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Consensus Revenue Estimating Group

Date: April 29, 2015

To: Governor Matt Mead
Members, 63rd Legislature

From: Don Richards, Co-chairman
Alex Kean, Co-chairman

Subject: April 2015 Revenue Update

Purpose of Update *- This revenue update and the table accompanying it, taken in combination with the October Consensus Revenue Estimating Group (CREG) forecast and the January forecast update, are intended to provide a quarterly summary of the state's major revenue sources. A similar summary is issued in July of each year. The January 16, 2015 CREG report remains the official fiscal forecast and is used to derive the revenue pacing expectations in this update. The March 19, 2015 fiscal profile remains LSO's estimate of projected account balances as of June 30, 2016, after taking into account forecasted revenues, transfers and appropriations. This report does not modify those forecasts and estimated account balances. Recall that the January 2015 CREG report included $217.6 million reduction of total traditional funds available, largely from anticipated oil and natural gas price reductions, for the FY 2015-2016 biennium as compared to levels forecast in the October 2014 report. The information in this update represents revenue collections received from July 1, 2014 through March 2015.*

General Fund - At the end of this update, a summary table of revenues deposited into the General Fund (GF) and Budget Reserve Account (BRA) is presented. The three largest sources of revenue for the GF (sales and use taxes, investment income and severance taxes) are displayed separately. All other revenue sources (franchise taxes, cigarette taxes, charges from sales and service, fees, penalties and interest, etc.) are grouped together for purposes of this update.

Column A reflects the total FY 2015 CREG projections of revenue by major source. Column B contains the actual year-to-date (YTD) revenue received. Column C represents the forecast through March, and Column D is the difference from the YTD forecast and the actual revenues collected (column B minus column C). Column E is the percentage of the projection that has been received (column B divided by column A). Column F illustrates the percentage of the projection expected at this point in the fiscal year. Column G shows the difference of the actual revenue to date as a percentage of the total amount forecast for FY 2015 less the expected pace of the FY 2015 forecast (column E minus column F). Occasionally, percentages may not add due to rounding.

As shown in column G, actual total revenues received in the GF are currently estimated at 1.9 percent ahead of forecast pace for the year. (See line 10.) All major categories of GF revenues, except for Permanent Wyoming Mineral Trust Fund (PWMTF) and pooled income, which are limited to dividends and interest, are exceeding the forecast levels as of the end of March 2015. Interest and dividends directed to the GF from the PWMTF and the State Agency Pool are lagging the forecast pace by 4.2 percent and 2.8 percent, respectively. In contrast, the "all other" sources of state revenue are exceeding the forecast level pacing by 10.1 percent. Of the major revenue components in this revenue category, franchise taxes are exceeding the projection by the largest amount. Recall that several revenue sources, including such items as penalties and interest, comprise the “all other” sources category. Many of these revenue streams do not flow to the State with predictable timing over the course of a fiscal year.

State sales and use tax receipts are exceeding the January 2015 CREG estimate by $14.1 million at this point in the fiscal year. Year-over-year strength in sales and use tax collections are not uniform across the State. Double digit percentage increases have been enjoyed in Campbell, Platte, Converse, Laramie, Fremont and Teton counties, while there have been declines in select counties in the Big Horn Basin including Big Horn and Hot Springs counties. However, those counties benefited from a one-time increase from a single vendor in FY2014, compromising comparisons in those counties. Johnson County is also experiencing year-over-year decline in sales and use tax collections.

Despite the fact that major indices for Wyoming oil and natural gas prices have been substantially below the January 2015 CREG estimate for the last few months, the GF share of severance taxes is exceeding the forecast to date by $2.3 million. A more detailed discussion of this revenue category is included in a subsequent section of this memo.

Investment income in the form of interest and dividends from the PWMTF is $6.3 million behind the projection through March 31, 2015 while interest and dividend income from the State Agency Pool directed to the GF is $2.5 million behind the projected levels at this time. However, if realized but undistributed capital gains to date are taken into account, the full investment earnings estimate will easily be met in FY2015.

As explained in several prior CREG reports, CREG continues the approach of forecasting only regularly earned investment income and does not attempt to project total yield for the Permanent Wyoming Mineral Trust Fund (PWMTF), State Agency Pool or Common School Permanent Land Fund (CSPLF). Through March 2015, deferred realized capital gains from the PWMTF exceed $242 million. Additionally, the GF share of deferred realized capital gains from investments in the State Agency Pool amount to approximately $24 million as of this writing. If the fiscal year ended in March, the $266.7 million in net, heretofore undistributed capital gains from these two sources would be distributed as follows: (a) $35.5 million would be deposited and remain in the GF, which would more than cover any shortfall in expected interest and dividends, as compared to the January 2015 forecast. After accounting for the investment income shortfalls, the net addition to the GF would be $27 million; (b) $20 million would be transferred from the GF to the Strategic Investments and Projects Account (SIPA) and subsequently to the state facilities construction account; (c) $113.2 million would be used to fully fund all FY2015 contingent appropriations included in Section 345 of the 2015 Budget Bill (2015 Laws, Chapter 142, Section 345); (d) $65.8 million would be deposited into the PWMTF Spending Policy Reserve Account (PWMTF RA); and (e) $32.2 million would be deposited into the PWMTF corpus.

Budget Reserve Account - The summary table at the conclusion of this memo also illustrates the two primary revenue streams for the BRA: severance taxes and federal mineral royalties (FMRs). Consistent with the GF, severance tax receipts to the BRA are currently ahead of the January 2015 CREG forecast pacing, exceeding the estimate year-to-date by $4.7 million. FMRs directed to the BRA, including an adjustment for the federal fiscal year (FFY) 2014 budget sequester (withholding), are $15.6 million ahead of the January CREG forecast through March.

Bottom-line: General Fund/Budget Reserve Account - In total and by major category, the actual GF and BRA revenues are slightly ahead of annualized pacing (1.9 percent and 3.7 percent, respectively) of the overall January 2015 CREG estimates through March 2015, without respect to undistributed capital gains. Income from forecast investment earnings is the sole outlier to the downside. Anticipated, but not forecast, capital gains generated from the PWMTF are on pace to fully offset any shortfall in the investment earnings forecast, barring a change in the financial markets and actions by the state's investment managers. Finally, although severance taxes and federal mineral royalties are both slightly ahead of the forecast through March, this is not unexpected since the forecast balances a much stronger oil and natural gas pricing environment for the first half of the 2015 fiscal year against a much lower price environment expected in the second half of the fiscal year.

Mineral Severance Taxes - Through March 2015 total severance tax collections are 1.6 percent ahead of the January 2015 CREG forecast, using pacing estimates. The average price of oil for FY 2015 to date is $68.50/bbl, taking into account the comparatively strong prices experienced from July 2014 through October 2014 averaged against the comparatively weak prices from November 2014 through January 2015. The computed average price of Wyoming oil production in January was just under $38/bbl. The average oil price received during the fiscal year is likely to continue to decline, at least over the next few months. Oil and gas rig counts have also declined from 49 in mid-April 2014 (of which 33 were oil) to 23 in mid-April 2015 (of which just 10 were seeking oil). Natural gas prices received by Wyoming producers are averaging just over $4.00/mcf for the current fiscal year to date, as compared to the CREG forecast of $4.00/mcf. Put differently, the actual prices are in line with the forecast. However, the arc of natural gas prices over the fiscal year is similar to that of oil prices, with much higher prices enjoyed in the first half of the fiscal year as compared to the second half of the fiscal year. Current prices are more than a dollar (25 percent) lower than the CREG estimate. Although the average natural gas price is in-line with the forecast, that may change in the near future. Coal prices to date are in step with the forecast level of $13.50/ton. Similarly, reported oil, gas and coal production volumes to date are in agreement with the January 2015 CREG forecast.

Bottom-line: Severance Taxes - In total, severance tax collections are slightly ahead of the January 2015 CREG estimates. However, the price environment for the first part of the fiscal year was much stronger than the second half, at least to date. In fact, given the known spot market prices from February through April and the futures markets for the remainder of the fiscal year, it is questionable whether the forecast level for oil or natural gas severance tax collections will be met in this fiscal year.

Federal Mineral Royalties - Total FMRs to date are 3.4 percent ahead of forecast pace through March 2015. The phenomena impacting oil and natural gas receipts (the decline in pricing environments) that apply to severance taxes mirrors that of FMRs. In other words, although revenue collections attributable to FMRs for the fiscal year are currently ahead of pace, five months of production remain, and the pricing environment for those five months (February through June) will, or is likely, to be substantially lower than the pricing environment experienced in the first several months of the fiscal year. As a result, the current funds in excess of expectations will likely be eroded in the coming months and without a recovery in the pricing environment the forecast assumptions for FY2015 may be too optimistic.

Coal lease bonuses are also shown in the summary table. Actual receipts of coal lease bonus payments occur annually over five years beginning at the time the federal government finalizes the lease agreement; therefore amounts reflected here are not indicative of revenue trends. Coal lease bonus payments are proceeding as expected, as adjusted by the federal sequester.

Other Revenue Issues of Note - Investment income in the form of interest and dividends derived from the Common School Permanent Land Fund (CSPLF) are exceeding the estimate by $900,000 through March 2015. Further, $97.5 million in capital gains from the CSPLF have been realized but not yet distributed to the Common School Permanent Land Income Fund and subsequently the School Foundation Program account (SFP). Recall that any gains up to the spending policy amount will ultimately be deposited into the SFP. Next, an amount equal to investment earnings in excess of the spending policy for CSPLF will be deposited into the CSPLF Spending Policy Reserve Account (CSPLF

RA) until it reaches its cap. This account is currently $29 million shy of the cap, which was increased to $109.7 million, or 90% of the spending policy amount in 2015 by SF 146, Spending policy amendments (2015 Laws, Chapter 195). Finally, an amount equal to any excess beyond the funds necessary to fill the CSPLF RA will be deposited into the CSPLF corpus. If the fiscal year ended on March 31st, the deposit to the corpus would be $12.2 million.

Recall that any revenues in excess of the forecast levels for the education accounts (SFP and School Capital Construction Account) roll over to the Permanent Land Fund (PLF) Holding Account. Any amount in excess of $600 million at the end of the biennium in the PLF Holding Account will also be transferred to the CSPLF corpus.

In April, LSO and the Economic Analysis Division (EAD) were informed of a resolution of a tax issue between the state Departments of Revenue and Audit and a major oil and gas producer in southwest Wyoming. The taxpayer will be revising its certified values in order to properly exclude allowable transportation costs. This resolution is expected to reduce state severance tax distributions by approximately $10 million in FY2015, unrelated to any other economic events (production or price). Importantly, $9 million of the $10 million impact in severance taxes have already been refunded and are already incorporated in the text and summary table of this memo. The same issue will also reduce ad valorem tax liability by roughly $13 million, which will result in an unanticipated, negative impact on the revenue directed to the SFP for the 2015-2016 biennium.

Finally, several executive branch agencies reverted $13.99 million in unexpended, unobligated appropriations from the GF since the conclusion of the 2015 General Session. These funds will appear on the next regularly-issued LSO profile ("goldenrod") as part of the BRA cash balance.

Conclusions - Current revenue collections directed to the GF, BRA and SFP are slightly ahead of January 2015 CREG projections. Interest and dividends are the single, major category lagging the projection through March 2015. The Wyoming State Treasurer is generating sizeable unforecasted, but not unexpected, realized capital gains from the PWMTF, State Agency Pool and the CSPLF. Although revenues from the more prominent mineral commodities (oil, gas, and coal) are generally in line with FY 2015 projections as of this writing, revenues from oil and natural gas production are trending downward. Without an improved pricing environment for oil and especially natural gas, it is possible, if not probable, that total severance taxes and FMR collections will fall short of the January 2015 forecast. Unprofiled impacts (realized capital gains, agency reversions and taxpayer corrections) will serve to positively and negatively impact FY2015 final revenues. Taking all impacts into account, including both profiled and unprofiled events, it appears likely that other revenue streams will more than offset any shortfall resulting from lower than anticipated interest and dividends, severance taxes, and FMRs, to the extent they occur. Should this prove correct, the current trends indicate:

- the total fiscal year 2015 revenue forecast for the GF, BRA, SFP and SCCA is likely to be met;
- the contingent appropriations adopted in the 2015 Supplemental Budget from FY2015 revenues will be fully funded;
- the spending policy reserve accounts will be fully funded; and
- additional, automatic savings will be experienced in the permanent funds (PWMTF and CSPLF).

In close, it is worth being mindful that the full, sustained impact of lower oil and natural gas prices is just beginning to be felt on state revenue streams. Impacts to ad valorem taxes supporting K-12 school districts and the SFP are delayed for approximately two fiscal years. Coal lease bonus payments continue to be projected to cease in the 2017-18 biennium. Although oil prices are garnering a great deal of attention, the natural gas prices incorporated into the January 2015 CREG forecast are currently diverging from actual prices more than those for oil. Finally, an environment of lower oil and natural gas prices could further reduce severance tax and FMR collections, as well as contribute to secondary impacts such as reduced production levels and an associated reduction in sales and use tax collections.

As always, we will continue to monitor the revenue situation and keep you informed. Let us know if you have any questions.

LSO Budget/Fiscal Division

[As of April 22, 2015]

	Fiscal Year 2015 Revenue Update Summary: Actual vs. January 2015 CREG Forecast	A	B	C	D	E	F	G
	Revenue Sources	CREG Forecast FY15 Total	Actual through March	Forecast through March (1)	Difference YTD $	Actual YTD % of Total	Forecast YTD % of Total	YTD % Difference (Actual minus Forecast)
1	GF - Sales & Use Tax (3)	$561,100,000	$379,941,671	$365,800,000	$14,141,671	67.7%	65.2%	2.5%
2	GF - PWMTF from dividends & interest (2)	$147,800,000	$104,642,919	$110,900,000	($6,257,081)	70.8%	75.0%	-4.2%
3	GF - PWMTF from capital gains (2)	N/A	$242,713,290	N/A	N/A	N/A	N/A	N/A
4	GF - Total PWMTF Income (2)	$147,800,000	$347,356,209	$110,900,000	$236,456,209	N/A	N/A	N/A
5	GF - Pooled income from dividends & interest (2)	$92,100,000	$66,552,040	$69,100,000	($2,547,960)	72.3%	75.0%	-2.8%
6	GF - Pooled income from capital gains (2)	N/A	$23,965,011	N/A	N/A	N/A	N/A	N/A
7	GF - Total Pooled Income (2)	$92,100,000	$90,517,051	$69,100,000	$21,417,051	N/A	N/A	N/A
8	GF - Severance Tax	$207,000,000	$146,595,299	$144,300,000	$2,295,299	70.8%	69.7%	1.1%
9	GF - All Other	$137,400,000	$117,036,882	$103,100,000	$13,936,882	85.2%	75.0%	10.1%
10	**General Fund - Total (2)**	**$1,145,400,000**	**$814,768,811**	**$793,200,000**	**$21,568,811**	**71.1%**	**69.3%**	**1.9%**
11	**General Fund - Total with capital gains (2)**	**$1,145,400,000**	**$1,081,447,112**	**$793,200,000**	**$288,247,112**	**N/A**	**N/A**	**N/A**
12	BRA (from Severance Taxes)	$220,900,000	$100,184,613	$95,500,000	$4,684,613	45.4%	43.2%	2.1%
13	BRA (from FMRs)	$328,000,000	$180,171,891	$164,600,000	$15,571,891	54.9%	50.2%	4.7%
14	**Budget Reserve Account - Total**	**$548,900,000**	**$280,356,504**	**$260,100,000**	**$20,256,504**	**51.1%**	**47.4%**	**3.7%**
15	SFP CSPLF dividends & interest portion of investment income (2)	$64,300,000	$49,135,696	$48,200,000	$935,696	76.4%	75.0%	1.5%
16	SFP CSPLF from capital gains (2)	N/A	$97,509,821	N/A	N/A	N/A	N/A	N/A
17	Total SFP CSPLF from investment income (2)	$64,300,000	$146,645,517	$48,200,000	$98,445,517	N/A	N/A	N/A
18	SFP FMRs	$252,700,000	$178,789,945	$171,000,000	$7,789,945	70.8%	67.7%	3.1%
19	**School Foundation Program - Total (without capital gains) (2)**	**$317,000,000**	**$227,925,641**	**$219,200,000**	**$8,725,641**	**71.9%**	**69.1%**	**2.8%**
20	**School Foundation Program - Total (with capital gains) (2)**	**$317,000,000**	**$325,435,462**	**$219,200,000**	**$106,235,462**	**N/A**	**N/A**	**N/A**
21	SCCA (from Coal Lease Bonus)	$209,100,000	$188,341,922	N/A	N/A	90.1%	N/A	N/A
22	SCCA (from FMRs)	$5,300,000	$5,346,000	$5,300,000	$46,000	100.9%	100.0%	0.9%
23	**School Capital Construction Account - Total**	**$214,400,000**	**$193,687,922**	**N/A**	**N/A**	**90.3%**	**N/A**	**N/A**
24	**Severance Taxes - Total**	**$818,100,000**	**$515,529,387**	**$502,800,000**	**$12,729,387**	**63.0%**	**61.5%**	**1.6%**
25	**Federal Mineral Royalties (without CLB) - Total**	**$692,000,000**	**$470,257,836**	**$446,800,000**	**$23,457,836**	**68.0%**	**64.6%**	**3.4%**
26	**Federal Mineral Royalties (including CLB) - Total**	**$910,200,000**	**$667,699,758**	**N/A**	**N/A**	**73.4%**	**N/A**	**N/A**

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

(2) Capital gains income from PWMTF, Pooled, and CSPLF investments are not included in the January 2015 CREG projection

(3) The Impact Assistance balance at the end of March 2015 was $1,199,299.40; sales and use tax collections have been reduced by this amount. In addition, sales & use tax collections will be adjusted in May 2015 for the special fuel survey.