Utah League of Cities and Towns

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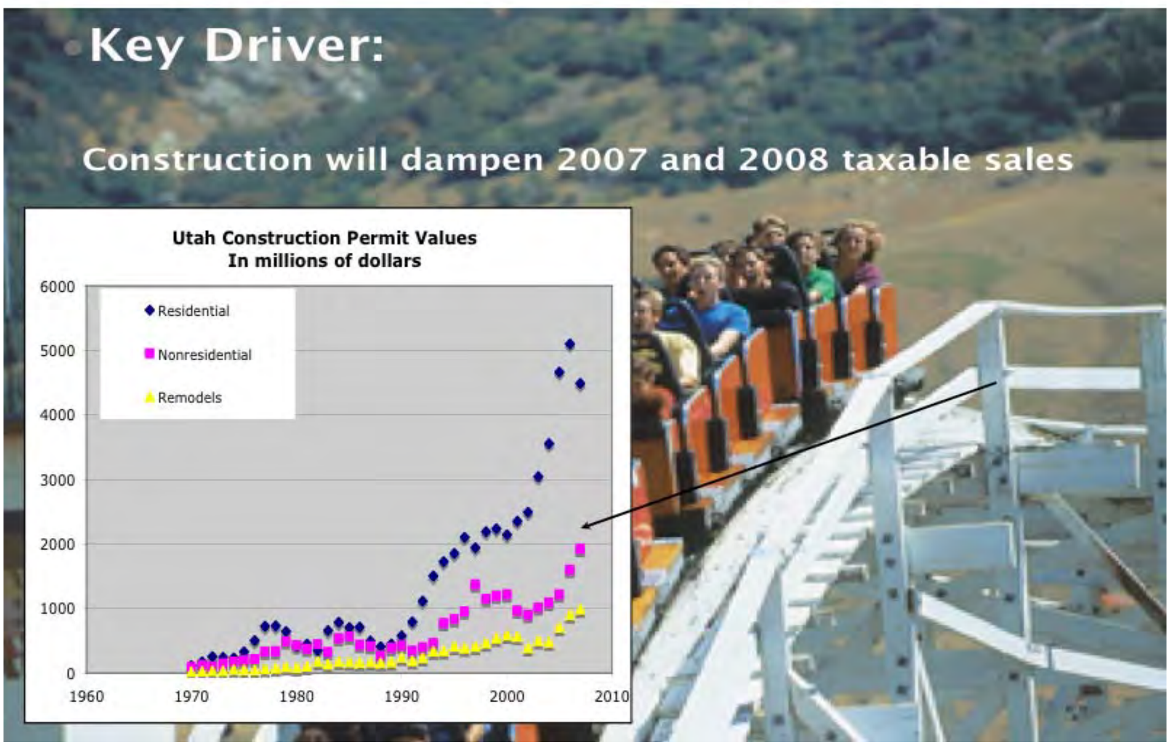
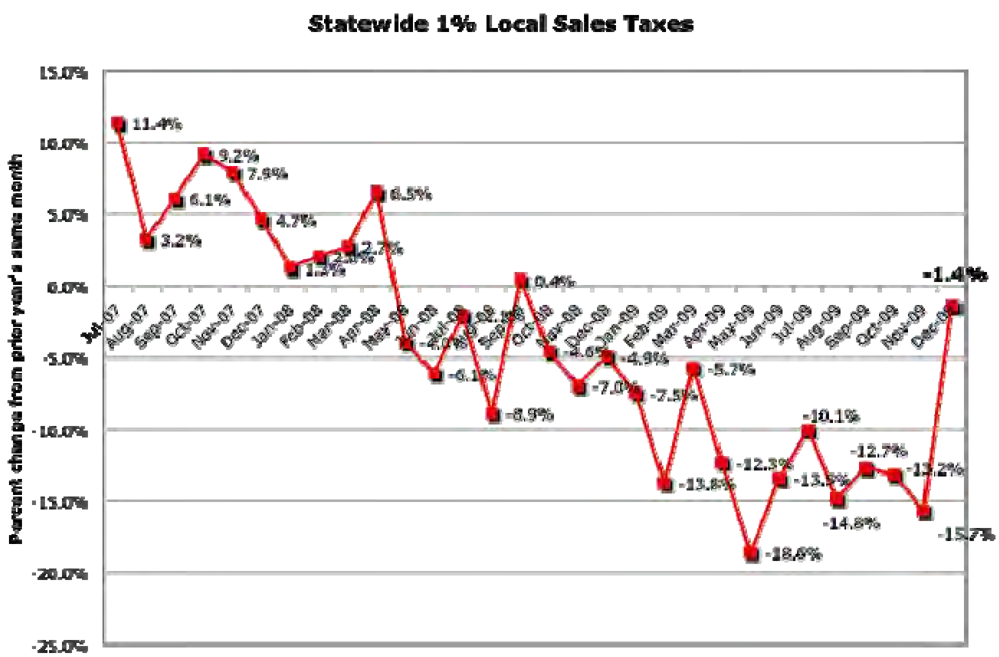


1% Local Option Sales Taxes

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.

December distributions, representing October taxable sales, only fell 1.4% relative to the same period in 2008. This is a big relief, especially since taxable sales had fallen in double-digits in 9 out of the last 10 months. Because of the small decrease in the December distribution, the local sales tax declined 10.7% during the last three months (compared to a nearly 14% drop for last month's quarterly average).

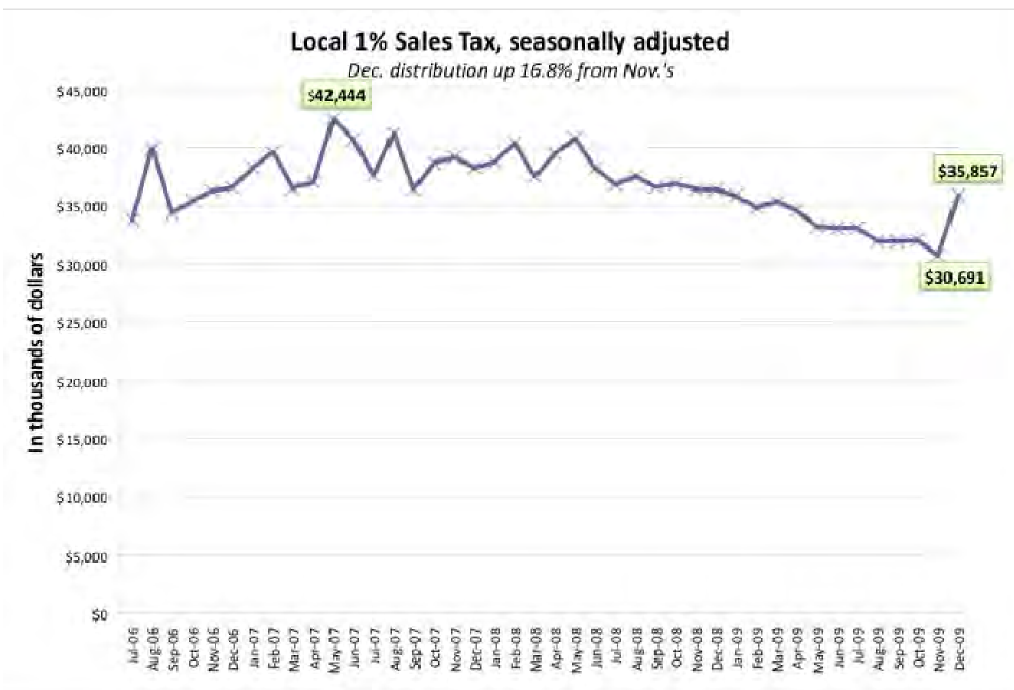
The succeeding charts explain how leading and coincident economic indicators have worsened in 18 of the past 19 months spelling a serious economic downturn and resulting in a declines for Utah cities' major revenue source – sales taxes.



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 resulting seasonally adjusted series indicates how far Utah cities' number one revenue source has dropped during this recession. **Indeed, the 1% tax yield fell 27.7% from a high of $42.44 million in May 2007 to a low of $30.69 million in November 2009. After December's smaller decrease, however, the drop narrowed to 15.5 percent at $35.86 million.**

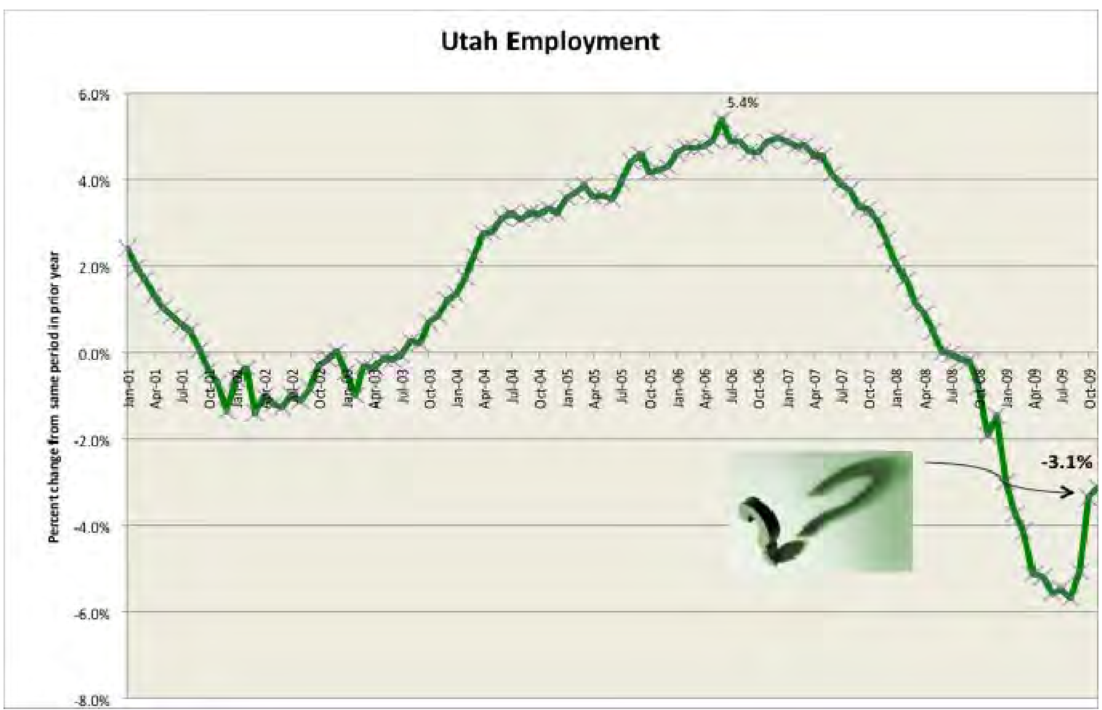


Utah Employment (coincident indicator)

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 the key variable 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, the last two monthly decreases of 3% are really just estimates. Recently released third quarter employment fell -5.4% based on the employer surveys (hard data).**

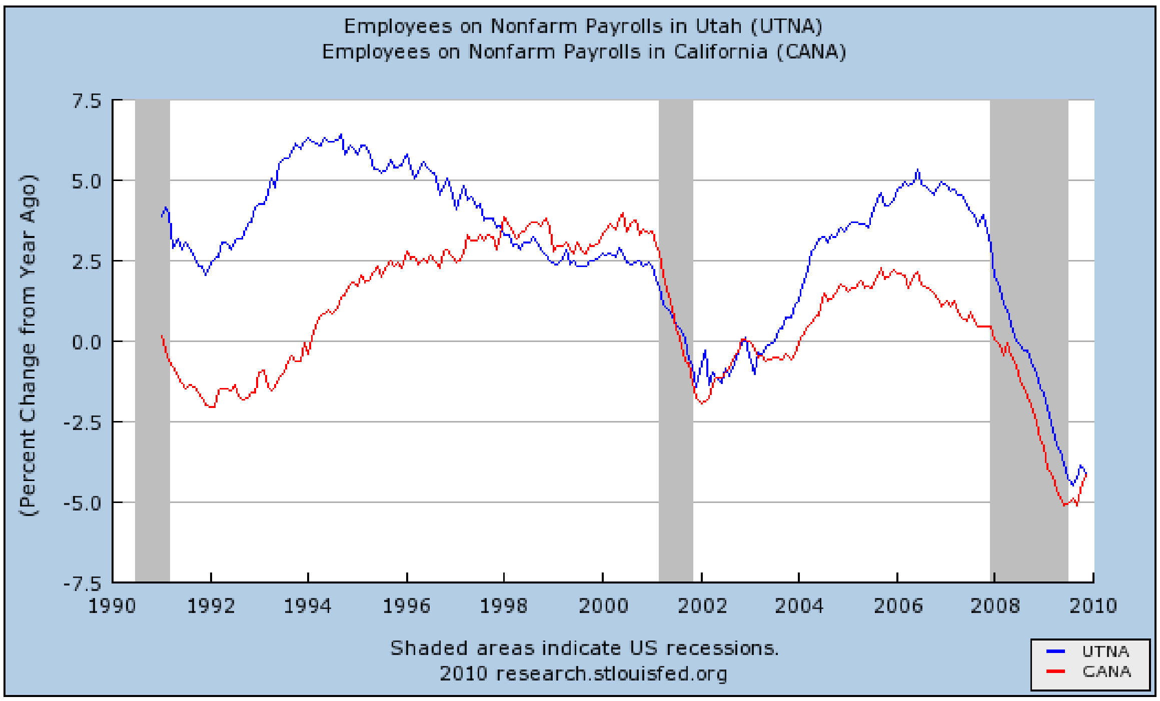
On a sector-by-sector basis, employment declines were reported in the construction (-14%), manufacturing (-8.7%), leisure and hospitality (-7%), professional and business services (-5.2%), finance (-2.5%), and information (-0.4) sectors during November 2009. Job gains were reported in the education and health services, (+4.9%), and government (+1.4%) sectors.



Utah Employment Percent Changes Relative to California's

Over the past 3 years, Utah's employment declines have tended to follow California's declines. In the past two months California's employment declines have slowed down so much that the gap between the two states is nonexistent.

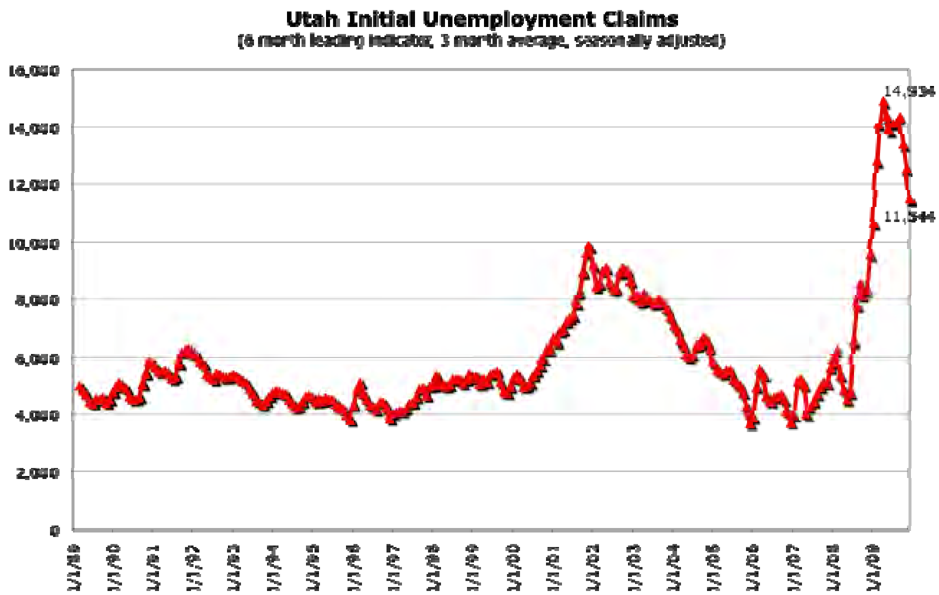
(Source: St. Louis Federal Reserve Bank)



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 in April reached a new peak of 14,934. December 2009’s three-month average for claims fell to 11,544, after adjusting for seasonal changes. When and if claims fall below the 8,000-level (possibly in three to six months), Utah employment will begin to increase relative to the prior year.

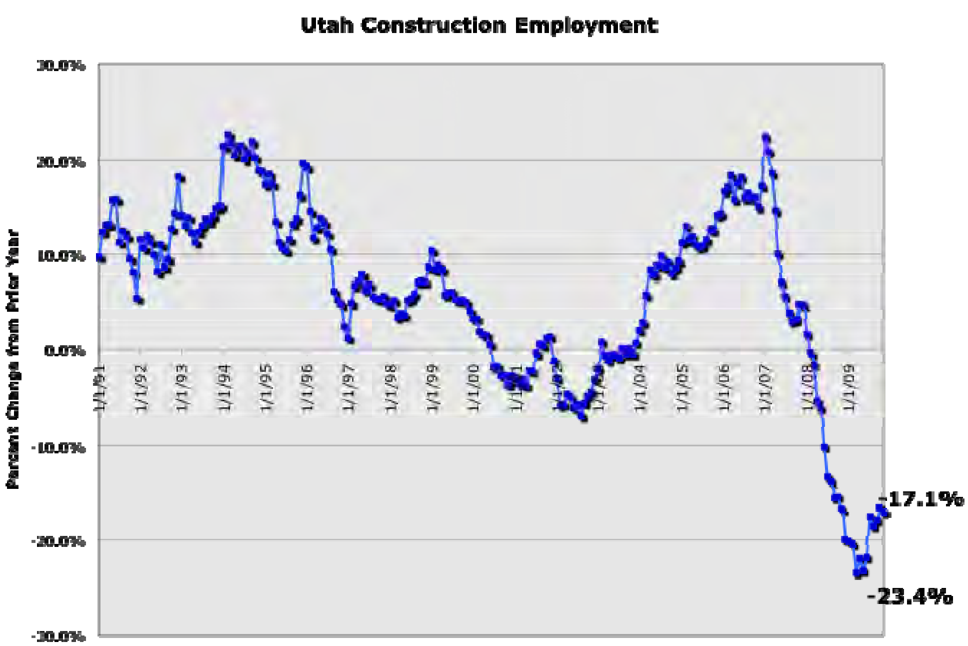


Utah Construction Employment (leading indicator)

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.

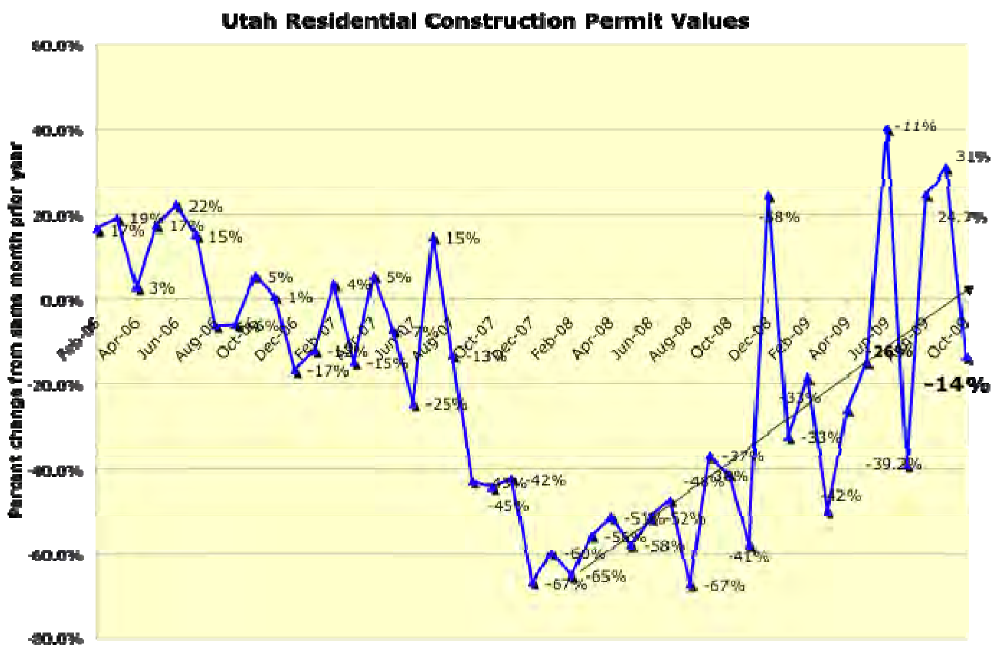
By November 2009, Utah construction employment fell 17.1% from the prior year, edging up from March's 23.4% low point. Construction employment appears to have stabilized between 70,000 to 75,000 jobs (down from a peak of 105,700 jobs in December 2007). Expect it to continue to fall relative to 2008 levels, but at steadily smaller negative rates. Then expect single-digit 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.

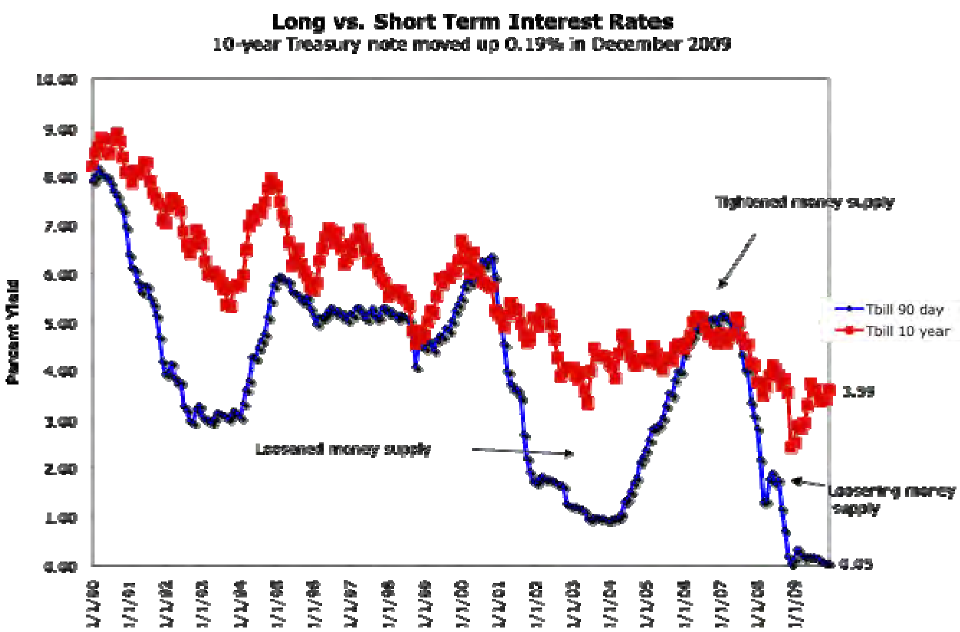
Residential construction permit values appeared to be trending up in late 2009. Despite the 14% drop in October, residential construction permit values increased 23% during the first 10 months of 2009 and increased 32.1% between August and October. The chart below indicates that permit values are beginning to grow from serious declines in 2007 and 2008. Many of the new permits are in multi-family units, not single-family homes. **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)

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.

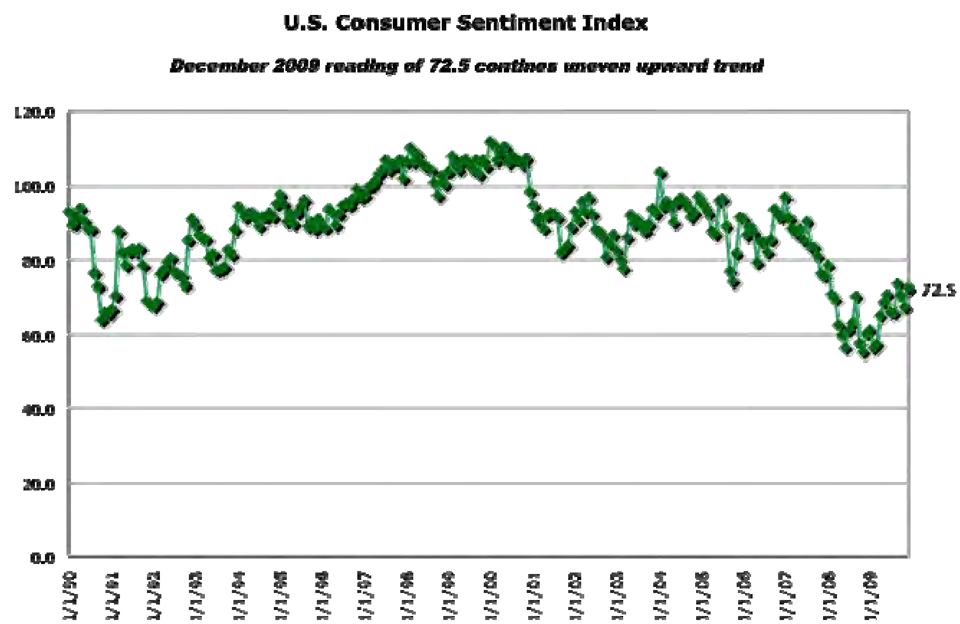
The near zero rate (0.05%) of the 90-day Treasury note, reflects the continued intent by the Federal Reserve to increase the money supply, which should spur commercial and consumer lending. December's gap of more than 350 basis points implies that the Fed still has its foot down on the gas pedal, hoping to boost the economy.



U.S. Consumer Sentiment Index (coincident)

Since the large shares of economy switched from the federal government to the consumers 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. This measure of consumer confidence normally runs counter to the Misery Index pictured above.

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 a range between 65 and 74. The December index of 72.5 suggests that consumers will still be cautious in their spending, but there is a distinct upward trend from late last year.



U.S. Personal Savings Rate (coincident)

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 4.73% and ranged narrowly between 4.7% and 4.8%, suggesting that consumers are saving about 3 percent more of their personal income in savings in the case of further job or financial losses. This is cutting into consumer spending by the same 3%.

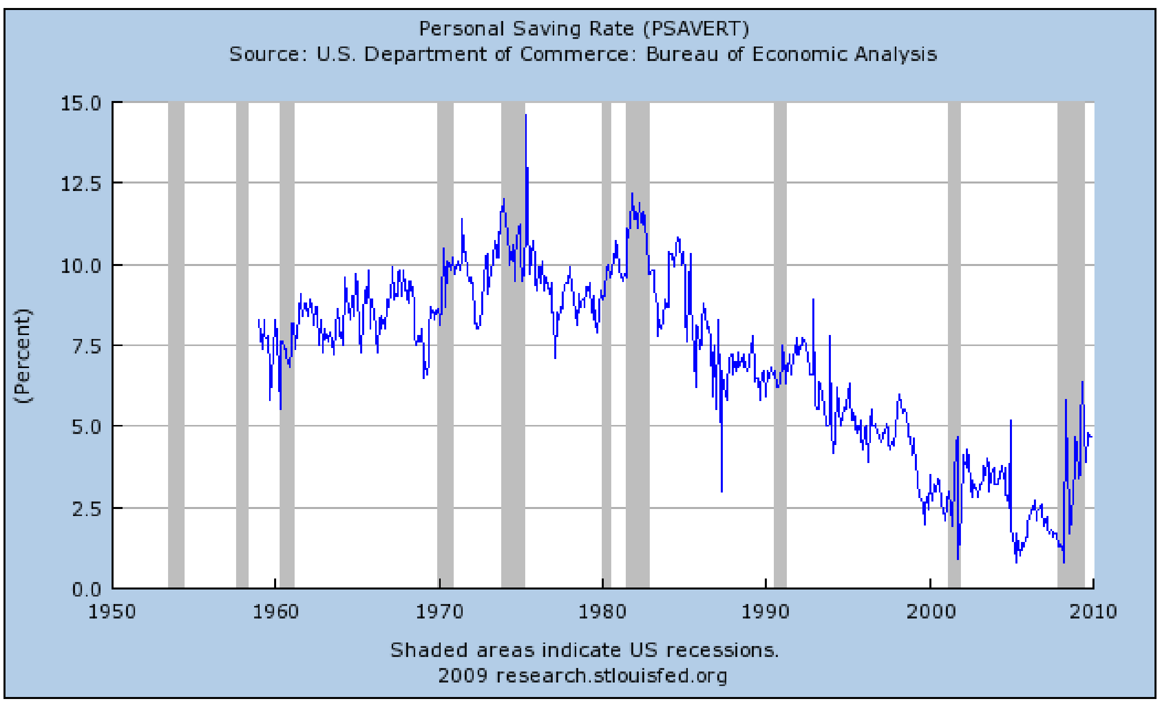


Chart of the Month

Coincident Economic Indicators

The Philadelphia Federal Reserve calculates a monthly 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 Nevada, California and Utah are depicted from early 1980 to November October 2009.

Utah appears to have hit bottom at about negative 4%, slightly higher than California's -5%. Both series appear to be headed upwards. Nevada, which was hit harder by the construction crash, appears to be moving up rapidly from -18% to -13%.