



REVENUE UPDATE

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

PART A: TAX COLLECTIONS

Utah closed FY 2016 with a \$7.4 million General and Education Fund revenue surplus. The Education Fund ended FY 2016 \$6.2 million below the May target, while General Fund revenue closed the year in a revenue surplus of \$13.6 million. The revenue surplus was due to better-than-expected insurance premiums deposits into the General Fund, individual income tax, sales tax, tobacco taxes, escheats, mineral production withholding, metal severance tax, and liquor profits. Dragging down what otherwise would have been a stronger revenue surplus were weaker than expected performances from miscellaneous revenue to the General Fund, corporate income tax, and oil and gas severance tax. A complete reporting of the revenue surplus/deficit picture by contributing revenue category is given in the bar chart to the right.

After accounting for expenditure side adjustments, a transfer to the General Fund Budget Reserve Account, and other statutorily required transfers, the budget surplus is \$5.0 million in combined General Fund/Education Fund revenue.

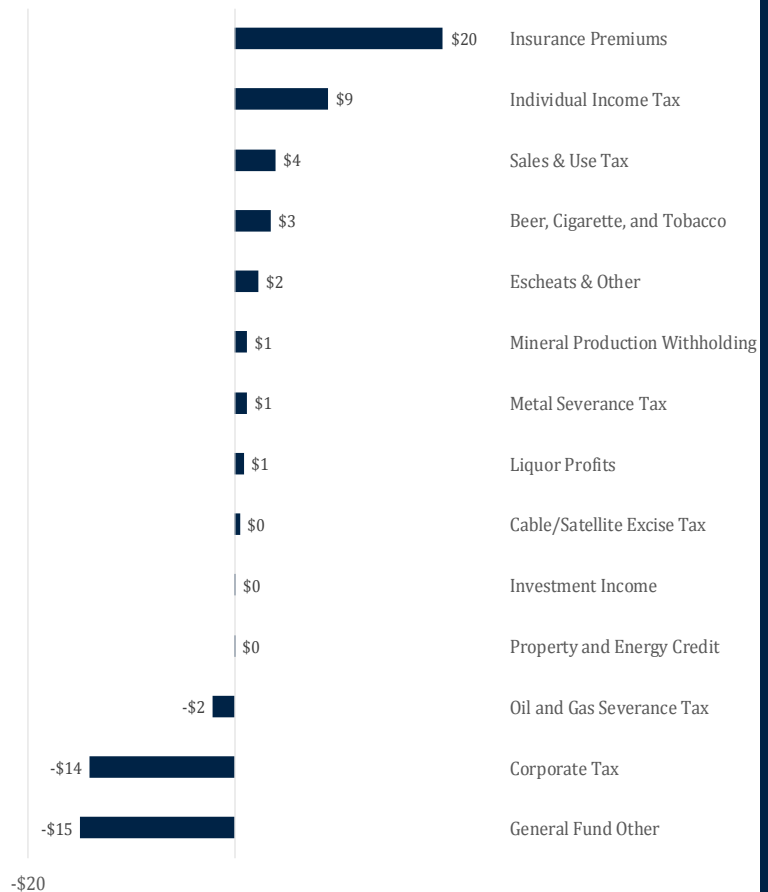
The Transportation Fund ended FY 2016 about \$20.8 million above the May target due to strong gasoline and diesel tax revenue collections.

Looking toward FY 2017, we anticipate revenue to the General Fund/Education Fund will be in a range of \$125.0 million below to \$115.0 million above the adopted FY 2017 estimate. The upside potential stems from income tax, in particular a quite strong withholding picture. Insurance premiums will also provide some upside potential for the General Fund. The downside risk includes moderating sales tax performance, very weak severance taxes, potentially peaking corporate income tax, and a potential decline in gross final payments stemming from a possible decline in capital gains and other non-wage sources of income.

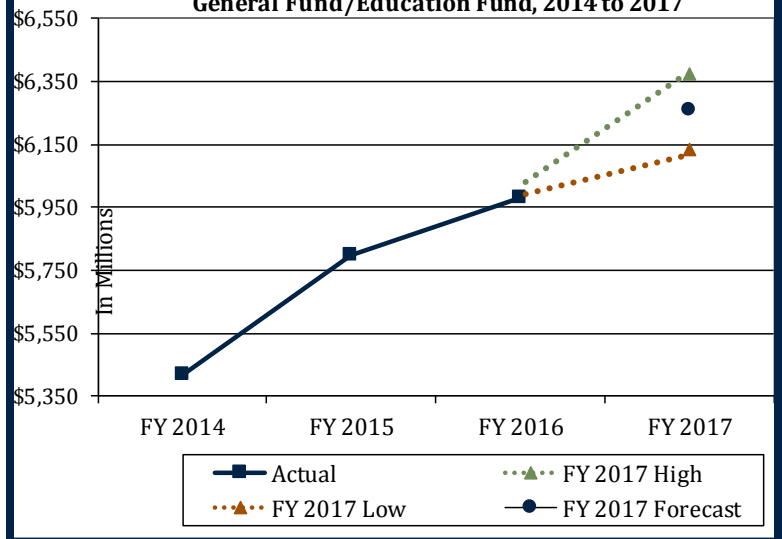
The Utah economy is in its 80th month of expansion as measured by employment growth from the trough. It is performing well. Revenue growth is outpacing most other states, with the State ranked 15th overall. Employment growth in Utah continues to rank in the top 5, as does the business climate.

Acknowledging a strong Utah backdrop, there are external forces that could derail a continued expansion in Utah, including a decline in national and international business confidence, a weakening of consumer spending power, a potential asset bubble bursting, and weakness in international growth.

Surplus/Deficit by Revenue Type (Millions)



General Fund/Education Fund, 2014 to 2017



The General Fund ended FY 2016 with a revenue surplus of \$13.6 million. When expenditure side adjustments and transfers to the rainy day funds are made the budget surplus is \$7.2 million. Behind the revenue surplus was an accounting issue that led to Insurance Premiums coming in \$20.0 million above target. The results of the change in allocations are illustrated in the first chart below. Absent insurance premiums, all other sources combined came in about \$6.0 million below target, led largely by much weaker than anticipated miscellaneous revenue to the General Fund (-\$15.0 million).

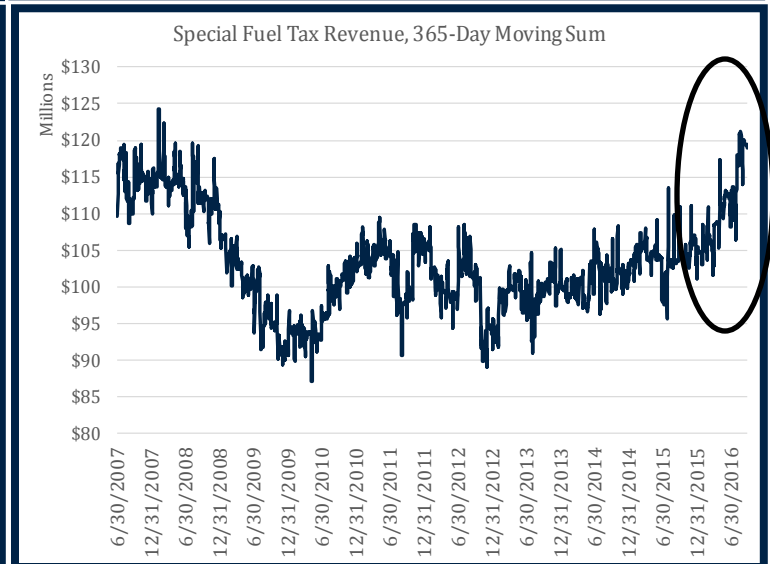
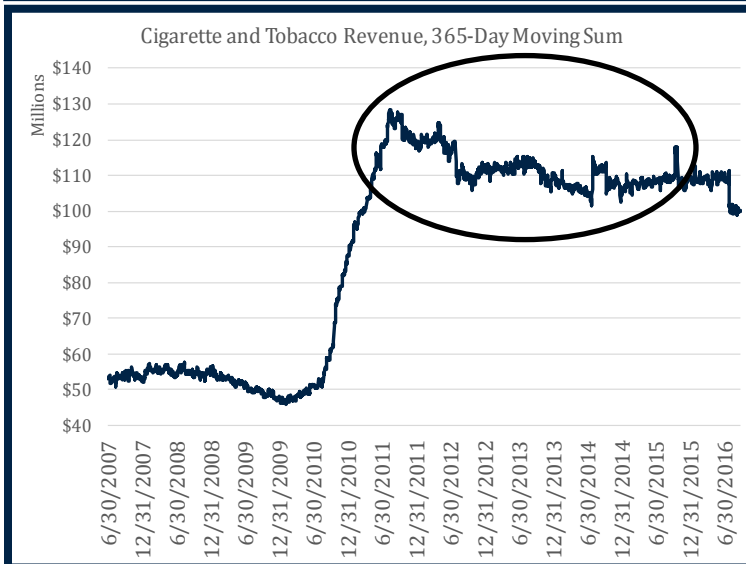
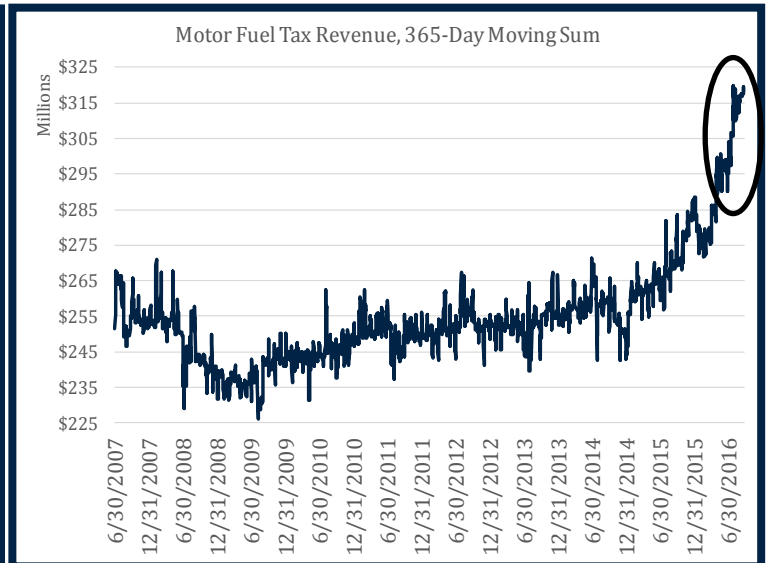
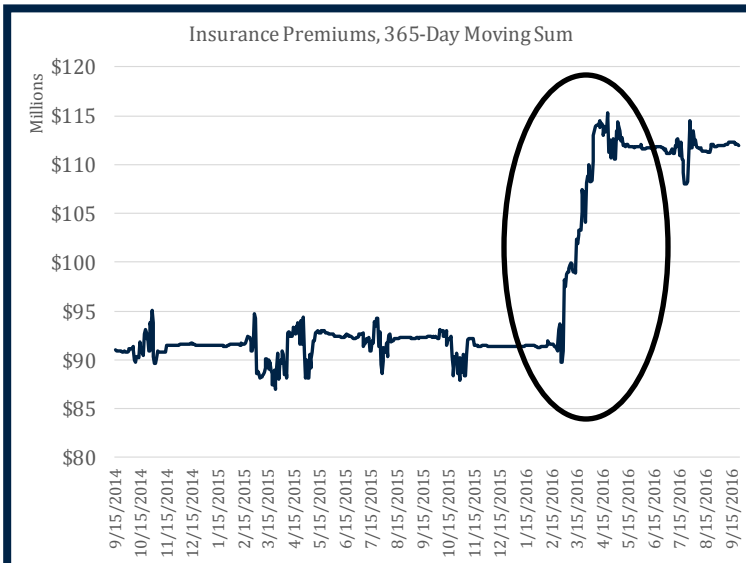
Tobacco taxes also came in above targets (+\$3.0 million). They grew in 2016, breaking a general trend of decreasing ongoing revenue after the recent cigarette tax increase took effect.

Looking toward FY 2017, we anticipate revenue to the General Fund to end FY 2017 between \$10.0 million below and \$35.0 million above the current FY 2017 target.

The Transportation Fund ended FY 2016 about \$20.8 million above the May EAC target, largely driven by stronger than anticipated growth in gas and diesel tax revenue. The charts below titled "Special Fuel Tax Revenue, 365-Day Moving Sum" and "Motor Fuel Tax Revenue, 365-Day Moving Sum" represent the two largest revenue sources to the Transportation Fund. The circled sections indicate the recent tax increases on gas and diesel fuel, which first began to show up in revenue collections in March. Also contributing to the gain in revenue is the generally favorable price of gasoline compared to some of the more recent years.

One other large source of revenue to the Transportation Fund, registration fees, came in at 4.4 percent growth, about 1.2 percent above expectations. All other sources came in at \$86.5 million, about \$0.9 million below expectations.

We expect Transportation Fund revenues to end FY 2017 between \$20.0 million below and \$40.0 million above the current target.



The Education Fund ended FY 2016 with a revenue shortfall of \$6.2 million. When expenditure side adjustment are made the budget deficit is \$2.2 million. The deficit is largely due to corporate tax collections, which came in \$14.0 million below target, stronger than anticipated income tax refunds, and 5.0 percent lower income tax gross payments than indicated prior to April.

The lackluster FY 2016 corporate income tax picture was partly due to federal tax changes related to accelerated depreciation. This induced businesses to lower their estimated payments for the first two quarters of 2016 in anticipation of a lower overall corporate tax liability for tax year 2016. Corporate earnings were also weaker than Wall Street anticipated.

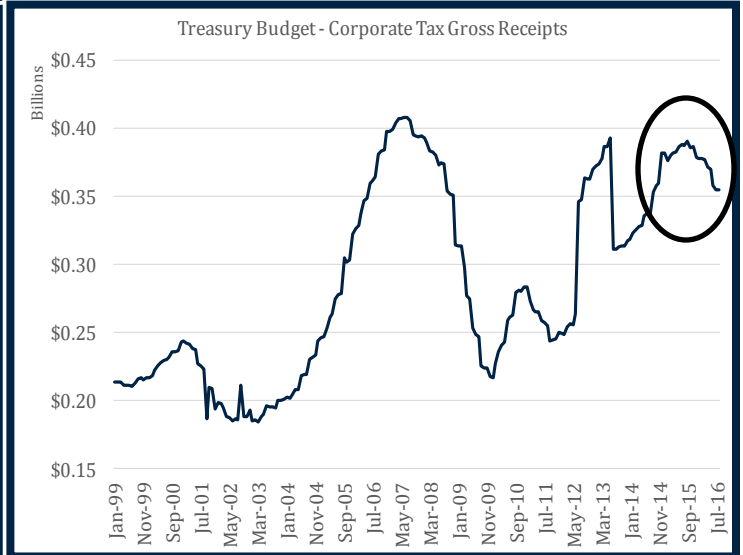
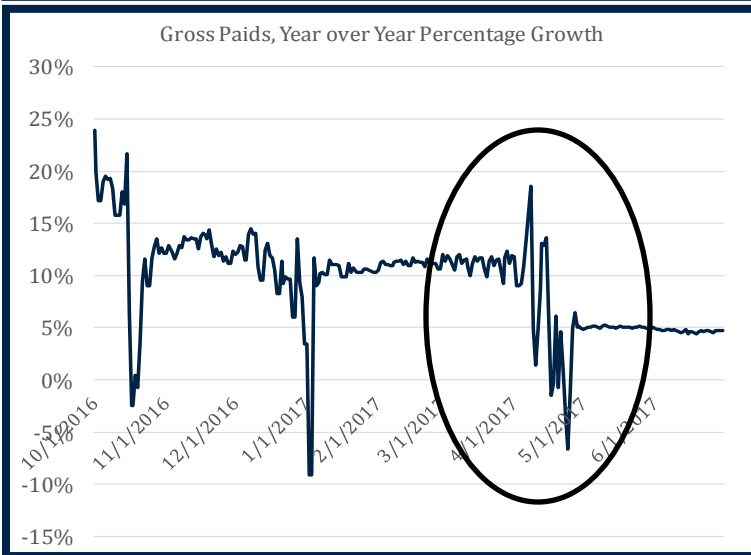
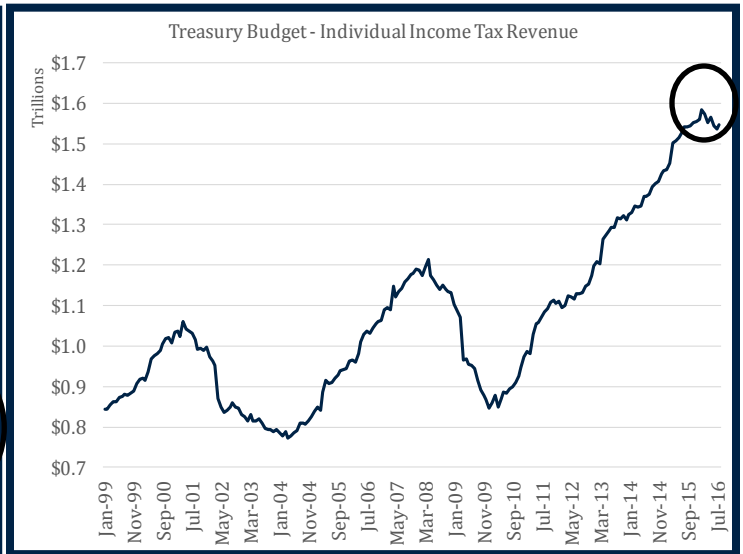
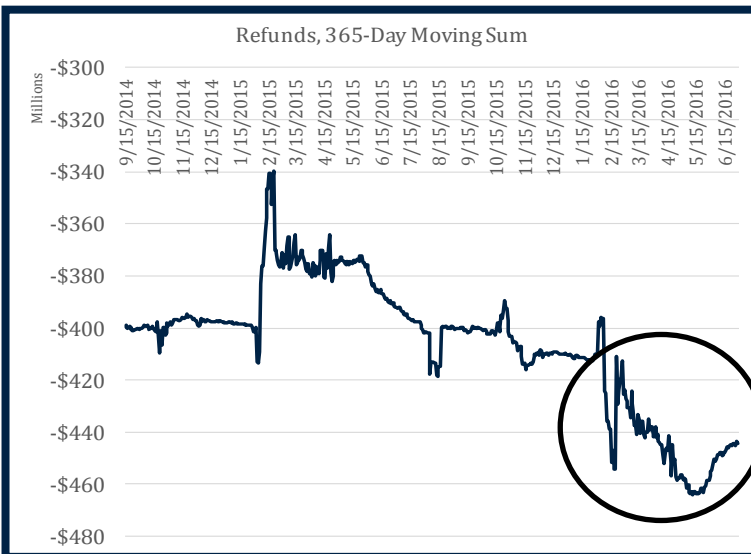
On the positive side, withholding continues to come in strong, largely full-time employment continues to expand. Wage employment in Utah continues to be an envy across the nation.

On the FY 2017 outlook, revenues are expected to end the year \$115.0 million below to \$80.0 million above the May EAC target.

Federal Funds came in close to expectations at about 0.6 percent year-over-year growth in FY 2016 compared to 2.6 percent expected.

On the federal revenue picture, the April surprise was individual and corporate income tax revenue marginally turning south. The dips, circled in black in the two right side graphs below, rarely occur without a U.S. recession materializing in the near-term. This time around, we do not think the dips are indicative of a recession because part of the cause is tax policy (accelerated depreciation), but it does signal caution.

In terms of federal expenditures, the area with the strongest growth (on a comparable 12-month moving sum basis) through August 2016 is Veterans Benefits and Services, up 13.7 percent. Other high-growing expenditure areas include Natural Resources (+12.9 percent), Medicare (+8.1 percent), Education (+7.9 percent), and Net Interest (+7.8 percent). On the other end, expenditure areas declining the most include Energy (-44.4 percent), International Affairs (-8.0 percent), and Commerce & Housing (-6.4 percent).



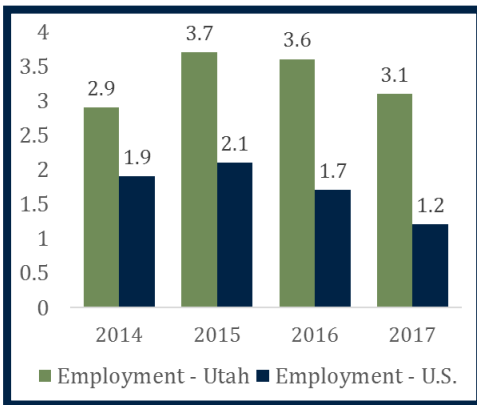
PART B: ECONOMIC INDICATORS

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REVIEW OF THE ECONOMIC INDICATORS

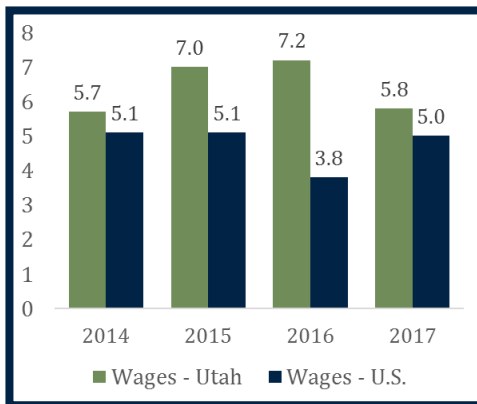
Nonagricultural Employment

Employment is growing in most sectors of the economy. Current estimates for 2016 have Utah employment growth at 3.6 percent for 2016 and moderating to 3.1 percent for 2017. These are unchanged from the May 2016 consensus indicators. Utah's employment growth rates more than double national growth rates. In fact when compared to other states, employment growth in Utah continues to rank in the top 5.



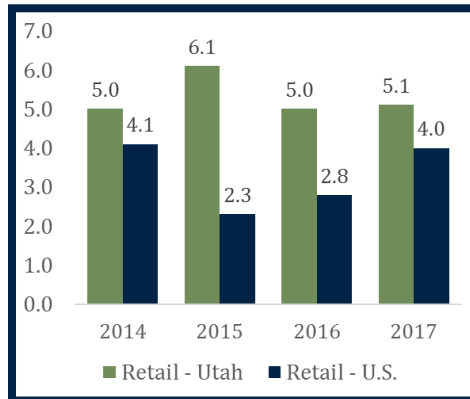
Nonagricultural Wages

Total wage growth in Utah is expected to be 7.2 percent for 2016 moderating to 5.8 percent in 2017. These are unchanged from the May 2016 consensus indicators. Total U.S. wage growth is expected to be 3.8 percent in 2016 and 5.0 percent in 2017 demonstrating Utah's strong economy compared to the nation. Average wage growth in Utah is expected to be 3.5 percent for 2016 and 2.6 percent for 2017.



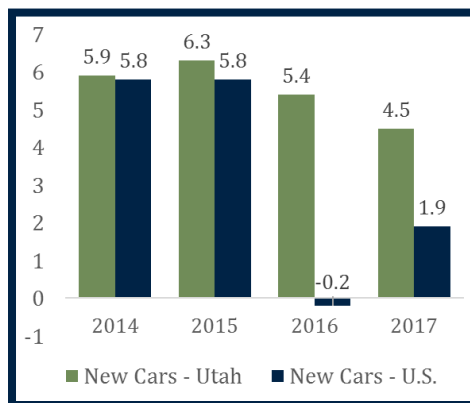
Retail Sales and Total Taxable Sales

Retail sales growth for 2016 is estimated at 5.0 percent, increasing to 5.1 percent in 2017. These are down from the 5.5 percent and 5.2 percent in May 2016. U.S. retail sales growth over the same time period is expected to be 2.8 percent and 4.0 percent respectively. Utah's total taxable sales are expected to increase 4.4 percent for 2016 and 5.0 percent for 2017. These are down from May's estimates of 5.0 percent and 5.3 percent respectively. In 2016 business investment has created a drag on taxable sales.



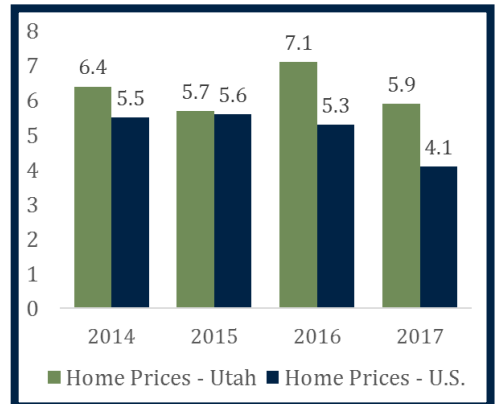
New Automobiles and Truck Sales

Sales of new automobiles and trucks remains strong in 2016. The new automobile and truck market in Utah is anticipated to grow by 5.4 percent and 4.5 percent in 2016 and 2017 respectively. This is down slightly from the May estimates of 5.7 percent for 2016 and up slightly from 4.0 percent for 2017. U.S. automobile and truck sales are expected to be -0.2 percent in 2016 and 1.9 percent in 2017.



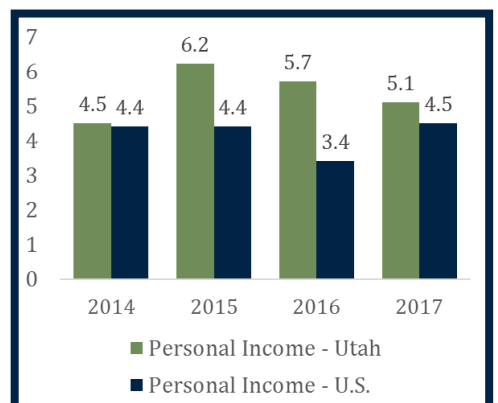
Home Prices

Housing prices continue to improve in Utah with expected growth for 2016 and 2017 at 7.1 percent and 5.9 percent respectively. These are up from the May estimates for 2016 and 2017 of 5.8 percent and 3.7 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. National home prices are expected to rise at 5.3 percent for 2016 and 4.1 percent for 2017.



Personal Income

Utah's personal income growth is estimated at 5.7 percent for 2016 and 5.1 percent for 2017. The 2016 growth rate is up from the May forecast of 5.2 percent, while the 2017 figure is down from the 5.2 percent forecast. U.S. personal income over the same time is expected to be 3.4 percent in 2016 and 4.5 percent for 2017. Personal income includes wages and non-wage components of income.



We often follow the revenue picture in other states in an effort to gauge how Utah compares. The most recent figures, released by the Census Bureau on September 20th for the first two quarters of 2016, suggest revenue growth in Utah remains strong, and in the upper portion of the 50 state revenue collections.

For the period from the third quarter of 2015 through the second quarter of 2016 (i.e. FY 2016), Utah's revenue growth ranked 15th among all states at 4.0 percent, coming in just behind Nevada and just above Alabama. On the top end of the revenue growth picture, Georgia came in first at 9.0 percent, followed by Indiana at 7.0 percent, Tennessee at 7.0 percent, Hawaii at 7.0 percent, and Washington at 7.0 percent. On the bottom end are North Dakota (down 32.0 percent), Oklahoma (down 10.0 percent), Wyoming (down 9.0 percent), Montana (down 8.0 percent), and West Virginia (down 8.0 percent).

In FY 2015, the state of Utah revenue picture was marginally lower at 22nd with year-over-year revenue growth of 6.0 percent.

Part of the relatively steady ranking of the state's revenue performance is due to a resilient, diversified economy, where businesses operating in such diverse industries as biotechnology, information technology, and mining compete on a global basis.

Other factors contributing to the State's performance include a nationally-known stable business and policy environment, a very cost effective workforce, and continued strong demographic growth less dependent on external immigration. Tax changes, such as the recent gas tax increase here in Utah, also play a role.

State	2013-2014 2014-2015 2015-2016			2014 Rank	2015 Rank	2016 Rank
	(4 Q FY growth)	(4 Q FY growth)	(4 Q FY growth)			
Georgia	6%	6%	9%	5	21	1
Indiana	-3%	12%	7%	50	3	2
Tennessee	1%	7%	7%	31	19	3
Hawaii	0%	7%	7%	41	14	4
Washington	4%	6%	7%	10	23	5
South Dakota	5%	2%	6%	8	47	6
Idaho	2%	8%	6%	26	8	7
District Of Columbia	3%	8%	6%	20	10	8
South Carolina	0%	7%	5%	36	15	9
New Hampshire	-4%	10%	5%	51	4	10
Michigan	0%	6%	5%	42	25	11
Maryland	4%	5%	5%	11	30	12
North Carolina	-2%	7%	5%	48	18	13
Nevada	2%	5%	4%	23	29	14
Utah	0%	6%	4%	39	22	15
Alabama	-1%	5%	4%	43	33	16
Pennsylvania	1%	6%	4%	33	27	17
Wisconsin	-1%	4%	3%	45	39	18
Virginia	-1%	8%	3%	46	11	19
Minnesota	2%	5%	3%	27	31	20
Arkansas	4%	3%	3%	14	42	21
Missouri	1%	6%	2%	32	20	22
Delaware	0%	8%	2%	34	9	23
California	2%	12%	2%	28	2	24
Kansas	-3%	6%	2%	49	28	25
Rhode Island	1%	7%	2%	29	13	26
Massachusetts	5%	7%	2%	7	16	27
Oregon	4%	9%	2%	12	5	28
Arizona	5%	9%	2%	9	6	29
Kentucky	2%	5%	2%	22	35	30
Maine	-1%	6%	2%	47	26	31
Vermont	4%	3%	1%	15	46	32
Ohio	-1%	5%	1%	44	34	33
Florida	4%	3%	1%	16	45	34
New York	1%	5%	1%	30	32	35
United States	2%	6%	1%	24	24	36
Mississippi	2%	4%	1%	21	40	37
New Jersey	2%	7%	0%	25	17	38
Colorado	5%	8%	0%	6	7	39
Nebraska	4%	4%	-1%	13	38	40
Iowa	0%	18%	-2%	40	1	41
Louisiana	8%	1%	-4%	2	49	42
Alaska	-34%	-73%	-4%	52	52	43
New Mexico	7%	4%	-5%	3	36	44
Illinois	3%	-2%	-6%	19	50	45
Texas	6%	3%	-6%	4	43	46
Connecticut	0%	2%	-7%	38	48	47
West Virginia	0%	3%	-8%	35	44	48
Montana	0%	8%	-8%	37	12	49
Wyoming	4%	4%	-9%	18	37	50
Oklahoma	4%	4%	-10%	17	41	51
North Dakota	15%	-4%	-32%	1	51	52

LENGTH AND DEPTH OF THE RECOVERY AND EXPANSION

October marks the 80th month of the current labor market expansion in Utah. The current recovery, indicated by the start year of the expansion as the pink line labeled 2010 in the “Employment Business Cycles, Utah” chart is one of the longer expansions in the history of economic cycles. Only the 1980s to 1990s expansion beats the current recovery/expansion experience in terms of length.

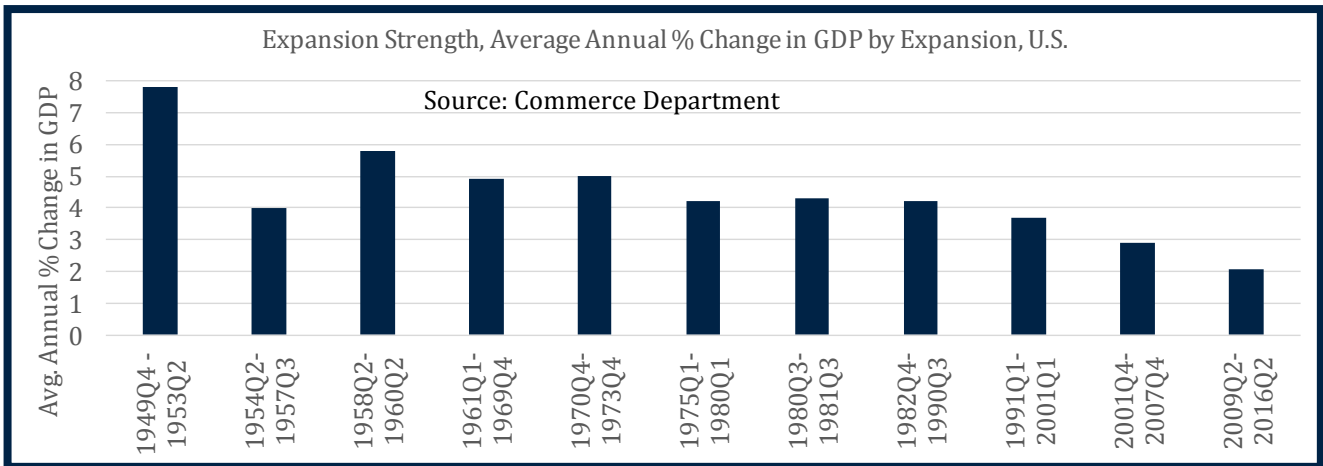
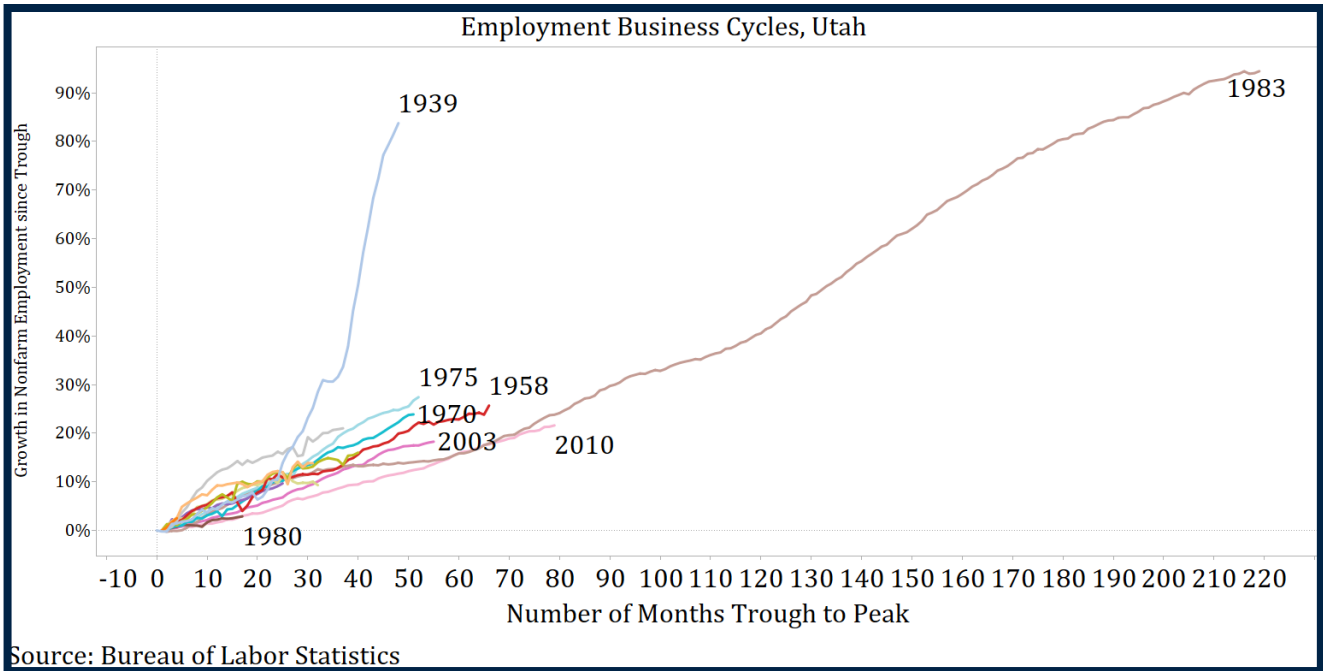
The length and depth of the recovery is shown on the chart and considers the previous eight economic cycles. On the horizontal axis (x-axis) is the length of the given recovery/expansion, measured in months. On the vertical axis (y-axis) is the percentage growth in employment since the start of the recovery/expansion.

The current expansion is, as mentioned before, already the second longest on record. However, the economic gains the state has experienced compared to other recoveries remains historically low. Overall, the employment gains through the

first 80 months of the current expansion rank as the worst ever when measuring average annual employment growth. This is shown by the low vertical values of the pink line labeled 2010 in the top chart.

The Utah experience is similar to the national experience. The bottom bar graph labeled “Expansion Strength” looks at business cycle expansion strength, as measured by average annual percentage growth in GDP by economic expansion. The current expansion that began in the second quarter of 2009 is the weakest since World War II.

The depth and duration of the economic expansion matters for revenue because a lack of forward momentum in the economy makes states more susceptible to outside shocks, including natural disasters, geopolitical events, and changes in oil prices. The heightened downside risk is being partially addressed through stress testing, where we are looking at potential revenue downside risks and the buckets available to fill revenue holes.

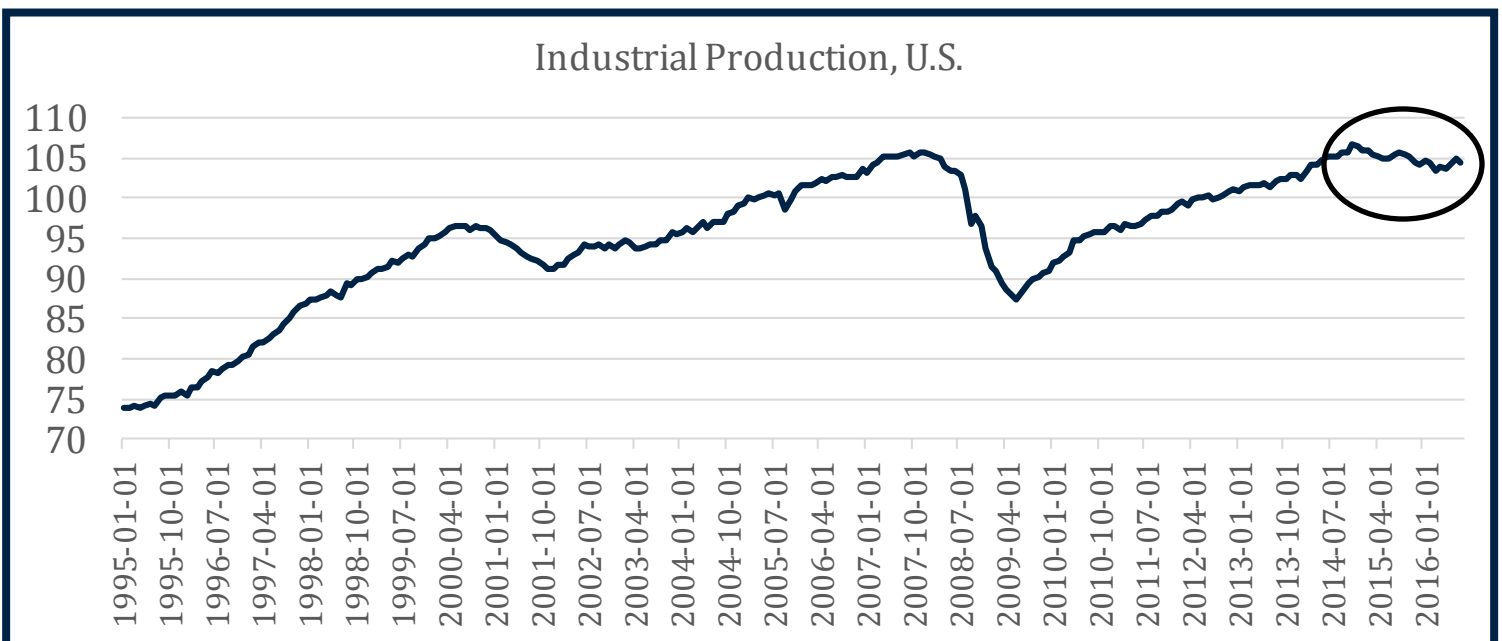
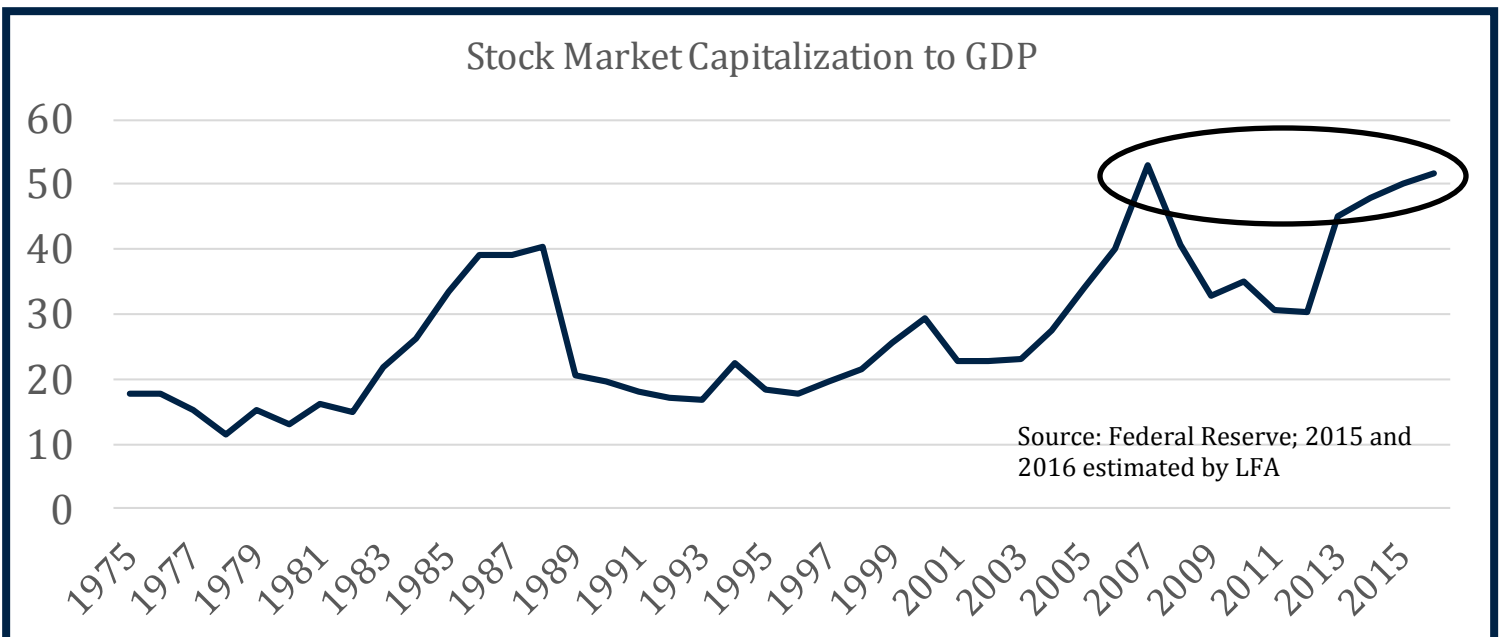


The global economy is anticipated to grow by about 3.0 percent in 2016, marking the seventh consecutive year of positive economic growth. Entering the eighth year of expanding growth, the global economic picture faces risks, as it does every year.

The stock market graph below captures one of the largest risks to the health of the American and global economies. The measure shows stock market capitalization as a percent of Gross Domestic Product. Should 2016 finish the way it is expected, global stock market capitalization to GDP could approach its second highest value ever at a little over 50.0 percent. The highest ever was 53.0 percent in 2007 (just before the housing market collapse). We anticipate corporate equities to continue to gain marginal

value, but note the current historically high value of said assets as a potential downside risk.

Other potential risks are on the economic horizon. The list includes a drop in demand from global consumers (such as China and Europe), further weakening of business investment and confidence (represented by Industrial Production in the bottom graph), souring of overall business conditions in Europe or China, a cracking of the current strength of the technology industry, potential military encounters in Syria and Ukraine, potential terrorist events, and other unknown but high consequence events.





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

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PART C: REVENUE COLLECTIONS

Tax Revenue (In Millions of Dollars)	FY 2016 Final	FY 2017 Consensus	FY 2017 Consensus Growth Rate	FY 2016 Year-to-Date 10/10/2015	FY 2017 Year-to-Date 10/10/2016	FY 2017 Year-to-Date Growth Rate
Sales & Use Taxes	\$1,778.54	\$1,858.00	4.5%	\$475.80	\$486.32	2.2%
Individual Income Tax	3,370.32	3,534.11	4.9%	702.15	744.54	6.0%
Corporate Franchise Tax	338.33	371.20	9.7%	98.43	75.83	-23.0%
Beer, Cigarette & Tobacco	118.33	114.31	-3.4%	35.71	25.68	-28.1%
Insurance Premium Taxes	111.66	93.21	-16.5%	26.00	26.79	3.0%
Severance Taxes	27.74	28.67	3.4%	8.10	(0.73)	-109.1%
Other Sources	245.38	260.43	6.1%	25.75	23.50	-8.7%
Total - General & Education Funds	\$5,990.30	\$6,259.93	4.5%	\$1,371.93	\$1,381.92	0.7%
Motor Fuel Tax	\$305.23	\$328.30	7.6%	73.59	91.60	24.5%
Special Fuel Taxes	115.53	120.51	4.3%	26.86	33.15	23.4%
Other Transportation Fund	86.50	88.66	2.5%	19.45	20.58	5.9%
Total - Transportation Fund	\$507.26	\$537.47	6.0%	\$119.89	\$145.33	21.2%

Source: LFA, USTC, DOF