UTAH LEGISLATURE

OCTOBER 16, 2012

REVENUE UPDATE

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PART A: TAX COLLECTIONS

The state ended FY 2012 with an $85 million General and Education Fund revenue surplus. After expenditure adjustments and transfers to the Rainy Day Funds occurred, the budget surplus was $46.3 million ($11.3 million General Fund and $35 million Education Fund). With a new higher base, revenue must grow by an additional 2.4% in FY 2013 to meet targets established in May. Consensus revenue projections indicate that FY 2013 revenues are within range of the forecast, with more upside than downside risk.

Given consensus economic indicators developed by the Revenue Assumptions Working Group we anticipate that FY 2013 General and Education Fund revenue will be in the range of flat to $100 million more than estimated last Spring. We expect the Education Fund to show the largest growth over current forecasts. We also estimate that the Transportation Fund may be $5 million below to $5 million above our previous estimate.

Economic recovery continues to take hold. While job creation continues it will not be strong enough in 2012 to recoup the jobs lost during the recession. By CY 2013, however, employment is expected to be above FY 2007 levels.

The current range forecast for FY 2013 and the consensus economic indicators are based on the assumption that worldwide growth will continue at a low to moderately positive pace, with no positive or negative shocks to the overall economy.

The assumption of the economy gradually gaining momentum contains, of course, risks of not materializing, with most of those risks on the negative side. Downside risks include a European slowdown, a Chinese and emerging markets slowdown, the overall impact of federal tax policy and spending decisions, and any sustained decline in business and consumer confidence.

With the caveat that if things turn sour, they will turn sour very quickly, the forecast also contains a good amount of upside risk. The upside may come in the form of an acceleration in building because of a stronger than anticipated real estate market, accelerating strength in the appetite for risk among businesses, investors, and entrepreneurs, and above-anticipated improvement in business investment and confidence.

Although the downside and upside risks are not evenly distributed, at least when it comes to the likely magnitude of effect on state revenue, the upside risk is not too far behind the mentioned downside possibilities.

CHART 1: Combined General and Education Fund Revenue
(Estimates for FY 2013)

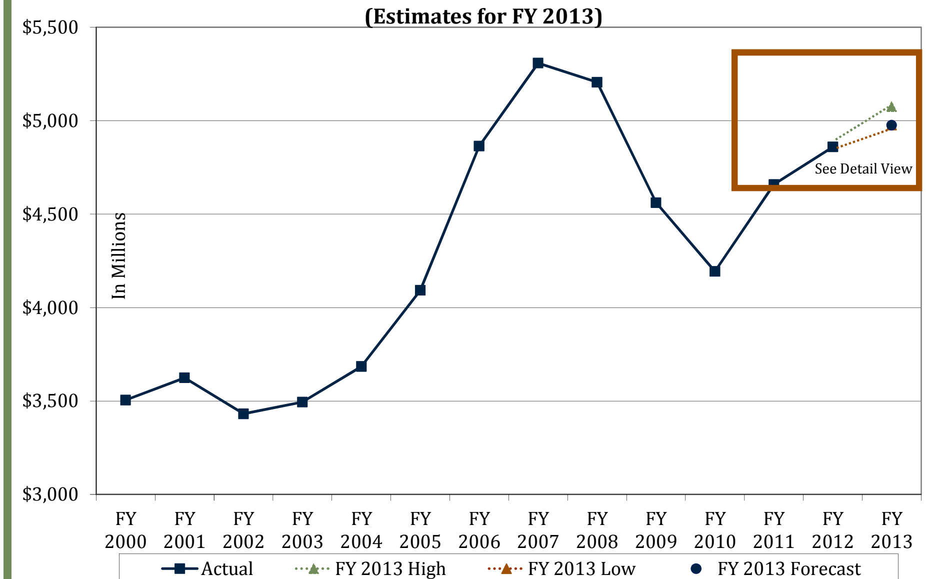
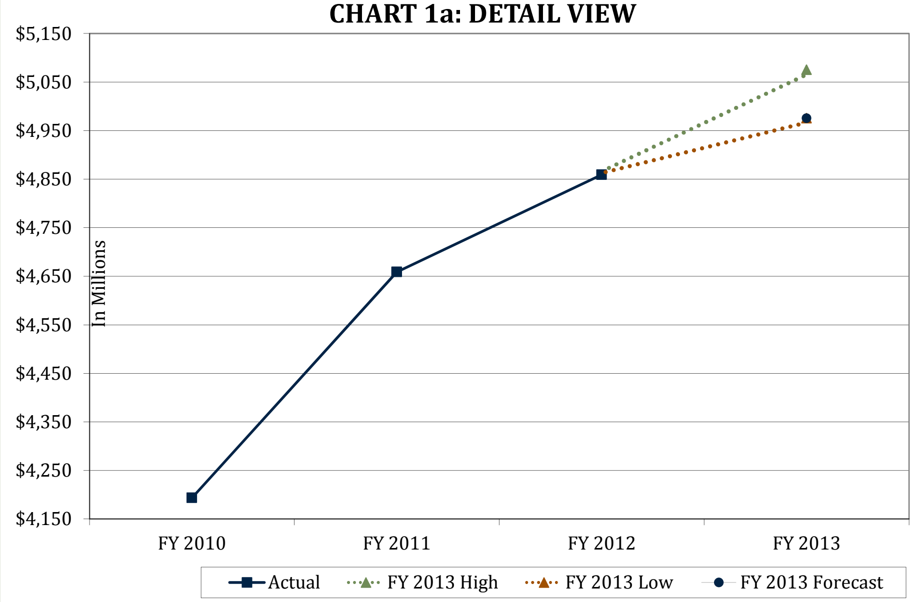


CHART 1a: DETAIL VIEW



A1 General Fund

At the end of FY 2012, state accountants calculated a revenue surplus of $15 million. The FY 2012 surplus is largely due to an accounting change that shifted an extra $8.6 million normally earmarked for the Centennial Highway Fund into free revenue sales tax. Continued strength in liquor profits, a bump in insurance premiums, and demand for cable and satellite services also contributed to the surplus. Looking forward, in summing all sources, we expect the General Fund to end FY 2013 in the range of flat to $30 million above the EAC adopted May consensus.

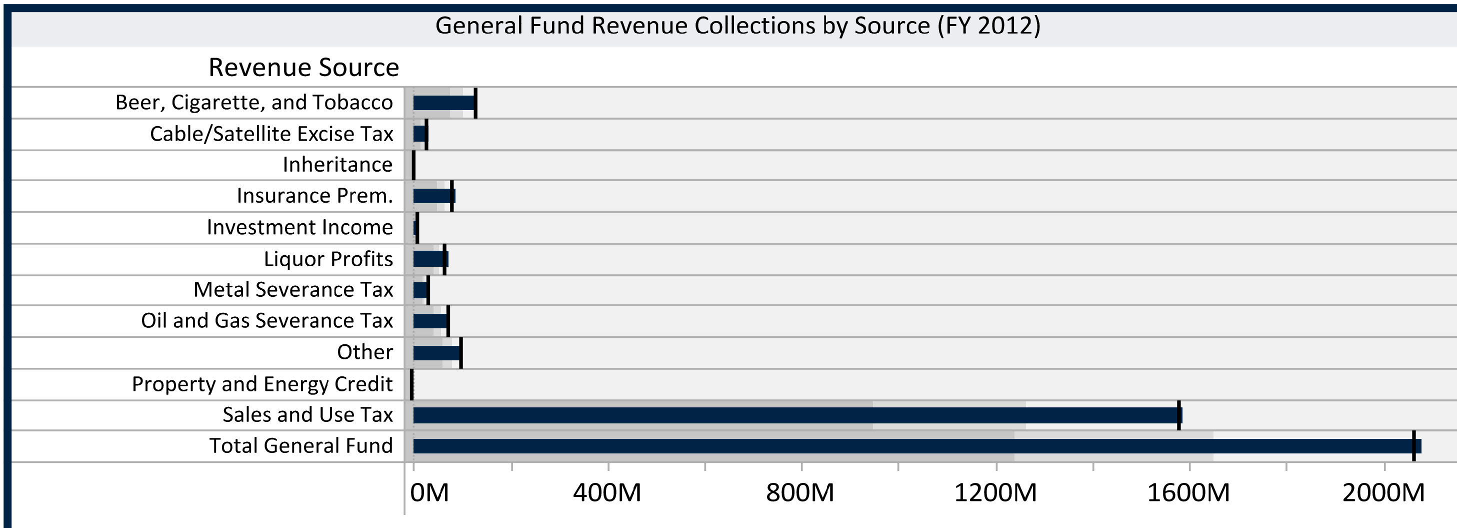
The five sources that came in above target were not evenly countered by the five sources that came in under target, with oil and gas severance taxes, metal severance tax, and other revenue sources accounting for most of the deficit performing revenue sources.

Through the first quarter of FY 2013, total revenue is coming in above target. However, making any conclusion that first quarter revenue is going to be representative of year end revenue is akin to concluding that the team leading after the first quarter in a basketball game is going to win.

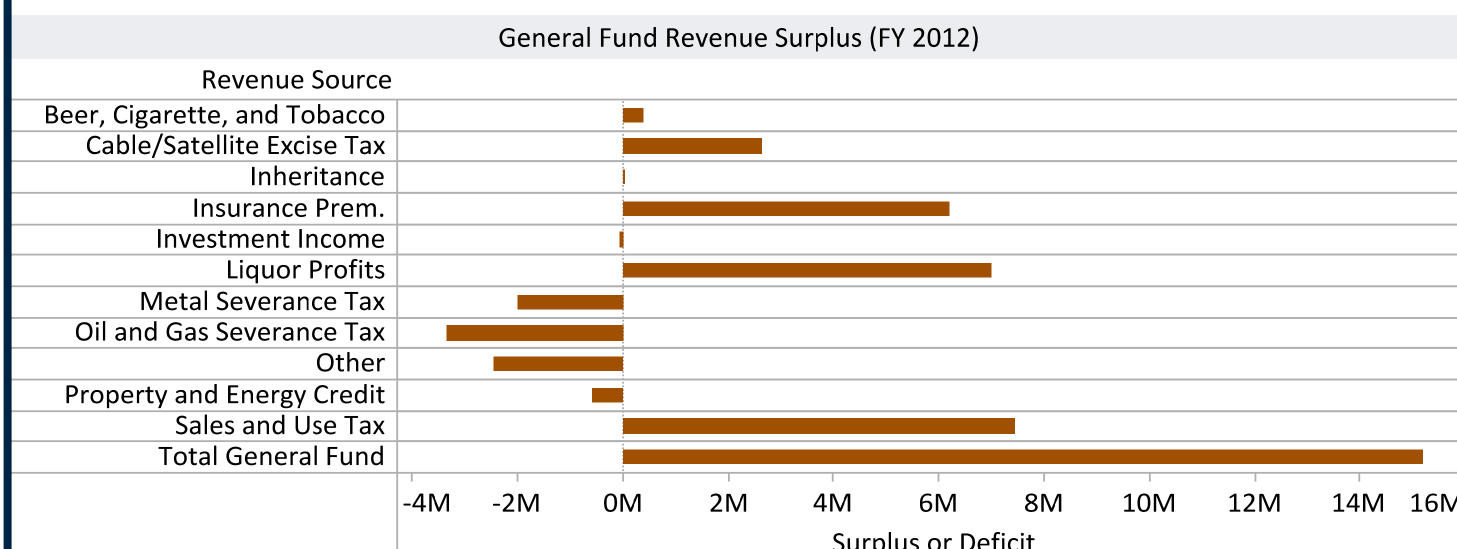
Because first quarter performance is only weakly, if at all, related to year end revenue outcome, at this point the most important factors in evaluating the revenue condition of the General Fund are the economic indicators.

The most important indicators related to the General Fund are retail sales, new truck and auto sales, total taxable sales, natural gas prices, oil prices, population growth, construction, household disposable income, non-mortgage credit, and the performance of equity markets. All of these indicators are up slightly from February forecasts.

Of these indicators, all are anticipated to have a positive effect on overall revenue growth, with retail sales anticipated to finish CY 2012 at a growth rate of 6.7%, and then decelerate to 6.4% in CY 2013. Among the other indicators, new auto and truck sales are expected to grow by 16.8% in CY 2012 and then slow down to annual average growth of 6.8% in CY 2013. Finally, real estate wealth is anticipated to increase in CY 2013, providing much needed support to real asset wealth.



The vertical line represents the FY 2012 consensus target.



A2 Education Fund

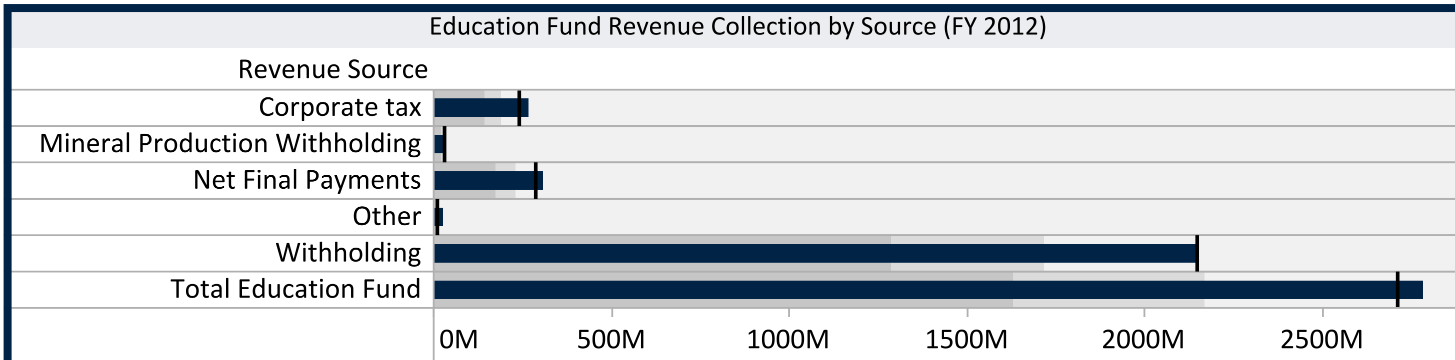
At the end of FY 2012, state accountants calculated a revenue surplus of $70 million. The Education Fund revenue surplus is the result of outperformance by final and fourth quarter corporate tax payments, slightly above-anticipated strength in net final income tax payments (gross final payments less refunds), and another high year of escheats revenue. Of the aggregate sources, mineral production withholding came in about $2 million below target. Looking forward, when combining all sources, Education Fund revenue is expected to end FY 2013 in the range of flat to $70 million above the EAC May FY 2012 target.

As with the General Fund, the taxes behind the Education Fund are currently above the May 2012 target — again with the caveat that revenue through the first quarter is only, at best, slightly related to year end revenue performance.

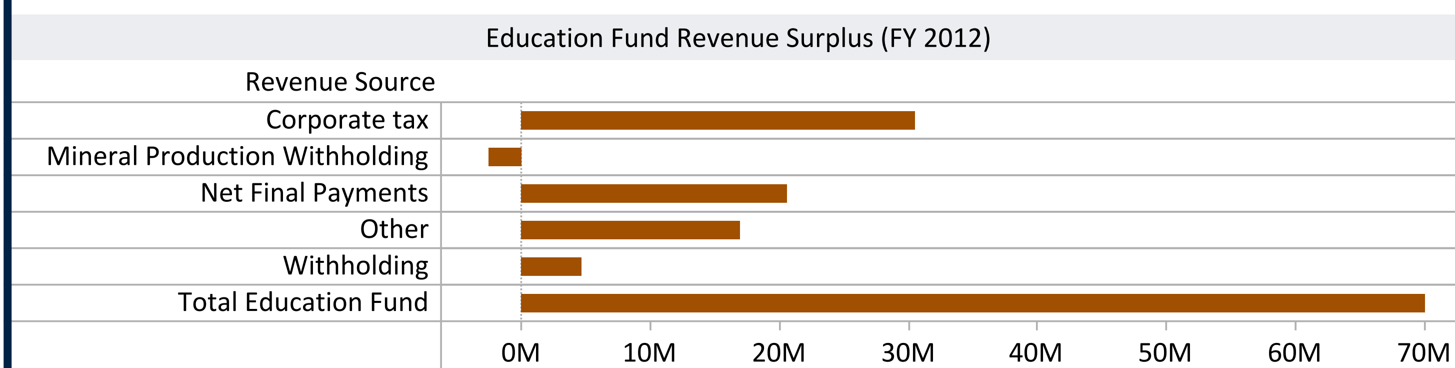
Current indicators relevant for Education Fund revenue growth are generally positive, with wages, personal income, and corporate profits anticipated to be in green territory over the period of the forecast. Of these indicators, the state's tax on wages is anticipated to represent the largest source of increased tax revenue, with overall taxable wages expected to grow from an anticipated $51.2 billion in CY 2012 to $54.5 billion in CY 2013. In addition to wages, personal income is expected to grow from an estimated $99.4 billion in CY 2012 to $104.9 billion in CY 2013.

The growth in personal income is anticipated to materialize in all of the subcategories, with rental income and personal interest income expected to lead the way in year over year growth rates. On the other end, personal interest income and transfer payments are expected to grow by the slowest pace of the personal income subcategories.

Finally, corporate profits are expected to grow by 14.4% in CY 2012 and 8.1% in CY 2013. In the past couple of years, corporate taxes have lagged pre-tax corporate profits. We anticipate both to move in a correlated fashion over the coming two fiscal years.



he vertical line represents the FY 2012 consensus target.



B1 Review of the Economic Indicators

Nonagricultural Employment The Revenue Assumption Working Group (RAWG) predicts growth in nonagricultural employment of 3.3% in CY 2012 and 3.4% in CY 2013. Job growth is occurring in all industrial sectors of the economy including the construction sector.

Nonagricultural Wages Baseline nonagricultural average annual pay is expected to grow by 3.2% in both CY 2012 and CY 2013.

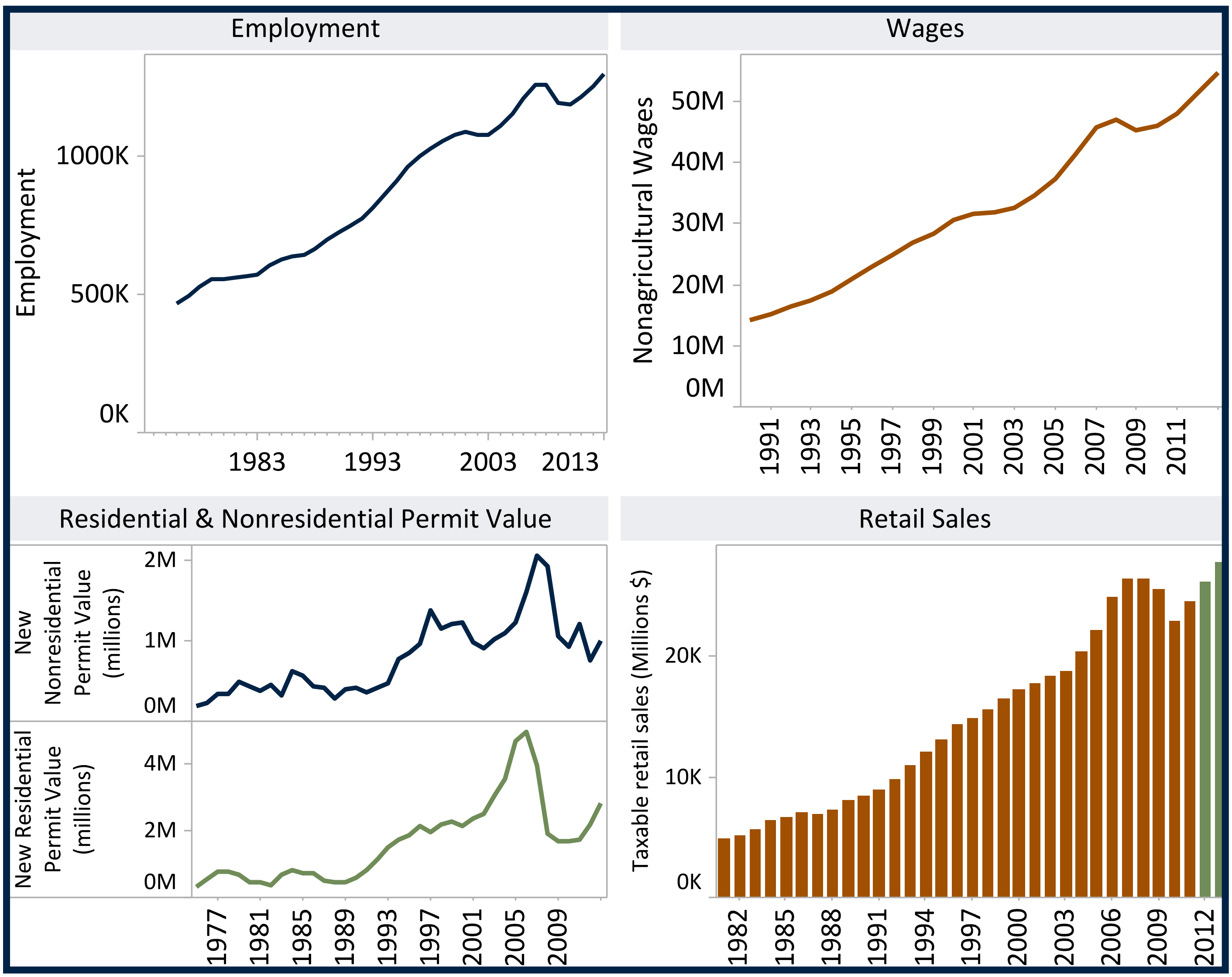
Retail Sales The current retail sales growth rates are consistent with nonagricultural wage growth rates. RAWG Estimates that retail sales will grow by 6.7% in CY 2012 and by 6.4% in CY 2013. The growth is due largely to improvements in the real estate sector and strong auto and truck sales.

New Auto and Truck Sales RAWG expects that new auto and truck sales will grow by 16.8% in CY 2012 and by 6.8% in CY 2013. Pent up demand, improved consumer sentiment, and incentives have led to the post-recession bounce in auto and truck sales.

Dwelling Unit Permits and Residential Permit Value Residential permits remain below historical levels but have improved some in recent forecasts. As new home building picks up it will likely provide a source for economic growth in CY 2013. Dwelling permits are expected to grow by 11,000 in CY 2012 and by 14,300 in CY 2013, representing growth rates of 25% and 30% respectively. Home prices are expected to growth by 1.3% in CY 2012 and 2.3% in CY 2013.

Nonresidential Permit Value Nonresidential permit value will likely end CY 2012 down 37.3% due to the completion of several large projects. In CY 2013 nonresidential construction is expected to grow by 33.3% as new projects come on line.

Consumer Prices The Consumer Price Index (CPI) will remain low in CY 2012 and CY 2013 growing at 2.0% and 1.3% respectively. The inflation rates of 2.0% and 1.3% are based on the assumption of lackluster worldwide demand. Should this condition change, inflation will likely pick up quickly.



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Interstate Comparisons

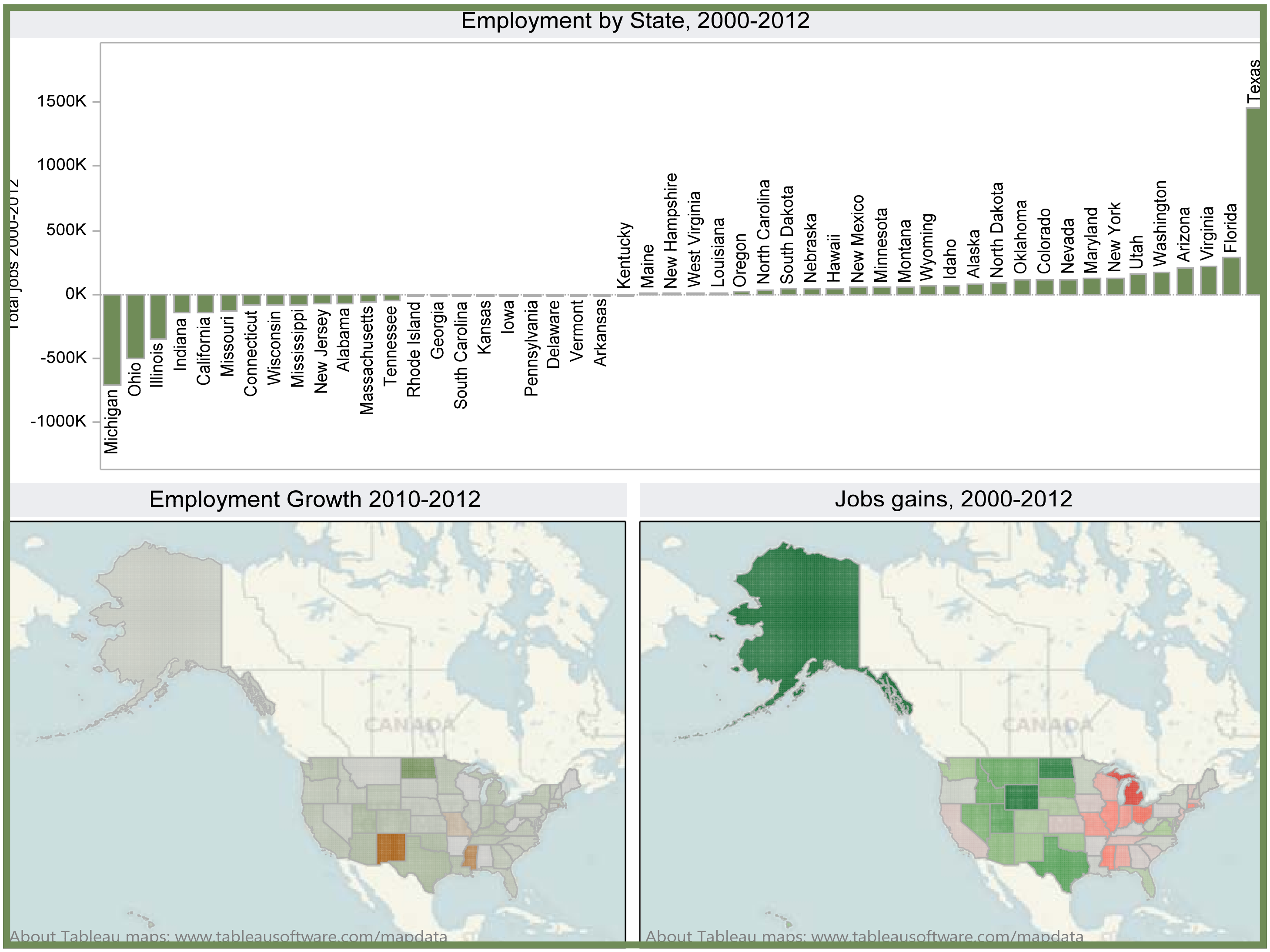
Nonagricultural employment in Utah bottomed in February 2010 at 1.17 million jobs. The peak was in December 2007 at 1.26 million, representing a drop from peak to trough of about 91,000 nonagricultural jobs. Since hitting the low in February 2010, job growth has been steadily climbing—gaining back almost all the jobs lost. By CY 2013 jobs should reach 1.29 million, exceeding the CY 2007 employment peak.

A number of factors influence how well businesses in a given state perform in comparison to businesses in competing and/or non-competing states, including entrepreneurship, technical capabilities of the population, natural resources, industry competitiveness, demand conditions, and many other market and non-market forces.

When it comes to employment on an interstate comparison basis, businesses of all forms in the state since CY 2010 are generally outperforming businesses located in other states. Cumulative employment growth in Utah since CY 2010 is 44,700, or 3.8%, whereas cumulative national employment growth is standing at 3.0 million or 2.3%. On a world basis, estimated cumulative worldwide employment growth from CY 2010 through CY 2012 so far is 204 million, or about 5%.

Over the first 12 years of the 21st Century, businesses in the state have created the sixth highest number of jobs on an absolute job growth basis, behind only Texas, Florida, Virginia, Arizona, and Washington. The fact that *absolute* employment growth, and not just the employment growth rate, in a small population state such as Utah is higher than a New York or California is an indication that businesses in the state are competitive on a number of levels, and we anticipate the state to outperform most other states in the coming years.

In addition to employment measures, conditions within the state also compare favorably when looking at the Philadelphia Federal Reserve coincident index and real estate markets. The Philadelphia Fed's Utah coincident index places conditions in the state as the 3rd best, right behind Oregon and Idaho. On housing prices, existing residential wealth declined by about 20% from 2007 to the 2nd quarter of 2012, more than the national average decline of 16%.



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Real Estate

Real estate represents about 25% of household wealth, and the health of the real estate market is a good indicator of business and individual overall health.

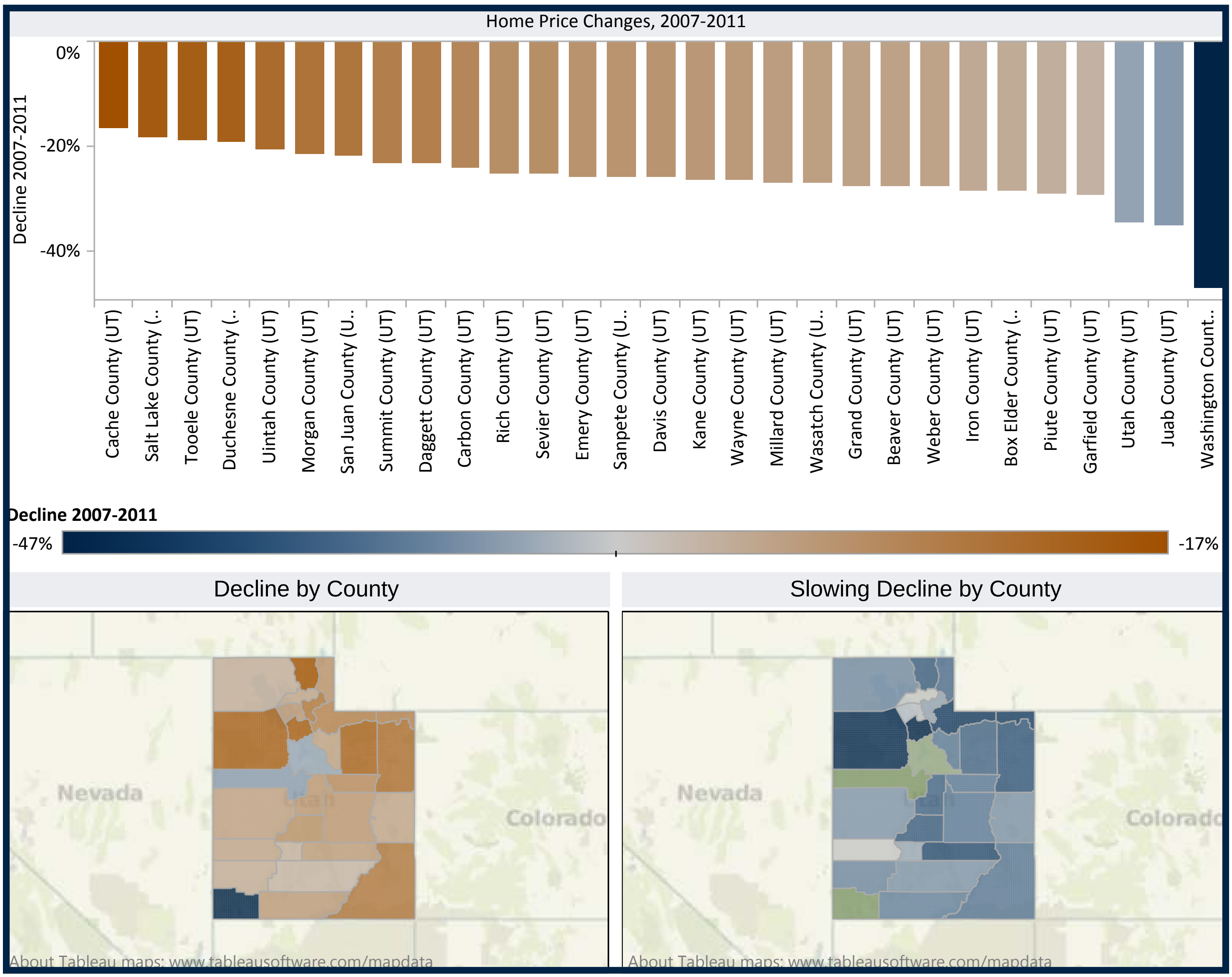
After seven years of deceleration or decline, the real estate market appears to have bottomed out. The market is anticipated to be a green shoot over the period of the forecast, at least as measured by new home building, home price appreciation, nonresidential construction, and additions/alterations/repairs.

New home building has started to recover from recession levels and will likely be a source of revenue growth in CY 2012 and CY 2013. Expectations are that new home permits will be 11,000 and 14,300 in CY 2012 and CY 2013 respectively.

After three years of declines, home prices are anticipated to grow by an overall 1.3% in CY 2012, followed by an additional 2.3% of growth in the existing base in CY 2013. The decline in residential wealth was the spark behind the recession fire of CY 2008 and CY 2009. The return to year over year growth in residential wealth is a necessary, although not sufficient, condition for the economy to grow fast enough to improve such things as the unemployment rate.

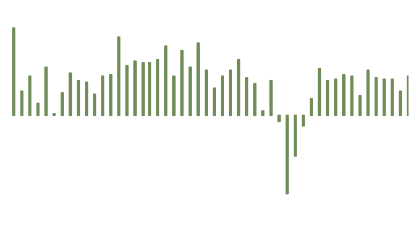
The other half of the real estate wealth is nonresidential construction. Current economic indicators have new nonresidential permit value bottoming out at an estimated $750 million in CY 2012, followed by $1 billion in value in CY 2013. The $1 billion in value is, of course, based upon the assumption of continued improvement in business fixed investment. The estimate has a high degree of uncertainty given the whipsaw nature of the nonresidential real estate market, with the estimate containing a good amount of upside and downside risk.

In looking at the real estate market on a geographic basis, the largest declines in growth rates happened in Washington, Juab, and Utah counties. We anticipate most counties to experience positive residential wealth creation effects in the coming two years.



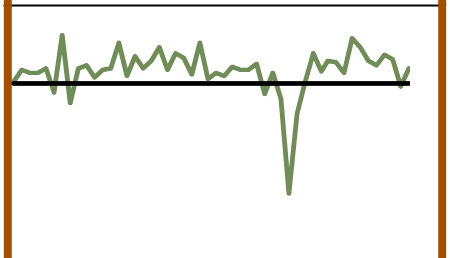
National Economic Indicators (2000 - Oct 2012)

GDP Q/Q Growth

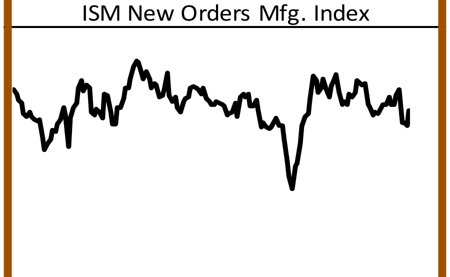


Consumer Prices

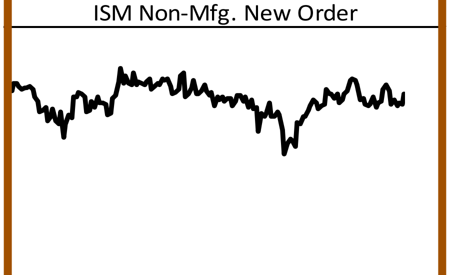
U.S. Retail Sales



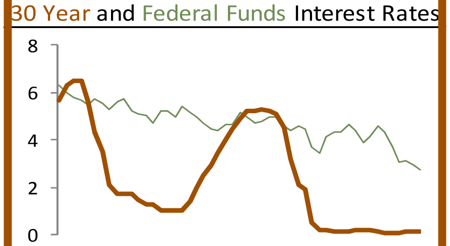
ISM New Orders Mfg. Index



ISM Non-Mfg. New Order



30 Year and Federal Funds Interest Rates



Sources: BEA, BLS, CB, ISM, Federal Reserve

Macro Conditions

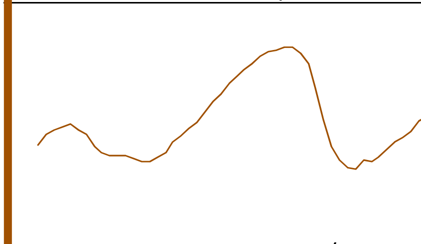
Risks in the world and national outlook have heightened in recent months, with decelerating growth rates confirming the presence of a growth problem. The growth problem is exhibited in various national economic indicators.

- Growth in output and demand as measured by the Gross Domestic Product (GDP) or retail sales improved over the past few years, but the positive growth rates of both have been slow and contain at least a 45% chance of deterioration in CY 2013.
- Business job creation will continue to be sluggish through CY 2012. The unemployment rate should remain around 8 percent for CY 2012 and CY 2013.
- Current unemployment claims indicate that the improvement period is over, with national initial unemployment claims basically flat over the entire year.
- Consumer confidence has started to improve with the outlook for the labor market becoming more favorable. Those consumers expecting new job availability increased from 15.8 percent to 18.5 percent. Rising property values, increasing stock prices and moderating gas prices may also be contributing to the improvement.
- Business Investment will remain cautious into CY 2013 as a result of the continued uncertainty about the national economy.
- The housing market, as measured by new and existing home sales, continues to show a recovery.
- Interest rates will likely remain low until the job outlook improves more. As the housing market and demand for mortgages and business loans increase we should see some upward movement in interest rates. It is probable that this upward movement will not occur until CY 2014.

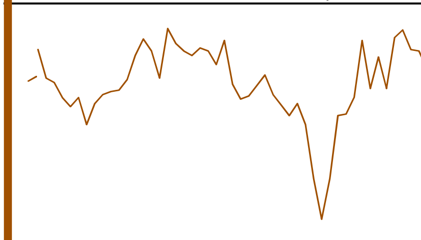
Overall, the national economy has improved over the past year, although it has yet to give any clear signals as to whether it will be in expansion or slowdown territory for the coming year. Given that markets and economies in general change quickly, we continue to watch for evidence that upside risk is improving or the downside risk becomes elevated. As of now, the scales weigh a little bit more towards the latter, as evidenced by business investment, unemployment claims, the labor market, the U.S. trade deficit, and other economic indicators.

National Economic Indicators (2000 - Oct 2012)

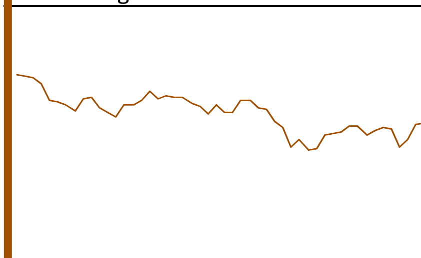
U.S. Nonfarm Payrolls



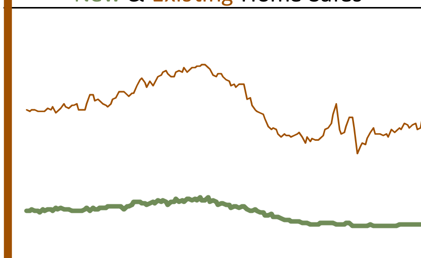
Business Investment Q/Q



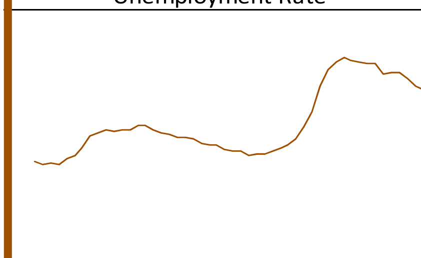
Michigan Consumer Sentiment



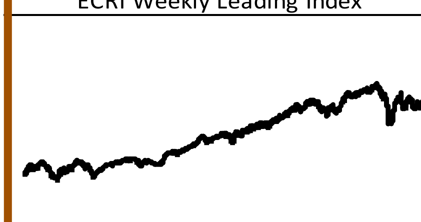
New & Existing Home Sales



Unemployment Rate



ECRI Weekly Leading Index



Sources: BLS, U of Mich., BEA, NAR, CB, ECRI

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Return Service Requested

Part C: Revenue Collections

Tax Revenue *(In Millions of Dollars)*	FY 2012 Final	FY 2013 Consensus	FY 2013 Consensus Growth Rate		FY 2012 Year-to-Date (10/14/2011)	FY 2013 Year-to-Date (10/14/2012)	FY 2013 Year-to-Date Growth Rate
Sales & Use Taxes	$1,582.53	$1,610.58	1.8%		$392.24	$444.07	13.2%
Individual Income Tax	2,467.30	2,596.33	5.2%		555.82	609.19	9.6%
Corporate Franchise Tax	252.74	257.29	1.8%		57.41	73.70	28.4%
Beer, Cigarette & Tobacco	125.40	126.62	1.0%		32.06	25.15	-21.5%
Insurance Premium Taxes	84.41	81.10	-3.9%		21.88	37.84	72.9%
Severance Taxes	90.94	96.00	5.6%		24.59	16.79	-31.7%
Other Sources	256.02	207.61	-18.9%		27.05	25.36	-6.2%
Total - General & Education Funds	**$4,859.34**	**$4,975.52**	**2.4%**		**$1,111.05**	**$1,232.10**	**10.9%**
Motor Fuel Tax	$252.30	$254.00	0.7%		65.65	65.74	0.1%
Special Fuel Taxes	104.10	106.20	2.0%		28.28	24.83	-12.2%
Other Transportation Fund	84.40	86.73	2.8%		18.79	18.93	0.7%
Total - Transportation Fund	**$440.80**	**$446.93**	**1.4%**		**$112.72**	**$109.50**	**-2.9%**

Source: LFA, USTC, DOF