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Consensus Revenue Estimating Group

Date: April 27, 2017

To: Governor Matt Mead
Members, 64th Legislature

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

Subject: April 2017 Revenue Update

Purpose of Update *- This revenue update and the accompanying table, taken in combination with the October Consensus Revenue Estimating Group (CREG) forecast and the January forecast, are intended to provide a quarterly summary of the state's major revenue sources. A similar revenue update is issued in July of each year. The January 16, 2017 CREG report remains the official fiscal forecast and is used to derive the revenue pacing expectations in this update. The March 21, 2017 fiscal profile remains the LSO's estimate of projected account balances as of June 30, 2018 after taking into account forecasted revenues, transfers and appropriations. This report does not formally modify those forecasts or estimated ending account balances. The information in this update represents revenue collections received from July 1, 2016 through March 2017.*

At the end of this update, a summary table of selected revenues deposited into the General Fund (GF), Budget Reserve Account (BRA), School Foundation Program Account (SFP) and the School Capital Construction Account, is presented. Additionally, revenues collected from mineral severance taxes and federal mineral royalties (FMRs) are presented. Column A reflects the total fiscal year (FY) 2017 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 between 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 YTD as a percentage of the total amount forecast for FY 2017 minus the FY 2017 forecast YTD as a percentage (column E minus column F). Occasionally, percentages may vary due to rounding.

General Fund - The three largest sources of revenue for the GF (sales and use taxes, investment income and severance taxes) are listed separately. All other GF revenue sources (franchise taxes, cigarette taxes, charges from sales and service, fees, penalties and interest, etc.) are classified collectively for purposes of this update.

As shown in column G, actual total revenues received and directed to the GF are currently estimated at 0.2 percent above the forecast pace for the year. (See line 10.) Of the major sources of GF revenues, pooled income from dividends and interest, severance taxes, and the category encompassing other revenues are exceeding the forecast levels through March 2017, while sales and use taxes and interest and dividends from the Permanent Wyoming Mineral Trust Fund (PWMTF) are lagging behind projections. Severance tax collections directed to the GF are ahead of the forecast pace by 6.4 percent.

In contrast, sales and use taxes are 3.1 percent below the forecast pace for the year. Although interest and dividends directed to the GF from the State Agency Pool are ahead of the forecast pace by 4.9 percent, there are realized capital losses of nearly three times the amount of the excess interest and dividends from the State Agency Pool, which have an immediate negative impact on the General Fund cash balance. Investment income from interest and dividends attributed to the PWMTF are lagging the projection by 3.6 percent. Finally, the "all other" category of state revenues is ahead of the forecast pace by $6.3 million (3.1 percent). Of the major revenue components in the "all other" revenue category, charges for sales and services and collections of franchise taxes are exceeding the projection by the largest percentage. Penalties and interest, on the other hand, are lagging the forecast by 50 percent, or more than $3 million. Many of these revenue streams do not flow to the State with predictable timing over the course of the fiscal year.

The January 2017 CREG forecast called for year-over-year declines of 6.7 percent in statewide sales and use tax collections; actual receipts are lagging the estimate by an additional 3.1 percent ($12.6 million) at this point in FY 2017. Year-over-year statewide sales and use tax collections are largely down, with only two counties (Crook and Teton) recording year-over-year growth for FY 2017. Four counties (Campbell, Converse, Sublette and Weston – all geographically located in areas with substantial coal mining or natural gas production) report year-over-year sales and use tax collections down by over 25 percent. Notably, these declines are in addition to a 20.6 percent drop in statewide sales and use tax collections in FY 2016, coming off of record high statewide collections chronicled in FY 2015.

Wyoming oil and natural gas production and trona prices are in line with January 2017 CREG estimates. Oil prices, natural gas prices, and coal production are exceeding estimates, while coal prices are lagging the January CREG estimates. In terms of variance, natural gas prices are the most divergent as compared to the January estimates. The net result is the GF share of severance taxes is exceeding the January forecast to date by $10.2 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 State Agency Pool directed to the GF is $4.1 million (4.9 percent) ahead of the projected levels through March 2017, while interest and dividend income from the PWMTF is $6.0 million (3.6 percent) behind the CREG forecast at this time. It is worth noting that there is no distinction between (i) interest and dividends and (ii) realized capital gains within the statutory term "earnings". The net effect this year for the PWMTF is the 2.5 percent total investment earnings is on pace to be achieved and exceeded. Even if the fiscal year ends with total investment earnings equaling less than 2.5 percent of the five-year market value of the corpus, any shortfall would be made up by the Permanent Wyoming Mineral Trust Fund Spending Policy Reserve Account (PWMTF RA), to the extent the PWMTF RA has a sufficient balance. As a result, this shortfall of $6 million will not be a factor in the end of fiscal year accounting. However, for purposes of tracking, realized capital gains are not distributed by the Treasurer's Office until the fiscal year has concluded.

The opposite pattern exists for realized capital gains. For the GF share of the State Agency Pool, realized capital losses reflected in the State's accounting system on April 12, 2017 amount to $16.2 million, of which $11.8 million are attributable to FY 2017 and $4.4 million are carried forward from FY 2016. Unlike realized losses from the state permanent funds, pursuant to the State Treasurer's interpretative policy, these realized capital losses are entered as a reduction to the cash balance of the affected fund. The summary table illustrates these capital losses on line 6. Additionally, they are included in the total on line 11 but not on line 10. The State Treasurer does not distribute net realized capital gains (losses), if any, from the permanent funds until the end of the fiscal year (June 30, 2017). As of this writing, there are $108.9 million in realized, but undistributed, capital gains from investments within the PWMTF.

For FY 2017, the first 2.5 percent of the five-year market value of the corpus of any investment earnings from the PWMTF will be deposited and remain in the GF. Next, the investment earnings in excess of the first 2.5 percent and up to the spending policy amount (5 percent of the five-year market value of the corpus) are transferred from the GF to the Strategic Investments and Projects Account (SIPA) and Legislative Stabilization Reserve Account (LSRA) in equal amounts. Lastly, any investment earnings in excess of the spending policy amount for the PWMTF are deposited into the PWMTF RA until it reaches its cap. Given the current investment income and realized capital gains to date, $50.5 million would be deposited into the SIPA, a like amount would be deposited into the LSRA and no monies would be deposited to or transferred from the PWMTF RA. This estimate assumes no additional realized capital gains or losses for the current fiscal year. Using a straight-line prediction methodology for realized capital gains over the balance of the fiscal year, roughly $63 million, instead of $50.5 million, would be deposited into both the SIPA and the LSRA, and no funds would be deposited into the PWMTF RA.[1]

Budget Reserve Account - The summary table at the end of this memo also illustrates the two earmarked revenue streams for the BRA: severance taxes and FMRs. Severance tax receipts to the BRA are currently exceeding the January 2017 CREG forecast pace by $20.6 million (18.3 percent). FMRs directed to the BRA, including an adjustment for the federal fiscal year (FFY) 2016 budget sequester (withholding), are $26.1 million (13.6 percent) above the January CREG forecast through March.

<u>Bottom-line: General Fund/Budget Reserve Account</u> - In total, the actual GF and BRA revenue collections are in excess of projected pacing (0.2 percent and 15.3 percent, respectively) compared to the overall January 2017 CREG estimates through March 2017. A more detailed discussion of this revenue category is included in a subsequent section of this memo. Additionally, the 2016 Budget Bill (2016 Wyoming Session Laws, Chapter 31, Section 322) provided for an interfund loan from the one percent severance tax account, which is funded for the 2017-2018 biennium from a diversion of the one percent severance tax traditionally deposited into the PWMTF over the last decade. Like all severance tax collections, this source of funding is exceeding the January CREG estimates. For the one percent diversion, actual collections are $8.4 million, or 10.1 percent, ahead of forecast.

Mineral Severance Taxes - Applying the pacing estimates through March 2017, total severance tax collections are 9.7 percent ahead of the January 2017 CREG forecast. The average price of Wyoming oil for FY 2017 to date is $42.42/bbl, approximately $2.08/bbl ahead of the weighted projection. Oil and gas rig counts have increased from nine at the end of March 2016 (of which four were oil) to 19 in mid-April 2017 (of which 10 were seeking oil). Natural gas prices received by Wyoming producers are averaging $3.08/mcf for the current fiscal year to date, as compared to the January 2017 CREG forecast price of $2.75/mcf. Statewide average surface coal prices to date are shy of the forecast level of $13.25/ton by $0.25/ton. Reported oil and gas production volumes to date are in rough agreement with the January 2017 CREG forecast. Coal production to date is slightly ahead of projections, though monthly tons of production are on pace to be lower in the second half of the fiscal year as compared to the first six months of the fiscal year.

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[1] 2016 Wyoming Session Laws, Chapter 97, Section 7 provided contingent appropriations from the SIPA for the following projects from FY 2017 investment earnings in priority order: State facilities construction account (health facilities, $20 million); LCCC Ludden library ($2.5 million); University science initiative ($24.4 million); State facilities – Casper ($12 million); Capitol building rehabilitation and restoration account ($20 million); and mineral impacted roads (in an amount to be determined). The current investment earnings trend indicates that investment earnings are on pace to fully fund the first four projects, and perhaps partially fund the contingent appropriation for the Capitol building rehabilitation and restoration account. Investment earnings are currently not on pace for any funds to be available for mineral impacted roads from FY 2017 investment earnings.

Bottom-line: Severance Taxes - In total, severance tax collections are above the January 2017 CREG projections by nearly 10 percent, with the largest drivers of outperformance being natural gas prices and the resulting higher assessed values.

Federal Mineral Royalties - Total FMRs to date are $39.2 million (8.0 percent) ahead of the forecast pace through March 2017. Similar to severance tax collections, primary drivers for the strength in FMR receipts include natural gas prices and oil prices.

Wyoming's share of coal lease bonus payments, as adjusted by the federal sequester, are also shown in the summary table. Receipt of coal lease bonus payments occurs annually over five years beginning at the time the federal government finalizes the lease agreement; therefore, amounts reflected here are not indicative of any price or production trends. Coal lease bonus payments met the projections in the January 2017 CREG report and no further payments are expected this fiscal year.

Other Revenue Issues of Note - Investment income in the form of interest and dividends derived from the Common School Permanent Land Fund (CSPLF) directed to the School Foundation Program is falling short of the January 2017 CREG projection by $5.0 million (5.5 percent) through March 2017. Similarly, investment income in the form of interest and dividends from the CSPLF ultimately directed to the School Foundation Program Reserve Account (SFP RA) is also falling short by $3.4 million. However, the CSPLF has $54 million in capital gains, which have been realized but not distributed. Recall, for FY 2017, the first three-fifths of the spending policy amount (5 percent of the five-year market value of the corpus) of any investment earnings will be deposited into the Common School Permanent Land Income Fund (CSPLIF) and subsequently the SFP. Next, an amount equal to investment earnings in excess of three-fifths and up to the spending policy amount, will ultimately be deposited into the SFP RA. Finally, an amount equal to investment earnings in excess of the CSPLF spending policy will be deposited into the CSPLF Spending Policy Reserve Account (CSPLF RA) until it reaches its cap. Given the current investment income and realized capital gains to date, $47.5 million would be deposited into the SFP RA and no monies would be deposited to or transferred from the CSPLF RA. Using a straight-line prediction methodology for realized capital gains over the balance of the fiscal year, roughly $60 million, instead of $47.5 million, would be deposited into the SFP RA and no funds would be deposited into the CSPLF RA.

Caution should be exercised when weighing the results of a straight line prediction for the CSPLF, PWMTF and the State Agency Pool. Historic investment experience, even nine months of a fiscal year, is not necessarily indicative of realized capital gains or losses to be harvested in the next three months.

Recent federal and state oil and gas lease auctions in the first three months of 2017 exceeded CREG's revenue forecasts. Specifically, a February federal oil and gas lease sale will generate bonus payments of approximately $59 million for Wyoming. These amounts are not yet included in any FMR receipts received by Wyoming. However, when these funds are received, two-thirds of the amount will be distributed to the BRA and one-third to the SFP. Similarly, the March 2017 oil and gas lease auction of state lands generated bonus payments of $29.7 million, of which $26.3 million is attributed to common school lands, bringing the total bonus payments attributable to common school lands to $29.6 million for the full fiscal year. Although CREG does not directly project lease bonus income, indirectly, the bonus income to the CSPLIF is roughly $25 million higher than expected.

Conclusions and a Look Ahead - Current revenue collections directed to the GF, BRA, one percent severance tax account and SFP are exceeding the January 2017 CREG projections, in total. The current trends indicate:

- the total FY 2017 revenue forecasts for the GF are on track, and the forecasts for the BRA and SFP are likely to be met and exceeded;

- investment earnings for the first four contingent appropriation priorities adopted in 2016 Wyoming Session Laws, Chapter 97, Section 7 are on pace to be fully funded; the remaining two (Capitol building rehabilitation and restoration account and mineral impacted roads) are not;
- investment earnings are not currently on pace for any deposits to be made to the spending policy reserve accounts, which require annual investment earnings in excess of five percent of the five year average market value of the respective corpus;
- severance tax and FMR collections are exceeding CREG estimates; and
- sales and use taxes, the largest revenue contribution to the GF and a major revenue source for cities, towns, and counties, continue to lag projections.

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 27, 2017]

	Fiscal Year 2017 Revenue Update Summary: Actual vs. January 2017 CREG Forecast							
		A	B	C	D	E	F	G
	Revenue Sources	CREG Forecast FY17 Total	Actual through March	Forecast through March (1)	Difference YTD $	Actual YTD% of Total	Forecast YTD % of Total	YTD Pace
1	GF - Sales & Use Tax (2)	$405,000,000	$263,211,029	$275,800,000	($12,588,971)	65.0%	68.1%	-3.1%
2	GF - PWMTF from dividends & interest (3), (4)	$165,800,000	$118,381,266	$124,400,000	($6,018,734)	71.4%	75.0%	-3.6%
3	GF - PWMTF from capital gains (3), (4)	N/A	$0	N/A	N/A	N/A	N/A	N/A
4	GF - Total PWMTF Income (3)	$165,800,000	$118,381,266	$124,400,000	($6,018,734)	71.4%	75.0%	-3.6%
5	GF - Pooled income from dividends & interest (3)	$82,000,000	$65,554,514	$61,500,000	$4,054,514	79.9%	75.0%	4.9%
6	GF - Pooled income from capital gains (losses) (3)	N/A	($11,803,835)	N/A	($11,803,835)	N/A	N/A	N/A
7	GF - Total Pooled Income (3)	$82,000,000	$53,750,679	$61,500,000	($7,749,321)	65.5%	75.0%	-9.5%
8	GF - Severance Tax (5)	$159,400,000	$122,146,757	$111,900,000	$10,246,757	76.6%	70.2%	6.4%
9	GF - All Other (6)	$200,300,000	$171,593,527	$165,300,000	$6,293,527	85.7%	82.5%	3.1%
10	**General Fund - Total (3), (4)**	**$1,012,500,000**	**$740,887,093**	**$738,900,000**	**$1,987,093**	**73.2%**	**73.0%**	**0.2%**
11	**General Fund - Total with capital gains (losses) (3), (4)**	**$1,012,500,000**	**$729,083,258**	**$738,900,000**	**($9,816,742)**	**N/A**	**N/A**	**N/A**
12	BRA (from Severance Taxes)	$112,400,000	$37,864,520	$17,300,000	$20,564,520	33.7%	15.4%	18.3%
13	BRA (from FMRs)	$191,900,000	$84,496,814	$58,400,000	$26,096,814	44.0%	30.4%	13.6%
14	**Budget Reserve Account - Total**	**$304,300,000**	**$122,361,334**	**$75,700,000**	**$46,661,334**	**40.2%**	**24.9%**	**15.3%**
15	**One Percent Severance Tax Account**	**$82,400,000**	**$54,150,604**	**$45,800,000**	**$8,350,604**	**65.7%**	**55.6%**	**10.1%**
16	SFP CSPLF dividends & interest portion of investment income (3)	$89,800,000	$62,428,679	$67,400,000	($4,971,321)	69.5%	75.1%	-5.5%
17	SFP CSPLF from capital gains (3)	N/A	$0	N/A	N/A	N/A	N/A	N/A
18	Total SFP CSPLF from investment income (3)	$89,800,000	$62,428,679	$67,400,000	($4,971,321)	69.5%	75.1%	-5.5%
19	SFP FMRs	$184,600,000	$130,965,083	$117,900,000	$13,065,083	70.9%	63.9%	7.1%
20	**School Foundation Program - Total (without capital gains) (3)**	**$274,400,000**	**$193,393,762**	**$185,300,000**	**$8,093,762**	**70.5%**	**67.5%**	**2.9%**
21	**School Foundation Program - Total (with capital gains) (3)**	**$274,400,000**	**$193,393,762**	**$185,300,000**	**$8,093,762**	**70.5%**	**67.5%**	**2.9%**
22	SCCA (from Coal Lease Bonus)	$115,300,000	$115,287,115	$115,300,000	($12,885)	100.0%	100.0%	0.0%
23	SCCA (from FMRs)	$5,300,000	$5,346,000	$5,300,000	$46,000	100.9%	100.0%	0.9%
24	**School Capital Construction Account - Total**	**$120,600,000**	**$120,633,115**	**$120,600,000**	**$33,115**	**100.0%**	**100.0%**	**0.0%**
25	**Severance Taxes - Total**	**$539,900,000**	**$353,844,087**	**$301,600,000**	**$52,244,087**	**65.5%**	**55.9%**	**9.7%**
26	**Federal Mineral Royalties (without CLB) - Total**	**$487,800,000**	**$326,757,897**	**$287,600,000**	**$39,157,897**	**67.0%**	**59.0%**	**8.0%**
27	**Federal Mineral Royalties (including CLB) - Total**	**$612,200,000**	**$451,145,012**	**N/A**	**N/A**	**73.7%**	**N/A**	**N/A**

(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 (FMRs) use a procedure relying on price and production weights, taking into account the impact of the repayment of sequestered, or withheld, FMRs.

(2) The Impact Assistance balance at the end of March 2017 was $22,621.20; sales and use tax collections have been reduced by this amount. In addition, sales & use tax collections will be adjusted in May 2017 for the special fuel survey.

(3) Capital gains income from PWMTF, Pooled, and CSPLF investments are not currently part of the CREG projection process. Pursuant to the State Treasurer's interpretative policy, realized capital losses in the State Agency Pool are entered regularly in the state's accounting system as a reduction to the cash balance.

(4) There is no distinction between (i) interest and dividends and (ii) realized capital gains within the statutory term “earnings”. The net effect this year for the PWMTF is the 2.5 percent total investment earnings is on pace to be achieved and exceeded. Even if the fiscal year ends with total investment earnings equaling less than 2.5 percent of the five-year market value of the corpus, any shortfall would be made up by the Permanent Wyoming Mineral Trust Fund Spending Policy Reserve Account (PWMTF RA), to the extent the PWMT RA has a sufficient balance. As a result, this shortfall of $6 million will not be a factor in the end of fiscal year accounting. However, for purposes of tracking, realized capital gains are not distributed by the Treasurer’s Office until the fiscal year has concluded.

(5) The FY17 forecast of severance tax to the General Fund includes the mineral severance tax diversion adopted in 2016 Wyoming Session Laws, Chapter 31, Section 325. This severance tax diversion is estimated at $6.7 million in FY17.

(6) The FY17 forecast of federal mineral royalties (FMRs) to the General Fund includes the FMR diversion adopted in 2016 Wyoming Session Laws, Chapter 31, Section 326. This FMR diversion is estimated at $60.1 million in FY17.