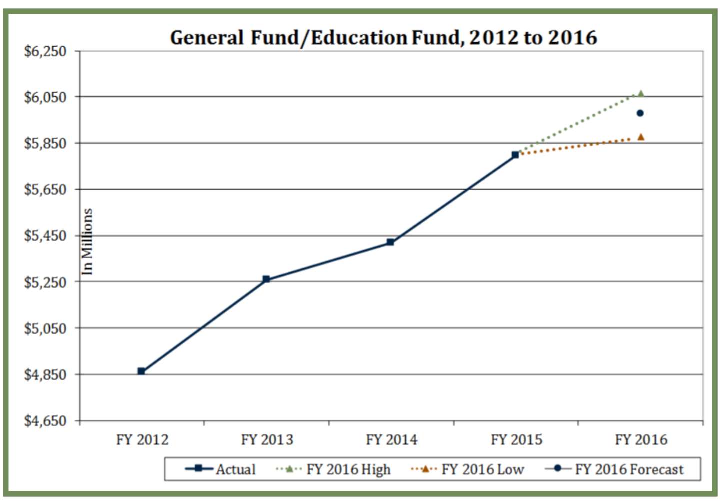
Fiscal Highlights

Revenue Update - June 2016 - Andrea Wilko

Utah's revenue is expected to grow by 3.0 percent between FY 2015 and FY 2016. We anticipate collections will be very close to the established target. However, there is some downside risk to the forecast: corporate tax is weak and income tax refunds have been more than anticipated, drawing down income tax revenue. Severance tax remains sluggish. Sales tax is growing moderately in light of the relatively stronger employment picture.

Given current collections and consensus indicators developed by the Revenue Assumptions Working Group, we anticipate FY 2016 General and Education Fund revenues will be in the range of $100.0 million below to $85.0 million above May Executive Appropriations targets. We expect the Transportation Fund to be $5.0 million below to $15.0 million above the May target.

The current forecast assumes moderately strong growth in several key areas such as employment, wages, construction, and taxable sales. Factors that may influence the direction and magnitude of economic growth in the coming quarters include business investment, household formation, wage growth, commodity prices, interest rates, growth in China and other emerging market economies, equity markets, business and consumer confidence, and other unforeseen events. At the same time, current collections are not keeping pace with expectations.



Through the first half of FY 2016, income tax refunds were running well behind the prior fiscal year. That changed when the October filings started showing up with higher than normal refunds. Refunds have continued on this path for the remainder of the fiscal year, currently floating at around 17.0 percent more than last year's amount. The jump in growth is not anticipated to occur again in the coming year, although refunds are anticipated to come in above their current level. Corporate income tax is also down. The weak corporate profits picture stems from the national corporate earnings recession in the past few quarters. In 2016, corporate profits are anticipated to be down 3.0 percent.

On sales tax, although online sales have been a continued focus, it is not one of the largest factors behind the current moderately positive growth picture. The largest drivers behind sales tax growth moderation are low inflation ($38.0) million, abnormally weak business investment ($35.0) million, and relatively subdued wage growth ($32.0 million). Growth in online sales comes in after these three at $16.0 million for FY 2016. Looking towards the 2016 calendar year, taxable sales are expected be up 5.0 percent.

Severance taxes are also quite weak, as the oil and natural gas recession works its way into revenues. Behind the decline in oil and gas severance taxes is the depressed prices and production of oil and natural gas for most of FY 2016. We anticipate further weakness through 2016 of -13.0 percent oil and -18.0 percent natural gas.