UTAH LEGISLATURE JUNE 19, 2012

REVENUE UPDATE

CONTRIBUTORS: DR. ANDREA WILKO & DR. THOMAS YOUNG

PART A: TAX COLLECTIONS

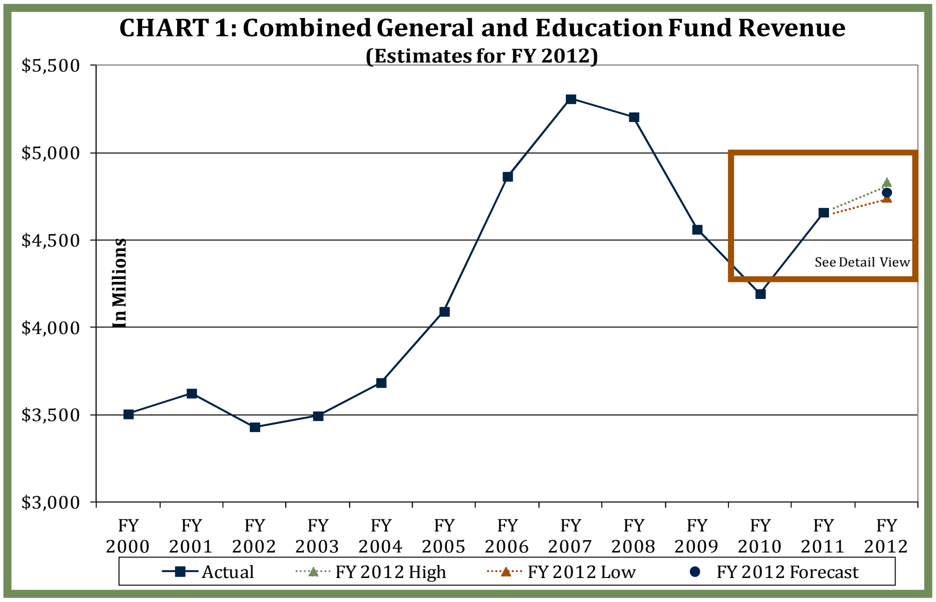
Based upon current collection rates and economic indicators, we expect current year General/Education Fund revenues to end FY 2012 within a range of $30 million below to $60 million above the May Executive Appropriations Committee (EAC) FY 2012 target. We expect Transportation Fund revenues to be below forecast by as much as $20 million.

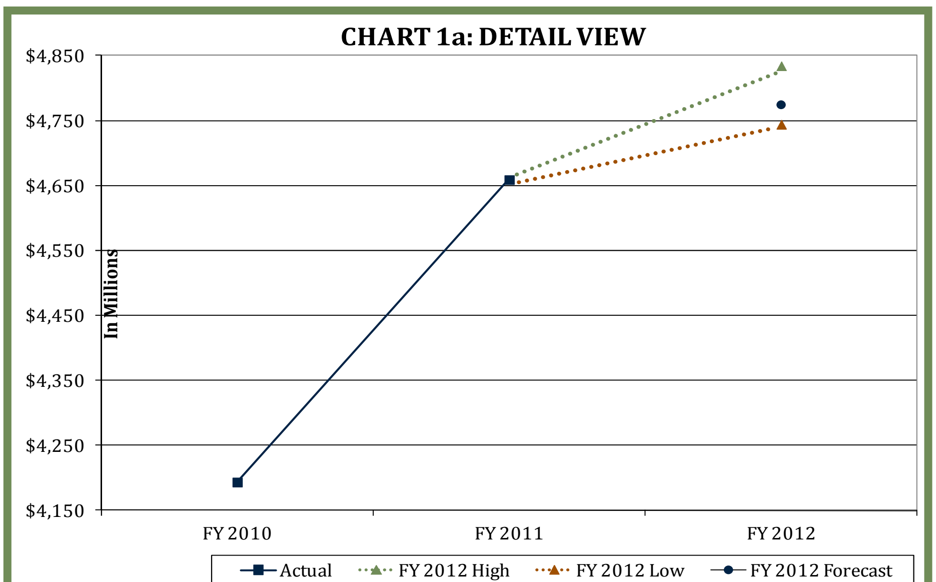
The economic recovery continues to take hold, although momentum from the previous year's expansion is fading as evidenced by employment growth. While job creation continues to take place in Utah the rate of job growth appears to be flattening. On a year over year basis, job growth peaked in the first quarter of 2012 at 2.9 percent. The rate of growth is expected to drop to the 2.2 percent level for the remainder of calendar year 2012. On a national basis we have had two consecutive months of sub 100,000 jobs growth. The national economy needs to create 200,000 jobs monthly just to keep the unemployment rate steady.

For Utah's economy to continue its strength, it needs continued growth in business confidence, consumer buy-in, a strengthening housing market, labor market improvement for younger workers, and an overall increase in individuals willing to take risks with investments. A factor currently supporting continued growth is the housing market. Home sales in Utah during the first quarter of 2012 were up 11.2 percent over the same period a year earlier. Additionally, the number of foreclosures is on the decline.

Sources that could act as headwinds to economic growth include a sustained decline in the fickle nature of confidence, federal tax increases, European demand declines, and dissatisfaction with the labor market from younger workers. Additional downside risks include gas prices, which could erode consumer and business spending, and poorly performing equity markets.

In spite of the uncertainty companies continue to add jobs, consumer confidence is generally anticipated to increase, sales tax collections are growing, and the residential construction sector is improving. In looking at all revenue sources and the range of economic indications, we expect collections to be within the range of the forecast. We also expect the State to continue to outperform much of the nation in economic activity, although, employers in the State are not immune to external demand forces. The decoupling of states into good performing/bad performing areas has its limitations. Based upon current forecasts, professional forecasters expect employment to grow at 2.5 percent for 2012, which is about 80 percent above the national growth rate forecast of 1.4 percent.





A1 GENERAL FUND

In summing all sources, we expect the General Fund to end FY 2012 in the range of $15 million below target to $15 million above the EAC adopted May consensus.

The chart below represents the surplus/deficit float of the General Fund from mid-February to the second week of June. Over this time the surplus/deficit position has narrowed towards target.

Sales Tax

Sales tax is coming in above target. When looking into the seasonal performance of sales tax, Christmas and Black Friday sales were healthy this year (about +13% YoY), as well as Valentines sales (February, +17% YoY), spring sales (March and April 2012, +10% YoY), and Halloween and other fall sales (September and October 2011, +7% YoY). The months that saw underperformance were the summer months of 2011 (June, July, and August, +0.7% YoY) and the after Christmas sales (January 2012, -4% YoY). Sales tax is not declining or flat, as it appears on the TC-23. The negative growth rate is due to the reinstatement of the Centennial Highway Fund earmark from 1.93% in FY 2011 to 8.3% in FY 2012.

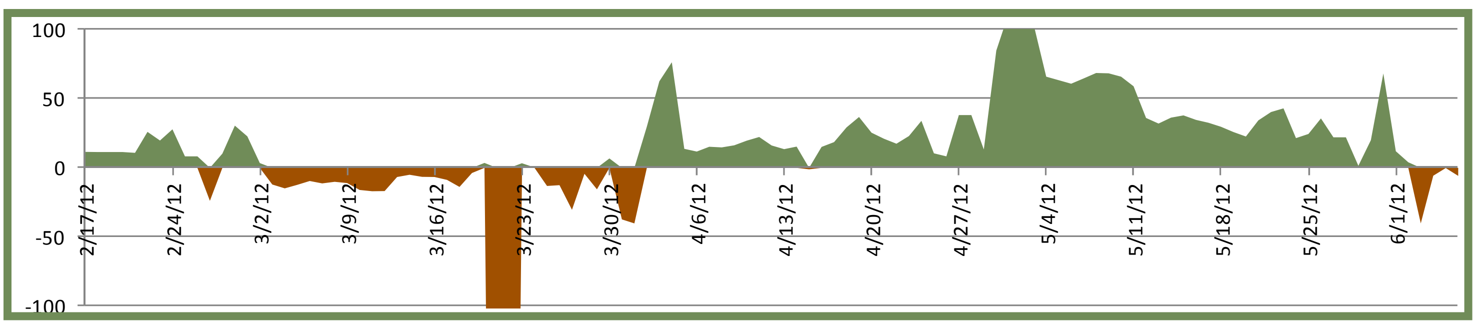
Severance Taxes

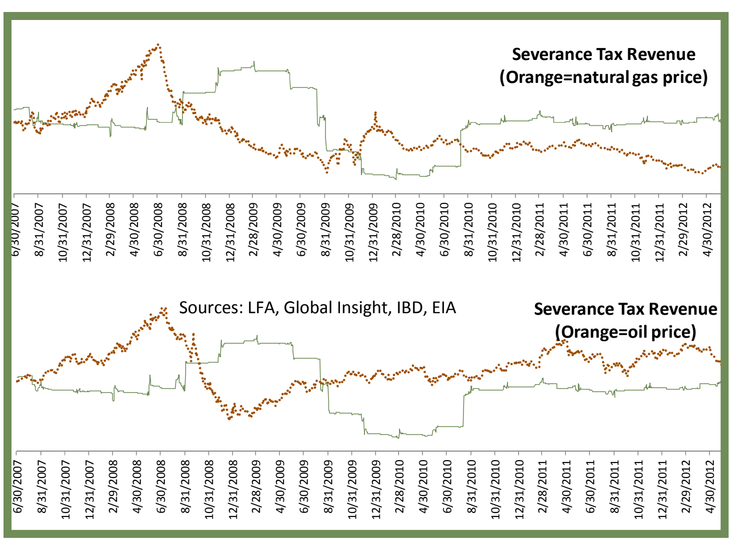
Severance taxes are underperforming their target, largely due to the pressure natural gas has been under. The price of natural gas has gone from a recent peak of $13.3 per thousand cubic feet (mcf) to $2.2 per mcf in June 2012. The 83 percent drop in price is probably the result of supply side pressure, although the demand side and financial speculators also play a role in setting the market price. The drop in the price of natural gas matters for severance revenue in that the tax on natural gas is directly linked to the price of natural gas and natural gas tax revenue represents the majority of oil and gas severance tax. The other portion of the oil and gas tax — oil tax — is also under pressure recently. Due to global growth risks and other supply side factors, the price of oil has fallen from a recent high of about $105 per barrel in February 2012 to around $83 per barrel in the second week of June. Based upon the current global growth outlook, we anticipate the price of oil to remain basically flat over the next two years (flat by historical standards, given that the price of oil is highly volatile).

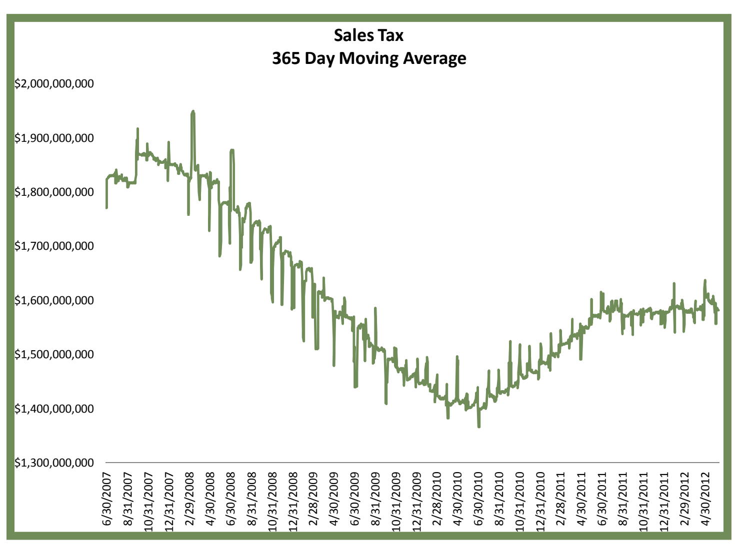
Cigarette & Tobacco Taxes

Cigarette and tobacco taxes are coming in below target. The underperformance is largely the result of individuals purchasing cigarettes in Idaho, Nevada, Wyoming, and Colorado and quitting smoking. Based upon statistical tests of the State's cigarette revenue growth compared with surrounding states' revenue growth, Idaho is the largest benefiter of the State's recent tax increase (at least $1.5 million; 99 percent confidence a shift took place), followed by Nevada (at least $1.3 million; 95 percent confident), Wyoming (at least $0.7 million; 99 percent confident), and Colorado (at least $0.6 million; 79 percent confident). Overall, cigarette and tobacco taxes will not provide much revenue growth in the coming years, and there's growing risk of cigarette and tobacco tax revenue declining in the coming years.

General Fund Surplus/Deficit Float Throughout the Year







A2 Education Fund

When combining all sources, Education Fund revenue is expected to end FY 2012 in the range of $15 million below target to $45 million above the EAC May FY 2012 target.

The chart below is the surplus/deficit float of the Education Fund from mid-February through the second week of June. The month of April initially looked like a big month for the Education Fund — though it turned out to be due to earlier posting of income tax payments, not a large increase in net taxable income.

Individual Income Tax

This year marks the 80th anniversary of state income tax. The income tax burden has grown from $248,734 in FY 1932 to an estimated $2,434,188,000 in FY 2012. Representing the largest net of taxation to the State's General/Education funds, the individual income tax is a tax on such sources of income as wages, IRA and retirement income, dividend income, interest income, capital gains, business income from sole proprietorships, partnerships, S-corporations, and federal government transfer payments, such as unemployment income.

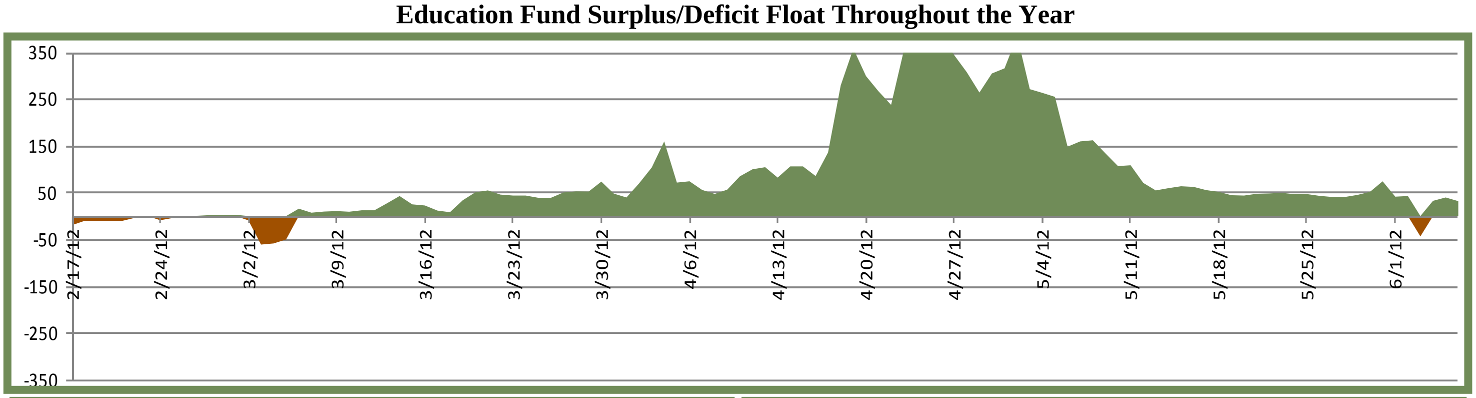
On a broad scale, income tax revenue is broken up into withholding and net final payments. In the first part of the fiscal year, withholding was accelerating, with year over year growth rates of, on average, around 9 percent. Since Thanksgiving, withholding has decelerated and the annual year over year growth rate has been generally flat, floating around 5.5 percent for most of the fiscal year.

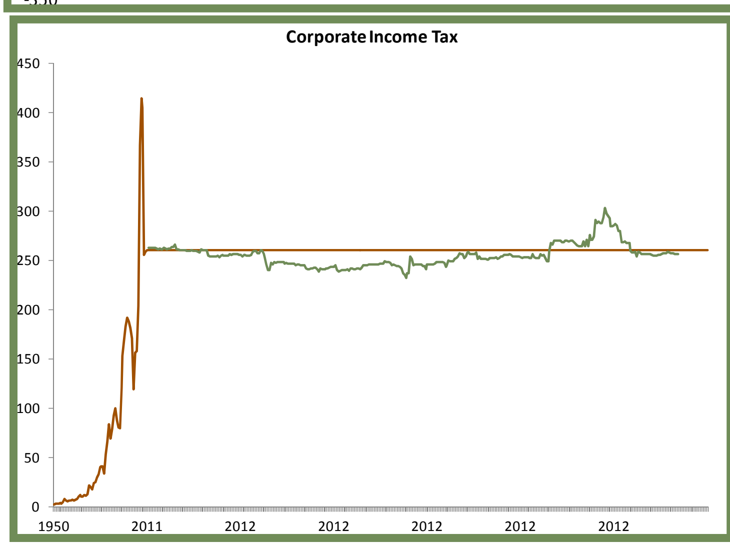
On net final payments, the gross payment portion is coming in at around +3 percent and the refunds portion is coming in at around -1 percent; combining both sources, net final payments are anticipated to end the fiscal year at about 8 percent. On the indicator side of income tax, personal income is expected to grow by 4.5 percent in 2012 and by 5.5 percent in 2013, with rental income, proprietors income, and personal dividend income anticipated to be the top percentage gainers of all the personal income categories.

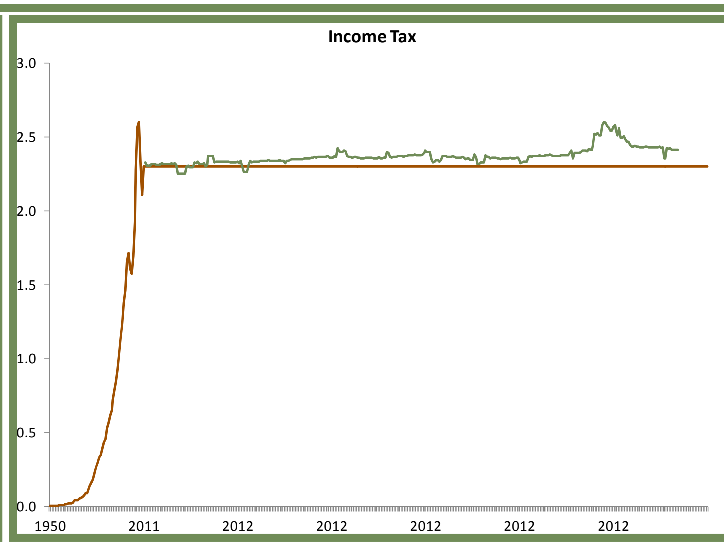
Corporate Tax

This year also marks the 80th anniversary of corporate income tax. The corporate tax burden has grown from $112,363 in FY 1932 to an estimated $229,559,000 in FY 2012. The corporate tax is expected to come in above target because corporate taxable income is largely flat as compared to the previous two fiscal years and analysts had anticipated some decline in tax liability. Evidence of anticipated strength in corporate income tax is that quarterly corporate payments (April, June, September, and December) for April 2012 came in above April 2011. On a nationwide basis, corporate profits are expected to grow by around 13 percent in 2012 and about 11 percent in 2013. The national profit growth has not resulted in an equivalent growth in revenues because of loss carryforwards, credits, expensing, and other factors influencing State taxable income.

Education Fund Surplus/Deficit Float Throughout the Year







A3 Transportation Fund

Revenue to the Transportation Fund is anticipated to end FY 2012 below target by up to $20 million.

The chart below represents the surplus/deficit float from mid-February to the second week of June. The Transportation Fund has floated below target for most of 2012.

Motor Fuel Tax

The largest source of revenue to the Transportation Fund is the motor fuel tax, which is paid by distributors of motor fuel. The tax rate is 24.5¢ per gallon. The recent peak of the motor fuel tax was about $254 million in FY 2007, after which the tax bottomed out in FY 2009 at about $243 million.

The two main factors influencing demand for motor fuel are car usage (travel) and motor fuel economy. Although estimates of vehicle miles traveled (VMT) in the State indicate some increased automobile usage, as is shown in the bottom left hand corner chart, revenue from such usage has increased at a somewhat lagging pace (bottom right hand chart). This is largely due to the increase in estimated fuel economy (people buying smaller cars), where the average fuel economy (miles per gallon) is estimated to have increased by about 0.6 miles per miles (mpg) in FY 2012 over FY 2011 to about 18.7 mpg. The FY 2012 number of 18.7 mpg is about 0.1 less than the FY 2010 estimate, so, over the two year horizon, average fuel economy is basically stagnant.

We also anticipate downward pressure on average fuel economy as the economy recovers because demand for larger, less fuel efficient vehicles generally picks up during recoveries. We continue to watch for the effects that demography and the economic cycle has on the motor fuel tax.

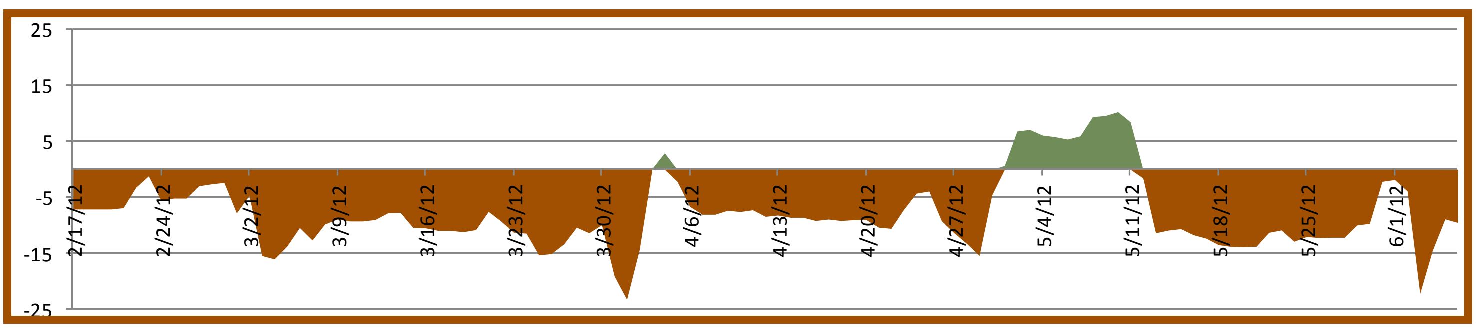
Special Fuel Tax

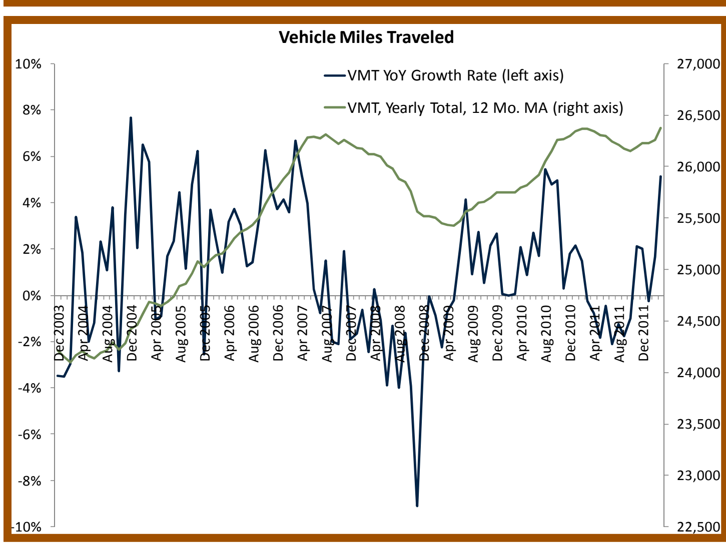
The second largest source of revenue to the Transportation Fund is the special fuel tax, which is a tax on such things as diesel and jet fuel. The tax rate is also 24.5¢ per gallon. The special fuels tax was coming in above target for the fall months of 2011 (September through November), although since Thanksgiving, the tax has been below target. The special fuel tax is largely affected by business and travel demand and such demand, although recovering, is still weak. The tax reached its recent peak of about $113 million in FY 2008 and has since fallen to the range of $94 million to $103 million, with the current year over year growth rate floating in the -3 percent range for the month of June.

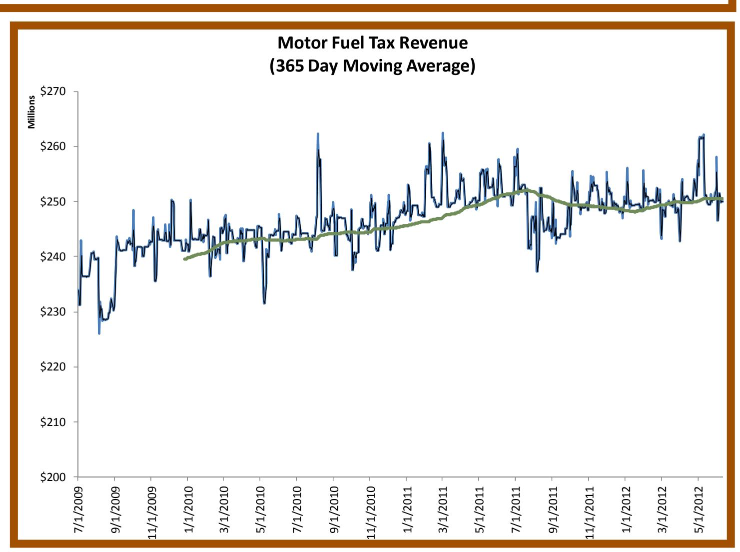
Motor Vehicle Registration Fees

The third largest source of revenue to the Transportation Fund is motor vehicle registration fees. Motor vehicle registration fees are recovering from their FY 2010 low and are now anticipated to end FY 2012 about 3 percent above their FY 2011 levels. Motor vehicle registration fee revenue depends partly on demand for new autos and trucks. New auto and truck sales are anticipated to grow by about 13 percent in CY 2012 and by about 5 percent in CY 2013.

Transportation Fund Surplus/Deficit Float Through the Year







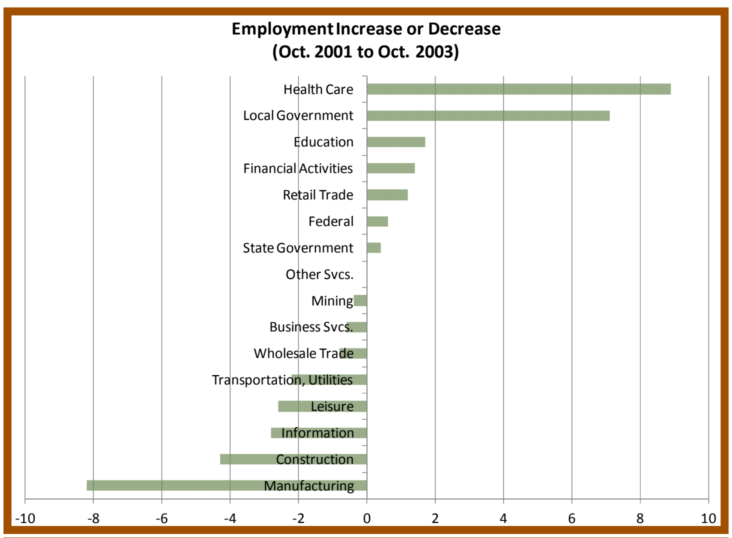
B1 EMPLOYMENT

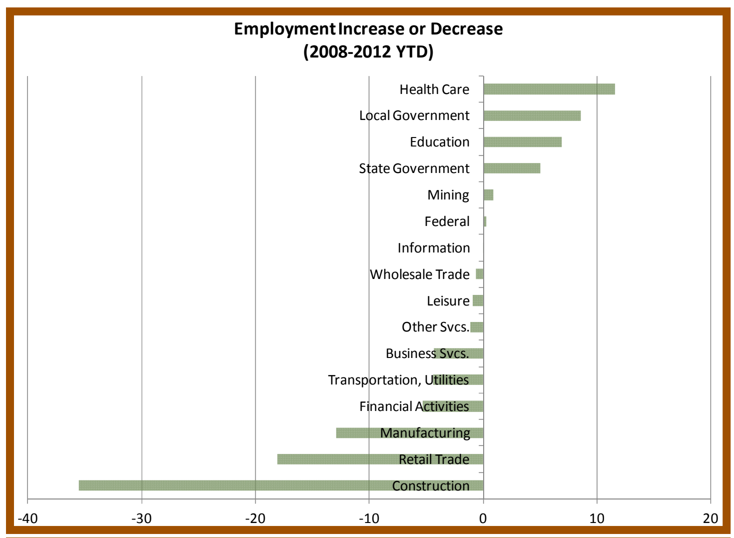
Employment: Employment continues to lag the economic recovery, with total employment growth of 52,000 jobs since the beginning of the recovery in early fall of 2009. In spite of the slow growth, virtually all employment sectors have added to their payroll over the past 12 months, with most of the growth over the past year horizon occurring in the private sector. The most recent count of year over year growth in employment by sector has mining, education, and wholesale trade leading the way, as shown in the bottom right hand chart.

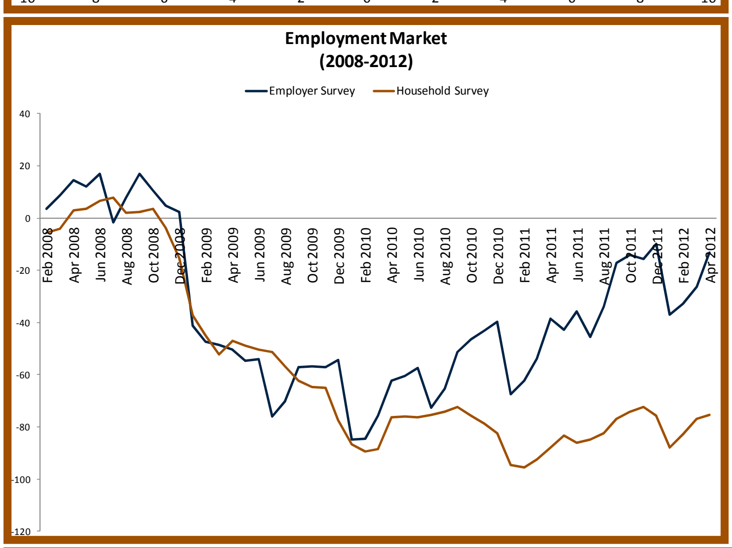
Unemployment: While the economy is adding jobs, the unemployment rate has been stubborn to budge, largely because as people start to have greater confidence in the economy's performance, individuals that had been sitting on the sidelines start looking for work, and thus, get counted in the employable pool of people. Analysts cautiously anticipate the State unemployment rate moving towards the low 6 percent range over the next two years.

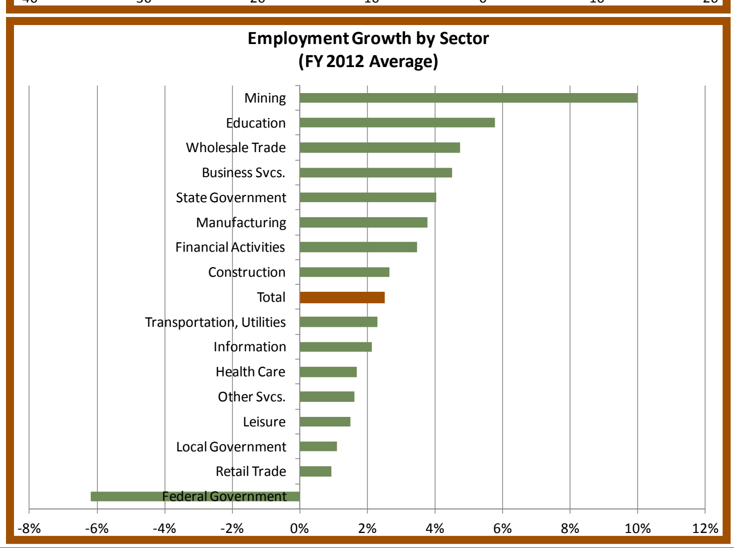
Population Working or Looking for Work: The percentage of individuals working or looking for work ticked up in the most recent month as more individuals looked for employment. Since December 2008, the labor force has been declining, reversing a long term trend of continued labor force participation. We generally think that some of the drop in the labor force participation rate (percentage of the population working or looking for work) is permanent, with more households moving towards other types of non-wage activities. This matters in that individuals staying in the labor force have fewer competitors and thus increases the likelihood of wage increases; it also affects the consumption patterns of households making the switch from two earners to one.

Industry Changes: The mix of industries hiring also will influence future growth. Coming out of the 1991 slowdown, employment growth was more distributed than it has been in the past two recoveries. In the past two recoveries, overall employment change has been more focused on health care, government, and education, which are generally less productive industries. In addition to the competitive effects, this matters for revenue in that the shifting of the employment base from an industry with higher productivity to an industry with lower productivity usually means lower long term revenue growth.







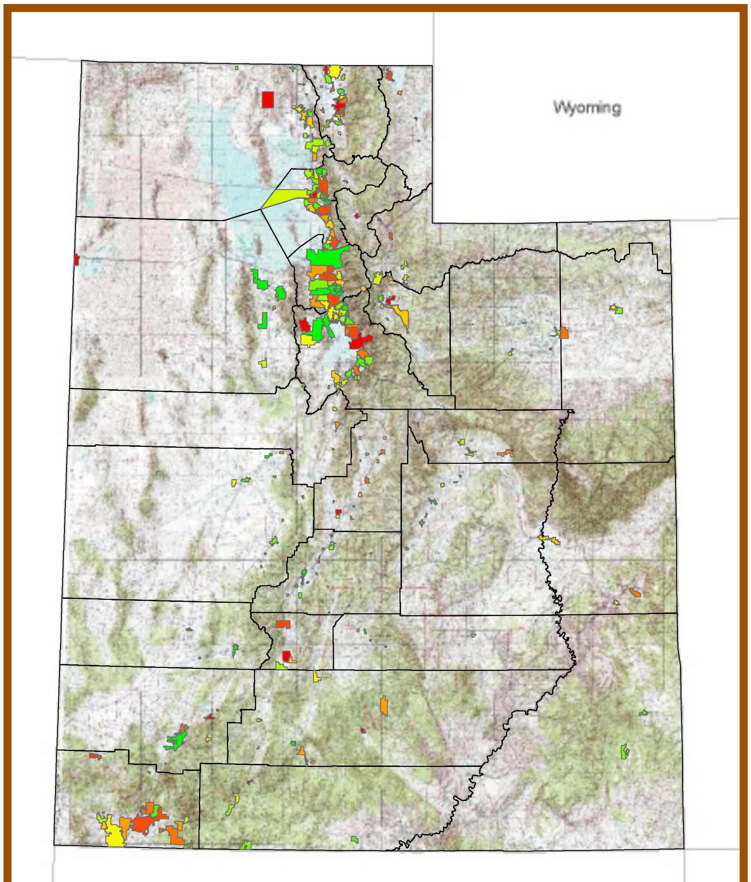


B3 INTRASTATE COMPARISONS

As indicated in the map below, most of the economic growth since the worst of the recession ended in fall 2009 has occurred along the Wasatch Front, although companies involved in the natural resources and mining industries, which are generally more rural, are also providing much needed growth in employment and output. During the recession rural areas of the State experienced about a 24 percent lower employment decrease than the urban areas of the state, posting a 2.6 percent decrease in employment compared to a 3.4 percent decrease in urban areas. Unfortunately, many of the rural areas of the state are still waiting to see economic improvement, as shown in the chart on the right.

Along the main population centers of the State, the Wasatch Front, one indicator of improvement is the decline in housing inventories, which provides for increased home sales and prices; on a year-over basis, sales have increased for 11 straight months, indicative of a sustainable housing market recovery. In addition to the housing market, the Wasatch Front is also competitive in a number of industries that are performing well right now, such as Information and Technology Services (computer programming, software, telecommunications, etc.), Business Services, Manufacturing, and Financial Activities.

In addition to the growth along the Wasatch Front, we're also seeing employment growth in some rural areas of the state, such as the energy boom in Uintah and Duchesne County; on a year over year basis, Duchesne County is up about 11 percent and Uintah County has grown about 6 percent. Both of these growth rates are higher than the 2.3 percent 2011 statewide average (Uintah and Duchesne counties also posted April unemployment rates of 4.0 and 4.2 percent respectively; much more favorable than the statewide average of 6.7 percent and the national average of 8.1 percent). Overall, the energy and agriculture sectors continue to be a staple in economic recovery.



All in all, growth along the latitudes and longitudes of the State is somewhat decoupled, largely due to the diverse industries in which the individuals and companies operate. In the coming two years, we anticipate more industries to strengthen, providing much needed employment and wealth growth in the varied geographic areas of the State.

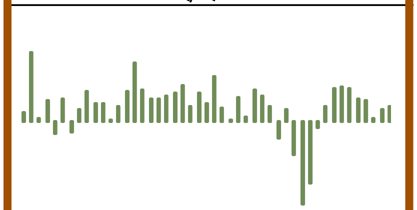
Employment by County

	CY 2007	CY 2011	Change 2007 to 2011
Beaver	2,052	2,104	52
Box Elder	20,318	16,658	(3,660)
Cache	49,936	50,289	353
Carbon	9,250	9,342	92
Daggett	487	413	(74)
Davis	103,573	104,882	1,309
Duchesne	7,380	7,986	606
Emery	3,905	3,602	(303)
Garfield	2,341	2,217	(124)
Grand	4,659	4,614	(45)
Iron	16,993	15,162	(1,831)
Juab	3,664	3,032	(632)
Kane	3,192	2,999	(193)
Millard	3,987	3,987	0
Morgan	1,986	1,802	(184)
Piute	356	274	(82)
Rich	753	617	(136)
Salt Lake	601,224	583,826	(17,398)
San Juan	4,244	4,218	(26)
Sanpete	7,518	6,807	(711)
Sevier	8,057	7,890	(167)
Summit	21,897	21,745	(152)
Tooele	15,502	15,993	491
Uintah	14,260	14,208	(52)
Utah	186,050	181,161	(4,889)
Wasatch	7,105	6,024	(1,081)
Washington	53,512	46,459	(7,053)
Wayne	1,075	972	(103)
Weber	96,145	90,047	(6,098)
	1,251,421	1,209,330	(42,091)
Rural	50,006	48,700	-2.6%
Urban	1,201,415	1,160,630	-3.4%

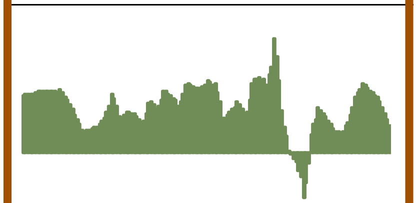
Source: Utah Department of Workforce Services

National Economic Indicators (2000 - June 2012)

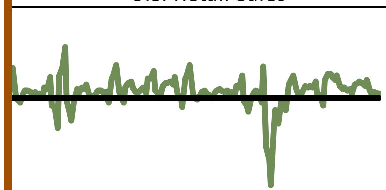
GDP Q/Q Growth



Consumer Prices



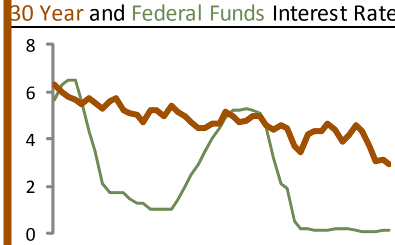
U.S. Retail Sales



ISM New Orders Mfg. Index

ISM Non-Mfg. Business Conditions

30 Year and Federal Funds Interest Rates



Sources: BEA, BLS, CB, ISM, Federal Reserve

Macro Conditions

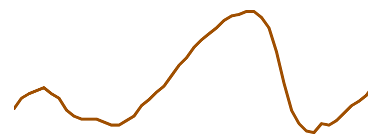
Risks in the world and national outlook have heightened in recent months, with decelerating growth rates largely indicating a growth problem. The data are giving mixed signals regarding whether the national economy will deteriorate or continue to improve.

- Growth in output and demand as measured by the Gross Domestic Product (GDP) or retail sales improved over the past few years, but the positive growth rates of both have been slow and contain at least a 45% chance of deterioration in 2013.
- The national employment picture is improving, but not at a pace that would bring the unemployment rate to its natural level of around 4%. To improve the unemployment rate, jobs in the U.S. would need to grow by 200,000 a month. The most recent estimate for May was job growth of 69,000.
- Institute for Supply Management (ISM) surveys on new orders in manufacturing and business conditions in the service sectors have generally been somewhat positive for the past few years.
- Consumer prices continue to be a sign of concern, raising the risk of the economy entering a situation of stagflation (high inflation and high unemployment). Also on the downside consumer spending is struggling to keep up with inflation rates.
- Consumer confidence has been consistently weak and continues to be so, although it has improved as of late.
- Business Investment looks to have peaked in terms of year over year growth rates, and will likely decelerate in the coming year.
- The housing market, as measured by new and existing home sales, is generally recovering.
- Interest rates remain at historically low levels, indicating investor concern over growth prospects.
- The Economic Cycle Research Institute's (ECRI) weekly leading index has been deteriorating in recent weeks. The indicator is generally accurate at predicting economic activity, and the shift into recession territory is a sign of concern.

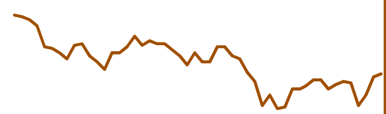
Overall, the national economy has improved over the past year, although it has yet to decide whether it will be in expansion territory or slowdown territory for the coming year.

National Economic Indicators (2000 - June 2012)

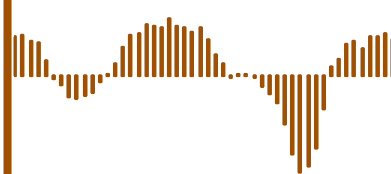
U.S. Nonfarm Payrolls



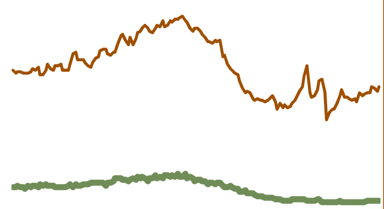
Michigan Consumer Sentiment



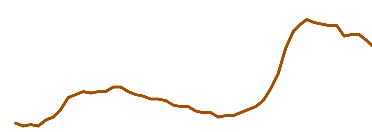
Business Investment Q/Q



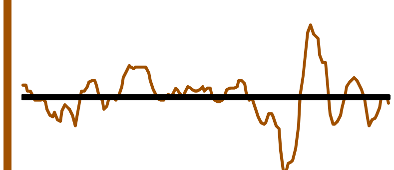
New & Existing Home Sales



Unemployment Rate



ECRI Weekly Leading Index



Sources: BLS, U of Mich., BEA, NAR, CB, ECRI

Office of the Legislative Fiscal Analyst
State Capitol Complex - House Building, Suite W310
Salt Lake City, Utah 84114-5310

Phone: (801) 538-1034 Fax: (801) 538-1692
Website: www.le.utah.gov/lfa

Return Service Requested

Part C: Revenue Collections

Tax Revenue *(In Millions of Dollars)*	FY 2011 Final	FY 2012 Consensus	FY 2012 Consensus Growth Rate	FY 2011 Year-to-Date (6/17/2011)	FY 2012 Year-to-Date (6/17/2012)	FY 2012 Year-to-Date Growth Rate
Sales & Use Taxes	$1,601.40	$1,575.10	-1.6%	$1,489.01	$1,465.54	-1.6%
Individual Income Tax	2,298.18	2,434.19	5.9%	2,182.73	2,305.48	5.6%
Corporate Franchise Tax	260.74	238.46	-8.5%	247.92	233.14	-6.0%
Beer, Cigarette & Tobacco	125.50	125.00	-0.4%	117.44	117.42	0.0%
Insurance Premium Taxes	75.89	78.20	3.0%	75.46	83.30	10.4%
Severance Taxes	86.97	96.30	10.7%	89.86	92.25	2.7%
Other Sources	209.83	226.87	8.1%	104.27	108.37	3.9%
Total - General & Education Funds	**$4,658.51**	**$4,774.12**	**2.5%**	**$4,306.69**	**$4,405.51**	**2.3%**
Motor Fuel Tax	$252.50	$252.30	-0.1%	231.69	229.75	-0.8%
Special Fuel Taxes	102.61	104.10	1.4%	96.55	92.27	-4.4%
Other Transportation Fund	80.73	84.40	4.5%	72.10	72.43	0.5%
Total - Transportation Fund	**$435.84**	**$440.80**	**1.1%**	**$400.33**	**$394.45**	**-1.5%**

Source: LFA, USTC, DOF