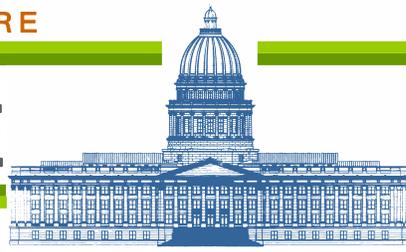


REVENUE

UPDATE



2007 INTERIM

VOLUME 1, ISSUE 2

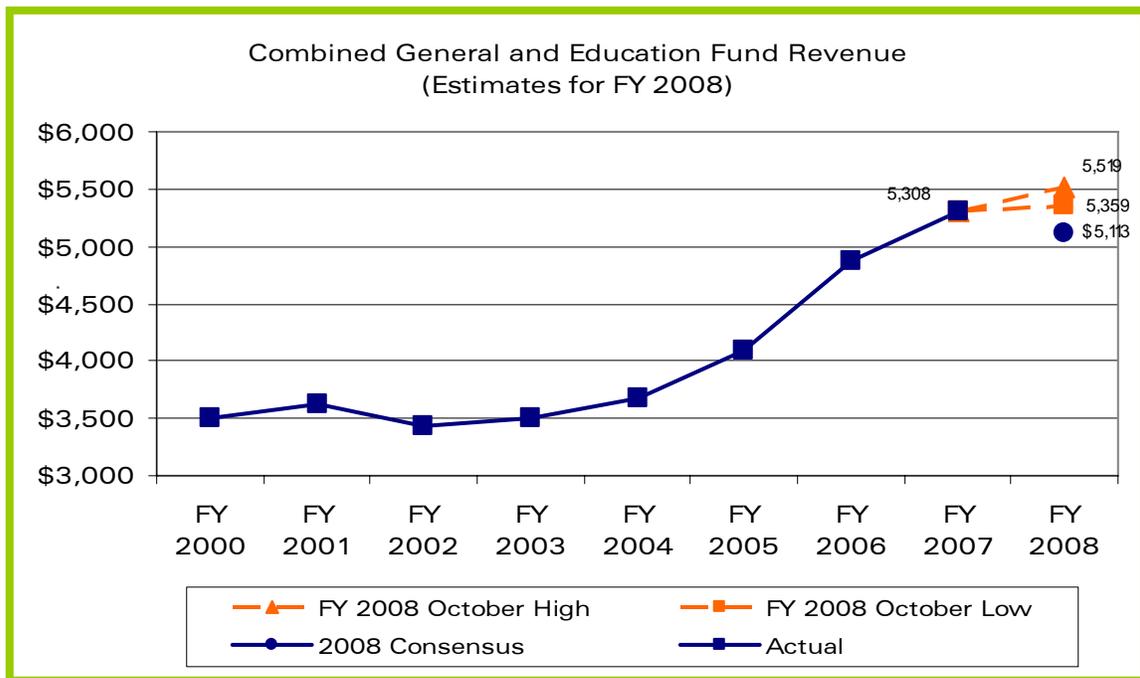
TAX COLLECTIONS

Economic growth in Utah remains strong. As a result, projected economic indicators and revenue collections are higher now than expected in February. Based on these indicators General Fund revenues for FY 2008 are expected to exceed the February target by \$74 to \$127 million and the Education Fund revenue is expected to exceed the February target by \$172 to \$279 million for that same year. Total General and Education Fund revenues are therefore expected to be \$246 to \$406 million over February targets. These figures are based on a high/low forecast methodology.

The strong revenue growth is the result of growth in population, income and employment, and non-residential construction. The Utah economy is expected to continue to rank among the best in the nation for FY 2008.

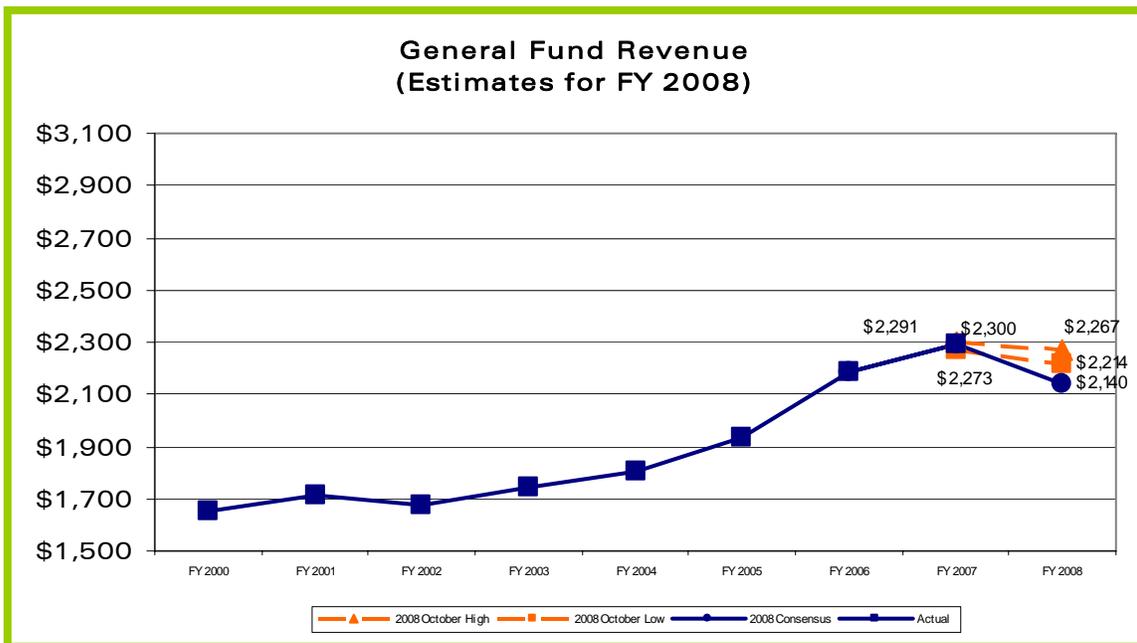
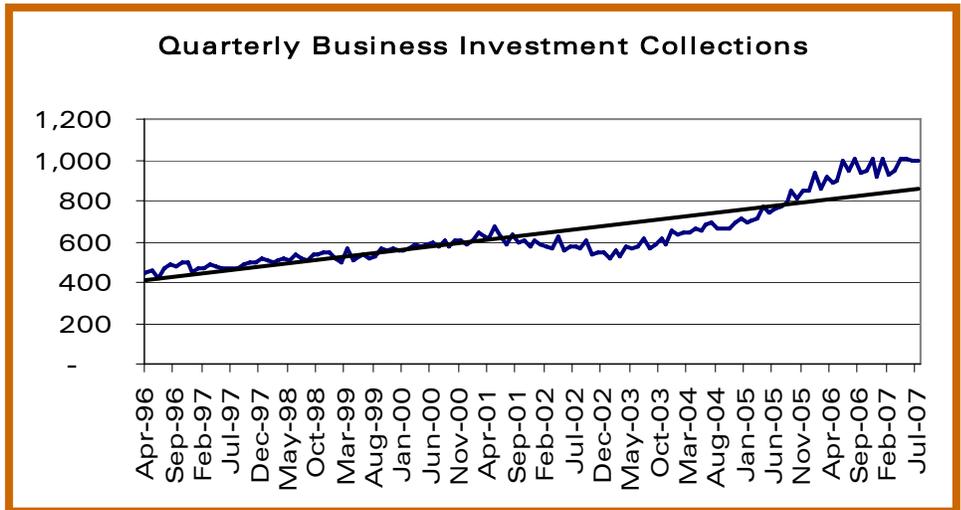
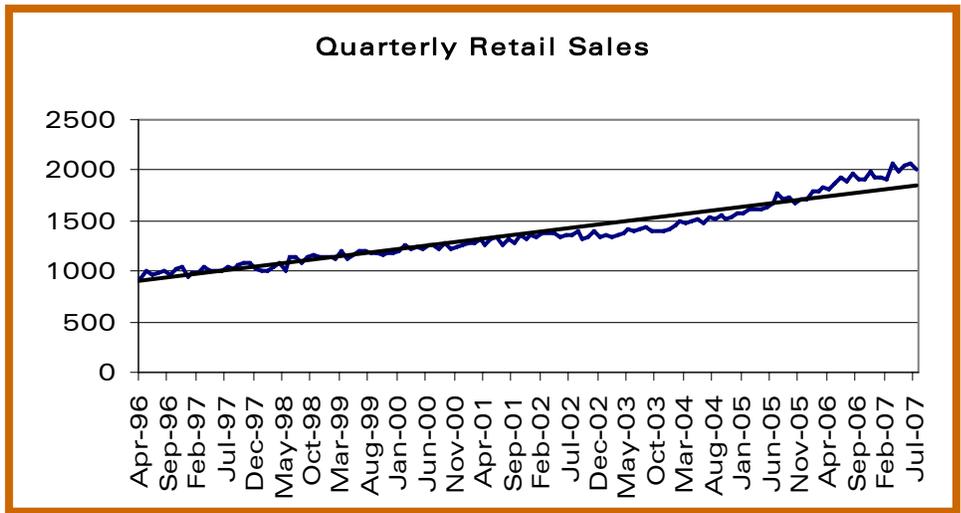
Risks to future revenue growth include continued impacts from a weak housing sector, and the possibility of inflation. A tight labor market will continue to enhance wages for FY 2008. Higher wages should enhance consumer ability to spend. However, increased wages will also potentially moderate corporate profits. High gas prices are also expected to affect consumer expenditures.

The Fiscal Year 2007 General Fund Surplus was \$64,925,000 and the Education Fund Surplus was \$176,947,000 for a combined GF/EF surplus of \$241,872,000. The State combined GF/EF FY 2006 surplus, by comparison, was \$308,428,400 (\$85,126,100 GF and \$223,302,300 EF). The FY 2006 surplus was after \$78,500,000 in transfers to the budget reserve accounts. No budget reserve transfers occurred in FY 2007. By way of comparison, most of the surplus was the result of revenue collections over target in the Sales Tax, Investment Income, and Individual Income Tax Categories.



Sales tax represents a significant portion of Utah's General Fund. Sales tax is represented by three general categories — retail sales, business investment, and services. Retail sales are considered a coincident indicator. Utah is above trend in this area currently, but is projected to slow in coming years from a growth rate of 7.3% to an annual growth rate of 3.7% for calendar year 2008. Collections to date for FY 2008 are slightly negative.

The General Fund also contains funding from cable and satellite excise taxes, liquor profits, insurance premiums, beer, cigarette, tobacco, oil and gas severance taxes, metal severance tax, investment income, and other smaller sources. Investment income is expected to slow in FY 2008 due mainly to an expected decline in balances and a slight decline in the expected returns on those funds. Metal severance tax revenue will likely drop slightly due to moderating copper prices and flat production growth; coal is also expected to experience slow to slightly negative growth in terms of revenue. Oil and gas severance revenue is expected to increase as both price and production increase. Severance taxes remain strong primarily driven by on-going demand from overseas markets for energy and precious metals.

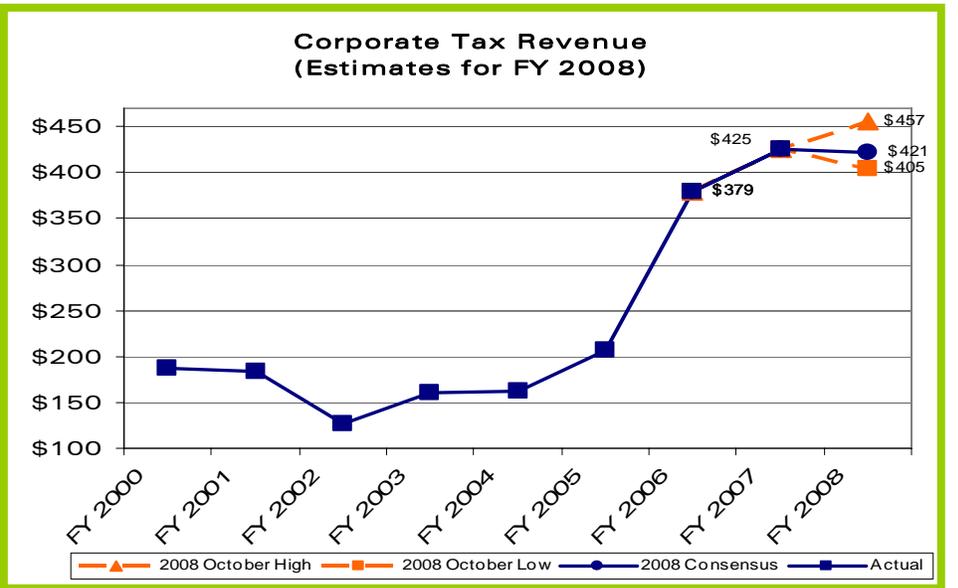
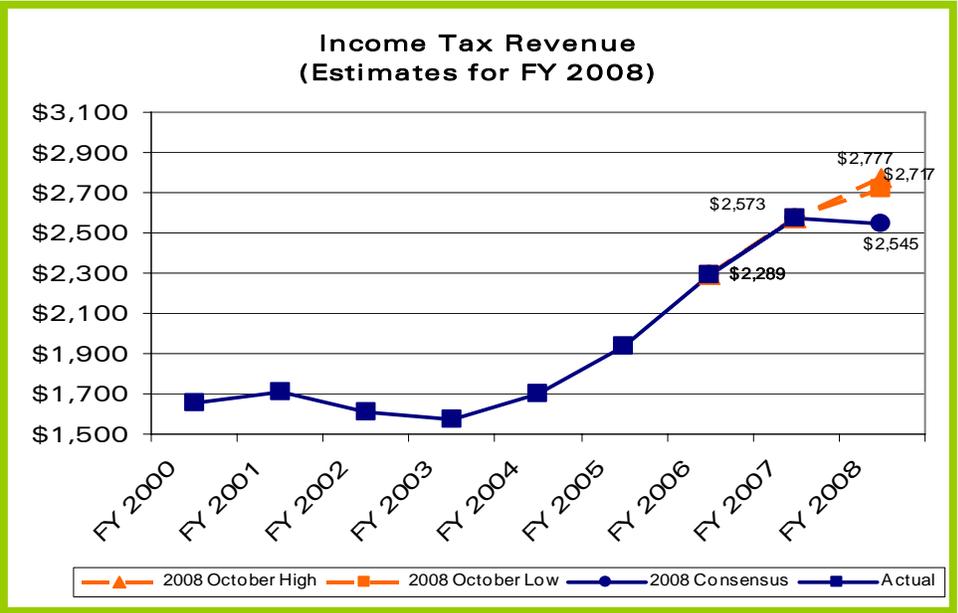


Income and corporate tax account for almost all of the Education Fund revenue. Individual income tax is anticipated to experience between 5 and 6 percent growth over fiscal year 2007 estimates. This is due largely to wage gains, capital gains, and dividend earnings. Part of the recent increase in income tax may be due to the fact that withholding has not yet been updated for the most recent income tax changes (flat tax). First quarter withholding mirrors total wage growth forecasts.

A strong business climate, including demand for commodities and chemicals, has had an impact on corporate tax collections. Expected (and actual) price appreciation has also been shown to be in the favor of many business sectors. Corporate profitability continues to be solid.

Utah has strong manufacturing, transportation, and technology sectors. Over the past few fiscal years, significant growth has been experienced in these industries. It is estimated that these sectors will continue strong growth over the coming year, although at a slightly lower pace of growth.

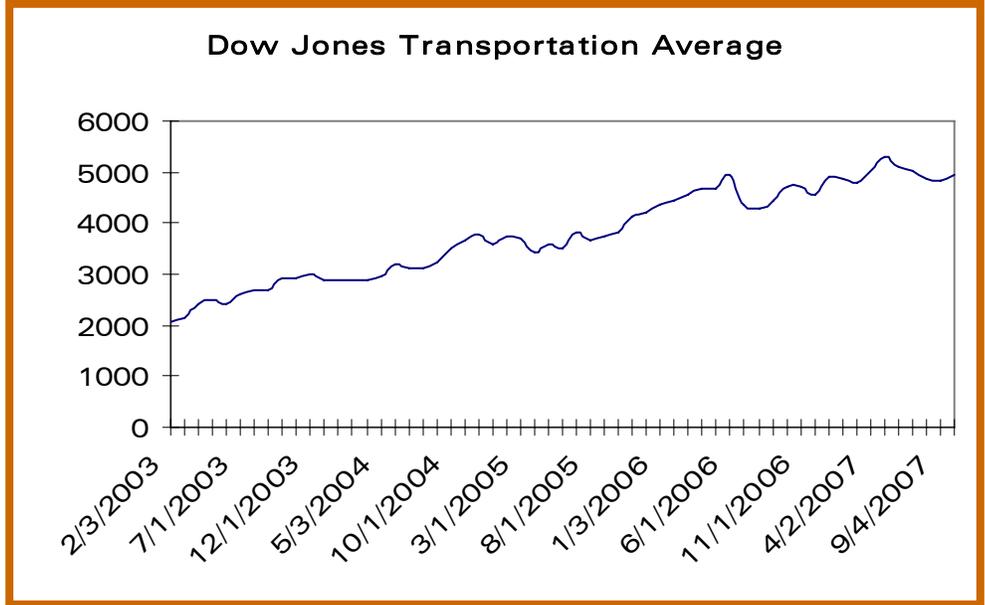
The two main structural changes to Utah's Education Fund revenue were income tax reform and the renewable energy credit. It is estimated that these changes combine to decrease the Education fund growth by approximately \$28 million in FY 2008. Additional impacts from tax reform will occur in FY 2009.



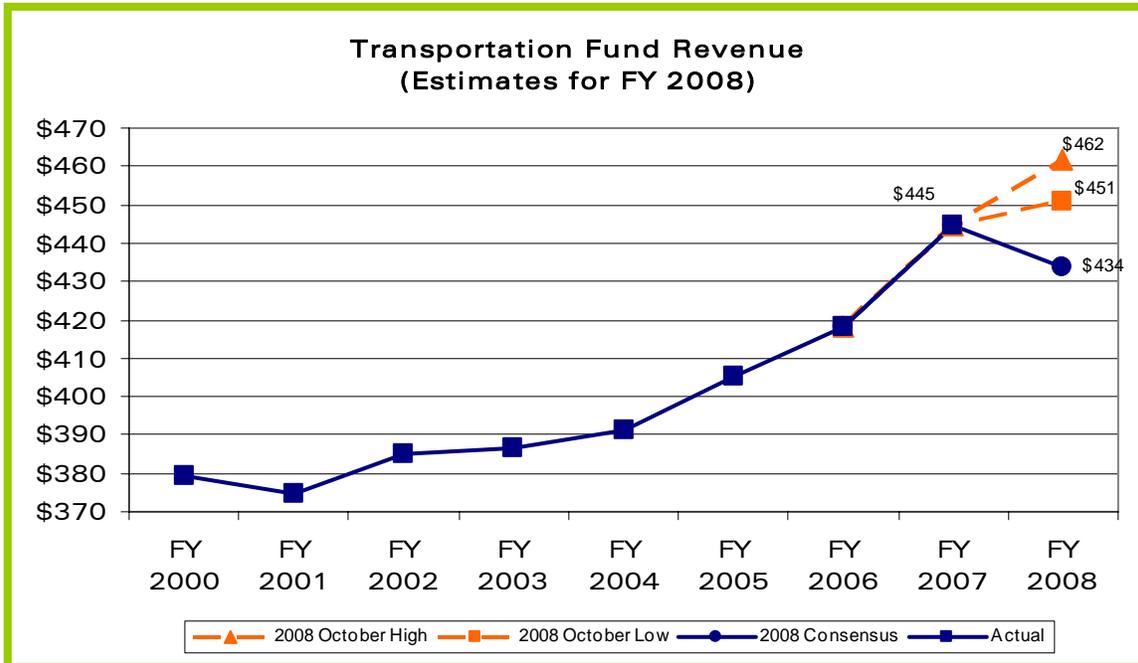
# TRANSPORTATION FUND

Utah's transportation fund is financed mainly by motor fuel, special fuel and motor vehicle registrations. Utah's appear to have viewed the price increases in fuel as transitory, thus causing little effect on consumption behavior. It appears though that some behavioral changes may be showing lagged effects.

In addition to population growth and the price-insensitive short run demand for motor fuel, special fuel and other elements of the transportation fund stemming from the consumer, commercial demand for these fuels is also at high historical levels. The demand for transportation related services has grown (and is expected to grow in coming years at a much faster pace than overall economic growth. Demand for shipping, carriers, trucking, and airlines have contributed to the overall increase in Transportation Fund revenue, and appear to account for a significant amount of the recent historical increase.



Net transportation fund revenues for FY 2008 are expected to be \$17.3 million to \$27.9 million over the February target.



# KEY ECONOMIC INDICATORS

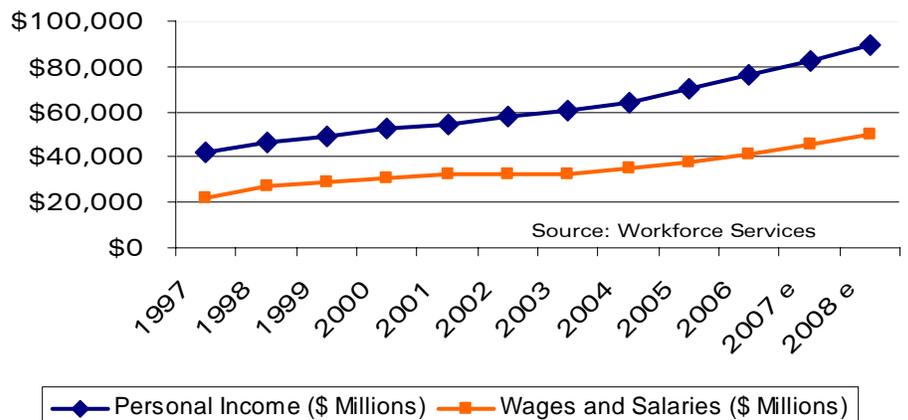
## WAGES AND EMPLOYMENT

Nationally, unemployment still appears to be amazingly low. With that said, there is evidence that, job openings, unemployment claims, hires, and layoffs appear to be entering a slowdown.

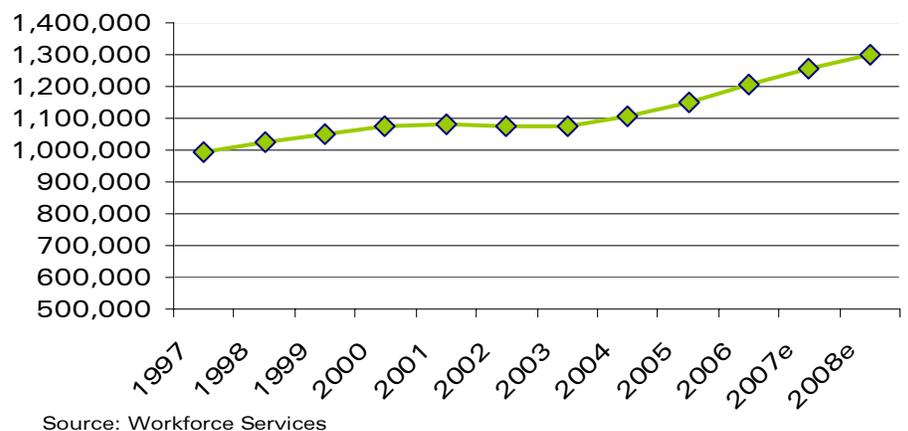
Utah has experienced strong employment and wage growth over the previous years, and is projected to increase over the coming fiscal year, albeit at a slower pace. Wages account for an estimated 70 percent of income for individuals. Utah's unemployment rate is expected to stay in the 2.9 to 3.1 percent range, well below historical trends. Average wage is expected to increase between 4 and 5 percent in FY 2008. Employment numbers are incredibly strong when compared to historical norms. The strongest sectors continue to be: construction, professional and business services and mining. The non-residential construction sector seems to be taking up much of the slack in the residential construction sector. The residential housing sector has slowed dramatically due to the recent credit crunch. There is a potential for 12 more months of difficulty in the housing sector due to credit problems nationwide. However, because of the strength in the non-residential and multi-family sector the construction sector should remain quite strong in Utah throughout the 12 month period. The growth rate of employment is expected to slow to 3.5 percent however coupled with average wage growth of 4.6 percent, total wage growth should be above 8 percent for 2008.

Competition for workers has driven up wages in the last couple of years. Strong in-migration has helped employers meet the need for workers in all categories.

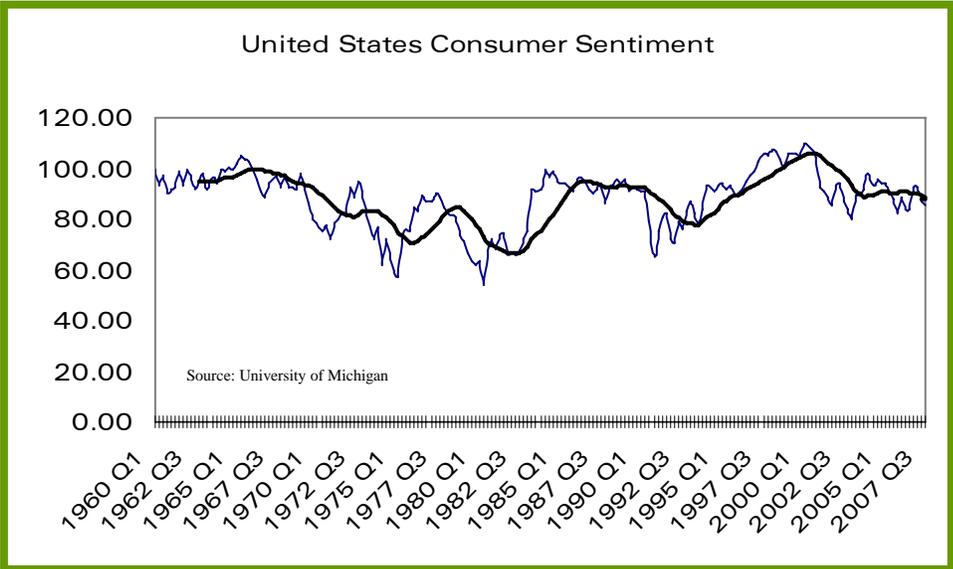
### Personal Income, Wages and Salaries



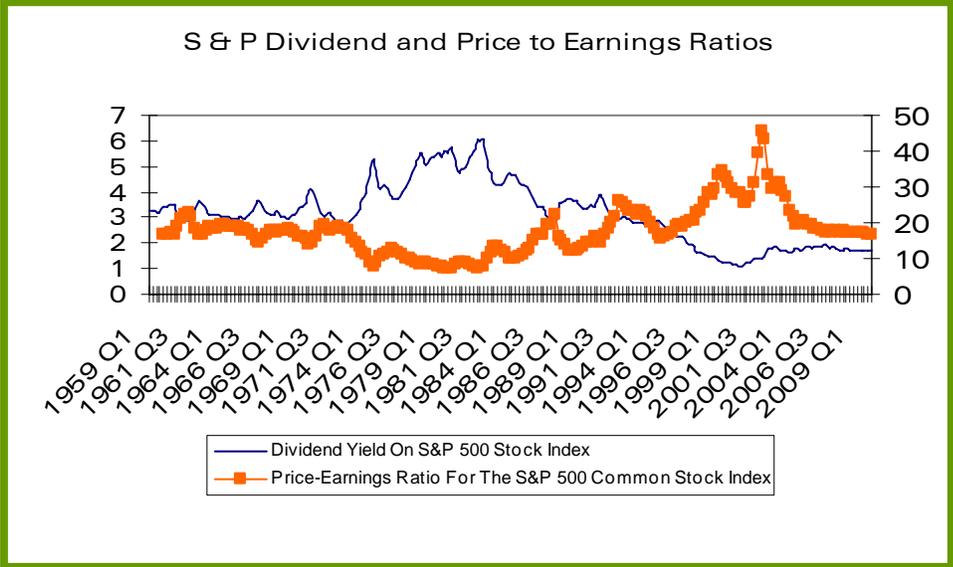
### Employment



National consumer sentiment is slightly below a three-year moving average (and overall average), reaching a value that appears to be somewhat consistent with slower economic growth. Tougher lending standards, slower or negative price level changes in the housing market, a weaker dollar, and somewhat higher prices for inputs into transportation will likely put downward pressure on consumption expectations over the coming year. Consumer sentiment has an effect on revenue through changes in consumption and savings behavior.



The effect of financial markets on revenue growth is experienced mainly through the individual income tax, although rising equity (and other financial instruments) prices also have an impact on sales tax growth. S & P 500, international equities, and dividend yields all play a role in rising capital gains and dividend income. It is estimated that growth will turn down for earnings, albeit from record historical highs.



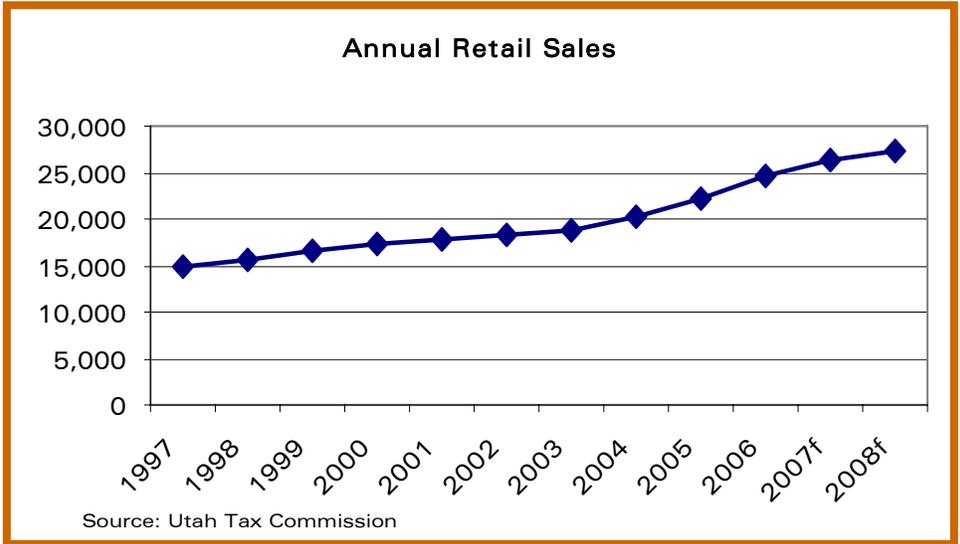
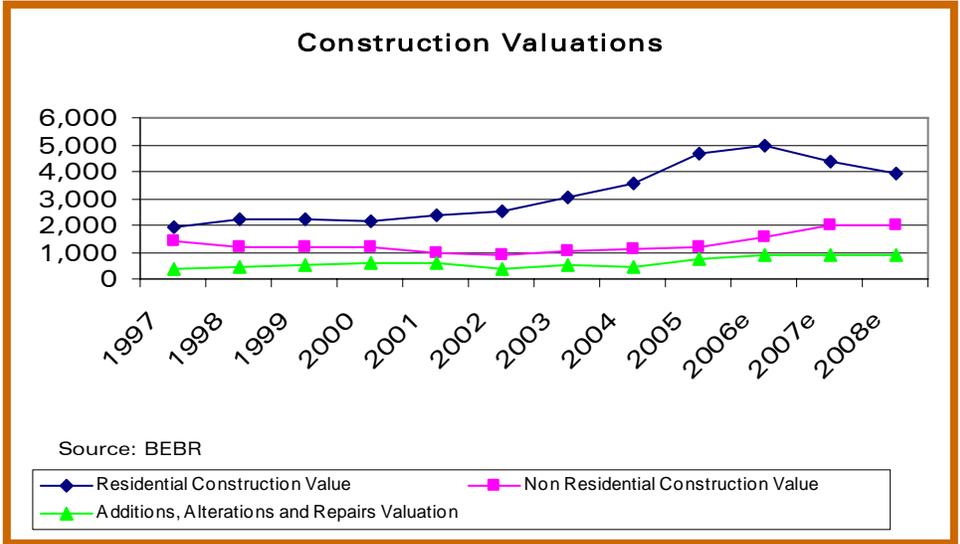
Yields and interest rates are significant players affecting Utah's revenue growth. A widening of the yield against the highest quality financial asset (U.S. Treasuries) will have an effect on consumption behavior in the coming year. It is likely that yields will come up from historically low levels in the coming years. Finally, the odds of the Federal Reserve adjusting the Federal Funds target rate down dropped recently from 84 percent to 48 percent indicating that concerns over inflation have not yet subdued.

Inflation, as measured by CPI is expected to stay around 2 percent. With wage growth above inflation consumers should continue to see real gains in spending power. Of the categories that make up the consumer price index, energy, food, and health care continue to experience significant price increases. Inflation can be driven by a number of factors; in the most recent case, it appears the majority of upward price level pressure stems from demand rather than supply.

Housing in Utah has experienced significant growth in both price and volume. Part of this is due to historically low rates paid on mortgages, as well as certain lending practices.

Residential construction in Utah is slowing significantly in terms of permits authorized. Construction affects not only the construction sector, but also, among others the building and garden and wholesale-durable goods sectors. Non-residential construction is still growing at breakneck speed, due to strong demand for commercial real estate.

For the nation as a whole, retail sales are expected to experience 2.9 percent growth, representing a tightening of consumer spending. Retail sales for Utah are expected to be 3.7 percent for FY 2008, well above the national forecast. These estimates are somewhat lower than the recent strong growth in Utah's retail sales sector. Overall retail sales in Utah are still expected to be in good shape.





RETURN SERVICE REQUESTED

REVENUE COLLECTIONS TO DATE

AS REPORTED ON FORM TC-23, OCTOBER 15, 2007 BY THE UTAH STATE TAX COMMISSION

**MAJOR\* TAX SOURCES**  
*(In Millions of Dollars)*

	FY 2007 FINAL (Prelim)	FY 2008 FEBRUARY CONSENSUS 2/12/2007	FY 2008 FEBRUARY Growth Rate Col 2 / Col 1	FY 2007 YEAR-TO- DATE 10/6/2006	FY 2008 YEAR-TO- DATE 10/5/2007	FY 2008 YEAR-TO- DATE Growth Rate Col 5 / Col 4
SALES AND USE TAXES	1,857.26	1,885.34	1.5%	455.38	453.91	-0.3%
INDIVIDUAL INCOME TAX	2,570.45	2,572.00	.1%	519.56	560.78	7.9%
CORPORATE FRANCHISE TAX	427.96	422.00	-1.4%	107.57	91.20	-15.2%
BEER, CIGARETTE & TOBACCO	62.41	58.90	-5.6%	15.20	15.63	2.8%
INSURANCE PREMIUM TAXES	71.78	71.60	-0.3%	16.18	18.96	17.2%
SEVERANCE TAXES	89.03	90.15	1.3%	25.62	23.01	-10.2%
<b>GENERAL &amp; EDUCATIONAL FUNDS</b>	<b>\$5,079.44</b>	<b>4,933.11</b>	<b>3.6%</b>	<b>\$1,139.51</b>	<b>\$1,163.49</b>	<b>2.1%</b>
MOTOR FUEL TAX	\$254.68	\$242.30	-4.9%	\$64.17	\$69.11	7.7%
SPECIAL FUEL TAXES	111.15	109.90	-1.1%	27.35	33.92	24.0%
MOTOR VEHICLE REGIS. FEES	34.29	34.63	1.0%	9.38	9.86	5.1%
<b>TRANSPORTATION FUND</b>	<b>\$400.14</b>	<b>\$386.83</b>	<b>2.0%</b>	<b>\$100.90</b>	<b>\$112.89</b>	<b>11.9%</b>

Source: Utah Tax Commission TC-23