UTAH LEGISLATURE JUNE 16, 2015

REVENUE UPDATE

CONTRIBUTORS: ANDREA WILKO, PH.D., THOMAS YOUNG, PH.D., AND ANGELA OH

PART A: TAX COLLECTIONS

Utah continues to lead the nation in economic growth. Employment is rising faster than national estimates, population growth remains strong, and in-migration continues. As the economy continues to expand, Utah's revenue should remain strong.

Given current collections and consensus economic indicators developed by the Revenue Assumptions Working Group, we anticipate FY 2015 General and Education Fund revenues will be in the range of \$20.0 million to \$180.0 million above May Executive Appropriations Committee targets. We expect the Transportation Fund will be \$15.0 million below to \$15.0 million above May targets.

Our current forecast for the Utah economy assumes that it will move forward at a moderate pace, continuing to improve in key areas such as employment, wages, and housing markets.

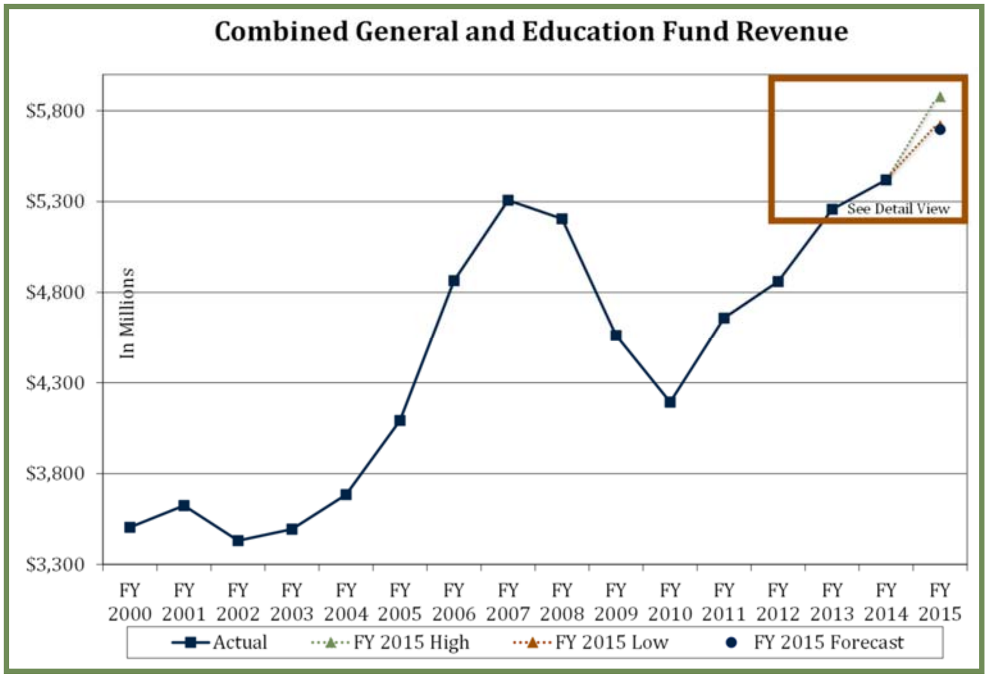
There is upside potential in a variety of areas:

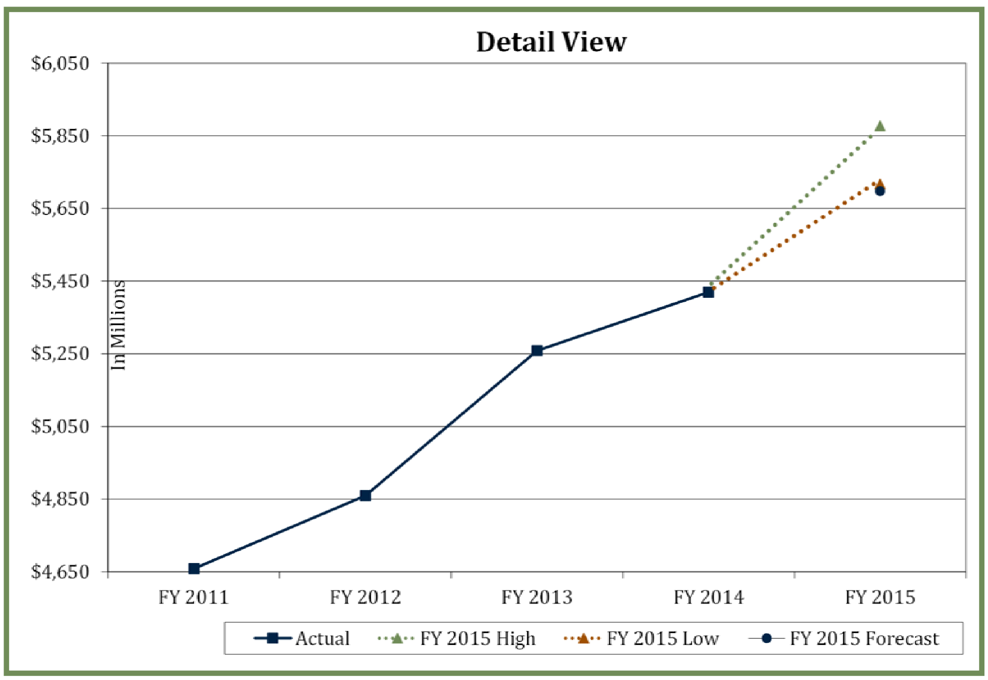
1) Rising home prices could contribute to economic wellbeing for many taxpayers.
2) Investment could experience a second renaissance during this economic recovery/boom, boosting short-term jobs and the long-term economic outlook.

However, there are risks that could disrupt growth:

1) International conditions, such as weak growth in China, could cause a ripple effect on consumer and business confidence in Utah and elsewhere.
2) Equity markets are at all time highs. If they collapse, wealth induced investment and consumption could decrease. One potential trigger for such a drop could be interest rate increases by the Federal Reserve.

We remain optimistic that the Utah and U.S. economy will continue to grow modestly over the next 12 to 18 months.





A1 GENERAL FUND

The General Fund is expected to end FY 2015 within a range of $40.0 million below to $20.0 million above May Executive Appropriations Committee Targets. Volatility in the General Fund revenue collections has been largely attributable to the issues detailed below.

Response to Oil Price Drop

The two sources that are being impacted the most by the oil price drop are sales tax and severance taxes. On the sales tax side lower gas prices may mean more consumer spending, reduced transportation costs, and lower input costs for manufacturing. Cheap gas may enhance profitability for many businesses and on the surface, increases disposable income for consumers.

However, the drop in the price of gasoline is only marginally, if at all, showing up in consumer spending. This suggests that consumers view the oil price drop as transitory.

Consumers Still Cautious

American and Utah consumers still have some cautiousness to their spending patterns. On a Retail Sales per Employee basis, spending bottomed in 2008, after which the consumer living outside of Utah started spending at a faster pace than a consumer in Utah. Consumers in the U.S. and Utah have been decelerating their purchases since peaking in 2010, with the U.S. through the first four quarters of 2015 in the negative. This is the first time that has happened since 2008.

General Fund Revenue Picture by Source

The following graphic is the anticipated surplus/deficit position of the specific revenue sources to the General Fund.

In the mid-point scenario, the largest sources of deficit are the Sales Tax and Metal Severance Tax (-$12.5 million combined). On the surplus side, the largest sources of above expected revenue include Investment Income, Beer, Cigarette, Tobacco, and Cable taxes ($4.5 million combined).

Surplus/Deficit Picture of the General Fund (Millions)

	Low	Mid	High
General Fund Revenue			
Sales & Use Tax	-$16	-$6.5	$2
Cable/Satellite Excise Tax	-$1	$1	$3
Insurance Premiums	-$4	-$2	$0
Beer, Cigarette, and Tobacco	-$3	$1	$4
Oil and Gas Severance Tax	-$2	$0	$4
Metal Severance Tax	-$9	-$6	-$3
Investment Income	$1	$2.5	$4
Other	-$5	$0	$5
Property and Energy Credit	-$1	$0	$1
Subtotal General Fund	**-$40**	**-$10**	**$20**

When combining all sources, revenue to the Education Fund is expected to end FY 2015 in the range of $60.0 to $160.0 million above May estimates. Looking at the specific sources of revenue, Income Tax could be $70.0 million to $140 million above target, while corporate tax could be $10.0 million below to $20.0 million above May Executive Appropriations estimates.

Withholding

Withholding has exhibited relative flat growth since January 2015. Presuming the final month of payments are consistent with the previous months of this fiscal year, withholding may end 2015 about 2.0 percent above target.

Gross Payments

The first half of 2015 saw Gross Final Payments float below target. That changed following the December payments. From January to April, gross payments floated a couple percentage points above target. April 15th payments strengthened the picture. The anticipated year-end growth is about 4.0 percent above target.

Refunds

From about August to November 2014, Refunds were coming in above the 4.0 percent year-over-year target. Following Halloween, to about February, refunds floated close to target.

The large drop in refunds in February was due to the Tax Commission holding refunds due to concerns regarding tax fraud.

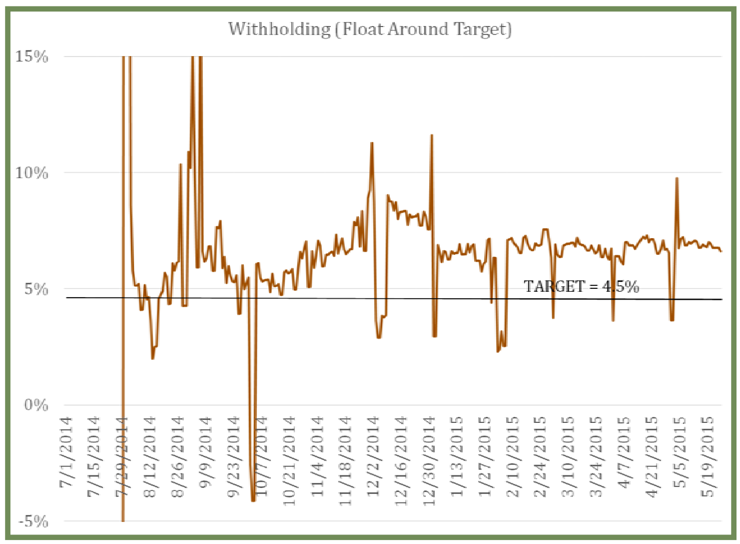
Once the Tax Commission began issuing refunds again, the year-over-year growth figure narrowed towards target.

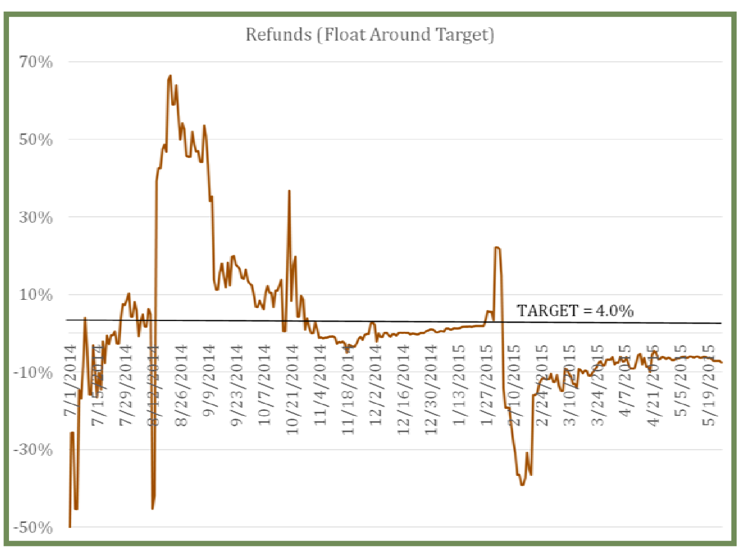
Corporate Tax

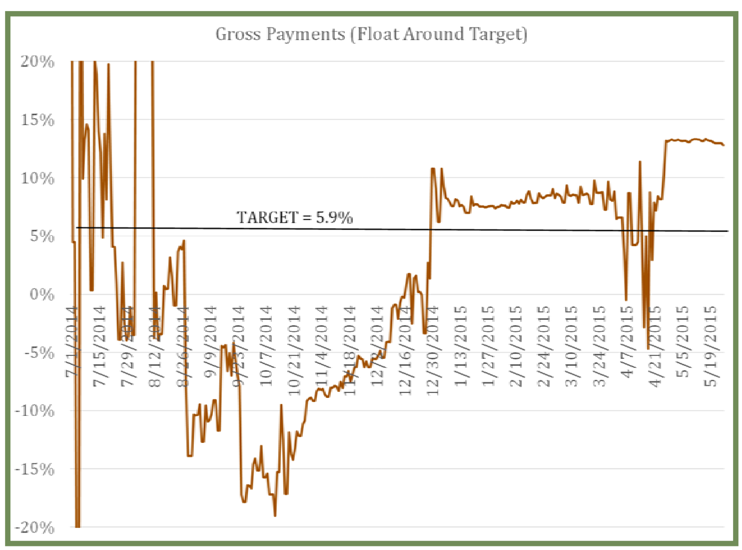
Corporate Tax started the 2015 fiscal year out strong. The first half of 2015 saw corporate revenue float mostly between 30.0 percent to 70.0 percent above last year's corporate revenue stream.

The strong picture decelerated closer to target in the second half of the fiscal year.

Presuming the second quarter 2015 corporate tax payments come in about what they were in the second quarter of 2014, corporate tax will end 2015 right in line with target.

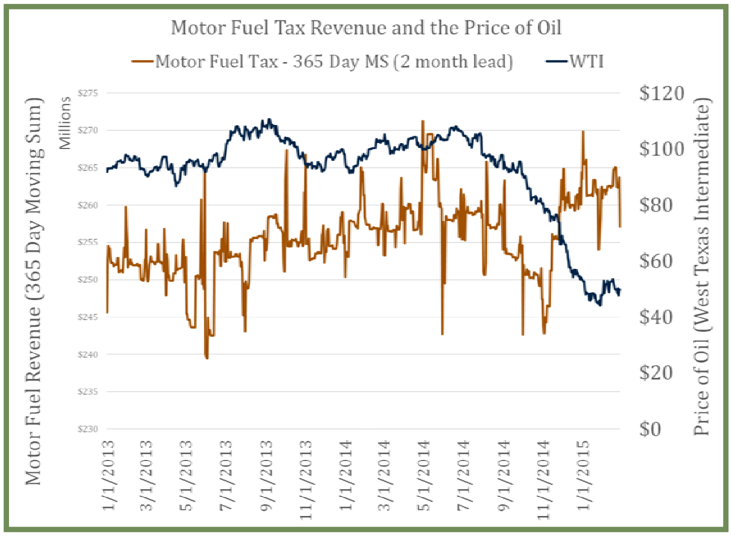






A3 TRANSPORTATION FUND

Revenue to the Transportation Fund is anticipated to end FY 2015 $15.0 million below to $15.0 million above the May targets.

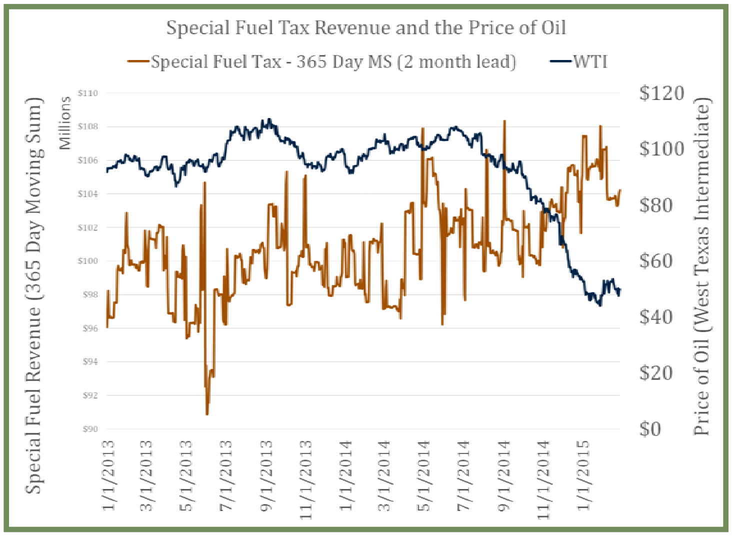


Motor Fuel Tax

In contrast to the "very little or no retail spending increase" from the drop in the price of gasoline we mentioned earlier, consumers appear to have spent some of that increased disposable income on more traveling.

The chart to the right is a 365 day moving sum of motor fuel tax revenue (left axis) and the price of oil (as measured by the West Texas Intermediate price).

As shown, recently revenue from the motor fuel tax shot up. This jump in revenue of about $15.0 million is largely due to the drop in the price of gasoline.



Special Fuel Tax

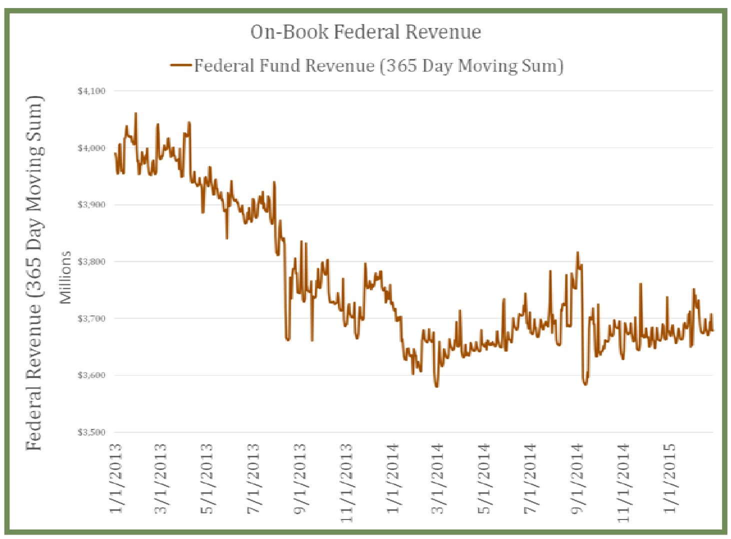
A story similar to the Motor Fuel Tax shows up in Special Fuel Tax collections (mostly diesel), albeit to a lesser degree, with the revenue impact from the oil price drop increasing special fuel tax revenue by around $4.0 million.

The Gasoline and Diesel Tax Increase

House Bill 362 of the 2015 General Session imposes higher tax rates on gasoline, diesel, natural gas, and other fuel types. Given that consumers respond to gas prices, this tax increase, about $4.3 billion from January 2016 to 2040 will likely put downward pressure in coming years on the growth in gasoline and diesel consumption, eliminating some of the lower price-induced consumption experienced this fiscal year.

A4 FEDERAL FUNDS

On-book revenue from the federal government has floated below target most of the fiscal year and is anticipated to end FY 2015 around $35.0 million below target.



Overall, on-book federal revenue declined for most of 2013, experienced a moderate uptick through most of 2014, and has been relatively flat through most of 2015.

The total federal revenue picture will be available later this year, when the Single Statewide Audit accounts for both on-book and off-book revenue.

B1 SEVERANCE TAXES

Utah has plentiful energy assets including oil, gas, coal, geothermal, wind, and solar. Anytime prices for any of these commodities rise or fall significantly it impacts the economy. Fortunately, unlike many energy states, Utah's economy is well diversified.

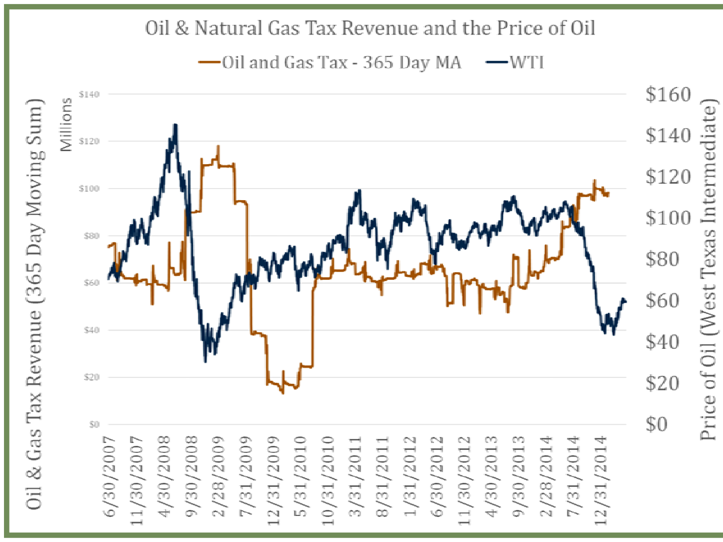
From an industry perspective, price and anticipated costs are the most important drivers of industry investment decisions for the oil and gas industry. Price volatility over the past year has impacted drilling activity in Utah. Oil producers in Utah take an $11-$17 per barrel discount on their product due to the less refined nature of their product and the cost of accessing refining capacity. As a result, Utah's oil economy depends on higher prices to stimulate activity. As a consequence, low oil prices impact energy development in Utah. The impact has caused some drilling to stop.

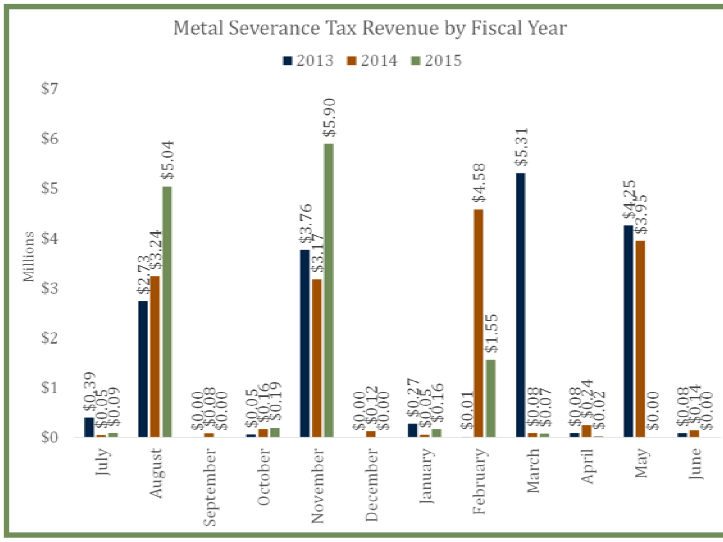
From July 2014 to January 2015, fuel prices continually decreased for a record 123 days. During that time gas prices fell from $3.67 per gallon to $1.92 per gallon. As gas prices declined there was a resulting decrease in production.

In terms of revenue, the decline in the price of oil from its July 2014 peak has not fully materialized into lower Oil & Gas severance tax revenue yet. As is always the case, price or production drops show up in revenue with a lag. The drop in severance tax revenue due to the drop in price and production will likely show up in revenue collections over at least the next three quarters.

On metal severance tax, owners of the Kennecott Copper Mine started using mining equipment to dig out debris from the landslide and shore up the pit. This started in the latter half of 2014 and is anticipated to continue until later this year.

The time spent shoring up the pit and digging out debris from the landslide equates to lower metal severance tax in the near term, which explains the drop in metal severance tax payments in February and May of this fiscal year compared to last fiscal year.





B2 RENTS AND REAL ESTATE

Homeownership rates are at all time lows for a variety of reasons including the following: 1) stagnant incomes push homeownership out of reach for many; and 2) financing remains difficult for many potential homeowners. The dip in the number of Americans owning homes translates to an increase in demand for rental homes. Rental properties have seen an average increase of about 7 percent. As millennials entering the workforce and Baby Boomers begin downsizing, the demand for rentals continues to increase. Many millennials, people ages 18-34, do not want to be anchored to a mortgage and the aging Baby Boom population needs something more manageable.

As mentioned earlier tighter home-lending standards are also responsible for fueling the trend towards rentals. While there is a need for apartments in general, the biggest increases have come in single family homes. As home values increase, individuals who were previously renting their homes have decided to sell. This has resulted in a tighter rental market. As the tight rental market continues in the short term there will be upward pressure on rentals.

A recent study by Trulia found that rents on average are increasing faster than home prices. In fact, homeownership remains 38.0 percent cheaper than renting nationally. However, with real median household incomes remaining flat last year, the economic situation of American families is not improving dramatically, keeping homeownership out of reach for many.

B3

Employment & Wages

The labor market in both Utah and the nation continues to remain reasonably strong. Utah's unemployment rate is expected to remain at 3.4 percent through 2015 and then drop to 3.2 percent in 2016. National unemployment is expected to be 5.4 percent through 2015 and then drop to 5.1 percent in 2016.

Utah has experienced positive job growth for more than five years. The three largest increasing sectors since the 2007 peak include Education and Health Services, which added 32,513 average jobs, Professional and Business Services, adding 21,826 jobs, and Leisure and Hospitality, up 15,535.

On the other end, employment is still behind its 2007 count in five broad industry categories. The categories include Construction (down 25,903), Manufacturing (down 7,269), Federal Government (down 1,123), Financial Activities (down 424), and Utilities (down 244).

Overall wage growth has come in about in line with inflation. The highest wage growth in the State have been in the Information sector, with monthly wages up about $1,338 (about $16,000 annually). Other industry classifications that have seen wage growth strengthen include Financial Activities (up about $9,800 annually), Mining (up about $9,500 annually), and the Federal Government (up about $9,000 annually).

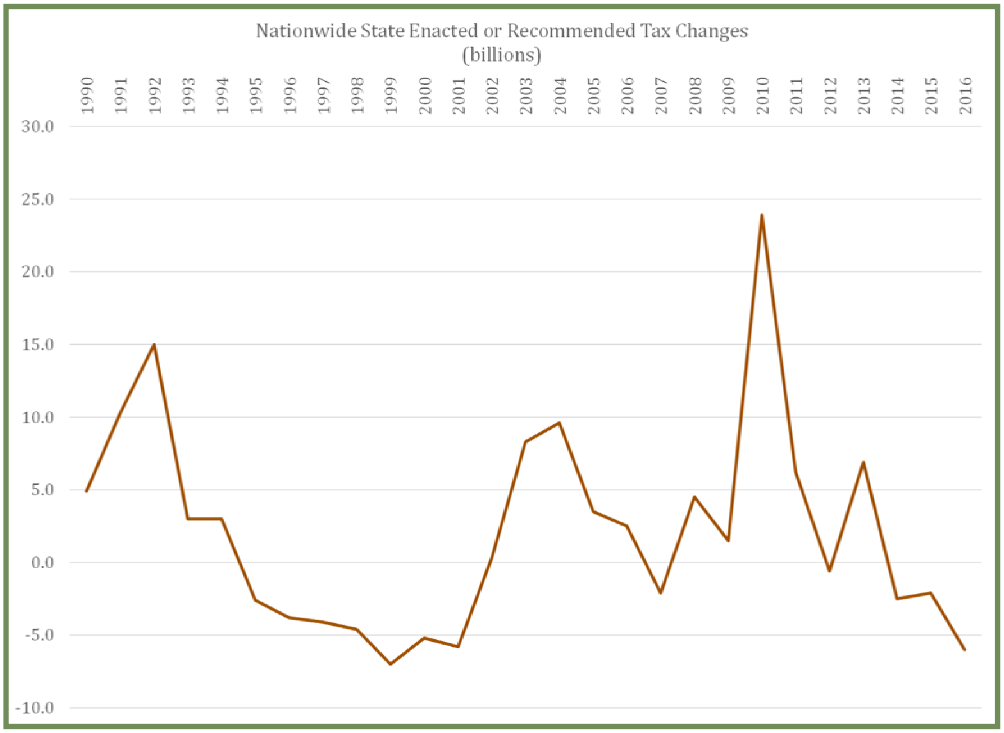
On the other end, wage growth has been slower in Local Government (up about $1,700 annually), Transportation (up about $1,700 annually), Leisure and Hospitality (up about $1,900 annually), and Retail Trade (up about $2,400 annually).

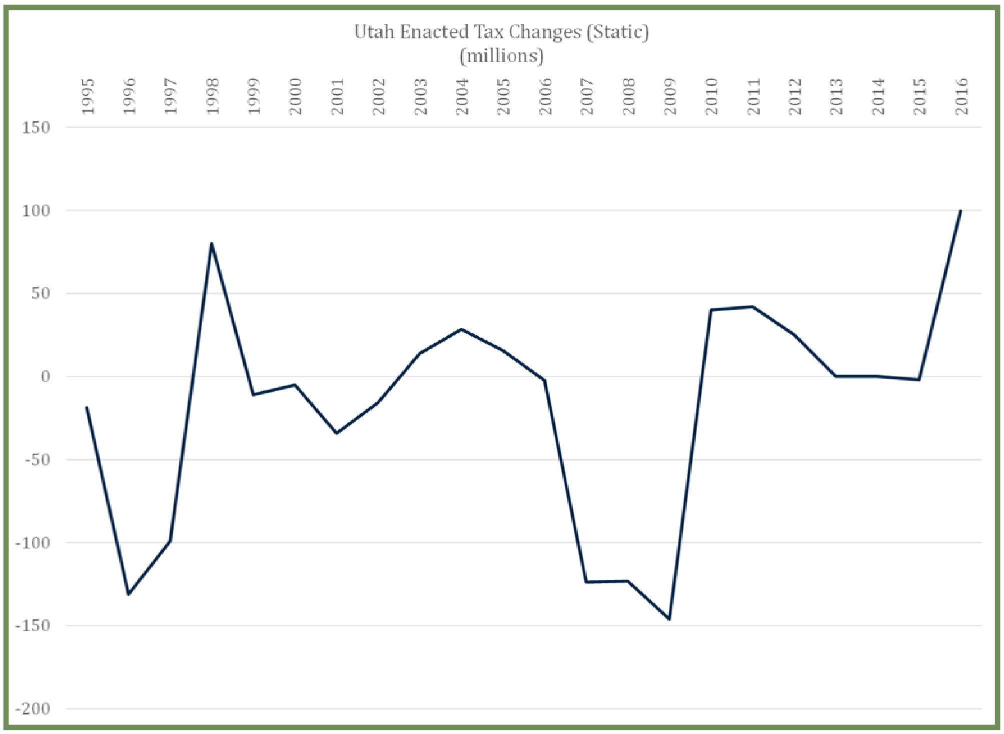
Interestingly, there's no strong connection between employment growth by industry and wage growth by industry. For instance, although Information is only 714 jobs above where it was during 2007, wage growth in the industry has been the fastest, at about $16,000 annually. On the other end, wage growth in Leisure and Hospitality and Education and Health Services has been relatively weak, although employment in these industries has exhibited some of the strongest growing results.

Overall, wage growth has been slower than in prior recoveries/booms. Prior to the Great Recession, annual wages grew at about 3.8 percent per year statewide. Since 2009 wage growth has slowed to approximately 1.8 percent per year.

Industry	Employment Gain	Wage Gain (Monthly)
Construction	-25,903	$467
Education and Health Services	32,513	$301
Federal government	-1,123	$751
Financial Activities	-424	$814
Information	714	$1,338
Leisure & Hospitality	15,535	$158
Local government	12,910	$146
Manufacturing	-7,269	$642
Mining	1,099	$789
Other Services	1,969	$426
Professional and Business Services	21,826	$672
Retail Trade	1,714	$200
State government	10,640	$371
Transportation	1,542	$146
Utilities	-244	$358
Wholesale Trade	1,090	$608

Recent Tax Changes in Utah and the Nation





The 2015 Legislature made a number of tax policy changes. The two largest tax changes were the gasoline and diesel tax increases ($4.3 billion from now until 2040) and the property tax increase ($1.9 billion from 2016 until 2040).

The tax increases matter in that they can influence the competitive position of the state relative to other states.

Based upon very early indications on FY 2015 and FY 2016 figures for other states, Utah is moving in the opposite direction of what is happening on the net in other states.

Other states are on track to reduce taxes for the third straight year, whereas Utah is on track to increase the tax burden by about $100.0 million in FY 2016.

H.B. 362, "Transportation Infrastructure Funding" imposes higher gasoline, diesel, and natural gas taxes. The initial tax increase is about 5.0 cents per gallon and maxes out at a tax increase of 15.5 cents per gallon, representing an increase in revenue to the Transportation Fund of $24.6 million in FY 2016 and about $75.0 million in FY 2017.

H.B. 97, "Property Tax Equalization Amendments" imposes a property tax increase of $75.0 million by increasing the budgeted revenue from the basic rate.

H.B. 182, "Amendments to Sales and Use Tax Exemptions" offers a sales tax exemption for specified purchases or leases made by drilling equipment manufacturers, reducing the tax liability of businesses by $647,000 in FY 2016 and FY 2017 and then by $1.3 million annually.

H.B. 406, "Natural Gas Vehicle Amendments" provides an income tax credit for the purchase of a natural gas heavy-duty vehicle, reducing the tax liability.

S.B. 156, "Energy Efficient Vehicle Tax Credit for Motorcycles" implements a tax credit for purchase of energy efficient motorcycles, reducing the tax liability of individuals by $25,200 in FY 2016.

S.B. 250, "Income Tax Revisions" imposes new reporting requirements on businesses and implements higher income tax penalties, increasing the tax burden on individuals and businesses by an estimated $41,000 annually.

S.B. 192, "Achieving a Better Life Experience Program and Tax Credit" offers a tax credit for qualified disability expenses, reducing revenue to the Education Fund by $187,000 in FY 2016.

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 2014 Final	FY 2015 Consensus	FY 2015 Consensus Growth Rate	FY 2014 Year-to-Date (6/7/2014)	FY 2015 Year-to-Date (6/7/2015)	FY 2015 Year-to-Date Growth Rate
Sales & Use Taxes	$1,656.81	$1,729.73	4.4%	$1,541.38	$1,594.78	3.5%
Individual Income Tax	2,889.79	3,034.14	5.0%	2,671.58	2,943.50	10.2%
Corporate Franchise Tax	313.54	372.40	18.8%	259.14	312.12	20.4%
Beer, Cigarette & Tobacco	113.13	114.75	1.4%	105.52	108.36	2.7%
Insurance Premium Taxes	91.21	93.70	2.7%	90.68	91.91	1.4%
Severance Taxes	105.01	100.81	-4.0%	105.08	89.77	-14.6%
Other Sources	249.80	251.77	0.8%	107.85	123.73	14.7%
Total - General & Education Funds	**$5,419.28**	**$5,697.30**	**5.1%**	**$4,881.23**	**$5,264.17**	**7.8%**
Motor Fuel Tax	$256.76	$261.69	1.9%	229.00	236.04	3.1%
Special Fuel Taxes	102.19	104.69	2.4%	86.62	88.48	2.1%
Other Transportation Fund	82.05	83.02	1.2%	74.28	76.68	3.2%
Total - Transportation Fund	**$440.99**	**$449.39**	**1.9%**	**$389.89**	**$401.19**	**2.9%**

Source: LFA, USTC, DOF