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Consensus Revenue Estimating Group

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To: Governor Mark Gordon
Members, 65th Legislature

From: Don Richards, Co-chairman
Kevin Hibbard, Co-chairman

Subject: April 2019 Revenue Update

Purpose of Update *– This revenue update and the accompanying table, taken in combination with the October and January Consensus Revenue Estimating Group (CREG) forecasts, are intended to provide a quarterly summary of the state's revenue collections from major sources. A similar revenue update is issued in July of each year. The January 14, 2019 CREG report remains the official fiscal forecast and is used to derive the revenue pacing expectations in this update. The March 18, 2019 fiscal profile remains the Legislative Service Office's (LSO's) estimate of projected account balances as of 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, 2018 through March 2019.*

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, total revenues collected from mineral severance taxes and federal mineral royalties (FMRs) are included regardless of the disposition of those revenues. Column A reflects the total fiscal year (FY) 2019 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 2019 minus the FY 2019 forecast YTD as a percentage (column E minus column F). Occasionally, percentages may vary due to rounding.

Summary – Current revenue collections directed to the GF and BRA are exceeding the January 2019 CREG projections, by $54.5 million, or 5.4 percent. The shortfall shown on the accompanying summary table for the SFP will be addressed through a transfer (guarantee of the spending policy amount) from the Common School Permanent Land Fund Spending Policy Reserve Account (CSPLF RA) or net realized capital gains. After consideration of the guarantee, SFP revenues are on pace to exceed the January 2019 CREG estimate by $10.4 million. As a result, the revenues deposited to date in the SFP are also in-line with expectations, though that may not be immediately apparent in the attached summary table. Finally, there is a modest shortfall of $2.4 million, when compared against the January 2019 CREG forecast, in the SCCA. The current trends indicate:

- GF and BRA collections to date are currently on pace to exceed the January 2019 CREG forecast, barring a significant decline in major commodity prices or sales of state investments with associated unrealized losses.
- 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. This data illustrates year-over-year growth in the mining (especially oil) and retail sectors of Wyoming's economy beyond CREG's forecast.
- Severance tax and FMR collections by mineral are in line with or exceeding 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, and coal, based upon rail car shipment data.
- While it is premature to project with certainty, total realized investment earnings are on pace to fall well short of the Common School Permanent Land Fund (CSPLF) 5 percent spending policy amount in FY 2019. Further, the GF share of interest and dividends within the State Agency Pool is short of the January 2019 CREG forecast.
- Strong oil and gas lease auction results are apparent as income generated from both state and federal auctions have exceeded CREG's forecasts. These should generate more than $40 million for the State in FY 2019 (likely) or FY 2020, depending upon the timing of total receipts.

A. General Fund – The three largest sources of revenue for the GF (sales and use taxes, investment income from two sources, and severance taxes) are listed separately in the attached summary table. 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 of the summary table, actual total revenues received and directed to the GF are currently estimated at 2.3 percent ($27.4 million) above the forecast pace for the year. (See line 10.) Sales and use tax collections, investment income from the Permanent Wyoming Mineral Trust Fund (PWMTF), severance tax collections, and "all other GF sources" are exceeding the forecast levels through March 2019, while pooled investment income is lagging projections.

The January 2019 CREG forecast called for year-over-year increases in statewide sales and use tax collections of 4.0 percent ($19.3 million). Actual sales and use tax collections are outpacing this projection by an additional 2.0 percent ($10.1 million). This is especially important since sales and use tax collections comprise 42.0 percent of the projected annual revenue deposited in the GF. Clear strength is evident in sales and use tax collections, which are at their highest levels since FY 2015 through March. Year-over-year statewide sales and use tax collections are up across most of the state, with only two counties (Fremont and Sublette) recording year-over-year declines for FY 2019. Three counties (Platte, Converse, and Weston) are reporting year-over-year increases in sales and use tax collections of over 30 percent. All major industry sectors are collecting higher levels of sales and use taxes except for finance and insurance (down 2.6 percent) and educational services (down 6.1 percent), both of which remit extremely small amounts of sales and use taxes. The two largest sectors contributing to sales and use tax collections in Wyoming – retail and mining – are up 12.4 percent and 22.5 percent, respectively, compared to the same time in FY 2018.

Severance tax collections directed to the GF are ahead of the forecast pace by 5.2 percent, or $13.7 million. Wyoming oil production and prices are on pace to exceed January 2019 CREG estimates. Natural gas prices are currently exceeding projected price levels for YTD of FY 2019, though the higher winter prices have been experienced while the spring and summer prices, which are seasonally lower, can be expected to bring the average price for FY 2019 and CY 2019 downward going forward. For example, the average Wyoming natural gas price reported in the month of December 2018 was $5.205/mcf for Wyoming producers (inclusive of the associated liquid stream). Recent spot prices at Opal in the week of April 15th dipped to as low as $1.50/mcf, which previews the lower prices yet to be incorporated in the annual averages. Natural gas production is slightly (about two percent) below the forecast pace. Surface coal production through January is slightly ahead of forecast pace, while surface coal prices are lagging the January 2019 CREG projection. Federal data on coal shipments, which is available prior to state-level tax remittance, suggests a notable decline in shipments in the last month or so. Finally, severance tax collections from trona is in-line with CREG forecasts, with price marginally exceeding the projection and production marginally lagging the projection. In summary, oil production volumes and prices are a meaningful bright spot in excess of the January 2019 CREG forecast. Other minerals are in line with the January 2019 CREG forecast, though there is some pricing caution with natural gas based on current spot prices. There is also production and pricing caution reflected in the most recent coal data.

Interest and dividends from the PWMTF are exceeding the CREG projection by 4.1 percent, or $7.5 million. The CREG forecast includes a transfer from the Permanent Wyoming Mineral Trust Fund Spending Policy Reserve Account (PWMTF RA) to the GF to guarantee 2.5 percent of the five-year average market value of the PMWTF corpus, or one-half of the spending policy amount. The forecast amount of the guarantee for FY 2019 is $400,000. At the current pace, no transfer will be necessary this fiscal year, and the interest and dividends in excess of the guaranteed 2.5 percent will be split evenly between the Strategic Investments and Projects Account (SIPA) and the Legislative Stabilization Reserve Account (LSRA). In other words, if the fiscal year were to end today, the $7.5 million in interest and dividends from the PWMTF would not remain in the GF. Rather, approximately $3.8 million would be distributed to both the SIPA and LSRA.

Furthermore, to date the State Treasurer has realized $49.0 million in net realized capital gains as of March 31, 2019, which is $97 million less than this point in FY 2018. Interest and dividends are combined with any net realized capital gains for the distribution of investment earnings. The net effect this year for the PWMTF is the GF spending policy amount (2.5 percent of the 5-year average market value of the PWMTF) is on pace to be achieved and exceeded – likely with just interest and dividends. Beyond that, given the level of net realized capital gains to date, if the fiscal year were to end today with respect to realized capital gains and interest and dividends continued pace through the end of the fiscal year, $29.6 million would be deposited to both the SIPA and the LSRA. Capital gains (or losses) should be viewed with considerable caution at any point in the fiscal year. Realized gains and losses are historically volatile and contingent upon market performance and investment sales. Additional gains in the final months of FY 2019 or net realized losses could substantively modify the above deposits and transfers.

The "all other" category of state revenues is consistent with the January forecast pace, exceeding the forecast by 1.2 percent, or $1.8 million in total. Many of these "all other" revenue streams are not collected with predictable timing over the course of the fiscal year. Cost allocation, or payments from the federal government for expenditures borne by the state, e.g., use of state facilities by federally funded programs or personnel such as those within the Departments of Health or Environmental Quality, continue a third year of decline. A similar decline is notable in the collection of penalties and interest. Fortunately, other revenue streams in this category such as insurance premium taxes and profit from liquor sales are exceeding the CREG forecast.

Interest and dividends directed to the GF from the State Agency Pool (pooled income) are lagging CREG's projection by 8.3 percent, or $7.8 million. Through March 2019, the State has an additional $2.2 million in net realized capital losses attributable to the GF from investments in the State Agency Pool sold at a loss. (See line 6.) Under the 2009 State Treasurer's interpretative policy as re-issued and clarified in 2018, net realized losses attributable to the GF within the State Agency Pool reduce the available cash in an expendable account, unlike realized losses generated from investments of permanent funds. The January 2019 CREG forecast reduced the prediction for interest income directed to the GF from the State Agency Pool by $13.4 million from October 2018 forecast. Interest rates were lower than anticipated by CREG in October 2018. Further, as noted in the January 2019 CREG report, a lower amount of investable funds could impact this revenue stream as well.

B. 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 deposits to the BRA are currently exceeding the January 2019 CREG forecast pace by $15.8 million (10.9 percent). FMRs directed to the BRA, including an adjustment for the federal fiscal year (FFY) 2018 budget sequester (withholding), are $11.3 million (4.9 percent) above the January CREG forecast.

C. State Revenues Supporting K-12 Education – This summary monitors revenue sources supporting K-12 education, including investment income, FMRs and lease income and royalties from school lands and minerals. Investment income in the form of interest and dividends derived from the CSPLF directed to the SFP is slightly ahead of the January 2019 CREG projection by $250,000 through March 2019. The CSPLF also has benefitted from $21.3 million in net realized capital gains, if not offset against future realized capital losses. Row 17 of the accompanying summary table indicates that the investment income is falling short of the estimate. This is due to two reasons: (1) the revenue received does not include the net realized capital gains and (2) the CREG forecast includes the statutory guarantee of investment income, from any source (interest, dividends, or capital gains) up to the spending policy amount of 5 percent of the five-year average market value of the CSPLF corpus. If realized capital gains are included, the investment earnings are still falling short of the full spending policy amount by $56.6 million, for realized gains to date and the interest and dividend pace for the full fiscal year.[1]

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 generated over the next three months.

As noted previously, FMRs received by the state are exceeding CREG projections. In the case of the SFP, this means that FMRs received to date are 2.3 percent, or $5.7 million ahead of the January 2019 forecast. Similarly, recent state oil and gas lease auctions results, which have concluded for FY 2019, exceeded the CREG's January 2019 estimate. When combined with the lease revenue generated from state school sections, revenue to the Common School Land Income Account and subsequently deposited to the SFP, revenues from state lands are approximately 19.6 percent, or $4.7 million ahead of the CREG forecast. In conclusion, while the summary table suggests a shortfall of $52.8 million in the SFP, that is entirely due to not including the guarantee of the spending policy amount in the actual revenue column. If the guarantee of the spending policy amount and all revenue from school lands were included, the status of the SFP would be $10.4 million ahead of the January 2019 CREG forecast.

Finally, lease income and royalties from common school lands (state lands) and minerals deposited within the SCCA are lagging CREG's forecast by 4.8 percent, or $2.4 million. While the CREG forecast for this account can be considered biennial, rather than annual, this shortfall is of some concern since unlike the GF or SFP, the SCCA to which these revenues are deposited, does not have an unappropriated operating cash balance in the account and there are no other revenue streams to the account, except possible reversions, that might offset the lagging revenue from state lands.

D. Mineral Severance Taxes – After applying the revenue pacing estimates through March 2019, total severance tax collections are $38.8 million, or 6.1 percent, ahead of the January 2019 CREG forecast. The average price of Wyoming oil for FY 2019 to date is $53.46/bbl, ahead of this same point in FY 2018 and $0.96/bbl ahead of the CREG weighted projection for FY 2019. Notably, the rise in oil prices in March and April 2019 should begin to further improve the outlook for severance taxes attributed to oil. Oil and gas rig counts have increased from 29 in mid-April 2018 (of which 17 were oil) to 36 in mid-April 2019 (of which 25 were seeking oil). Natural gas prices received by Wyoming producers are averaging $3.63/mcf for the

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[1] The spending policy amount (5 percent of the five-year average market value of the CSPLF corpus) is guaranteed through a transfer from the 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 likely to be exercised.

current fiscal year to date, as compared to the January 2019 CREG forecast price of $2.95/mcf; however, the much higher prices in winter months skew the average price-to-date toward the upside. Prices received in future months can reasonably be expected to drag the annual average natural gas price received by Wyoming producers downward. Statewide average surface coal prices to date are slightly short of the January forecast level of $12.50/ton, averaging $12.25/ton.

E. Federal Mineral Royalties – Total FMRs to date are $17.0 million (2.9 percent) ahead of the forecast pace through March 2019. Recall that a provision in the 2018 Budget Bill (2018 Wyoming Session Laws, Chapter 134, Section 316) directs two-thirds of the revenue in excess of $500 million of FMR collections to the SFP and one-third to the BRA, the opposite of the base statutory distribution for FMRs in excess of $200 million. To the extent FMR collections exceed the January CREG forecast, which they are on pace to do, the SFP will double its traditional benefit from the amount generated over $500 million in FY 2019.

A fourth quarter 2018 federal oil and gas lease sale delayed until late February 2019 generated $87.9 million in bonus funding, of which approximately $40 million is due to Wyoming after deductions for administration, federal sequestration, and the federal share. The payments have not yet been received by Wyoming but should be deposited in FY 2019. Although CREG incorporates a conservative amount of federal revenue not directly related to oil, natural gas, and coal production, e.g., trona, miscellaneous minerals, and bonus payments, in its projection of FMRs, this size of a bonus could reasonably be characterized as a premium above the traditional deposits, when received.

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 29, 2019]

Fiscal Year 2019 Revenue Update Summary: Actual vs. January 2019 CREG Forecast

		A	B	C	D	E	F	G
	Revenue Sources	CREG Forecast FY19 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)	$499,300,000	$343,556,821	$333,500,000	$10,056,821	68.8%	66.8%	2.0%
2	GF - PWMTF from dividends & interest (3)	$184,700,000	$146,034,252	$138,500,000	$7,534,252	79.1%	75.0%	4.1%
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)	$184,700,000	$146,034,252	$138,500,000	$7,534,252	79.1%	75.0%	4.1%
5	GF - Pooled income from dividends & interest (3)	$95,000,000	$65,675,770	$71,300,000	($5,624,230)	69.1%	75.1%	-5.9%
6	GF - Pooled income from capital gains (losses) (3)	N/A	($2,218,767)	N/A	($2,218,767)	N/A	N/A	N/A
7	GF - Total Pooled Income (3)	$95,000,000	$63,457,003	$71,300,000	($7,842,997)	66.8%	75.1%	-8.3%
8	GF - Severance Tax (4)	$264,300,000	$194,383,374	$180,700,000	$13,683,374	73.5%	68.4%	5.2%
9	GF - All Other	$146,500,000	$111,671,743	$109,900,000	$1,771,743	76.2%	75.0%	1.2%
10	**General Fund - Total (3)**	**$1,189,800,000**	**$861,321,960**	**$833,900,000**	**$27,421,960**	**72.4%**	**70.1%**	**2.3%**
11	**General Fund - Total with capital gains (losses) (3)**	**$1,189,800,000**	**$859,103,193**	**$833,900,000**	**$25,203,193**	**N/A**	**N/A**	**N/A**
12	BRA (from Severance Taxes)	$145,300,000	$63,984,381	$48,200,000	$15,784,381	44.0%	33.2%	10.9%
13	BRA (from FMRs) (6)	$228,200,000	$132,463,863	$121,200,000	$11,263,863	58.0%	53.1%	4.9%
14	**Budget Reserve Account - Total**	**$373,500,000**	**$196,448,244**	**$169,400,000**	**$27,048,244**	**52.6%**	**45.4%**	**7.2%**
15	SFP CSPLF dividends & interest portion of investment income (3)	$178,200,000	$75,246,559	$133,700,000	($58,453,441)	42.2%	75.0%	-32.8%
16	SFP CSPLF from capital gains (3)	N/A	$0	N/A	N/A	N/A	N/A	N/A
17	Total SFP CSPLF from investment income (3)	$178,200,000	$75,246,559	$133,700,000	($58,453,441)	42.2%	75.0%	-32.8%
18	SFP FMRs (6)	$245,200,000	$154,955,803	$149,300,000	$5,655,803	63.2%	60.9%	2.3%
19	**School Foundation Program - Total (without capital gains) (3)**	**$423,400,000**	**$230,202,362**	**$283,000,000**	**($52,797,638)**	**54.4%**	**66.8%**	**-12.5%**
20	**School Foundation Program - Total (with capital gains) (3)**	**$423,400,000**	**$230,202,362**	**$283,000,000**	**($52,797,638)**	**N/A**	**N/A**	**N/A**
21	SCCA (from Coal Lease Bonus)	$0	$0	$0	$0	0.0%	0.0%	0.0%
22	SCCA (from FMRs)	$5,300,000	$5,346,000	$5,300,000	$46,000	100.9%	100.0%	0.9%
23	SCCA (from State Royalties) (5)	$50,000,000	$35,099,610	$37,500,000	($2,400,390)	70.2%	75.0%	-4.8%
24	**School Capital Construction Account - Total**	**$55,300,000**	**$40,445,610**	**$42,800,000**	**($2,354,390)**	**73.1%**	**77.4%**	**-4.3%**
25	**Severance Taxes - Total**	**$635,300,000**	**$422,069,259**	**$383,300,000**	**$38,769,259**	**66.4%**	**60.3%**	**6.1%**
26	**Federal Mineral Royalties (without CLB) - Total**	**$584,700,000**	**$398,715,666**	**$381,700,000**	**$17,015,666**	**68.2%**	**65.3%**	**2.9%**
27	**Federal Mineral Royalties (including CLB) - Total**	**$584,700,000**	**$398,715,666**	**$381,700,000**	**$17,015,666**	**68.2%**	**65.3%**	**2.9%**

(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 (withheld) FMRs.

(2) The Impact Assistance balance at the end of March 2019 was $7,046,501.53; sales and use tax collections have been reduced by this amount. In addition, sales & use tax collections will be adjusted in May 2019 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 FY19 forecast of severance tax to the General Fund includes the mineral severance tax diversion adopted in 2018 Wyoming Session Laws, Chapter 134, Section 314. This severance tax diversion is estimated at $99.3 million in FY19.

(5) The School Capital Constrction Account (SCCA) has historically received a distribution of up to $8 million per year from state mineral royalties received from the lease of school lands. 2018 Wyoming Session Laws, Chapter 134, Section 315 removes this $8 million per year limit for FY19 and FY20, directing one-third of all state royalties from school lands to the SCCA. The FY19 forecast of state mineral royalties to the SCCA is estimated at a total of $50.0 million, an increase of $42.0 million

(6) The FY19 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 $28.2 million in FY19.