



REVENUE UPDATE

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

PART A: TAX COLLECTIONS

The State ended FY 2015 with a \$96.2 million General and Education Fund revenue surplus. The revenue surplus was due almost entirely to better-than-expected growth in the withholding and gross final payments to the Education Fund, while the Education Fund ended FY 2015 \$119.2 million above target. General Fund closed FY 2015 in a revenue deficit of \$23.0 million. The chart on the right shows the surplus/deficit by revenue type. Individual income tax is by far the largest contributor to the surplus. Individual income tax as a whole came in at 9.3 percent year-over-year growth.

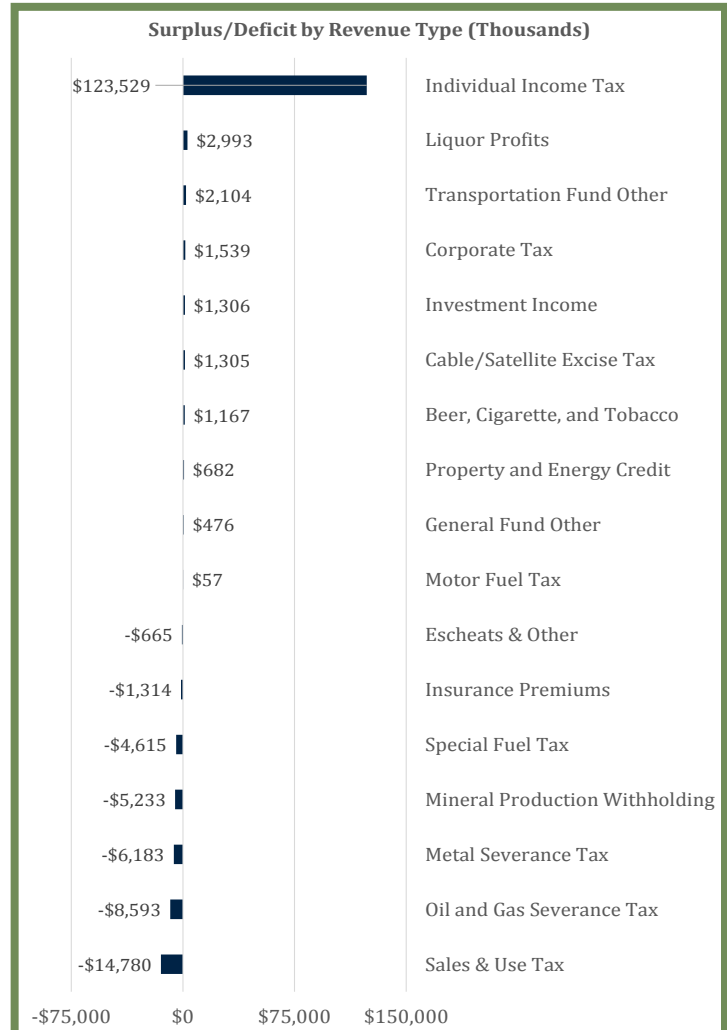
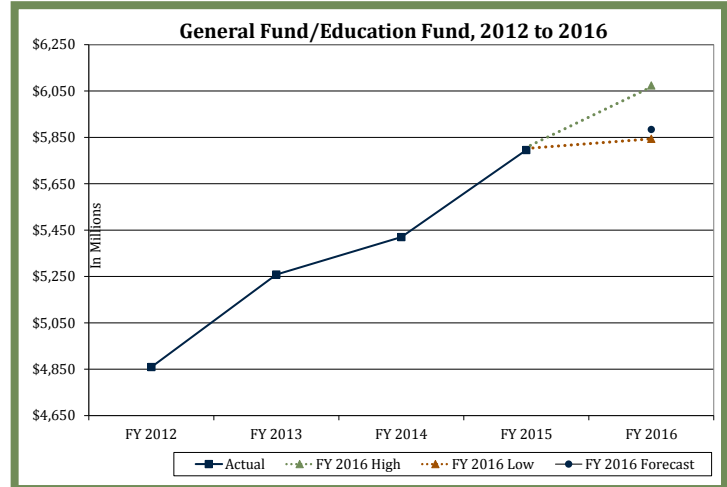
After accounting for expenditure side adjustments and a transfer to the Education Fund Budget Reserve Account, the FY 2015 budget surplus is \$43.8 million.

Looking towards FY 2016, we anticipate revenue to the General and Education Funds will be between \$40.0 million below to \$190.0 million above the adopted FY 2016 estimate. All of the upside potential stems from income tax flowing to the Education Fund. The General Fund could be as much as \$70 million below currently budgeted collections. The downside includes moderately weak sales tax, very weak severance taxes, peaking corporate income tax, and a potential decline in gross final payments stemming from a potential decline in capital gains.

Risks to the health of the economy in Utah include a slowing global economy headlined by conditions in China and most of the large European countries, central bank policy, and potential bear conditions in the financial markets. Of these, perhaps the most important for economic conditions in Utah is the Federal Funds rate. Essentially, when the Federal Reserve raises rates, it causes downward pressure on net final payments. Should the Federal Reserve begin raising rates at the end of 2015, the initial negative effect might be felt in fall 2016 (FY 2017 final payments), with the strongest impacts potentially showing up around 2018 to 2020.

On the outperform side, business in Utah is being driven by growth in most industries, including construction, manufacturing, transportation, information, financial activities, education, healthcare, leisure and hospitality, government, and professional business services.

We anticipate business growth in Utah will outpace most other areas in the United States for the foreseeable future. Employment and total wages are also expected to continue to be above national average through 2015 and 2016.



The General Fund ended FY 2015 with a revenue deficit of \$23.0 million. The largest factors behind the revenue deficit were softer than expected sales tax revenue (\$14.8 million) and weak severance tax revenue, driven largely by the decline in the prices of oil, natural gas, and commodities. On the positive side, revenue from Insurance Premiums, Liquor Profits, Tobacco taxes, and Cable/Satellite tax came in above target in FY 2015. There is no surplus available in the General Fund.

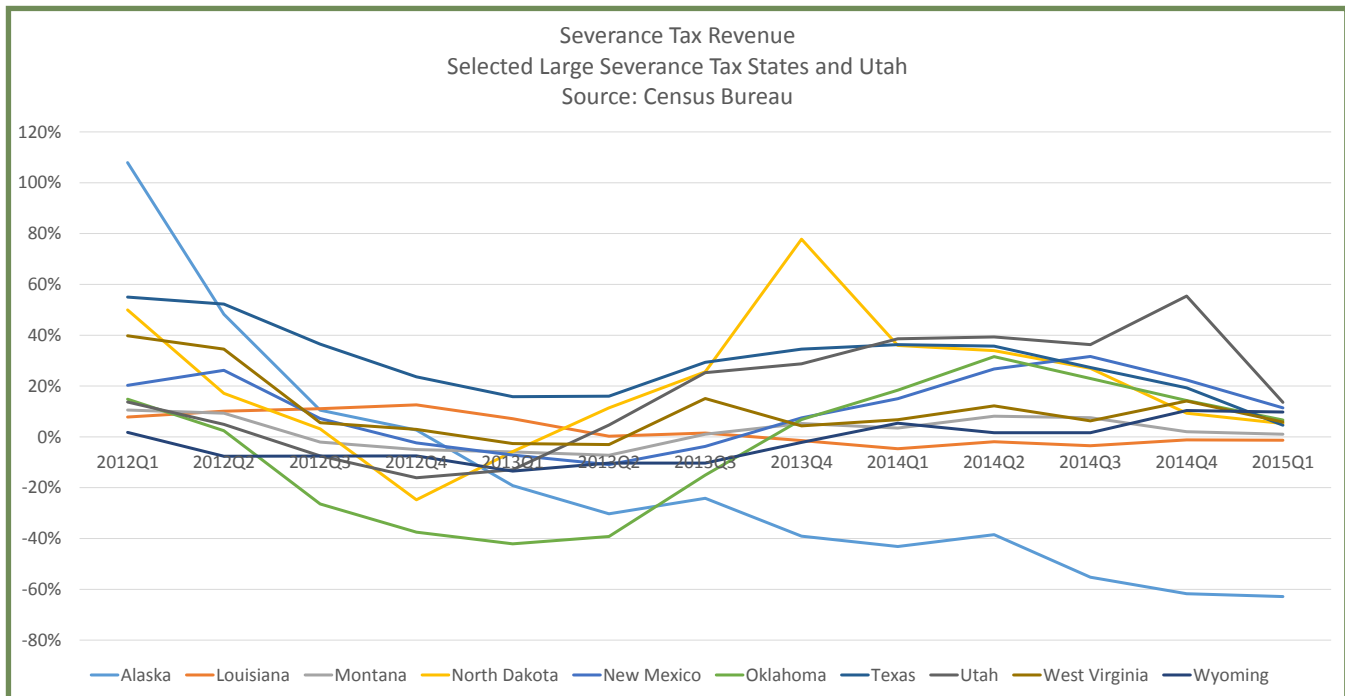
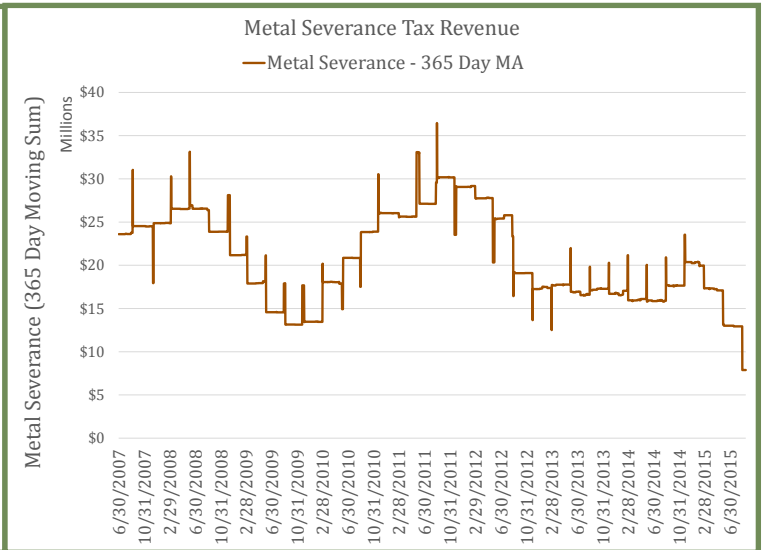
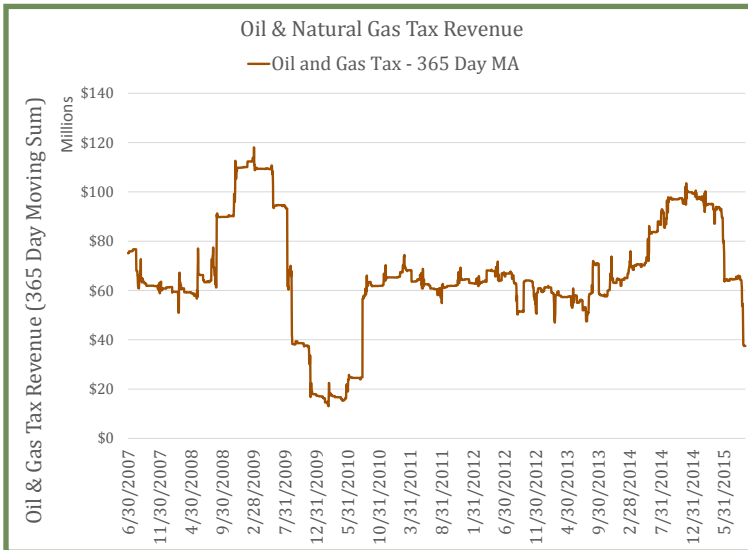
The weak severance tax picture is something present nationwide as shown in the chart below. The hardest hit states so far include Alaska, Louisiana, Montana, North Dakota, and Texas.

Looking towards FY 2016, we anticipate revenue to the General Fund will end FY 2016 between \$70.0 million below and \$15.0 million above the current FY 2016 target.

The Transportation Fund ended FY 2015 about \$2.0 million below target, largely driven by lower than anticipated growth in diesel and other special fuel tax revenue.

Early indications in FY 2016 are that the oil price drop, which gets built into gasoline prices, is boosting consumption of gasoline, and thus motor fuel tax revenue. Overall, we anticipate the Transportation Fund will end FY 2016 between \$10.0 million below and \$5.0 million above the current FY 2016 target.

The recent gas tax increase of 4.9 cents per gallon takes effect on January 1, 2016. We expect that the price increase will partially offset the positive effects of lower fuel prices. It therefore may dampen motor fuel sales slightly.



The Education Fund ended FY 2015 with a revenue surplus of \$119.2 million. When expenditure side adjustment are made the surplus is \$59.5 million. FY 2016 revenues are expected to end the year \$30.0 million to \$175.0 million above the May EAC target.

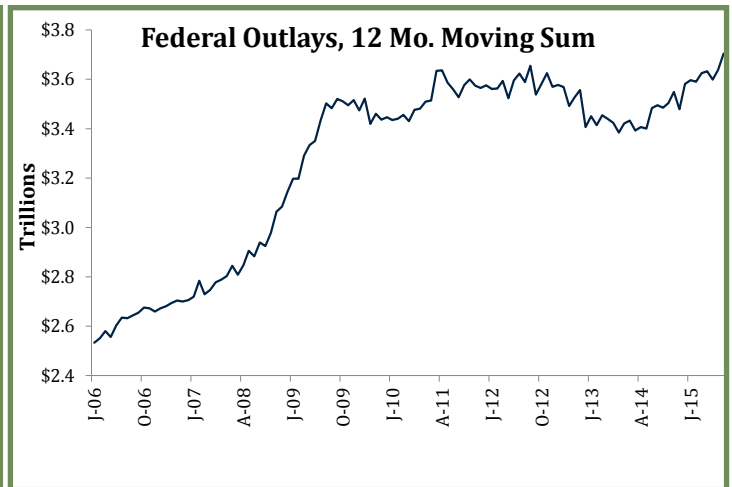
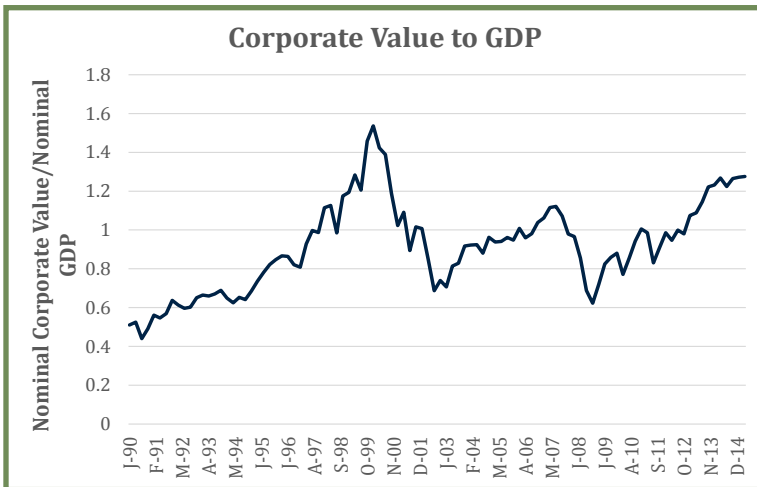
Almost all of the Education Fund surplus was from higher than anticipated growth in gross final payments and, to a lesser extent, above trend withholding growth. Total income tax for FY 2015 ended the year at a growth rate of 9.3 percent.

The strong performance of gross final payments is related to the value of corporations and the income individuals earn. We anticipate that, although corporate value to GDP is at relatively high values (i.e. high stock values), there is still room for this to expand at a moderately positive rate. On the flip side, there is downside risk to the Education Fund forecast if the strong consumer confidence declines.

After about five years of generally flat Federal outlays, the Federal government is starting to increase expenditures again, with total outlays now at an all-time high of \$3.7 trillion (12-month moving sum basis).

The largest cost areas are health (up \$72.0 billion), Medicare (up \$62.0 billion), and Social Security (up \$37.0 billion). Medicaid expansion and other health care increases are driving up costs at the state level. We are also seeing cost increases in Medicare and Social Security due to aging populations.

On the other side, some areas are seeing some cost savings, including a drop in the net interest paid on debt to \$222.0 billion, a \$6.0 billion drop in National Defense expenditures, a \$5.0 billion decline in Agriculture, and a \$4.0 billion drop in Transportation.



Federal Outlays by Area, 2013-2015, Aug. - July, Billions				
Area	2013	2014	2015 Budget Growth	
National Defense	\$645.7	\$606.1	\$600.6	-\$5.5
International Affairs	\$41.9	\$47.9	\$47.6	-\$0.3
General Science	\$28.8	\$28.8	\$29.4	\$0.6
Energy	\$12.2	\$5.1	\$7.5	\$2.3
Natural Resources	\$39.5	\$34.1	\$34.4	\$0.3
Agriculture	\$32.3	\$26.1	\$21.3	-\$4.8
Commerce & Housing Credit	-\$79.3	-\$84.7	-\$31.8	\$52.9
Transportation	\$89.8	\$92.7	\$88.6	-\$4.2
Community & Regional Development	\$32.4	\$22.3	\$21.6	-\$0.8
Education	\$73.4	\$90.1	\$112.7	\$22.6
Social Security	\$806.5	\$844.7	\$881.7	\$37.0
Health	\$356.9	\$397.5	\$469.1	\$71.5
Medicare	\$497.9	\$505.3	\$567.6	\$62.3
Veterans Benefits & Services	\$136.7	\$148.2	\$164.8	\$16.6
Net Interest	\$216.5	\$227.8	\$221.5	-\$6.4
General Government	\$25.0	\$16.0	\$16.1	\$0.1
Administration of Justice	\$54.3	\$52.1	\$53.8	\$1.6
Income Security	\$540.6	\$516.9	\$515.1	-\$1.8

PART B: ECONOMIC INDICATORS

B1

REVIEW OF THE ECONOMIC INDICATORS

Nonagricultural Employment

Employment is growing in most sectors of the economy. Current estimates show employment growth at 3.7 percent for 2015, moderating to 3.1 percent for 2016. Utah's employment growth rates continue to outpace the national growth rates.

Nonagricultural Wages

The average annual wage in the State is estimated at \$43,116 in 2015, a projected increase of 2.2 percent over the prior year. Wage growth is expected to remain moderate at 1.8 percent in 2016. This translates to an average annual wage increase of \$929 in 2015 and \$777 in 2016.

Retail Sales and Total Taxable Sales

Retail sales growth for 2015 is estimated at 5.1 percent. The growth is expected to moderate in 2016 to 4.7 percent. The universe of taxable transactions (all taxable sales) is estimated to grow at 4.0 percent in 2015 and is expected to grow by 6.0 percent in 2016.

New Automobiles and Truck Sales

Sales of new automobiles and trucks remains strong in 2015. The new automobile and truck market is anticipated to grow by 4.4 percent and 3.6 percent in 2015 and 2016, respectively.

Housing Prices

Housing prices continue to improve with expected growth for 2015 and 2016 at 7.0 percent and 4.5 percent respectively. The

housing prices forecasts are sensitive to interest rates and income expectations. If interest rates rise faster than expected, housing prices could come in lower than expected.

Dwelling Unit Permits

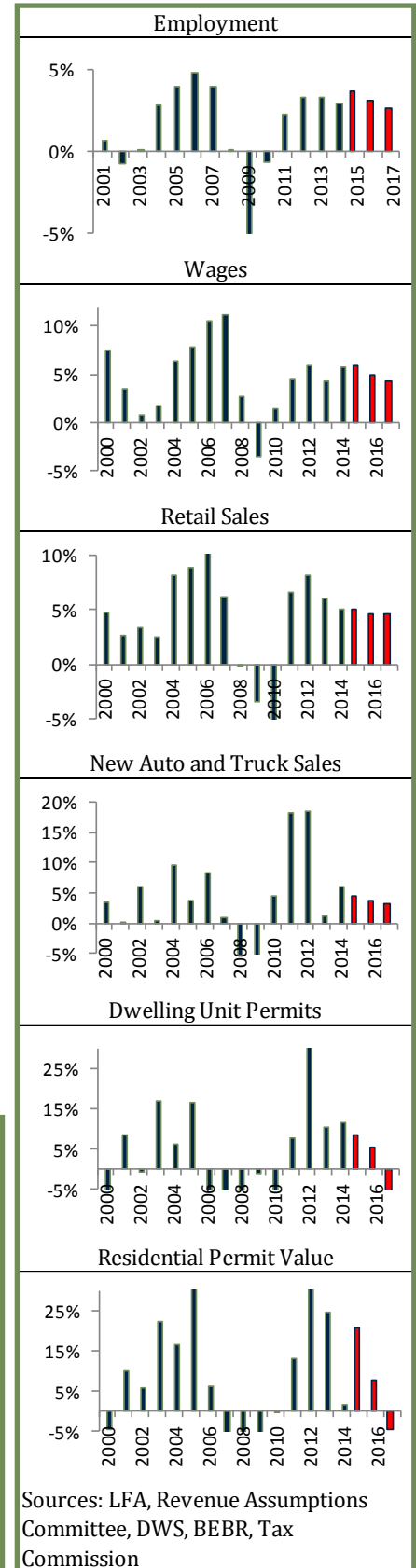
Dwelling unit permits are expected to end 2015 with an additional 18,000 units permitted, an increase of about 8.4 percent over the 16,600 authorized in 2014. Residential permit growth in 2015 has been focused largely on multi-family housing units. Residential permits are anticipated to continue to grow by an additional 19,000 units in 2016.

Residential Permit Value

Dwelling unit permits are correlated with residential permit value. Total residential permit value bottomed out at \$1.7 billion in 2010. Since then, permit values have grown quickly, with total permit value expected to reach \$4.3 billion in 2016.

Nonresidential Permit Value

Nonresidential construction is booming, ending 2014 up 28.8 percent from 2013 values. The strong growth continued in 2015 and we expect residential permit values to be 42.9 percent over values from 2014. Total nonresidential permit values are expected to reach \$2.0 billion in both 2015 and 2016.



Indicator	Recession	Slowdown	Recovery	Boom	Bubble
Nonagricultural Employment	Green	Green	Green	Green	White
Nonagricultural Wages	Green	Green	Green	Green	White
Retail Sales	Green	Green	Green	Green	White
Consumer Confidence	Green	Green	Green	Green	White
New Automobile and Truck Sales	Green	Green	Green	Green	White
Housing Permits	Green	Green	Green	Green	White
Residential Value	Green	Green	Green	Green	White
Non-residential Value	Green	Green	Green	Green	White
Short-term Interest Rates (Federal Funds, 1-Year T-Bill)	Red	White	White	White	White
Oil Price	Red	White	White	White	White
U.S. Economic Growth (GDP)	Green	Green	Green	Green	White
World Economic Growth	Green	Green	Green	Green	White
Inflation	Green	Green	Green	Green	White
Corporate Earnings & Profit	Green	Green	Green	Green	White
S&P 500	Green	Green	Green	Green	White

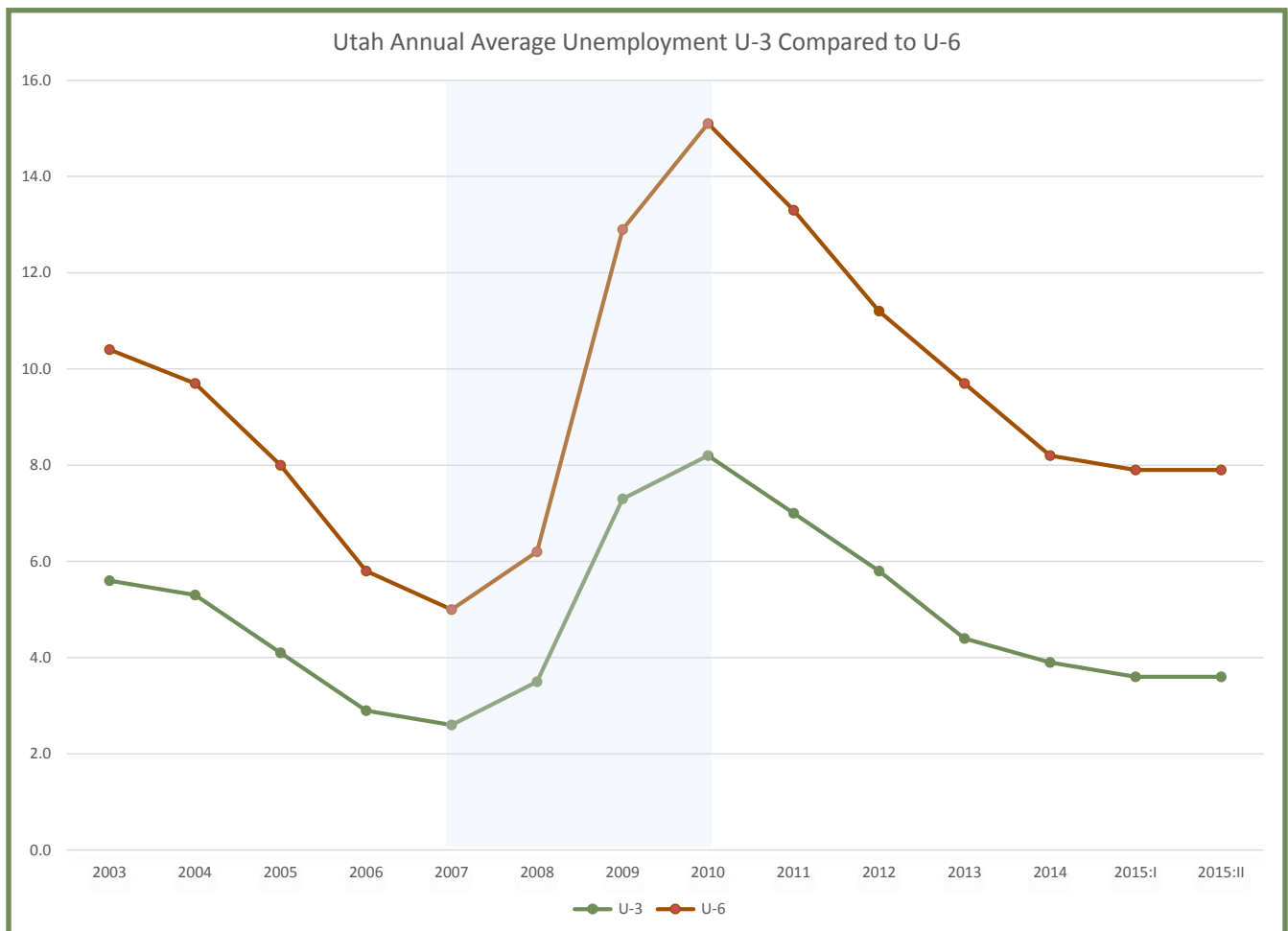
UTAH UNEMPLOYMENT RATE COMPARISONS

Six alternative measures of labor underutilization are available on a monthly basis from the Current Population Survey (CPS) for the United States. The official concept of unemployment is measured in the CPS by U-3 and includes all jobless persons who are available to take a job and have actively sought work in the past four weeks.

The economic characteristics of the three broader measures of labor underutilization are worth consideration when looking at overall unemployment. Discouraged workers (U-4, U-5, and U-6 measures) are persons who are not in the labor force, desire and are available for work, and had looked for a job sometime in the prior 12 months. They are not counted as unemployed as they had not searched for work in the prior four weeks because they believed no jobs were available for them.

The marginally attached (U-5 and U-6) measures are groups that include discouraged workers. The criteria for the marginally attached are the same as for discouraged workers, with the difference that any reason could have been cited for the lack of job search in the prior four weeks. Persons employed part time for economic reasons (U-6 measure) are those working less than 35 hours per week who want to work full time, are available to do so, and gave an economic reason (their hours had been cut back or they were unable to find a full-time job) for working part time. These individuals are generally referred to as involuntary part-time workers.

The most often quoted measure of unemployment is U-3, which is total unemployed as a percent of the civilian labor force. The chart below shows the U-3 unemployment rate compared to the U-6 unemployment rate for Utah. The continued divergence between the U-6 and U-3, even when the Utah unemployment rate is at a low 3.6 percent, suggests that the labor market still presents a difficult picture for some workers. It also suggests that the unemployment rate can stay flat for a longer period of time as workers potentially make their way back to the labor force. The availability of this labor supply—not reflected in our traditional unemployment rate—might also explain the relatively low wage growth Utah is experiencing. While U-3 (traditional unemployment) is at or near historical lows, the difference between U-3 and U-6 (disaffected and marginally attached unemployment) is double what it was the last time Utah's unemployment rate was below 4 percent.



Construction in Utah continues to be one of the strongest growth sectors in the economy. Among the contributors to construction growth are large projects, including several commercial and transportation projects, and the airport expansion.

Despite the growth in commercial and industrial construction the residential construction remains slightly below its pre-recession levels.

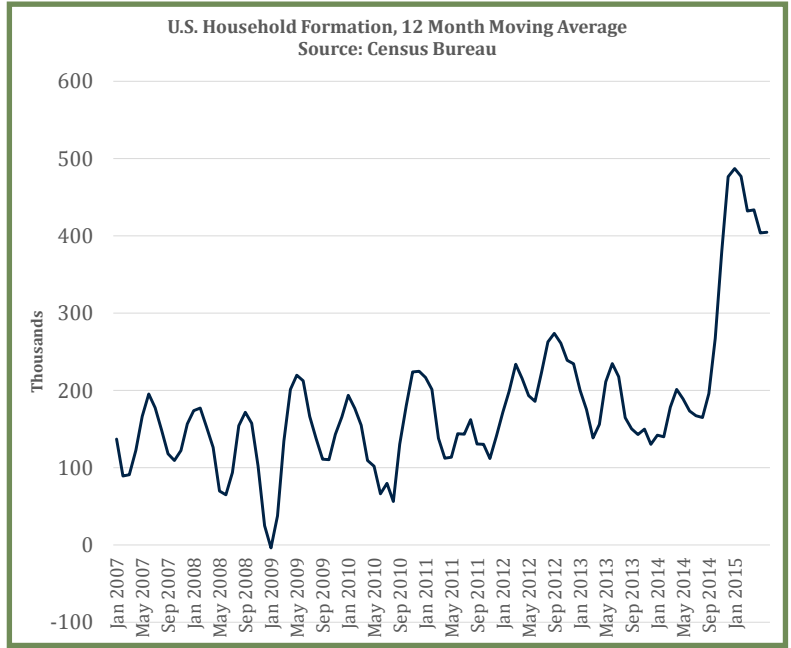
The median home value in Utah is \$213,400. Utah home values have gone up 3.0 percent over the past year and Zillow predicts they will rise 5.1 percent within the next year. The median rent price in Utah is \$1,250. Looking locally, most of the major counties are only five to six percent below their all-time inflation adjusted highs for home values. Within a year, price increases and the local real estate markets should be fully recovered from the collapse in prices caused by the Great Recession.

One factor in the recovery of the housing sector has been strong employment growth in Utah. Strong job growth creates in migration which in turn encourages housing growth.

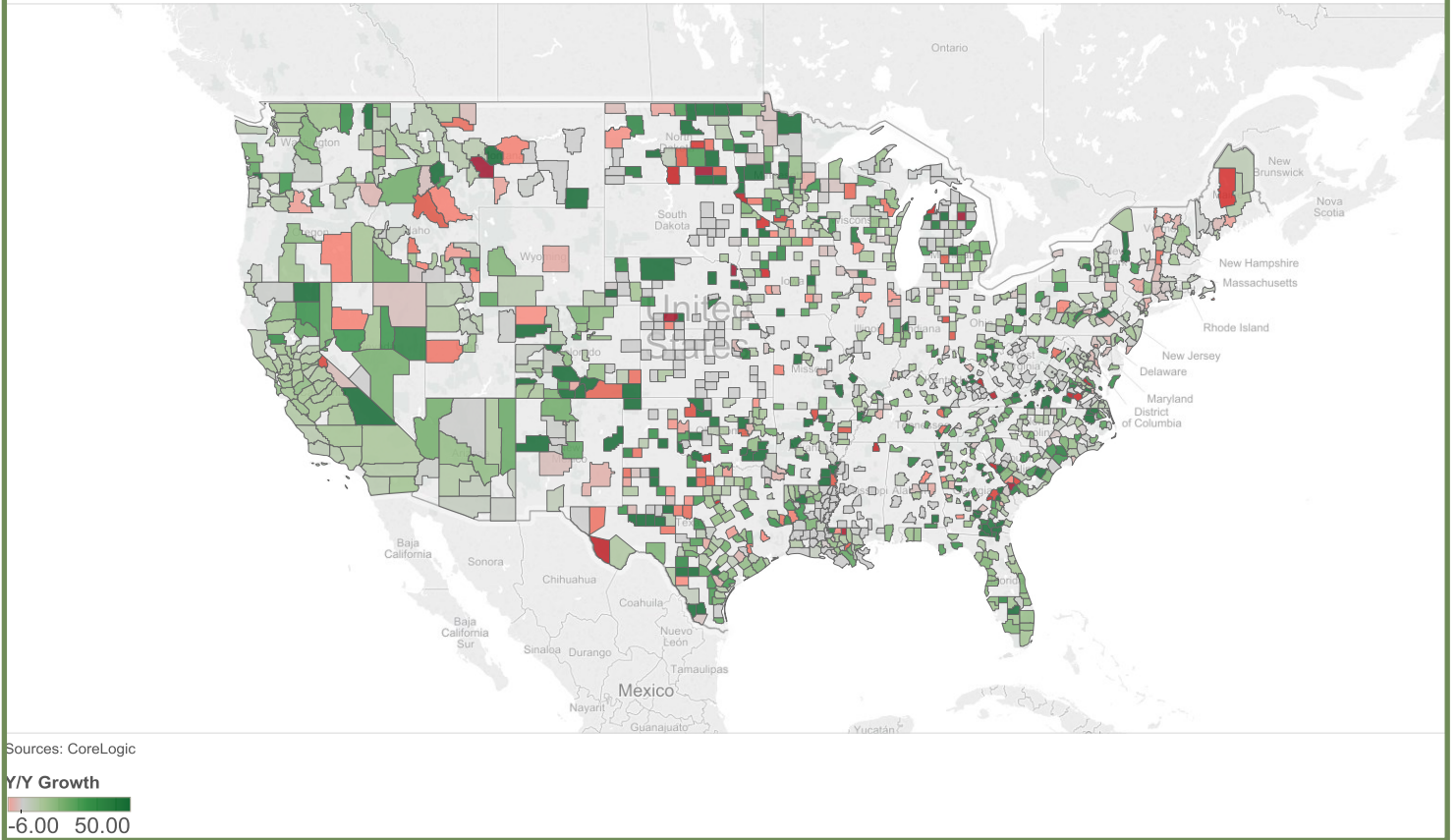
On a national comparison basis, home price appreciation in Utah is moderate, far away from the housing bubbles in the bay area or the oil price-induced weakness in select coun-

ties where oil production is more prominent.

In addition to industry factors driving the home price appreciation picture, household formation is coming back, with more millennials and others starting to move away from their parents' homes.



Home Prices by County, Year-over-Year Moving Average Basis



Utah taxable sales continue to benefit from positive employment conditions and high consumer confidence. Growth in taxable sales is expected in each of the three major components of taxable sales: retail sales, business investment purchases, and taxable services.

Since 2011 retail sales steadily increased annually reaching about \$27.5 billion in 2015; just in line with the all-time high of \$27.6 billion in 2007. Adjusting for inflation and looking at the data on a per capita basis shows the following: the 2005-2007 years reflect the debt laden boom as per capita sales hit \$10,452 in 2007. The recession led to plummeting sales over the next four years, with per capita sales dropping to \$7,926 in 2011. Since then per capita sales have increased by 16.0 percent to \$9,216.

On the national front, retail sales continue to be relatively weak, with year-over-year growth in retail sales at 2.1 percent.

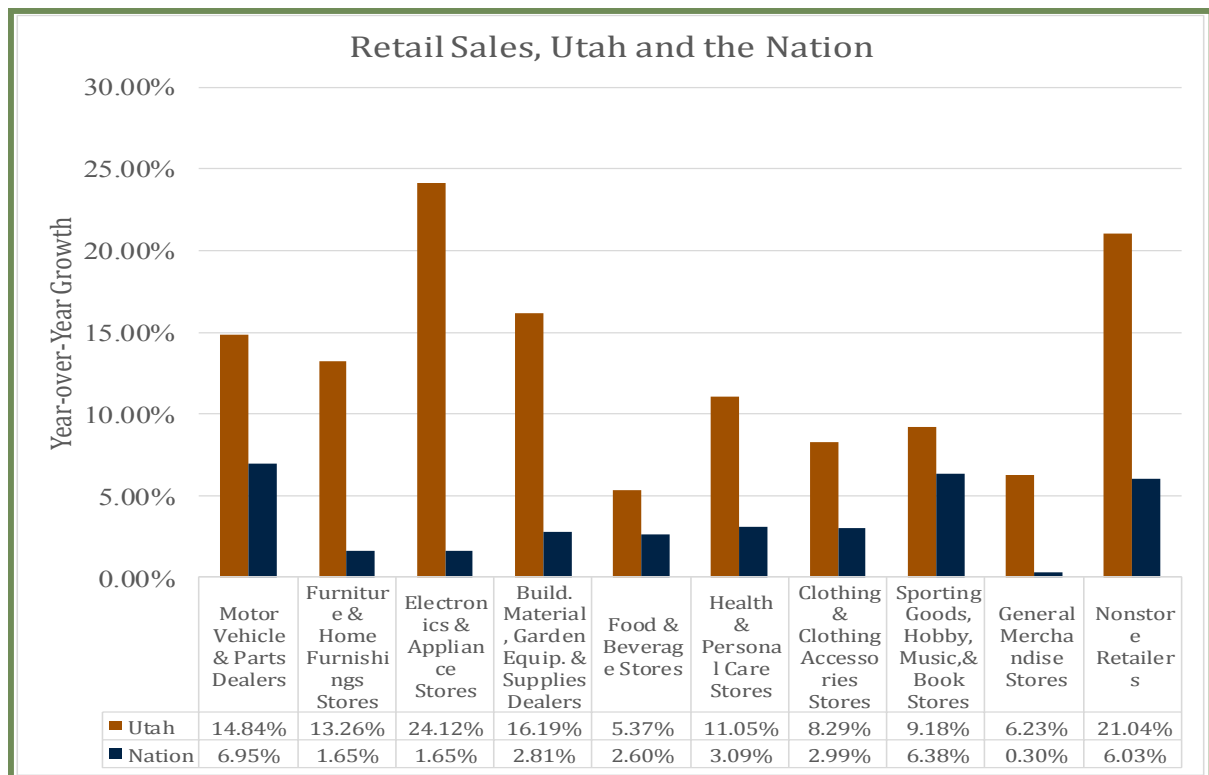
In comparing the retail sales figures in Utah with retail sales figures nationwide, individuals and businesses in Utah are spending at a faster rate than consumers across the states.

On a year-over-year percentage basis, the largest brick-and-mortar growth area is electronics and appliance stores, with current year-over-year growth of 24.0 percent. Electronics and appliances is followed by building and garden materials at 16.0 percent, motor vehicle and parts dealers at 15.0 percent, and furniture and home furnishings at 13.0 percent.

On non-brick-and-mortar stores, reported taxable internet sales are up 21.0 percent in Utah compared to 6.0 percent nationally (the national figure is taxable and non-taxable). The Utah figure represents actual reported taxable sales, and does not capture any non-nexus sales.

Part of the relatively moderate performance of taxable sales stems some consumers' shift towards internet retailing as opposed to brick-and-mortar retailing. Most internet sales shipped to homes and businesses in Utah are from businesses with no nexus to Utah, meaning the retailer does not collect sales tax at the point of purchase. Rather, the individual is required to submit sales tax on the amount purchased as a use tax on their income tax return. Compliance with this requirement is low and decreasing, with about \$1.5 million of the estimated \$190.0 million in internet sales showing up as use tax revenue.

Internet sales are anticipated to grow by about 9.0 percent in 2016 and 2017, and use tax revenue anticipated to grow by about 4.0 percent. The 2016 and 2017 shift equates to downward pressure on sales tax revenue of \$37.0 million above the already FY 2015 forgone sales tax revenue of \$190.0 million.





RETURN SERVICE REQUESTED

PART C: REVENUE COLLECTIONS

Tax Revenue (In Millions of Dollars)	FY 2015 Final	FY 2016 Consensus	FY 2016 Consensus Growth Rate	FY 2015 Year-to-Date 10/8/2014	FY 2016 Year-to-Date 10/8/2015	FY 2016 Year-to-Date Growth Rate
Sales & Use Taxes	\$1,714.95	\$1,800.21	5.0%	\$454.79	\$471.49	3.7%
Individual Income Tax	3,157.67	3,162.69	0.2%	635.02	694.88	9.4%
Corporate Franchise Tax	373.94	381.33	2.0%	92.03	96.75	5.1%
Beer, Cigarette & Tobacco	115.92	112.33	-3.1%	32.26	35.49	10.0%
Insurance Premium Taxes	92.39	96.47	4.4%	25.30	25.84	2.1%
Severance Taxes	86.03	79.94	-7.1%	31.61	8.19	-74.1%
Other Sources	264.54	251.07	-5.1%	27.43	25.13	-8.4%
Total - General & Education Funds	\$5,805.44	\$5,884.04	1.4%	\$1,298.43	\$1,357.77	4.6%
Motor Fuel Tax	\$261.74	\$283.74	8.4%	64.60	72.11	11.6%
Special Fuel Taxes	100.07	115.05	15.0%	22.90	26.65	16.4%
Other Transportation Fund	85.12	83.76	-1.6%	19.81	19.04	-3.9%
Total - Transportation Fund	\$446.94	\$482.55	8.0%	\$107.31	\$117.79	9.8%