State of Wyoming Economic Analysis Division - May 14, 2013

Economic Analysis Division (EAD) Analysis of Fiscal Year 2013 Actual Revenue to General Fund, Budget Reserve Account, School Foundation Program Account and School Capital Construction Account through March 31, 2013

Purpose of Update - This summary (to be issued in May and July) and the table accompanying it, taken in combination with the October CREG forecast and the January forecast update, is intended to provide a quarterly summary of the state's major revenue sources. Comparisons to CREG's January 14, 2013 projections are made using EAD's revenue pacing expectations.

A Note About Year to Date Capital Gains - As explained in the group's October 22, 2012 forecast, CREG does not currently estimate income from capital gains on investments in the Permanent Wyoming Mineral Trust Fund (PWMTF), Pooled Income, or Common School Permanent Land Income Fund. Year to date capital gains in each of these funds is significant. However, it is important to reiterate a caveat referenced in the October 22, 2012 CREG forecast about capital gains - capital losses are deducted from capital gains at the end of the fiscal year, and any net positive amount is distributed to the appropriate fund at that time. In the case that losses occur before June 30, 2013, the capital gains discussed in the following summaries would be reduced accordingly. Likewise, additional gains occurring in the four months remaining in the current fiscal year would add to the total distribution.

For these reasons, capital gains are discussed in separate contexts in the summaries of the accounts affected, and they are shown in separate lines in the summary table.

Fiscal Year 2013 year to date Revenue Overview: Through March 31, 2013, current fiscal year revenues to the state's major funding accounts are tracking closely with levels projected in January by the Consensus Revenue Estimating Group (CREG).

General Fund/Budget Reserve Account

Across all revenue sources, as can be seen in the accompanying table, General Fund (GF) (line 10), and Budget Reserve Account (BRA) (line 14) revenues to date are slightly ahead of expectations. Year to Date (YTD), and with five months to go, revenues to the two accounts have reached $960.0M, or 58.5% of the total forecast (column B, lines 10 plus 14). EAD's revenue pacing methodology indicates that seven months into the fiscal year, the two accounts in combination are approximately $27.8M ahead of projections (or +3%), with sales and use tax (line 1) lagging by a little less than 1%, and severance taxes (line 8) and other categories (line 9) slightly outpacing the forecast. The total GF/BRA State Fiscal Year (SFY) 2013 CREG forecast is $1,641.1M (column A, lines 10 plus 14). Note, again, that the total discussed here does not include any realized capital gains from investments.

GF/BRA Revenue Considerations

Federal Sequester Loss (FSL)

Though the federal government's sequester actions cost the state more than $10M in federal mineral royalties (FMRs) and coal lease bonus (CLB) monies for the month of March, and the same amount for at least each of the next 4 months, the total revenue from that category is still close to the projected amounts over the SFY 2013 time period to date.

Columns B, C, D, and E of the attached table reflect the impacts of the sequester actions. Column A shows the unadjusted CREG forecasted total for SFY 2013.

Remember that FMR/CLB revenues flow to various accounts. The FSL will likely cost the BRA $28.5M from FMR sources (line 13), SFP approximately $14.3M from FMR sources (line 18), and the SCCA approximately $10.3M from CLB sources (line 21) in SFY2013.

<u>General Fund Capital Gains</u>

While capital gains income to the GF from investments in the Permanent Wyoming Mineral Trust Fund (PWMTF) and Pooled Investments is *not* forecasted by CREG, it is nevertheless a significant income source.

PWMTF Capital Gains

Through March 31, 2013, undistributed but realized capital gains on the PWMTF total $218.3M (line 3). If no losses, nor additional gains, are incurred before June 30, 2013, that amount will be deposited to the GF on July 1, 2013. Because the total earnings (forecasted interest and dividends, plus capital gains ***<u>not</u>*** forecasted by CREG) exceed the statutory spending policy amount, or "SPA" ($233.6M for SFY 2013), the PWMTF earnings above that level will transfer automatically to the PWMTF Spending Policy Reserve Account (SPRA). With four months of earnings yet to be received, that amount so far is approximately $86.2M. Additional earnings, whether forecasted interest and dividends, or capital gains, would also flow to the SPRA.

The SPRA balance is statutorily limited to 75% of the SPA. In SFY 2013, that amount equals $175.2M. Since the SPRA currently has a balance of $144.3M, only $30.9M of the so far $86.2M in excess of the SPA can remain in the SPRA. ***As of the end of March, and given no additional realized gains or losses, $55.3M will automatically "tip" into the PWMTF corpus on July 1, 2013.*** If additional PWMTF revenues are earned in the remaining four months of SFY 2013, they too will "tip" directly into the PWMTF corpus.

Pooled Investment Capital Gains

The GF share of realized capital gains on Pooled Investments has to the same point in the year reached $104.9M (line 6).

When YTD capital gains are considered in EAD's revenue pacing analysis, the GF/BRA picture becomes much more positive, tracking 37.7% ahead of expectations. Again, this is the result of capital gains not being a part of the forecasting process, but making a significant contribution to the GF revenue stream.

The **projected revenue** (interest and dividends) from both PWMTF and Pooled Income sources is tracking right at the CREG forecast levels.

<u>Natural Gas Prices and Storage Levels</u>

Aside from the extra income already earned in PWMTF and Pooled Income capital gains, natural gas storage levels have been reduced to their lowest levels in more than 2 years. Both spot and futures prices have recovered greatly from their low levels of the last couple of years. For the last several weeks the Opal hub spot price has been above $4/mcf, and NYMEX futures remain well above $4/mcf through the remainder of calendar year (CY) 2013. This should translate into a strong finish for FMR and Severance Tax revenues in SFY 2013, and a strong beginning to SFY 2014.

Another important impact of this level of natural gas pricing regards fuel choice for electrical generation. It is at this $4/mcf pricing point that coal takes over as the preferred fuel for power plants that have the ability to switch fuels, according to information from the U.S. government's Energy Information Administration[1]. They conclude that if weather-related demand for natural gas remains high, and production levels are held in check by producers seeking pricing stability, prices in the $4/mcf range should result in stable or increasing coal demand, pricing, and production. The current 2013 CREG natural gas price forecast is $3.65/mcf.

School Foundation Program Account (SFP)/School Capital Construction Account (SCCA)

CREG-projected revenues to the SFP (line 19) and SCCA (line 23) are slightly ahead of expectations. The SFP income projected by CREG includes FMRs (impacted by the FSL and shown on line 18), and investment income from Common School Permanent Land Fund (CSPLF) investments (line 15).

As with the PWMTF and Pooled Investments, the CSPLF can benefit from investment capital gains. And also like the PWMTF and Pooled Investments, capital gains in the CSPLF are not forecasted by CREG. However, as of March 31, 2013, $79.8M of realized capital gains have been earned on CSPLF investments (line 16).

Earnings from the CSPLF are subject to a statutory spending policy, in the same manner as the PWMTF. In SFY 2013, the CSPLF SPA is $99.0M. Therefore, an amount of SFP FMR revenues equal to the CSPLF earnings in excess of the SPA will transfer to the CSPLF SPRA. With four months remaining in the forecast, $22.3M will transfer from SFP FMRs into the CSPLF SPRA. The current balance in the CSPLF SPRA is $69.0M. ***Again, as with the PWMTF, the CSPLF SPRA is limited to 75% of the SPA, or $74.2M. Since the total CSPLF income already exceeds the SPA, and because the resultant "tip" into the CSPLF SPRA will cause that account's balance to exceed its maximum allowable level, about $17M will automatically "tip" back from the SPRA to the CSPLF corpus on July 1, 2013.*** Assuming no unforeseen capital losses, any additional revenue generated by CSPLF investments, whether dividends and interest, or further unforecasted capital gains, will all result in "tips" of like amounts of SFP FMRs into the CSPLF corpus.

Conclusion – Overall, the current revenue picture, when considering only those revenue streams projected by CREG, appears to be well-aligned with the current CREG forecast. However, at this point in the fiscal year, there are important negative impacts to our revenue stream to consider, including the loss of FMR sequester monies, and sales and use taxes that are lagging the forecasted levels. But along with those concerns, there is also significant positive news for revenue including recent strong natural gas pricing, and substantial capital gains income.

[1] U.S. Energy Information Administration Independent Statistics and Analysis. Today in Energy. 11 April 2013. *Year-to-date natural gas use for electric power generation is down from 2012.* Available at: http://www.eia.gov/todayinenergy/detail.cfm?id=10771. Accessed: 10 May 2013.

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Fiscal Year 2013 Revenue Update Summary: Actual vs. CREG January 14, 2013

		A	B	C	D	E
	Revenue Sources	CREG Forecast FY13 Total	Actual (4) through March	Forecast (1) (4) through March	Difference (4) YTD (millions)	Difference (4) YTD (percent)
1	GF - Sales & Use Tax	$498,700,000	$315,020,763	$319,200,000	-$4.2	-0.8%
2	GF - PWMTF Income from dividends & interest	$134,200,000	$101,453,749	$100,700,000	$0.8	0.6%
3	*GF - PWMTF Income from capital gains (as of 03.31.13)*	*$0*	*$218,300,000*	*(est. through March)*		
4	*GF - Total PWMTF Income (with YTD capital gains)*		*$319,753,749*			*238.3% (3)*
5	GF - Pooled Income from dividends & interest	$82,700,000	$60,992,264	$62,000,000	-$1.0	-1.2%
6	*GF - Pooled Income from capital gains (as of 03.31.13)*	*$0*	*$104,900,000*	*(est. through March)*		
7	*GF - Total Pooled Income (with YTD capital gains)*		*$165,892,264*			*200.6% (3)*
8	GF - Severance Tax	$209,800,000	$142,242,182	$138,500,000	$3.7	1.8%
9	GF - All Other	$122,500,000	$97,525,909	$90,700,000	$6.8	5.6%
10	**General Fund - Total (CREG Projected)**	**$1,047,900,000**	**$717,234,867**	**$711,100,000**	**$6.1**	**0.6%**
11	***General Fund - Total (CREG Projected plus capital gains)***		***$1,040,434,867***			
12	BRA (from Severance Taxes)	$226,500,000	$91,478,378	$83,700,000	$7.8	3.4%
13	BRA (from FMRs)	$366,700,000	$151,332,045	$137,400,000	$13.9	3.8%
14	**Budget Reserve Account - Total**	**$593,200,000**	**$242,810,423**	**$221,100,000**	**$21.7**	**3.7%**
15	SFP (dividends & interest portion of Investment Income)	$58,000,000	$41,515,928	$38,700,000	$2.8	4.9%
16	*SFP (capital gains portion of Investment Income - as of 03.31.13)*	*$0*	*$79,800,000*	*(est. through March)*		
17	*SFP - Total SFP from Investment Income (with YTD capital gains)*		*$121,315,928*			*209.2% (3)*
18	SFP (FMRs)	$272,100,000	$165,254,673	$159,400,000	$5.9	2.2%
19	**School Foundation Program - Total (CREG Projected)**	**$330,100,000**	**$206,770,601**	**$198,100,000**	**$8.7**	**2.6%**
20	***School Foundation Program - Total (CREG Projected plus capital gains)***		***$286,570,601***			
21	SCCA (from Coal Lease Bonus)	$238,400,000	$204,291,649	$202,200,000	$2.1	0.9%
22	SCCA (from FMRs)	$5,400,000	$5,400,000	$5,400,000	$0.0	0.0%
23	**School Capital Construction Account - Total**	**$243,800,000**	**$209,691,649**	**$207,600,000**	**$2.1**	**0.9%**
24	**Severance Taxes - Total**	**$840,000,000**	**$484,393,821**	**$478,100,000**	**$6.3**	**0.7%**
25	**Federal Mineral Royalties (without CLB) - Total**	**$750,100,000**	**$426,986,719**	**$420,600,000**	**$6.4**	**0.9%**
26	**Federal Mineral Royalties (including CLB) - Total (2)**	**$997,600,000**	**$640,378,367**	**$632,000,000**	**$8.4**	**0.8%**

(1) Year-to-date forecast is determined by using the pace of historical revenues applied to the CREG forecast for fiscal 2013.

(2) The "Difference YTD" can be greatly impacted by the receipt of CLBs.

(3) This is not a pacing YTD % but rather the actual % total of the total FY13 projection for this category.

(4) Budget reserve account, school foundation program account, and school capital construction account totals in these columns have been adjusted for amounts lost in the federal sequester of federal mineral royalties and coal lease adjustments.