

REVENUE UPDATE

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PART A: TAX COLLECTIONS

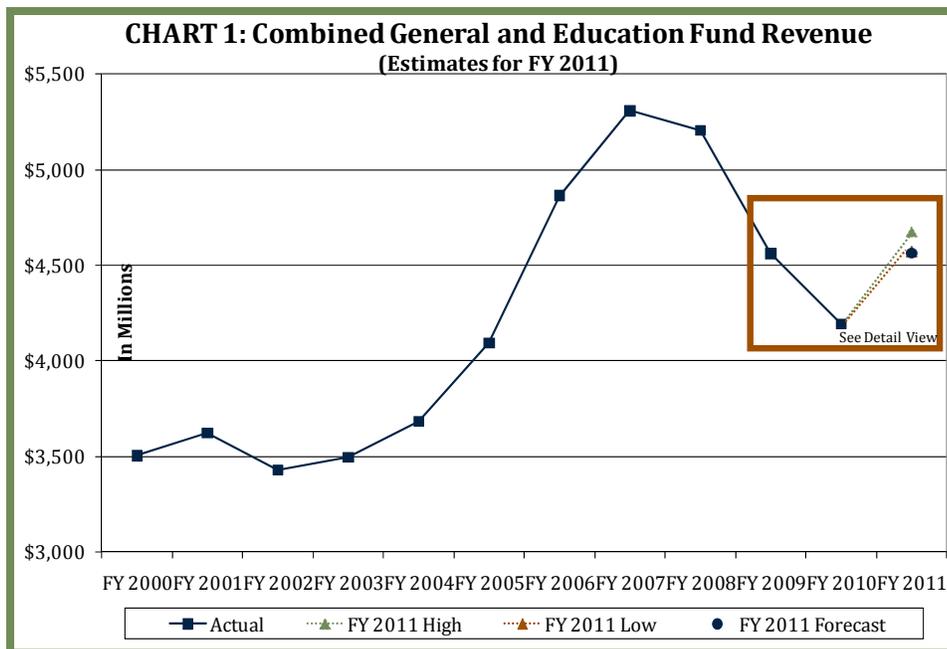
Based upon current collection rates and economic indicators, we expect current year General/Education Fund revenues to end FY 2011 \$10 to \$110 million above the consensus February forecast. Revenues are coming in above targets for most of the major funding sources. We expect Transportation Fund revenues to be within a range of \$0 to +\$10 million for FY 2011.

General economic conditions are showing improvement. However, recent economic data have been on the disappointing end of a recovered economy. We expect the abating recession to continue to lead to below-trend growth in the coming fiscal years.

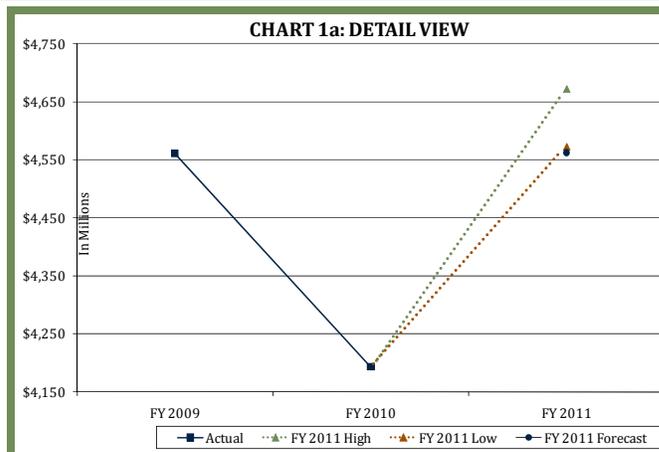
In spite of the disappointments, Utahns are more confident in economic conditions today than they were at the start of the year. Contributing to Utahns' upbeat outlook is a falling state unemployment rate (currently 7.4), expanding payrolls nationwide, and a recovering stock market.

Downside risks to the current collection trends include federal debt spending, disruptions from foreign governments, and construction.

On the positive side, pent-up demand could come in higher than expected, productivity could increase, and interest rates could remain low — all resulting in above expected collections.



Total General & Education Fund revenues are expected to be +\$10 to +\$110 million in relation to the February 2011 Consensus revenue targets for FY 2011.



We expect three of the top five revenue sources to the General Fund to end FY 2011 above their February consensus targets. When summing all sources, we expect the General Fund to end FY 2011 \$5 to \$45 million above the February consensus.

Sales Tax

Accounting for about 77% of expected General Fund collections, we expect sales tax to end FY 2011 1% to 2% above target. Sales tax has floated above target for every month of the fiscal year, decreasing from an initial year over year growth rate of 24% to 13% this month. Sales tax outperformance is largely due to taxable sales in electric & gas, durable goods, retail motor vehicle, mining, and business services. The Federal Government has made a number of attempts at stimulating economic activity (see table below). In general, the actions did not induce an increase in consumption, confidence, business conditions, investment, or lending (at least as measured by the sales tax). Instead, the steps taken likely prevented a deeper but shorter recession. Since its FY 2007 high, total State sales tax has declined by about \$415 million. We expect to have made up about 13% of the sales tax decline in FY 2011 and 34% by the end FY 2012, leaving the sales tax about \$275 million short of the all-time FY 2007 high.

Beer, Cigarette, & Tobacco Taxes

Beer, cigarette, and tobacco taxes together now represent the second largest source to the General Fund. Cigarette and tobacco taxes are above target and are expected to come in about \$15 million above the February FY 2011 target, as short

term consumption outpaces a long term declining base. The growth rate of cigarette and tobacco taxes has been decelerating, and we expect this trend to continue.

Severance Taxes

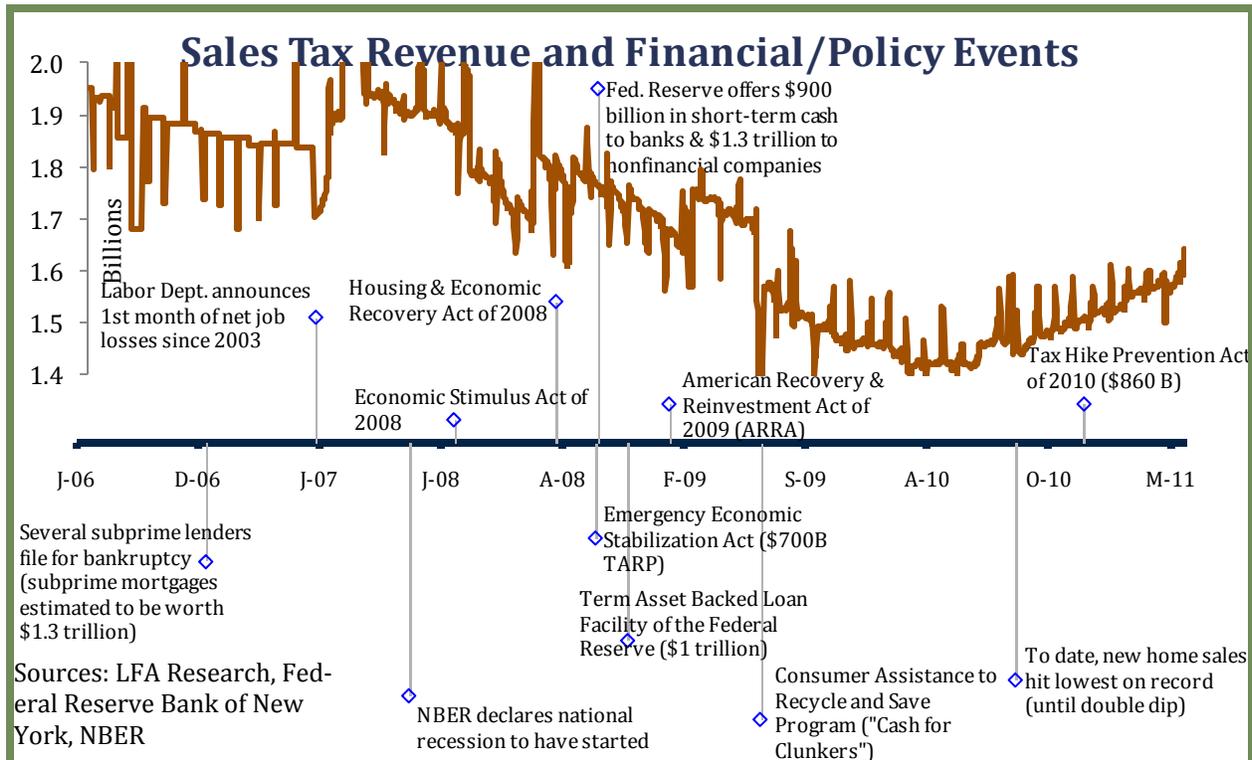
The third largest source to the General Fund, severance taxes are expected to end FY 2011 \$2 to \$8 million below the February consensus. Although growth is generally healthy in oil, gas, and mining severance taxes, it was not enough to reach the consensus target. Since the natural gas price has more under-performance risk than upside risk, we continue to monitor the percentage and amount of "revenue at risk" (around \$5 million right now) from the consensus natural gas price.

Insurance Premiums

As demand flattened out, the fourth largest source to the General Fund, insurance premiums, ended FY 2010 \$6.2 million below the February consensus. We expect insurance premiums to come in about \$5 million below the February FY 2011 target.

Liquor Profits

Representing the fifth largest source of revenue to the General Fund, we expect the Department of Alcoholic Beverage Control's profit transfer to reach about \$63 million by year end. The \$2 million surplus over the February projection is due to retail sales growth of 4.7% (\$13 million increase in sales) over the prior year and operating expenses increasing by about \$2 million over FY 2010. We anticipate sales tax from alcoholic beverage purchases to come in about \$600,000 higher than last year.



Education Fund revenue is expected to end FY 2011 \$5 to \$65 million above the February FY 2011 consensus. The revenue surplus is due to a greater than anticipated decline in income tax refunds (10%), 9% growth in gross final payments, and 5% withholding growth. Overall, Education Fund revenues are expected to end FY 2011 0.2% to 2.5% above the February FY 2011 target.

Individual Income Tax

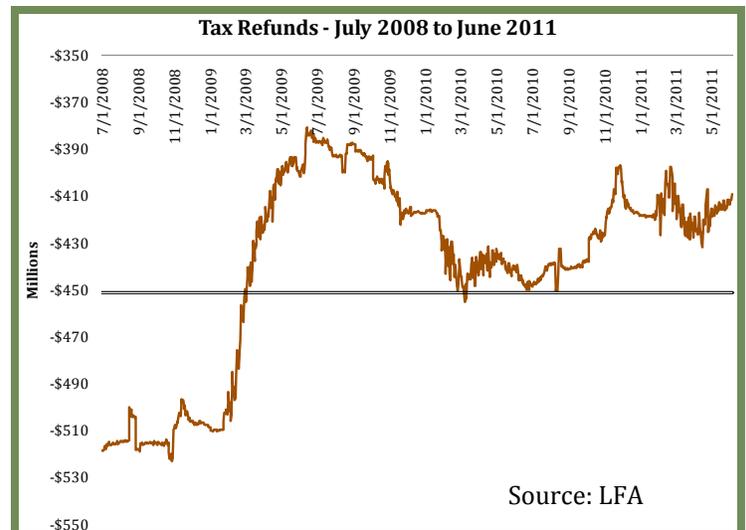
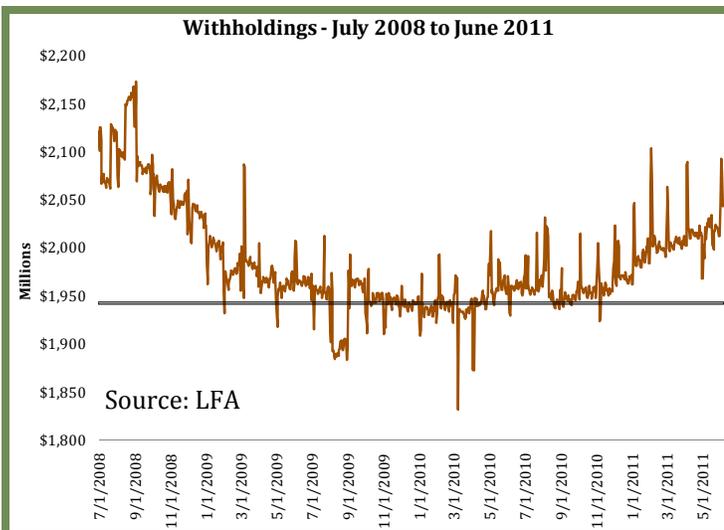
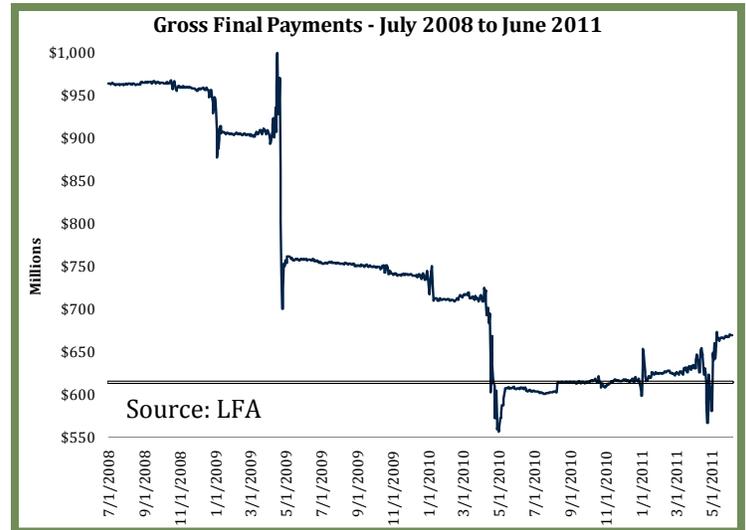
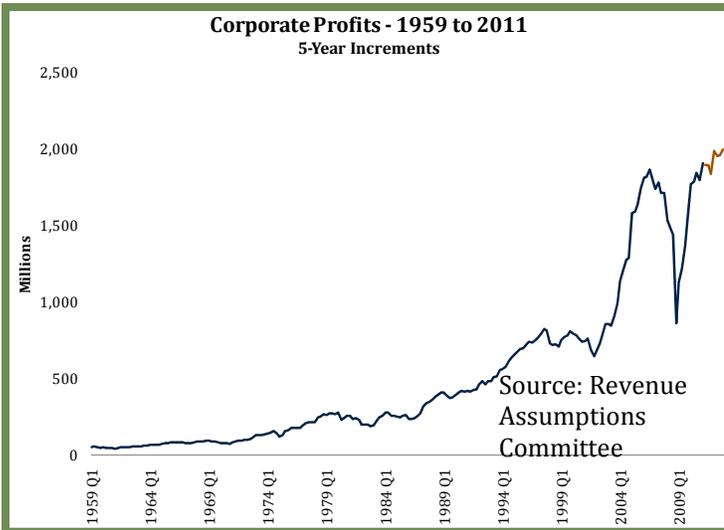
Taxing employee wages through withholding represents the largest source of revenue to the Education Fund, with the percentage of total expected Education Fund revenue stemming from withholding reaching about 80% in FY 2011. This represents about a half a percentage point drop from FY 2010 year end. The half a percentage point drop is not indicative of a slowdown, rather it is an indication of a recovering economy, where small businesses, entrepreneurs, and other drivers of economic growth are expected to experience an increase aggregate gross profit, which shows up in gross final payments instead of employee withholding. We expect gross final payments to make up a greater percentage of Education Fund

revenue in the coming two fiscal years. Current trends indicated that Individual Income Tax is expected to come in \$5 to \$50 million above the February FY 2011 Consensus.

Corporate Tax

Representing about 11% of expected FY 2011 Education Fund revenue, corporate income tax is likely to finish FY 2011 in line with the February FY 2011 target. Initial indications are that corporate profit growth will decelerate from CY 2010 growth rate of 36.8% to 4.7% in CY 2011 and 4.9% in CY 2012.

The corporate tax does involve credible risks to the upside and downside. Expected deceleration is due to wage and employment pressure and lackluster growth in domestic demand and moderate growth in international demand. On the downside, an appreciating dollar could decrease export demand. Upside risks are that corporate profits will be the sole beneficiaries of productivity gains and the “employer” labor market will continue to push profits to new highs. With that said, the gain in corporate profits is largely the result of gains by non-financial companies and foreign profits. Foreign profits generally do not show up in State revenue. Profit growth in the financial sector has slowed from its 2008 peak. Corporate Tax is expected to come in \$0 to \$15 million above February targets.



PART B: ECONOMIC INDICATORS

B1 INCOME, EMPLOYMENT & WEALTH

Employment

Including May 2011, net job creation has been positive for 11 consecutive months. We expect the economy to generate about 48,000 new jobs in the coming two years, with 2/3 of the net job creation to be in the broad industries of professional & business services, education & health, and trade, transportation, and utilities. The positive signals over the past year, though, are clouded by our internal labor market models indicating about a 49% chance of net job losses in the next 13 months (see chart at page bottom). However, we still consider net job creation to be the most likelihood scenario.

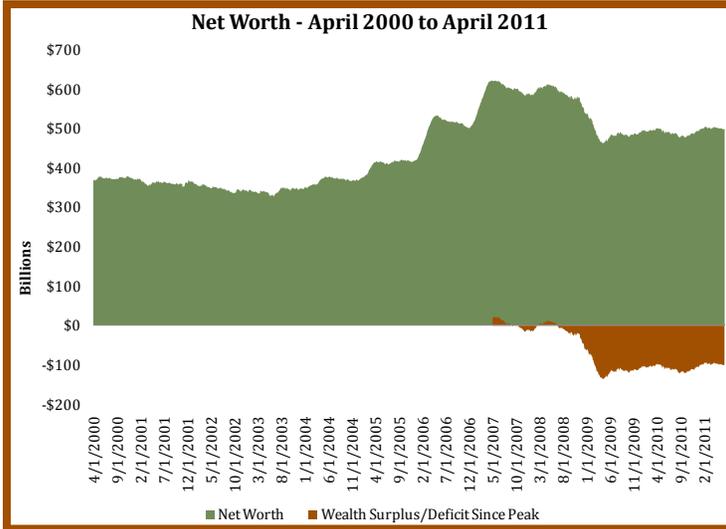
Income

Income is recovering. In addition to wages, we anticipated close to trend growth in nonfarm proprietors income, dividend income, and interest income. We expect to see a leveling off of growth in transfer payments (unemployment income). The

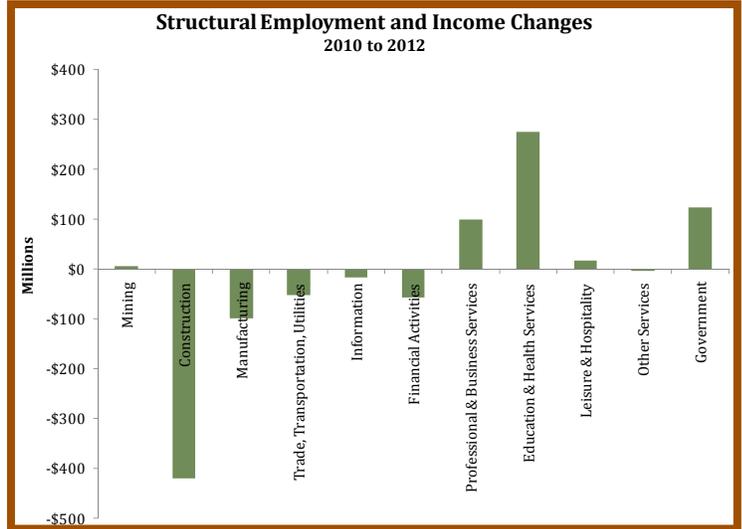
positive employment report is muddled by data showing that the types of jobs being created generate less income to the holder than the types of jobs lost during the recession. Essentially, the economy has traded jobs in construction, manufacturing, trade, transportation, and utilities for employment in education & health services, professional services, and government services. The structural shift matters for revenue in that trading higher income employment for lower wage employment generally means less income and sales tax revenue per employed individual (one job gained is not equal to one job lost).

Wealth

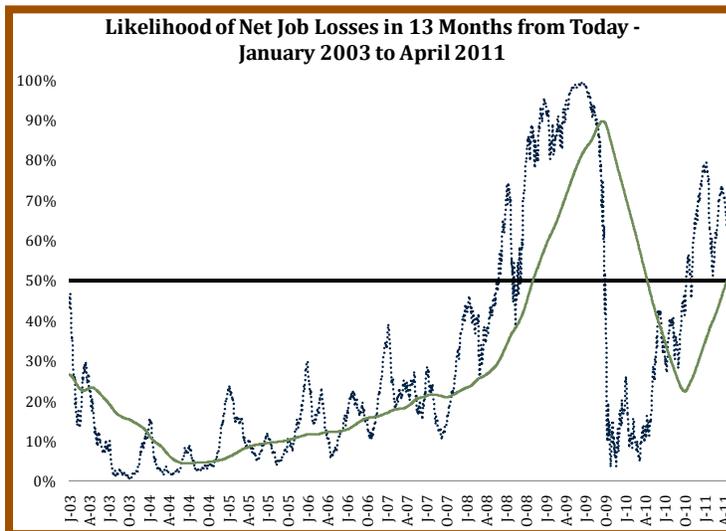
Rough estimates indicate that the wealth of residents and nonresidents connected with Utah has declined from a peak of about \$600 billion in April 2007 to about \$500 billion in May 2011. On any given day, Utah connected individuals may gain or lose \pm \$400 million (average of +\$30 million), but the \$100 billion wealth deficit continues to put downward pressure on wealth induced consumption.



Source: LFA



Source: LFA



Source: LFA

Prices & Inflationary Components of Revenue

In the June and November 2010 revenue updates, we addressed concerns regarding debt financing and the paying down of debt by national governments, the likely possibility of slow growth, labor market slack, credit constraints, and the present effects of uncertainty and lack of confidence. We address the debt issue on the last page of this report. These national and international concerns have been valid and, although improving at varying degrees, unfortunately continue to be valid. This section focuses on two other components effectual on State revenues — the price of oil and the price of money.

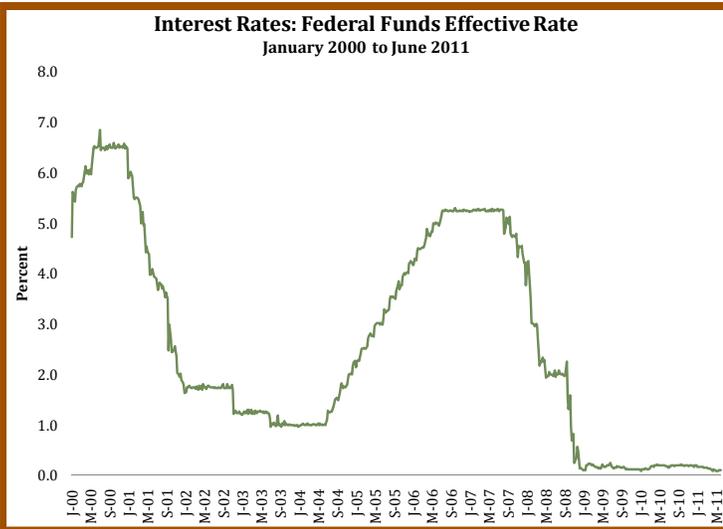
Price of Oil

The price of oil represents an input cost for many produced goods, from Barbie dolls to gasoline. Depending upon whether

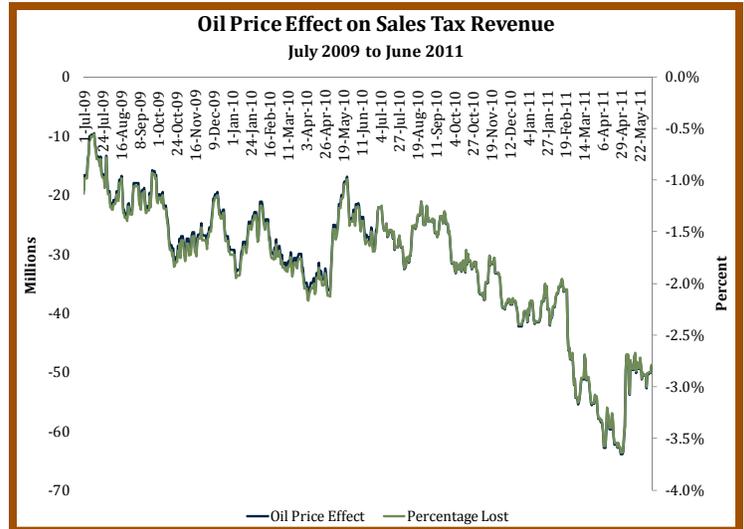
the price of oil is permanent, and within the current price range, every \$1 increase in the price of oil generally decreases sales tax revenue by \$0.5 million to \$1 million (see chart below). We continue to see the downward effect the price of oil is having on revenues.

Price of Money

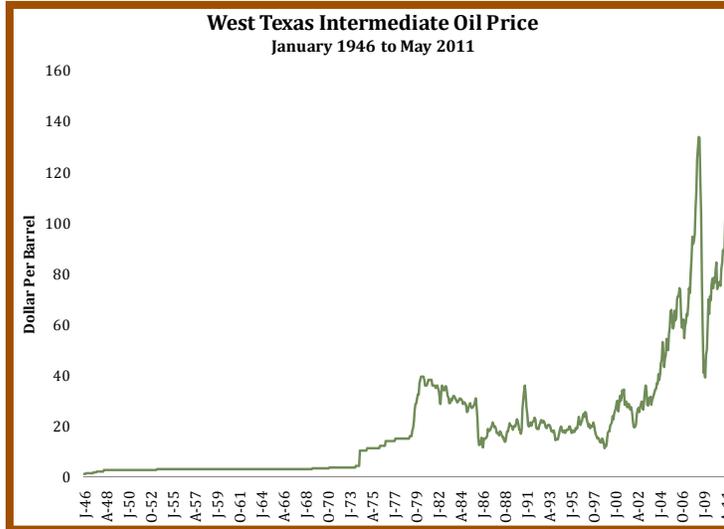
The price of money, or the interest rate, directly affects borrowing and spending. Factors that impact the price of money include, among other things, inflation expectations, demand for money, the money supply, desired return on investment, wealth, and expected income. As of today, interest rates are below what market clearing rates would be. We are concerned that as interest rates rise, a recovering economy could be adversely affected. We are also concerned that the recent years of historically low inflation rates are over, and that higher than trend inflation will increase the price of money.



Source: Global Insight, RAC



Source: LFA



Source: Global Insight, RAC

In the June and November 2010 revenue updates, we addressed nonresidential construction, real estate transaction value, single family and multi-family housing, home prices, and credit. Because we continue to see the dragging effect the housing market is having on an economic recovery, this section addresses housing undercurrents further.

Foreclosures

Foreclosures provide a useful indication of, among other things, potential oversupply in the housing market, potential downward pricing pressure, and the number of individuals with demand for housing at a lower price point. In CY 2010, we saw an annual average of 14,391 foreclosures, which is 11,632 more than what would be expected absent the housing market double dip. (See chart below)

Home Prices

By the end of CY 2010, we expect home prices to have declined by 15% from their 2007 peak. When the housing market weakness ends, owners of residential homes will have lost about \$30 billion in wealth by the end of CY 2011. Businesses will have lost about \$3 billion in wealth. (See chart below)

Homeownership

Homeownership has dropped from a high of 78% in the second quarter of 2008 to 72% in the first quarter of 2011. We expect the homeownership rate to hover around the 68% - 70% range in the coming two years.

Mortgage Rates

Mortgage rates continue to float around historically low levels. The non-market clearing rates are expected to climb in the coming two years. Overall, we expect mortgage rates to increase in CY 2011 to 4.76% and to 5.11% in CY 2012. The increase in rates will put downward pressure on housing demand.

New Residential Permits

We expect new residential permits to add to the supply side of the housing market by 8,000 units in CY 2011 and 11,000 units in CY 2012. These residential permits are generally of lower market value than homes built during the recession, In general, higher priced homes generate more sales tax revenue .

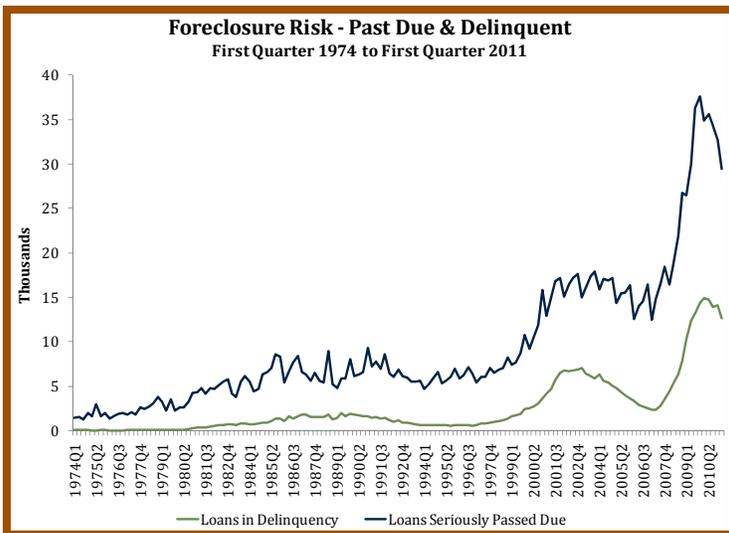
Expected Return over Market Return

Homeownership for primary residency comes with the tax advantages of home mortgage interest deduction, property tax deduction, and interest deduction on home equity lines of credit. For most of the past three decades, homeownership has bested the market return (after taxes). This historical experience has not been the case over the past couple of years, and we do not expect for the return of homeownership to beat a market return over the course of the next two years. This matters in that it keeps individuals from making taxable expenditures associated with residential housing purchases. We also do not expect to see much sales tax revenue from about a third of the 2010 housing transactions related to cash deals.

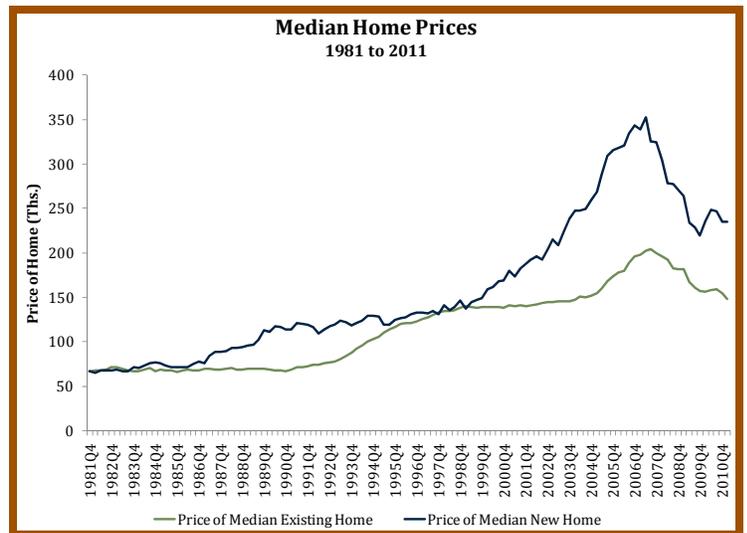
Negative Equity

There are about 120,000 residential homes with negative equity. From 2005—2007, homeowners used home equity lines of credit to finance taxable sales expenditures. With debt at \$19 billion and their homes now worth \$16 billion, we expect home equity line of credit induced consumption for about a quarter of homeowners to continue to be dry for the coming two years.

Housing and all related sectors such as the construction industry will remain slow—well below historical averages for the next 12 to 24 months. Continued foreclosures, difficulty for potential homeowners to qualify for mortgages, more than 6 months worth of new home supply on the market nationally, as well as a more mobile demographic will work against homeownership and new home sales and construction for the foreseeable future.



Source: Moody's Economy.com, Mortgage Bankers Association



Source: Moody's Analytics

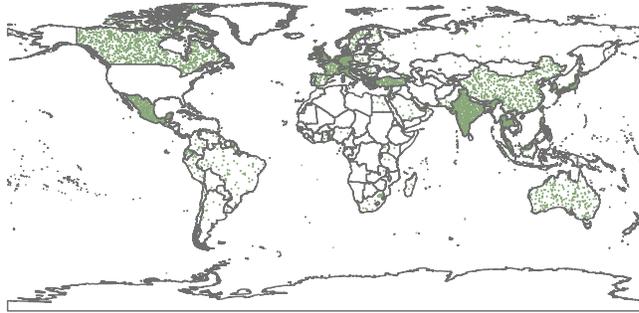
In the June 2010 revenue update, we addressed concerns regarding debt financing and the paying down of debt by national governments. This is likely to be a headline risk issue over the next few years. We do not see any evidence that State revenues are exempt from contagion risk.

Markets are jittery over the European and American debt problems. The European nations experiencing problems with their financing (Greece, Ireland, Spain, Portugal) have a generally small direct effect on State revenues. We are concerned, though, about the contagion risk. For example, one of the many possible ways the Greece situation could affect State revenues is by “restructuring” its debt position. If the action resulted in increased worldwide long term interest rates, we would expect State revenues to be adversely affected. If the “restructuring,” on the other hand, resulted in increased demand for US government securities, and by so doing reduced US interest rates, we

would expect, assuming all other things equal, interest income to decline and consumption to be induced to a higher level. Over the past 50 years, the exponential growth in debt issuance is correlated with economic growth and although debt is not a source of economic growth in an of itself, markets, businesses, and consumers are uncertain about the ongoing nature and structure the debt markets will take in future years. The presence of this uncertainty is putting downward pressure on consumption behavior.

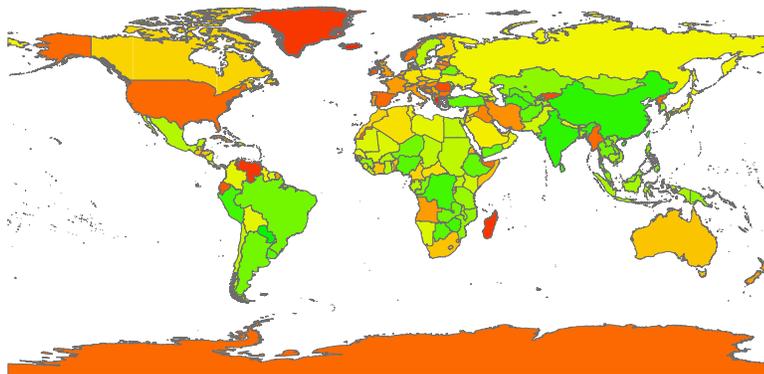
The European situation also affects, among other things in the State, export demand and import consumption. The two international maps below represent the most recently available measured economic performance (bottom heat map) and the importance of export demand to Utah based business (top green dot map). Although State revenues are generally only indirectly connected with most of the world’s demand for goods and services, any hiccup in global growth will likely not leave sales, income, or corporate income tax unaffected.

Export Demand, Utah Source Based (1 Green dot = \$1 million of product)



Source: LFA, Census Bureau

Growth Rate in Economic Activity (Green > +9%, Red < -8%)



Source: LFA, IMF, CIA



RETURN SERVICE REQUESTED

PART C: REVENUE COLLECTIONS

Tax Revenue (In Millions of Dollars)	FY 2010 Final	FY 2011 Consensus	FY 2011 Consensus Growth Rate	FY 2010 Year-to-Date (6/12/2010)	FY 2011 Year-to-Date (6/12/2011)	FY 2011 Year-to-Date Growth Rate
Sales & Use Taxes	\$1,402.67	\$1,556.04	10.9%	\$1,304.04	\$1,478.62	13.4%
Individual Income Tax	2,104.59	2,247.61	6.8%	1,976.23	2,166.80	9.6%
Corporate Franchise Tax	258.45	268.86	4.0%	211.25	218.14	3.3%
Beer, Cigarette & Tobacco	58.71	112.66	91.9%	53.22	117.29	120.4%
Insurance Premium Taxes	80.01	79.29	-0.9%	81.63	75.24	-7.8%
Severance Taxes	77.07	96.05	24.6%	77.28	89.85	16.3%
Other Sources	212.08	201.78	-4.9%	174.95	190.04	8.6%
Total - General & Education Funds	\$4,193.58	\$4,562.27	8.8%	\$3,878.61	\$4,335.98	11.8%
Motor Fuel Tax	\$243.30	\$252.46	3.8%	223.80	231.37	3.4%
Special Fuel Taxes	94.44	107.51	13.8%	86.47	95.53	10.5%
Other Transportation Fund	73.63	75.86	3.0%	66.03	71.01	7.5%
Total - Transportation Fund	\$411.36	\$435.83	5.9%	\$376.30	\$397.91	5.7%

Source: LFA, USTC, DOF