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## Department of Administration & Information
## Economic Analysis Division

Date: April 30, 2014

Subject: April 2014 Revenue Update

**Economic Analysis Division (EAD) Summary of Fiscal Year (FY) 2014 Actual Revenue to General Fund, Budget Reserve Account, School Foundation Program Account and School Capital Construction Account through March 31, 2014**

*Purpose of Update - This summary (to be issued in April 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 17, 2014 projections are made using EAD's revenue pacing expectations. The information below and in the table on the next page refers to revenues received from July 1, 2013 through March 31, 2014. All percentages cited refer to the year-to-date pace in column H of the table.*

**General Fund/Budget Reserve Revenues.** Across all revenue sources General Fund (GF)(line 6) and Budget Reserve Account (BRA)(line 9) revenues through March were $22.2 million ahead of EAD pacing expectations without adjusting projected revenue for sequestration of Federal Mineral Royalties directed to the BRA (See Federal Sequestration Section for additional discussion).

**General Fund -** General Fund revenues were strong through March with sales and use tax actual revenue to date outpacing the expected actual by $11.1 million (line 1). The next largest contributor to the GF, as projected by CREG, severance tax, was outpacing the forecast by $4.4 million (line 4). The remaining $10.8 million ahead of pacing expectations comes from the catchall "All Other" category (line 5). To date this excess is driven primarily by franchise taxes.

Through March dividend and interest income generated by the Permanent Wyoming Mineral Trust Fund (PWMTF) (line 2) was $8.9 million *behind* the forecast while the State Agency Pooled Account (pooled account) income attributable to the GF (line 3) was $1.3 million ahead. Combined, these two income sources were $7.7 *behind* projections.

**General Fund Capital Gains and Losses -** Although CREG does not project capital gains and losses they are an important component of the GF revenue stream. Through February, PWMTF deferred (realized but undistributed) income was in excess of $210 million. If no losses, nor additional gains, are incurred before June 30, 2014, that amount will be deposited to the GF on July 1, 2014. Because the total earnings (forecasted interest and dividends, plus capital gains ***not*** forecasted by CREG) exceed the statutory spending policy amount, or "SPA" ($253.4 million 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 and using the current pace of interest and dividends, that amount so far is approximately $80 million.

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The SPRA balance is statutorily limited to 75% of the SPA. In SFY 2014, that amount equals $190 million. Since the SPRA currently has a balance of $175.2 million, only $14.8 million of the so far $80 million in excess of the SPA can remain in the SPRA. As of the end of March, and given no additional realized gains or losses, $65.3 million will automatically “tip” into the PWMTF corpus on July 1, 2014. If additional PWMTF revenues are earned in the remaining four months of SFY 2014, they too will “tip” directly into the PWMTF corpus.

The pooled account however, is not in the position to add revenue to the GF from realized capital gains and in fact has deferred *losses* of $28.9 million, of which approximately $20 million are attributable to the GF. In accordance with the Treasurer’s Office policy adopted in 2009, these losses will be held at the end of FY2014 and at the end of each subsequent fiscal year until the losses have been made up for by realized capital gains.

**Budget Reserve Account -** The BRA has two revenue sources, severance tax and FMRs. As with severance tax to the GF, severance tax to the BRA (line 7) was outpacing the forecast by $8.9 million. FMRs, without adjusting for the federal sequester were behind the forecasted pace by $5.5 million; however, after taking into account the federal sequestration, FMRs to the BRA were slightly ahead of the forecasted pace

**GF/BRA Revenue Considerations**

**Federal Sequester -** CREG did not adjust projected FMRs or Coal Lease Bonus Payments in the January 17, 2014 report for any level of sequester due to the anticipation of additional guidance forthcoming from the Office of Natural Resource Revenue (ONRR). Since the writing of the January 17, 2014 CREG report, the State Treasurer did receive new guidance from the Department of Interior in a letter dated January 28, 2014 indicating sequestration will continue but at the reduced rate of 7.2% replacing the previous level of 8%. In addition the letter directed ONRR to restore the difference between the new 7.2% withholding and the previous 8% rate for the first three months of the Federal Fiscal Year (FFY) (November, December and January). This reconciliation was included in the February payment. As noted in the January 2014 CREG report, any payments withheld in FY2014 are expected to be restored in the next fiscal year. The January report also included a statement of support for the Legislative Service Office to incorporate the best available information regarding the level of federal sequester in its 2014 Budget Session profiles (goldenrods). LSO Budget/Fiscal section adjusted the three affected accounts: BRA (-$33.6 million), SFP (-$16.8 million) and SCCA (- $15.4 million) in the Legislature’s March 18, 2014 profile (goldenrod).

**Natural Gas Prices and Storage Levels -** The winter of 2013/2014 had a tremendous impact on natural gas prices and storage levels. In fact underground storage, as of April 18, 2014, was 1,000 Bcf or 52.9% below the five-year average according to information from the U.S. government’s Energy Information Administration. This supply/demand imbalance has driven both spot and futures prices from their low levels of the last couple of years. Starting in January the Opal hub spot price has consistently been between $4.50/mcf and $6.00/mcf, and NYMEX futures remain above $4.50/mcf through the remainder of calendar year (CY) 2014. It should be noted that the severance taxes and FMRs received to date do not include natural gas sold at these higher prices. Production volumes are on pace with the CREG forecast which projects a decline in volume from calendar year 2013 to 2014.

**School Foundation Program Account (SFP)**

CREG-projected revenue to the SFP (line 12) is *behind* EAD’s revenue pacing expectation by $11.3 million. The SFP income projected by CREG includes FMRs (not adjusted for the federal sequester shown on line 11), and investment income from Common School Permanent Land Fund (CSPLF) investments (line 10).

**School Foundation Program Capital Gains and Losses -** As with the PWMTF, 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, through February, 2014, the CSPLF has over $90 million of realized capital gains. Assuming no significant capital losses are realized before the end of the fiscal year, this realized income will more than cover the shortfall of dividend and interest income.

Earnings from the CSPLF are subject to a statutory spending policy, in the same manner as the PWMTF. In SFY 2014, the CSPLF SPA is $107.6 million. 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 fiscal year and using the current pace of interest and dividends, $36.1 million will transfer from SFP FMRs into the CSPLF SPRA. The current balance in the CSPLF SPRA is $74.2 million. Again, as with the PWMTF, the CSPLF SPRA is limited to 75% of the SPA, or $80.7 million. 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 $29.6 million will automatically “tip” back from the SPRA to the CSPLF corpus on July 1, 2014. Assuming no unforeseen capital losses, any additional capital gains, will all result in “tips” of like amounts of SFP FMRs into the CSPLF corpus.

**Conclusion** – Overall, actual revenues to date are tracking slightly ahead of EAD’s revenue pacing expectations with interest and dividend income being the lone source of concern. Federal sequestration continues to impact the flow of FMRs and CLBs, it is expected these funds will be restored in the next fiscal year. In addition there is significant positive news for revenue including recent strong natural gas pricing and substantial PWMTF capital gains income.

Economic Analysis Division

[As of April 30, 2014]

## Fiscal Year 2014 Revenue Update Summary: Actual vs. January 2014 CREG Forecast

| | | A | B | C | D | E | F | G | H |
|---|---|---|---|---|---|---|---|---|---|
| | Revenue Sources | CREG Forecast FY14 Total | Actual through March | Forecast (1) through March | Difference YTD $ | Difference YTD % | Actual YTD % of Total | Forecast YTD % of Total | YTD Pace |
| 1 | GF — Sales & Use Tax (5) | $504,800,000 | $337,920,061 | $326,800,000 | $11,120,061 | 3.4% | 66.9% | 64.7% | 2.2% |
| 2 | GF — PWMTF from dividends & interest (2) | $135,500,000 | $92,683,110 | $101,600,000 | -$8,916,890 | -8.8% | 68.4% | 75.0% | -6.6% |
| 3 | GF — Pooled Income from dividends & interest (2) | $69,100,000 | $53,149,540 | $51,800,000 | $1,349,540 | 2.6% | 76.9% | 75.0% | 2.0% |
| 4 | GF — Severance Tax | $219,300,000 | $149,526,327 | $145,100,000 | $4,426,327 | 3.1% | 68.2% | 66.2% | 2.0% |
| 5 | GF — All Other | $128,500,000 | $106,741,380 | $95,900,000 | $10,841,380 | 11.3% | 83.1% | 74.6% | 8.4% |
| 6 | **General Fund — Total** | **$1,057,200,000** | **$740,020,418** | **$721,200,000** | **$18,820,418** | **2.6%** | **70.0%** | **68.2%** | **1.8%** |
| 7 | BRA (from Severance Taxes) | $245,600,000 | $106,046,666 | $97,100,000 | $8,946,666 | 9.2% | 43.2% | 39.5% | 3.6% |
| 8 | BRA (from FMRs) (3) | $400,800,000 | $169,300,410 | $174,800,000 | -$5,499,590 | -3.1% | 42.2% | 43.6% | -1.4% |
| 9 | **Budget Reserve Account — Total** | **$646,400,000** | **$275,347,076** | **$271,900,000** | **$3,447,076** | **1.3%** | **42.6%** | **42.1%** | **0.5%** |
| 10 | SFP CSPLF dividends & interest portion of Investment Income (2) | $60,100,000 | $40,191,188 | $45,100,000 | -$4,908,812 | -10.9% | 66.9% | 75.0% | -8.2% |
| 11 | SFP FMRs (3) | $289,100,000 | $174,237,508 | $176,100,000 | -$1,862,492 | -1.1% | 60.3% | 60.9% | -0.6% |
| 12 | **School Foundation Program — Total** | **$349,200,000** | **$214,428,696** | **$221,200,000** | **-$6,771,304** | **-3.1%** | **61.4%** | **63.3%** | **-1.9%** |
| 13 | SCCA (from Coal Lease Bonus) | $217,900,000 | $176,519,679 | $176,500,000 | $19,679 | 0.0% | 81.0% | 81.0% | 0.0% |
| 14 | SCCA (from FMRs) | $5,400,000 | $5,400,000 | $5,400,000 | $0 | 0.0% | 100.0% | 100.0% | 0.0% |
| 15 | **School Capital Construction Account — Total** | **$223,300,000** | **$181,919,679** | **$181,900,000** | **$19,679** | **0.0%** | **81.5%** | **81.5%** | **0.0%** |
| 16 | **Severance Taxes — Total** | **$888,500,000** | **$532,095,236** | **$509,800,000** | **$22,295,236** | **4.4%** | **59.9%** | **57.4%** | **2.5%** |
| 17 | **Federal Mineral Royalties (without CLB) — Total (3)** | **$801,200,000** | **$453,937,918** | **$462,200,000** | **-$8,262,082** | **-1.8%** | **56.7%** | **57.7%** | **-1.0%** |
| 18 | **Federal Mineral Royalties (including CLB) — Total (3) (4)** | **$1,028,200,000** | **$639,557,597** | **$659,800,000** | **-$20,242,403** | **-3.1%** | **62.2%** | **64.2%** | **-2.0%** |

(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 use a scheme relying on price and productions weights.

(2) Capital gains income from PWMTF, Pooled, and CSPLF investments are not currently part of the CREG projection process.

(3) The forecasted amounts for these items do not incorporate any potential federal budget sequestration of Wyoming's share of federal fiscal year 2014 federal mineral royalties and coal leases bonuses.

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

(5) The Impact Assistance balance at the end of March 2014 was $4,097,759; sales and use tax collections have been reduced by this amount.

| Realized gains through the end of February 28, 2014: | |
|---|---|
| PWMTF | $211,519,047 |
| Pooled* | ($28,923,705) |
| SFP CSPLF | $91,044,152 |

*Approximately 50% of this amount will impact the GF.