

CONSENSUS REVENUE ESTIMATING GROUP
 WYOMING STATE GOVERNMENT

CHEYENNE, WYOMING 82002
 (307) 777-7504 [EAD] or 777-7881 [LSO]



Buck McVeigh, Co-Chair [EAD]
 Steve Sommers, Co-Chair [LSO]

For Immediate Release
 Friday, October 14, 2005
 Contact: Jim Robinson @ (307) 777-7221

October 2005 CREG Revenue Forecast

CHEYENNE — The Consensus Revenue Estimating Group (CREG) held its mineral valuation group meeting on September 28th, 2005 followed by the regular group meeting on October 6th. The following information pertains primarily to the General Fund forecast and reflects the assumptions that resulted from both CREG meetings. Please note that the forecast covers the period FY 2006 – FY 2010.

General Fund: With respect to General Fund revenues, the only substantial increases were made for mineral severance tax revenues. Modest increases were made for sales and use taxes, several miscellaneous revenue sources, and investment income. Total General Fund revenue for FY 2006 is forecasted to reach \$846.9 million. This represents an increase of \$90.9 million over the level forecasted in January 2005 and is \$13.0 million higher than the year-end actual total attained in FY 2005. General Fund revenue through the remainder of the forecast horizon calls for modest, but steady increases each year.

FY 2005-06 Biennium General Fund Revenue Forecast Comparison

Revenue Source	January 2005 Forecast FY 2005-06 Biennium	October 2005 Forecast FY 2005-06 Biennium	Difference
Sales and Use Tax	\$ 703.7 M	\$ 745.0 M	+ \$ 41.3 M
Severance Tax	\$ 383.4 M	\$ 450.0 M	+ \$ 66.6 M
Investment Income	\$ 202.8 M	\$ 252.6 M	+ \$ 49.8 M
All Other	\$ 210.7 M	\$ 233.2 M	+ \$ 22.5 M
Total General Fund	\$1,500.6 M	\$1,680.8 M	+ \$180.2 M

The General Fund share of total sales and use tax revenue for FY 2006 is expected to reach \$381.2 million, which is up \$28.5 million, or 8.1 percent, from the level forecasted in January 2005. Total General Fund sales and use tax receipts for FY 2005 came in strong at \$363.8 million, which was \$12.8 million, or 3.7 percent, higher than the level forecasted last January. Consumer sentiment remained healthy throughout FY 2005 as evidenced by higher than previous year collections in 14 of the 15 industry sectors, and 20 out of 23 counties in the State. Receipts in both the mining and retail sectors exceeded expected levels throughout much of FY 2005 fueled by robust mineral activity and related consumer spending. The forecast for FY 2006 represents a \$17.4 million, or 4.8 percent, increase over the actual total collected in FY 2005, attributed mainly to ongoing and further heightened mineral-related activity. It should be noted, however, that continued high energy costs will likely alter consumer spending habits, particularly during the winter heating months. Nonetheless, sales and use tax totals are forecasted to increase steadily each year following FY 2006.

The total General Fund share of severance tax revenue for FY 2006 is forecasted to reach \$224.7 million, up \$36.0 million, or 19.1 percent, from the level forecasted in January 2005. Actual FY 2005 severance tax receipts to the General Fund, of \$225.3 million, were \$30.6 million higher than forecasted last January, and \$40.9 million above the previous year's total. The principal reason for this deviation from the January forecast was higher than anticipated prices for natural gas. Opal Hub natural gas prices for FY 2006, year-to-date, have averaged over the \$7.70/mcf mark. Despite the relatively mild summer, below-normal cooling demand levels, and the substantial volume of working gas in storage, natural gas prices have remained high. This is attributable to the fundamental issues of increasing demand and shrinking natural gas supplies, along with a variety of other factors including record high oil prices, tight coal markets, and production losses in the Gulf of Mexico caused by Hurricanes Katrina and Rita. Natural gas prices are expected to remain high in the near-term but then moderate as production is restored in the Gulf region. Additionally, sky rocketing oil and improved coal prices have contributed to the increase of severance taxes. General Fund severance tax receipts are expected to decrease nominally in FY 2006, and further dip in FY 2007 and 2008, before rebounding again in FY 2009.

General Fund revenue from Permanent Wyoming Mineral Trust Fund income (PWMTF Income) and investment income from the State Agency Pool (Pooled Income) is forecasted to reach \$125.5 million for FY 2006. This is \$15.6 million more than the January 2005 forecast. Investment income for FY 2005 totaled \$127.1 million, which was slightly more than the \$126.8 million earned in FY 2004. Recent increases in interest rates translated to higher earnings for fixed income investments. The equity portion of the State's portfolio produces income from dividends and capital gains. The Treasurer's Office expects equities to produce income during the forecast period, as they have in the past. However, no income is projected from equities above dividend income, because it is virtually impossible to predict what capital gains will be taken during any one year of the forecast period.

The remaining General Fund revenue sources are comprised of revenue components from a variety of state agency sources. The forecast represents data from over 70 state agencies and boards. Overall, revenue from these sources, including the All Other category, is forecasted to generate \$115.5 million for FY 2006. This represents an increase of \$10.8 million from the level forecasted last January. Cigarette tax collections are expected to reach \$19.6 million in each of the forecasted years while inheritance tax revenues continue to decline, falling to \$1.5 million in FY 2006 and then diminishing to zero for the remaining years.

Severance Taxes: Mineral revenue forecasts in this report show substantial increases compared to those of January 2005. Prices for natural gas and oil are at all-time highs, and the futures prices on the major commodity exchanges show little sign of weakening in the near future. Additionally, coal prices have increased as energy demands remain strong. The following table shows the anticipated overall revenue increases above the levels predicted in January 2005 from severance taxes and federal mineral royalties. Total additional severance taxes added to the forecast amount to \$462.1 million for the FY 2005-06 biennium, and additional federal mineral royalties equal \$301.9 million without coal lease bonuses and \$586.7 million with coal lease bonuses over the same timeframe.

FY 2005-06 Biennium Mineral Revenue Forecast Comparison

Revenue Source	January 2005 Forecast	October 2005 Forecast	Difference
Severance Taxes	\$1,191.0 M	\$1,653.1 M	+ \$462.1 M
Fed. Mineral Royalties	\$1,238.8 M	\$1,825.5 M	+ \$586.7 M

Federal Mineral Royalties: The federal mineral royalty forecast is based on the same price and production assumptions used for the severance tax projections. Gross production figures are adjusted to reflect production on federal lands. Gross sales prices are adjusted to reflect production cost deductions allowed by the federal government in the royalty calculation. Royalty rates of 12.5 percent are assumed on all minerals produced on federal lands.

The upward price revisions in the natural gas category accounts for most of the increases in this forecast as compared to the January 2005 forecast. Additionally, CREG is projecting growth in coal production and higher prices of coal produced on federal lands. Along with gas and coal, oil prices and production play a major role in the upward revision of the revenues projected in this forecast. As a result of increased prices and production expected in natural gas, oil, and coal produced on federal lands within Wyoming, federal mineral royalties (excluding coal lease bonuses) are projected to be \$223.5 million higher in FY 2006, \$139.7 million higher in FY 2007, and roughly \$102.0 million higher in FY 2008-10 than projected in the January 2005 report.

The complete October 2005 CREG forecast along with the Governor's Profile are available at the EAD website. Go to – <http://eadiv.state.wy.us> and click on **Publications**. Monthly spot prices for natural gas, crude oil, and coal can be found in the publication, **Wyoming Insight**, also available at the EAD website.