

THE BANK OF STAR VALLEY

2018

STAR VALLEY ECONOMIC AND DEMOGRAPHIC REVIEW





2018 Authors Summary

Star Valley was once thought to be immune to the effects of time, but change is inevitable. Toni Eugene, an author for National Geographic, wrote about Star Valley in 1984 in his book titled Exploring America's Valleys, commenting that; "For two months I explored four highland valleys and found that tomorrow can seem little changed from yesterday in pockets of the interior West." Times have changed. Change has now become a permanent feature for our once quite valley.

The Star Valley economic picture is bright. Star Valley is experiencing a growing population, unemployment is low, hovering around 3.6%, liquidity within the market is expanding, local inflation is within reason, jobs are available, and real estate prices are increasing. Overall, these factors come together to indicate a robust and promising local economy.

Commercial real estate activity continues with the expansion of several business and the introduction of a few new businesses. The residential housing market continues to be strong as measured by the number of new housing starts and housing prices. However, an emerging issue for many residents is that housing costs are escalating, and these individuals are finding it impossible to purchase a house. Home ownership is a foundation of a stable population, and the fact that many cannot afford a home based upon Star Valley income levels will challenge the strong home ownership rates the area has enjoyed.

The U.S. economy is running at full capacity with low unemployment and acceptance inflation. As the Federal Reserve acts to reduce future inflation pressures by increasing short-term interest rates, the probability of a recession occurring in the mid-term grows. The U.S. economy is now in the second longest recovery period in modern history, but this great party will eventually come to an end. A future recession will have negative impacts on Star Valley residents and businesses, but the area has faced major downturns in the past only to emerge stronger proving the resident's resilience to hardship time and again.

While Star Valley's beauty, good people, and small-town American feel are timeless, the valley's characteristics almost guarantee continued opportunities and a bright future. Just remember today, as 10 years from now, the Valley will differ from today just as much, if not more, than from just 10 years ago.

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SPECIAL THANKS

In order to gain a more complete picture of the economic condition of Star Valley, the Bank of Star Valley relies on many individuals, businesses, and government entities to provide information and data. The Bank wants to express gratitude to those who helped provide the information and data and thank them for their time, assistance, and patience.

Lincoln County School District #2

Thayne Senior Center

Salt River Senior Center

1st Bank

Aviat Aircraft

Freedom Arms

J.R. Simplot

Lincoln County Government

Lower Valley Energy

Lincoln Self Reliance

Silver Star Communications

Polyguard & RMP Mobile

Wells Fargo

PC Industries

Star Valley Medical Center

Star Valley Independent

Lincoln County Assessor
Lincoln County Planning and Zoning
Town of Afton
Town of Alpine
Town of Thayne
Town of Alpine
Town of Star Valley Ranch
Jackson Hole Real Estate Associates
Alliance Title
Local Landlords
Big Country Realty
Advantage Realty

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2018 STAR VALLEY ECONOMIC and DEMOGRAPHIC REVIEW

INTRODUCTION

The following document is The Bank of Star Valley's 2018 Economic and Demographic Review. The purpose of this review is to document relevant demographic and economic data of the Star Valley, Wyoming, and Idaho geographic area, which constitutes The Bank of Star Valley's Community Reinvestment Act market. The Bank of Star Valley is dedicated to serving the northern half of Lincoln County, Wyoming, and the Star Valley areas of Caribou and Bonneville Idaho Counties. This report reviews general demographic dynamics, employment, income levels, cost-of-living considerations, national and state economic trends, as well as real estate market trends.

The Bank shares this report with the public by posting the report on the Bank's website, www.bosv.com. However, readers should exercise care in relying upon the findings of this report, as they may reflect unintended biases and potential misinterpretation of the data by the authors. A regional economic study, due to the complexity of the subject and its infinite scenarios, is by its very nature limited in scope.

NOTE: The Bank of Star Valley retains ownership of this document including the data and analysis contained herein. If any party wishes to utilize or re-publish this information, prior written consent from bank management is required.

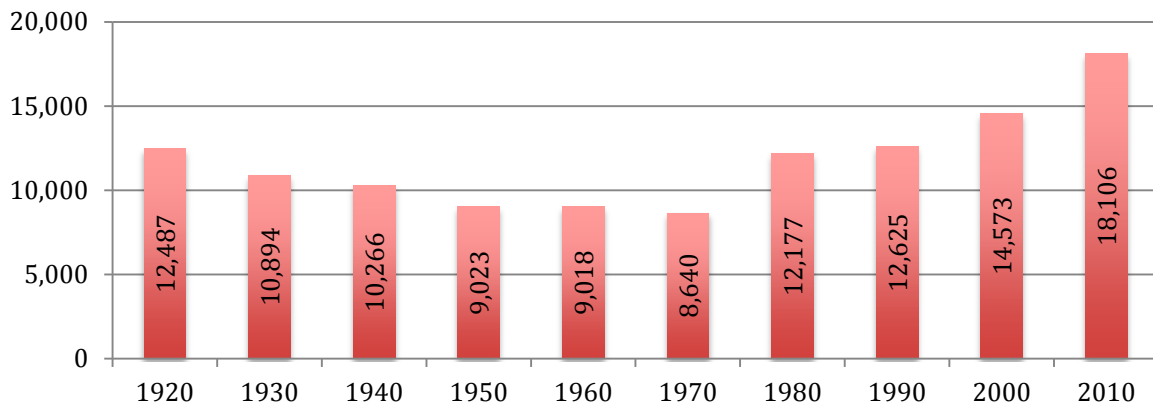
POPULATION

U.S. Census Bureau data indicates that the population of Lincoln County, Wyoming, has been growing steadily since 1970. Prior to 1970, the Lincoln County population experienced a 50-year declining trend. The last census, performed in 2010, counted 18,106 people residing within Lincoln County. Compared to the 2000 census headcount of 14,573, that constitutes a 24.20% increase, or an additional 3,533 people. The period of 2000 to 2010 was a period of rapid growth for Lincoln County, with an average annualized growth rate of 2.42%. A large share of the growth realized during this period was in the northern, Star Valley, part of the county.

Population growth directly impacts, and is positively correlated with, the overall economic vitality of a community. Economic growth is enabled by corresponding increases in human capital, aggregate community wealth, aggregate income, consumer spending power, and the increased demand for goods and services. The higher demand for goods and services tends to increase the demand for labor resulting in the creation of jobs, which again, potentially encourages further population growth. On the other hand, population stagnation or reduction has an opposite, negative, effect on overall economic conditions.

The U.S. Census population count for Lincoln County, Wyoming, for the period of 1920 to 2010 is shown below. It is interesting to note that it took 70 years for the Lincoln County's population to match that of the 1920 census as the population realized consistent downward trend which began somewhere after 1920 and continued through 1970. After 1970 a structural change in Star Valley's economy began with the slow but steady transition from an agricultural – dairy and beef driven economy to a more residential, light commercial and consumer based economy. This structural transition corresponds with the creation of Star Valley Ranch and other housing developments. The change in population beginning in the 1970's is also strongly correlated with the emergence and growth of the Jackson Hole tourism market and Star Valley's evolution into a bedroom community to Jackson, Wyoming. Star Valley continues to experience population growth, with people choosing to move into the area drawn by its amenities including scenic beauty, perceived security, high quality educational and medical sectors, tax benefits, and other quality of life considerations which are provided by the scenic Star Valley area.

Lincoln County Population by Census



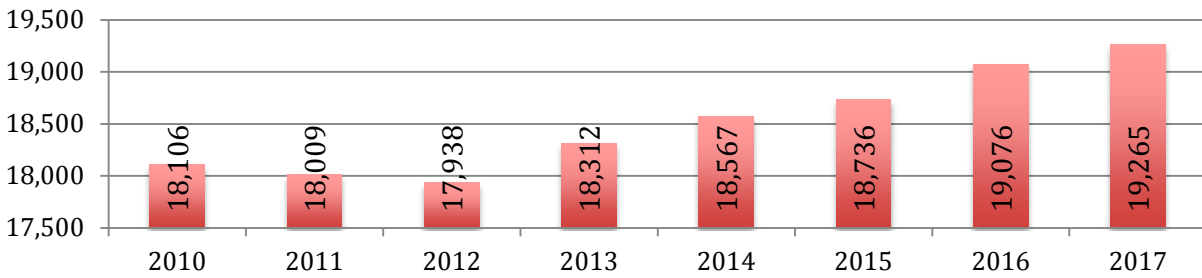
Source: State of Wyoming Department of Administration and Information Economic Analysis Division

The Wyoming Economic Analysis Division (EAD) estimates a population increase of 155 people, or a 1.0% population increase, in Lincoln County from 2016 to 2017. According to EAD estimates, 1,159 additional people call Lincoln County home since the 2010 census. This constitutes a 6.40% population increase over the seven-year period of 2010 to 2017 and an annualized growth rate of 0.91%.

While Lincoln County's population grew by about 1.0% from 2016 to 2017, Wyoming's population realized a slight decrease of -0.96% from 2016 to 2017. Wyoming has been adversely impacted by the recent turmoil in the energy markets. While the energy markets recently have seen some recovery, providing improvements for Wyoming's economy overall, the north-western area of Wyoming (Star Valley, Jackson, Yellowstone and Cody area) is much less dependent on the energy sector for local economic activity than the rest of the state, and therefore is less impacted by the energy issues.

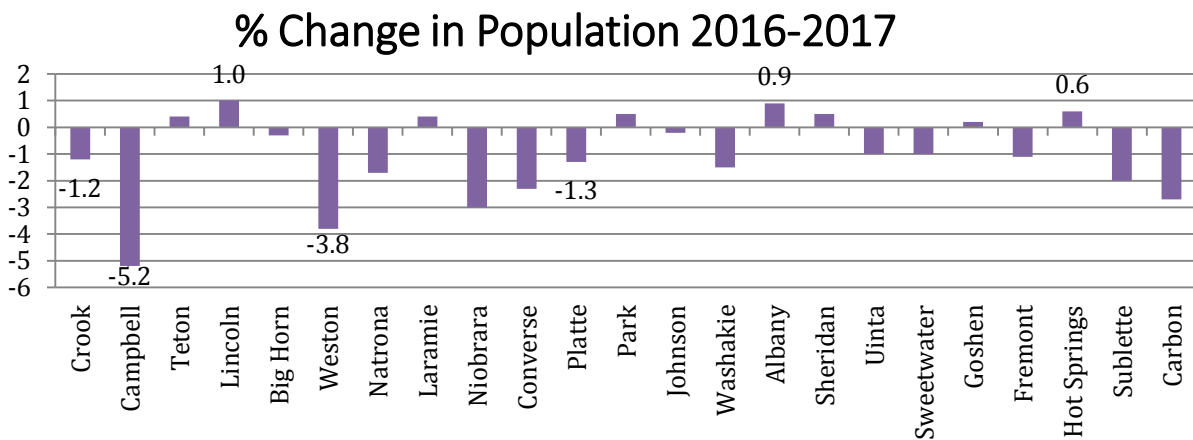
EAD estimates that Lincoln County's population declined between 2010 and 2012, following the Great Recession of 2008. The Great Recession hit the Star Valley real estate market very hard with an estimated decline in the general real estate market values of 30%. However, EAD estimations indicate that the area population began to grow again beginning in 2013, and the rate of population growth has been accelerating in recent years. The graph below depicts EAD's population estimations from 2010 to 2017 for Lincoln County.

Lincoln County Population



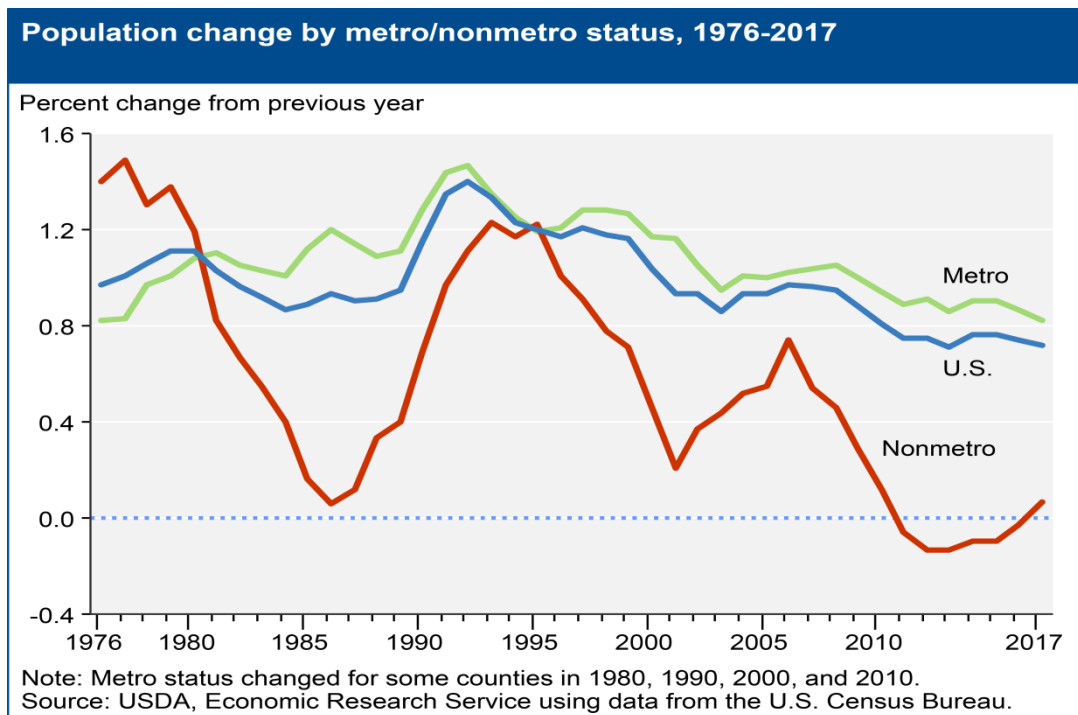
Source: State of Wyoming Department of Administration and Information Economic Analysis Division

Slow or negative population growth is a recent and growing social and economic issue for many Wyoming counties. Many Wyoming counties experienced negative growth rates between 2016 and 2017 with Campbell County, a coal dependent area, being impacted the heaviest. Campbell County experienced a population decline of -5.2% from 2016 to 2017, which was equivalent to approximately 2,558 people. Conversely, Lincoln County had the highest growth rate of any Wyoming county, at 1.0% population growth, from 2016 to 2017. Following Lincoln County in percent growth is Albany County with a 0.9% population growth rate, and Hot Springs County with a 0.6% population growth rate. The growth rate for all Wyoming counties for the period of 2016 to 2017 is shown in the following graph.



Source: State of Wyoming Department of Administration and Information Economic Analysis Division

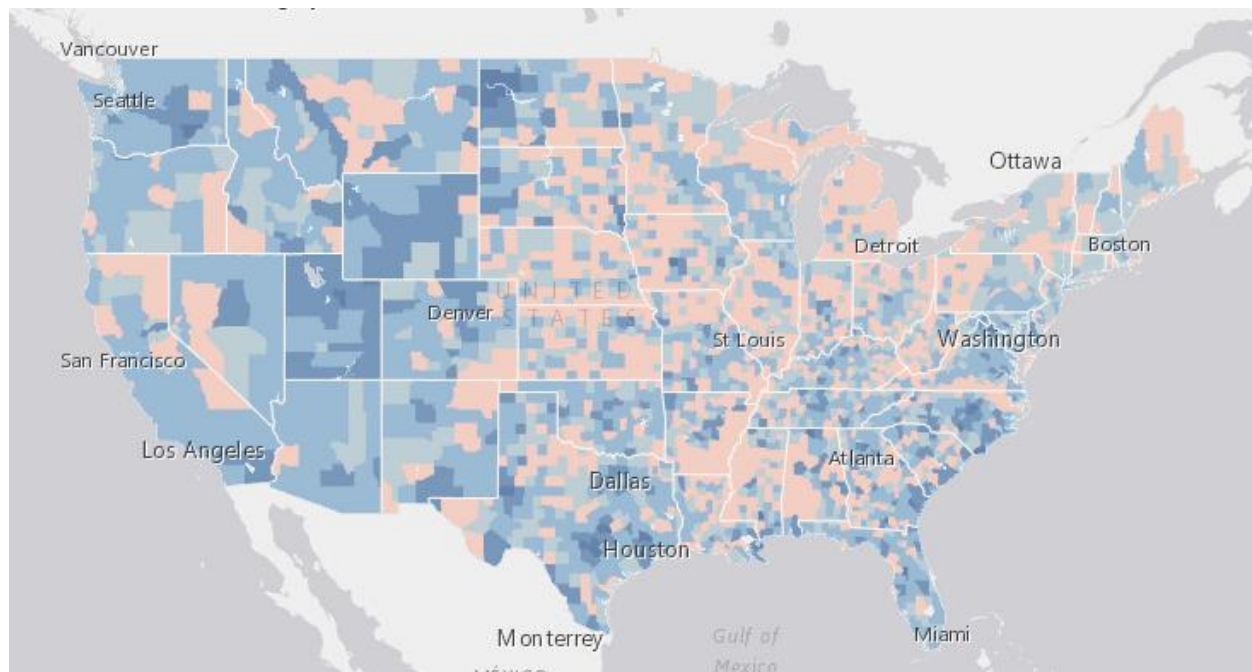
The fifteen Wyoming rural counties experiencing a declining population are mirroring an ongoing national trend of rural area population declines. The graph below, from the U.S. Census Bureau, shows the declining U.S. rural county population trend. Interestingly, the rural negative growth rates do show a recent positive bump in population growth in 2016-2017.



Source: United States Census Bureau

Overall, the low to negative growth rate in rural U.S. is worrisome for rural counties in general as population decline generally precedes economic stagnation. While Lincoln County population growth is showing a positive trend, the concern remains that this trend could potentially adversely adjust with time and begin to mirror the national trend. However, with recent growth, and the underlying factors driving the population growth in the area, the authors feel that this concern is becoming a lower probability in the near term.

The following graphic of the continental U.S., provided by ArcGIS.com, illustrates the negative growth rate of most rural counties. The red color denotes '0% or negative' growth. Much of the U.S. rural heartland is experiencing a loss of population as younger people move to urban areas presumably to pursue educational, social, and employment opportunities that are lacking in rural areas. This migration is leaving a decreasing and aging rural population base. This results in the loss of employment, the closing of small businesses, and a negative long-term economic outlook for these rural areas.



Legend

USA Projected Population Growth Rate 2010-2015

2012-2017 Annual Population Growth Rate

Counties

- 2.6% or more
- 1.3% to 2.5%
- 0.4% to 1.2% (US Avg: 0.68%)
- 0.1% to 0.3%
- 0% or negative
- No population

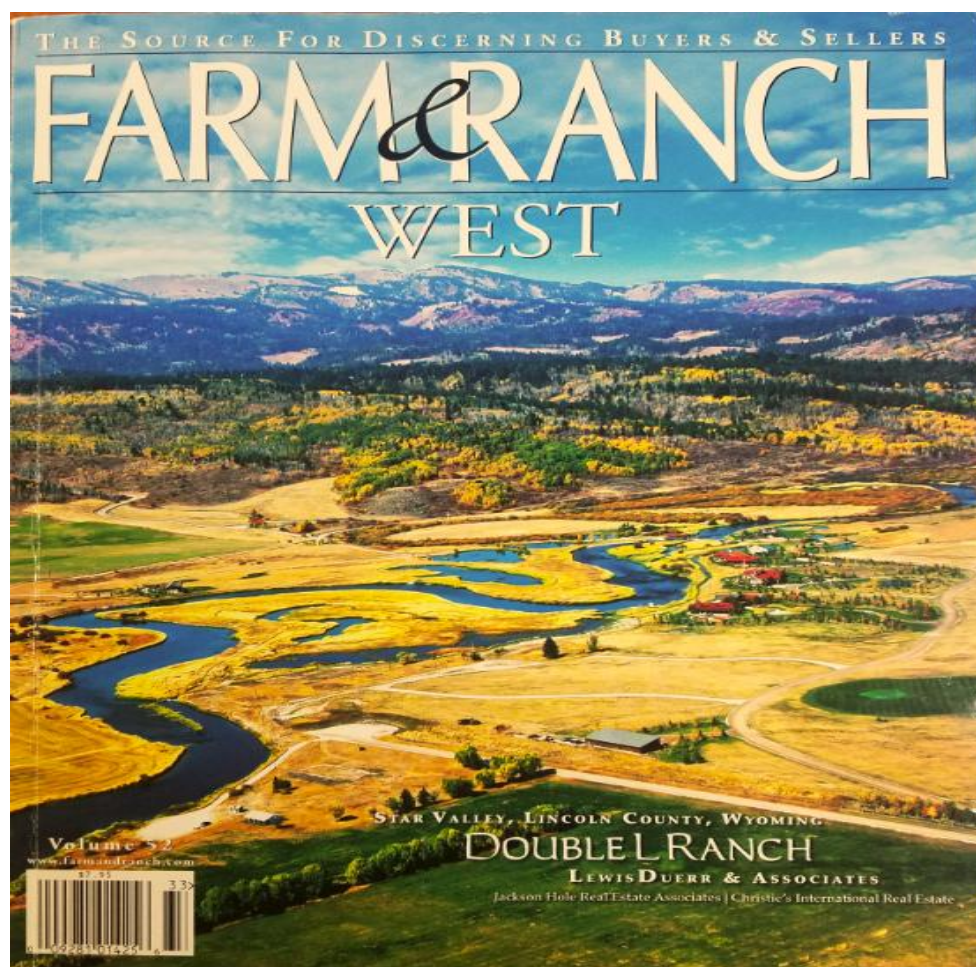
Source: ArcGIS.com

The areas showing growth, as denoted by the darker blue shades, are predominately around the West Coast, East Coast, and the Rocky Mountain regions. Wyoming, being part of the Rocky Mountain region, potentially has a brighter demographic future than its neighboring states to the east.

Wyoming's population increases and decreases largely follow the boom and bust cycle that prevails in the mineral and energy sectors. Over the last decade Wyoming has seen periods of considerable growth, when energy prices are high, and is now in a period of population decline following depressed energy prices. In fact, during the aftermath of the Great Recession, Wyoming was one of the fastest growing states as its economy was propped up by the then booming energy sector. The recent decrease in Campbell County population strongly supports this concept.

Both Bear Lake and Caribou, Idaho, Counties, which lie on the western Lincoln County, Wyoming border, are experiencing low to negative population growth according to the graphic above.

Transitioning over the last 10 years, there is also another structural change currently taking place in Star Valley. Affluent people are choosing to invest in Star Valley and are making it their home. Most of this type of upper-net worth population growth used to take place in the Jackson market, not Star Valley. However, with Jackson's increasing prices, Wyoming's low tax rate, natural amenities including three national forests, fisheries, and strong infrastructure, a number of affluent individuals have been purchasing housing and investing in property in Star Valley. The result has been the creation of areas within Star Valley which are unique, fairly exclusive, and provide the foundation for more of these people to move here. Examples of such areas are the Double L Ranch, the Afton Airpark, and the Alpine Airpark. Further, large areas of the Valley have been purchased by affluent individuals with extensive work having been performed to enhance housing as well as fisheries and wildlife habitat.



Farm & Ranch West Magazine featuring Double L Ranch, Etna, WY on the cover

These properties, and quality of life, have been featured several times in Wyoming Lifestyle magazine and were also featured in the national publication, Aircraft Owners and Pilots Association magazine in a feature article entitled “Living a Western Life, The Uncommon Beauty of Wyoming’s Alpine Airpark” (June 2016), as well as being featured on the cover of Farm & Ranch West (pictured above).

Due to the uniqueness of Star Valley, the growing congestion and real estate cost of Jackson, and Wyoming’s accommodative individual and corporate tax rate, these upper-end developments are growing, attracting successful and talented individuals to Star Valley and adding exponentially to the human capital resources of the area. Further, this growth creates new demand for goods and services, corresponding to enhanced employment opportunities and the general overall long-term economic growth of the Valley.

Star Valley Wyoming Population Estimate

The Bank created a population model in 1994 which has proven to be remarkably accurate. The model was originally developed to forecast the Star Valley population based on the 2000 census and used for the chartering process of the Bank. The Bank continues to utilize this model to estimate the current as well as the future Star Valley population through 2030, now using the 2010 census as the base.

One metric used in past reviews has been to include Wyoming’s growth rate as a scenario to represent the growth rate in Star Valley, but since Wyoming’s recent growth was negative, the authors felt that the probability of this happening in Star Valley in the current environment was very low; therefore, Wyoming’s growth rate was not used as a factor in this year’s model.

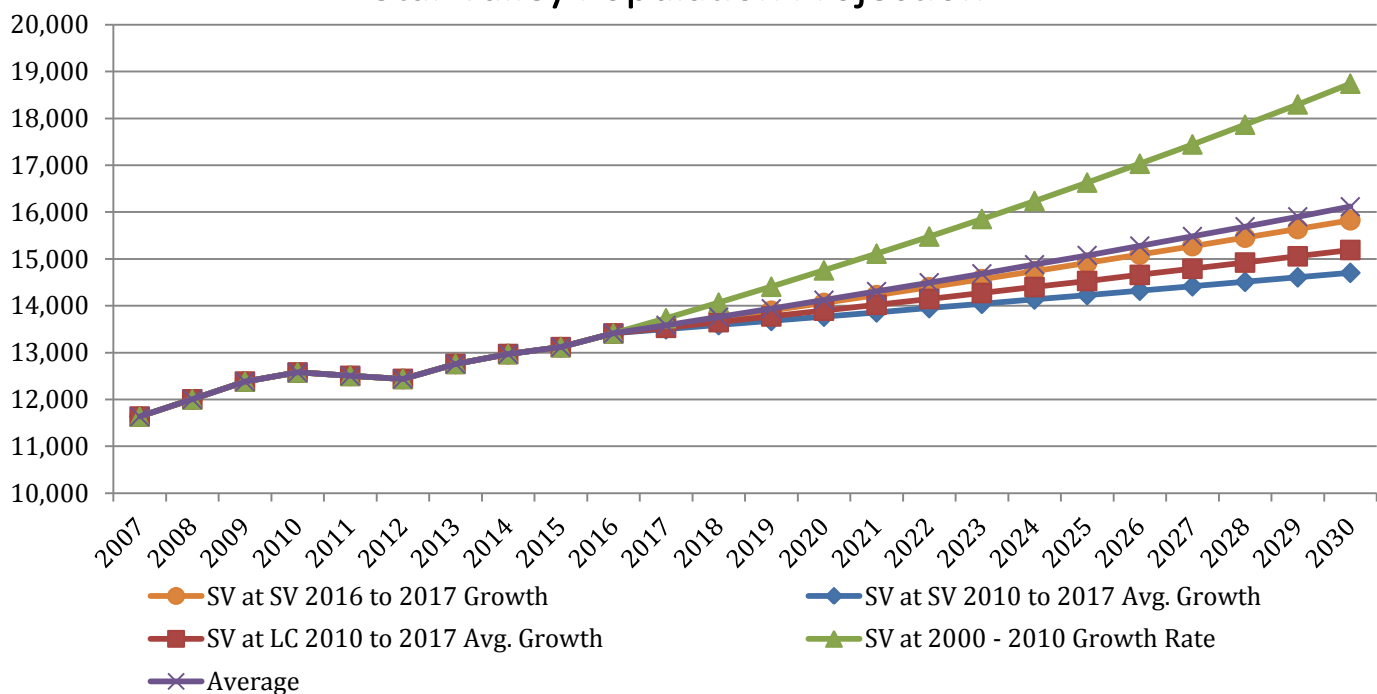
The authors utilized four scenarios to predict Star Valley’s future population growth:

- Star Valley population growth at the same rate as it realized between the recent years of 2016 to 2017, which was 1.19%.
- Star Valley population average annual growth at the same rate realized between the period of 2010 to 2017, which was 0.66% (low-end-constraint).
- Star Valley population growth at the 2010 to 2017 annual Lincoln County growth rate adjusted for the higher growth rate realized in Northern Lincoln County – resulting in an estimated growth rate of 0.92%.
- Star Valley population growth at the average annual rate the area experienced from 2000 to 2010, which was 2.42% (high-end constraint).

The authors utilized an average of the four growth scenarios to represent a preferred indicator for the highest probability for future population. The Bank's model results are shown below. It estimated that Star Valley's population, as of year-end 2017, was approximately 13,584 – or approximately 70% of the Lincoln County population.

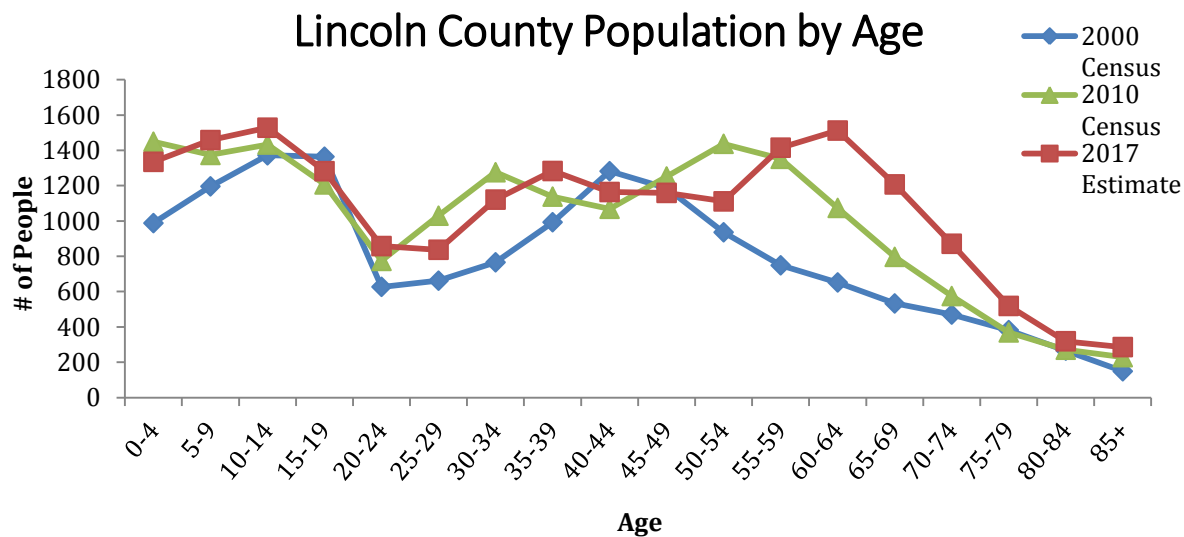
As for future population growth, the high growth rate scenario indicates that in 2020, the Star Valley population may be as high as 14,700 individuals, and the low growth rate scenario forecasts a population of at least 13,800 individuals for 2020. Based upon this assumption, it is estimated that Star Valley's population will approximately be 14,000 in 2020 and will continue to grow to an estimated 16,000 in 2030. Bottom line, it is clearly going to continue to get more and more crowded in this small valley.

Star Valley Population Projection



Population Composition

Total Lincoln County population segmented by age groupings for the years 2000, 2010 (U.S. Census counts), and 2017 (EAD Estimate) is shown below.



Lincoln County's population demographic is not static due to the graph not simply moving to the right over time. Rather, the population is being impacted by births, deaths, and migration in and out of the county. Between the 2010 census and the 2017 estimate, there have been population declines in two critical age groups – the '20-34-year olds' and the '40-50-year olds'. The individuals which constitute these age groups tend to be more risk tolerant, more entrepreneurial in nature, and typically have children in the household. The '20-34-year olds' segment is at least above the 2000 census in total number, but the career-stable '40-50 year olds' segment is below even the 2000 census, which represents a decline over that realized 15 years ago.

The decrease in the size of both age group populations is of growing concern. Many Star Valley businesses are older-well established with slower employment growth. There are very few new or start-up businesses. The authors feel that the decreases in these two age groups are directly related to the current lack of higher skilled employment opportunities in Star Valley; and this is in conjunction with the apparent declining entrepreneurial spirit nationwide. Tyler Cowen, the Holbert L. Harris chair in economics at George Mason University, noted in his book The Complacent Class, that:

“For the most part, the American economy is more static than it was several decades ago, and that remains one of the most underreported stories of our time.

To look at one simple measure of both social and economic stasis, the rate at which business start-ups are forming has been declining since the 1980s. By one estimate, start-ups were 12 to 13 percent of the firms in the economy in the

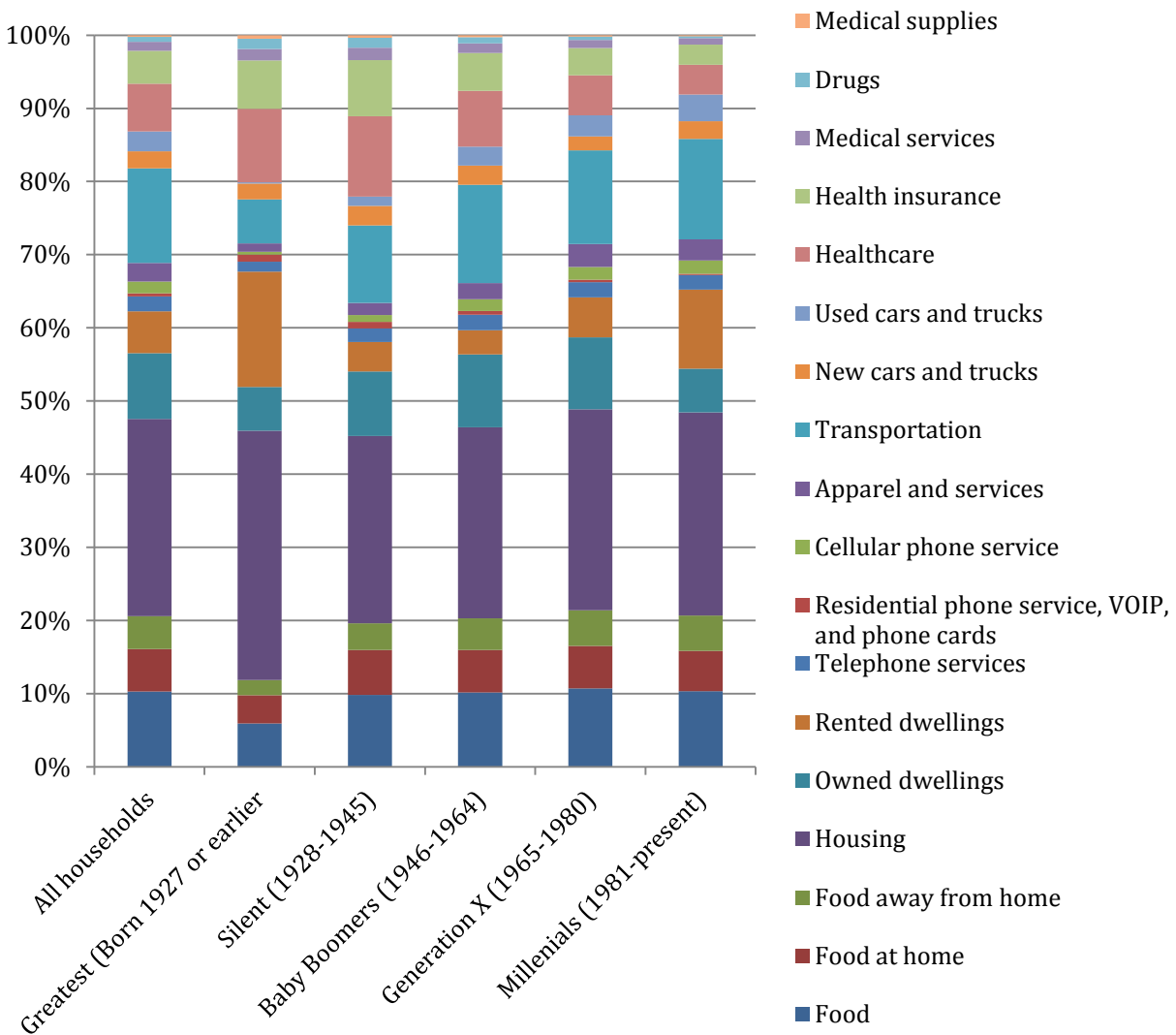
1980s, but today they are only about 7 to 8 percent. That's right; for all the talk about Silicon Valley, we are less a start-up nation than before. By the way, this overall decline in start-up frequency is true for virtually every sector and every American City...

Not only are there fewer startups, but a smaller percentage of them are succeeding. This means that younger firms are a smaller part of the overall market and American corporations are increasing in average age, just as the American people are. In the late 1980s, 18.9% of the employment in the American economy was at firms five years or younger. This average has fallen to 13.5% right before the Great Recession; in numerical terms, that is a 29% decline over only seventeen years, a significant and rapid drop."

Not surprisingly, the Star Valley 55 and over population is increasing over time – more than any other age group. The Lincoln County, and particularly the Star Valley population, continues to get older and older. This age shift affects the economy of Lincoln County as it modifies the goods and services demanded. Many people in the older age range have selected Star Valley as a place to retire, and not necessarily to actively participate in the workforce. These aging individuals demand, in aggregate, more health care services than other age groups. This increase in demand has been a driver for the local economy as it adds opportunities for medical and retirement service related jobs to the market.

The chart below, created by the Bank using 2016 data from the Bureau of Labor Statistics, shows the spending characteristics of various age groups. Younger individuals unsurprisingly spend a large portion of their income on housing, food, transportation, and healthcare. These expenses account for approximately 70% of income for the millennial generation with the smallest being healthcare. Conversely, the older generations spend a much larger amount on healthcare and housing. The most likely explanation of the increase in housing spending for older individuals, who may own their home, is the need of these people for assisted living.

While most of the results indicated in the chart are intuitive, the Bureau of Labor Statistics findings do provide data-driven foundational support to differences in expenditures by age and an indication as to which commercial sectors will likely perform better considering the aging Star Valley population.



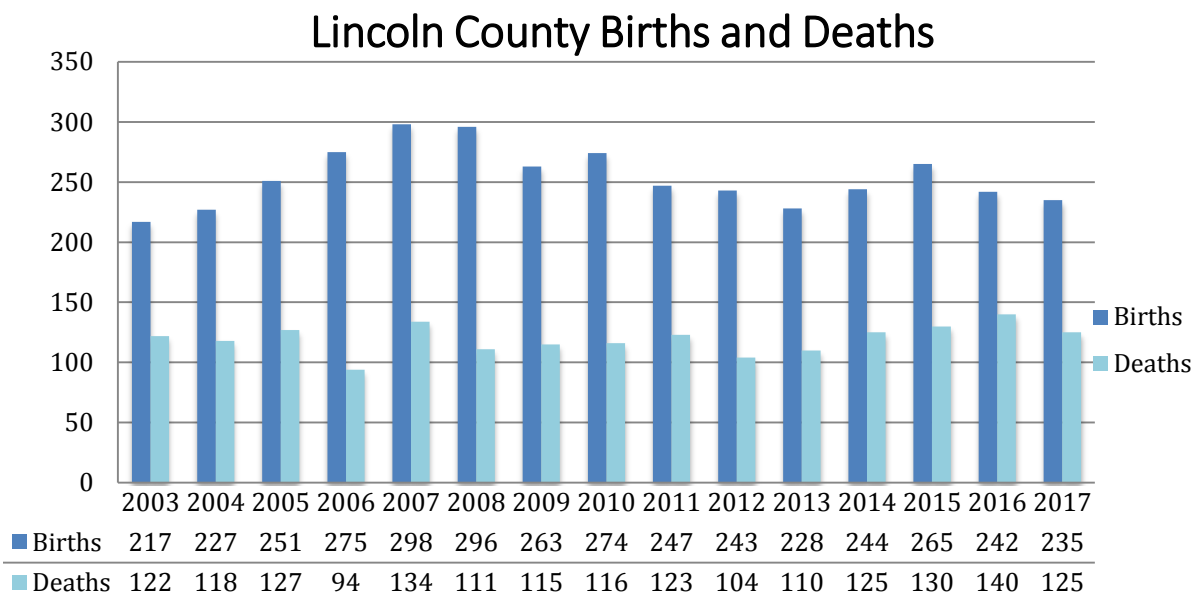
Source: Bureau of Labor Statistics

According to the Wyoming Department of Health, both the number of births and deaths in Lincoln County decreased in 2017. The total number of deaths was 125, and the number of births was 235; that's a decrease of 7 births and 15 deaths from 2016 to 2017. Star Valley Medical Center data indicates that there were 101 births in Afton in 2016 and 91 in 2017. However, the statistics of Star Valley Medical Center should not be read as the actual number of births to Star Valley parents -- or that only 42.9% of the Lincoln County births were to Star Valley mothers. There continues to be a leakage in this sector with a number of Star Valley parents choosing to go to surrounding hospitals.

Since 2012, the number of deaths has been increasing through 2016, reflecting the aging population. However, the number of deaths was down in 2017. The growth in the number of deaths does not match the growth in the aging population. This may indicate that older people

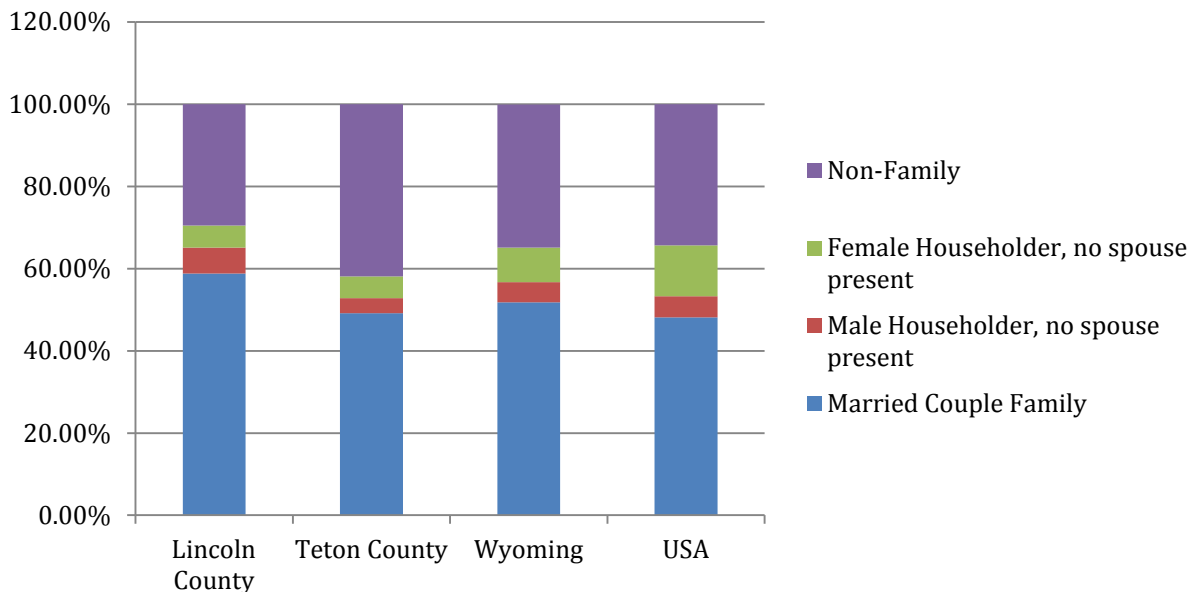
retire to Star Valley, but as they age and their health declines they choose to return to their “home” to be with family in their final years, but the number of deaths in 2017 can also just be an anomaly.

The trend of births and deaths between the years 2003 to 2017 is shown below.



Both SuburbanStats.org and the U.S. Census Bureau perform an estimate of the population by household types. They estimate the number of family led homes, single parent homes, and non-family homes. Below is a comparison of the family types for the United States (U.S. Census Bureau), Wyoming (SuburbanStats.org), Teton County (SuburbanStats.org), and Lincoln County (SuburbanStats.org) for 2018.

Households by Type 2018



Source: US Census Bureau and SuburbanStats.org

Lincoln County leads the selected peers in the number of married couple family households at 58.80%. This is one of Star Valley's foundational human capital assets. Married couple households are less likely to fall under the poverty line than single parent homes. Also, married couple households are more likely to remain in the area longer, being less transient than non-families which tend to be more mobile. Following Lincoln County in the percent of married couple households is the State of Wyoming with 51.80% married couple households, the United States with 48.17%, and Teton County with 49.13% married couple households.

About 11.71% of households are single parent homes in Lincoln County. The percentage of Lincoln County single parent households is significantly lower than the 17.45% for the United States.

Lincoln County also has the lowest percentage of non-family households, or single individuals with no children, at 29.49%. Teton County had the most non-family homes with a total of 41.92%. The low single-family number of households in Lincoln County is greatly influenced by the large number of young people who graduate from Star Valley High School and then pursue higher education and career aspirations outside of the area – confirming the unfortunate fact that Star Valley, much like the rest of rural America, continues to export its youth.

The United States Census Bureau estimates the number of persons living within each respective household in a given area. The averages in the U.S., Teton County, and Lincoln County are shown below. The most recent information is from 2016. Of the groups in this review, Lincoln

County is the highest county in Wyoming and nearly identical to the U.S. statistics. However, considering a growing aging population in Star Valley, which typically constitutes 1 to 2 person households, this is an indication that the families which have children in Star Valley may tend to have more children than the average. This is again supported by school enrollment statistics which is discussed below.

Persons per household

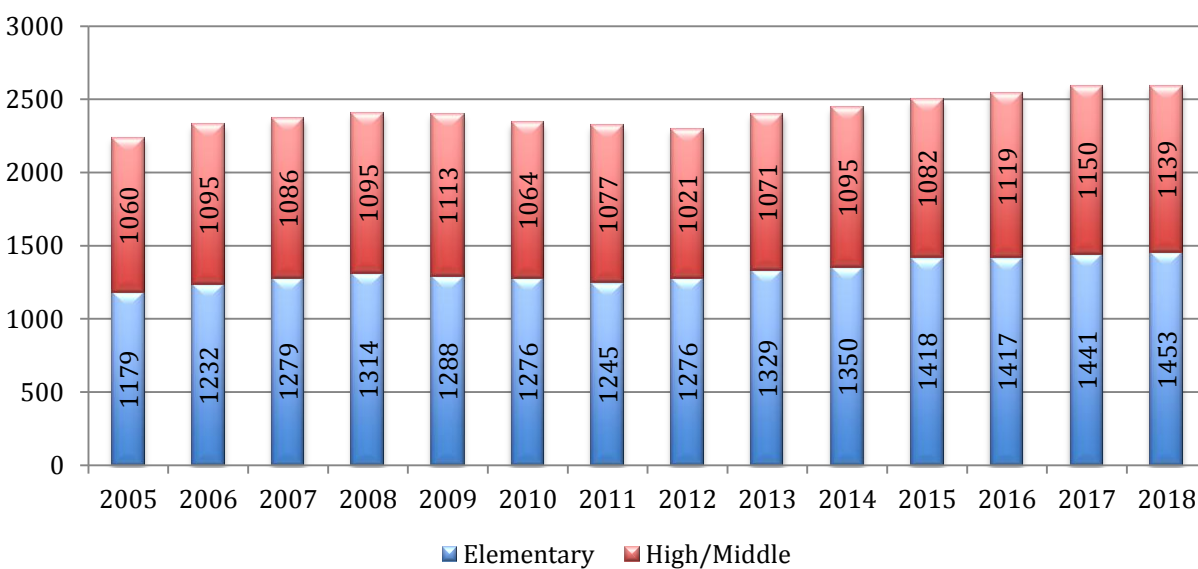
U.S.	2.64
Wyoming	2.51
Teton County	2.54
Lincoln County	2.63

Source: U.S. Census Bureau

Education

Star Valley's total student enrollment is another telling population metric. Since 2012 there has been a continuing upward trend in student population, with 2018 having the highest student enrollment with 2,592 students. The 2018 enrollment showed an increase of only one student over 2017 enrollment. While one data point does not make a trend, the 2018 data may be indicating a stabilization of the student age population. Further, considering the relatively static number of births in Lincoln County since 2011 a more static student population also makes sense. Since 2012 when the student population began to increase, Star Valley schools have realized a 12.84% increase through 2018.

Star Valley Student Population

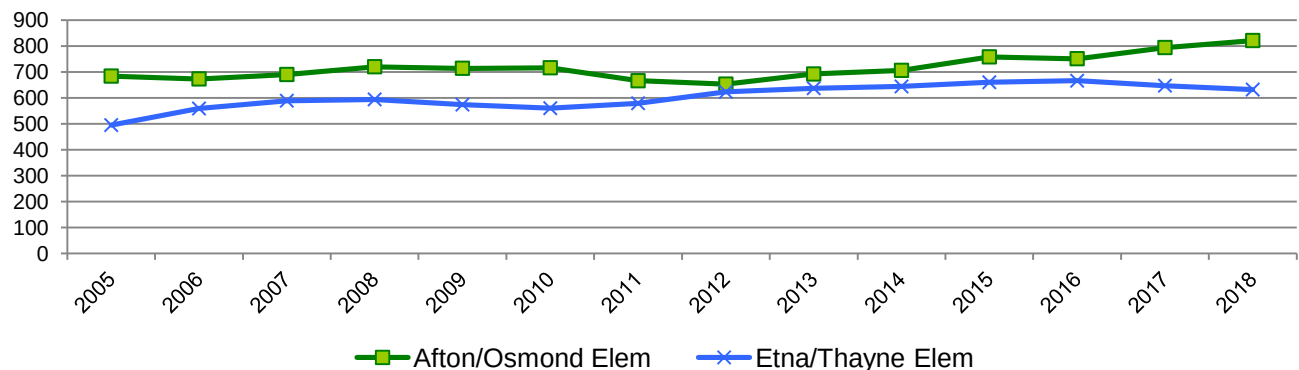


Source: Lincoln County School District #2

Elementary school enrollment provides a highly dependable source to determine the general area in Star Valley where the student population resides. This metric is illustrated by comparing the number of elementary students attending schools in the upper (south) and lower (north) valley areas – both of which have elementary (K – 6 grade) schools. Historically, the upper valley elementary schools have had higher student populations. In 2012 the two areas nearly met with equal student populations. However, since 2012 there has been a clear trend away from this regional equality in the number of students with a growing majority of K-6 grade students in the upper valley. The upper valley elementary schools realized a 27 K-6 student increase from 2018 to 2017. Lower valley schools actually showed a decrease of 15 K-6 students from 2017 to 2018.

In 2018, 56.5% of elementary students attended upper valley schools and 43.5% of them attended the lower valley schools. The increase in the upper valley may be due to factors such as the price of housing or other infrastructure and business opportunities located in the upper valley including proximity to the mine, corporate headquarters, proximity to high/middle schools, and the hospital. For whatever reason, it appears that families with children may currently be more probable to be located in the upper valley.

Star Valley Student Population



Source: Lincoln County School District #2

The level of educational attainment, which is an indication of the overall quality of human capital, is an important economic growth indicator. Lincoln County has more high school graduates relative to Wyoming and the United States. However, it has the lowest percentage of college graduates compared to the nation, the state, and Teton County as depicted in the table below.

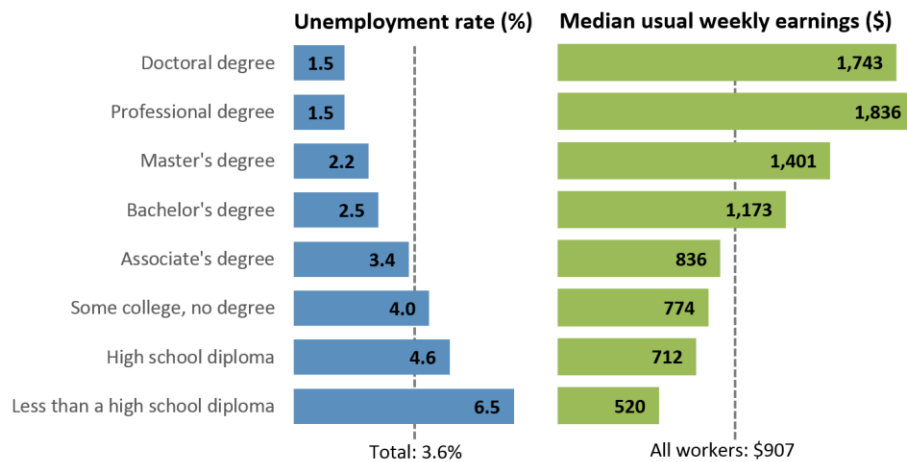
Educational Attainment	Lincoln County	Teton County	Wyoming	United States
High School Graduate or Higher	93.10%	95.40%	92.30%	87.00%
Bachelor's Degree or Higher	20.40%	53.80%	26.00%	30.30%

Source: U.S. Census Bureau

The relatively low percentage of individuals in Star Valley holding a bachelor's degree or higher is concerning as statistics clearly indicate that higher levels of education are strongly correlated with lower unemployment and higher salary levels. Just like the rest of rural America, the demand for higher degree jobs in Star Valley is lower than in more densely populated areas. As discussed previously, many Star Valley High School graduates leave the valley soon after graduating to pursue education and employment opportunities elsewhere, and most do not return.

The graph below, provided by the US Bureau of Labor Statistics, shows the correlation between higher education, greater earnings, and lower unemployment rates for 2017 (most recent information). Considering the implications of the impact of education attainment on income, and the lower level of overall educational achievement among the general Star Valley population, area income levels are expected to be lower, an issue discussed later.

Unemployment rates and earnings by educational attainment, 2017



Note: Data are for persons age 25 and over. Earnings are for full-time wage and salary workers.
Source: U.S. Bureau of Labor Statistics, Current Population Survey.

Source: U.S. Bureau of Labor Statistics, Current Population Survey

Domicile Location

When analyzing the valley's population growth, it's interesting to attempt to identify where in the valley the growth is occurring. One way to attempt to distinguish where the growth is occurring is by examining the growth of the incorporated towns under the assumption that they serve as a proxy for the county areas surrounding them. The table below reports the EAD population estimates of Thayne, Alpine, Star Valley Ranch, and Afton.

Star Valley Population by Community											
	2000	2010	2011	2012	2013	2014	2015	2016	2017	Change in # People	Growth Rate
Thayne	341	366	360	356	362	364	376	367	382	15	4.40%
Alpine	550	828	822	814	835	845	852	855	866	11	2.00%
SV Ranch	776	1,503	1,492	1,489	1,523	1,541	1,546	1,570	1,581	11	1.42%
Afton	1,818	1,916	1,911	1,908	1,947	1,968	1,965	1,995	2,005	10	0.55%

Source: State of Wyoming Department of Administration and Information Economic Analysis Division

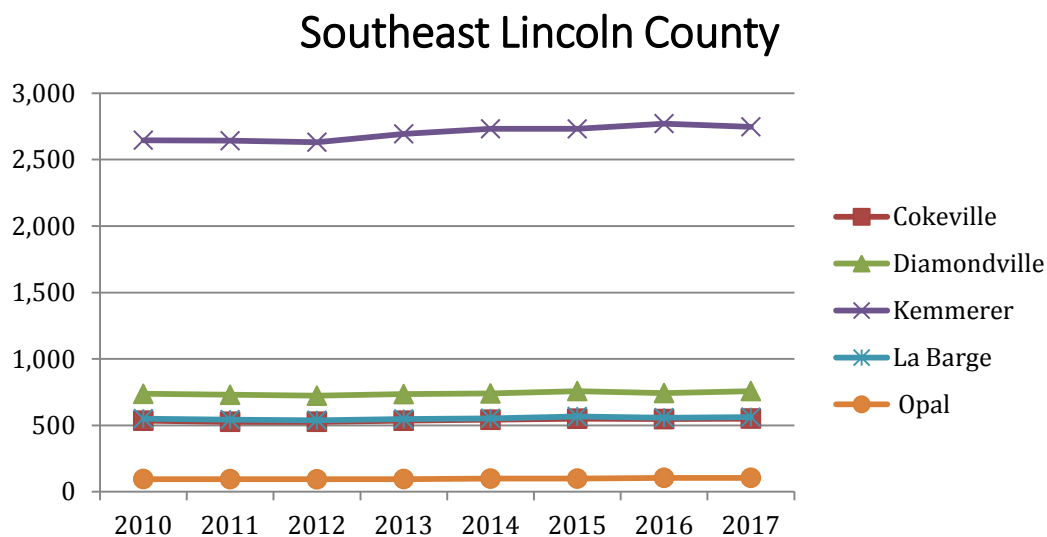
Remember that these estimates are based upon a statistical estimation by EAD, and therefore, they are not an exact census count. However, based on this EAD data, Afton realized 21.28% of municipal population growth in the last year, while the towns in the lower valley together realized 78.72% of the municipal population growth. All of the towns in the upper and lower valley achieved their respective all time high population estimates.

As previously discussed, Star Valley, Wyoming, grew by approximately 150 to 160 people in 2017. Therefore, of the total population growth realized in the area, only approximately 30% was in a municipal area with the remaining 70% of growth occurring in the surrounding county areas. Historically, it had been concluded that the majority of Star Valley's growth was happening in the lower valley, and the data from 2017 confirms this. As previously indicated, the upper valley student population is growing faster relative to the lower valley student population; therefore, there are either larger families in the upper valley, more family households in the upper valley, and/or a larger share of the new upper valley population is living outside of the Town of Afton.

Due to the economic challenges faced in the coal and energy oil industries, the population of Kemmerer and Diamondville has become a point of interest. According to estimates by the EAD, the population of southeast Lincoln County is nearly stagnant - confirming the authors' belief that most of the growth in Lincoln County is occurring in the Star Valley area. The Southern County population could be further challenged with the potential closing of the PacifiCorp Naughton Plant Unit 3 at the end of 2018. Westmoreland Coal announced in its 2018 SEC filings that it is evaluating filing for bankruptcy protection under Chapter 11 of the United

States Bankruptcy Code. In April, 2018, Westmoreland was delisted from NASDAQ. However, if they do file for bankruptcy this doesn't mean the end to their considerable mining efforts in Kemmerer. Many coal companies in recent years have declared bankruptcy and emerged from the process with a leaner capital structure and business plan. Peabody Energy Corp., Alpha Natural Resources Inc., and Arch Coal Inc. are some of the companies that are an example of this.

The Westmoreland Coal mine in Kemmerer employs approximately 300 people, so either the failure or reduction in production of this mine would significantly impact the economy and population of Kemmerer and Diamondville. The following graph represents the population's estimates for the incorporated towns in Southern Lincoln County.

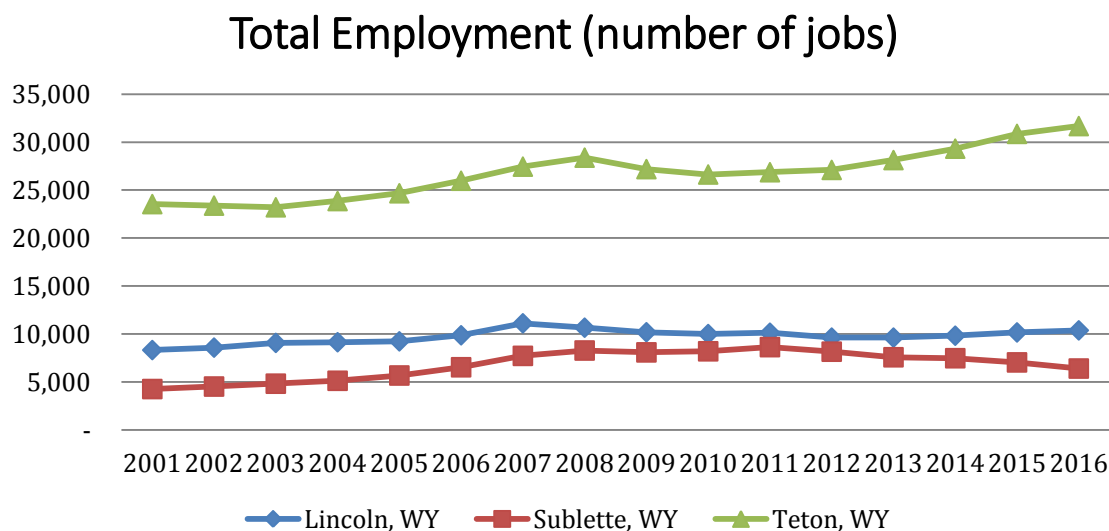


Source: State of Wyoming Department of Administration and Information Economic Analysis Division

The population estimations for South Lincoln County are influenced by population growth statistics which occurred before the energy downturn that began in 2014 for coal and oil. Thus, the authors feel that population changes in this area may be seeing negative pressure which is not represented in the data. If this is the case, and Lincoln County Population is growing in aggregate, then the population of Star Valley may actually be increasing faster than anticipated by EAD or the authors, which will be documented in the 2020 U.S. census.

EMPLOYMENT AND WAGES

The U.S. Department of Commerce provides information on the labor market of each county in the United States. The labor force is a count of both full-time and part-time employment for wage/salary employment as well as proprietors' employment for an area. Note that the labor market may include jobs for which a person residing in another area fills. The graph below shows the Total Employment trend for Lincoln, Teton, and Sublette counties.



Source: Bureau of Economic Analysis

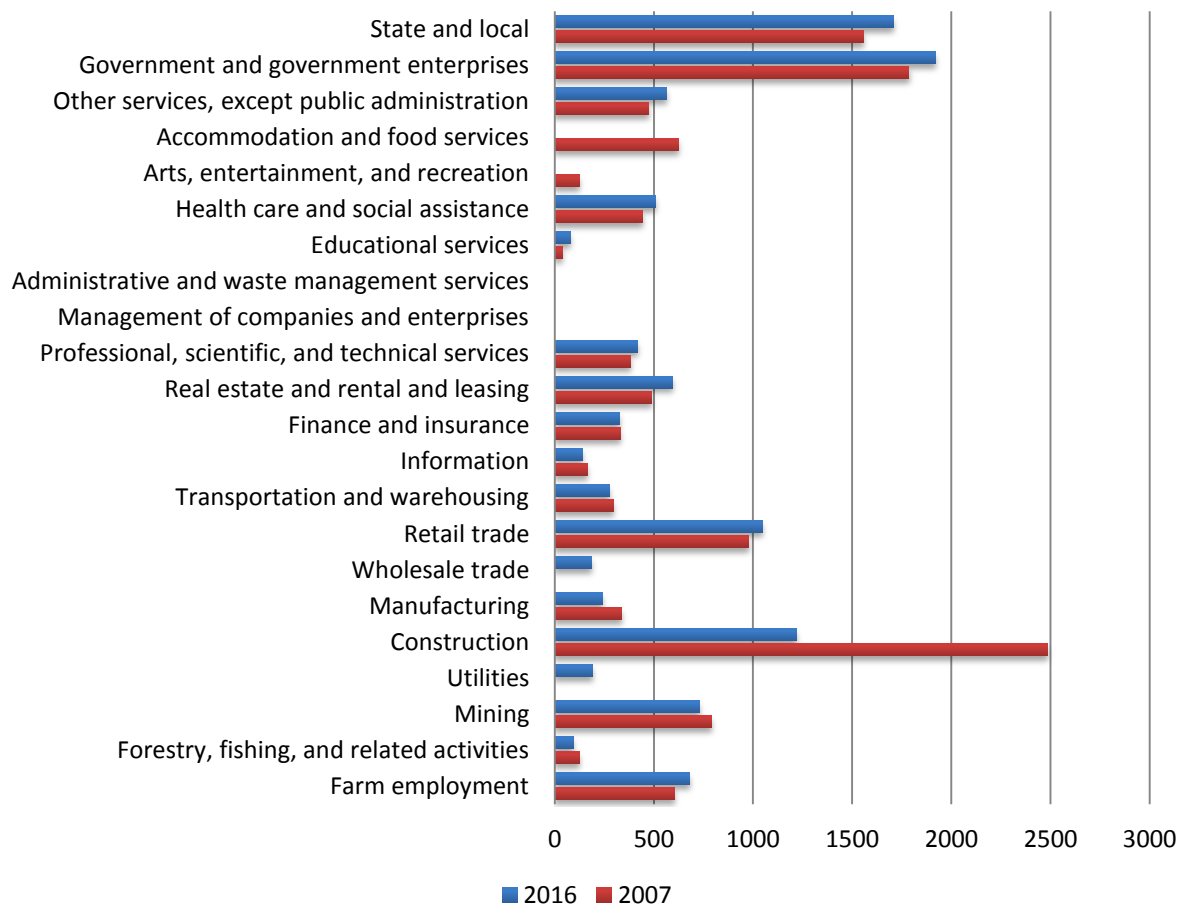
In Lincoln County, the labor force reached 10,379 in 2016, making it the sixth time it has exceeded 10,000 participants. Overall, the total labor force has remained fairly consistent in Lincoln County, staying close to approximately 10,000 with only marginal annual increases or decreases. As previously indicated, this fairly stagnant level of employment in Lincoln County is a significant cause of the loss of the 20-45-year-old demographics as these younger, career-aspiring individuals leave the local area in pursuit of higher education, employment, and careers elsewhere.

Sublette County, a neighboring energy dependent county, has experienced a net loss of jobs, dropping to 6,398 jobs in 2016. Teton County, a tourism and recreational based economy is realizing a fairly constant upward trend in the number of jobs, ending 2016 with 31,683. This is a most interesting statistic given that the number of 2016 jobs is larger than the total estimated 2016 Teton County population of 23,191. If the number of jobs in Teton County is in fact correct, and given that no area has 100% labor force participation rates, Teton County clearly imports a considerable percent of its employment base daily through commuting from surrounding areas, including Star Valley and Victor/Driggs.

While analyzing the labor market, it is helpful to break the labor market down to each industry to provide insight into the dominant sectors. To give perspective, 2007, or pre-recession employment by industry, are compared with the most current numbers available, which are for 2016. The largest impacted industry over the period in review is construction. In 2007, the Lincoln County construction labor force was 2,484. It then drastically dropped settling at less than half that number of jobs with 1,218 in 2016. While the construction labor force is still significantly below its pre-recession levels, it did show a slight recovery in recent years.

Many of the other industries in Lincoln County are nearly back to, or exceeding the pre-recession numbers. There has been growth in government, accommodation, health care, and education service jobs over the last few years.

Lincoln County Employment by Industry

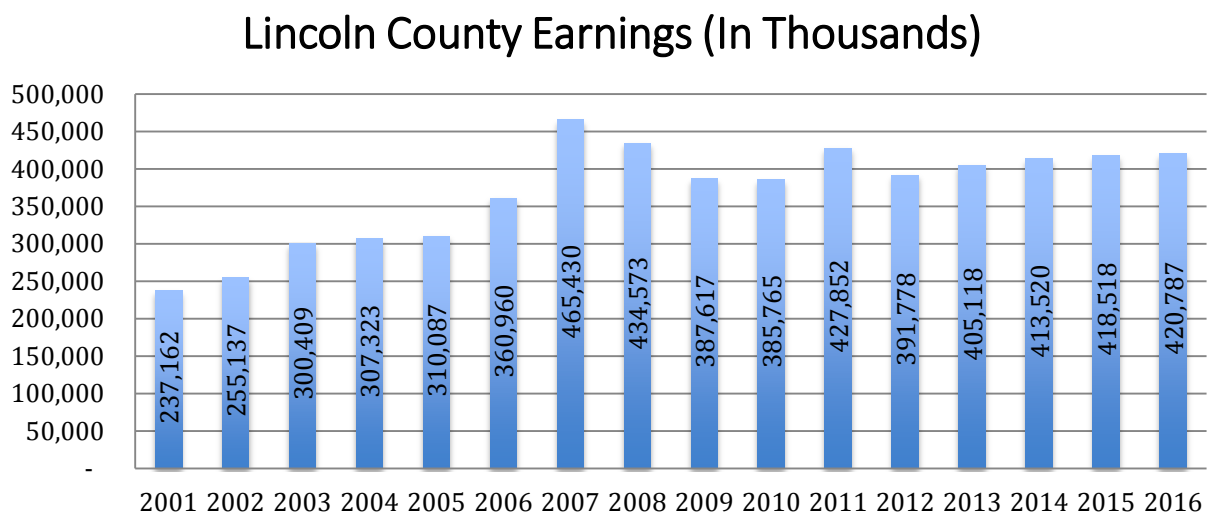


Source: Bureau of Labor Statistics

Workers all agree that recurring paychecks and the size of those paychecks are very significant bottom-line factors for their economic well-being. Earnings are also an important economic

indicator because earnings are an essential component for consumer consumption, which is the primary engine of the economy. In the U.S., consumer spending is estimated to constitute approximately 71.0% of total national GDP.

The chart below represents Lincoln County gross employment earnings for the last 15 years. It illustrates the same trend as the labor force graphs with a large peak in earnings in 2007, at \$465,430,000, and then shows the negative impacts of Great Recession. Beginning in 2011, there has been an upward trend in Lincoln County aggregate earnings, ending 2016 at \$420,787,000. Unfortunately, Lincoln County aggregate earnings remain a full \$44,643,000 below the peak realized in 2007. While the number of jobs stayed fairly consistent, reaching a little over 10,379 jobs in 2016, the wages are showing a more conservative rate of increase. Total earnings increased by 0.54% from 2015 to 2016.

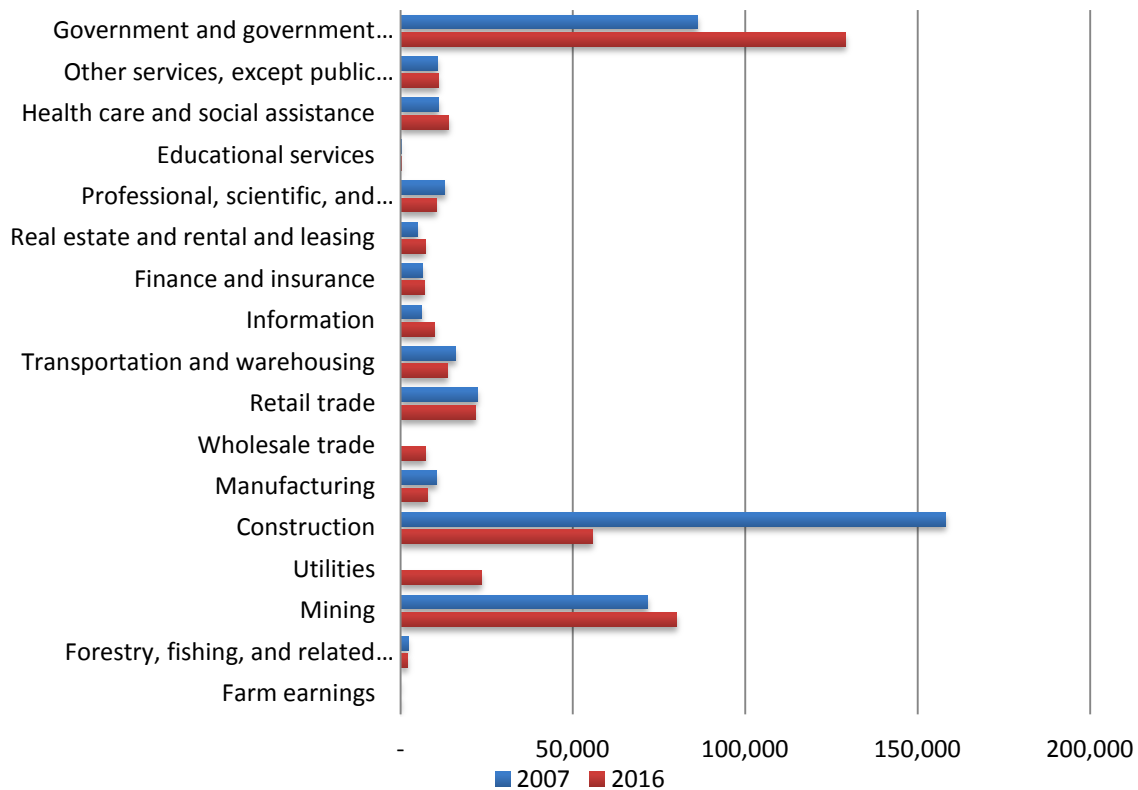


Source: Bureau of Economic Analysis

Earnings by Industry

The following chart shows earnings by industry for Lincoln County. Again, the most current data from 2016 is compared to the pre-recession numbers of 2007. Consistent with the loss in the labor force, the largest earnings difference is also in the construction industry. Although construction earnings experienced a large decline after the recession, it remains one of the largest industries in Lincoln County. There has been positive earnings growth in most industries with the exceptions being the large decline in construction and the modest declines in transportation, manufacturing, and forestry. It should also be noted that there is a substantial increase in government and government enterprise earnings and a modest increase in mining earnings.

Lincoln County Earnings by Industry



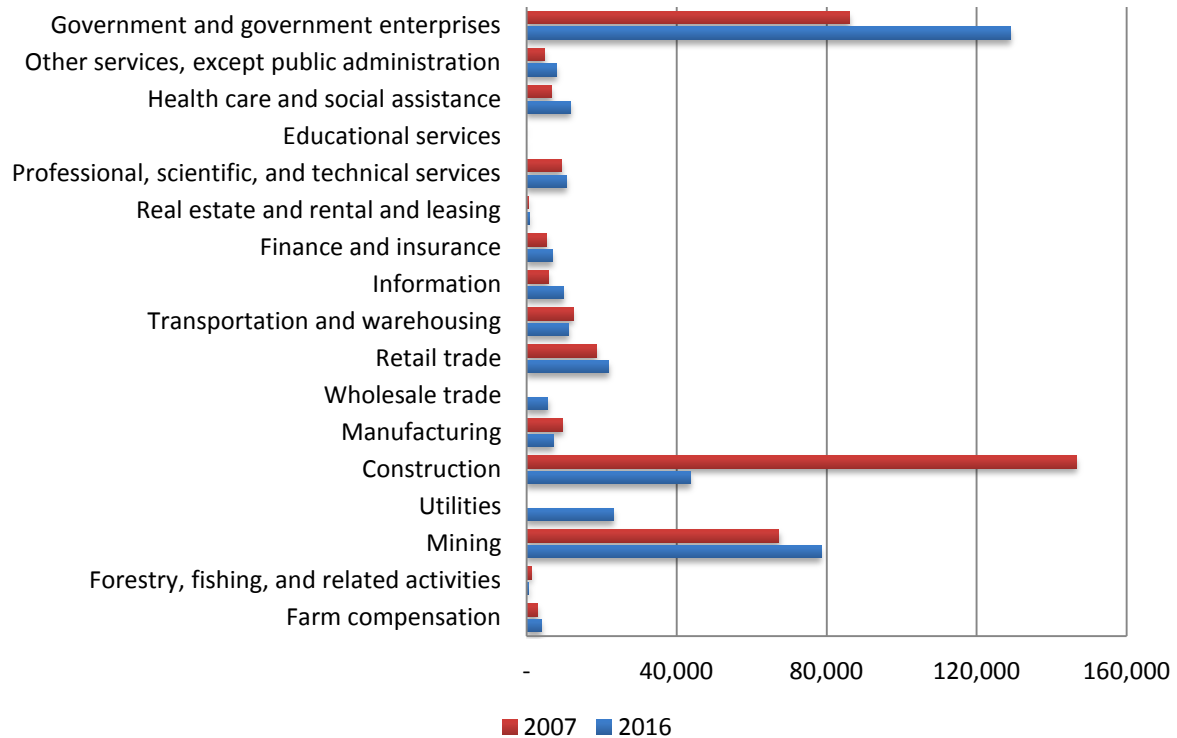
Source: Bureau of Economic Analysis

According to Wyoming's Economic Summary, the earnings for most industries in 2018 have increased in comparison to 2017 with mining having increased the most (Economic Summary: 1Q2018). These updated 2018 figures have not yet been spread out to the county level, however, based upon this state trend, it is very probable that earnings in Lincoln County in these industries may also be increasing.

Personal Compensation by Industry

Personal compensation by industry is calculated by dividing the total compensation per industry by the number of employees in that respective industry. The purpose of this statistic is to get an estimate of an average wage earned per industry. Because the calculation of this number is not highly detailed, these results should only be used in examining overall trends.

Lincoln County Compensation by Industry



Source: Bureau of Economic Analysis

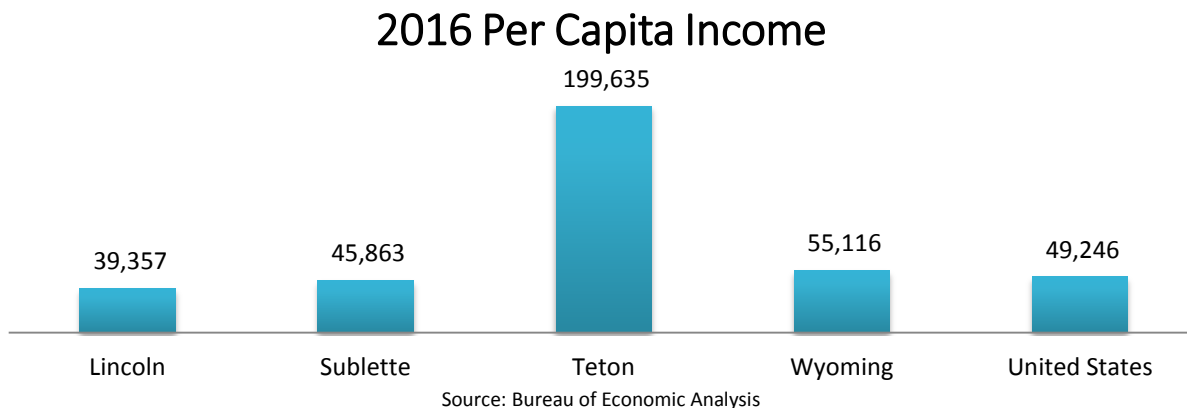
Again construction has experienced a very large decline over the period in review, while government related jobs experienced the largest increase. It is felt by the authors that these two segments are currently reversing course as construction projects are currently strong in the area in 2017, while the State of Wyoming is attempting to work through a reduction over time in its expenditures, including number of government employees and wages, to meet ongoing budget constraints.

Per Capita Income

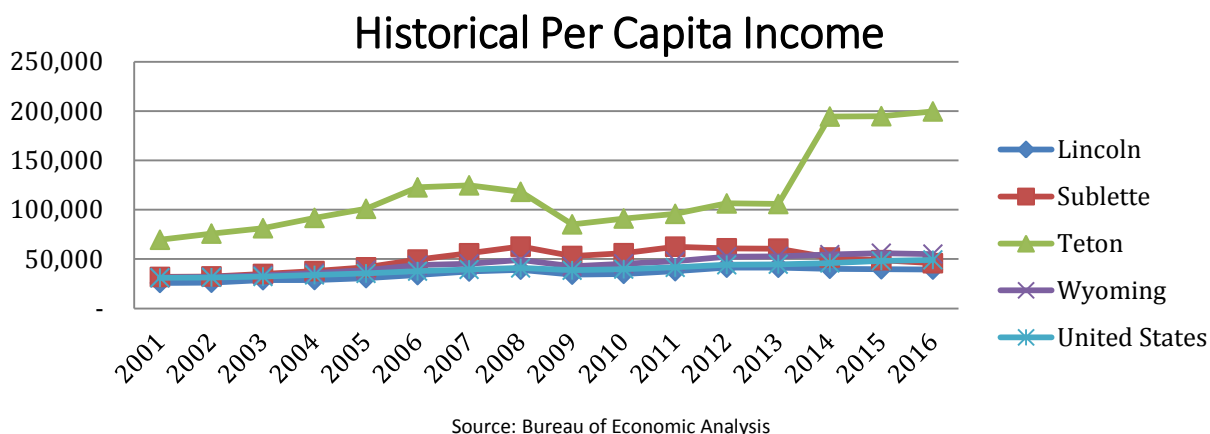
Per capita income is calculated by dividing total area income by total population. This key economic indicator allocates aggregate income into a per-individual (capita) basis in a given area. Per capita income is often used as a high-level indication of overall economic health and a potential measure of the quality of life.

The most recent statistics at the county level are for 2016. Using this data, the chart below compares the 2016 per capita income of Lincoln, Teton, Sublette Counties, the State of Wyoming, and the United States. As has been the fact for over 20 years now, Teton County per capita income is much higher than that of the surrounding areas and the nation. Aside from the

Teton County outlier, the other areas report per capita income between \$39,357 and \$55,116. Unfortunately, Lincoln County is reporting the lowest per capita income of \$39,357, a full \$6,506 below the closest peer, Sublette County.



Historically, based on per capita income, Lincoln County has lagged behind the neighboring counties, the State of Wyoming, and the United States as is indicated in the following graph. This indicates that on average, Lincoln County residents have less spending power on an individual resident basis than the people in neighboring counties, the state, or the nation.

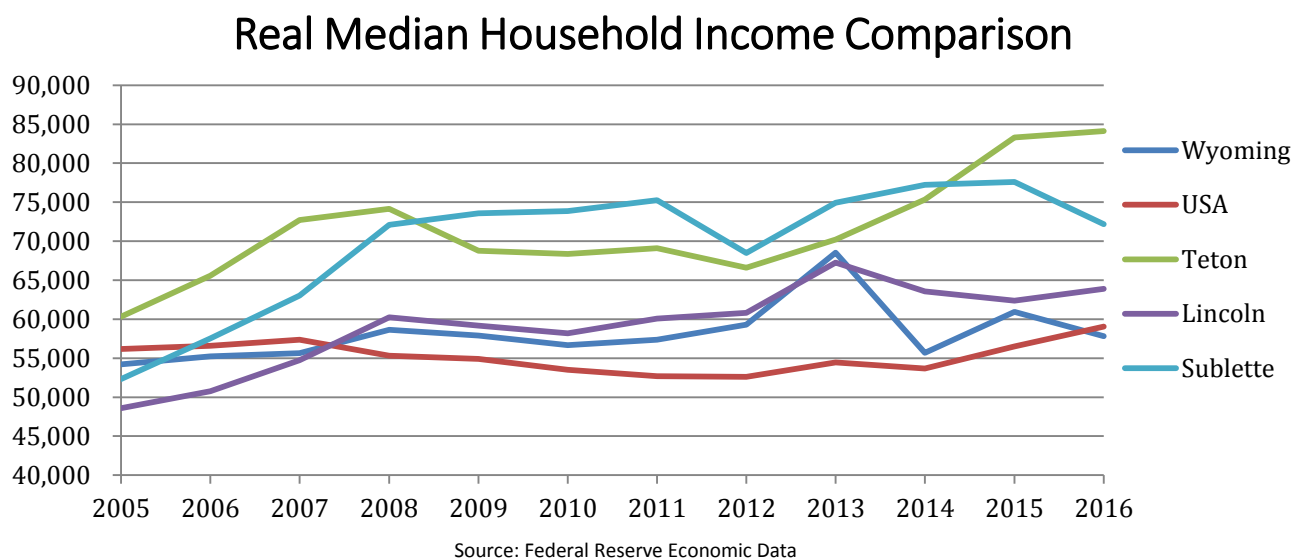


As discussed earlier, for the peer group reviewed, Lincoln County has the most married couple households, the highest number of persons per household, a growing senior population, and lower levels of education. These factors all converge to directly contribute to the lower Lincoln County per capita income statistic. Until these demographic factors change, Lincoln County is likely destined to be a lower per capita income area.

However, a structural issue with the per capita income statistic is that it can be skewed by a few very wealthy individuals – and may not correctly represent the average or typical area populations' well-being. The Casper Star Tribune recently published an article titled, "The highs

and lows of Teton County,” which reported that the top 1% in Teton County earned an average of 142 times the income of the bottom 99% of families in the county. The article also stated that Wyoming is ranked sixth in the nation for income inequality, but the majority of this is caused by wealthy families residing in Teton County. The top 1% earns 68.3% of the income and the bottom 90% earns 17.3% of the income. Therefore, on an individual basis the very high per capita income statistic may be misleading and does not represent the general well being of many Teton County, Wyoming, citizens (Matthews).

Real median household income, however, smoothes out the issue discussed with per capita income. The real median household income comparison graph below compares real median household income between Lincoln, Sublette, and Teton Counties, to the State of Wyoming, and the United States. Lincoln County has consistently been higher than Wyoming and the United States with respect to real median household income. Surprisingly, Lincoln County’s real median household income did not decrease dramatically during the Great Recession indicating construction workers who lost their construction employment were able to re-employ in other industries, which the authors believe to have been largely energy related.



Of concern is the decrease in Lincoln County’s real median household income which began in 2013 and continued into 2015. The authors feel that this decrease may be largely driven by the energy industry impacts in South Lincoln County, and not necessarily driven by the Star Valley market. However, it may also represent a lack of wage growth. This being said, Lincoln County’s real median household income showed an increase in 2016.

Poverty Level

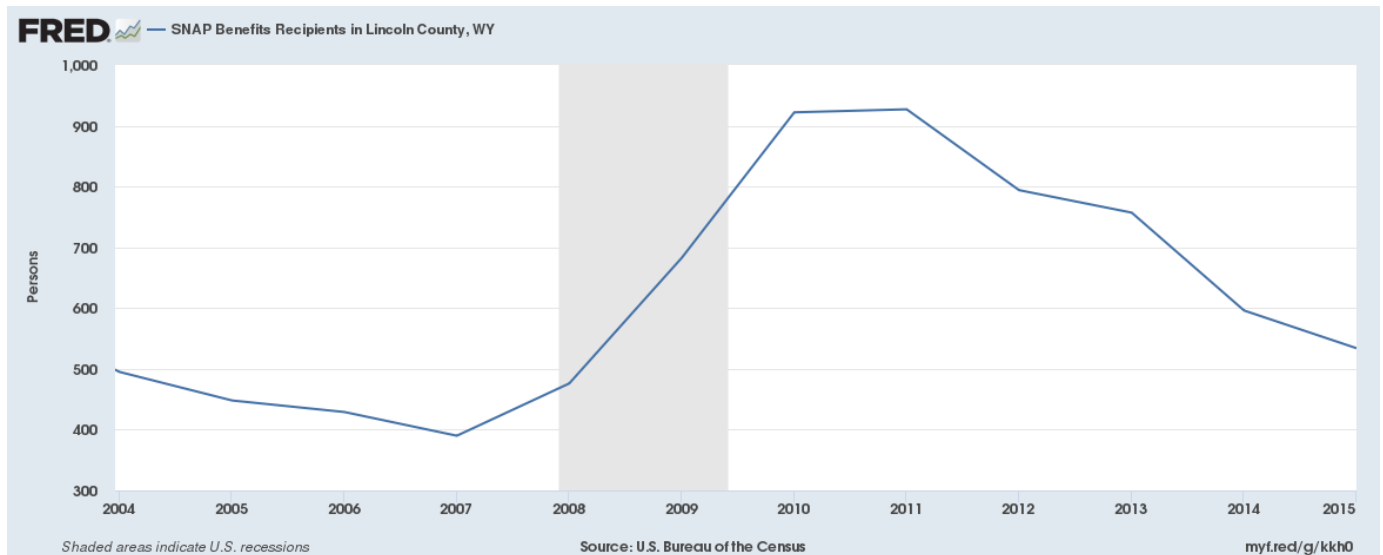
Income and quality-of-life factors can be represented by the number of people living beneath the poverty level. The fewer number of individuals below the poverty level, the better off the general population is. The following chart compares Lincoln County, Teton County, Wyoming, and the United States poverty levels based upon the US Census Bureau's estimates for 2013 through 2016.

Persons in Poverty, (Percentage)				
	Lincoln	Teton	Wyoming	United States
2016	8.60%	7.30%	11.30%	12.70%
2015	8.80%	6.60%	11.10%	13.50%
2014	9.00%	7.70%	11.20%	14.80%
2013	6.90%	8.20%	11.50%	15.40%

Source: U.S. Census Bureau

While Lincoln County has lower relative per capita income, it also has a lower percentage of persons below poverty level than Wyoming and the United States. This indicates a somewhat even distribution of income over the entire population of Lincoln County. However, between the 2013 through 2016 estimates, Teton County poverty percentage decreased by 0.9% and Lincoln County's increased by 1.7%. This overall increase in Lincoln County's population living in poverty is troublesome. The downturn could potentially be related to the recent loss of jobs within the energy sector in South Lincoln County. The authors argue that the Star Valley economy is closely tied to Jacksons, and therefore, would expect that the percentage of the Star Valley population living in poverty would more closely mirror that of Teton County than our southern Lincoln County counterparts.

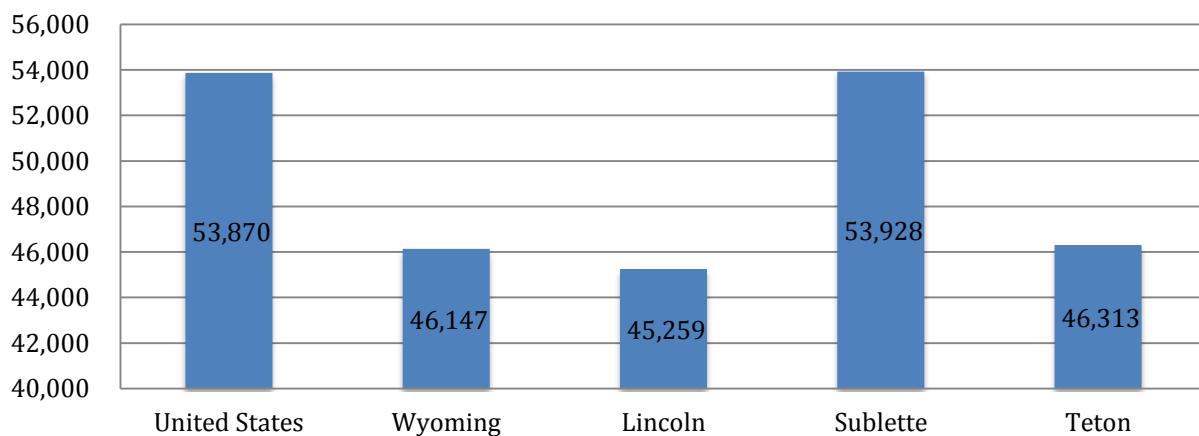
Poverty levels can also be estimated by the number of people participating in the Supplemental Nutrition Assistance Program (SNAP). The number of SNAP recipients in Lincoln County peaked in 2011 after the Great Recession with 927 recipients (7.41% of total population). Since then, the number of SNAP recipients has been steadily decreasing. In 2015, the most recent information available, the total number of recipients was 534 (2.8% of total population). The graph below depicts the trend of SNAP benefits recipients from 2004 to 2015.



Average Wage Per Job

The average wage per job represents the actual wage income that would be reported on a W2, or the taxable consideration received from an employer to an employee. It does not include other non-wage income sources such as dividend income, business income, or interest income. The average wage per job for Lincoln County, Teton County, Sublette County, Wyoming, and the United States are compared in the graph below.

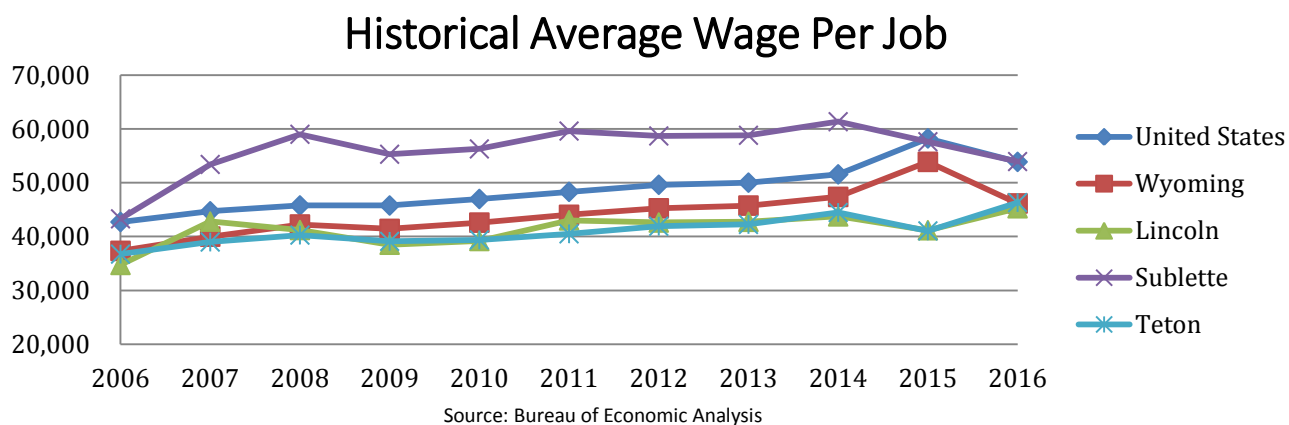
2016 Average Wage Per Job



Source: Bureau of Economic Analysis

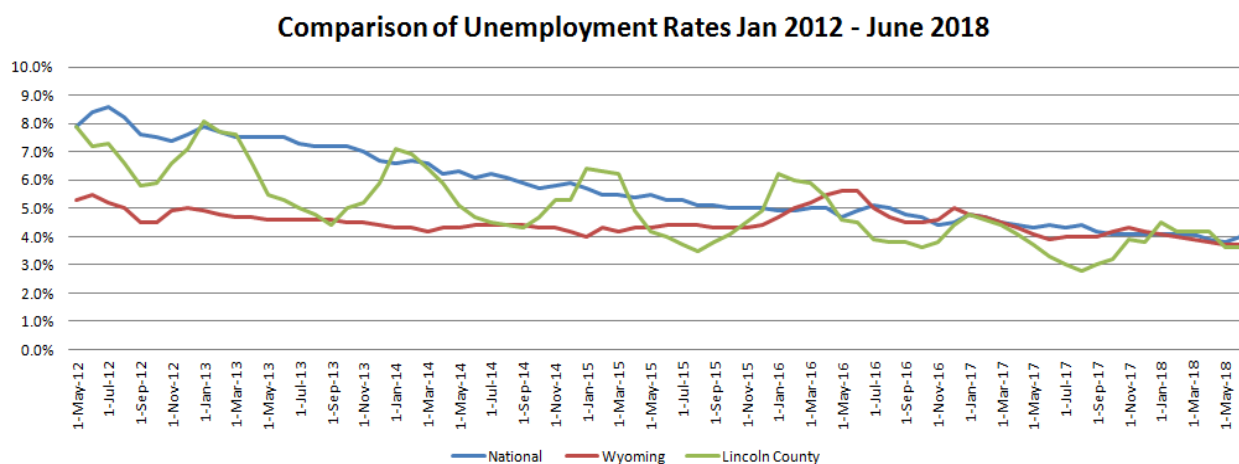
Lincoln County's average wage per job was reported at \$45,259 for 2016 and is \$888, or 1.9%, lower than Wyoming and \$8,611, or 19.0%, lower than the United States. Teton County realized a slightly higher wage per job than Lincoln County.

Historically, Lincoln County has had one of the lowest average wages per job. Lincoln County has maintained a consistent level of wages per job over the last few years, and has tracked close to that of Teton County. The graph below compares the historical average wage per job for Lincoln County, Teton County, Sublette County, Wyoming, and the United States. Again, Lincoln and Teton average wage per job is nearly identical, with both counties being below national and state averages. Further, the average wage paid per job for both Lincoln and Teton counties showed an increase in the last year in the data set – which correlates to the increase in median household income in Lincoln County.



Unemployment

A significant economic indicator is the number of unemployed individuals in an area. People who are unemployed, but are looking for a job, are included in unemployment numbers. The unemployment statistics for Lincoln County, Wyoming, and the United States are compared in the following graph.

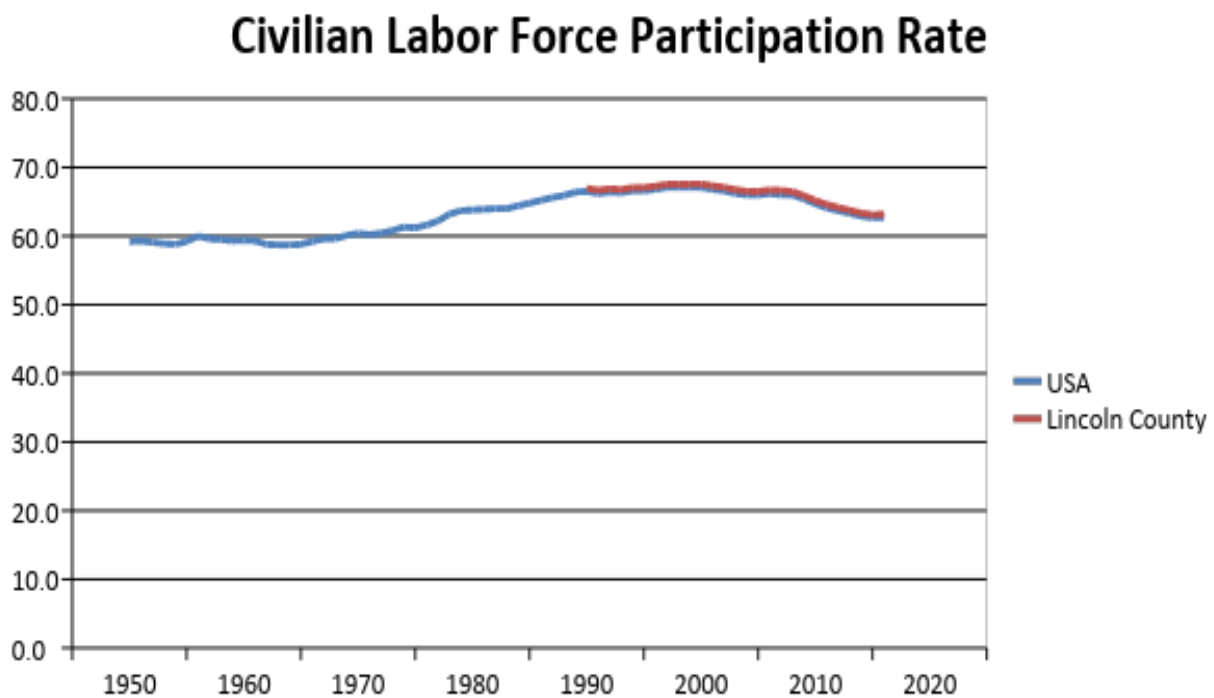


The unemployment rate for Lincoln County is not seasonally adjusted. This is evidenced by cyclical increases and decreases in the Lincoln County unemployment line. Clearly, in Lincoln County many people become employed in the summer construction and tourist related months and then become unemployed in the winter. This cyclical unemployment trend does directly impact per capita income and total wages, as unemployment benefits are not counted as part of total wages. Further, unemployment compensation is at the lower end of the income scale.

The Lincoln County and United States unemployment rates have been trending downward for the last few years, which is a positive economic indicator. FRED's data for the second quarter of 2018 reported that employment declined to 4.0% for the U.S and 3.7% in Wyoming. Lincoln County is currently at a 3.6% unemployment rate (U.S. Bureau of Labor Statistics: 2Q 2018).

To get a more complete perspective of employment demographics, however, one must also consider the civilian labor force participation rate. The unemployment rate only considers those individuals that are working or are actively seeking for a job. The civilian labor force participation rate is defined as "All persons classified as employed or unemployed ... as a percent of the civilian non-institutional population." (Glossary)

The graph below shows Lincoln County labor force participation rate in comparison to the United States.

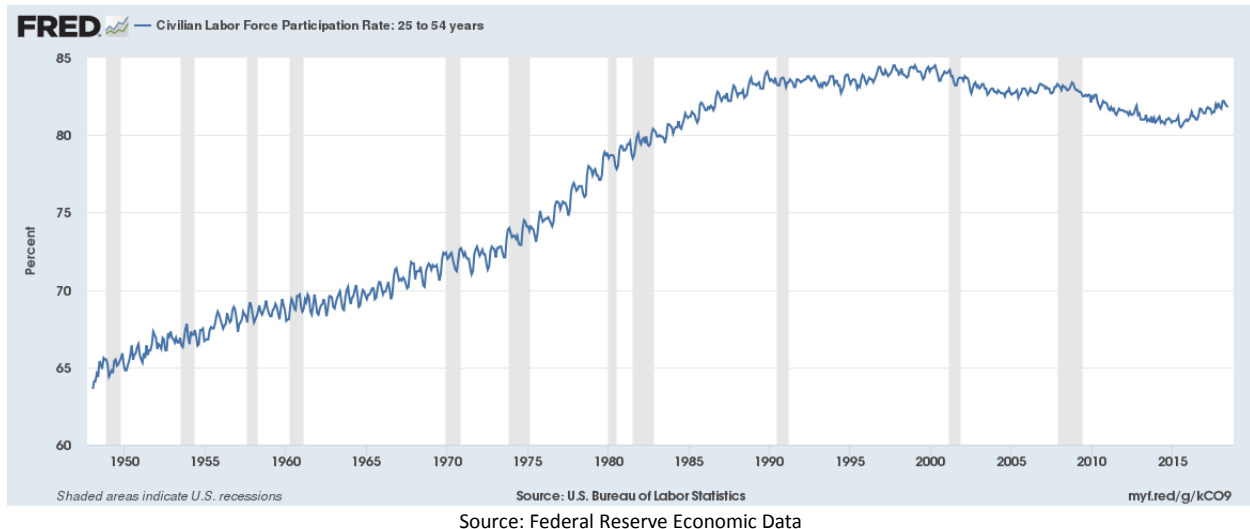


Source: Federal Reserve Economic Data

Lincoln County labor force participation trends closely mirror that of the United States – with a slightly higher participation rate. The downward trend from 2000 in labor force participation is thought to be caused primarily by two factors which are: first, the generation of baby boomers which are a growing population segment in Star Valley and are transitioning from employment into retirement; and second, the job market still may not have fully recovered from the Great Recession and energy downturn – meaning that some individuals have become comfortable in their current environment and may have given up seeking employment altogether. The steady downward trend in labor participation has been troublesome because it could indicate that the total population is becoming less productive over time as a lower percentage of the population participates in the labor force. However, based on changes beginning in 2016 there's room for optimism as the decline stopped, and labor force participation began to show very slight increases.

An increase in the Lincoln County labor force participation is contradicting the total jobs and employments data discussed previously. It's hard to explain the change in participation considering a modest increase in jobs, a growing older age segment, and loss of younger workers. A potential explanation of this apparent contradiction may be due to housing prices which are increasing, causing more members of a household to work. Another possibility, which will be verified with future data, is that an increasing number of young people are now beginning to stay in the valley.

The concept that younger people may be remaining in the area instead of moving out for educational and career opportunities is somewhat supported by the civilian labor force participation rate for individuals between 25-54 years of age. The graph, shown below, starts with 64.8% labor force participation for this age group in 1948 and gradually rises to 84.1% in the late 1990s. The steady increase can be attributed primarily to more women joining the workforce. However, since then, it has been gradually declining. Recently, 2018 data indicates that the labor force participation for this demographic has begun to increase reaching 81.8%.



Area Employers

Every year the Bank surveys several employers in Star Valley in an attempt to determine changes in local labor demand. The Bank asks each respective employer for the number of employees that work at their business and live in the Star Valley area. By tracking the number of employees, the Bank can partially gauge general area employment trends. The findings of the 2018 survey are shown below:

Employment by Area Major Employers													
Employer	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 YTD	Gain/Loss
1ST Bank (Afton & Alpine)		12	13	13	11	11	14	13	11	23	22	22	0
Aviat Aircraft	70	49	50	48	36	50	48	47	49	43	44	45	1
Bank of Star Valley (All Branches)		28	28	27	26	24	24	24	25	24	25	27	2
Freedom Arms	13	14	13	14	12	12	14	15	14	15	15	15	0
J.R. Simplot	200	220	220	240	250	270	270	270	270	250	250	250	0
Lincoln County Government	153	162	163	162	162	151	66	60	60	145	145	143	-2
Lincoln County School #2	464	470	470	470	489	492	488	490	490	600	600	600	0
Lower Valley Energy	48	46	43	44	42	47	45	48	48	64	65	68	3
Silverstar Communications	66	67	88	87	88	67	87	80	80	79	79	70	-9
Star Valley Medical Center	185	230	220	218	239	263	275	284	284	228	254	350	96
Polyguard & RMP Mobile	15	16	16	16	15	15	9	14	13	15	15	16	1
Wells Fargo (Afton & Thayne)		9	9	13	9	7	11	10	11	6	5	6	1
PC Industries			25	31	25	30	30	30	33	30	30	30	0
LSR												51	
No Longer Existing Employers	25	4	4	2	0	0	0	0	0	0	0	0	0
Jackson Workers	1069	1173	868	926	970	990	823	823	1075	1089	1140	1209	69
Total	1239	1327	1362	1385	1404	1439	1381	1385	1388	1522	1549	1693	161
Local banks were added during 2008 Economic Analysis. 2011 & 2012 Jackson comes from LC Commuter numbers													

First Bank's employment numbers show a false increase in employment because 2016 includes both the Afton and Alpine branch while the previous data only included Afton. The 2016 figures for Simplot only include Star Valley employees whereas the past years included all employees. The mine reported a small downsizing in 2016 but reported the same number of employees again for 2017 as well as for 2018. In addition, the school district numbers were adjusted to exclude Cokeville employees.

Employment numbers have stayed fairly constant with some conservative overall growth which supports the trend of a decreasing unemployment rate. Silverstar reported a decline of 9 employees while Lower Valley Energy reported an increase of 3 employees. Lincoln Self Reliance was added to the study this year and they reported an employee total of 51. Star Valley Medical Center reported a 96 person increase year over year, which is by far the largest employee increase for employers in the valley.

The number of Jackson commuters had an increase of 69 additional people this year. The “Jackson Workers” number is derived from a car count performed by the Bank the week of July 5th each year and presents the average daily count of Wyoming and Idaho licensed autos, Start Bus passengers, and selective local area commercial traffic for the time between 5:00 a.m. and 8:00 a.m. on Monday, Wednesday, and Friday of the subject week. This count does not represent a total census of Star Valley commuters driving to the Jackson market, but rather does provide an annual trend line to review changes overtime. This statistic can provide a reasonable estimate of how many Star Valley residents are employed in Jackson. The 2018 study indicated a new peak for Jackson based commuter traffic, which does tie logically with the current strong Teton County economy and low unemployment rates in Teton and Lincoln Counties.

Many people commute to work not only in Jackson, but to the Simplot mine, or drive considerable distances within the valley to get to their jobs because of the rural nature of the area. The US Census Bureau calculates mean work related travel time. Looking at the most recent data from the U.S. Census Bureau the average travel time to work in the U.S. is 25.4 minutes. Surprisingly, Wyoming, a very rural state, has an average travel time of only 18.3 minutes.

Looking specifically at Star Valley commuting times, the data indicates that individuals living in the lower valley have a substantially longer commute than the U.S. or Wyoming average which can easily be explained by the large commuter count to Jackson each day, of which the majority presumably live in the lower valley. Individuals living in the upper valley, on average, have a shorter commute to work when compared with their lower valley counterparts.

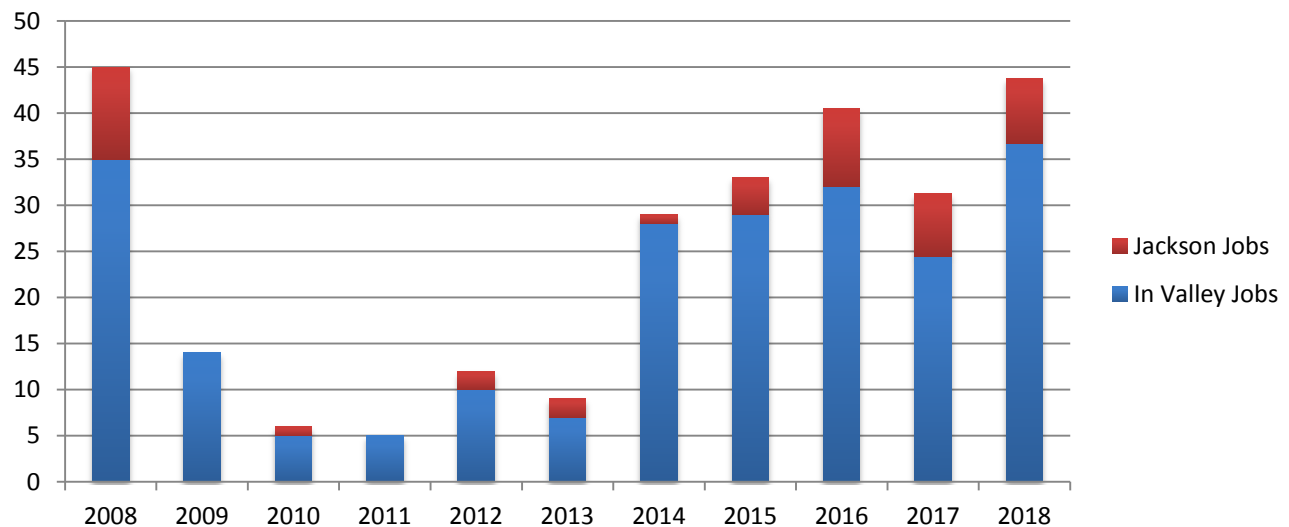
Average Work Related Commuting Time in Minutes				
Upper Valley	Lower Valley	Teton County	Wyoming	US
20	35.7	14.3	18.3	25.4

Source: U.S. Census Bureau
<https://project.wnyc.org/>

Employment Advertising

Beginning in 2008, the Bank has monitored the number of help wanted ads posted in the Star Valley Independent. The number of help wanted ads is a valuable economic indicator as it provides a representation of the number of unfilled jobs that are available in the community and whether the demand for labor is trending upward or downward. The review is conducted the first full week in June; however, last year, the Bank decided to start averaging the end of May through the first 3 weeks in June to account for seasonal anomalies. The number of help wanted ads from the end of May 2018 through the first 3 weeks of June 2018 was averaged together and is represented in the graph below along with the help wanted ad counts for each of the last ten years.

Help Wanted Ads: Star Valley Independent



Source: Star Valley Independent Classifieds 2008-2018

The peak number of ads for jobs advertised in the Star Valley Independent occurred 2008, with a total of 45 job offerings. The next few years reflect the negative impacts of the Great Recession with only five jobs posted in 2011. Since 2014 there has been a significant increase in the help wanted advertisements. Job postings for the Star Valley market alone hit a peak in 2018 at 44 jobs, clearly indicating a strong local job market which directly correlates with the low local unemployment rates.

For 2018 there were 7 jobs posted for the Jackson area - or 16% of the jobs posted in the 2018 sample. Some job postings in the 2018 sample were “for all departments”, meaning the advertisement was for more than one job with that employer. The increase of help wanted ads supports evidence for the decreasing unemployment rate trend. The market appears to be

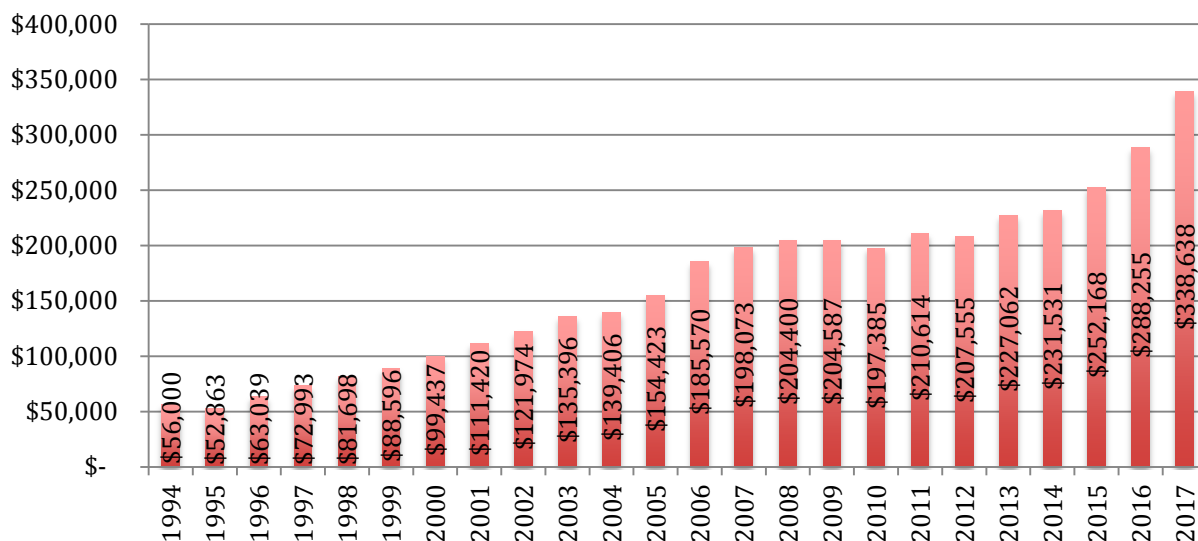
nearing or even surpassing equilibrium. Jobs are going unfilled as labor demand is nearing, and even at time surpassing, the labor supply. With the low unemployment and the continued tightening of the labor market, it is expected that more jobs will continue to go unfilled. If this dynamic continues to play-out, the strong labor market should begin to put upward pressure on wages and provide further opportunity for population growth.

Market Liquidity

Liquidity, for the purposes of this report, is defined as deposits held in local financial institutions and is felt to be representative of general market growth and wealth. This metric is far from a perfect measure of true market liquidity, due to deposits from outside the market being held in local banks, local money being deposited at outside financial institutions, and market leakages including investments made through brokerage houses. Liquidity measures in this report therefore, should not be interpreted as an indication of the total financial wealth of an area, but rather as a metric used to represent general trends in market growth -- assuming consistent consumer and business investment preferences over time.

The graph below shows the total bank deposits for Star Valley beginning in 1994. Since 1994, there have been 6 additional branches opened, and one branch closed (Wells Fargo - Afton, November 2017) in Star Valley. The 4 local commercial banks report these numbers for each respective branch to the FDIC as of June 30 of each year and the FDIC then make the information public in November of each year.

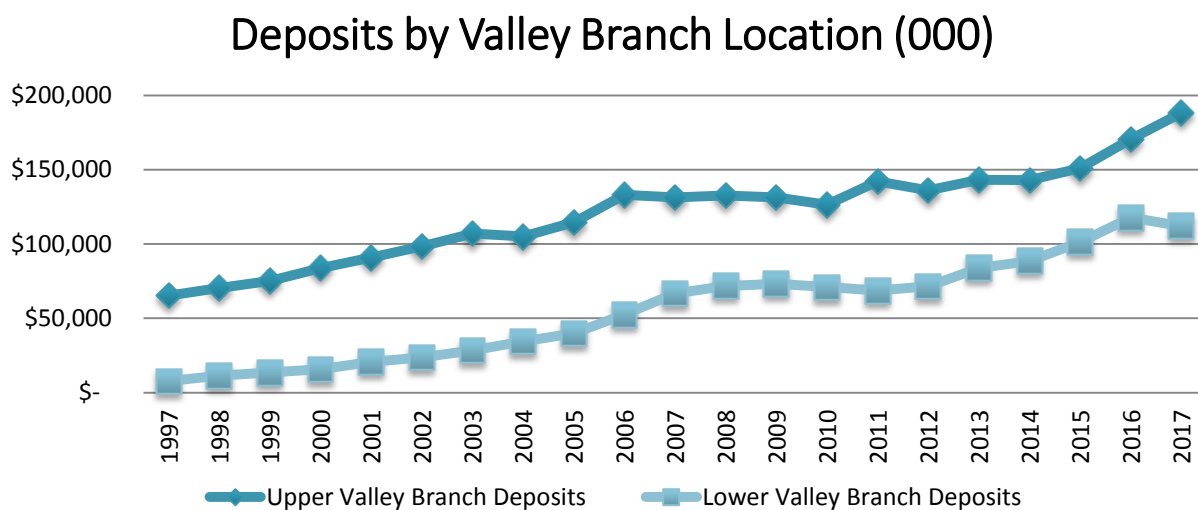
Star Valley Total Bank Deposits (000)



Source: FDIC Summary of Deposits

The above chart shows a steady increase in valley deposits through the Great Recession of 2008, after which deposits fell slightly until 2012. Post 2012, total bank deposits rebounded quickly surpassing pre-recession numbers. Between 2016 and 2017, there was a 17.48% growth in bank deposits, the highest percent growth since 2006. This growth represents a growing population and increased wealth – both positive signs of a healthy and growing economy.

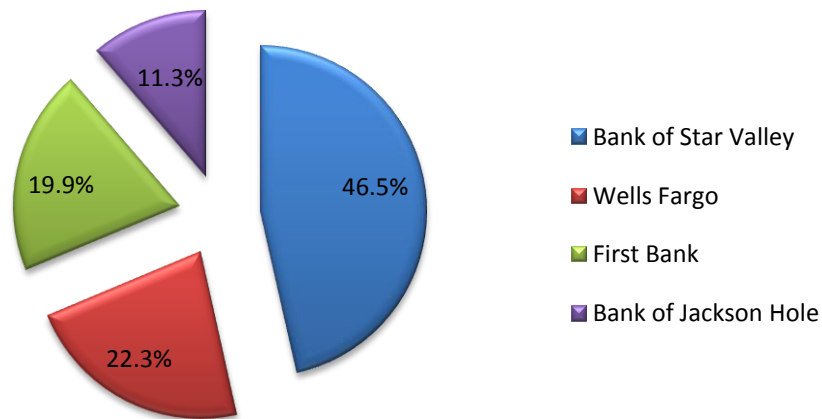
Because deposits are reported by branch, the bank deposits can be broken down by region within the market. The graph below shows the local deposits by location of upper or lower valleys. The following data is as of June 2017, and before the yet unknown impacts of the Wells Fargo Afton branch closing.



Historically, the upper valley bank branches have held more deposits than the lower valley branches. The spread between the lower valley and upper valley had been narrowing through 2016 but then changed in 2017. In 2011 the gap between the upper and lower valley aggregate deposits was \$73,450, and in 2017 it was \$50,383. It appeared that things were narrowing through 2016 but then changed in 2017.

The following graph shows the market share percentage of each bank based on total valley deposits, as of June 2017. This graph is going to change drastically in 2018 because of Wells Fargo closing its Afton branch. The authors expect the Wells Fargo market share to shrink and the other institutions market shares to increase when the 2018 data is released this November.

Market Share by Bank



Source: FDIC Summary of Deposits

Cost of Living

A state-wide cost of living index is prepared by EAD twice each year. The report is based on the cost of food, housing, apparel, transportation, and recreational activities. The index value of 100 is considered the state average. EAD breaks Lincoln County into two markets being Lincoln County-Afton, and Lincoln County-Kemmerer. The chart below compares Lincoln County-Afton, Lincoln County-Kemmerer, Teton, Sublette, and Uinta County.

Wyoming Comparative Cost of Living Index- 4th Qtr. 2017							
(Statewide Average=100)							
County	All Items	Food	Housing	Apparel	Trans.	Medical	Rec.
Lincoln-Afton	98	96	95	105	103	99	109
Lincoln-Kemmerer	91	93	84	98	103	93	104
Teton	157	118	195	124	105	99	106
Sublette	109	115	109	112	104	103	112
Uinta	93	94	87	88	100	110	99

Source: Department of Administration & Information Economic Analysis Division

This chart reports that Lincoln County is currently one of the cheaper places to live relative to the surrounding areas and slightly below the state index average of 100. Not surprisingly, there is a substantial difference between Afton and Kemmerer. For employees with jobs in Teton County, Wyoming, Star Valley clearly remains a cost-effective alternative to living in Teton County – which boasts the highest cost-of-living index in Wyoming. This economic difference remains a strong catalyst for the current population growth in Star Valley. As both Teton and

Lincoln employees receive relatively identical average wages, the very high cost-of-living in Teton County drives many Teton County employees to locate to the surrounding areas of Star Valley and Victor/Driggs. This is a trend which appears to be long-term in nature.

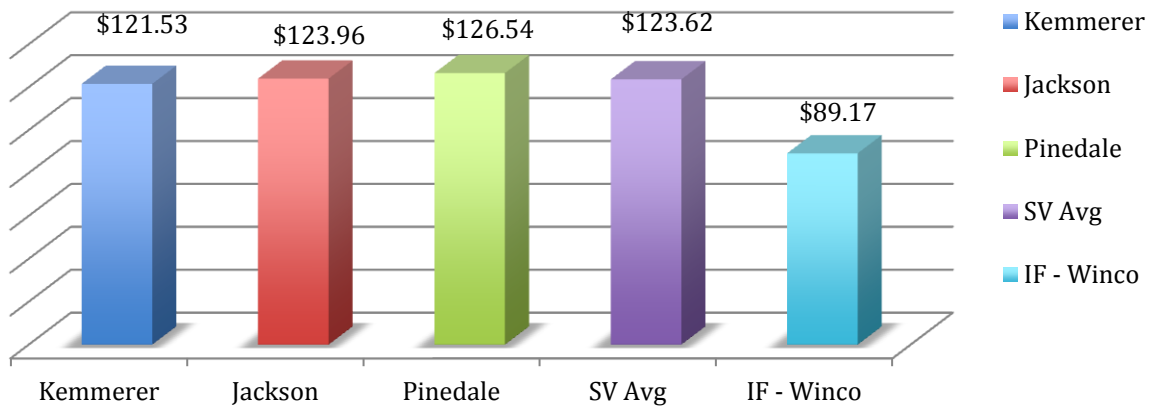
The chart below gives a historical perspective on the cost of living in Lincoln County-Afton. Before 2012, Lincoln County-Afton was at or above the state average for the cost of living. Since 2012, it has been beneath the average. Although it is still below the average, the cost of living did increase from 96 to 98 in the fourth quarter of 2017 and appears to be trending upward again over time.

Change in Lincoln-Afton Cost of Living Index Between Jul. 2006 and Dec 2017							
Lincoln-Afton	All Items	Food	Housing	Apparel	Trans.	Medical	Rec.
4Q 5	102	95	107	89	99	94	106
4Q 6	104	98	110	88	101	104	100
4Q 7	100	97	104	86	99	100	96
4Q 8	101	96	104	95	100	91	110
4Q 9	101	96	102	96	100	91	110
4Q 10	102	103	101	104	100	98	112
4Q 11	100	96	100	98	99	96	112
4Q 12	94	98	85	102	100	96	112
4Q 13	95	97	88	107	102	96	107
4Q 14	92	94	86	96	99	93	107
4Q 15	95	99	87	99	104	92	112
4Q 16	96	95	92	105	104	91	109
4Q 17	98	96	95	105	103	99	109

Source: Department of Administration & Information Economic Analysis Division

To supplement the state's estimates for the cost of living, the Bank performs an item specific analysis on the cost of a basket of groceries. An identical basket of goods (subject to branding among the stores) is compared among the three Star Valley grocery stores as well as grocery stores in Jackson, Pinedale, Kemmerer, and Idaho Falls. The results of the study, which was performed in July 2018, are shown below.

Grocery Comparison



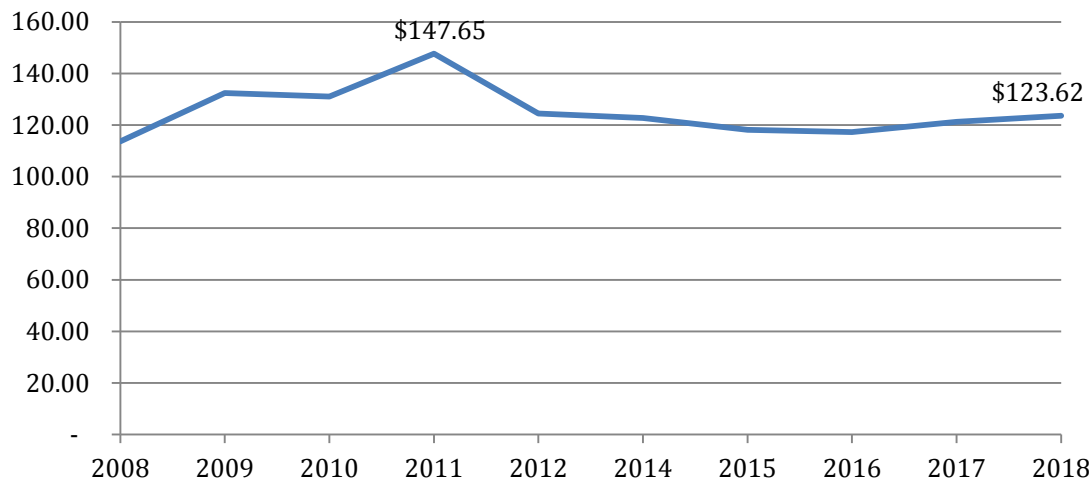
Idaho Falls is the most economical option. The other stores in this study are within \$5 of each other, with Star Valley being in the middle of the sample. These findings do not support the recent EAD cost-of-living analysis as Jackson food being more expensive than the Star Valley food. The gap between Star Valley food costs and the food costs of the other Wyoming locations observed in our study is significantly smaller than the gap suggested in the EAD study.

A detailed list of the grocery cart and prices is listed below.

2018 Cost of a Basket of Grocery Items					
Grocery	Kemmerer	Jackson	Pinedale	SV Avg	IF - Winco
White Bread (Sara Lee)	3.19	3.49	3.29	3.54	2.29
Bread (Grandma's Sycamore)	2.97	2.99	3.25	3.42	2.78
Wheat Bread (Sara Lee)	3.19	3.49	3.29	3.56	2.78
Russet Potatoes (1 lb.)	0.32	0.4	0.34	0.35	0.26
Apples (Red Delicious) (1 lb)	1.29	0.99	1.59	1.42	1.16
Lettuce Head (Iceberg)	1.79	0.99	1.99	1.29	0.98
Boneless Skinless Chicken Breasts (1 lb.)	3.98	3.99	4.29	3.73	2.98
Ground Beef (1 lb. 80%)	3.98	3.99	2.98	3.61	3.48
Cereal (Frosted Shredded Wheat 18 oz.)	3.19	2.29	3.69	4.59	2.48
Cereal (Lucky Charms 11.5 oz.)	3.69	3.49	3.99	3.86	2.98
Cereal (Cheerios 12 oz.)	3.69	2.94	4.49	4.06	2.98
Ice Cream (WF 4 qt.)	7.99	7.99	7.99	7.82	5.48
Flour (WF All Purpose Bleached 10 lb.)	4.49	4.99	3.99	4.05	2.42
Sugar (WF 10 lb.)	5.99	5.99	5.99	6.89	4.77
Salt (WF)	0.79	0.59	0.89	0.78	0.50
Rice (Minute, White 28 oz.)	4.99	4.99	4.99	4.76	3.37
Milk (WF 2%)	3.29	2.29	2.25	2.79	2.28
Cheese (Cache Valley 2 lb. Sharp Cheddar)	8.49	10.49	10.99	8.99	5.64
Yogurt (Red Yoplait)	0.59	0.6	0.72	0.70	0.58
Eggs (WF 12 lg.)	1.39	1.39	1.39	1.62	1.26
Butter (WF)	3.79	3.29	3.39	3.72	2.98
Margarine (Imperial)	1.19	0.99	1.19	1.12	0.84
Cottage Cheese (WF 1 lb.)	2.39	2.39	2.39	1.89	1.25
Wheat Thin Crackers (9.1 oz)	3.65	2.99	3.65	3.19	2.56
Cut Green Beans (WF 1 can)	0.69	0.69	0.69	0.72	0.65
Toilet Paper (Charmin 12 Rolls)	10.78	17.49	10.49	10.22	6.48
Napkins (Vanity Fair 200 count)	5.79	5.79	5.79	5.86	3.76
Paper Towels (Bounty single)	1.19	1.19	1.19	2.22	0.98
Kleenex (160)	3.29	2.79	2.69	2.89	1.28
Detergent (Tide 100 fl. oz.)	12.49	11.99	15.29	13.56	11.32
Dish Detergent (Cascade 75 oz.)	6.99	5.99	7.39	6.39	5.62
Total	\$121.53	\$123.96	\$126.54	\$123.62	\$89.17

The Bank has used this same basket of goods for the economic study since 2008. The following graph shows the pricing trend for this list of items.

Average SV Grocery Cart



Interestingly, the price of the groceries did not peak until 2011, three years after the Great Recession hit the rest of the country. After a fall in 2012, the price had almost been stagnant through 2017 when there was a significant increase. The study results show that between 2012 and 2017 grocery cost was a very stable, relatively inflation free sector, but that now appears to be changing.

Inflation

The EAD cost-of-living index is likely the best source of inflation data within Wyoming. The inflation rate is estimated by using the percent change year-over-year in the price level for a standard basket of goods. EAD then estimates inflation for the entire state and five sub-regions within Wyoming. The Northwest region includes Big Horn, Hot Springs, Park, Teton, and Washakie counties. The Southwest region includes Lincoln-Kemmerer, Lincoln-Afton, Sublette, Sweetwater, and Uinta counties.

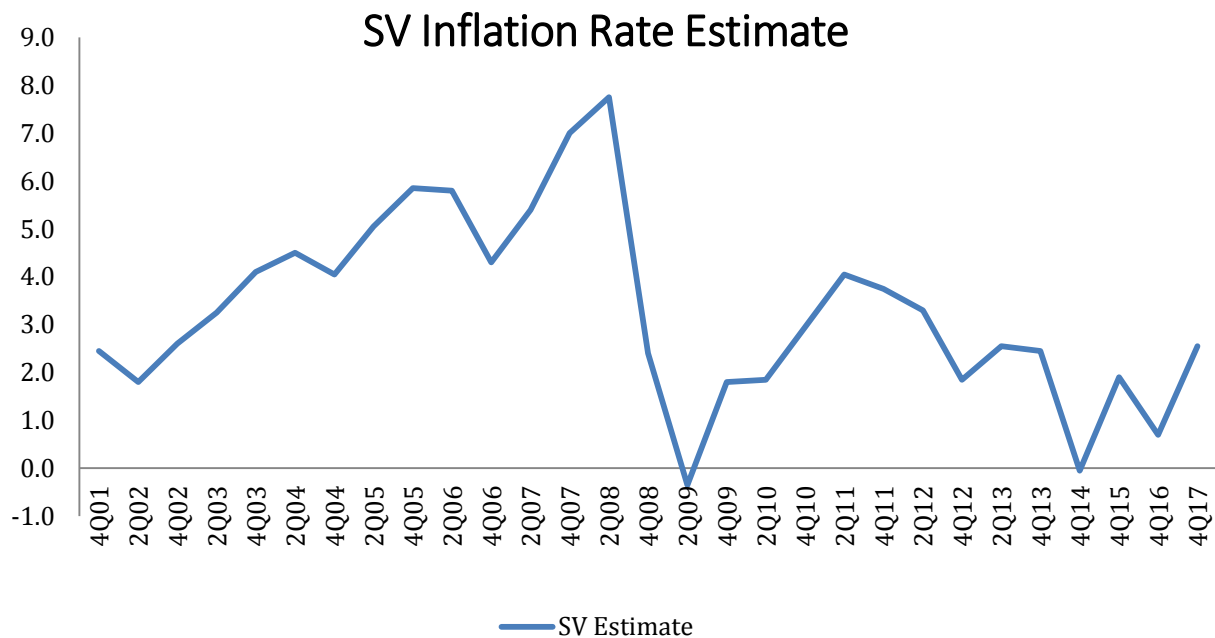
Star Valley lies within the EAD's Southwest region. However, due to the recreation and tourist activity and employment ties to Teton County, as well as the lack of mineral based activity which is the base economy of the Southwest region, the authors feel that Star Valley inflation is more probable to mirror the Northwest region. To compensate for this assumption, an average of the Northwest and Southwest regions is used to approximate a more reflective and correct measure for inflation in Star Valley.

Using this average of the Northwest and Southwest regions, Star Valley area inflation in the 4th quarter of 2016 was estimated to be 0.7%. This rate increased dramatically to the 4th quarter of 2017 (released in April 2018) when inflation was estimated to be 2.6%.

Annual Inflation Rates by Region					
Quarter	U.S. CPI*	Statewide All Items	Northwest	Southwest	SV Estimate
4Q01	1.6	3.5	2.6	2.3	2.5
2Q02	1.1	2.5	2.2	1.4	1.8
4Q02	2.4	3.7	2.7	2.5	2.6
2Q03	2.1	2.6	3.0	3.5	3.3
4Q03	1.9	3.6	3.9	4.3	4.1
2Q04	3.3	4.9	4.4	4.6	4.5
4Q04	3.3	4.3	3.3	4.8	4.1
2Q05	2.5	4.5	3.5	6.6	5.1
4Q05	3.4	5.0	3.4	8.3	5.9
2Q06	4.3	5.6	4.0	7.6	5.8
4Q06	2.5	4.4	3.8	4.8	4.3
2Q07	2.7	4.7	4.6	6.2	5.4
4Q07	4.1	6.1	5.9	8.1	7.0
2Q08	5.0	7.9	7.4	8.1	7.8
4Q08	0.1	2.7	2.7	2.1	2.4
2Q09	-1.4	0.0	-0.5	-0.2	-0.4
4Q09	2.7	2.7	2.1	1.5	1.8
2Q10	1.1	1.9	2.1	1.6	1.9
4Q10	1.5	2.9	3.8	2.1	3.0
2Q11	3.6	4.5	4.5	3.6	4.1
4Q11	3.0	3.9	4.2	3.3	3.8
2Q12	1.7	2.4	3.8	2.8	3.3
4Q12	1.7	2.1	2.1	1.6	1.9
2Q13	1.8	3.1	2.3	2.8	2.6
4Q13	1.5	2.9	3.0	1.9	2.5
4Q14	0.8	1.1	0.8	-0.9	-0.1
4Q15	0.7	0.5	2.7	1.1	1.9
4Q16	2.1	0.6	1.9	-0.5	0.7
4Q17	2.1	2.3	2.2	2.9	2.6

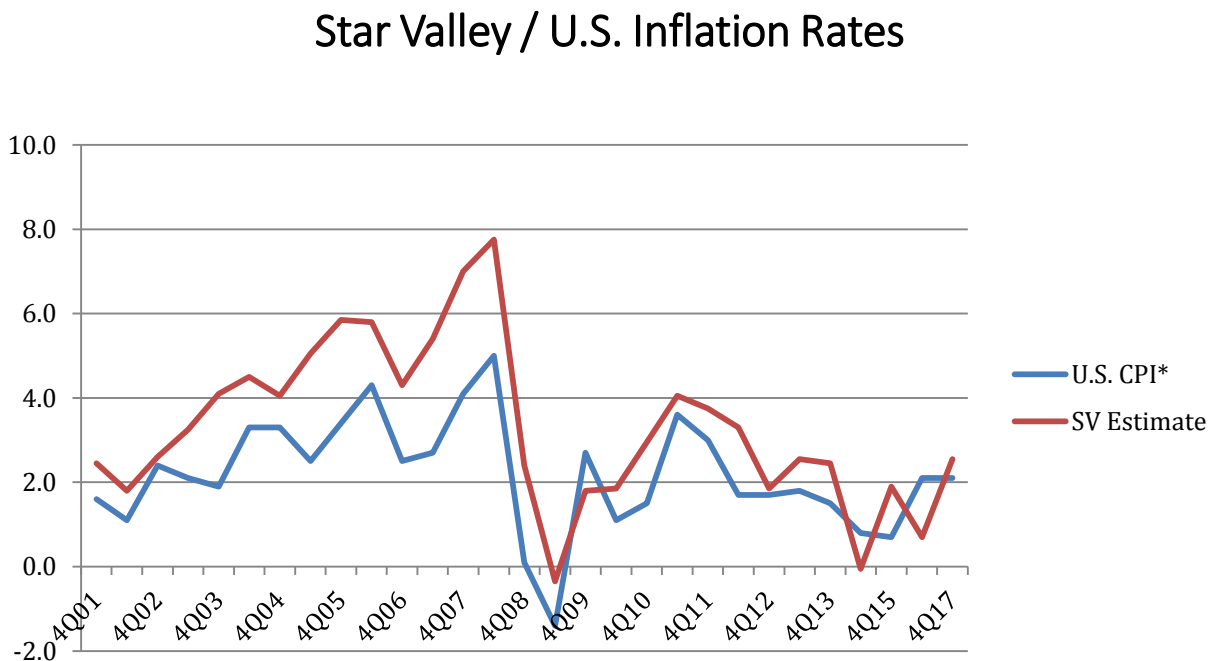
Source: Department of Administration & Information Economic Analysis Division

The above data is shown in graph form below. The graph clearly illustrates that overall inflation has trended downward from the 2008 peak, but is showing signs of reemerging. The U.S. CPI hasn't changed since 2016. It is still 2.1 at the end of 2017. An inflation rate of 2% is a stated objective of the Federal Reserve in executing its monetary policy objectives.



Source: Department of Administration & Information Economic Analysis Division

The estimated Star Valley inflation rate, relative to the U.S. CPI is shown below:



Source: of Administration & Information Economic Analysis Division

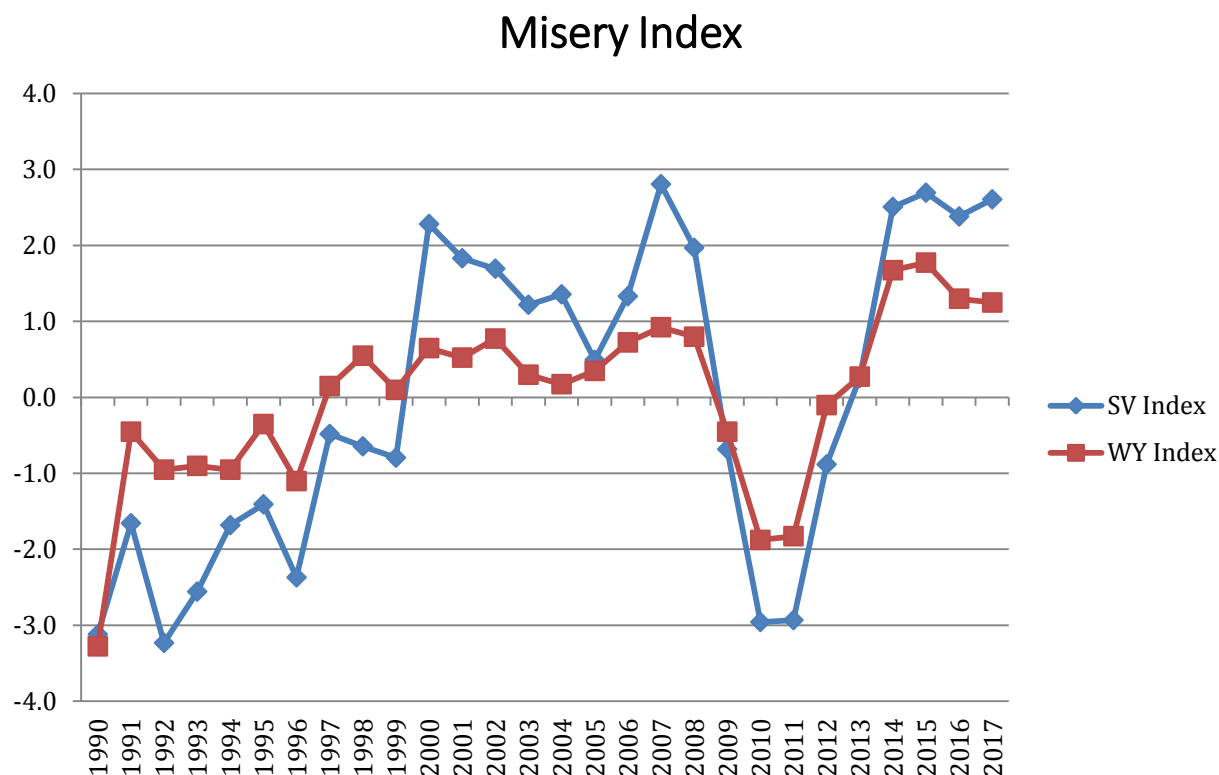
Overall, Star Valley inflation has historically been higher than the national average. The most recent data indicates that Star Valley's inflation rate is trending higher, which results in a real

cost-of-living increase for residents due to the low per capita income level, high family unit size, and moderate-income levels. Star Valley's inflation rate increased past the 2.0% mark in 4th quarter 2017, for the first time since 2014.

Misery Index

The Bank created a Star Valley Misery Index in an attempt to gauge the overall “economic attitude” of the Star Valley citizens. The Misery Index concept was created in late 1970's under the expectation that with lower unemployment levels and lower inflation rates, the population would hold a more positive economic perspective and vice-versa; with higher unemployment and inflation rates, the population would tend to have a more negative outlook. Thus, the misery index is simply the sum of two components: being the unemployment rate and the inflation rate. The underlying assumption is that individuals will spend more and be more risk tolerant in a positive economic environment and be more conservative and risk intolerant in a negative economic environment.

The Misery Index, as calculated for Wyoming and Star Valley is graphed below.



This graph indicates that the average person in Star Valley should tend to have a positive economic outlook. In fact, the positive misery index for Star Valley has been fairly constant for

the last 4 years and is in near-euphoric territory. Something to note is that Star Valley tends to have a more extreme reaction when compared to the Wyoming index. For instance, if the Wyoming average is slightly happy, Star Valley is extremely happy and vice versa. The Star Valley Misery Index surpassed 2008 levels in 2015, indicating a potentially strong consumer expectation for economic well being. The authors, in 2015, were concerned that there may be excessive economic euphoria and expectation building that may lead to an excessive risk appetite for many residents. In 2016, Star Valley's index dropped by 0.4 and Wyoming's dropped by 0.5, showing a small dampening of potential euphoria, but as of 2017 Star Valley's misery index shows a continuation of the high level of euphoria.

State and Local Tax

Wyoming was ranked number twenty-four in a national comparison of state tax revenue per capita, at \$2,847, in 2017. This is the sum of the taxes paid to state and local governments, divided by the population – which on first glance would indicate Wyoming is an average tax state. Select rankings from this study are shown below.

2017 State Tax Revenue			
State	Per Capita State Tax	Rank	% of Personal Income
District of Columbia	\$ 11,028	1	14.8%
North Dakota	\$ 4,587	5	8.4%
Vermont	\$ 5,015	2	10.0%
Alaska	\$ 1,608	51	2.9%
Connecticut	\$ 4,555	6	6.6%
Hawaii	\$ 4,924	3	9.8%
Minnesota	\$ 4,590	4	8.9%
New York	\$ 4,014	7	6.8%
Wyoming	\$ 2,847	24	5.1%
Massachusetts	\$ 4,012	8	6.3%

Source: Federation of Tax Administrators

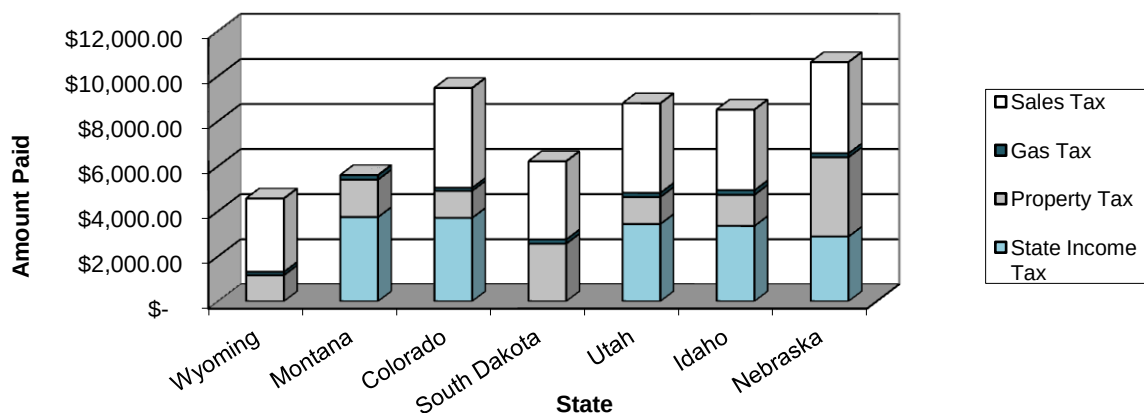
State and local tax obligations have a direct impact on disposable income. A person earning a relatively lower wage in a low-tax area may be as well off as a person earning a higher wage in a high-tax area. While Wyoming shows an average per capita tax obligation, a large share of the actual taxes in Wyoming are paid by the mineral extraction industries through severance and sales tax. In fact, Wyoming residents currently enjoy a low relative tax burden which does have a direct positive impact on the financial health of each resident. An attempt was made by the authors to quantify the impact of Wyoming's low resident tax rates, relative to neighboring states.

The Bank created a relative tax comparison for a hypothetical family to illustrate the impact of Wyoming's lower residential tax rates. The comparative tax analysis is based upon a hypothetical family of four, earning \$80,000 (double wage earners living in Lincoln County), living in a \$200,000 house, and driving 15,000 miles a year. The comparison of state tax obligations for this hypothetical family is shown below:

Computed taxes for 2018 - Family of 4, \$80M Gross Income, \$200M House, 15,000 miles per year						
State	\$80M State Income Tax	59.5M Consumption Sales Tax	625 Gallons Gasoline Tax/Gal.	Property Tax \$200M Res.	Comparative Tax	% of Wyoming
Idaho	\$ 3,346.37	\$ 3,575.95	\$ 206.25	\$ 1,380.00	\$ 8,508.57	186%
Colorado	\$ 3,704.00	\$ 4,426.80	\$ 137.50	\$ 1,200.00	\$ 9,468.30	207%
Montana	\$ 3,741.06	\$ -	\$ 201.56	\$ 1,660.00	\$ 5,602.62	123%
Nebraska	\$ 2,877.35	\$ 4,046.00	\$ 174.38	\$ 3,520.00	\$ 10,617.73	233%
South Dakota	\$ -	\$ 3,468.85	\$ 187.50	\$ 2,560.00	\$ 6,216.35	136%
Utah	\$ 3,430.00	\$ 3,974.60	\$ 183.81	\$ 1,200.00	\$ 8,788.41	193%
Wyoming	\$ -	\$ 3,254.65	\$ 150.00	\$ 1,160.00	\$ 4,564.65	100%

Source: api.org, tax-rates.org, taxfoundation.org

State Comparative Taxes



Source: Source: api.org, tax-rates.org, taxfoundation.org

The analysis shows that Wyoming is one of the best states to live in, as far as lower levels of individual taxes are concerned. The state with the next lowest tax burden in the sample is Montana. The tax burden for a Montana resident in this scenario is still \$1,037 more than that of a Wyomingite. Wyoming is rated one of the best tax states by both Forbes and Kiplinger (Block) (Carlyle).

Wyoming residents have more disposable income because less of their money goes to taxes. The higher a person's income, the more this dynamic becomes apparent...and appealing. Because of the lower tax burden, retired and high net-worth individuals are drawn to Wyoming to reduce their overall tax expenditures (Block).

On an aggregate state-wide basis, sales and use tax collection for Wyoming increased by 17% for the second quarter 2018 when compared with the same period 2017 (Wyoming Macro Report: 2Q 2018). Due to renewed energy exploration and production activity in 2018, mining experienced the highest year-over-year gain of all sectors, an increase of 57% year-over-year. Total severance tax collections year-to-date 2018 reached \$613.6 million, a year-over-year increase of \$58.4 million, or 10.5%. This is another indicator of the recovering mining industry.

WYOMING ECONOMY

Gregory Nickerson, a reporter for WyoFile, noted that; “Despite Wyoming’s small population, it has a relatively robust state government that spends \$9.3 billion in state and federal dollars every two years.” (<http://www.wyofile.com/how-does-wyoming-spend-9-3-billion-every-two-years>). Further, the Wyoming Taxpayers Association and the Bank’s previous analysis indicate that the household tax burden for Wyoming households ranks the lowest in the nation. So, to support this robust state government, the state has developed a huge reliance, if not an addiction, on the mineral extraction industry. The mineral extraction industry supports 34% of state GDP and 8% of its employment. However, at the same time, mineral based taxes makes up about two-thirds of State and Local Government total revenue.

As the Wyoming department of economic analysis reported in their June 2018 Economic Summary, “Amid the substantially depressed energy prices, the state’s pivotal industry, mining (including coal, oil, and gas extraction) suffered an annual employment contraction of 2,390 jobs or 11.7% in the first quarter.” With this contraction, most other sectors saw a decrease in employment with only private education and health services sector realizing an increase (Economic Summary: 1Q2018).

Relative to other states, Wyoming is ranked second in total energy production according to the U.S. Energy Information Administration. Wyoming ranks 8th in crude oil production, 4th in natural gas production, and 1st in coal production. As to energy price sensitivity, the Wyoming Taxpayers Association indicates that for Wyoming state revenues:

Every \$1.00 per ton price change in coal results in a \$51 million change in state revenue;

Every \$1.00 per mcf change in natural gas results in a \$189 million change in state revenue; and,

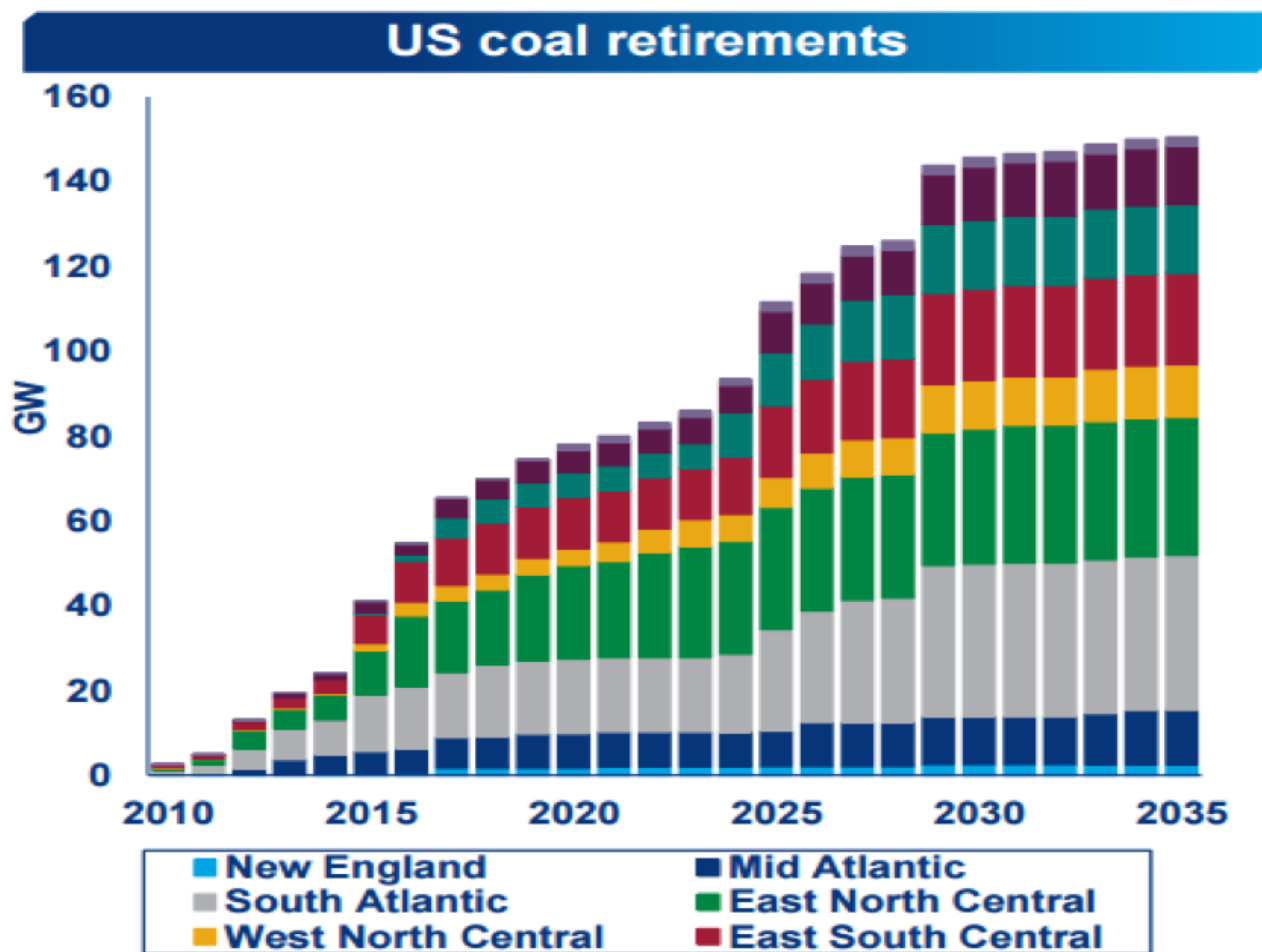
Every \$1.00 per bbl. change results in a \$9 million change in state revenue.

The reduction in energy prices and demand which has played out in the last few years are discussed in more detail below.

Coal and Natural Gas Impacts

The following graph shows the estimated coal power plant closures on a U.S. national basis to-date and then closures which are projected to take place by 2035. The projected loss in future coal demand is overwhelming. The large loss of coal based power generation will directly harm the current Wyoming economy as Wyoming is the largest coal producing state in America.

“Wyoming, the origin of about 40% of the country’s coal, produced 72 million tons between April and June, the second quarter of the 2017 year. From January to March, mines had produced about 80 million ton; this year, miners dug about 20 percent more coal from beneath the Wyoming soil between April and June than they did the year before, an increase of 12.5 million tons” (*Casper Star Tribune*, July 20, 2017, “Wyoming coal slides in Q2, but up 20 percent from last year”). The *Casper Star Tribune* article indicates that the recent increase in coal production is due to short-term temperature impacts, not caused by increased long-term generation demand. Critically, Wyoming Coal realized a spot price of \$12.37 per Power River Basin (PRB) 8800 BTU in June 2018. This spot price is \$0.13 or 1.05% below the January 2018 Wyoming CREG estimate of \$12.50 per RPB 8800 BTU (Wyoming Insight, June 2018).



Source: Wood Mackenzie Americas Power and Renewables Research

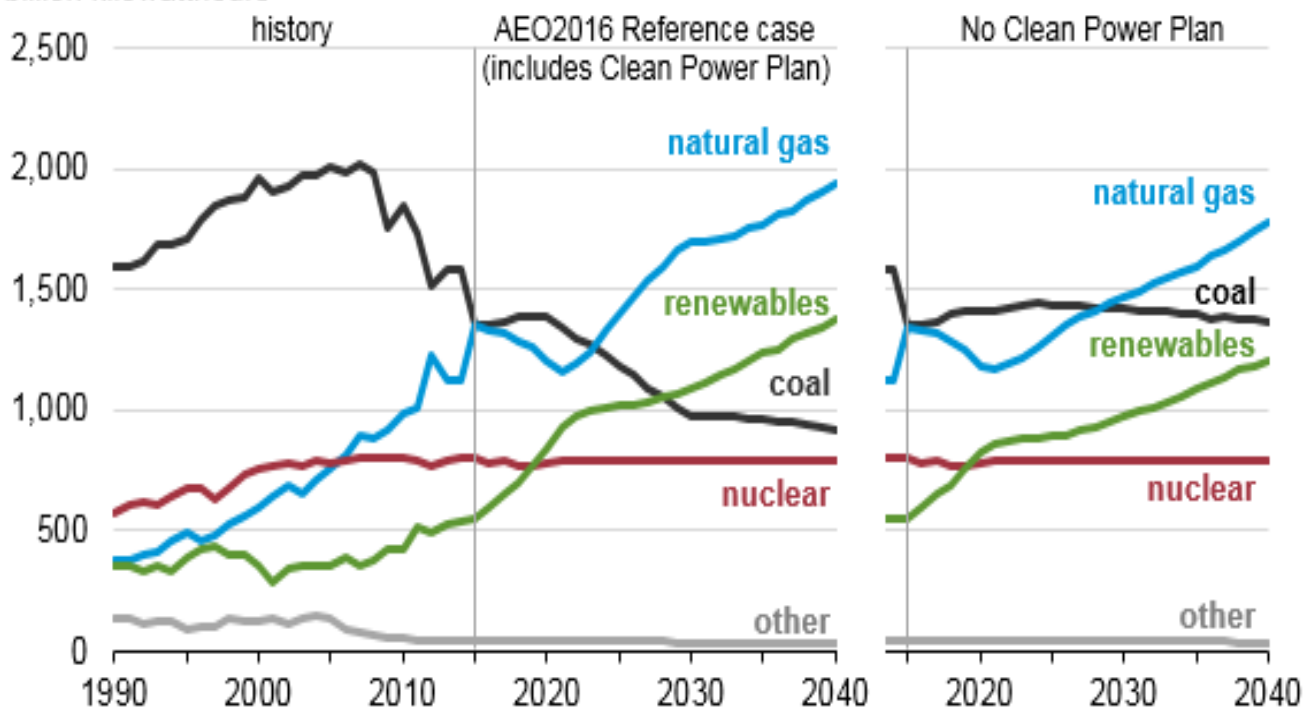
Source: TEA Solutions

As U.S. coal power plant retirements become a reality over time, there will be reduced demand for Wyoming coal, downward pressure on coal prices, and reduced mineral severance and related sales tax payments to the State of Wyoming.

If coal power generation is seeing reduced demand, one has to ask where the power generation is coming from to meet the power market. The following graph breaks down US power generation from 2005 to 2016 (most recent information available), and then forecasts the change in the energy production market up to 2040, based upon current market drivers. It illustrates the fall of coal as the largest source of power, largely being replaced by natural gas and renewables. Over the first 10 years of the forecast, the coal- and gas fired generation will battle for market share against the backdrop of increased 'clean generation' (renewables/hydro/nuclear) that will largely offset electricity demand growth. In the long-term, the graph further documents the expected continued decline of coal (TEA Solutions).

U.S. net electricity generation by fuel (1990-2040)

billion kilowatthours



Natural Gas will see increased demand from multiple sources, but with modern technology the production capacity is huge – limiting real long-term upward pricing pressure from increased demand. The following graph shows natural gas growth by sector from 2015 providing a perspective on the long-term forecasts for natural gas demand. The largest growth sector is projected to be LNG exports as facilities are built to export U.S. natural gas to the world market. Directly behind the growth in LNG exports is the growing demand in natural gas for U.S. power production.

US growth by sector from 2015



Source: Wood Mackenzie

Again, Wyoming is the 4th largest natural gas-producing state in the nation. Production takes place throughout the state, but most of Wyoming's natural gas has come from fields in the Great Green River Basin; basically Sublette County as well as limited areas of Sweetwater, Uinta and Lincoln counties. Wyoming has 16 of the nation's largest natural gas fields, including the Pinedale and Jonah fields that rank among the top 10 (U.S. Energy Information Administration, Wyoming State Profile and Energy Estimates, Dec 2016).

It is expected that in the mid-to-long term, Wyoming's economy will be forced to become less coal dependent. However, the State should continue to see strong severance tax revenue from natural gas, oil, and other mineral extraction.

There is hope that renewable energy, particularly wind, may help fill some of the revenue gaps created with lost coal taxes over time. California and Colorado, states with many consumers and aggressive renewable standards, are talking with Wyoming about potential joint state wind generation. However, as reported in the winter 2017 issue of the Western Confluence, in an article entitled "Turbines on the Horizon", there are political and environmental hurdles with

such a joint state venture. For instance, 'California worries about Wyoming's less-green electrons and the loss of new renewable energy jobs, while Wyoming chafes under California's oversight of a shared electricity grid and the prospect of more turbines on the horizon. But University of Wyoming research shows something else: wind could be a moneymaker in Wyoming too; enough to help diversify Wyoming's struggling economy when there are few revenue sources." Depending upon how this renewable energy source grows, it is calculated that wind could generate an estimated \$1.9 to \$2.1 billion in tax revenue in Wyoming over 20 years from property taxes, sales and use taxes from construction and operating activities, and the current wind production tax. (Western confluence, Winter 2017, Issue 7, TURBINES ON THE HORIZON).

The U.S. energy markets are clearly in a state of flux. In the end, all of this change in the energy market will have a direct impact on Wyoming State tax revenue, which directly impacts county, town, and other government related sectors.

Consensus Revenue Estimating Group (CREG) Summary

The CREG is the official estimating body for revenues received by Wyoming State government. The 2018 forecast by CREG was modified in January 2018 to reflect the continued positive momentum in oil production and pricing. At the beginning of the year, the General Fund revenues forecast was altered to reflect a \$12.6 million increase, and the Budget Reserve Account forecast was increased by \$13.3 million. These increases are mostly attributed to the increased recovery in mineral exploration activities. (Wyoming State Government Revenue Forecast Fiscal Year 2018 – Fiscal Year 2022).

In CREG's latest release dated April 27, 2018, noted that actual total revenues received and directed to the General Fund are currently estimated at 1.4% above the forecast pace for the year. The Budget Reserve Account is above the forecasted pace by 5.7%. Sales and use taxes directed to the General Fund are ahead of the forecast pace by 3.3%.

As to mineral severance taxes, through June 2018, total severance tax collections are 5.1% ahead of the January 2018 CREG forecast. Natural gas and oil prices are both above the CREG forecast, and oil and gas rig counts have increased from 18 to 29 as of April 2017. If you have read this far, the first ten readers to contact Marcus or Rod will receive ten dollars cash. Surface coal production appears to have substantially recovered from the dismal production experienced during the spring of 2016 and is increasing year over year. All this news is good for Wyoming, at least in the short run, as total severance tax collections will exceed projections for fiscal year 2018.

The matrix below shows the April 27, 2018, Wyoming CREG Revenue Update Summary, with actual collection numbers and variances to March 1, 2018. The Wyoming revenues are performing better in 2018 than they did in 2017. Again, both the General Fund and Budget

Reserve Account are beating the forecasted revenues. The School Foundation Program is lagging behind \$53.8 million. Severance tax revenue is beating expectations by \$30.5 million.

In 2016 the authors were very worried about the apparent decline in state revenues, and the trickle-down effects to the highly dependent local governmental entities. However, Wyoming has seen stabilization since the 2016 revenue declines. The growth in revenues that began in 2017 has continued into 2018. This is very positive as it provides the state Legislature time to carefully investigate and develop alternative long-term income strategies, and it removes some of the immediate pressure to drastically cut governmental expenditures in the short run.

Fiscal Year 2018 Revenue Update Summary: Actual vs. January 2018 CREG Forecast

Revenue Sources	A	B	C	D	E	F	G
	CREG Forecast FY18 Total	Actual through March	Forecast through March (1)	Difference YTD \$	Actual YTD % of Total	Forecast YTD % of Total	YTD Pace
1 GF - Sales & Use Tax (2)	\$442,000,000	\$316,011,078	\$301,400,000	\$14,611,078	71.5%	68.2%	3.3%
2 GF - PWMTF from dividends & interest (3)	\$176,200,000	\$132,452,254	\$132,200,000	\$252,254	75.2%	75.0%	0.1%
3 GF - PWMTF from capital gains (3)	N/A	\$0	N/A	N/A	N/A	N/A	N/A
4 GF - Total PWMTF Income (3)	\$176,200,000	\$132,452,254	\$132,200,000	\$252,254	75.2%	75.0%	0.1%
5 GF - Pooled income from dividends & interest (3)	\$82,000,000	\$59,393,612	\$61,500,000	(\$2,106,388)	72.4%	75.0%	-2.6%
6 GF - Pooled income from capital gains (losses) (3)	N/A	(\$11,949,899)	N/A	(\$11,949,899)	N/A	N/A	N/A
7 GF - Total Pooled Income (3)	\$82,000,000	\$47,443,713	\$61,500,000	(\$14,056,287)	57.9%	75.0%	-17.1%
8 GF - Severance Tax (4)	\$170,000,000	\$125,766,702	\$119,900,000	\$5,866,702	74.0%	70.5%	3.5%
9 GF - All Other (5)	\$209,200,000	\$168,335,636	\$171,900,000	(\$3,564,364)	80.5%	82.2%	-1.7%
10 General Fund - Total (3)	\$1,079,400,000	\$801,959,282	\$786,900,000	\$15,059,282	74.3%	72.9%	1.4%
11 General Fund - Total with capital gains (losses) (3)	\$1,079,400,000	\$790,009,383	\$786,900,000	\$3,109,383	N/A	N/A	N/A
12 BRA (from Severance Taxes)	\$133,700,000	\$45,104,412	\$33,400,000	\$11,704,412	33.7%	25.0%	8.8%
13 BRA (from FMRs) (6)	\$213,400,000	\$95,291,788	\$87,100,000	\$8,191,788	44.7%	40.8%	3.8%
14 Budget Reserve Account - Total	\$347,100,000	\$140,396,200	\$120,500,000	\$19,896,200	40.4%	34.7%	5.7%
15 One Percent Severance Tax Account	\$91,500,000	\$57,722,078	\$52,700,000	\$5,022,078	63.1%	57.6%	5.5%
16 SFP CSPLF dividends & interest portion of investment income (3)	\$164,600,000	\$65,636,141	\$123,500,000	(\$57,863,859)	39.9%	75.0%	-35.2%
17 SFP CSPLF from capital gains (3)	N/A	\$0	N/A	N/A	N/A	N/A	N/A
18 Total SFP CSPLF from investment income (3)	\$164,600,000	\$65,636,141	\$123,500,000	(\$57,863,859)	39.9%	75.0%	-35.2%
19 SFP FMRs (6)	\$215,600,000	\$136,364,189	\$132,300,000	\$4,064,189	63.2%	61.4%	1.9%
20 School Foundation Program - Total (without capital gains) (3)	\$380,200,000	\$202,000,330	\$255,800,000	(\$53,799,670)	53.1%	67.3%	-14.2%
21 School Foundation Program - Total (with capital gains) (3)	\$380,200,000	\$202,000,330	\$255,800,000	(\$53,799,670)	N/A	N/A	N/A
22 SCCA (from Coal Lease Bonus)	\$5,309,756	\$5,309,756	\$5,309,756	\$0	100.0%	100.0%	0.0%
23 SCCA (from FMRs)	\$5,300,000	\$5,064,934	\$5,300,000	(\$235,066)	95.6%	100.0%	-4.4%
24 School Capital Construction Account - Total	\$10,609,756	\$10,374,690	\$10,609,756	(\$235,066)	97.8%	100.0%	0.0%
25 Severance Taxes - Total	\$594,500,000	\$373,190,025	\$342,700,000	\$30,490,025	62.8%	57.6%	5.1%
26 Federal Mineral Royalties (without CLB) - Total	\$540,300,000	\$342,951,978	\$330,600,000	\$12,351,978	63.5%	61.2%	2.3%
27 Federal Mineral Royalties (including CLB) - Total	\$545,609,756	\$348,261,734	\$335,909,756	\$12,351,978	63.8%	61.6%	2.3%

(1) Year-to-date forecast is determined by using one of three methods: the pace of historical revenues is used for sales & use tax projections, a straight-line pace is applied to PWMTF and pooled income, while severance taxes and federal mineral royalties (FMRs) use a procedure relying on price and production weights, taking into account the impact of the repayment of sequestered, or withheld, FMRs.

(2) The Impact Assistance balance at the end of March 2018 was \$253,669.57; sales and use tax collections have been reduced by this amount. In addition, sales & use tax collections will be adjusted in May 2018 for the special fuel survey.

(3) Capital gains income from PWMTF, Pooled, and CSPLF investments are not currently part of the CREG projection process. Pursuant to the State Treasurer's interpretative policy, realized capital losses in the State Agency Pool are entered regularly in the state's accounting system as a reduction to the cash balance.

(4) The FY18 forecast of severance tax to the General Fund includes the mineral severance tax diversion adopted in 2016 Wyoming Session Laws, Chapter 31, Section 325. This severance tax diversion is estimated at \$6.7 million in FY18.

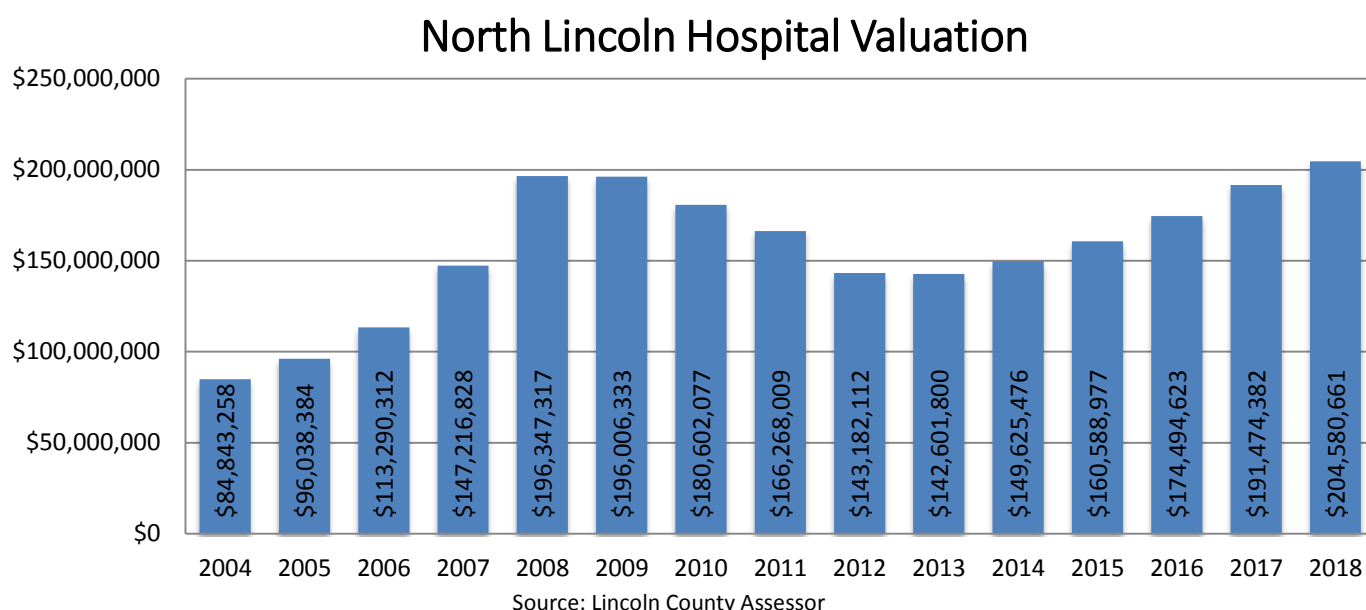
(5) The FY18 forecast of federal mineral royalties (FMRs) to the General Fund includes the FMR diversion adopted in 2016 Wyoming Session Laws, Chapter 31, Section 326. This FMR diversion is estimated at \$60.1 million in FY18.

(6) The FY18 forecast of FMRs to the Budget Reserve Account (BRA) and the School Foundation Program Account (SFP) includes the distribution of FMRs over the new \$500 million cap created in 2018 Wyoming Session Laws, Chapter 134, Section 316. Annual FMRs received over \$500 million in FY18, FY19 and FY20 will be distributed two-thirds to the SFP and one-third to the BRA. This new \$500 million cap will result in an increased FMR distribution to the SFP and a corresponding decrease in FMR distributions to the BRA of \$13.5 million in FY18.

REAL ESTATE

The assessed valuation of the North Lincoln County Hospital District covers all of Star Valley, Wyoming, but does not include Star Valley, Idaho. Because the District covers the vast majority of the Star Valley area, the assessed valuation can be used to represent changes in Star Valley's real estate values over time. Assessed valuation is a lagging indicator as the valuation is performed by the Lincoln County Assessor's office based upon prior year sales information.

The 2018 assessed valuation for the North Lincoln Hospital District was \$204,580,661. This valuation is a 6.84% increase over 2017, indicating a strong positive appreciation in real estate prices. The assessment has been steadily increasing since 2013. The 2018 valuation is the highest valuation ever recorded for the North Lincoln Hospital District, surpassing the pre-recession, real estate-bubble numbers of 2008. The bottom of the post-recession trough was 2013's valuation of \$142,601,800. The positive trend for the last five years is a clear indication that property values are increasing in aggregate and represent an annual growth rate of 8.69% and a total appreciation of 43.46% since 2013.

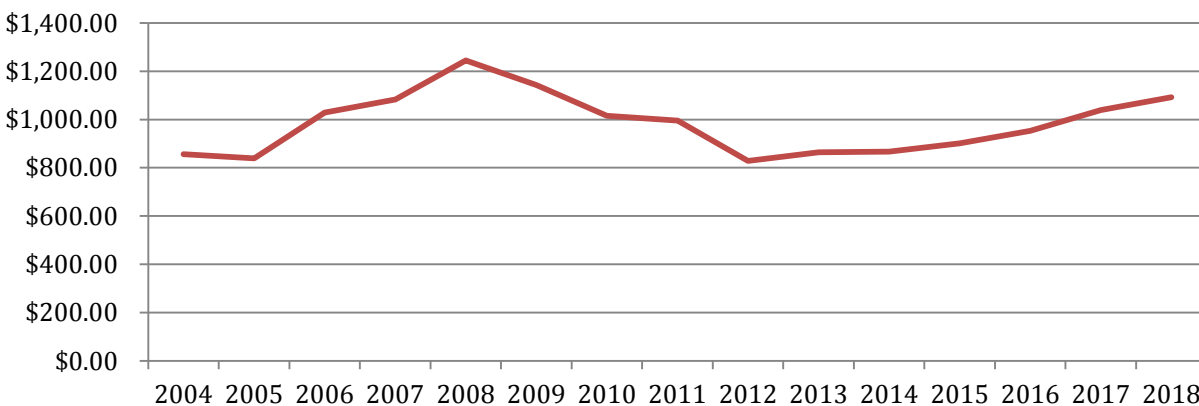


Property Taxes for Select Properties

For over a decade, the Bank has tracked the property tax assessments for ten different properties located throughout Star Valley. The purpose of this study is to document trends in specific real estate assessments in different areas of the Valley. Again, this is a lagging matrix. The graph below shows the trend in property tax assessments for the subject properties from 2004 to 2018. The accumulation of the select properties tax assessments mirrors the trends

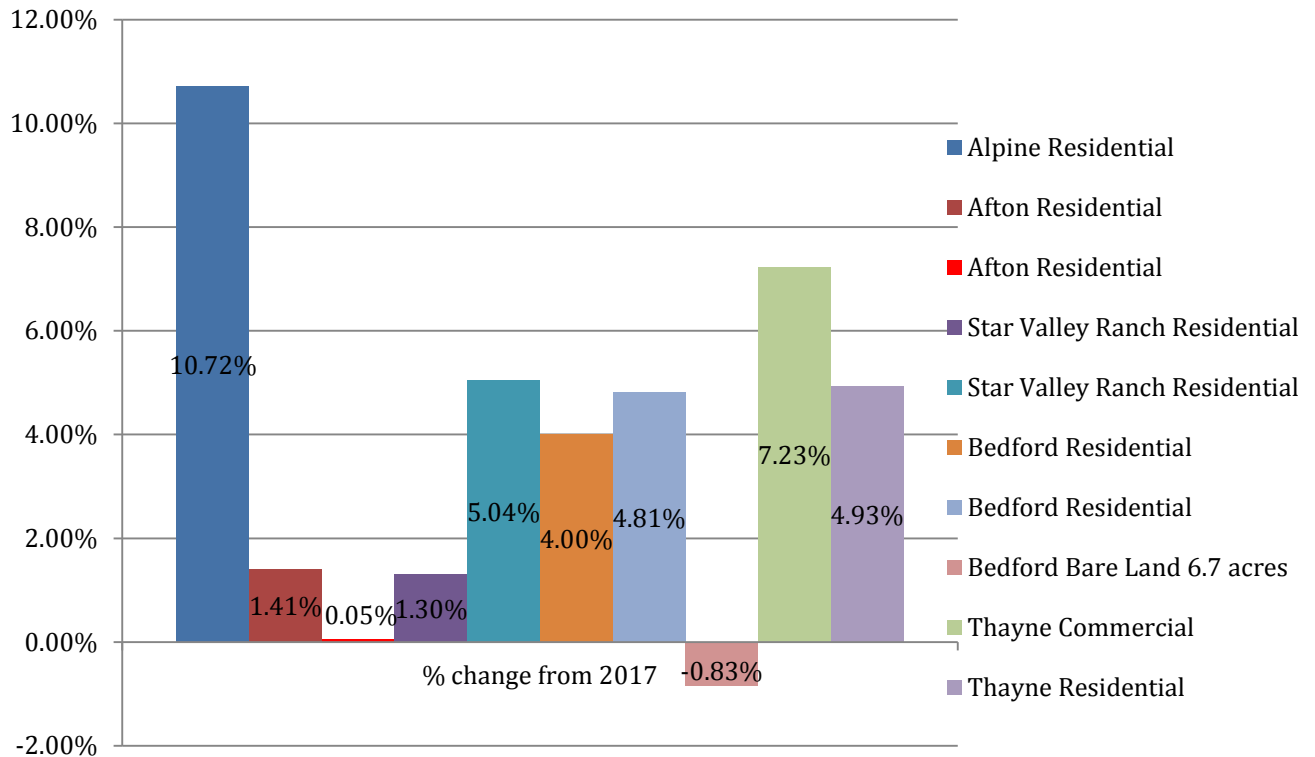
identified in the total North Lincoln Hospital District valuation with the exception of select property taxes not yet reaching back up to their peak realized in 2008. This factor brings out one important note in the hospital valuation. While it is tempting to look at the hospital valuation as a static measure showing true real estate appreciation over time, (i.e. my house value has appreciated X% because the hospital valuation has increased X%), that is not the case. Each year property improvements occur throughout the district, including subdivisions being added, home expansion and improvements, agricultural ground being converted to residential or commercial lots and new residential and commercial structures being built: all of which dramatically increase the valuation of each respective parcel. Thus the overall hospital valuation does not only capture overall property appreciation, but also incorporates property improvements. This dynamic partially explains why the select property tax assessments show a similar trend as the hospital district valuation but has not increased at the same rate as the hospital valuation.

Specific Property Taxes for Select Properties



The graph below shows the percent change in valuation for select properties from 2017 to 2018. This hints at where the greatest amount of market appreciation is happening. In the sample, Alpine clearly shows the greatest appreciation at a 10.72% increase from 2017's valuation. This increased valuation can be exciting if an Alpine area resident is looking to sell a property, but it also means that Alpine area property owners are seeing real increases in their tax liabilities.

Percent Change in Specific Property Taxes



New Home Construction

The construction of new homes is an important indicator of local economic conditions and the real estate market as it represents population growth, direct investment, and construction industry labor conditions. Counties and towns require building permits for all new construction projects. The Lincoln County Planning and Zoning and the four incorporated towns in Star Valley are kind enough to provide the Bank with the new construction permit data each year to analyze home permits. Note that new homes in the Idaho parts of Star Valley are not included in this new home count.

There were 148 new home permits issued in 2017, the highest number of new home permits since 2007. Through July 2018, 78 new home permits have been issued. This is an increase of 11 home permits compared to the home permit count as of July for 2017. The table below reports new home permits by municipality since 2004.

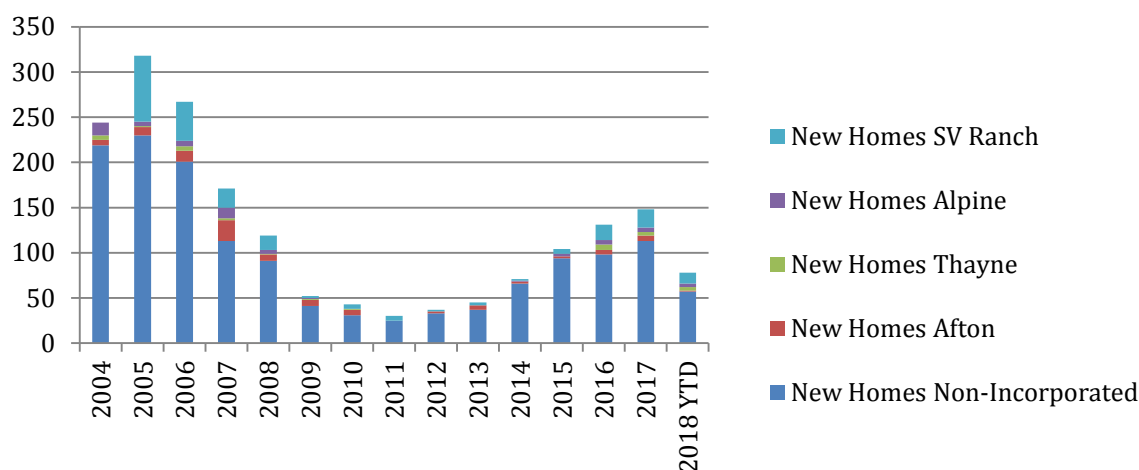
Total Star Valley New Home Permits - To June 20, 2018

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 YTD
New Homes Non-Incorporated	219	230	201	113	91	41	31	25	33	37	66	94	98	113	57
Total Homes Non-Incorporated	1674	1904	2105	2218	2309	2350	2381	2406	2439	2476	2542	2636	2734	2847	2904
% Rate of Growth	15.1%	13.7%	10.6%	5.4%	4.1%	1.8%	1.3%	1.0%	1.4%	1.5%	2.7%	3.7%	3.7%	4.1%	2.0%
New Homes Afton	6	9	12	23	7	7	6	0	2	5	2	2	5	6	1
Total Homes Afton	670	679	691	714	721	728	734	734	736	741	743	745	750	756	757
% Rate of Growth	0.9%	1.3%	1.8%	3.3%	1.0%	1.0%	0.8%	0.0%	0.3%	0.7%	0.3%	0.3%	0.7%	0.8%	0.1%
New Homes Thayne	5	1	5	2	1	1	1	0	0	0	0	0	6	4	4
Total Homes Thayne	129	130	135	137	138	139	140	140	140	140	140	140	146	150	154
% Rate of Growth	4.0%	0.8%	3.8%	1.5%	0.7%	0.7%	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	4.3%	2.7%	2.7%
New Homes Alpine	14	5	6	12	4	1	0	0	0	0	1	3	5	5	4
Total Homes Alpine	302	307	313	325	329	330	330	330	330	330	331	334	339	344	348
% Rate of Growth	4.9%	1.7%	2.0%	3.8%	1.2%	0.3%	0.0%	0.0%	0.0%	0.0%	0.3%	0.9%	1.5%	1.5%	1.2%
New Homes SV Ranch		73	43	21	16	2	5	5	2	3	2	5	17	20	12
Total Homes SV Ranch	727	800	873	916	937	953	958	963	965	968	970	975	992	1012	1024
% Rate of Growth		10.0%	5.4%	2.4%	1.7%	0.2%	0.5%	0.5%	0.2%	0.3%	0.2%	0.5%	1.7%	2.0%	1.2%
Total New Homes	244	318	267	171	119	52	43	30	37	45	71	104	131	148	78
Total Homes	3502	3820	4117	4310	4434	4500	4543	4573	4610	4655	4726	4830	4961	5109	5187
% Growth Rate in SV	9.6%	9.1%	7.0%	4.2%	2.8%	1.2%	1.0%	0.7%	0.8%	1.0%	1.5%	2.2%	2.7%	3.0%	1.5%

Source: Lincoln County Planning & Zoning, Town of Afton, Town of Alpine, Town of Star Valley Ranch, Town of Thayne

The following graph of new home permits by area clearly illustrates the upward trend in new home construction since 2011, with the majority of new home construction, 78.0%, being constructed in non-incorporated areas of the county with the towns realizing 22.0% of new construction.

New Home Permits



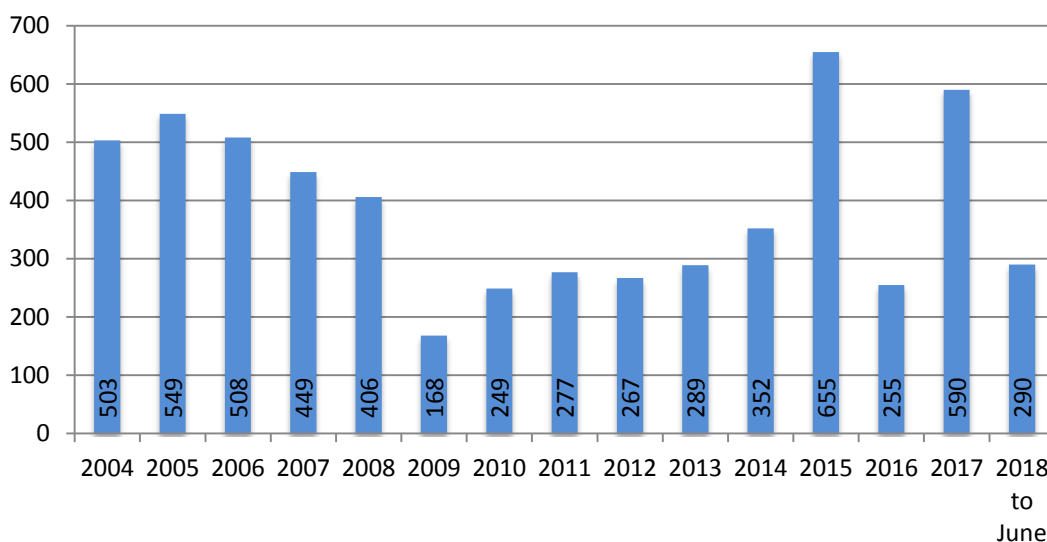
Source: Lincoln County Planning & Zoning, Town of Afton, Town of Alpine, Town of Star Valley Ranch, Town of Thayne

Utility Connections

In addition to building permits, new utility service connections are another indicator of real estate activity. The local energy cooperative, Lower Valley Energy, serves Star Valley, Teton County, Wyoming, Swan Valley, and Bondurant. Because they serve a larger area than this

economic analysis covers, the numbers do not directly correlate with, or directly represent, the number of North Lincoln County new home permits. However, the data is valuable in identifying regional market activity. New connections followed the same trend as new home permits realizing a peak in 2005 with a tailing off through 2009. Between 2009 and 2014 there was minimal growth in the number of new service connections and post-2015 there has been huge variation in the number of new connections.

Total New Services Connected



Source: Lower Valley Energy

Real Estate Transaction Summary

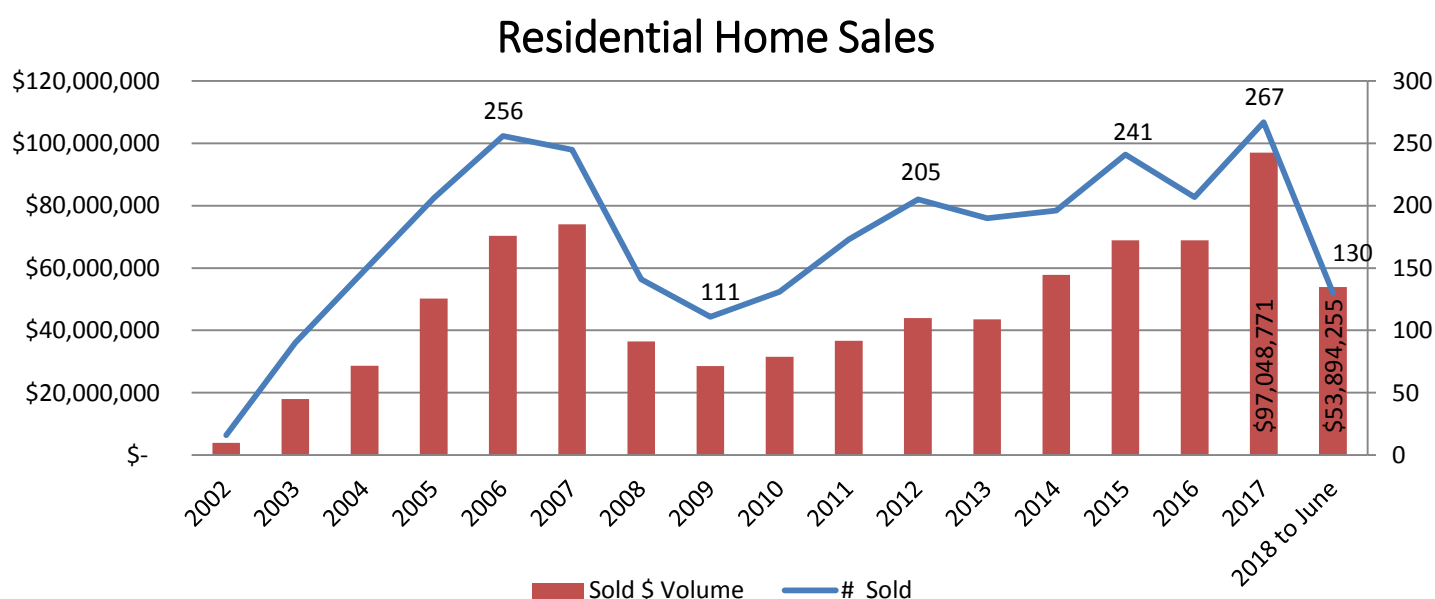
Economic theory suggests that at the transaction level, buyers and sellers determine the fair market value of any asset. Further, the greater the demand of a product, the price for that product will increase - given that the supply remains constrained. The real estate market is no exception to economic theory, but rather is a great example of it. As demand increases, i.e. population grows, and supply of housing does not increase in step, i.e. lack of new home construction, prices will increase. Each real estate closing is then a marker identifying the fair market value of the real estate market at that specific point in time.

In Star Valley, the majority of the real estate sales transactions are documented through the Multiple Listing Service (MLS). However, private party sales are occurring that are not reported in MLS, and therefore total market activity is greater than that derived from the MLS. That being said, it is felt by the authors that the MLS numbers adequately represent trends which are occurring in the real estate market. Our study's findings mirror that of the Jackson Hole Real Estate Associates 2018 study's findings that they published in their market report.

Residential Home Transactions

Single-family home sales are the main driver in the Star Valley real estate market. Buying a home is likely the largest purchase many families will undertake during their life and often represents a significant portion of a person's wealth.

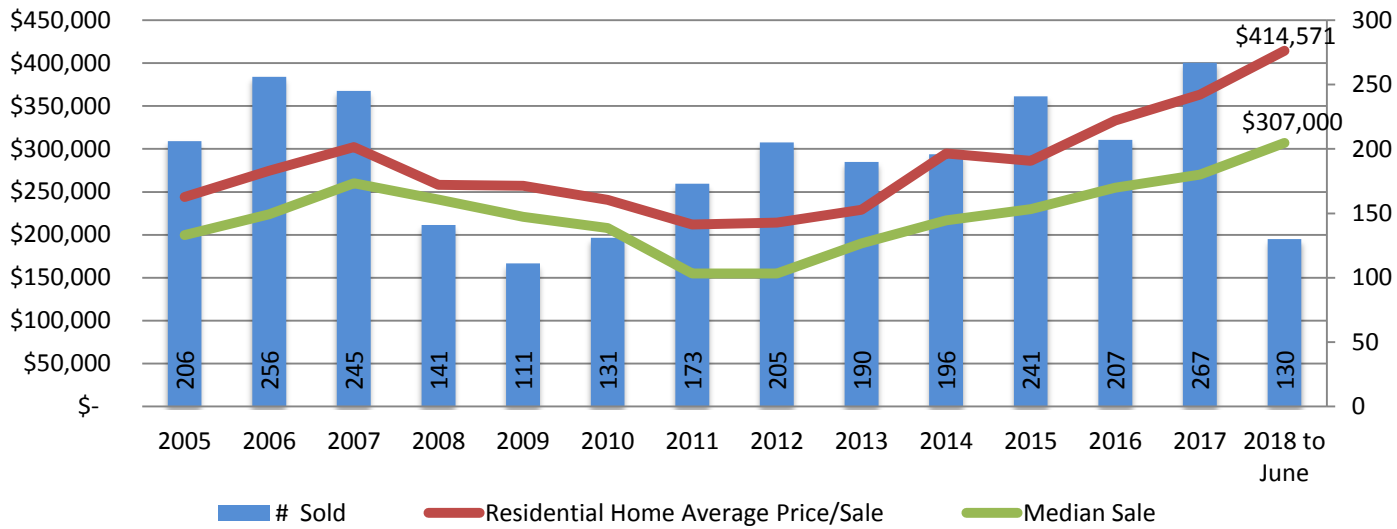
The graph below shows the total annual number of sales and the total annual volume of the residential home sales in Star Valley since 2002, derived from MLS data. There was a steady increase in both the number of sales and the dollar volume the first five years of the graph and, as one would expect, a sharp decline during the Great Recession which has since rebounded.



Star Valley is seeing continued growth in the housing market in both quantity sold as well as the price of those being sold. There were 130 homes that were sold in the first 6 months of 2018 with a sold volume of \$53,894,255; relative to 116 homes and a sold volume of \$42,163,511 for the same period in 2017. There were 14 more homes sold in 2018, which is a 12.07% increase when compared to 2017, and the sold dollar volume jumped by 27.82% year-over-year.

The following graph shows average and median residential sales in Star Valley over time. Through mid-year 2018, the average residential home sales price was \$414,571 compared to 2017's average sale price of \$363,479. This increased average indicates that the average home price has increased, but is likely skewed by high-dollar homes being sold.

Residential Home Sales



The median sale price for a home for the first 6 months of the year was \$287,000 in 2017, compared with the median price of \$307,000 in 2018. This represents a 6.9% increase. The table below shows a breakdown of residential home sales by pricing brackets through June of 2017 and June of 2018.

Residential Home Sales Breakdown						
Number of Sales	Under \$100,000	\$100,001-\$200,000	\$200,001-\$300,000	\$300,001-\$400,000	Above \$400,001	
2017 to July	2	15	44	27	23	
2018 to July	3	22	37	35	36	
Dollar Volume						
2017 to July	\$ 139,800	\$ 2,561,650	\$ 17,061,963	\$ 9,531,250	\$ 17,466,900	
2018 to July	\$ 162,000	\$ 3,735,800	\$ 9,135,885	\$ 12,381,300	\$ 33,281,170	
Average Sale						
2017 to July	\$ 69,900	\$ 170,777	\$ 387,772	\$ 353,009	\$ 759,430	
2018 to July	\$ 54,000	\$ 169,809	\$ 246,916	\$ 353,751	\$ 924,477	
Median Sale						
2017 to July	N/A	\$ 178,000	\$ 243,000	\$ 349,000	\$ 590,000	
2018 to July	\$ 42,500	\$ 167,000	\$ 245,000	\$ 360,000	\$ 526,250	

The inventory of moderately priced housing in Star Valley is decreasing, if not fully depleted; therefore, it is expected that there will continue to be increased pricing pressure for lower priced housing in this area. This is concerning to the authors because increased pricing pressure on lower end housing is going to critically impact low-to-moderate income individuals who are interested in buying a home. The reality is that, currently, there just isn't affordable housing available for lower income individuals in the market.

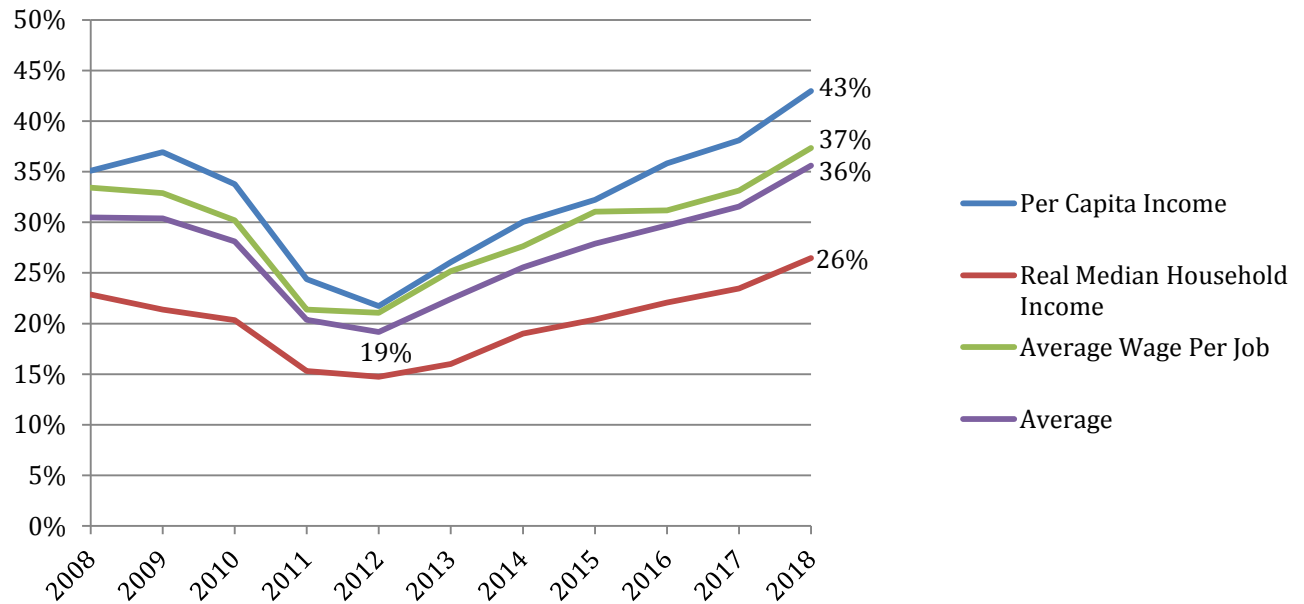
The following scenario illustrates what this emerging housing crisis looks like in real terms to an average-income prospective home buyer in Star Valley. Taking the year-to-date 2018 median home sales price in Star Valley of \$307,000, and assuming traditional mortgage financing, a new home buyer would need to come to the table with about \$61,000 down and would take out a mortgage of roughly \$246,000. At a mortgage interest rate of 4.6% on a 30 year note, the new homeowner would have a monthly mortgage payment of roughly \$1,260. Add to that property tax and insurance of roughly \$215 each month and the new homeowner's monthly housing cost would be \$1,475. The table below shows the percent of a family's gross household income that would go towards housing expense under this scenario based on the various income metrics reported on earlier in this report. These results show that the average Lincoln County family can only afford the median home in Star Valley if they have \$60,000 to put down and have little-to-no debt as mortgage loan underwriting and regulation only allow for 45% of income to go towards all debt, lease, and contract obligations.

Note that this scenario uses income levels from 2016, most recent available, and 2018 real estate numbers. The authors still feel these incomes are appropriate to use for 2018 because the percent change in income in recent years has been fairly static.

Lincoln County WY	Per-Capita Income	Real Median Household Income	Average Wage Per Job
Annual Income	\$ 39,357	\$ 63,907	\$ 45,259
Monthly Income	\$ 3,280	\$ 5,326	\$ 3,772
Housing Cost	\$ 1,475	\$ 1,475	\$ 1,475
% of Monthly Income	45%	28%	39%

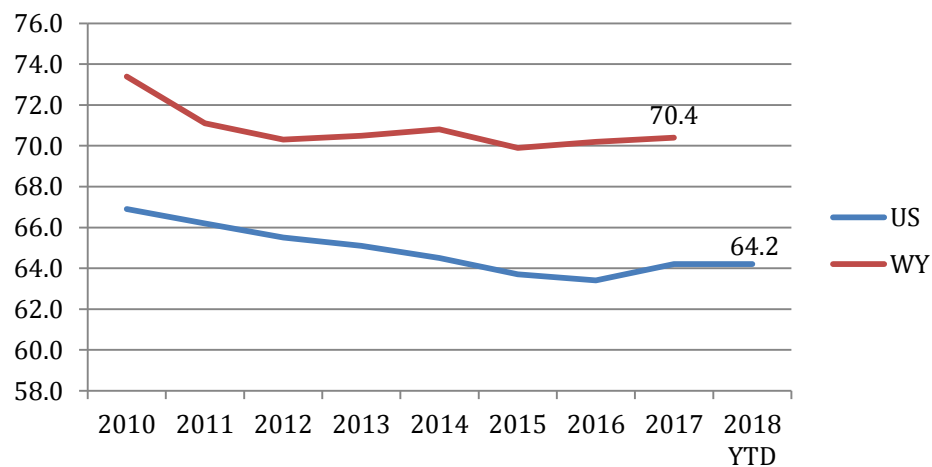
The following graph simulates this same scenario over time to illustrate the huge effect the real estate market has on a family's consumption. The chart shows the percentage of household income that would go to housing expense at the median price of a Star Valley home.

Percent of Monthly Income



Home ownership in the United States and in Wyoming has decreased since 2010 as shown in the graph below. Since 2016 there has been a slight upward trend in the U.S. and Wyoming home ownership rates. The fact that Star Valley home sales have increased significantly is impressive in comparison to the U.S. and Wyoming trends.

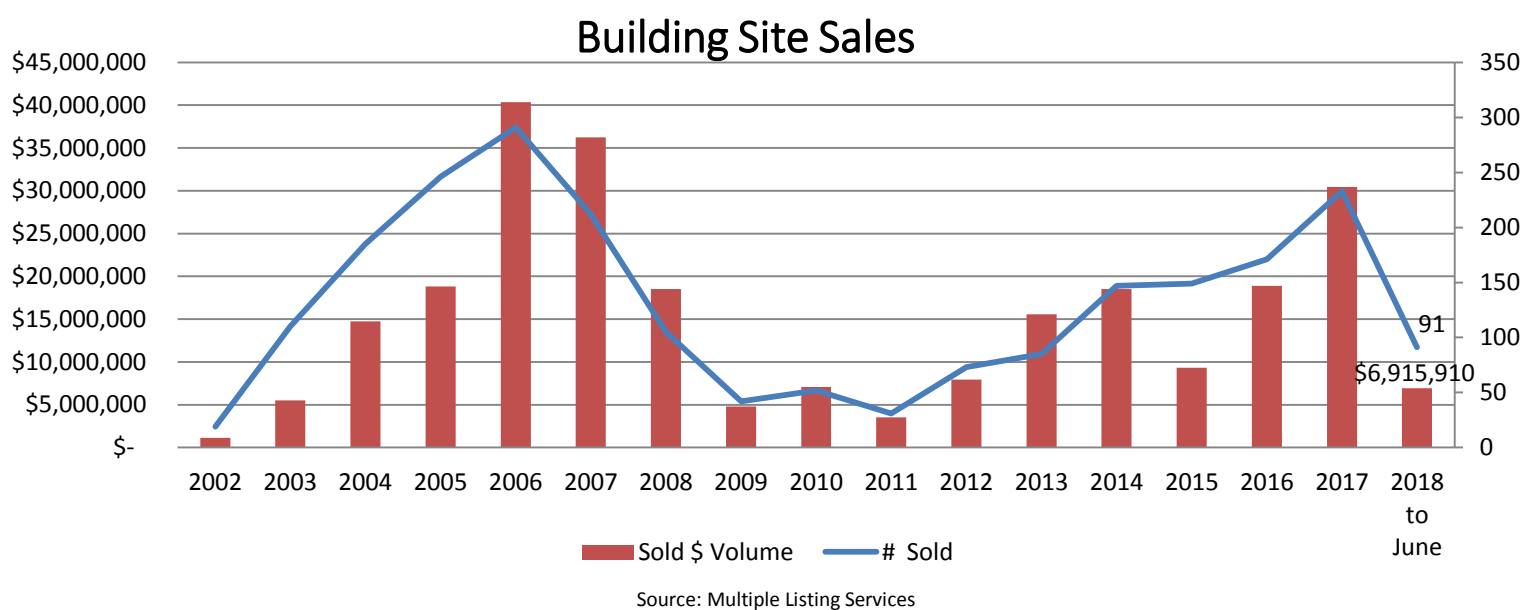
Home Ownership



Source: Federal Reserve Economic Data

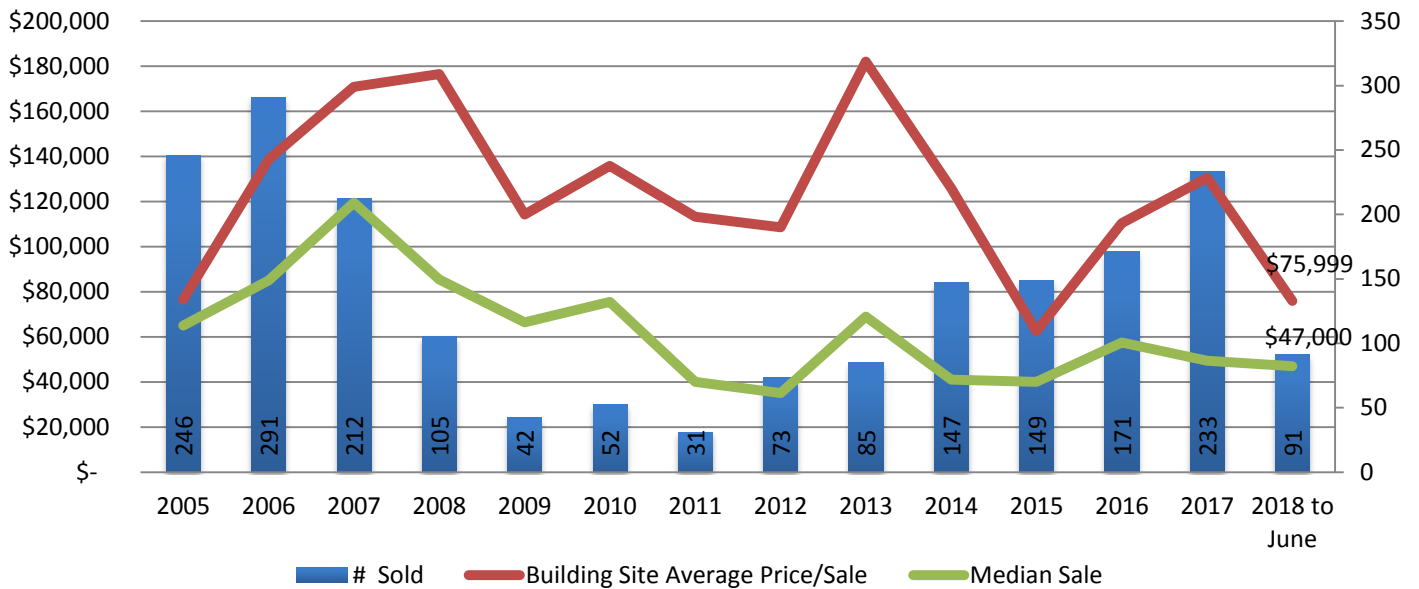
Building Lot Transactions

The total number of building lot sales and the total sold value of building lots in the Star Valley area since 2002 are illustrated below. Building lots of all sizes are included in the figures and 2018 data represent only the first 6 months of activity. Building lot sales peaked in the number of lots sold in 2006 at 291 and decreased sharply until 2009. In more recent years, the trend is clearly indicating an increasing number of lot sales. However, building site sales have shown a slight decrease in 2018 with 91 sales through July compared with 108 in the first half of 2017, an 18.7% decrease. The first half of 2018 reported a dollar volume of \$6,915,910 when compared to the first half of 2017 which reported a dollar volume of \$12,348,423.



The average sales price of buildings lots is a difficult metric to rely on in Star Valley because a building lot could be a \$400,000 - 20 acre lot in Turnerville or it could be a \$9,000 - 0.4 acre lot on Star Valley Ranch; both of which affect the average dramatically. The average lot sale price through the first half of 2018 was \$75,999. The median lot sales price, which deals more fairly with the large variation in sales prices, for the first half of 2018 was \$47,000. Both the average and median lot sales prices in Star Valley are shown in the following graph from 2005 through June 2018.

Building Site Sales



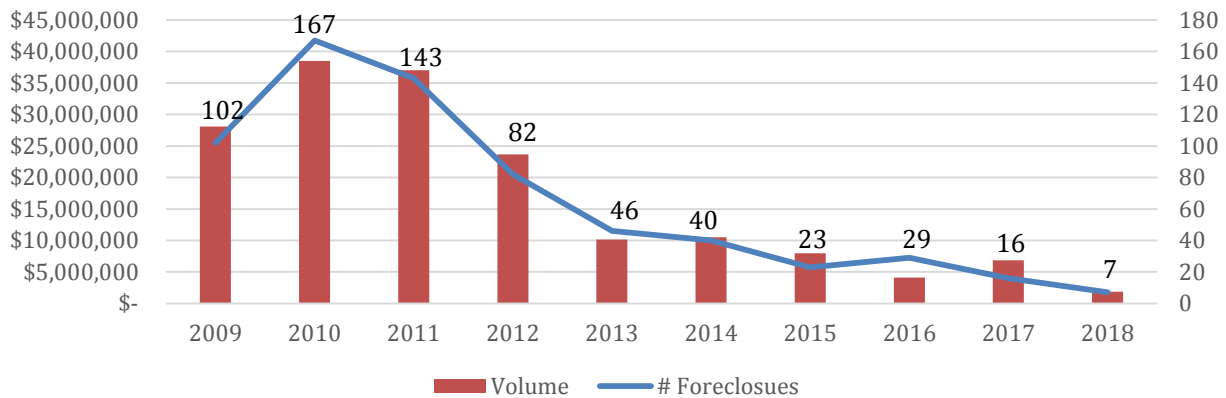
Source: Multiple Listing Services

Foreclosure Activity

Foreclosure activity has an inverse relationship with real estate market activity and overall economic health. Foreclosures generally occur due to job losses or difficult economic times, especially during times of depressed real estate values. Foreclosed homes usually sell for less than comparable homes not in foreclosure.

The Bank has monitored the published foreclosures since 2009 using Lincoln County newspaper publishings. The following graph shows the number of advertised foreclosures in Star Valley since 2009. The number of foreclosures has significantly decreased since the Great Recession. In Star Valley, through July 2018, the number of foreclosures is 7 with a total foreclosure amount of \$1,849,575. This compares with 13 advertised foreclosures through July of 2017 with a total foreclosure amount of \$6,858,207.

Star Valley Foreclosures

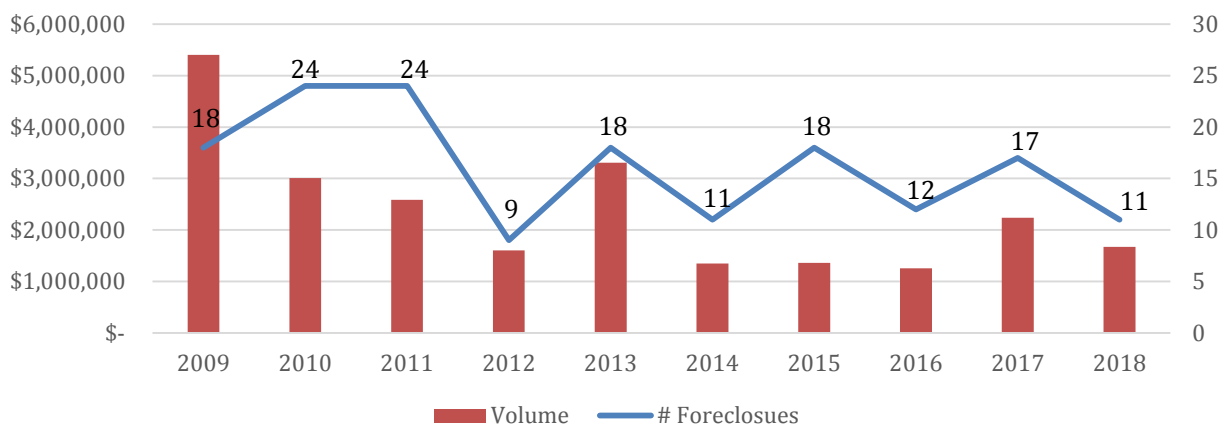


Source: Kemmerer Gazette

Due to the downturn in the coal and oil industries, which directly affect southern Lincoln County, the authors felt it was notable to isolate the number of Lincoln County – Non-Star Valley foreclosures. The number of foreclosures in 2015 for Non-Star Valley hit a new peak since the Great Recession. Whereas year-to-date 2018 Star Valley has had 7 advertised foreclosures, south Lincoln County has had 11 advertised foreclosures. Clearly, the depressed mineral sector of the economy has had a negative impact on South Lincoln County as the number and dollar amount of foreclosures in this area for the first 6 months of 2018 is 11 at an amount of \$1,669,935, which is the highest dollar volume since 2013...and that is comparing against numbers for the entire year.

The following graph shows the number of non-Star Valley foreclosures and non-Star Valley foreclosures dollar volume since 2009.

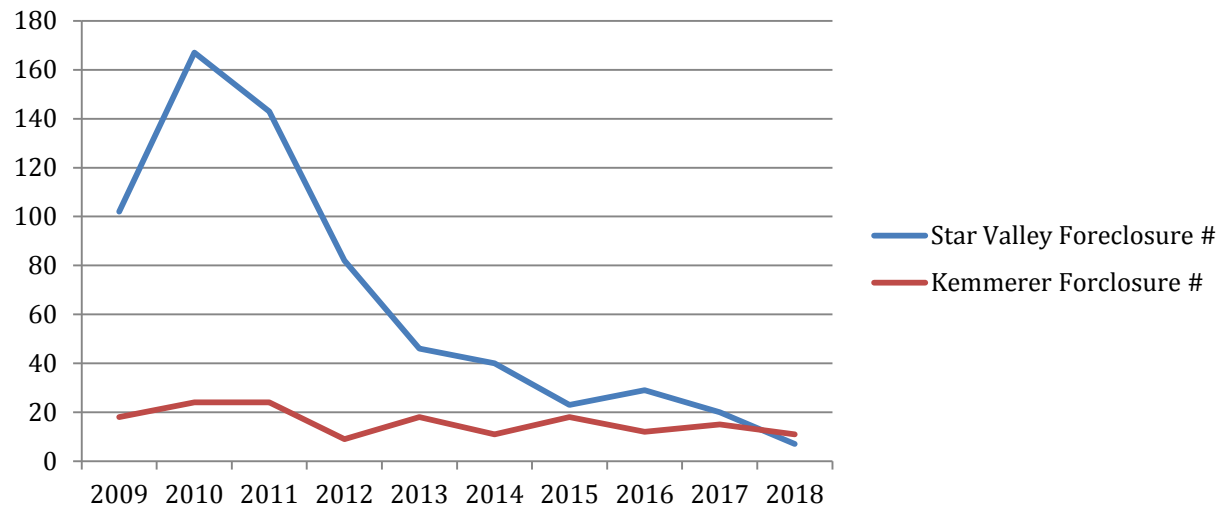
Non Star Valley Foreclosures



Source: Kemmerer Gazette

The following graph compares the number of Star Valley foreclosures to the number of Non-Star Valley foreclosures. The number of Star Valley foreclosures was lower than Non-Star Valley foreclosures for the first time in 2018.

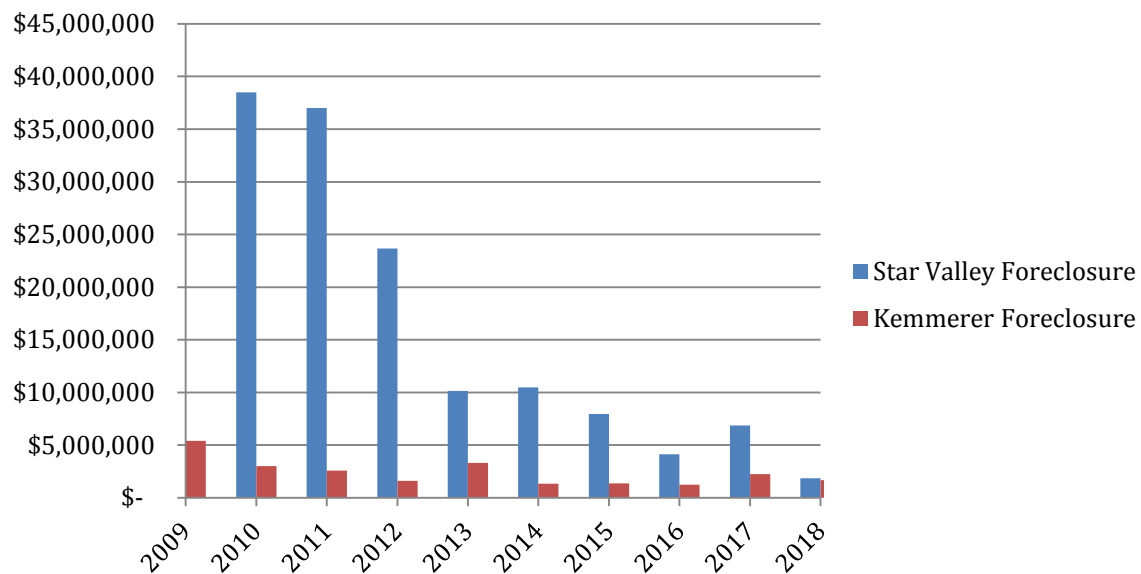
Star Valley and Non Star Valley Foreclosure Comparison (Through July 2018)



Source: Kemmerer Gazette

While Star Valley has fewer foreclosures when compared to Non-Star Valley foreclosures, Star Valley still reports a higher dollar volume in foreclosures as seen in the graph below.

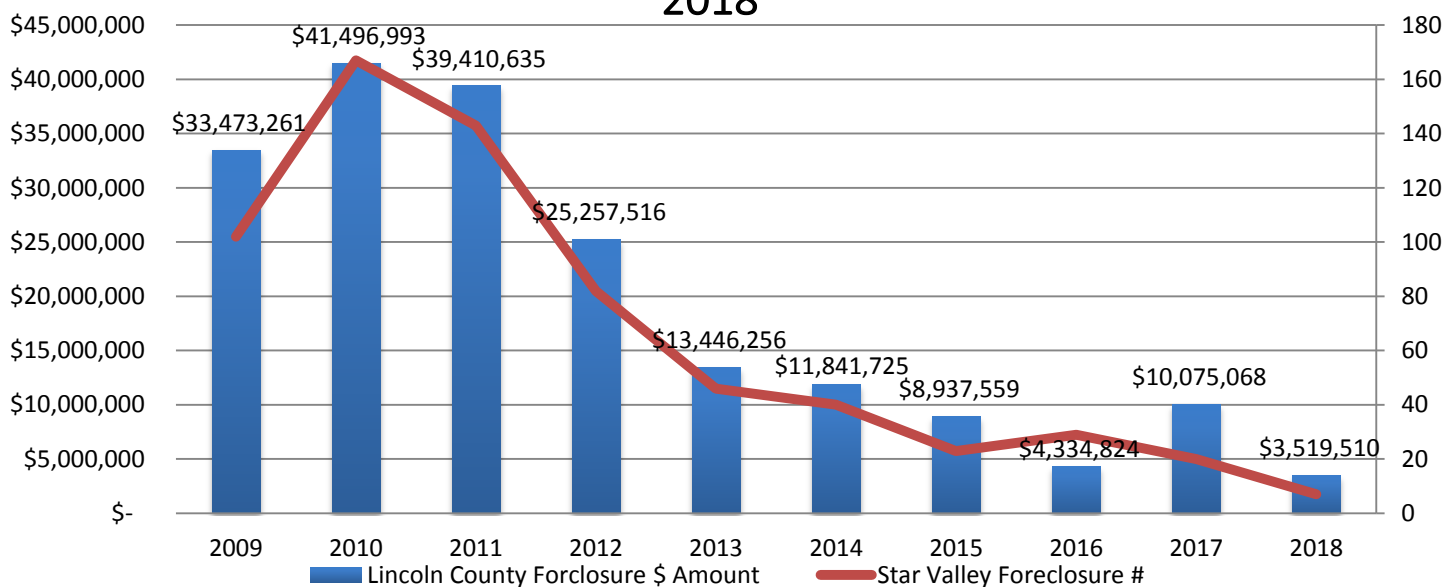
Star Valley and Non Star Valley \$ Comparison



Source: Kemmerer Gazette

Combining Star Valley and southern Lincoln County we can look at Total Lincoln County foreclosure count and dollar volume for the whole county are shown below.

Lincoln County Foreclosures through July 2018



Source: Kemmerer Gazette

Rental Costs

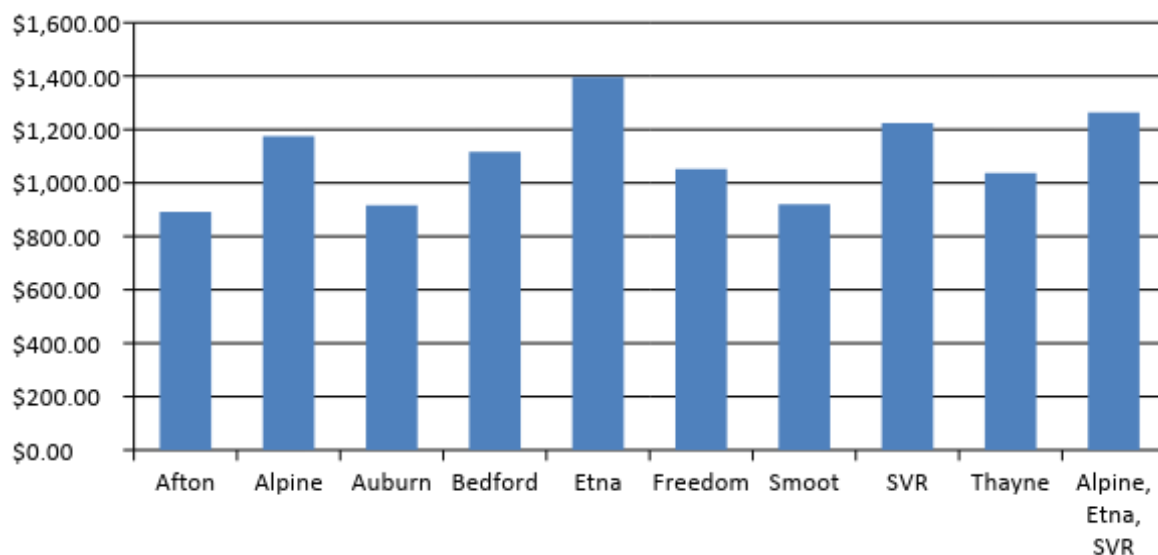
The residential real estate rental market is an important market sector as it represents both home-ownership housing alternatives and real estate investment opportunities. Last year, the bank began researching, in greater detail, the cost of renting a home in the Star Valley area. Increased regulation, due in part to the passage of Dodd-Frank in 2010 and the many other related consumer protection requirements, has made it harder for individuals to obtain a mortgage and to purchase a home. Add to that the decreased supply of affordable housing and the increasing price of homes, and there results a perfect storm roiling against prospective home buyers.

The regulatory impacts of Dodd-Frank are particularly stressful for individuals of moderate income residing in a higher priced real estate market – which the very essence of the Star Valley housing market. The results of this legislation and the regulatory requirements are forcing

more and more people into the rental market for a longer period as they cannot obtain a mortgage to purchase a home.

Each year the bank surveys local landlords and looks at local ads on Misty's List to estimate an average rental cost for different towns throughout Star Valley. The overall average for renting in Star Valley is \$1,055 based on our 2018 survey. The average monthly cost for a rental house was \$1,089 and the average monthly rental cost for an apartment was \$958. Compare these to the median monthly home ownership cost of \$1,475 referred to earlier in this report, and renting is still a cheaper alternative to owning...that is if one can find a place to rent!

Though there is not sufficient data to quantify the supply and demand for rentals in Star Valley, the difficulty of finding suitable rentals in the area indicates that there is greater demand for rentals than there is a supply of rentals. The average rental prices by town for the 2018 survey are shown in the following graph. However, caution should be used when referring to this data as there are only a limited number of data points to average in each town.



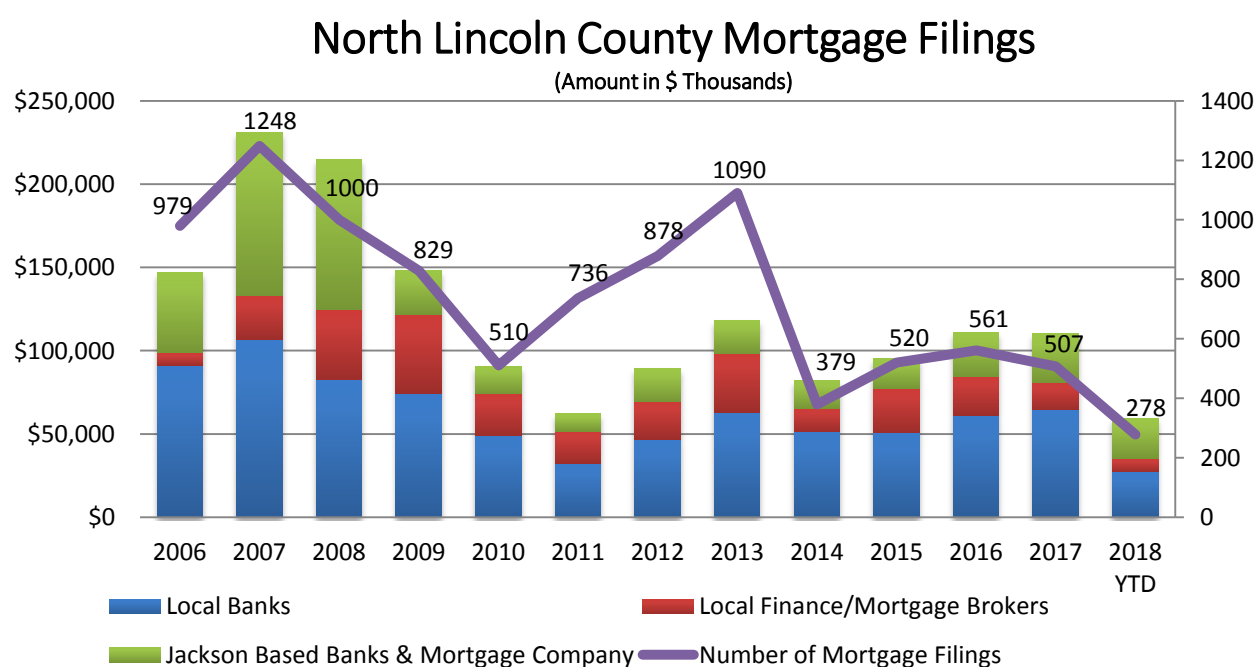
Source: Local landlords and Misty's List

The Alpine, Etna, and Star Valley Ranch averages showed the highest rental prices in this survey. The authors feel that this is due to the larger Jackson based commuter population that resides in the lower valley and the apparent lack of housing inventory.

Mortgage Filings

The number and dollar amount of mortgages is another indicator of real estate market activity. Since May 2004, the Bank has been tracking this data thanks to the help of the Lincoln County Clerk. As seen below, the number of mortgage filings fell in step with the recession. Mortgage

filings capture both new mortgages filed and the refinance of existing mortgages. There was an increasing flurry of activity through 2013 that was both new purchases and mortgage refinances. The fall between 2013 and 2014 in mortgage filings was a direct result of the increase in mortgage interest rates experienced during the period, following Fed monetary policy. The results of which have made mortgage refinances unappealing. Total mortgage filings have hovered around \$100,000,000 per year since 2015. For 2018, approximately 55% of 2017's total mortgage filings were made by mid-year indicating more mortgages or larger dollar amount mortgages during this year.



Storage Units

Star Valley has realized extraordinary growth in the number of new storage units being built in the last few years. For the size of the valley's population one would not expect to see the demand for as many storage units that currently exists. In June 2018 the bank conducted a market survey and counted 1,638 storage units currently in the valley, with more being constructed. Approximately 21% of existing storage facilities throughout the valley were in the process of building additional units at the time of this survey.

There are a few factors that could explain the large number of, and demand for, storage units in Star Valley.

First, Star Valley's close location to Jackson and the high cost of real estate in Teton County. The bank study indicates that 73.3% of all the storage units in the valley are located in the lower

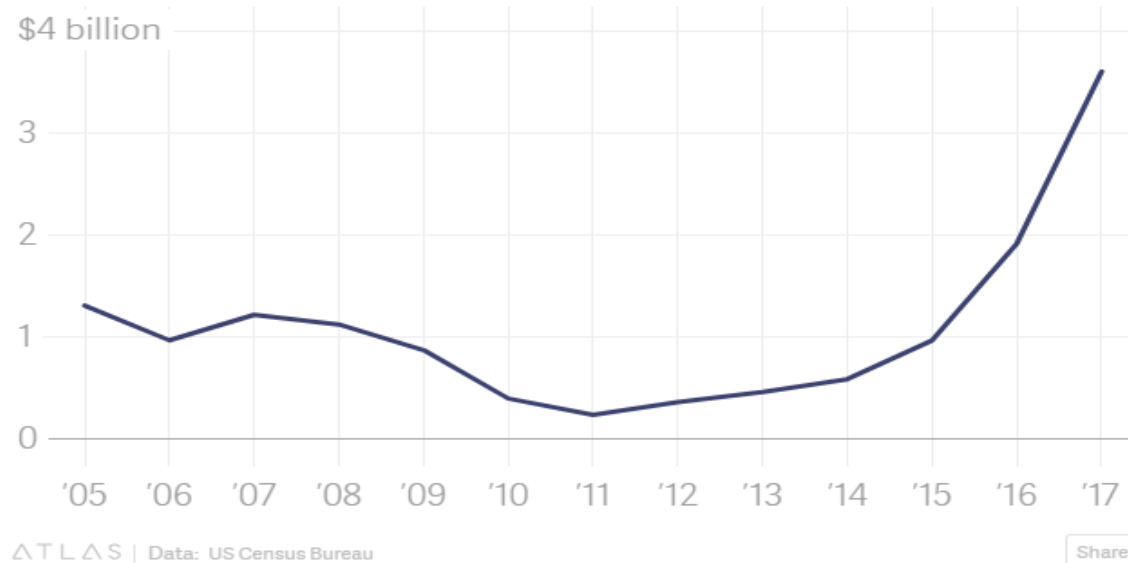
valley area. Alpine has the most storage units at 553 units, which represent 33.7% of all units. This supports the “proximity theory” where demand for storage units is from non-valley residents. The high cost of land in Jackson is not suitable for storage unit development as they are not the most economical use of the high-cost land. Star Valley is a less expensive alternative for siting of storage units to meet the demand by people living in the Jackson area.

Another explanation for the high demand for storage units could be the lack of affordable housing in Star Valley and the strong local real estate market. Individuals who can’t afford to buy a house, or who are in a transition period, and are faced with the reality of renting and often need additional space for their personal belongings. Further, rental size or rules may not provide individuals adequate space to store their belongings.

A final possible reason for the increasing demand for rentals is the general affluence of the population under the current positive economic conditions. People have more disposable income, and they are buying things that they then have to find a place to store.

Regardless of the exact reasons behind the demand, the new popularity of storage units appears to be a national trend. Below is a graph showing self storage construction spending per year. Spending has already doubled the pre Great-Recession numbers and is showing an accelerating rate of increase.

Self-storage construction spending by year



Construction Costs

This year, due in part to all of the new construction in Star Valley, the bank chose to look at the construction costs of new homes in the valley over the past few years. The bank broke total construction costs into construction budget cost categories. The cost categories are foundation, framing, exterior finishes, major systems installation, interior finishing, final details, wells, and septic.

The bank's study revealed that the 2018 average construction cost was \$155 per square foot -- which does not include land costs, utility connection costs, and only includes square footage that was completed and livable. For example, the square footage of an unfinished basement is not included in the total square footage of the home, but finished basement, main, and upper level square footage would all be included. The construction costs per square foot in the table below represent the average cost per square foot for finished and livable square feet over the last four years. The trend is an observable increase in cost of construction over time. For a more detailed look at construction costs see Exhibit-A.

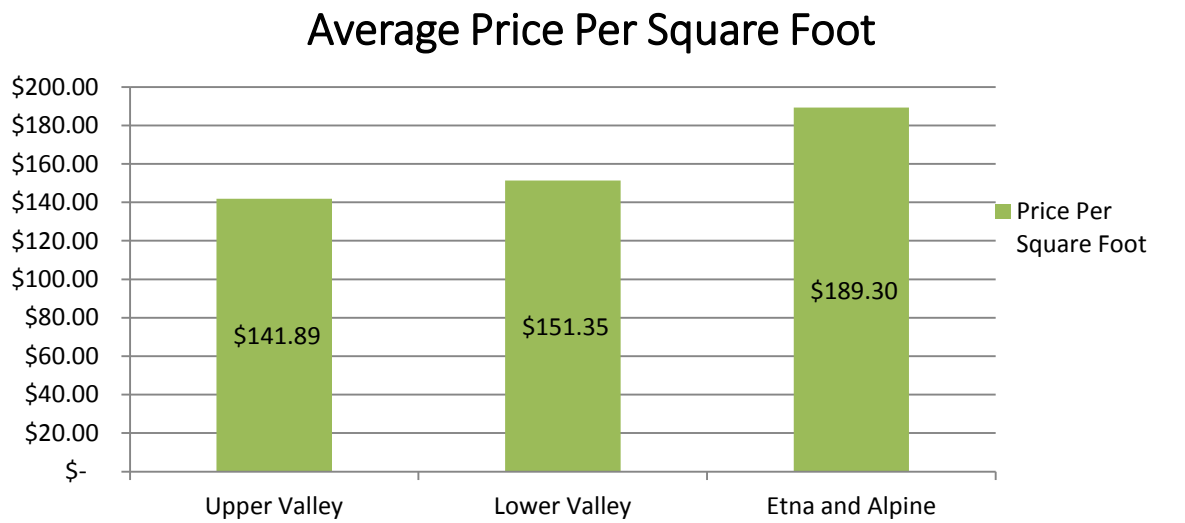
Year	Construction Costs Per Square Foot
2018	\$155.06
2017	\$147.22
2016	\$145.36
2015	\$136.62

Based on the median home size in 2018 of 2,400 square feet, the construction costs-per-square foot for 2018 of \$155, the median building site cost for 2018 of \$47,000, and the median septic and well cost for 2018 of \$16,000, the bank determined that the median cost to build a median home in today's market is \$435,000.

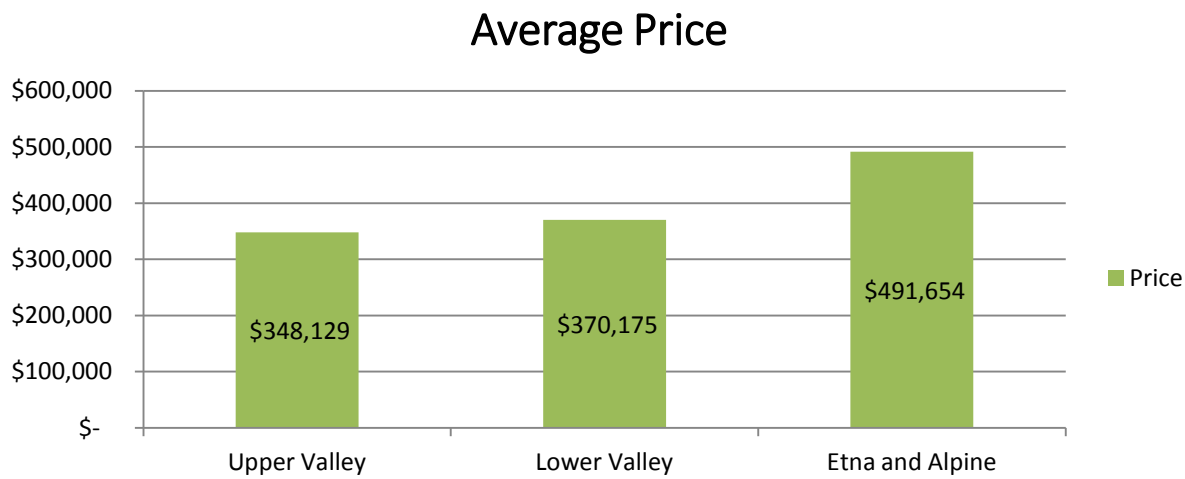
Housing Information

The bank looked at houses for sale in the local market to show changes in value throughout the valley, and the potential effect that individuals living in Star Valley but commuting to Jackson for employment may be having on the housing market. As can be seen from the following graphs, both price-per-square-foot and price of homes increases as one moves north through the valley and closer to the Jackson market.

Houses in Thayne, Star Valley Ranch, and Bedford averaged a price-per-square-foot of \$151 while homes in Etna and Alpine averaged a price-per-square-foot of \$189. The authors excluded the very expensive high-end homes so as to better reflect the average home cost.



Source: MLS



Source: MLS

There has been a noticeable decrease in Commercial Real Estate Activity in recent years. However, there were some projects that were finished in 2018 as well as some that are continuing construction in 2018. The Kodiak Mountain Resort in Afton, Broulim’s in Afton, Robert Point Construction in Etna, and Star Valley Medical Center office in Thayne are still under construction/adding on. Valley Market in Thayne, KJ’s gas station/Little Caesars in Alpine, Star Valley Soda’s in Afton, and Sterling Urgent Care/Boone Hodges Physical therapy in Afton have completed construction this year.

General Market Summary

The U.S. economy is now in its 112th month of economic expansion since the severe downturn seen during the Great Recession, which ended in June 2009. The longest economic expansion period for the U.S. economy, since the end of World War II, was during the 1990's and equated to 120 months of GDP growth. The current economic expansion just exceeded the economic expansion of the 1960's when the economy had consistent positive GDP growth for 106 months. The current expansion may become the longest recovery in modern history, but, as with all expansions, it will end.

There are emerging signs that this recovery is getting rather long in the tooth. However, at the same time, there are underlying economic fundamentals which support the short-term continuation of this business cycle. The positive fundamentals include the fiscal policy changes by the federal government which includes the 2018 federal income tax cut, increased federal spending, and efforts to provide some regulatory burden relief.

The impacts of the tax cuts, perceived deregulation by the current administration, and the impacts of federal budget are directly impacting consumer sentiment. The University of Michigan's consumer sentiment index, shown below, came in at 97.9 in July 2018. The number is little-changed from June's 98.2, but is a six-month low. As can be seen from the consumer index in the graph, consumers remain very positive about the current economy, but may be beginning to show some lowering of expectations.



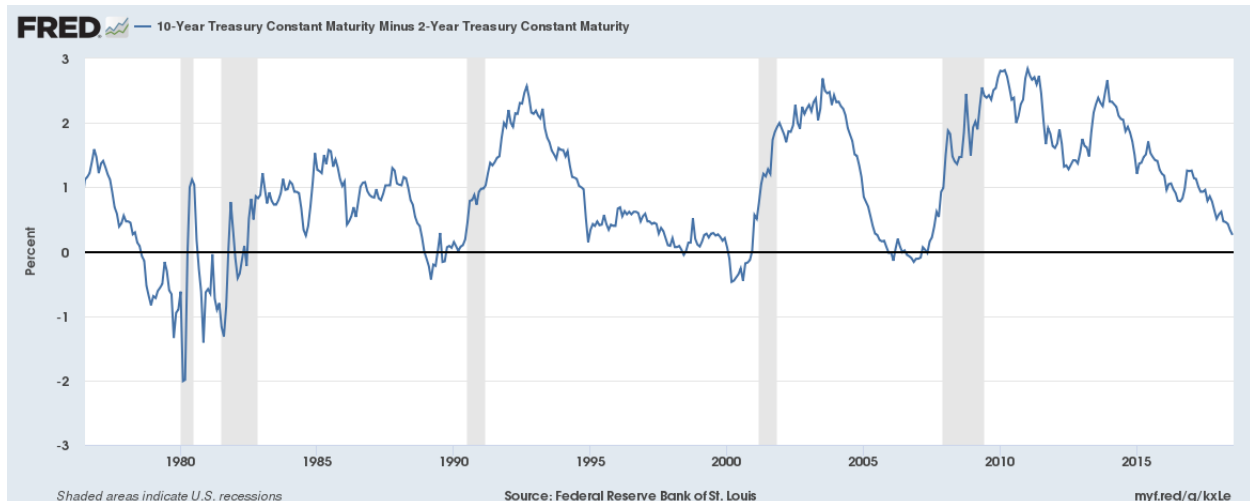
The Federal Reserve (FED) has two mandates in its charter, which are to work toward full employment and provide for price stability. The CORE U.S. inflation rate, being the CPI excluding food and energy, is now hovering around 1.9%, basically at the FED target of 2.0%.

The U.S. unemployment rate is 3.9%, which is near the assumed level of natural unemployment. The U.S. economy is now, based on these statistics, running at or near full capacity, and trends are indicating that there is emerging risk of it overheating - meaning higher than 2.0% inflation. In light of these underlying trends, the Federal Reserve Federal Open Market Committee (FOMC) raised the effective federal funds rate by 25 basis points (bp) in March 22, 2018 (to 1.50 – 1.75%), and then again in June 2018 to a target of 1.75% - 2.00%. The FED's forward guidance has changed from the beginning of the year, when the FOMC projected 3 rate hikes in 2018, to the current expectation of 4 rate hikes. Hence, there is a very strong probability of two more 25 bp interest rate increases during the balance of 2018. Further, the FOMC forward guidance is calling for three additional 25 bp rate hikes in 2019.

As the FED acts to normalize interest rates, and place some braking action on the current business cycle expansion so as to prevent higher future inflation, the yield curve is flattening. A common measure of the slope of the yield curve is the 2/10 year treasury rate spread. Short-term treasury rates are controlled largely by the FED whereas long term rates are largely set by the markets. As the FED acts to raise short-term rates, and the market does not increase its long-term expectations, the curve may flatten or even invert--meaning that short term rates approach or even exceed long-term rates. This is currently the situation that is taking place as short-term treasury rates continue to increase and longer-term treasury rates, remain fairly fixed. Essentially this indicates that markets believe the FED will be able to control inflation pressures with higher short-term rates, leaving long-term rates relatively unchanged.

An inverted rate curve has historically been a leading indicator of a pending recession. While the 2/10 year treasury spread is not a perfect indicator of a recession, it is a strong leading indicator in light of the historical fact that after the 2/10 year treasury spread has become negative, (inverted yield curve), a recession has followed. The 2/10 year treasury spread has dropped over the last year to around 0.18% (as of August 27, 2018).

The history of the 2/10 year treasury is shown in the graph below, with the gray bars indicating respective recessions. As can be seen, at some period preceding each of the last 5 recessions, the 2/10 year treasury spread has reached into negative territory.



Considering the forecasted FED interest rate hikes, there is a strong probability that the yield curve may invert over the next 12 to 18 months, and if history repeats itself, a recession would likely follow. Therefore, as the U.S. economy continues into its near record-breaking expansionary period and realizes the corresponding tightening in the employment market, as well as inflation trending toward FED targets, the increasing probability of a future recession looms in the mid-term.

The FED has many tools, and has shown great originality in dealing with the Great Recession, but the business cycle has never yet been tamed, and the reality is it will likely never be tamed. The only questions now are what will trigger the next recession, when in the coming months will it happen, and how severe will it be? The trigger could be anything including trade war fears, loss of consumer confidence, a political change in Washington, or some other yet unknown event or asset bubble. The unsavory fact is that a recession lies in the future, and when it arrives it will have direct impact on the residents and business of Star Valley.

Since the Great Recession the FED and lawmakers in general, have been utilizing their resources and urging policies to spur economic growth. Though their efforts have been less than cohesive and far from efficient, they have fostered a growth-positive environment and have created the landscape for what is to come.

For the time being, Star Valley's economy is running on all cylinders. The population is growing, employment levels are at all time lows, there is upward pressure on earnings, consumer confidence is high, and real estate values are appreciating: in other words, current life in Star Valley is pretty darn good.

Exhibit-A

2018 Construction Costs													
Location	Cost of Project	Percent of Project Funded	Square Feet	Financed cost per sq ft	Foundation	Framing	Exterior Finishes	Major Systems Installation	Interior Finishing	Final Details	Wells	Septic	Cost per square foot
Thayne	\$ 170,000	79%	1196	\$ 112.88	\$ 41,000	\$ 23,000	\$ 44,000	\$ 16,500	\$ 83,500				\$ 142
Auburn	\$ 424,000	76%	2440	\$ 131.35	\$ 43,950	\$ 47,000	\$ 69,500	\$ 69,000	\$ 89,332		10000	5750	\$ 174
Thayne	\$ 360,000	78%	2268	\$ 123.46	\$ 40,000	\$ 20,000	\$ 54,000	\$ 36,500	\$ 56,400				\$ 159
Smoot	\$ 225,000	78%	1040	\$ 168.27	\$ 14,500	\$ 17,000	\$ 43,000	\$ 11,500	\$ 26,000	\$ 11,500		5000	\$ 216
Thayne	\$ 580,000	72%	3955	\$ 154.19	\$ 43,949	\$ 55,000	\$ 50,101	\$ 84,249	\$ 160,135	\$ 16,000		8000	\$ 147
SVR	\$ 270,000	81%	1754	\$ 125.43	\$ 9,984	\$ 30,297	\$ 26,800	\$ 8,300	\$ 46,238	\$ 1,900			\$ 154
Thayne	\$ 475,000	75%	2693	\$ 131.82	\$ 32,300	\$ 51,500	\$ 105,366	\$ 58,982	\$ 95,705		9963	8500	\$ 176
Thayne	\$ 550,000	82%	4407	\$ 188.52	\$ 55,500	\$ 47,000	\$ 113,000	\$ 61,200	\$ 123,660			6000	\$ 125
SVR	\$ 300,000	68%	1744	\$ 117.55	\$ 44,200	\$ 30,000	\$ 45,010	\$ 40,300	\$ 62,150	\$ 16,000	8000	5800	\$ 172
Smoot	\$ 490,000	73%	3356	\$ 175.61	\$ 37,450	\$ 45,000	\$ 104,000	\$ 34,500	\$ 52,150	\$ 2,950	15000	10000	\$ 146
Auburn	\$ 330,000	73%	2200	\$ 109.09	\$ 35,885	\$ 42,820	\$ 40,490	\$ 44,722	\$ 34,473	\$ 7,560	6132	6500	\$ 150
Afton	\$ 395,000	78%	2381	\$ 130.20	\$ 35,500	\$ 25,000	\$ 30,800	\$ 73,000	\$ 85,800	\$ 7,500	20000	5500	\$ 166
Fairview	\$ 365,000	78%	2386	\$ 119.45	\$ 25,000	\$ 45,000	\$ 63,600	\$ 40,500	\$ 72,580	\$ 2,500	15000	6000	\$ 153
Totals	\$ 4,934,000		31,820	1,788	\$ 459,218	\$ 478,617	\$ 789,667	\$ 579,253	\$ 988,123	\$ 65,910	\$ 84,095	\$ 67,050	
Averages	\$ 328,933		2,121	119	\$ 30,615	\$ 31,908	\$ 52,644	\$ 38,617	\$ 65,875	\$ 7,323	\$ 12,014	\$ 7,450	
Price Per Square Foot					\$ 14.43	\$ 15.04	\$ 24.82	\$ 18.20	\$ 31.05	\$ 3.45	\$ 5.66	\$ 3.51	
Average Loan to Project Cost		76.11%								\$ 116.17			
Cost of Project Less Loan Amount		\$1,178,500								\$ 155.06			
Cost per square foot for unfunded portion		\$ 38.88											
Total construction costs per square foot													
*Note these two loans are self contractors													
Thayne	\$ 340,000	74%	2522	\$ 99.13	\$ 28,200	\$ 50,000	\$ 78,000	\$ 44,122	\$ 112,036			5600	\$ 135
Afton	\$ 375,000	74%	3500	\$ 79.43	\$ 20,500	\$ 54,000	\$ 55,800	\$ 56,000	\$ 57,000	\$ 20,000			\$ 107
2017 Construction Costs													
Location	Cost of Project	Percent of Project Funded	Square Feet	Financed cost per sq ft	Foundation	Framing	Exterior Finishes	Major Systems Installation	Interior Finishing	Final Details	Wells	Septic	Cost per square foot
Smoot	\$ 505,000	80%	4480	\$ 180.80	\$ 50,644	\$ 45,154	\$ 42,854	\$ 62,602	\$ 174,692	\$ 12,224	\$ 3,900	\$ 3,900	\$ 113
Afton	\$ 380,000	78%	3650	\$ 163.35	\$ 42,900	\$ 60,500	\$ 96,247	\$ 59,235	\$ 64,705				\$ 104
Bedford	\$ 604,000	70%	3638	\$ 116.55	\$ 55,600	\$ 95,232	\$ 100,204	\$ 51,212	\$ 77,992		\$ 20,000		\$ 166
Alpine	\$ 305,000	66%	1539	\$ 129.95	\$ 47,795	\$ 50,000	\$ 37,972	\$ 16,024	\$ 89,608		\$ 20,964	\$ 5,000	\$ 198
SVR	\$ 344,439	70%	2048	\$ 117.19	\$ 50,500	\$ 42,623	\$ 42,930	\$ 43,360	\$ 101,203	\$ 5,560			\$ 168
Thayne	\$ 317,000	80%	1824	\$ 202.72	\$ 50,000	\$ 53,520	\$ 84,620	\$ 33,964	\$ 63,400	\$ 6,000	\$ 10,000	\$ 7,000	\$ 174
Smoot	\$ 550,000	82%	4407	\$ 188.52	\$ 55,500	\$ 47,000	\$ 113,000	\$ 61,200	\$ 123,660			\$ 6,000	\$ 125
Thayne	\$ 490,000	73%	3356	\$ 175.61	\$ 37,450	\$ 45,000	\$ 104,000	\$ 34,500	\$ 52,150	\$ 2,950	\$ 15,000	\$10,000	\$ 146
Thayne	\$ 475,000	75%	2693	\$ 131.82	\$ 32,300	\$ 51,500	\$ 105,366	\$ 58,982	\$ 95,705		\$ 9,963	\$ 8,500	\$ 176
Thayne	\$ 360,000	78%	2268	\$ 123.46	\$ 40,000	\$ 20,000	\$ 54,000	\$ 36,500	\$ 56,400				\$ 159
Auburn	\$ 424,000	76%	2440	\$ 131.35	\$ 43,950	\$ 47,000	\$ 69,500	\$ 69,000	\$ 89,332		10000	5750	\$ 174
SVR	\$ 270,000	76%	1744	\$ 117.55	\$ 44,200	\$ 30,000	\$ 45,010	\$ 40,300	\$ 62,150	\$ 16,000	8000	5800	\$ 155
Thayne	\$ 170,000	79%	1196	\$ 112.88	\$ 41,000	\$ 23,000	\$ 44,000	\$ 16,500	\$ 83,500				\$ 142
Totals	\$ 5,194,439		35283	1779	\$ 550839	\$ 587529	\$ 895703	\$ 566879	\$ 1050997	\$ 42734	\$ 97827	\$ 51950	
Averages	\$ 418,703		2841	148	\$ 45903	\$ 48961	\$ 74642	\$ 47240	\$ 87583	\$ 8,547	\$ 12,228	\$ 6,494	
Price Per Square Foot					\$ 16.16	\$ 17.24	\$ 26.28	\$ 16.63	\$ 30.83	\$ 3.01	\$ 4.30	\$ 2.29	
Average Loan to Project Cost		73.60%								\$ 116.74			
Cost of Project Less Loan Amount		\$1,471,826								\$ 147.22			
Cost per square foot for unfunded portion		\$ 30.49											
Total construction costs per square foot													
*Note: This loan is a self contractor													
Thayne	\$ 380,000	82%	3534	\$ 107.53	\$ 50,500	\$ 77,400	\$ 62,989	\$ 36,000	\$ 81,000	\$ 7,000			\$ 108
2016 Construction Costs													
Location	Cost of Project	Percent of Project Funded	Square Feet	Financed cost per sq ft	Foundation	Framing	Exterior Finishes	Major Systems Installation	Interior Finishing	Final Details	Wells	Septic	Cost per square foot
Afton	\$ 500,000	70%	2500	\$ 140.00	\$ 31,000	\$ 50,000	\$ 62,200	\$ 50,800	\$ 112,000	\$ 9,700	22000	6000	\$ 200
SVR	\$ 360,000	80%	3144	\$ 183.21	\$ 44,965	\$ 72,150	\$ 60,827	\$ 44,233	\$ 108,412	\$ -	10000	6983	\$ 115
Thayne	\$ 585,000	75%	3874	\$ 224.72	\$ 63,000	\$ 82,000	\$ 91,400	\$ 53,900	\$ 137,200	\$ 2,800		4500	\$ 151
Alpine	\$ 305,000	66%	1701	\$ 136.39	\$ 39,000	\$ 45,000	\$ 55,000	\$ 54,404	\$ 24,000	\$ -		5000	\$ 179
Alpine	\$ 420,000	80%	2877	\$ 116.44	\$ 47,200	\$ 52,800	\$ 50,450	\$ 43,800	\$ 79,370	\$ 2,900	11000	5600	\$ 146
SVR	\$ 360,000	80%	3077	\$ 186.89	\$ 44,000	\$ 49,000	\$ 67,500	\$ 44,000	\$ 88,400	\$ 5,800		4500	\$ 117
Etna	\$ 410,000	78%	2834	\$ 225.83	\$ 47,000	\$ 53,000	\$ 65,500	\$ 44,600	\$ 69,700	\$ 5,000		5000	\$ 145
Smoot	\$ 330,000	80%	2907	\$ 163.47	\$ 46,675	\$ 70,124	\$ 25,772	\$ 34,000	\$ 62,700	\$ 3,500		5691	\$ 114
Afton	\$ 350,000	80%	2000	\$ 140.00	\$ 46,500	\$ 44,262	\$ 39,664	\$ 36,056	\$ 91,578		20960	11500	\$ 175
Alpine	\$ 435,000	57%	2983	\$ 83.81	\$ 38,000	\$ 75,000	\$ 87,140	\$ 36,900	\$ 103,000	\$ 57,000		11500	\$ 146
Totals	\$ 4,055,000		27897	1601	\$ 447,340	\$ 593,336	\$ 605,453	\$ 442,693	\$ 876,360	\$ 86,700	\$ 63,960	\$ 66,274	
Averages	\$ 405,500		2790	160	\$ 44,734	\$ 59,334	\$ 60,545	\$ 44,269	\$ 87,636	\$ 12,386	\$ 15,990	\$ 6,627	
Price Per Square Foot					\$ 16.04	\$ 21.27	\$ 21.70	\$ 15.87	\$ 31.41	\$ 4.44	\$ 5.73	\$ 2.38	
Average Loan to Project Cost		75.28%								\$ 118.84			
Cost of Project Less Loan Amount		\$1,053,000								\$ 145.36			
Cost per square foot for unfunded portion		\$ 26.52											
Total construction costs per square foot													
*Note: This loan is a self contractor													
SVR	\$ 205,000	78%	1873	\$ 85.42	\$ 14,500	\$ 23,000	\$ 37,700	\$ 19,500	\$ 46,300	\$ 6,500	5600		\$ 109
2015 Construction Costs													
Location	Cost of Project	Percent of Project Funded	Square Feet	Financed cost per sq ft	Foundation	Framing	Exterior Finishes	Major Systems Installation	Interior Finishing	Final Details	Wells	Septic	Cost per square foot
Fairview	\$ 330,000	80%	3232	\$ 102	\$ 41,800	\$ 62,999	\$ 34,030	\$ 22,918	\$ 54,100	\$ 1,000	10000	6000	\$ 102
Auburn	\$ 550,000	60%	4141	\$ 133	\$ 48,000	\$ 82,500	\$ 80,000	\$ 73,000	\$ 153,500	\$ 7,000	10000	4500	\$ 133
Auburn	\$ 350,000	77%	3328	\$ 105	\$ 37,000	\$ 53,000	\$ 44,677	\$ 50,800	\$ 87,224	\$ 1,000	20000	4000	\$ 105
Bedford	\$ 210,000	80%	1232	\$ 170	\$ 46,820	\$ 38,200	\$ 13,700	\$ 17,120	\$ 41,305	\$ 7,100	7500	5000	\$ 170
SVR	\$ 500,000	80%	2832	\$ 177	\$ 43,000	\$ 70,000	\$ 63,750	\$ 66,500	\$ 101,750			5750	\$ 177
Thayne	\$ 875,000	63%	4944	\$ 177	\$ 42,800	\$ 69,375	\$ 100,369	\$ 82,000	\$ 181,039	\$ 11,000	20000	8000	\$ 177
Smoot	\$ 314,000	80%	2103	\$ 149	\$ 47,375	\$ 55,148	\$ 56,992	\$ 62,295	\$ 81,783	\$ 4,000	16000	6408	\$ 149
Etna	\$ 385,000	80%	4119	\$ 93	\$ 41,500	\$ 65,000	\$ 44,800	\$ 42,850	\$ 89,401		32167	5300	\$ 93
Alpine	\$ 290,000	80%	1913	\$ 152	\$ 40,000	\$ 64,000	\$ 46,300	\$ 19,500	\$ 73,600	\$ 3,000		2500	\$ 152
Totals	\$ 3,804,000		27844	1258	\$ 388,295	\$ 560,222	\$ 484,618	\$ 436,983	\$ 863,702	\$ 34,100	\$ 115,667	\$ 47,458	
Averages	\$ 422,667		3094	140	\$ 43,144	\$ 62,247	\$ 53,846	\$ 48,554	\$ 95,967	\$ 5,183	\$ 16,524	\$ 5,273	
Price Per Square Foot					\$ 13.95	\$ 20.12	\$ 17.40	\$ 15.69	\$ 31.02	\$ 1.68	\$ 5.34	\$ 1.70	
Average Loan to Actual Cost		72.98%								\$ 106.90			
Cost of Project Less Loan Amount		\$1,028,000								\$ 136.62			
Cost per square foot for unfunded portion		\$ 29.71											
Total construction costs per square foot													
Idaho Falls average construction price per square foot from zillow													
				\$ 96.00									
				\$ 125.30									
				\$ 152.92									

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