We expect current year General Fund/Education Fund revenues will be between $135 million to $195 million above our May projection for FY 2013. We expect Transportation Fund revenue to be plus or minus $5 million of the May target.

Income tax collections have been particularly strong in FY 2013 due largely to federal tax changes which caused taxpayers to shift gains into tax year 2012. Revenue resulting from this shift should be treated as one-time in the budgeting process.

Overall the economy is improving. Businesses in Utah continue to create jobs at more than twice the national average. And compared to long run trends, employment is growing faster than historical rates. Looking at specific industry classifications, all 11 broad areas are expected to see job growth, with Trade, Transportation, and Utilities anticipated to see the largest increase in 2013 over 2012 of about 9,500 jobs. Trade, Transportation, and Utilities is followed by Professional & Business Services at about 8,200 jobs, Construction at about 5,300 jobs, and Education & Health Services at about 5,000 jobs. Overall, businesses have created a total of 115,900 jobs since the trough of the recession, with total employment now surpassing the pre-recession peak. Over the same time frame, employment growth in the nation is still 2.7 million below the pre-recession peak and other mountain west states are 361,000 below their pre-recession peak.

Housing will continue to be a positive contributor to the economic recovery in 2013, as evidenced by construction employment, which is expected to grow by a total of about 12,400 over 2013 and 2014. Additionally, residential permit values and the number of dwelling unit permits are expected to grow by 21.0 percent and 11.5 percent respectively for 2013 and 2014.

The current three year recovery (trough to current) has growing risks going forward. These risks include delayed downward pressure on economic growth due to the recent federal tax increases, the short time frame between realization of the medium and long-term benefits of sequestration compared to the short-run displacements, continued high debt levels, equity market corrections, and slowing emerging market growth. To varying degrees, each of these issues could directly or indirectly affect investment and spending decisions of businesses and individuals living within the State.
Revenue to the General Fund is expected to end FY 2013 plus or minus $15 million from the adopted May FY 2013 target. The chart below is the surplus/deficit float from beginning of the fiscal year through the second week of June. Over this time the surplus/deficit position has narrowed towards target.

In terms of the details behind General Fund revenue, sales tax is anticipated to come in about on target. Taxable sales are anticipated to come in at about 48.4 percent of personal income, an increase of about 0.3 percent over the 2012 value and about 2 percent above the all-time low of 46.4 percent in CY 2010.

Of the other major sources of revenue to the General Fund, severance taxes are expected to end FY 2013 below target due to both the price side (copper/oil) and production (Kennecott production/drilling activity). Metal severance revenue is expected to be low for the entire CY 2013 due to the Kennecott production slowdown.

Cigarette and tobacco tax revenue is also expected to be below target, as more individuals shift purchases to lower cost geographic areas and items. On the positive side, insurance premiums are expected to come in above target due to higher than expected demand for property casualty and life, motor vehicle, and title insurance.

Revenue to the Transportation Fund is expected to come in plus or minus $5 million compared to May FY 2013 target. The second chart below shows the surplus/deficit float of the Transportation Fund compared to the target. For the first three months of the fiscal year revenue appeared above target. From October to about the beginning of May revenue generally switched to showing a deficit. Since then, revenue to the Transportation Fund has floated in surplus territory.

The largest sources of revenue to the Transportation Fund are the motor fuel and special fuel taxes. Overall, revenue from these sources are recovering slowly, with taxable gallons about where they were in 2007.

A review of motor fuel tax collections shows that taxable gallons per nonfarm employee is likely to decline for the second consecutive year to around 800 gallons per employee (15 gallons/week) after an increase to about 853 per employee in 2011 (16 gallons/week).

On special fuel, revenue is slow due to trucking demand and other business activity.
Revenue to the Education Fund is anticipated to be $150 million to $180 million above the May FY 2013 target. The chart below is the surplus/deficit float of the Education Fund from the beginning of the fiscal year through the second week of June. With the exception of November, revenue to the Education Fund has consistently floated above target. Of note, final payments around April 15th shifted the float higher. Since then, revenue has been trending closer towards target.

Withholding started the fiscal year relatively strong, slowly gaining momentum through the last half of CY 2012. The growth in momentum peaked at around 8 percent in December 2012 partly due to federal tax increases. After Christmas, withholding has been decelerating, with the final FY 2013 growth rate now expected to be around 6.5 percent. Overall, FY 2013 withholding revenue is anticipated to be the highest on record.

The next largest source of revenue to the Education Fund is net final payments — gross payments less refunds. Payments came in above target because of all-time equity market highs and the associated capital gains, federal tax changes causing cost conscious investors to shift gains into 2012, higher than anticipated dividend income, and higher levels of 2012 bonus income unrelated to the federal tax increases. Overall, net final payments are anticipated to be the highest on record by between $40 to $50 million.

The third largest source, corporate income tax, is anticipated to come in between $10 million and $20 million above target. Corporate income tax revenue is broken into five payment cycles: Q3 payment for CY 2012, Q4 payments for CY 2012, Q1 payments for CY 2013, final payments for CY 2012, and Q2 payments for CY 2013. All of the expected corporate income tax surplus is due to CY 2012 Q4 payments, CY 2012 final payments, and late payments. Corporate tax revenue in FY 2013 will likely be fourth highest on record, lagging only 2006, 2007, and 2008. In looking forward, judging by the Q1 2013 payments, a majority of corporations expect their tax liability to decline in 2013.
Nonagricultural Employment
In 2012, nonfarm employment growth outpaced the labor force growth rate by about three times, with the estimated labor force growing by about 13,500, whereas total nonagricultural employment grew by about 40,300. An additional 42,400 jobs are anticipated for 2013, representing an annual growth rate of 3.2 percent. There is still a deficit of approximately 100,000 jobs below what would have been had the labor force not declined by the amount it did.

Nonagricultural Wages
The average annual wage in the State was $40,651 in 2012, an increase of 2.4 percent over the prior year. Average annual wage is expected to increase by $1,028 in 2013, an increase of 2.5 percent and by $1,245 in 2014, an increase of 3.0 percent.

Labor Force Participation
The labor market is under transformation, with a greater percentage of employees shifting towards part-time employment or self-employment. The slow gradual shift appears to be permanent.

Retail Sales & Total Taxable Sales
Retail sales in Utah grew by 8.1 percent in 2012 as consumption accelerated ahead of recent federal tax changes. The growth is expected to moderate in 2013 to 4.8 percent and 5.2 percent in 2014. The entire universe of taxable transactions (all taxable sales) grew by 7.5 percent and is expected to grow by 4.8 percent and 5.0 percent in 2013 and 2014. The projected 2013 and 2014 retail sales and all taxable sales growth rates are about in line with the 1980-2012 yearly average growth rates of 5.4 percent for retail sales and 6.4 percent for total taxable sales.

New Automobiles and Truck Sales
Sales of new automobiles and trucks ended 2012 at an 18.4 percent year over year growth rate as the market continued to rebound from the deep contraction. The market is anticipated to continue growing with 6.5 percent and 5.3 percent annual growth rates anticipated for 2013 and 2014.

Construction
Housing prices are showing strength statewide, with the median sales price up approximately 13 percent in the first quarter of 2013 over the first quarter of 2012. The median price of a home peaked at about $220,000 in 2007, and then declined to $170,000 in November 2011. Overall, home prices are anticipated to grow by 5 percent in 2013 and 6 percent in 2014.

Dwelling Unit Permits
Dwelling unit permits are preliminarily ending 2012 at about 13,500 units, an increase of about 34 percent over the 10,000 authorized in 2012. Residential permits are anticipated to continue to grow, with 15,000 anticipated in 2013 and 18,500 in 2014. Dwelling units peaked at 28,285 in CY 2005.

Residential Permit Value
Connected with dwelling unit permits is residential permit value. Total residential permit value bottomed out at $1.67 billion in 2010. Since then, permit values have grown quickly, with total permit value anticipated to more than double to $4 billion by the end of 2014. The projected $4 billion in permit value in 2014 would put average permit value at an all-time high of $216,200, up $56,800 since bottoming in 2009 at $159,400.

Nonresidential Permit Value
Nonresidential construction is expected to decline further in 2013 to $1 billion from $1.06 billion in 2012 as a result of current commercial real estate market conditions. Following a down 2013, nonresidential construction is anticipated to grow to $1.3 billion in 2014.
We continue to closely follow two broad categories of the federal balance sheet — the tax side and the expenditure side.

On the tax side, major tax increases from 2012 to 2013 are given in the following table. The tax increases include:

- increased tax rates on ordinary income, capital gains, and dividends for those making more than $400,000 for single filers and $450,000 for married filers;
- a 3.8 percent tax rate on unearned income for single filers making over $200,000 and $250,000 for married filers;
- an additional 0.9 percent Medicare payroll tax on earned income for single filers above $200,000 and for married filers above $250,000;
- expiration of the payroll tax holiday, which represents a 2 percent tax increase for income under $113,700;
- and phasing out of personal exemptions and itemized deductions for certain income levels.

Overall, these tax changes reduce disposable income to residents by about $2.5 billion. The first signs showed up in the income tax and corporate tax gross final payments figures, with at least $200 million of the final payments for CY 2012 due to increased tax rates on capital gains, dividend income, ordinary income, and the other federal tax changes. The expiration of the payroll tax holiday is showing up, as evidenced by the decelerating growth of sales tax revenue since January.

### Major Federal Tax Changes—2013

<table>
<thead>
<tr>
<th>Area</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary income &amp; short-term capital gains, making over $400K (single)/$450K (married)</td>
<td>35%</td>
<td>39.6%</td>
</tr>
<tr>
<td>Long-term capital gains, making over $400K/$450K</td>
<td>15%</td>
<td>20%</td>
</tr>
<tr>
<td>Dividends</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ordinary dividends</td>
<td>Rates</td>
<td>Rates</td>
</tr>
<tr>
<td>Qualified dividends</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unearned income (Medicare contribution)</td>
<td>None</td>
<td>3.8% over $200,000/ $250,000</td>
</tr>
<tr>
<td>Medicare payroll tax</td>
<td>2.9%; individual 1.45%/ employer 1.45%</td>
<td>Additional 0.9% on earned income &gt;$200,000/ $250,000</td>
</tr>
<tr>
<td>Payroll tax holiday</td>
<td>4.2% up to $113,700</td>
<td>6.2% up to $113,700</td>
</tr>
<tr>
<td>Personal exemption phaseout (PO)</td>
<td>None</td>
<td>2% PO</td>
</tr>
<tr>
<td>Itemized deduction phaseout (PO)</td>
<td>None</td>
<td>3% PO</td>
</tr>
</tbody>
</table>

The sequester represents federal spending adjustments “finalized” in March 2013, although anticipation of federal cost reductions show up in the federal spending figures beginning in 2010. Approximately 82 percent of the federal funds that go to state and local governments are exempt from sequester. For Utah the expected impact in FY 2013 on non-exempt expenditures is as much as $46.9 million in reduced spending. Major areas at risk include Education, Workforce Development and Public Safety. Transportation funding should be somewhat insulated from potential budget reductions because expenditures are generally tied to the Highway Trust Fund which has its own funding mechanism through the gas tax.

In looking at government expenditure correlation, government expenditures counted in the quarterly GDP figures (which exclude transfer payments) declined in 11 of the past 13 quarters. Within this time frame, GDP has experienced positive growth in all 13 quarters. The other two non-foreign related components of GDP—consumption and investment—have experienced positive growth in 13 (consumption) and 11 (investment) of the 13 total quarters respectively. The strength in consumption and investment is largely the result of prolonged low interest rates, which makes investment and consumption decisions more attractive, all-time equity market highs, improving business and consumer confidence, a recovering housing market, and other economic factors. Overall, the federal cost reductions associated with the sequester are not yet impacting the most important components of the economy: consumption and investment.
Business, consumer, and government debt continues to dampen overall economic growth. By one measure, just public debt, which excludes business and consumer debt, will grow to about $51 trillion by the end of 2013, an increase of $32 trillion from 2002. The 9.4 percent annualized growth figure is unsustainable given anticipated worldwide GDP growth of around 3 percent. We've addressed other aspects of debt in prior reports; this brief review focuses on education debt.

In the United States nearly 20 million individuals attend college each year. Of those 20 million individuals, 60 percent borrow annually to cover the costs of attending higher education institutions. Of the 60 percent who have outstanding student loan balances, 14 percent have at least one late payment.

Since the second quarter of 2010, education loan balances have exceeded credit card debt. The size of the debt is an issue in that it will prevent some graduating students carrying the debt from investing in items such as homes and cars in the future, or at least delaying household formation. The amount of new mortgages taken out by student loan recipients aged 25-30 has decreased from 9 percent in 2005 to 4 percent in 2012.

In all, as much as three quarters of the overall shortfall in household formation can be attributed to a decline in housing demand from individuals between the ages of 18 and 34. The delay in household formation resulting from the increase in student loan obligations could alter the future of the housing market.

Overall, with younger generation working-age individuals delaying household formation, state revenue growth may be slower in the coming years.
We watch national and international conditions because what happens in other geographic regions or sectors will likely impact state revenue.

**Consumer Price Index**
Consumer prices are anticipated to post a 1.4 percent rise for 2013. Food prices may put some pressure on the CPI later this year as the impacts from last years drought are felt.

**Employment**
April employment grew by 165,000, and the national unemployment rate held steady at 7.5 percent. Employment grew in professional and business services, food services and drinking establishments, retail trade, and health care. The industrial side of the economy continues to grow slower. Overall, national employment is still below its December 2008 high.

**Gross Domestic Product (GDP)**
Real gross domestic product is expected to increase by 1.8 percent in 2013, a 0.4 point decline from the 2.2 percent experienced in 2012. Overall, economic growth as measured by its broadest measure, GDP, will likely grow about a half a percentage point below its trend growth rate.

**Business and Consumer Spending**
Business spending continues to grow above what historical correlations would indicate, with business investment focused on information and technology and equipment, among others. On the consumer spending side, retail sales are anticipated to grow by 3.3 percent in 2013 and 3.0 percent in 2014, being boosted by new car sales and the housing market, among other things.

**Wages**
Wages have been practically flat for over a decade on an inflation adjusted basis. In spite of recent wage improvements, the rate of wage growth is likely to experience a lower long-term trend growth rate.

**Housing**
Gains in the national housing market will continue this year. As a sign of strength, growth in the housing sector could add approximately a half percent to GDP. Nationwide we expect to see the construction of close to 1 million homes in 2013 and about 1.2 million in 2014.

**S&P 500 and Household Net Worth**
Equity markets continue to hover around all-time highs. With the housing market strengthening and equity markets entering their fifth year of a bull market, household wealth has been boosted to its all-time high of about $70 trillion. Although wealth-induced consumption is fickle, we anticipated to see further wealth-induced consumption for the remainder of 2013.
### Part C: Revenue Collections

<table>
<thead>
<tr>
<th>Tax Revenue (In Millions of Dollars)</th>
<th>FY 2012 Final</th>
<th>FY 2013 Consensus</th>
<th>FY 2013 Consensus Growth Rate</th>
<th>FY 2012 Year-to-Date (6/10/2012)</th>
<th>FY 2013 Year-to-Date (6/10/2013)</th>
<th>FY 2013 Year-to-Date Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales &amp; Use Taxes</td>
<td>$1,582.53</td>
<td>$1,632.99</td>
<td>3.2%</td>
<td>$1,453.89</td>
<td>$1,494.54</td>
<td>2.8%</td>
</tr>
<tr>
<td>Individual Income Tax</td>
<td>$2,467.30</td>
<td>$2,652.16</td>
<td>7.5%</td>
<td>$2,289.44</td>
<td>$2,651.47</td>
<td>15.8%</td>
</tr>
<tr>
<td>Corporate Franchise Tax</td>
<td>$252.74</td>
<td>$312.60</td>
<td>23.7%</td>
<td>$217.23</td>
<td>$280.11</td>
<td>28.9%</td>
</tr>
<tr>
<td>Beer, Cigarette &amp; Tobacco</td>
<td>$125.40</td>
<td>$120.70</td>
<td>-3.7%</td>
<td>$119.04</td>
<td>$112.76</td>
<td>-5.3%</td>
</tr>
<tr>
<td>Insurance Premium Taxes</td>
<td>$84.41</td>
<td>$87.45</td>
<td>3.6%</td>
<td>$83.19</td>
<td>$89.09</td>
<td>7.1%</td>
</tr>
<tr>
<td>Severance Taxes</td>
<td>$90.94</td>
<td>$77.15</td>
<td>-15.2%</td>
<td>$92.25</td>
<td>$76.06</td>
<td>-17.6%</td>
</tr>
<tr>
<td>Other Sources</td>
<td>$256.02</td>
<td>$209.83</td>
<td>-18.0%</td>
<td>$108.83</td>
<td>$112.91</td>
<td>3.7%</td>
</tr>
<tr>
<td>Total - General &amp; Education Funds</td>
<td>$4,859.34</td>
<td>$5,092.88</td>
<td>4.8%</td>
<td>$4,363.88</td>
<td>$4,816.93</td>
<td>10.4%</td>
</tr>
<tr>
<td>Motor Fuel Tax</td>
<td>$252.30</td>
<td>$250.70</td>
<td>-0.6%</td>
<td>$212.99</td>
<td>$211.08</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Special Fuel Taxes</td>
<td>$104.10</td>
<td>$99.50</td>
<td>-4.4%</td>
<td>$85.80</td>
<td>$83.38</td>
<td>-2.8%</td>
</tr>
<tr>
<td>Other Transportation Fund</td>
<td>$84.40</td>
<td>$82.30</td>
<td>-2.5%</td>
<td>$67.74</td>
<td>$70.78</td>
<td>4.5%</td>
</tr>
<tr>
<td>Total - Transportation Fund</td>
<td>$440.80</td>
<td>$432.50</td>
<td>-1.9%</td>
<td>$366.53</td>
<td>$365.23</td>
<td>-0.4%</td>
</tr>
</tbody>
</table>

Source: LFA, USTC, DOF