Utah League of Cities and Towns

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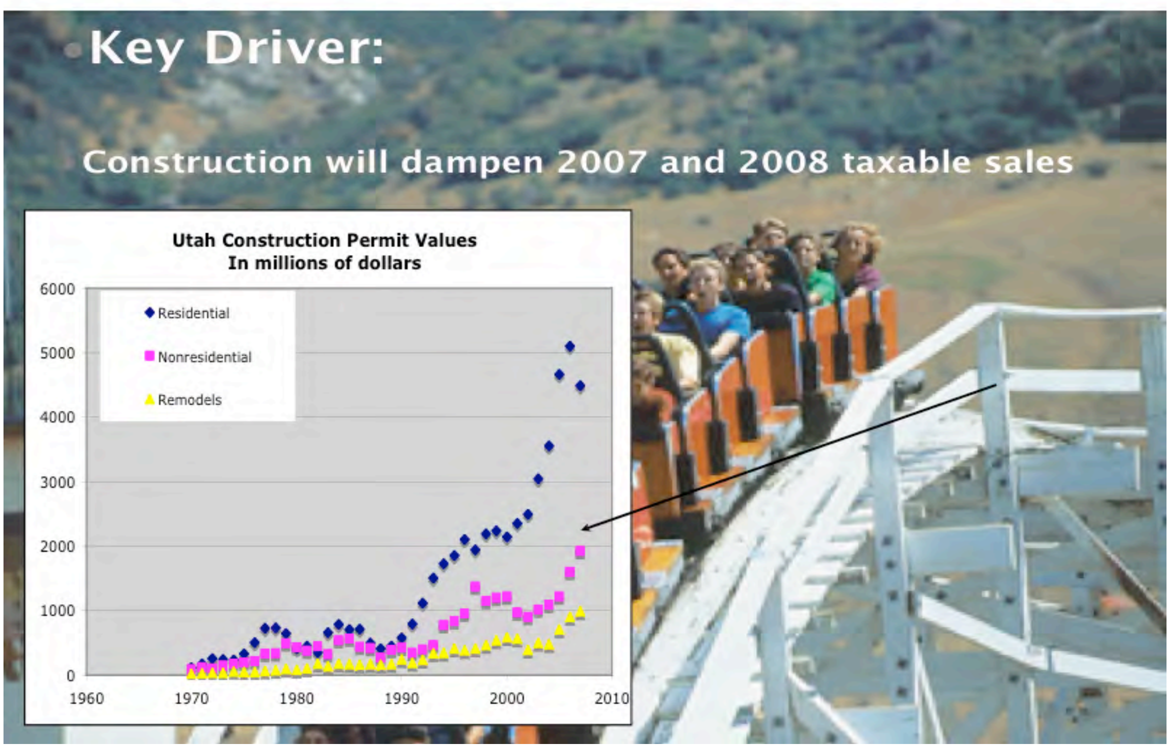
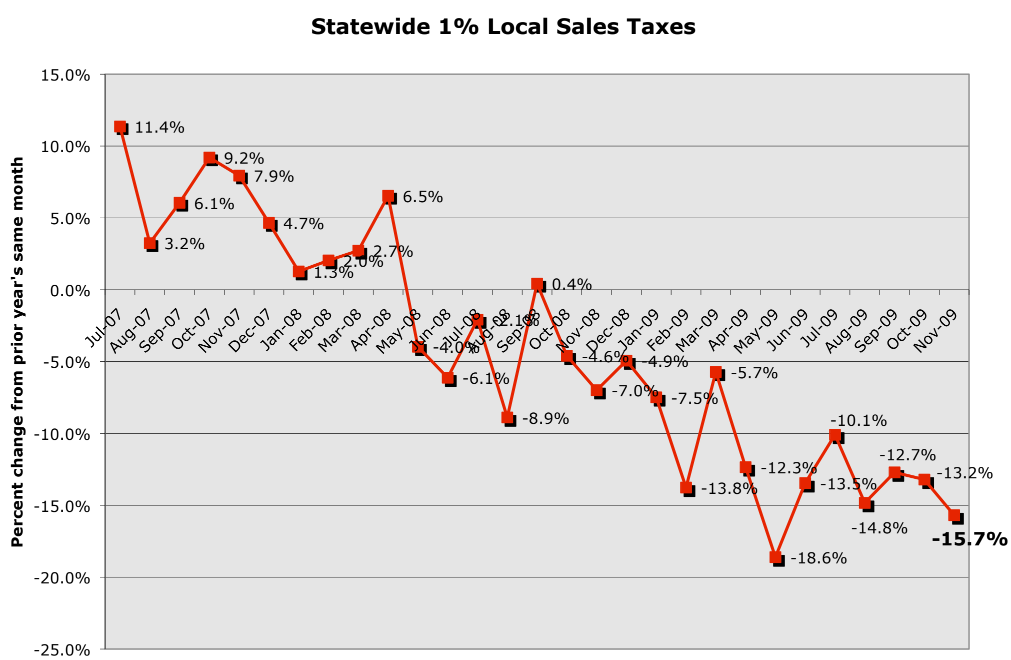


1% Local Option Sales Taxes

The 1% city and county option sales tax is one of the major funding sources for Utah cities. Following several years of 9% to 11% growth, city sales taxes have declined in the past six months. The statewide percent change is important to almost all of Utah cities since it determines the growth of the 50% population share of the tax during its distribution by the Tax Commission.

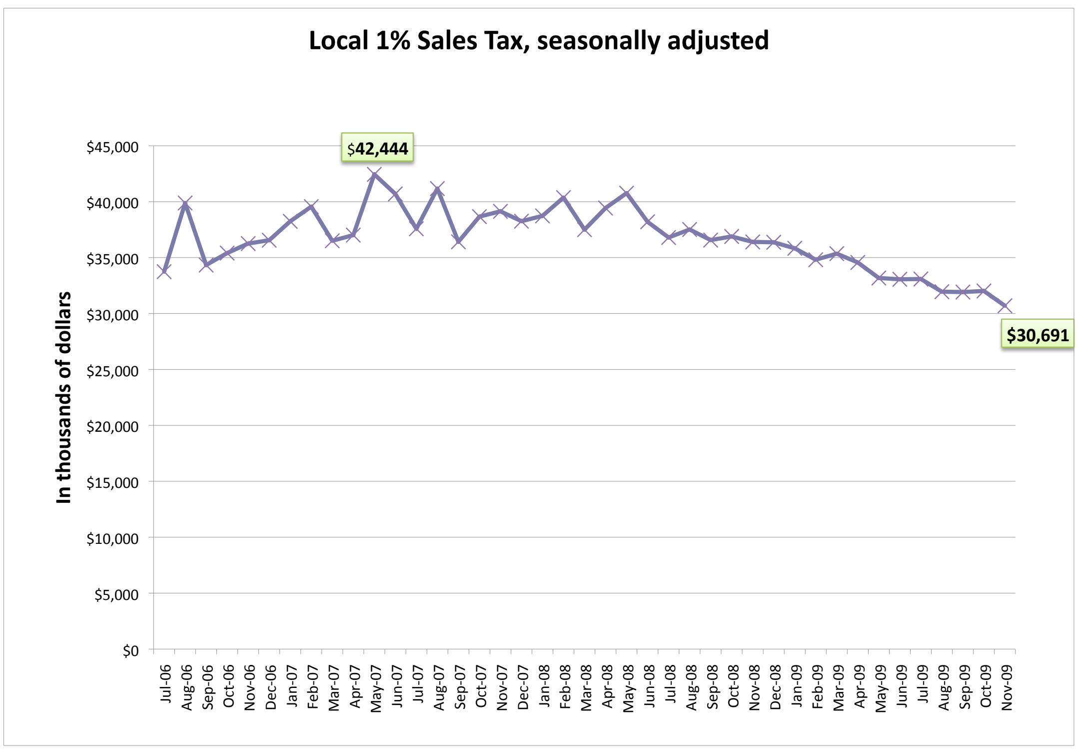
During the last three months revenues from the 1% local sales tax declined 13.9% relative to the same period a year earlier. These receipts represented taxable sales from July through September. November distribution receipts, representing September's taxable sales, fell below the 13% three-month average and were down 15.7%. Notably, September's 15.7% sales decline was on top of a 7% decline for the same month in 2008. In addition, Utah did not appear to reap any benefits from the Cash for Clunkers stimulus program, experienced in the national numbers in September. Expect several more 13% to 16% declines here in the November and December distributions before consumer spending improves next year. The succeeding charts explain how leading and coincident economic indicators have worsened in 18 of the past 19 months spelling a serious economic downturn and resulting in a declines for Utah cities' major revenue source – sales taxes.



1% Local Option Sales Taxes, seasonally adjusted

In order to comprehend more fully how the latest monthly distributions compare to each other and to levels in prior years it is useful to examine them without any monthly seasonal variation. We have calculated monthly seasonal factors and have divided these factors into each month's distribution revenue. For example, the factor for February's distribution, representing December sales, is 1.218, or 21.8% higher than average.

The result indicates how far Utah cities' number one revenue source has dropped during this recession. **Indeed, the 1% tax yield has fallen from a high of $42.44 million in May 2007 to a low of $30.69 million in November 2009, a drop of 27.7 percent.**

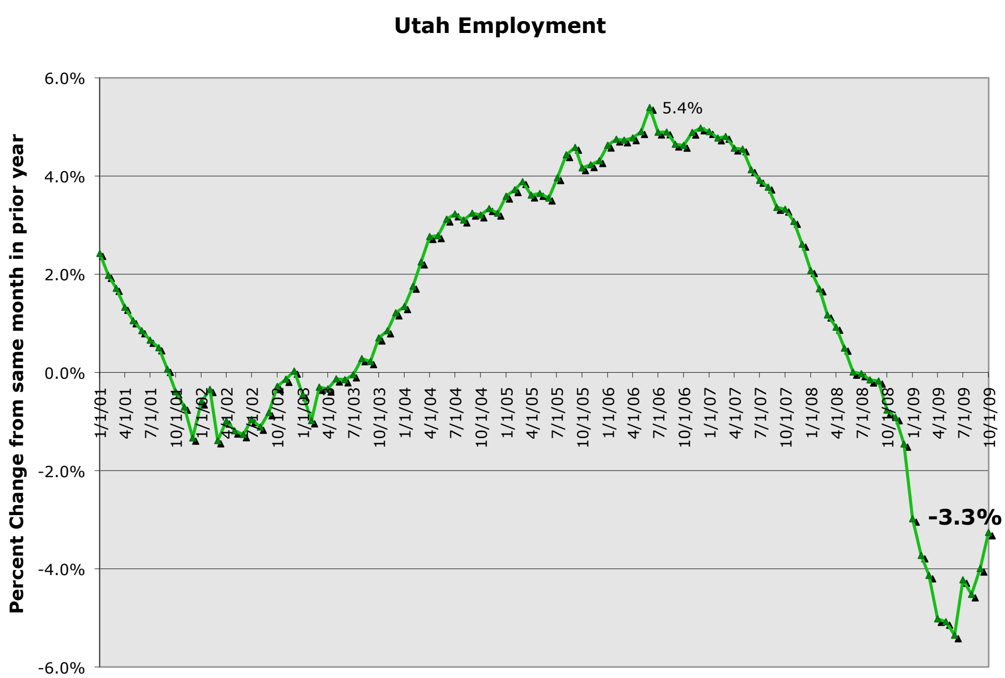


Utah Employment (coincident indicator)

The number of people employed is a critical factor in determining demand for personal consumption and hence, sales taxes. **When multiplied by the average wage, Utah wages and salaries becomes <u>the key variable</u> in determining consumer demand and sales tax growth (as opposed to the much broadcasted unemployment rate).**

Employment in Utah has been falling from the economic expansion 4% to 5% range from 2005 to 2007. Utah employment growth fell from near 2% gains at the beginning of 2008 to negative 1.5% by December 2008. **Even though it appears that the decline is not worsening, economists at the Department of Workforce Services are not convinced that we are still not declining at the 5% rate.** However, according to their website, by October 2009, Utah employment fell only 3.3% from a year earlier.

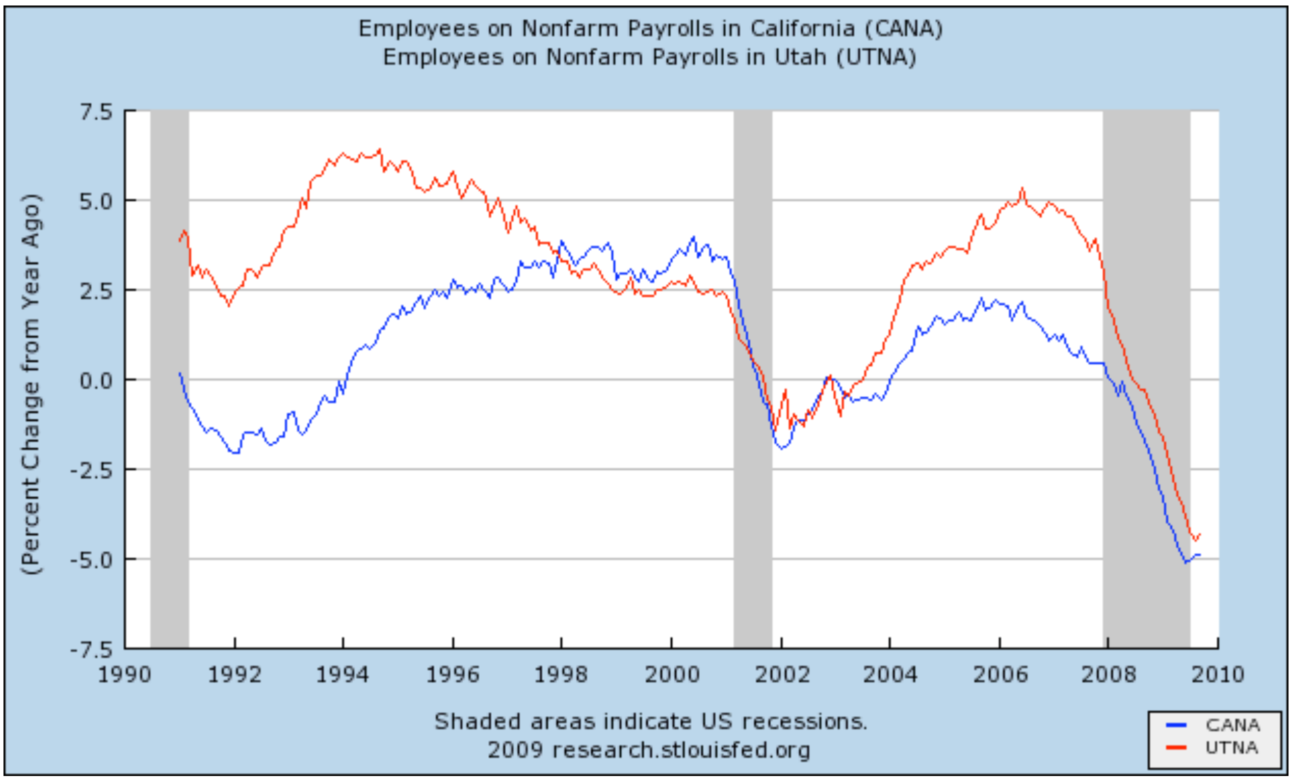
On a sector-by-sector basis, employment declines were reported in the construction (-15.8%), manufacturing (-9.2%), professional and business services (-4.8%), finance (-2.6%), leisure and hospitality (-4.7%) sectors during October 2009. In contrast, job gains were reported in the education and health services, (+4%), information (+1.9%), and government (+1.5%) sectors.



Utah Employment Percent Changes Relative to California's

Over the past 36 months, Utah's employment declines have tended to follow California's declines.

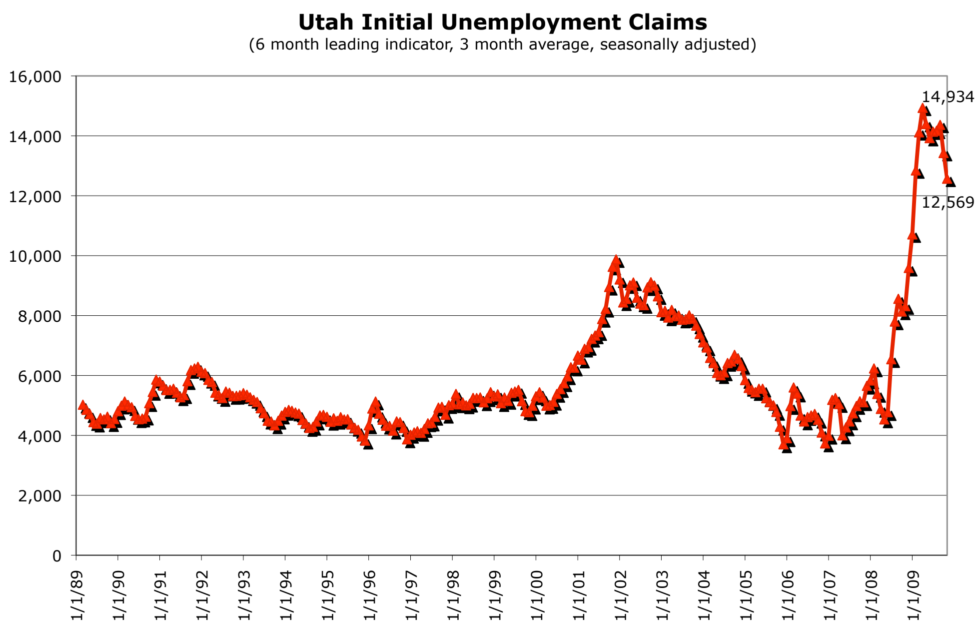
(Source: St. Louis Federal Reserve Bank)



Utah Unemployment Claims (leading indicator)

When unemployment claims start increasing significantly it means that employers are laying off people and not hiring. Unemployment claims tend to lead employment by three to six months and are therefore considered a "leading" economic indicator. Because monthly claims can be a little volatile, the last three months or quarterly average is considered as the best indicator for to gauge future employment trends.

In January 2009, unemployment claims exceeded the 10,000 record monthly-levels experienced in the 2001-03 recession and reached a new peak of 14,934 in April 2009. November's three-month average for claims fell to 12,569, after adjusting for seasonal changes. When and if claims fall below the 8,000-level, it will be good news for Utah's employment outlook about six months into the future. Then we can expect taxable sales to take flight.

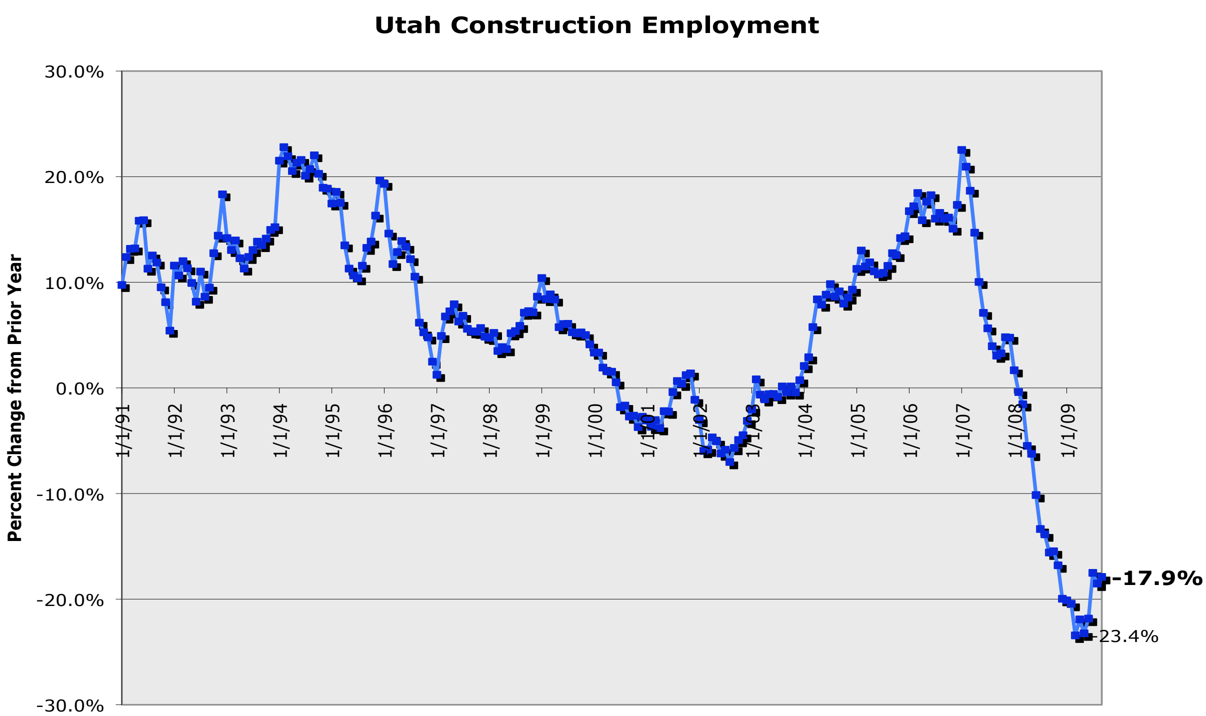


Utah Construction Employment (leading indicator)

Even though the construction sector represents a relatively small portion of Utah total employment (about 8%), it plays a key role in determining where the economy might turn in the future.   Construction purchases are sales taxable. In addition, the economic multiplier for construction purchases is relatively high compared to other sectors.

After a sustained four-year boom, construction employment in Utah began to decline in February 2008. By March 2009, it had fallen 23.4% compared to a year earlier (the source of this data is from the U.S. Bureau of Labor Statistics through the St. Louis Federal Reserve Bank website and appears 5% worse than data listed on the previous page from Utah's Department of Workforce Services).

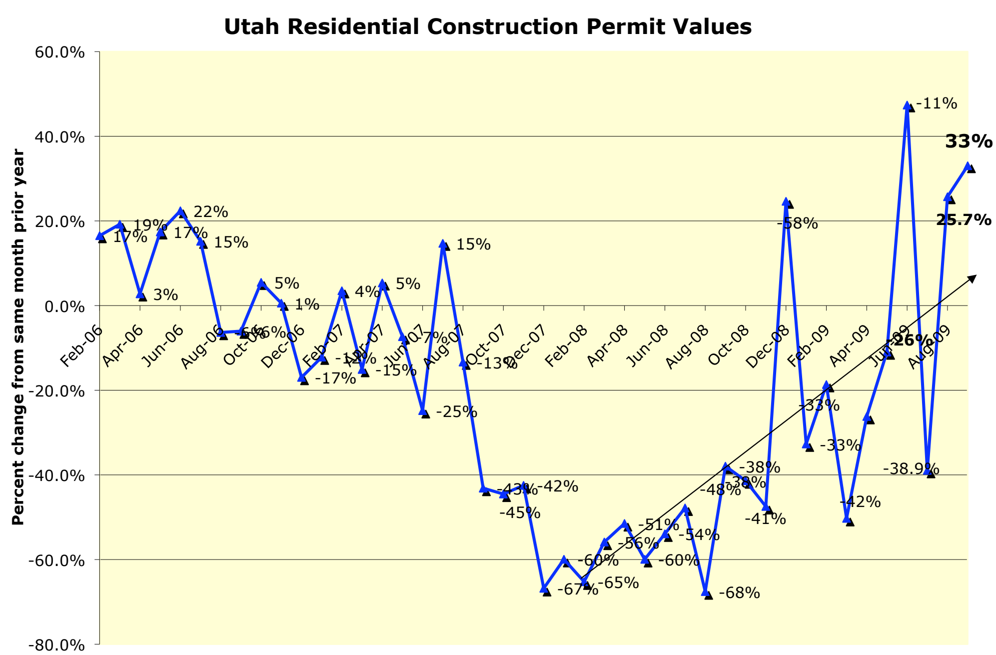
By September 2009, Utah construction employment fell 17.9% from the prior year. March's 23.4% decline may end up being the low point for this recession as construction employment appears to have stabilized at the 70,000 to 75,000 level (down from a peak of 105,700 in December 2007). Expect it to continue to fall relative to 2008 levels, but at lower rates than 20% over the next few months. Then expect much lower declines next year.



Utah Residential Construction Values (leading indicator)

Construction permit values ring through the economy more than twice. Once a project is permitted, purchases of taxable items commence. From the foundation that includes cement, lumber and steel to furnishings, drapes and landscaping most items are taxable for sales tax purposes. In addition, once new residential subdivisions are completed demand for nonresidential retail outlets follow a year or two later.

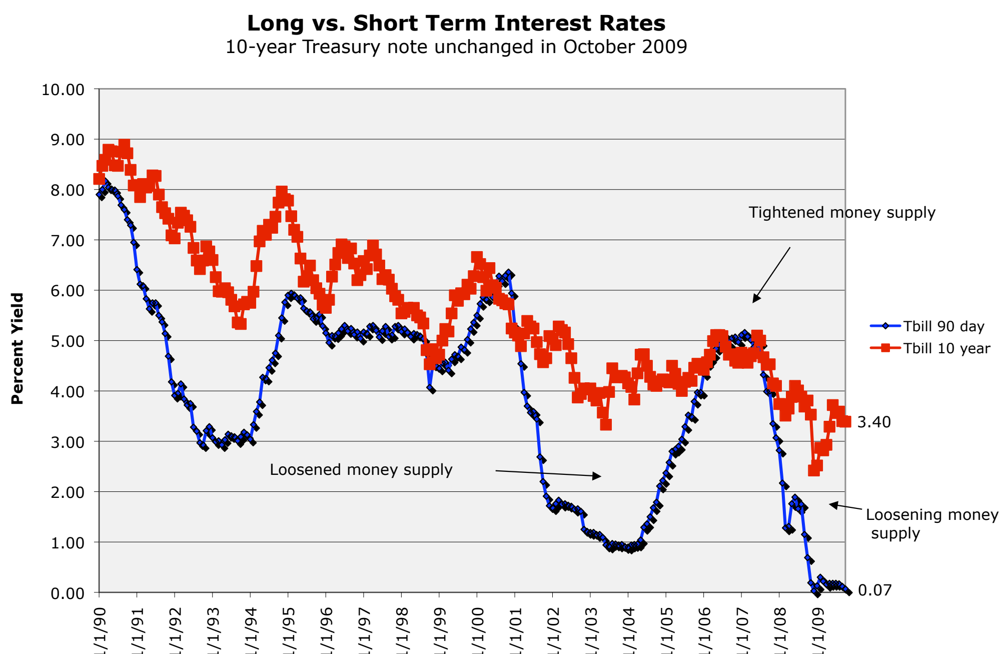
Before December 2008's gain of 25 percent, residential construction permit values fell between 40% and 70% per month after late 2007. During the third quarter (July through September), residential construction values in Utah fell only 2.4% compared to a year earlier. September 2009's 33% increase followed a 26% gain in August and a 39% decline in July. It appears to us that residential construction is trending upwards (the declines are lower and recently there are more of gains than declines). Hopefully, we are in the final stages of a "bottoming out" for home construction. **Because of the lag between letting out the construction permits and purchasing the materials sales taxes should start improving in six to nine months.**



Long versus Short Term Interest Rate Spread (leading indicator)

The difference between long- (10-year Treasury note) and short- term (90-day Treasury note) interest rates indicates whether the Federal Reserve Bank is trying to loosen or tighten the money supply. Between 2001 and into late 2006, the spread was loosened dramatically to help move the U.S. economy out of the 2001 recession and past the 9-11 attack. Instead of closing the gap, short-term interest rates were kept extremely low at 1% until the middle of 2004. Because there was a lot of money chasing fewer projects a financial bubble was created, leading to the current financial headwinds we are experiencing now. Late in 2007, the Federal Reserve Bank began lowering short-term rates in a move intended to loosen money supply. However, huge financial losses incurred by residential and hedge fund lenders have constrained lending at present.

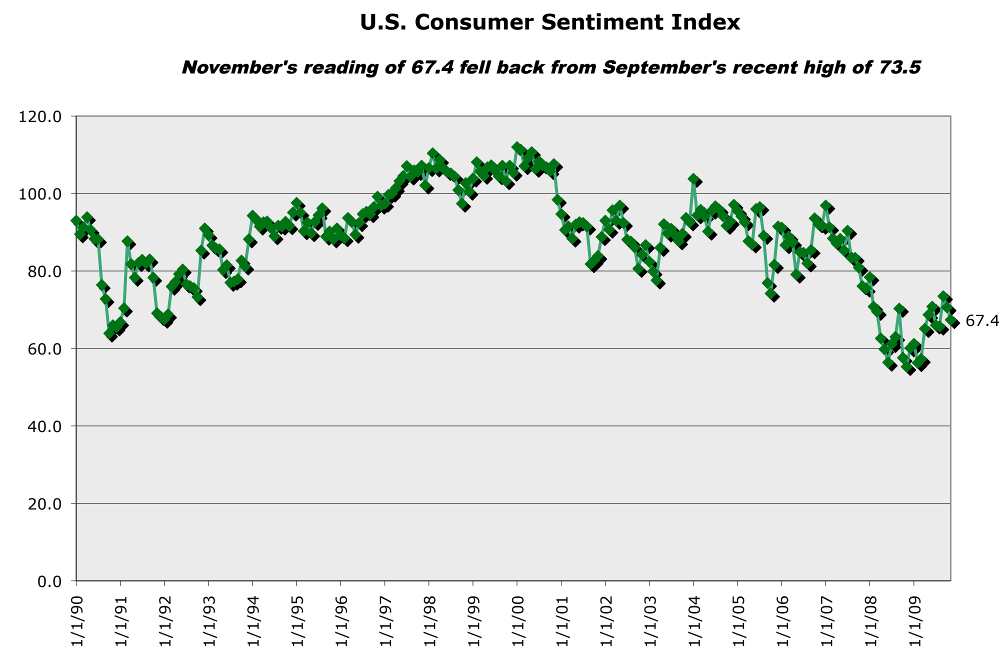
The near zero rates of the 90-day Treasury note, reflect the continued intent by the Federal Reserve to increase the money supply and commercial and consumer lending. October's gap of more than 300 basis points implies that they have their foot down on the gas pedal, hoping to jump-start the economy.



U.S. Consumer Sentiment Index

Since large shares of economy switched from the federal government spending to consumer spending once the GIs returned from WWII, economists at the University of Michigan have surveyed American households with respect to their propensity to buy appliances and automobiles in the future.

The chart below of U.S. Consumer Sentiment portrays the impact of recent consumers' concerns with their financial status and ability and desire to purchase large appliances and automobiles. Since mid-2007 sentiment dropped from the 90's (a good level) down to the mid 50's late in 2008. Consumer confidence or sentiment in the 50s and 60s create a psychological headwind against spending on durable goods, especially autos and trucks. Since February, American households' confidence has improved from the mid 50's to readings between 65 and 74. The November index of 67.4 suggests that consumers are have pulled back the reins on spending since September due to continued reports of unemployment more than 10 percent of the workforce.



U.S. Personal Savings Rate

The U.S. personal savings rate, which had moved to the record low of 1% to 2% over the past few years jumped up to 6.2% in May 2009 and then backed down to 3.3% in September 2009. This implies that consumers had taken 4% to 5% of their incomes off the table during May in fear of further job losses that would otherwise go to **consumer spending and taxable sales**. Although this is good personal finance policy on an individual basis, on a short-term, macroeconomic basis it hurts demand for goods and services.

During the last three months the savings rate has averaged 4.3%, suggesting that consumers are saving almost 3 percent more of their personal income in savings in the case of job or further financial losses.

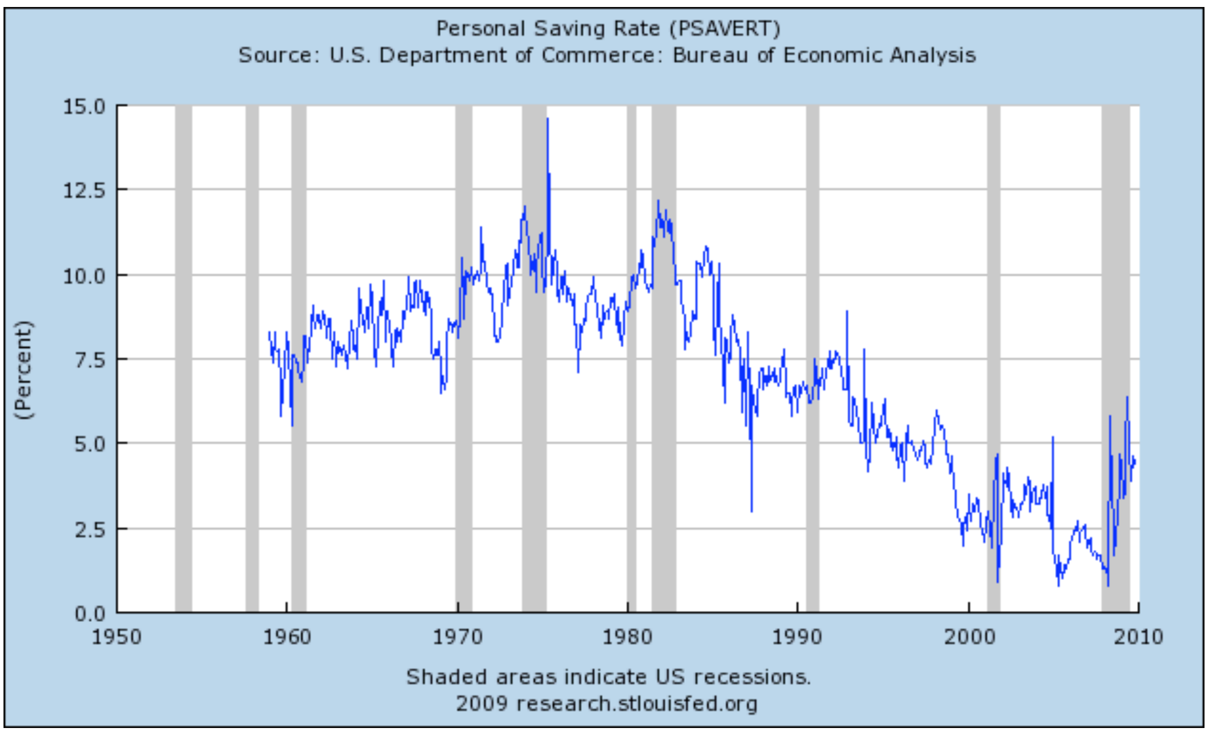


Chart of the Month

Coincident Economic Indicators

Each month the Philadelphia Federal Reserve calculates a coincident economic index for each state based on wage and employment data supplied from the Bureau of Labor Statistics. Coincident indicators attempt to capsulate how the Utah economy is doing right now. Hence, it is neither a "leading" nor a "lagging" index, but coincident with the economy at the date specified. In the chart below the percent change in the index for Arizona, California and Utah are depicted for October 2009.

Note that while Utah appears to have hit bottom at about negative 4%, California and Arizona are beginning to pick up steam in the past two months. California's index reached negative 5% before improving slightly and Arizona is improving from negative 8%.