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Consensus Revenue Estimating Group

Date: April 27, 2018

To: Governor Matt Mead
Members, 64th Legislature

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

Subject: April 2018 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 15, 2018 CREG report remains the official fiscal forecast and is used to derive the revenue pacing expectations in this update. The March 27, 2018 fiscal profile remains the Legislative Service Office's (LSO's) estimate of projected account balances as of June 30, 2018 and June 30, 2020. This report does not formally modify the official CREG revenue forecast or the LSO fiscal profile. The information in this update represents revenue collections received from July 1, 2017 through March 2018.*

Presented at the end of this update, is a summary table of selected sources of revenue deposited into the General Fund (GF), Budget Reserve Account (BRA), School Foundation Program Account (SFP) and the School Capital Construction Account (SCCA). Additionally, revenues collected from mineral severance taxes and federal mineral royalties (FMRs) are included. Column A reflects the total fiscal year (FY) 2018 CREG forecast 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 based upon pacing estimates informed by prior year collections (column C divided by column A). Column G shows the difference of the actual revenue YTD as a percentage of the total amount forecast for FY 2018 minus the FY 2018 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 1.4 percent above the forecast pace for the year. (See line 10.) Of the major sources of GF revenues, sales and use taxes, severance taxes, and investment income from the Permanent Wyoming Mineral Trust Fund (PWMTF) are exceeding the forecast levels through March 2018, while pooled investment income and revenue from "all other sources" are lagging projections. Among the highlights, sales and use taxes directed to the GF are ahead of the forecast pace by 3.3 percent. This is especially important since sales and use tax revenue is both the largest revenue category and the largest revenue category that is ahead of expectations in absolute terms ($14.6 million). Severance tax collections directed to the GF are ahead of the forecast pace by 3.5 percent, or $5.9 million. Interest and dividends from the PWMTF are modestly in excess of the CREG projection – by 0.1 percent. However, CREG anticipated a transfer of $12.3 million from the Permanent Wyoming Mineral Trust Fund Reserve Account (PWMTF RA) to backfill, or guarantee, the full 2.5 percent of the five-year average market value of the PMWTF designated to the GF. At the current pace, no transfer will be necessary in FY 2018. Therefore, this revenue category is technically $9.5 million ahead of pace.

Interest and dividends directed to the GF from the State Agency Pool (pooled income) are lagging CREG's projection by 2.6 percent, or $2.1 million. Moreover, through March 2018, the State has $11.9 million in net realized capital losses attributable to the GF from investments in the State Agency Pool sold at a loss. This is shown in the summary table on line 6. Under the 2009 State Treasurer's interpretative policy, realized losses attributable to the GF within the State Agency Pool reduce the available cash, unlike realized losses experienced in a permanent fund. Finally, the "all other" category of state revenues is also lagging the January forecast pace by 1.7 percent, or $3.6 million. This is primarily a result of lower than projected collections of penalties and interest and lower than projected cost allocation collections from the federal government for shared services. Notably, many of these "all other" revenue streams do not flow to the State with predictable timing over the course of the fiscal year.

The January 2018 CREG forecast called for year-over-year increases in statewide sales and use tax collections of 8.5 percent; actual sales and use tax collections are outpacing this projection by an additional 3.3 percent ($14.6 million). Year-over-year statewide sales and use tax collections are up across the majority of the state, with only two counties (Crook and Weston), as well as a handful of municipalities, recording year-over-year declines for FY 2018. Four counties (Platte, Converse, Niobrara and Sublette) report year-over-year increases in sales and use tax collections of over 30 percent. Sector-by-sector industries are largely up, with notable exceptions including agriculture, health care, information, and administrative support. Sales and use tax collections related to mining are up by 71.7 percent compared to this point in FY 2017.

Wyoming oil, natural gas, and coal production and prices are on pace to meet or slightly exceed January 2018 CREG estimates. Trona production and prices are marginally lagging the CREG projection. Given the continued improvement in oil prices over the past three months one could reasonably expect to see the actual oil prices received in Wyoming begin to exceed the January 2018 CREG estimate in the coming months as prices are reported by producers. Please recall that severance tax is reported and paid the 25th day of the second month after the month of production. This would provide upside potential for actual severance tax, federal mineral royalty and ad valorem tax payments. Conversely, natural gas spot prices are below the January 2018 CREG estimate at present.

Although interest and dividend income from the PWMTF is tracking the CREG forecast at this time, recall the CREG forecast includes an estimated guarantee of $12.3 million from the PWMTF RA. Therefore, interest and dividend income is approximately $9.5 million ahead of the forecast through nine months, without consideration of the guarantee. Furthermore, to date, the State Treasurer has realized $146.0 million in net realized capital gains as of March 31, 2018. It is worth noting that there is no distinction between (i) interest and dividends and (ii) realized capital gains within the statutory term investment "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 – likely with just interest and dividends. 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 PWMTF RA. Additionally, given the realized capital gains to date, all four priorities for conditional appropriations from the Strategic Investments and Projects Account (SIPA) will be fully funded (State [health] Facilities Account - $37 million; UW Science Initiative Account - $9.4 million; State facilities – Casper - $15 million; and a transfer of $4.2 million to the SCCA). There would also be sufficient earnings to leave a balance of $7.6 million in the SIPA. This balance could grow to $22.5 million by June 30, 2018, before hitting the statutory maximum deposit to the SIPA for FY 2018. Likewise, the Legislative Stabilization Reserve

Account (LSRA) would receive a $73.2 million deposit from investment earnings if the fiscal year concluded in April. Similar to the SIPA, this deposit could grow to as large as $88.1 million, if additional realized capital gains are harvested prior to June 30, 2018. If net losses are generated in the coming months these potential deposits would be reduced.

The State Treasurer does not distribute net realized capital gains, if any, from the permanent funds until the end of the fiscal year (June 30, 2018). As of this writing, in addition to the $146.0 million in realized, but undistributed, capital gains from investments, there are $325 million in unrealized capital gains within the PWMTF portfolio.

Budget Reserve Account - The summary table at the end of this memo also illustrates the two earmarked revenue streams for the BRA: severance taxes (line 12) and FMRs (line 13). Severance tax receipts to the BRA are currently exceeding the January 2018 CREG forecast pace by $11.7 million (8.8 percent). FMRs directed to the BRA, including an adjustment for the federal fiscal year (FFY) 2017 budget sequester (withholding), are $8.2 million (3.8 percent) above the January CREG forecast through March.

Bottom-line: General Fund/Budget Reserve Account - In total and through March 2018, the actual GF and BRA revenue collections exceed the forecasted pace by $15.1 million or 1.4 percent and $19.9 million or 5.7 percent, respectively when compared to the overall January 2018 CREG estimates. Additionally, the 2018 Budget Bill (2018 Wyoming Session Laws, Chapter 134, Section 311) provided for an interfund transfer 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 revenue stream is exceeding the January CREG estimates, in this case by $5.0 million, or 5.5 percent.

Mineral Severance Taxes - Applying the pacing estimates through March 2018, total severance tax collections are $30.5 million, or 5.1 percent, ahead of the January 2018 CREG forecast. The average price of Wyoming oil for FY 2018 to date is $49.51/bbl, $7.09/bbl ahead of this same point in FY 2017 and $1.97/bbl ahead of the weighted projection for FY 2018. Notably, the rise in oil prices for the first four months of calendar year 2018 should begin to widen the differential between actual and forecast oil prices. Oil and gas rig counts have increased from 18 at the beginning of April 2017 (of which ten were oil) to 29 in mid-April 2018 (of which 17 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 2018 CREG forecast price of $3.05/mcf. Statewide average surface coal prices to date are also in line with the January forecast level of $12.75/ton, averaging $12.82/ton. Reported oil, gas and coal production volumes to date are in rough agreement with the January 2018 CREG forecast.

Bottom-line: Severance Taxes - In total, severance tax collections are above the January 2018 CREG projections with the drivers of outperformance being spread across the major energy commodities production and pricing compared to the projected levels.

Federal Mineral Royalties - Total FMRs to date are $12.4 million (2.3 percent) ahead of the forecast pace through March 2018. Recall that a provision in the 2018 Budget Bill (2018 Wyoming Session Laws, Chapter 134, Section 316) directed one-third of the revenue in excess of $500 million of FMR collections to the BRA and two-thirds to the SFP, an increase of one-third to the SFP over prior years. To the extent FMR collections exceed the January CREG forecast, which they are on pace to do, the SFP will benefit more than the BRA in FY 2018.

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 2018 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 SFP is slightly exceeding the January 2018 CREG projection by $1.4 million, or 1.7 percent, through March 2018. However, the CSPLF also has $68.6 million in net realized capital gains, which will not be distributed until June 30, 2018. Therefore, although row 16 of the accompanying summary table indicates that the investment income is falling short of the estimate, this does not include the net realized, but not distributed, capital gains. If realized capital gains are included, the investment earnings are on pace to meet the full five percent spending policy amount for FY 2018. Recall, for FY 2018, the spending policy amount (5 percent of the five-year market value of the corpus) is guaranteed through a transfer from the Common School Permanent Fund Spending Policy Reserve Account (CSPLF RA) to the Common School Land Income Account. Using a straight-line prediction methodology for realized capital gains over the balance of the fiscal year, this guarantee is unlikely to be exercised and $14.3 million would instead be deposited into the CSPLF RA.

Caution should be exercised when considering any prediction for investment earnings. Historic investment experience, even nine months of a fiscal year, is not necessarily indicative of realized capital gains or losses to be experienced in the next three months.

Recent state oil and gas lease auctions results in FY 2018 fell somewhat short of CREG's revenue forecasts, though the total income generated for the Common School Land Income Account (CSLI), and subsequently the SFP, should be in line with expectations.

Conclusions and a Look Ahead - Current revenue collections directed to the GF, BRA, and One Percent Severance Tax Account are exceeding the January 2018 CREG projections, in total. The shortfall shown on the accompanying summary table for the SFP will be addressed through a transfer from the CSPLF RA (guarantee) or net realized capital gains. As a result, the revenues deposited to date in the SFP are also in-line with expectations, though that may not be immediately apparent. The current trends indicate:

- The current pace of the GF, BRA, and One Percent Severance Tax collections indicate that the revenue forecasts are likely to be met or exceeded barring a significant decline in major commodity prices or production.
- Investment earnings for the contingent appropriation priorities adopted in 2016 Wyoming Session Laws, Chapter 97, Section 8 and modified by 2018 Wyoming Session Laws, Chapter 136, Section 8 are on pace to be fully funded. The accounts and projects include deposits to the State [health] facilities construction account; the University of Wyoming Science Initiative account; the Casper state facilities account; and the SCCA.
- While it is premature to project with certainty, it is possible that investment earnings may even exceed the five percent spending policy amounts, especially for the Common School Account within the Permanent Land Fund. If so, there would be deposits to the associated reserve accounts.
- Severance tax and FMR collections are in line with CREG estimates, with potential for increased gains resulting from strong oil prices and some caution regarding collections from natural gas given recent spot price levels.
- Sales and use taxes, the largest revenue contribution to the GF and a major revenue source for cities, towns, and counties, are exceeding CREG's forecast.

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, 2018]

	Fiscal Year 2018 Revenue Update Summary: Actual vs. January 2018 CREG Forecast							
		A	B	C	D	E	F	G
	Revenue Sources	CREG Forecast FY18 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)	$442,000,000	$316,011,078	$301,400,000	$14,611,078	71.5%	68.2%	3.3%
2	GF - PWMTF from dividends & interest (3)	$176,200,000	$132,452,254	$132,200,000	$252,254	75.2%	75.0%	0.1%
3	GF - PWMTF from capital gains (3)	N/A	$0	N/A	N/A	N/A	N/A	N/A
4	GF - Total PWMTF Income (3)	$176,200,000	$132,452,254	$132,200,000	$252,254	75.2%	75.0%	0.1%
5	GF - Pooled income from dividends & interest (3)	$82,000,000	$59,393,612	$61,500,000	($2,106,388)	72.4%	75.0%	-2.6%
6	GF - Pooled income from capital gains (losses) (3)	N/A	($11,949,899)	N/A	($11,949,899)	N/A	N/A	N/A
7	GF - Total Pooled Income (3)	$82,000,000	$47,443,713	$61,500,000	($14,056,287)	57.9%	75.0%	-17.1%
8	GF - Severance Tax (4)	$170,000,000	$125,766,702	$119,900,000	$5,866,702	74.0%	70.5%	3.5%
9	GF - All Other (5)	$209,200,000	$168,335,636	$171,900,000	($3,564,364)	80.5%	82.2%	-1.7%
10	**General Fund - Total (3)**	**$1,079,400,000**	**$801,959,282**	**$786,900,000**	**$15,059,282**	**74.3%**	**72.9%**	**1.4%**
11	**General Fund - Total with capital gains (losses) (3)**	**$1,079,400,000**	**$790,009,383**	**$786,900,000**	**$3,109,383**	**N/A**	**N/A**	**N/A**
12	BRA (from Severance Taxes)	$133,700,000	$45,104,412	$33,400,000	$11,704,412	33.7%	25.0%	8.8%
13	BRA (from FMRs) (6)	$213,400,000	$95,291,788	$87,100,000	$8,191,788	44.7%	40.8%	3.8%
14	**Budget Reserve Account - Total**	**$347,100,000**	**$140,396,200**	**$120,500,000**	**$19,896,200**	**40.4%**	**34.7%**	**5.7%**
15	**One Percent Severance Tax Account**	**$91,500,000**	**$57,722,078**	**$52,700,000**	**$5,022,078**	**63.1%**	**57.6%**	**5.5%**
16	SFP CSPLF dividends & interest portion of investment income (3)	$164,600,000	$65,636,141	$123,500,000	($57,863,859)	39.9%	75.0%	-35.2%
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)	$164,600,000	$65,636,141	$123,500,000	($57,863,859)	39.9%	75.0%	-35.2%
19	SFP FMRs (6)	$215,600,000	$136,364,189	$132,300,000	$4,064,189	63.2%	61.4%	1.9%
20	**School Foundation Program - Total (without capital gains) (3)**	**$380,200,000**	**$202,000,330**	**$255,800,000**	**($53,799,670)**	**53.1%**	**67.3%**	**-14.2%**
21	**School Foundation Program - Total (with capital gains) (3)**	**$380,200,000**	**$202,000,330**	**$255,800,000**	**($53,799,670)**	**N/A**	**N/A**	**N/A**
22	SCCA (from Coal Lease Bonus)	$5,309,756	$5,309,756	$5,309,756	$0	100.0%	100.0%	0.0%
23	SCCA (from FMRs)	$5,300,000	$5,064,934	$5,300,000	($235,066)	95.6%	100.0%	-4.4%
24	**School Capital Construction Account - Total**	**$10,609,756**	**$10,374,690**	**$10,609,756**	**($235,066)**	**97.8%**	**100.0%**	**0.0%**
25	**Severance Taxes - Total**	**$594,500,000**	**$373,190,025**	**$342,700,000**	**$30,490,025**	**62.8%**	**57.6%**	**5.1%**
26	**Federal Mineral Royalties (without CLB) - Total**	**$540,300,000**	**$342,951,978**	**$330,600,000**	**$12,351,978**	**63.5%**	**61.2%**	**2.3%**
27	**Federal Mineral Royalties (including CLB) - Total**	**$545,609,756**	**$348,261,734**	**$335,909,756**	**$12,351,978**	**63.8%**	**61.6%**	**2.3%**

(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 2018 was $253,669.57; sales and use tax collections have been reduced by this amount. In addition, sales & use tax collections will be adjusted in May 2018 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) The FY18 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 FY18.

(5) The FY18 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 FY18.

(6) The FY18 forecast of FMRs to the Budget Reserve Account (BRA) and the School Foundation Program Account (SFP) includes the distribution of FMRs over the new $500 million cap created in 2018 Wyoming Session Laws, Chapter 134, Section 316. Annual FMRs received over $500 million in FY18, FY19 and FY20 will be distributed two-thirds to the SFP and one-third to the BRA. This new $500 million cap will result in an increased FMR distribution to the SFP and a corresponding decrease in FMR distributions to the BRA of $13.5 million in FY18.