Revenue Update

Part 1: Tax Collections

Based on current collection rates and economic indicators updated in June, we expect General/Education Fund revenues for FY 2010 to be within +$50 to - $150 million of February estimates. Most of the downside risk in revenues is in the Education Fund as a result of Corporate and Income Tax volatility. We expect Transportation Fund revenue to be within a range of +$4 to -$12 million.

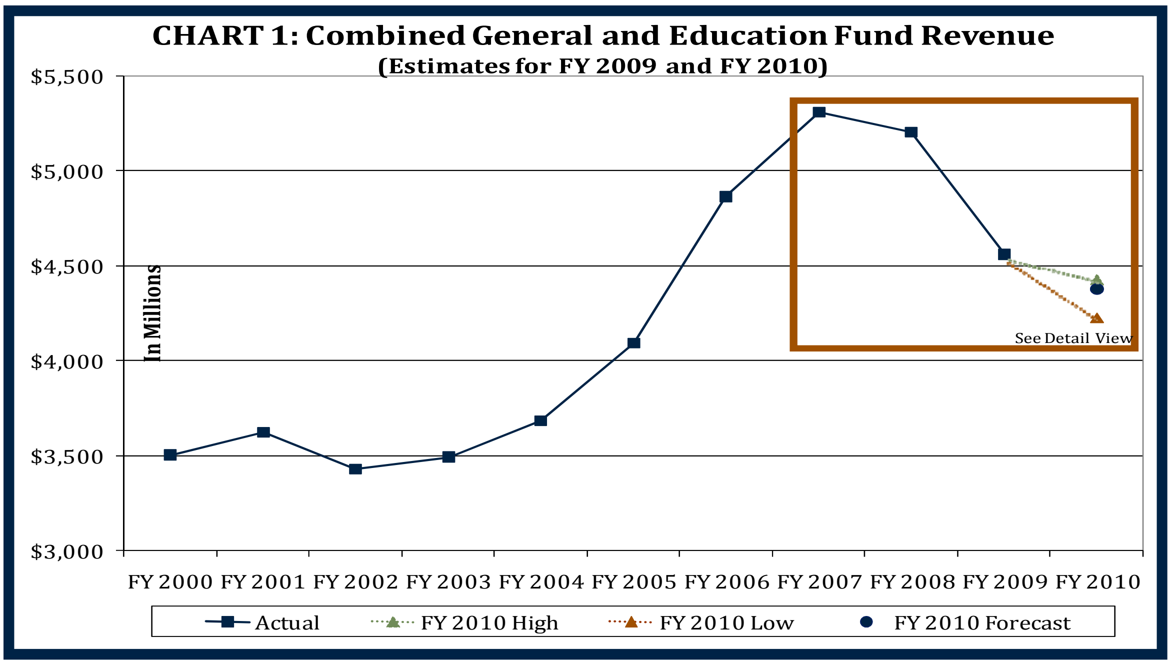
Final revenues to the General/Education Funds for FY 2009 (subject to final adjustments) put the state at a $23 million deficit. The Transportation Fund ended FY 2009 with a $9 million surplus. These figures are for only the revenue side; the expenditure side is still being calculated and will influence any final budget surplus or deficit.

When all sources are combined the General Fund is currently on target with an expected range of +30 to -$50 million. When all sources are combined Education Fund collections are expected to be +$20 to -$100 million of target. Based on collections to date, Transportation Fund revenues appear to be on target for FY 2010.

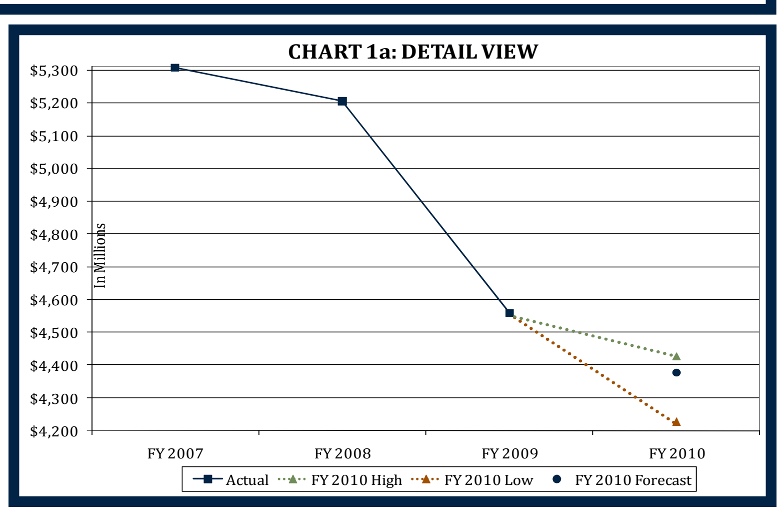
Although general economic conditions are moderating, consumers continue to struggle with falling wages and stagnate committed expenses. We expect the abating recession to lead to below-trend growth in the coming years. In November, economic indicators will be revised. Preliminary indications suggest that key indicators will be revised down.

In spite of this, the recession should moderate over the next several months – with some positive indicators being forecast for 2010 (i.e. some growth in retail sales, moderating personal income and slightly higher non-agricultural wages). Going forward, some of the factors above (i.e. carry forward losses) will weigh on individual income and corporate franchise tax revenues.

The economy and revenues are not likely to recover this calendar year. However, the lessening recessionary environment should lead to slower deceleration in the coming fiscal year.



Total General & Education Fund revenues are expected to be +50 to - $150 million in relation to the February 2009 Consensus revenue targets for FY 2010.



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Legislative Fiscal Analyst

Taxable retail sales will remain below CY 2006 levels

Among the factors contributing to the weakness in the General Fund are damage to household balance sheets, financial sector and credit market conditions , savings behavior, and price changes. We expect a trough to be reached soon, followed by below trend recovery.

Lower retail prices may lead to lower revenue in the short-term. In general, price decreases (deflation) would induce further spending by the consumer. Although there are sector exceptions, it appears that consumers, on the aggregate, are relatively less responsive now to lower prices than they have been when times were good or in comparison with past recessions. This matters for revenues because sales tax is linked to the product of the sales tax rate and the price level. If lower prices don't stimulate more purchases, then lower prices lead to less revenue per goods purchased. In the coming fiscal year, we expect prices to experience constrained growth.

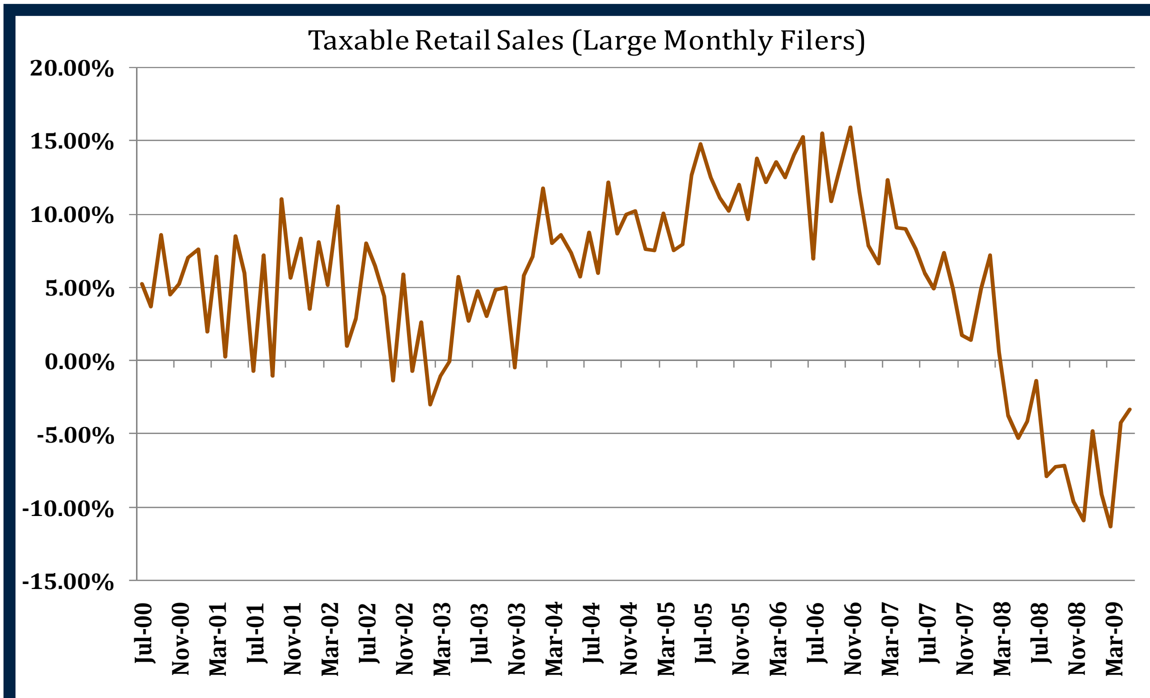
Taxable retail sales are expected to continue to decline by 7.6% in CY 2009 and moderate in CY 2010, growing by 1.9 percent. Even with growth, taxable retail sales will remain below CY 2006 levels.

Severance tax caps have decreased General Fund portfolio diversity. Severance taxes are expected to come-in above target in FY 2010. However, collections accruing to the General Fund will remain at target as a result of caps passed in a previous legislative session. For instance, in FY 2009, severance taxes transferred to the Permanent Fund were $12 million more than anticipated in February. The General and Education Funds ended the same year with a $23 million deficit.

Interest earnings and the Cable and Satellite Tax are also expected to come in above target.

If the household saving rates continue to remain high, then a consumer spending recovery will likely be improbable in the short term. A decline in sales tax revenues remains the risk in the short term.

When all sources are combined the General Fund is currently on target with an expected range of +$30 to -$50 million for FY 2010.



Source: Economic and Statistical Unit, Utah State Tax Commission

Education Fund

Currently total wages are expected to be down by 3.4 percent for CY 2009 and close to flat for CY 2010. Total wages represent the largest source of revenue to the Education Fund. As a result, Income Tax will continue to struggle in FY 2010.

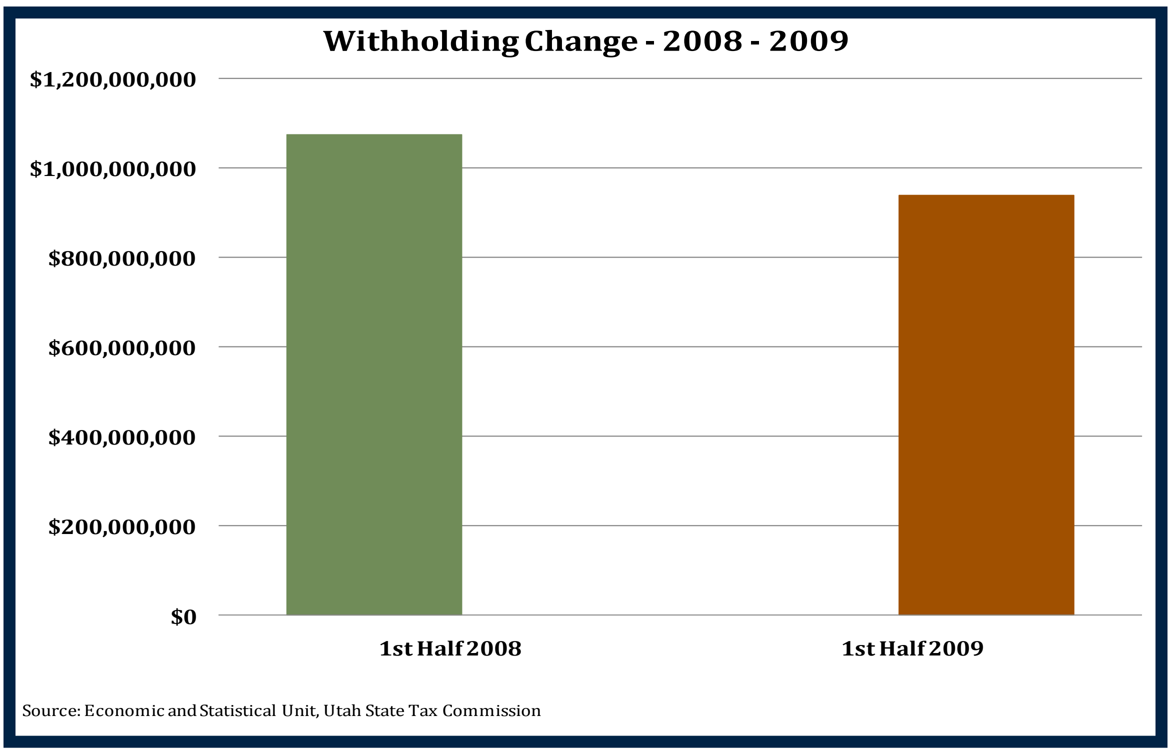
Corporate profits continue to be under pressure. Business conditions now affect future revenue through, among countless other things, capital losses. Of mention is the finance and insurance industry, which, until recently accounted for a small portion of capital losses. The taxable income from this sector will likely continue to be under pressure and accrue capital losses for future years.

The impact of a recession on businesses by type and size varies. The current downturn encompasses all sizes of businesses, but is concentrated among smaller businesses. As of July 2009, smaller businesses (less than 10 employees) accounted for 1.3% of the total employees at firms that had an unemployment claim against them, but account for 20.4% of the claims. Large firms (greater than 500 employees) employ about 56% of the employees working at firms that had an unemployment claim against them, yet account for 24% of the claims. Medium firms account for 55.6% of firms with an unemployment claim against them. In essence, the current downturn is concentrated on smaller and medium sized firms more so than larger firms. Since smaller firms are generally responsible for new job creation, the recent job destruction likely means slower job creation in the months to follow.

When all sources are combined the Education Fund collections are expected to be within a range of +$20 to -$100 million.

Employment Declines and Wage Slowdown Impact Education Fund Revenues

Corporate Tax Collections are Below Expectations in FY 2009 and FY 2010



PART 2: ECONOMIC INDICATORS

WAGES & EMPLOYMENT

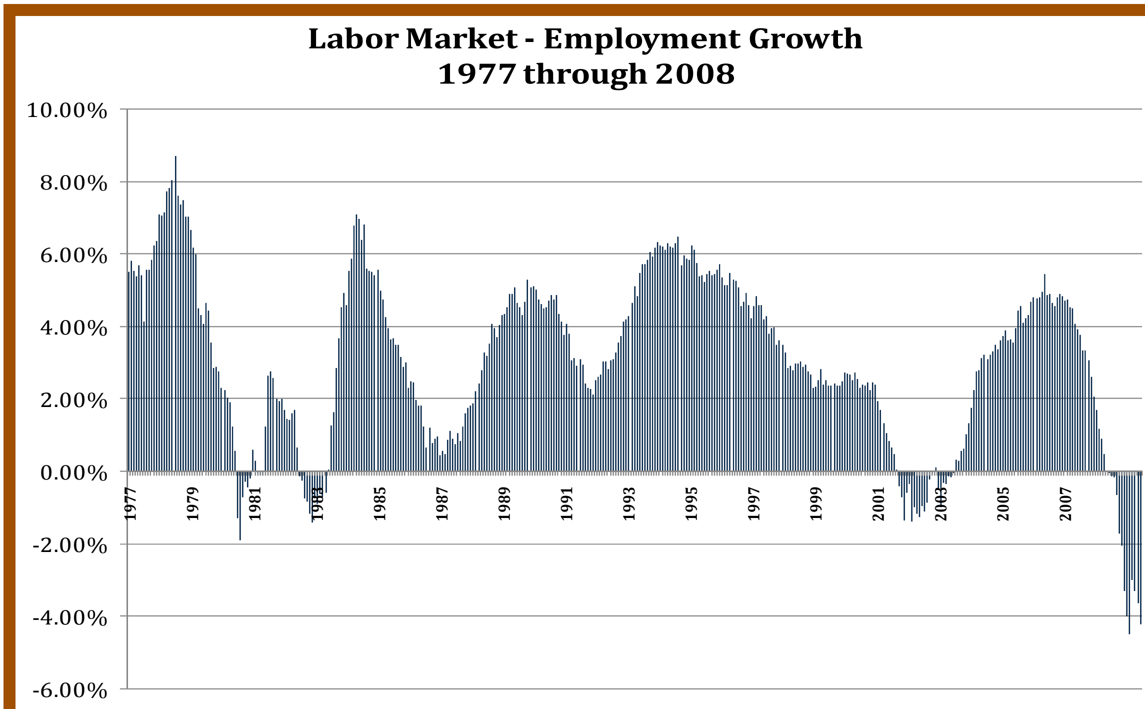
Job Growth Forecast at (4.3) Percent in 2009 and an additional loss of (1.3) Percent in 2010

Including the current labor market downturn, since 1976 the state has experienced six labor market cycles, with the longest peak-to-trough lasting 91 months and the shortest peak-to-trough lasting 17 months. The current downturn is on its 38th month. Although the trough is likely to be reached in the next few months, recoveries also include months of negative job growth. For instance, the 13 months of recovery from August 1980 to August 1981 included 6 months of negative employment growth. The most recent recovery, from March 2002 to June 2006, comprised 14th months of negative job growth and 38 months of positive employment growth. The current economic downturn in the labor cycle has, so far, comprised 25 months of decreasing but positive employment growth, and 13 months of consecutive negative employment growth. Of importance for revenues is that recoveries include months of negative employment growth that are subsequently followed by positive employment growth. All in all, the labor market at the end of FY 2011 will likely comprise between 60,000 and 70,000 fewer employed individuals than it did in June 2007.

Annualized job growth for CY 2009 and CY 2010 is expected to be-4.3% and-1.3% respectively under current indicators. Employment will remain below CY 2006 levels for the period of the forecast.

New quarterly employment data will be available at the end of September. These data will influence November indicators and December revenue estimates. Preliminary survey data suggest that employment indicators will be revised downward, thus possibly reducing FY 2010 revenue estimates.

On a year over absolute growth basis using monthly data, the downturn has now affected every industry. This issue matters in that broader based recessions tend to have a greater duration in both length of economic activity spent close to the bottom and slowness in the recovery phase.



Source: Department of Workforce Services

The Consumer and Savings

Consumers appear to be struggling with falling wages and higher living expenses. Personal incomes decline due to lower wages and reduced working hours. Concerns about financial stability have led consumers to be cautious in their spending.

Whether it is apprehension driven, thrift oriented, or forced, recently the savings rate for individuals turned positive from historical lows, indicating a greater propensity to save disposable income. This increase savings has the initial cause of improving the balance sheet of the household. If this happens among enough consumers, though, the decrease in spending may paradoxically cause a decrease in savings, for others, because one person's spending is another's income. This paradox is present currently, where the increase in personal savings is correlated with a decrease in corporate savings and government saving; the latter two outweigh the increase in personal savings to cause a negative net national saving. This short run effect directly impacts sales tax revenue in an adverse fashion.

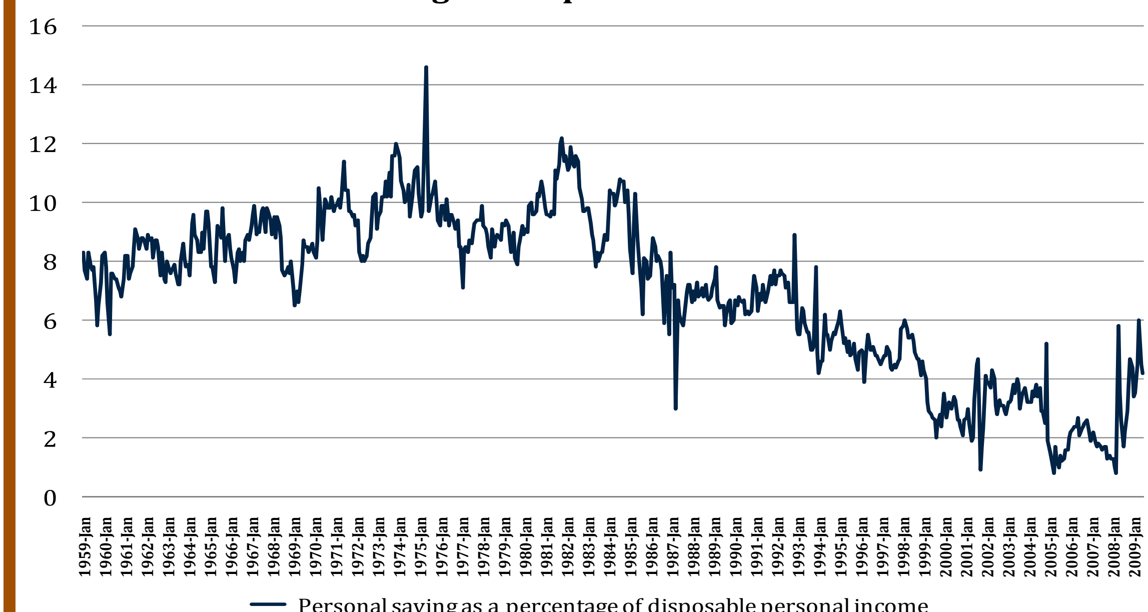
Consumer confidence has declined. Net worth is down and as a result consumers are spending less and saving more. Consumer spending historically account for over two-thirds of U.S. economic activity. As consumers continue in their reluctance to spend the state could see a continued drag on sales tax growth. Reluctance to spend is due to a variety of factors including: falling wages and salaries, depletion of nest eggs, concern over continued recession, and housing market declines.

It would appear that the impacts of the savings strategies may be long term in nature as consumers continue their savings in the long run. As a result the move toward expansion will be slow.

The long run impact of savings will depend on from which incomes the savings come. Indications are that the higher savings rate will lead to less spending on discretionary purchases into the future and as a result act as a drag on certain sectors of the economy. Commerce that's dependent on discretionary consumer spending will likely contract. This could include sectors such as hotels, restaurants and retail establishments.

High savings rates will slow sales tax growth and slow corporate profits.

Personal Saving 1959 through 2009
As a Percentage of Disposable Personal Income



Source: Bureau of Economic Analysis

Equity Markets, Productivity and Labor

The equity market is, in general, a semi-reliable leading indicator of future economic growth nationwide. It is by no means, though, a reliable indicator of employment growth in the state. With that said, the table below simulates employment growth (decline) using the S & P 500 as an indicator variable. As shown, if the S & P stays constant, this would correlate to positive employment gain in April 2011. If the S & P grows by 10 points month over month (about .4% higher than historical average), the equity market would correlate with positive employment growth in December 2010. Both of these scenarios have employment reaching positive growth territory two months before a seasonally adjusted model that includes only past employment variables.

Contributing to the labor market dithering is that companies are currently enhancing employee productivity and profits by cutting costs and decreasing employee pay and hours. Productivity — the amount of output per hour of work — rose at an annual rate of 6.6 percent in the April-June quarter at the same time labor costs fell at an annual rate of 5.9 percent.

Productivity increases can help boost living standards because companies can increase wages financed by rising output. During this recession, companies have been using their productivity gains to bolster their bottom lines to help them stay in business. From the labor market perspective, the productivity increases delay employment increases. It appears the productivity cycle is at the beginning of an increase.

Consumer spending is critical to the recovery since it accounts for about 70 percent of total economic activity. However a lack of wage growth and shortage of jobs created by labor cost declines will depress household incomes and make the prospects for a sustained rebound in consumer spending further off into the future.

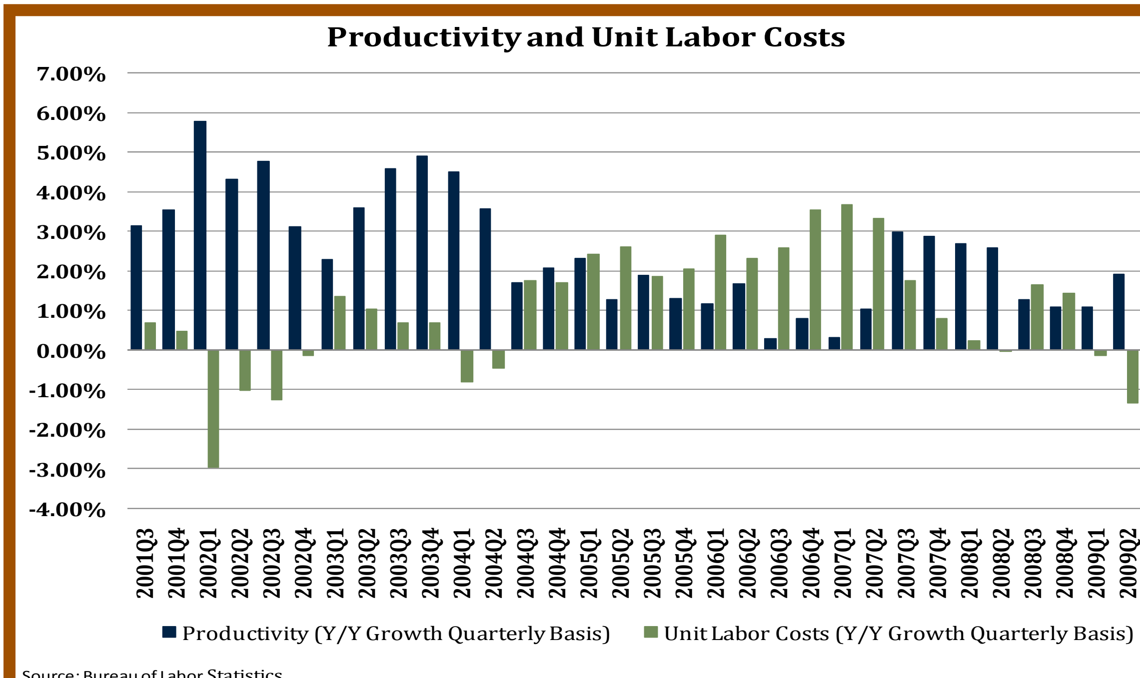
Equity Markets & Labor

	Employment Growth	
Month	Correlated with S&P constant at 1,000*	Correlated with S&P up 10 points each month*
8/1/2009	-4.6%	-4.6%
9/1/2009	-4.8%	-4.8%
10/1/2009	-4.8%	-4.8%
11/1/2009	-4.3%	-4.2%
12/1/2009	-4.0%	-3.9%
1/1/2010	-3.1%	-3.1%
2/1/2010	-2.8%	-2.7%
3/1/2010	-2.5%	-2.4%
4/1/2010	-2.8%	-2.6%
5/1/2010	-2.6%	-2.4%
6/1/2010	-2.3%	-2.0%
7/1/2010	-2.0%	-1.6%
8/1/2010	-1.5%	-1.1%
9/1/2010	-1.2%	-0.7%
10/1/2010	-0.8%	-0.3%
11/1/2010	-0.8%	-0.1%
12/1/2010	-0.6%	0.2%
1/1/2011	-0.7%	0.2%
2/1/2011	-0.4%	0.5%
3/1/2011	-0.1%	0.9%
4/1/2011	0.7%	1.6%
5/1/2011	0.9%	1.9%
6/1/2011	1.1%	2.1%

Sources: Standard and Poors, Department of Workforce Services

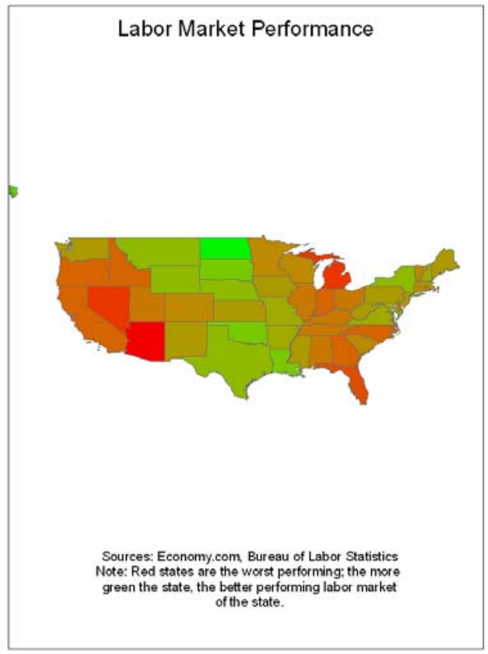
Analysis: Legislative Fiscal Analyst

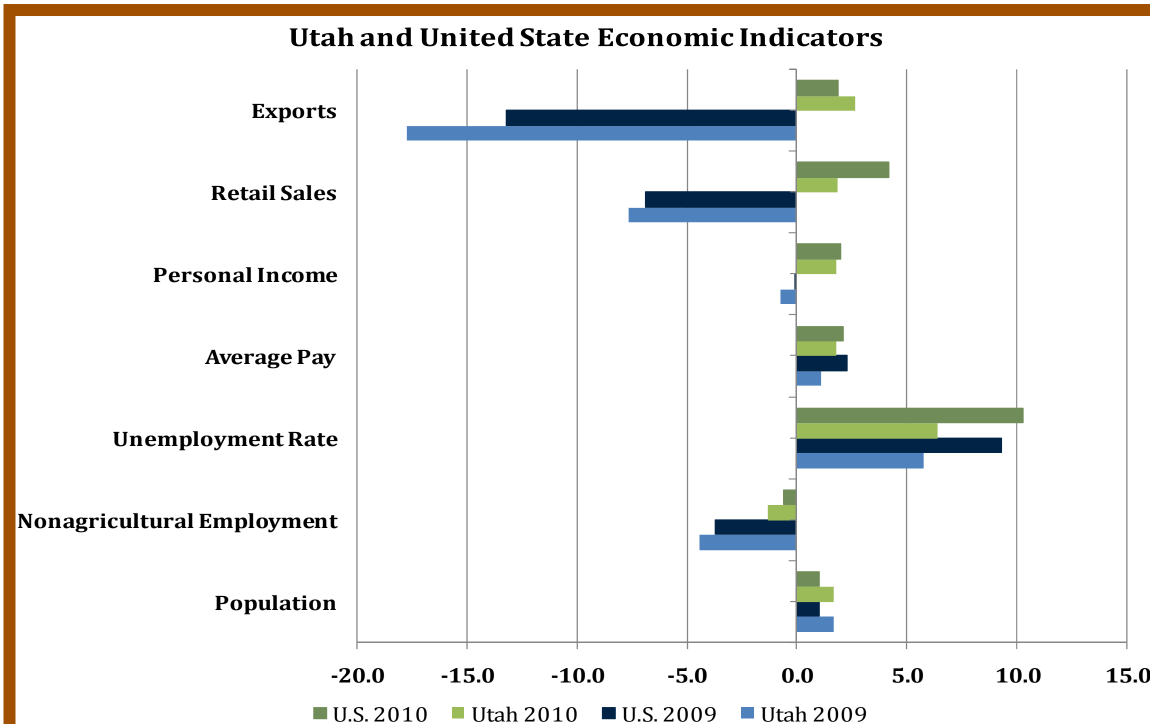
*Please note that the regressions used to simulate the correlation of the S&P with non-farm employment growth in the state includes six lags on the S&P (dividend adjusted), six lags of employment, a constant, and three lags on the error term. The lags are not sequentially distributed nor is each lag statistically significant.



UTAH AND THE NATION

As predicted, the state continues to be affected by national parameters of economic growth. Some factors influencing macroeconomic growth appear to be past performance of the labor market, boom behavior during the housing market run-up, savings, and other consumer actions. The state is performing below average in comparison to other states, with job growth of –4.2% in comparison with nationwide job growth of -3.9%. This places the state 34th in terms of labor market performance rankings. Although the state lagged other states in entering the recession, the state has taken a deeper drop in employment over a shorter period of time (on average). We expect the state to continue to fall below the national average for the period of the forecast.





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Revenue Collections to Date (Y/E Preliminary)

Tax Revenue ***(In Millions of Dollars)***	**FY 2008 Final**	**FY 2009 Budgeted May-09**	**FY 2009 Year End Aug-09**	**FY 2009 Diff Budget to Year End**	**FY 2009 Budgeted Growth Rate**	**FY 2009 Year End Growth Rate**
Sales & Use Taxes	$1,739.38	$1,582.19	$1,547.47	($34.72)	-9.0%	-11.0%
Individual Income Tax	2,602.70	2,323.00	2,338.59	$15.59	-10.7%	-10.1%
Corporate Franchise Tax	418.32	281.25	263.89	($17.36)	-32.8%	-36.9%
Beer, Cigarette & Tabacco	62.84	60.47	60.61	$0.14	-3.8%	-3.5%
Insurance Premium Taxes	77.20	81.26	82.98	$1.72	5.3%	7.5%
Severance Taxes	92.06	86.32	85.57	($0.75)	-6.2%	-7.0%
Other Sources	208.67	157.53	169.44	$11.91	-24.5%	-18.8%
Total - General & Education Funds	**$5,201.17**	**$4,572.02**	**$4,548.56**	**($23.46)**	**-12.1%**	**-12.5%**
Motor Fuel Tax	$250.67	$223.48	$235.53	$12.05	-10.8%	-6.0%
Special Fuel Taxes	112.98	104.57	103.16	(1.41)	-7.4%	-8.7%
Other Transportation Fund	82.36	80.10	75.27	(4.83)	-2.7%	-8.6%
Total - Transportation Fund	**$446.02**	**$408.15**	**$413.97**	**$5.82**	**-8.5%**	**-7.2%**

Source: Legislative Fiscal Analyst, Utah State Division of Finance