State of Wyoming Economic Analysis Division - July 31, 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 July 31, 2013

<u>Purpose of Update</u> - 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.

<u>A Note About Fiscal Year 2013 Capital Gains</u> - 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. Final Fiscal Year 2013 capital gains in the two permanent funds were sufficient to trigger statutorily established spending policy provisions. The attached table considers those provisions.

<u>Fiscal Year 2013 year to date Revenue Overview:</u> Through July 31, 2013, current fiscal year revenues to the state's major funding accounts are tracking well ahead of levels projected in January by the Consensus Revenue Estimating Group (CREG). With two months of most revenue sources yet to be received, actual total General Fund (GF) and Budget Reserve Account (BRA) revenues received to date already amount to nearly 98% of the total forecasted for FY 2013. Capital gains revenues account for the largest share of revenues in excess of projections. The other major sources of income to these two accounts (sales & use taxes, severance taxes, federal mineral royalties (FMRs), and miscellaneous GF revenue), in total, are tracking slightly above the most recent projection levels.

Although in whole revenues to the GF and BRA are tracking very well, there is some variance from the forecast within the income categories. Specifically, the contributions to severance taxes (and presumably FMRs) by the major individual minerals are somewhat different than expected. Revenues from oil and coal production have been better than expectations, while natural gas has been lower by a nearly equal amount. Likewise, sales and use taxes are underperforming the forecast, but are so far balanced by the remaining other revenue categories. CREG will of course attempt to look at the drivers of these revenues at its October 2013 meetings, and adjustments will likely be made at that time.

The major education funding accounts, too, are tracking very close to projected levels. Common School Permanent Land Fund (CSPLF) net investment income to the School Foundation Program Account (SFP), included unprojected capital gains of 1.5 times the normal interest and dividends that were included in the forecast. The total CSPLF income levels triggered the statutory spending policy provisions, and $43.9M of SFP FMR revenue was transferred to the CSPLF corpus, in accordance with that statute. The School Capital Construction Account (SCCA) is tracking closely with projections.

<u>Federal Sequester Impacts on Federal Mineral Royalties and Coal Lease Bonuses</u>

In March 2013, the U.S. Department of the Interior's Office of Natural Resources Revenues (ONRR), formerly Minerals Management Service (MMS), notified the State Treasurer's Office that beginning with the March FMR/CLB payment, $10.6M per month would be withheld from the State's share through the July 2013 payment, for a total impact to Wyoming of about $53M. Beginning in March, three monthly payments were drastically reduced by that $10.6M amount. Subsequently, in June 2013, a new approach was adopted by ONRR, whereby 5.1% of federal fiscal year (FFY)

2014 of the state's share of FMRs/CLBs would be withheld. The adjustment between the prior approach and the current one occurred in the June distribution. Barring further change, future distributions will be reduced by 5.1%. This reduction is in addition to the "administrative cost sharing" 2% reduction already in place at the time of this latest action.

Tables included in this report reflect the net amounts after the withholdings in both the actual and projected categories. CREG's January 2013 projections were adjusted for pacing comparison purposes by removing 5.1% from each month's payment. Be aware that comparison to the April 2013 revenue update is complicated by this fact.

Conclusions – Overall, the current revenue picture, when considering only those revenue streams projected by CREG, appears to be well-aligned with the current CREG forecast. Capital gains in FY 2013 have added significant revenue to the actual amounts received to date (+$346M GF/+$84.6M SFP), and federal sequester actions will reduce FMRs/CLBs (-$46.6M). Natural gas prices and oil prices and production levels seem to be holding well through the summer months, but our concern about sales and use taxes and natural gas production continues.

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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 through June	Forecast (1) (4) through June	Difference (4) YTD (millions)	Difference (4) YTD (percent)	
1	GF — Sales & Use Tax	$498,700,000	$427,347,076	$437,300,000	-$10.0	-2.3%	
2	GF — PWMTF Income from dividends & interest	$134,200,000	$133,544,744	$134,200,000	-$0.7	-0.5%	
3	GF — PWMTF Income from capital gains (5)		$233,090,977				
4	GF — Total PWMTF Income	$134,200,000	$366,635,721	$134,200,000	$232.4	273.2%	(3)
5	Less statutory transfer to SPRA (6)		($132,998,906)				
6	Net GF — PWMTF Income after transfer to SPRA (5)	$134,200,000	$233,636,815	$134,200,000	$99.4	174.1%	(3)
7	GF — Pooled Income from dividends & interest	$82,700,000	$75,924,111	$82,700,000	-$6.8	-8.2%	
8	GF — Pooled Income from capital gains (5)		$113,909,532				
9	GF — Total Pooled Income	$82,700,000	$189,833,643	$82,700,000	$107.1	229.5%	(3)
10	GF — Severance Tax	$209,800,000	$184,588,580	$181,300,000	$3.3	1.8%	
11	GF — All Other	$122,500,000	$130,062,793	$120,800,000	$9.3	7.7%	
12	**General Fund — Total**	**$1,047,900,000**	**$1,165,468,907**	**$956,300,000**	**$209.2**	**21.9%**	
13	BRA (from Severance Taxes)	$226,500,000	$176,171,187	$169,400,000	$6.8	4.0%	
14	BRA (from FMRs)	$366,700,000	$260,069,744	$263,100,000	-$3.0	-1.2%	
15	**Budget Reserve Account — Total**	**$593,200,000**	**$436,240,931**	**$432,500,000**	**$3.7**	**0.9%**	
16	SFP CSPLF dividends & interest portion of Investment Income	$58,000,000	$58,520,933	$58,000,000	$0.5	0.9%	
17	SFP CSPLF capital gains portion (5)		$84,611,022				
18	Total SFP CSPLF from Investment Income (5) (7)	$58,000,000	$143,131,955	$58,000,000	$85.1	246.8%	(3)
19	SFP FMRs	$272,100,000	$219,615,368	$217,800,000	$1.8	0.8%	
20	Less SFP FMR transfer to CSPLF SPRA (7)		($43,854,373)				
21	Net SFP FMRs after transfer to CSPLF SPRA	$272,100,000	$175,760,995	$217,800,000	-$42.0	-19.3%	
22	**School Foundation Program — Total**	**$330,100,000**	**$318,892,950**	**$275,800,000**	**$43.1**	**15.6%**	
23	SCCA (from Coal Lease Bonus)	$238,400,000	$230,961,850	$231,000,000	$0.0	0.0%	
24	SCCA (from FMRs)	$5,400,000	$5,400,000	$5,400,000	$0.0	0.0%	
25	**School Capital Construction Account — Total**	**$243,800,000**	**$236,361,850**	**$236,400,000**	**$0.0**	**0.0%**	
26	**Severance Taxes — Total**	**$840,000,000**	**$698,187,949**	**$695,200,000**	**$3.0**	**0.4%**	
27	**Federal Mineral Royalties (without CLB) — Total**	**$750,100,000**	**$590,085,112**	**$592,600,000**	**-$2.5**	**-0.4%**	
28	**Federal Mineral Royalties (including CLB) — Total (2)**	**$997,600,000**	**$827,552,911**	**$832,700,000**	**-$5.1**	**-0.6%**	

(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 coal leases bonuses.

(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 bonuses.

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

(6) $132,998,906 transferred statutorily from GF to PWMTF SPRA on July 1, 2013. Because the resultant balance in the SPRA exceded the FY13 Spending Policy Amount (SPA), $102,069,278 tipped out of the SPRA, into the PWMTF corpus.

(7) $43,854,373 transferred statutorily from SFP FMRs to CSPLF SPRA on July 1, 2013. Because the resultant balance in the SPRA exceeded the FY13 SPA, $38,656,639 tipped out of the SPRA, into the CSPLF corpus.