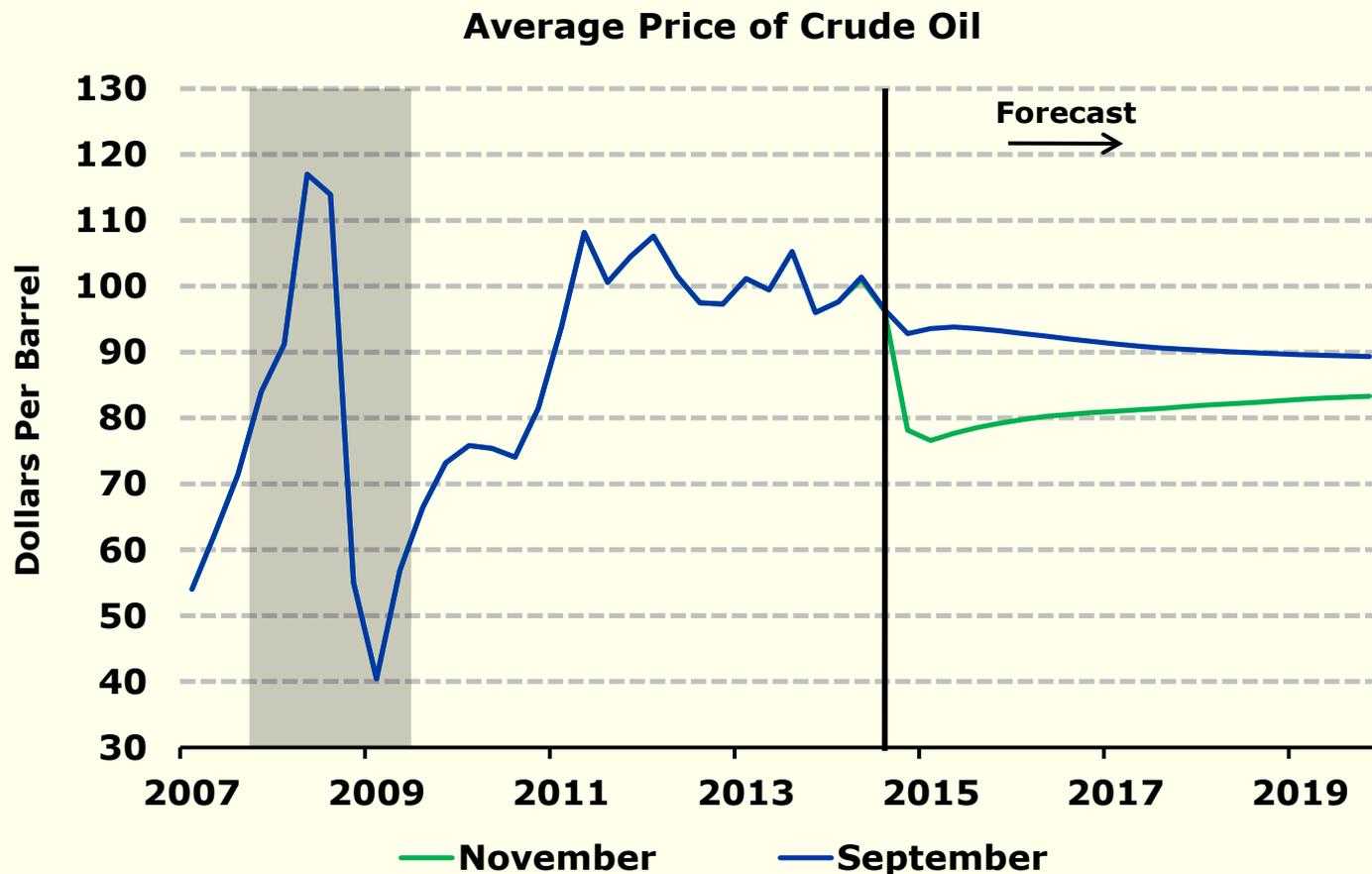


# Summary

- Oil prices are lower than in the September economic forecast but economic growth remains moderate
- Employment gains and lower unemployment claims indicate a strengthening labor market
- Risks to the baseline include the potential for slower Chinese economic growth, possible disruptions to the housing recovery and turmoil in the Middle East and Eastern Europe
- The GF-S revenue forecast has been increased by \$108 million for the 2013-15 biennium and by \$241 million for the 2015-17 biennium



# Oil prices lower in the near term but no longer decline throughout the forecast



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Source: DOE, ERFC November 2014 forecast; historical data through 2014Q3

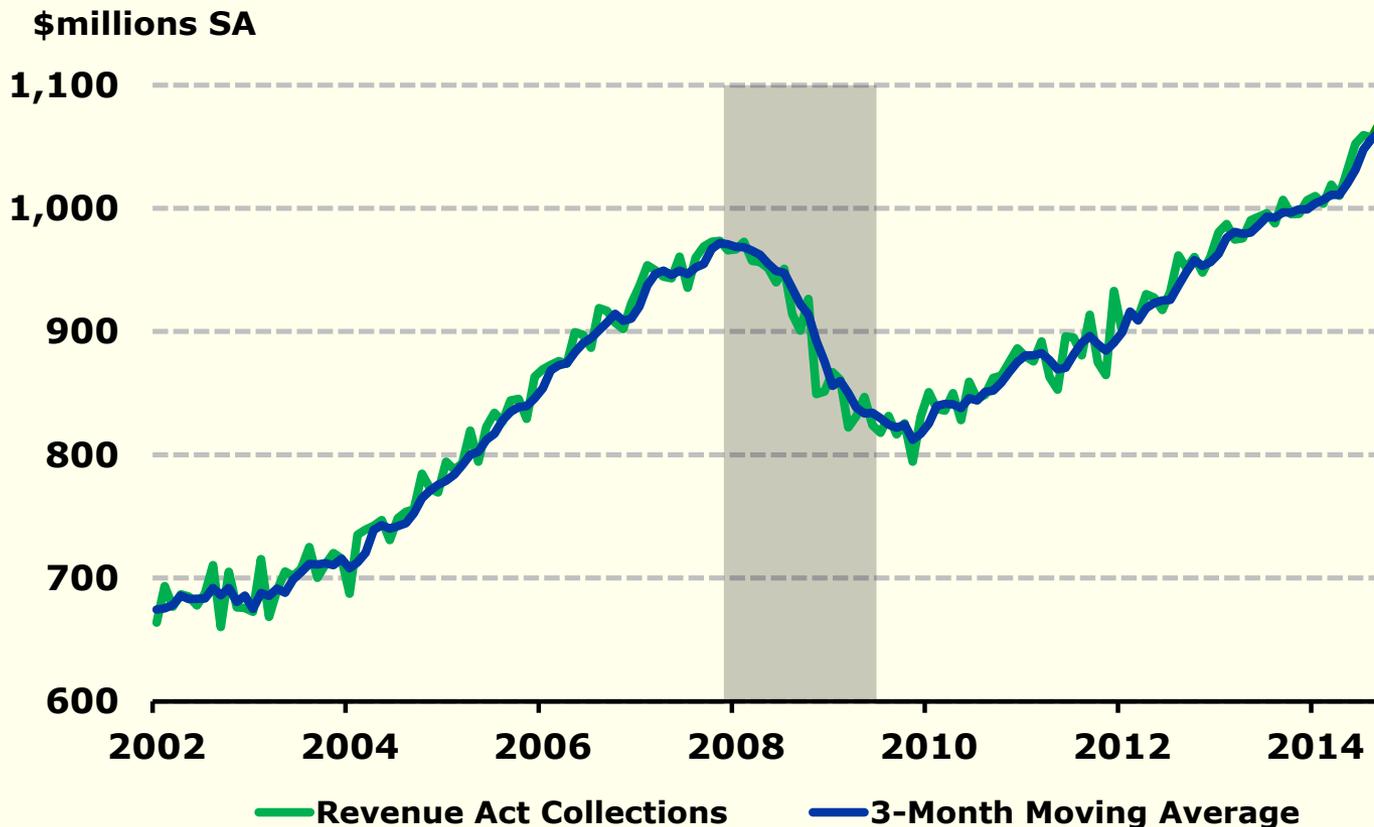
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# Revenue Act collections were strong for third quarter activity

Revenue Act collections were up 7.2% year-over-year for 3<sup>rd</sup> quarter activity.

Revenue Act taxes consist of retail sales, use, B&O, public utility, and tobacco products taxes.



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

Source: DOR and ERFC; monthly data through September 2014 activity (collections of Nov. 10)

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# Sales tax growth has been strong in the last two quarters

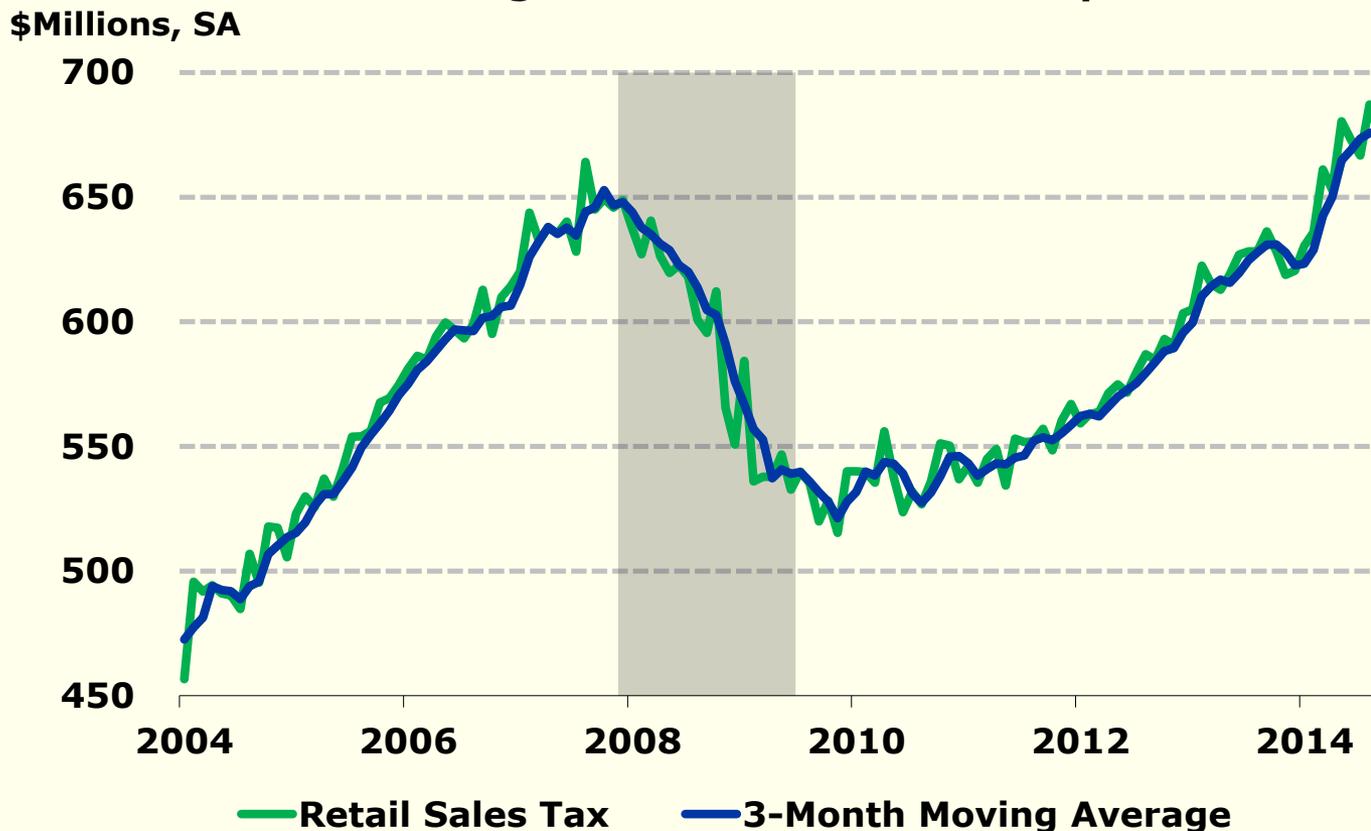
Adjusted sales tax collections were up 8.7% year-over-year for 2<sup>nd</sup> quarter activity and 8.4% for 3<sup>rd</sup> quarter activity.

Growth has been strong in construction, auto sales, and building materials.

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## Washington Retail Sales Tax Receipts



Adjusted for large payments/refunds, amnesty payments and taxpayer reporting frequency change

Source: ERFC; Monthly data through September 2014 preliminary activity

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# B&O tax growth is has been uneven

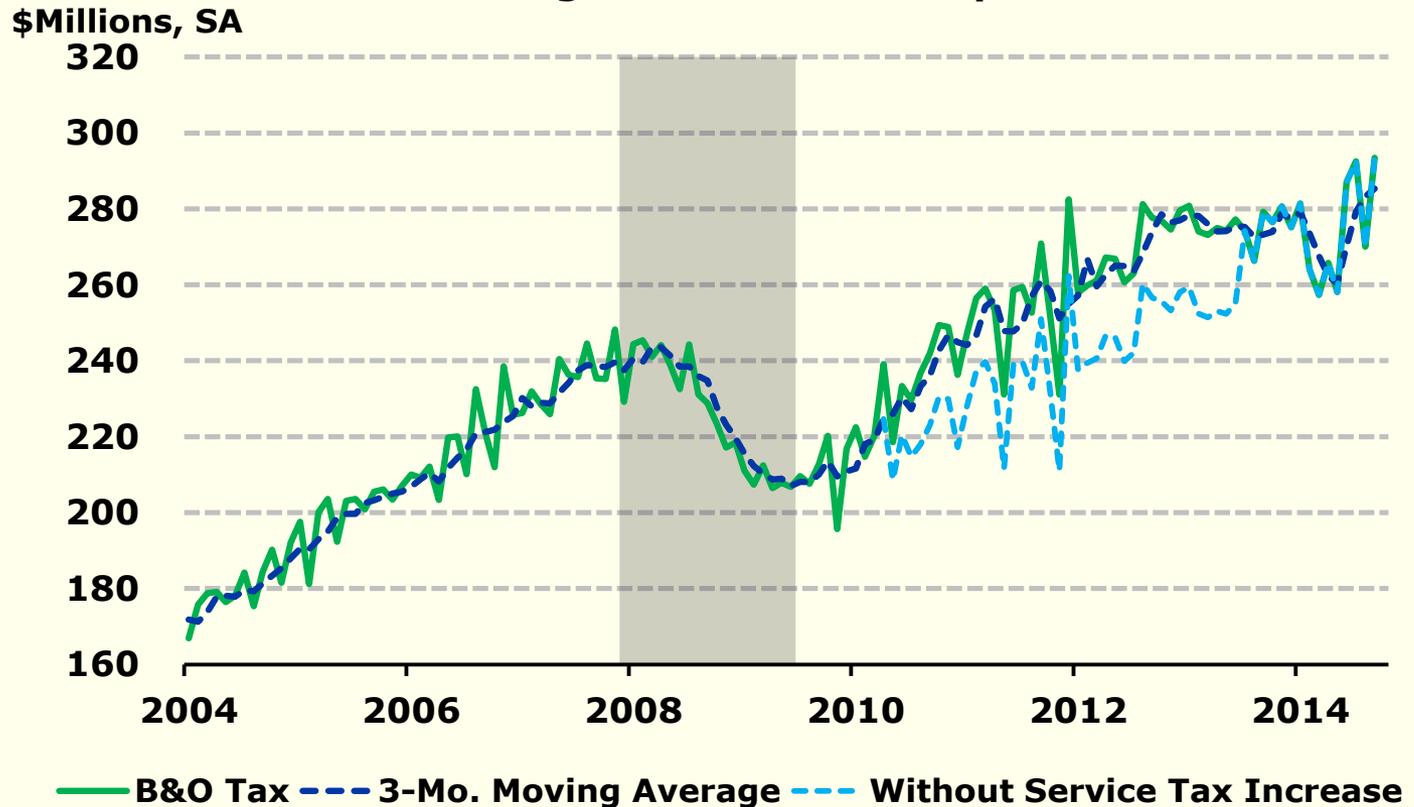
Adjusted B&O tax collections were up 6.5% year over year for third quarter activity.

B&O tax growth will be slowed somewhat in the next two quarters due to the effects of lower oil prices on the gross receipts of refiners, gas stations and other petroleum products dealers/manufacturers.

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## Washington B&O Tax Receipts



Source: ERFC; Monthly data through September 2014 preliminary activity  
Adjusted for taxpayer frequency shift, amnesty payments, and recent large refunds

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# REET activity continues to be elevated by large commercial sales

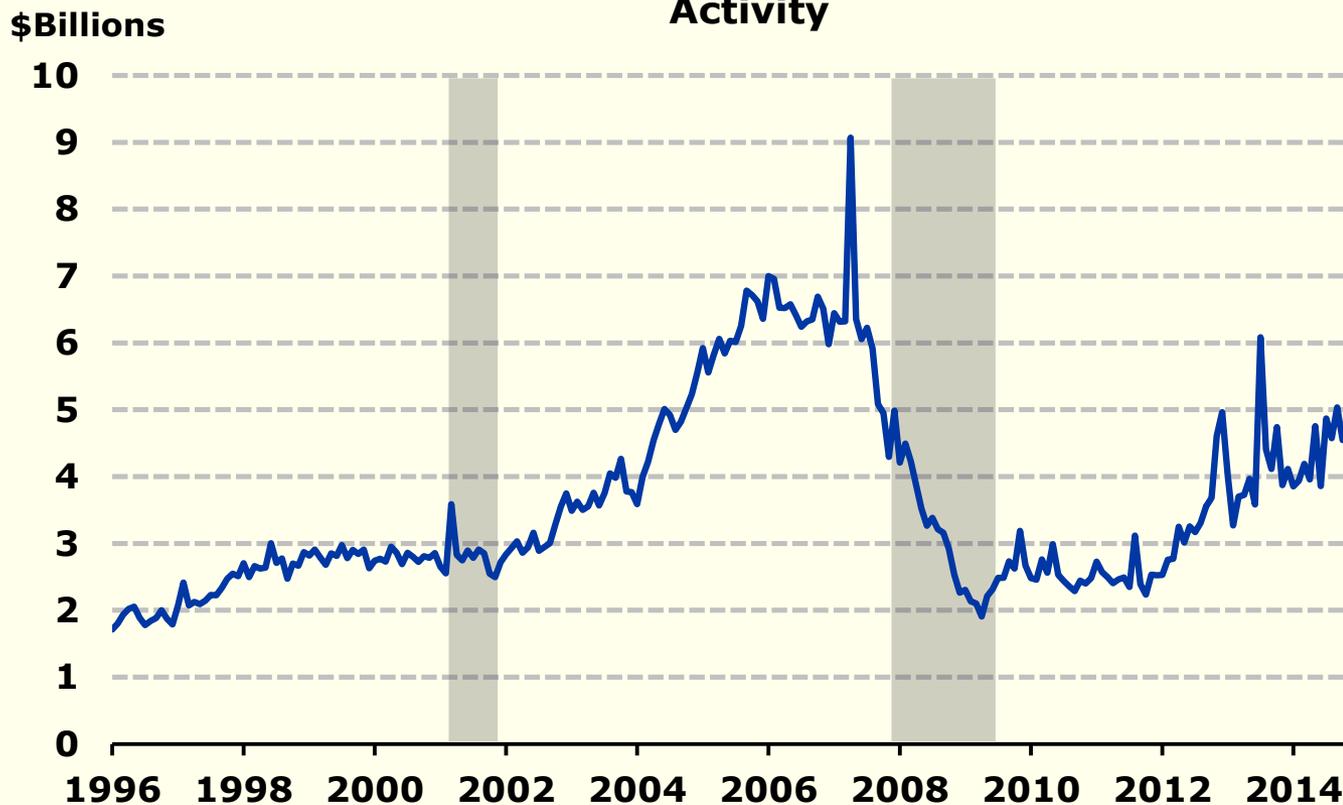
Sales transactions are down year over year but the value per transaction is higher due to the proportion of large commercial sales

Sales of property worth \$10 million or more totaled \$1.4 billion in the last two months

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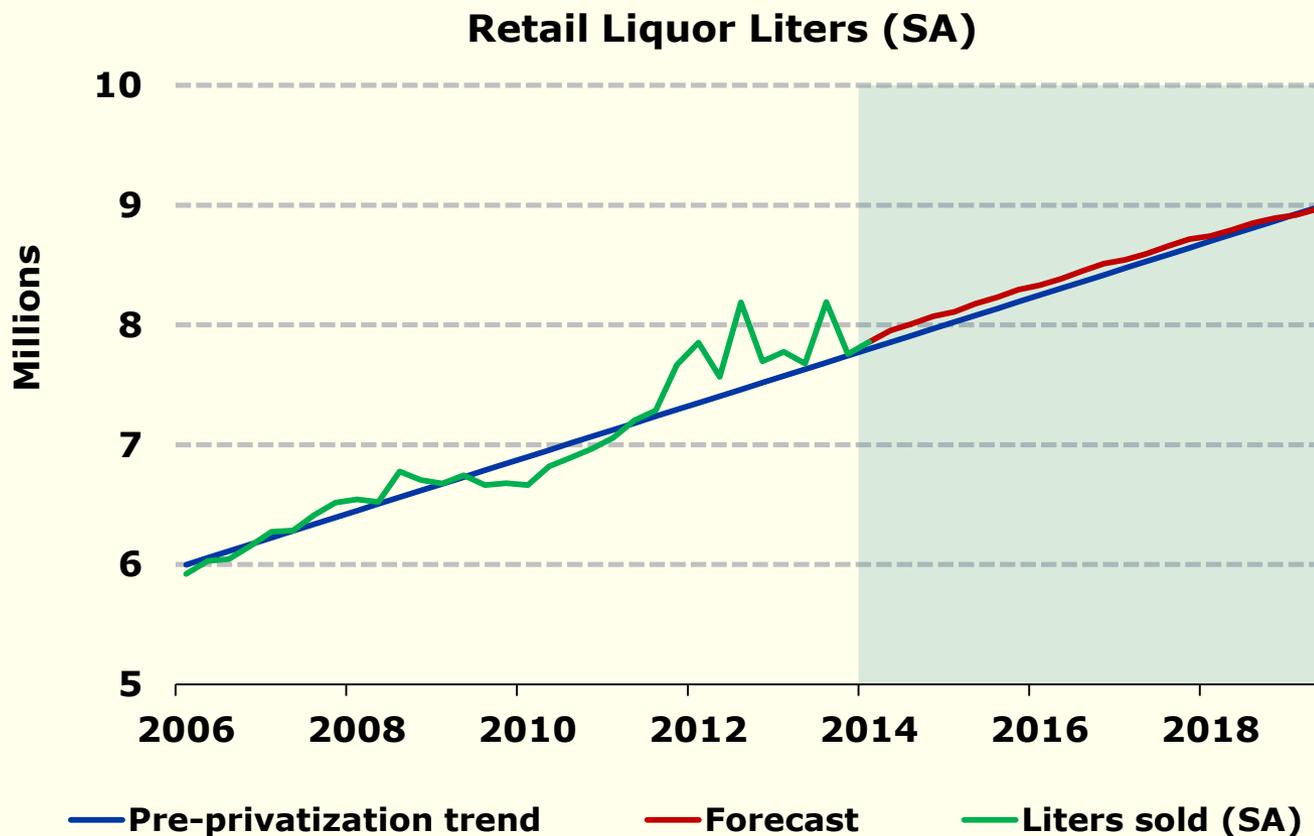
## Seasonally Adjusted Taxable Real Estate Excise Activity



Source: ERFC; Monthly data through October 2014 preliminary

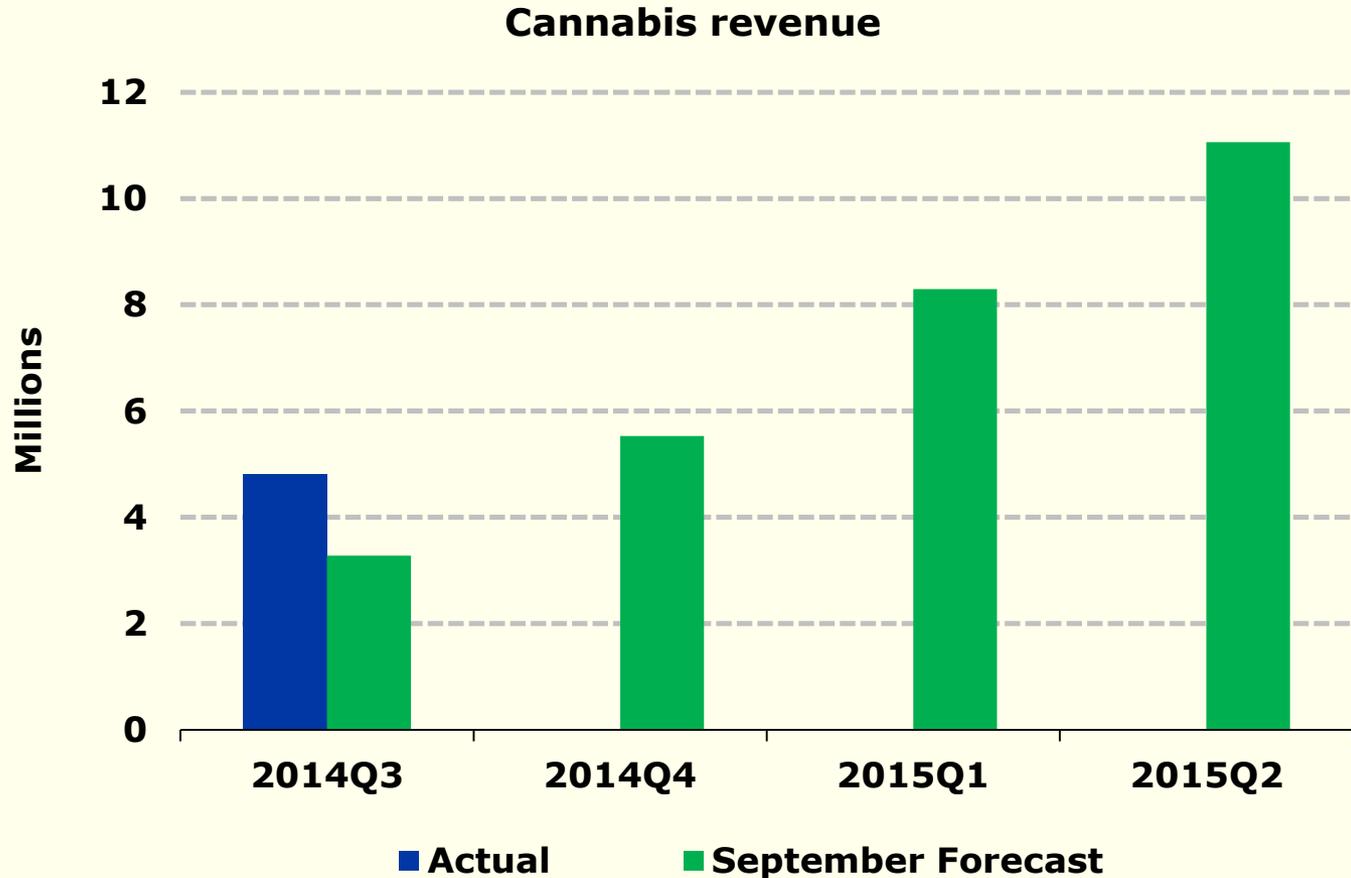


# The surge from liquor privatization is over





# Cannabis revenue is above forecast, but still needs to pick up



Source: LCB, ERFC September 2014 forecast; historical data through 2013 Q3



# The number of cannabis establishments continues to grow

26% of Producers are also Processors

Growth in Establishments: (July to November)

Producer 8 to 31

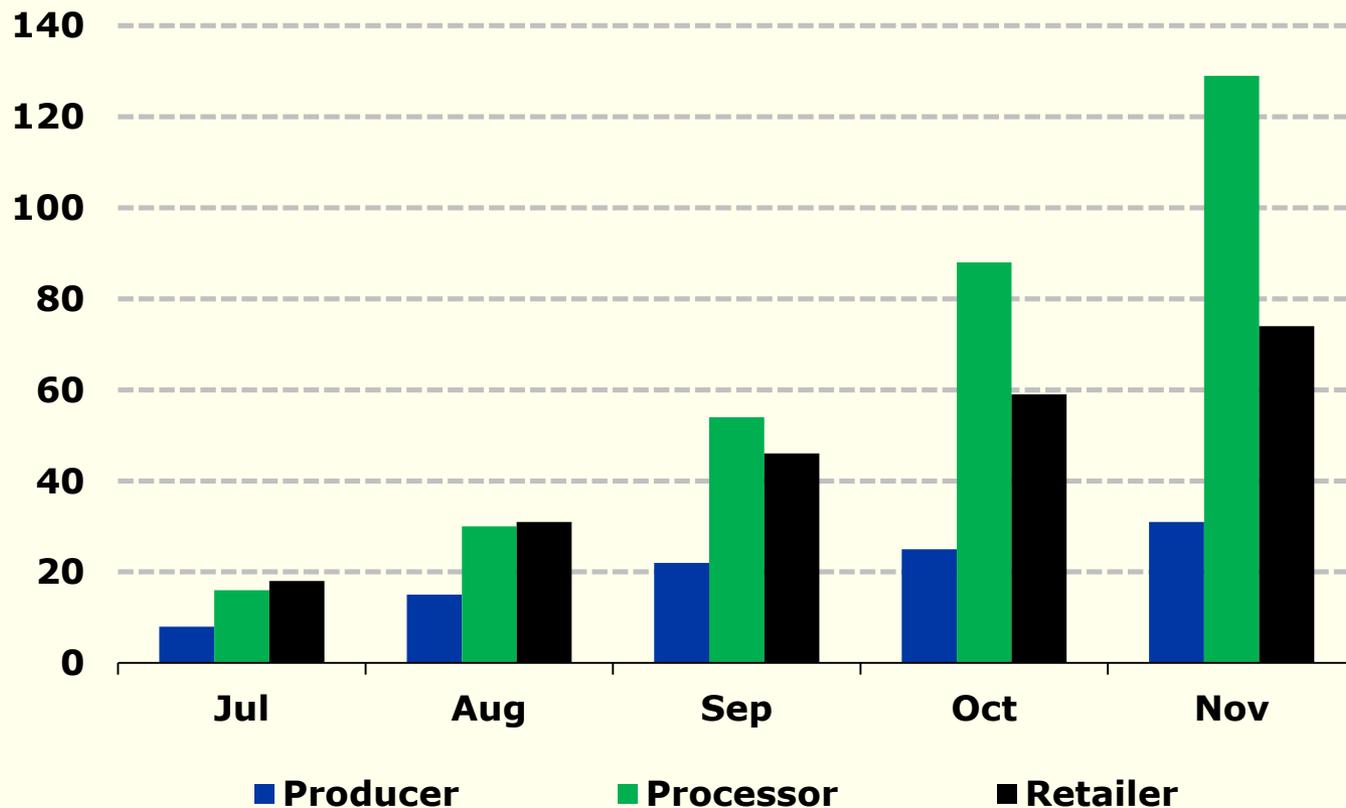
Processor 16 to 129

Retail 18 to 74

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## Cannabis Establishments



Source: LCB, ERFC; data through November 2014



# GF-S cannabis revenue estimates

Total GF-S change from September forecast:

•2013-15  
+\$4.0 M

•2015-17  
+\$8.0 M

•2017-19  
+\$2.4 M

**\$Millions**

**November Forecast**

	<u>2013-15</u>	<u>2015-17</u>	<u>2017-19</u>
GF-S share of excise tax and license fees	\$5.7	\$36.1	\$64.9
Retail sales tax and B&O	\$5.2	\$32.0	\$56.6
<b>Total General Fund</b>	<b>\$10.9</b>	<b>\$68.1</b>	<b>\$121.5</b>
<b>Total Non-GF</b>	<b>\$31.8</b>	<b>\$168.4</b>	<b>\$293.5</b>

\* Detail may not add to total due to rounding

Source: ERFC, LCB, BOTEC Analysis

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# Forecast changes: General Fund State, 2013-2015 Biennium

**September Forecast:**

**\$33,332 million**

<b>\$Millions</b>	<b>November Forecast</b>				
	<u>Collection Experience</u>	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$68	\$0	\$42	\$31,832	\$111
All other agencies	\$0	\$0	(\$3)	\$1,608	(\$3)
<b>Total GF-S</b>	<b>\$68</b>	<b>\$0</b>	<b>\$40</b>	<b>\$33,440</b>	<b>\$108</b>

\* Detail may not add to total due to rounding



# 2013-15 Biennium alternative forecasts – cash basis

<b>\$Millions</b>	<b>2013-15 Biennium</b>	<b>Difference From the baseline</b>
<b>November Baseline (55%)</b>	<b>\$33,440</b>	
<b><u>September 2014 Alternative Forecasts</u></b>		
<b>Optimistic (20%)</b>	<b>\$34,110</b>	<b>\$670</b>
<b>Pessimistic (25%)</b>	<b>\$32,638</b>	<b>(\$802)</b>
<b>Probability Weighted Average</b>	<b>\$33,373</b>	<b>(\$66)</b>
<b>GCEA*</b>	<b>\$33,445</b>	<b>\$6</b>

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

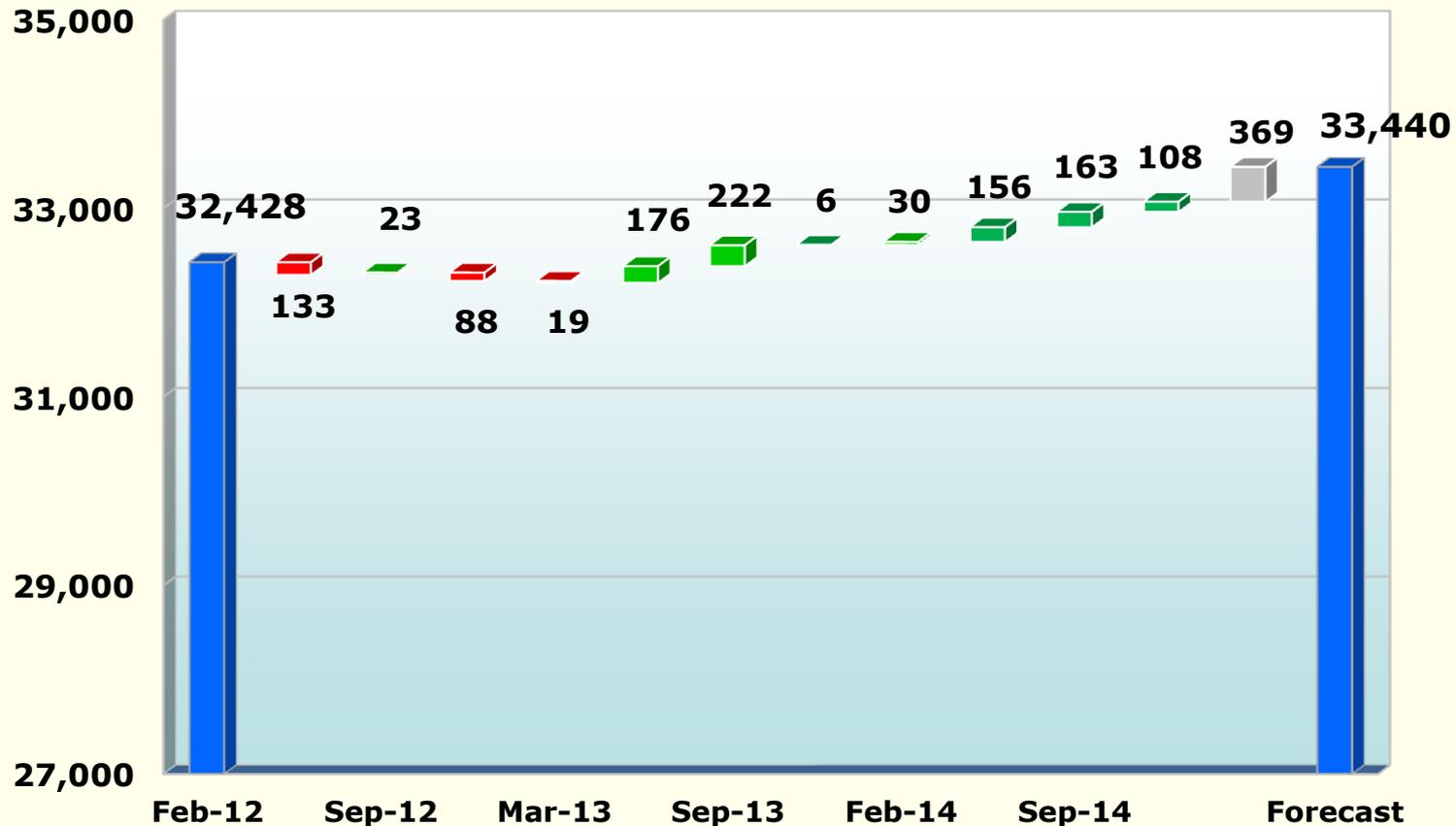
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# GF-S forecast revisions to the 2013-15 biennium

The GF-S forecast for the 2013-15 biennium has increased by \$655 million (2.0%) since the June 2013 forecast that was the basis of the initial biennial budget (not including the \$123 million in revenue-generating legislation that accompanied the budget)

\$Millions



Source: ERFC February 2012 – November 2014 forecasts  
 Gray area indicates total noneconomic change

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# Forecast changes: General Fund State, 2015-2017 Biennium

**September Forecast:**

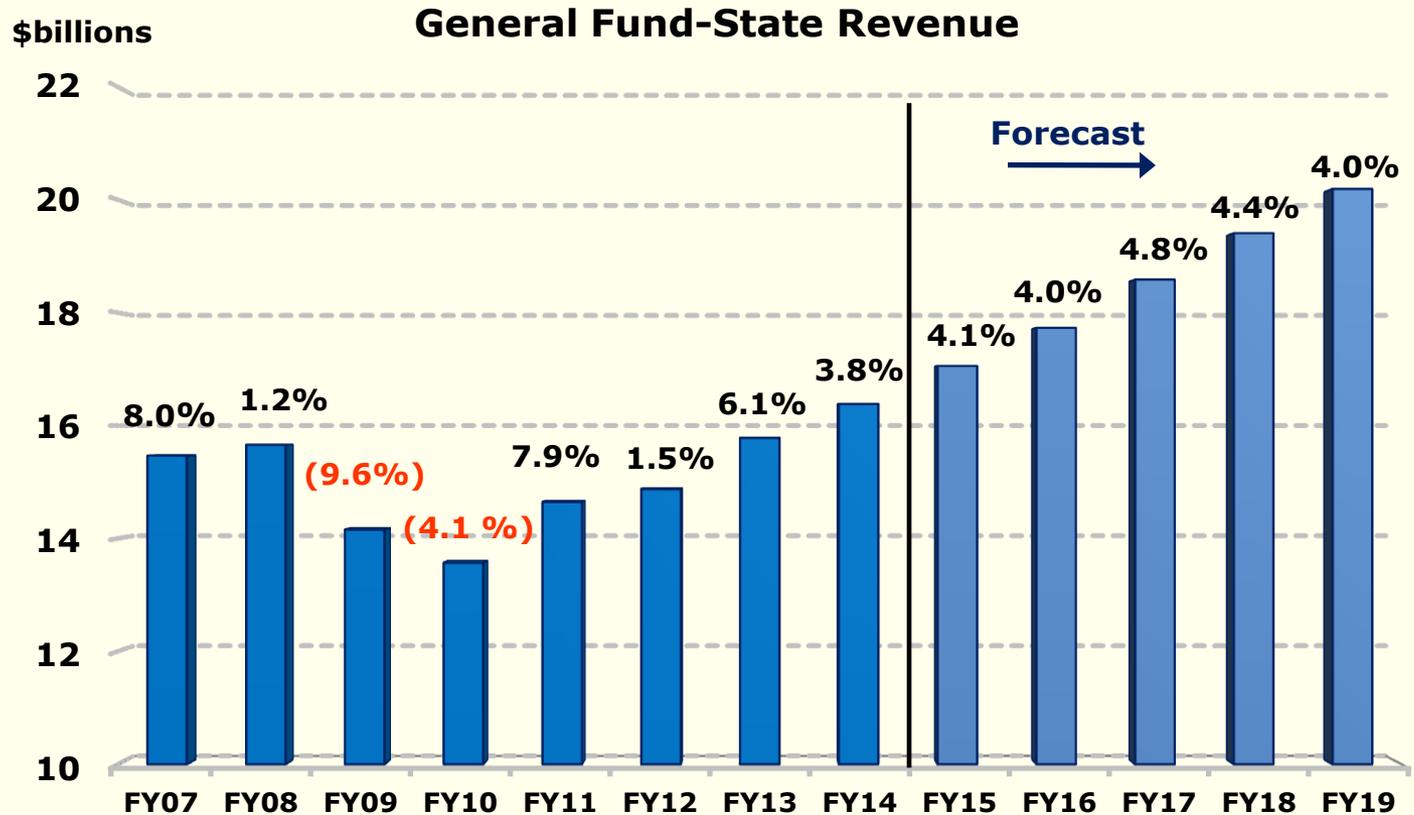
**\$36,078 million**

<b>\$Millions</b>	<b>November Forecast</b>			
	<u>Non-economic Change</u>	<u>Forecast Change</u>	<u>Forecast</u>	<u>Total Change*</u>
Dept. of Revenue	\$0	\$239	\$34,673	\$239
All other agencies	\$0	\$3	\$1,647	\$3
<b>Total GF-S</b>	<b>\$0</b>	<b>\$241</b>	<b>\$36,319</b>	<b>\$241</b>

\* Detail may not add to total due to rounding



# General Fund-State\* forecast by fiscal year



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\*General Fund-State & Related Funds for FY 07-09, General Fund-State new definition for FY 10-17  
Source: ERFC forecast, November 2014

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# Conclusion

- The economic forecast is quite similar to September's forecast, with the exception of lower oil prices
- We expect the moderate pace of the economic recovery to continue in both the U.S. and Washington economies
- GF-S revenues are expected to grow 9.1% between the 2011-13 and 2013-15 biennia and 8.6% between the 2013-15 and 2015-17 biennia
- The level of uncertainty in the baseline remains high, with greater risks on the downside than on the upside



# Questions



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