Consensus Revenue Estimating Group

Date: April 27, 2020
To: Governor Mark Gordon
Members, 65th Legislature
From: Don Richards, Co-chairman
Kevin Hibbard, Co-chairman
Subject: April 2020 Revenue Update

Purpose of Update – This revenue update and the accompanying table, taken in combination with the October 2019 and January 2020 Consensus Revenue Estimating Group (CREG) forecasts, is 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 10, 2020 CREG report remains the official fiscal forecast and is used to derive the revenue pacing expectations in this update. The March 30, 2020 fiscal profile remains the Legislative Service Office’s (LSO’s) estimate of projected account balances as of June 30, 2020 and June 30, 2022. 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, 2019 through March 2020.

A summary table of selected revenue sources deposited into the General Fund (GF), Budget Reserve Account (BRA), School Foundation Program Account (SFP) and the School Capital Construction Account (SCCA) is located at the end of this memorandum. 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) 2020 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 2020 minus the FY 2020 forecast YTD as a percentage (column E minus column F). Occasionally, percentages may vary due to rounding.

Special Note - The state fiscal impacts related to the oil price war between Russia and Saudi Arabia as well as the economic impacts resulting from the coronavirus (COVID-19) pandemic, associated business restrictions, and accompanying decline in demand are not identifiable in this revenue update. The economic impacts and reductions in state revenue collections will be significant, even extraordinary. Due to the delay in remittance of most major revenue streams directed to the State, the initial impacts will only begin to reveal themselves in late May 2020. The CREG Co-chairmen fully anticipate a special, emergency meeting of CREG this spring, and making necessary revisions to the January 2020 forecast. In the past few weeks CREG has met via video conference and communicated via email to monitor the current revenue situation and will continue to do so in the coming weeks. We collectively recognize the need for a revised forecast. At the same time, significant uncertainty surrounds the depth and the duration of the
unprecedented, forthcoming decline in state (and local) government revenue. Other than spot market prices and limited production data, there is little actual data on key metrics, such as industry sector taxable sales, that presently exist. Furthermore, to the extent contemporaneous data is available:

(i) a single data point does not offer a trend;
(ii) one month’s data does little to inform the depth or duration of the current economic decline;
(iii) existing forecasting models and methods, which apply historical data series are unlikely to be applicable given the exceptional nature of the current economic environment; and
(iv) a considerable portion of the timing and pace of any economic recovery is contingent upon virologic developments, technological advancements, and policy factors for which there is no model.

A member of CREG uses the analogy of projecting our current economic decline to projecting the rate and duration of descent of a falling elevator, without necessary knowledge of speed or number of floors for the elevator’s fall. To carry this analogy, the traditional tools CREG employs to assess a recession or even a decline (or increase) in mineral production, employment, or demand are perhaps more suited to building, studying, and describing stairs, rather than riding in a falling elevator. This exercise in predicting the current economic decline is uncharted.

Summary – Current revenue collections directed to the GF are exceeding the January 2020 CREG projections, by $1.6 million, or 0.1 percent. More directly, with 66.9 percent of FY 2020 collections anticipated to date, the actual collections are 67.0 percent. The temporary accuracy of the forecast provides no solace when considering the forthcoming revisions to future collections to the balance of the fiscal year. If anything, there is little revenue excess to cushion the forthcoming revenue declines for the balance of FY 2020. Similarly, the SFP is 5.0 percent ($18.7 million) ahead of the forecast, while the SCCA is exceeding the January 2020 CREG forecast by 2.4 percent ($1.1 million). For the current fiscal year, the trends in major revenue streams, through the April Revenue Update will almost assuredly not be indicative of the ending fiscal year values. This update is a look in the rearview mirror, and more importantly, future CREG products will illustrate the January 2020 projections were very close to actual collections, only up to the point the effects of the oil price war and COVID-19 emergency response become measurable. Given that caveat, below are a summary of collections through March:

- GF revenue collections through March are in line with the January 2020 CREG forecast with roughly two-thirds of revenues for the fiscal year collected. BRA collections through March from severance taxes and FMRs are exceeding expectations of the January 2020 CREG forecast by roughly $46 million; however, less than one-third of the projected revenue is expected to be received by March. The majority of revenue to the BRA comes in the latter portion of the fiscal year, after the statutory caps of severance taxes and FMRs have been met.

- Sales and use taxes, the largest revenue contributor to the GF and a major revenue source for cities, towns, and counties, are falling short of CREG’s forecast by 3.8 percent ($20.6 million); this is before the full impacts of COVID-19 have been realized. Year-over-year sales and use tax collections from the mining sector are lower by 13.0 percent, while year-over-year collections from retail trade were up by 14.9 percent through March. The current GF statewide sales and use underestimate through March is roughly equal to the local government impact assistance payments through March.

- Severance tax and FMR collections through March are both exceeding CREG forecasts by 3.5 percent ($20.7 million) and 11.7 percent ($56.1 million), respectively. Through March collections, oil, natural gas, and coal all exceed the January 2020 CREG forecast.

- Compounding the forecasting uncertainty due to COVID-19, distributions of investment income, by account, are delayed this year as discussed in the October 2019 and January 2020 CREG reports. As a result, we have adjusted the anticipated investment income from the Permanent Wyoming
Mineral Trust Fund (PWMTF) and Common School Permanent Land Fund (CSPLF) to match the guaranteed amounts as the associated reserve accounts for both permanent funds have sufficient balances to fully guarantee this fiscal year’s investment earnings. For the investment income attributable to the GF from Pooled Income through the first three months of the fiscal year, collections are 6.5 percent ($3.6 million) ahead of the CREG estimate.

- State royalties to the SCCA received through March are exceeding the CREG forecast by 2.6 percent ($1 million). Total revenue to the Common School Land Income Fund received through March from state leases and bonus payments are modestly exceeding the January 2020 CREG forecast. All state lease sales for the fiscal year have occurred.

A. General Fund – The three largest sources of revenue for the GF (sales and use taxes, investment income, 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. As shown in column G of the summary table, actual total revenues received and directed to the GF are currently estimated at 0.1 percent ($1.6 million) above the forecast pace for the year. (See line 10.) Investment income, including the guarantee from the Permanent Wyoming Mineral Trust Fund Reserve Account (PWMTF RA), severance tax collections, and “all other GF sources” are meeting or exceeding the forecast levels through March 2020, while sales and use tax collections are lagging projections.

The January 2020 CREG forecast projected year-over-year increases in statewide sales and use tax collections of 5.0 percent ($26.4 million). Actual sales and use tax deposits to the GF are lagging the projection by 3.8 percent ($20.6 million). Prior to the state revenue impacts resulting from COVID-19, sales and use tax deposits to the GF through March for FY 2020 were just under collections for the same period in FY 2019. This is especially important since sales and use tax collections comprise 45.6 percent (nearly half) of the projected annual revenue deposited in the GF. Clear strength is evident in sales and use tax collections from retail sales, which were 14.9 percent higher than FY 2019 collections for the same period. On the other hand, sales and use tax collections from the mining and utilities industry sectors, which comprise approximately 20 percent of sales and use tax collections, are lagging FY 2019 levels by 13 percent. Sales and use taxes from remote, or on-line, sellers continues to be a bright spot, outpacing FY 2019 collections through March by $16.2 million, or 168 percent higher. This significant increase is partially attributable to the adoption of 2019 Wyoming Session Laws, Chapter 41, Collection of sales tax by marketplace facilitators, which became effective July 1, 2019.

Year-over-year statewide sales and use tax collections vary significantly across the state. Collections in 16 counties are higher than FY 2019 levels through March, led by Carbon county (+41.9 percent) and Converse county (+26.3 percent). Collections in seven counties are lagging FY 2019 levels through March, led by Sublette county (-25.6 percent) and Platte county (-28.1 percent). Variance in collections can be caused by economic volatility linked to various activities throughout the state. For example, a new pipeline or phase of construction may inflate collections, whereas oil rig closures or the completion of a large construction project may deflate collections. State sales and use tax data informing this analysis incorporates sales and use tax collections from both the county and the county’s municipalities in order to fully capture the scope of year-over-year collections. Lastly, it should be noted that the traditional GF share of statewide sales and use tax collections are negatively impacted due to impact assistance payments pursuant to W.S. 39-15-111(c), which amount to $21.5 million for FY 2020 through March. This compares to $10.9 million in impact assistance payments made in total for FY 2019.

Severance tax collections directed to the GF are ahead of the forecast pace by 2.9 percent, or $7.4 million through March. Wyoming oil production and prices, through January, with collections through March modestly exceed January 2020 CREG estimates. Natural gas prices reported through January exceed CREG’s projected price levels for YTD of FY 2020 by $0.27/mcf. However, even without any impacts
from COVID-19, the higher prices for the fiscal year were already likely experienced as the remaining months represent lower seasonal demand. Natural gas production through January is approximately one half of one percent lower than CREG’s January 2020 forecast. Surface coal production through January, with collections through March, is slightly ahead of forecast pace (2.4 percent), while average Wyoming surface coal prices are exactly at the CREG projection of $12.10/ton. Akin to other variables, federal data on coal shipments, which is available prior to state-level tax remittances, suggests a notable decline in shipments in the last several weeks. Reported coal stockpiles also exceed ten-year highs. Finally, severance tax collections from trona were in-line with CREG forecasts, with prices and production marginally exceeding the January 2020 CREG projection. In summary, prior to the COVID-19 impacts, nearly all forecast price and production levels for oil, natural gas, coal, and trona are generally consistent with the January 2020 CREG forecast.

The CREG forecast includes a transfer from the 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. This update incorporates that guarantee. However, it is unclear at this time what portion of the guarantee, if any, will need to be exercised given the months lag in reported investment data. The most recently reported investment distributions, by fund, is through September 2019. According to this lagged data, interest and dividends from the PWMTF amounted to $45.6 million, or approximately $1.8 million ahead of forecast. Additionally, through the first three months of FY 2019, the State Treasurer’s Office reports $29.6 million in net realized capital gains from the PWMTF. Therefore, based upon the first three months of distributions, no guarantee from the PWMTF RA would be necessary. However, given only three months of investment income distributions and realized capital gains and losses are reported as of this writing, we incorporated the full guarantee in this Revenue Update.

Distributed investment income to the GF from the State Agency Pool (Pooled Income) through September is 6.5 percent ($3.6 million) ahead of forecast. Less volatility is anticipated for this revenue stream through the balance of the fiscal year due to the transition of the investment strategy to incorporate a bond laddering approach for a good portion of the State Agency Pool. This investment revenue stream only has three months of revenue distributed as of this writing.

The “all other” category of state revenues has exceeded the January forecast pace, surpassing the forecast by 7.3 percent, or $11.2 million in total. Many of these “all other” revenue streams are not collected with predictable timing over the course of the fiscal year. Several categories within this grouped revenue stream have already generated nearly a full fiscal years’ worth of the revenue projection through the first nine months. Specifically, the following other revenue sources have collections ahead of the 75 percent pacing anticipated through March: insurance premium tax (97.6 percent), insurance agent licenses (94.4 percent), cost allocation (93.1 percent), rental of buildings to state agencies (89.8 percent), charges for sales and services (88.9 percent), franchise tax (86.0 percent) and liquor sales profits (83.3 percent). Other revenue sources are in-line with expectations: cigarette taxes (76.1 percent) and corporation taxes (asset fee) (73.2 percent). Revenue from others, a catchall category and penalties and interest are the only two revenue streams materially falling short of the January 2020 CREG projection.

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 2020 CREG forecast pace by $8.8 million (6.9 percent). FMRs directed to the BRA, including an adjustment for the federal fiscal year (FFY) 2019 budget sequester (withholding), are $37.4 million (21.0 percent) above the January 2020 CREG forecast.

C. State Revenues Supporting K-12 Education – This Revenue Update monitors revenue sources supporting K-12 education, including investment income, FMRs and lease income and royalties from school lands and minerals. Similar to investment data from the PWMTF, just three months of distributions have been made for investment income in the form of interest and dividends derived from the CSPLF.
These interest and dividends total $25.3 million, or $5.25 million less than the forecast. However, since the full 5 percent of the five-year average market value of the CSPLF corpus is guaranteed through a transfer from the Common School Permanent Land Fund Reserve Account, the summary table at the end of this update illustrates the spending policy guarantee through nine months. Similar to the PWMTF, the State Treasurer’s Office reports $26.4 million in net realized capital gains from the CSPLF in the first three months of FY 2020.1

For both the SFP and GF, caution should be exercised when considering any prediction for investment earnings. Historic investment experience, especially with only three months of a fiscal year reported, is not necessarily indicative of realized capital gains, or losses, to be generated over the next nine months. Given the potential volatility in investment returns combined with the delay in reporting and distributions, this update, unlike prior editions, applies the guaranteed spending policy amounts.

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 10.3 percent, or $18.7 million, ahead of the January 2020 forecast. State oil and gas lease auctions results, which have concluded for the balance of FY 2020, combined with state land lease income total $16.2 million, or 15.2 percent ahead of the forecast pacing.

Mineral royalties from common school lands (state lands) deposited to the SCCA are modestly exceeding CREG’s forecast pacing by 2.6 percent, or $1.0 million. Finally, federal coal lease bonus payments deposited into the SCCA have been received for the full fiscal year and achieved the full projected value or $180,000.

D. Mineral Severance Taxes – After applying the revenue pacing estimates through March 2020, total severance tax collections are $20.7 million, or 3.5 percent, ahead of the January 2020 CREG forecast. The average price of Wyoming oil for FY 2020 through March is $51.25/bbl, or $2.36/bbl lower than the same point in FY 2019 price and $0.15/bbl behind the CREG weighted projection for FY 2020. Oil and gas rig counts were in the mid-20s through the fall of 2019, before dropping to 19 through most of the winter months. Currently, there are just 6 rigs operating (all seeking oil), down from 25 in mid-April 2019. Natural gas prices received by Wyoming producers are averaging $2.67/mcf for the current fiscal year through March, as compared to the January 2020 CREG forecast price of $2.40/mcf; however, the seasonally higher winter prices skew the average price-to-date toward the upside. Statewide average surface coal prices through March severance tax collections are $12.10/ton; the same as the January 2020 CREG forecast.

E. Federal Mineral Royalties – Total FMRs received through March are $56.1 million (11.7 percent) ahead of the forecast pace through March 2020. Total oil production through January is approximately 4.8 percent ahead of the January 2020 CREG forecast. Furthermore, oil production on federal lands was significantly outpacing the CREG projection at 67 percent of total state oil production for the first six months, compared to the CREG estimate of 61 percent. The location of new oil wells contributes to the higher than anticipated FMR revenues. This doubles the impact of this out-performance from Wyoming oil production in the first seven months of FY 2020 due to higher than estimated production compounded by production on federal lands. Additionally, FMRs in the form of right-of-way and lease payments are exceeding CREG’s projection, already exceeding the full year projection by roughly $5 million through the first seven months.

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

1 FY 2020 net realized capital gains do not include FY 2019 net realized losses carried over to FY 2020 as discussed on page 13 of the October 2019 CREG report.
Revenue Sources | CREG Forecast FY20 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) | $544,900,000 | $341,212,388 | $361,800,000 | ($20,587,612) | 62.6% | 66.4% | -3.8%
2. GF - PWMTF from dividends & interest (3) | $189,600,000 | $142,200,000 | $142,200,000 | $0 | 75.0% | 75.0% | 0.0%
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) | $189,600,000 | $142,200,000 | $142,200,000 | $0 | 75.0% | 75.0% | 0.0%
5. GF - Pooled income from dividends & interest (3) | $55,100,000 | $17,364,570 | $13,800,000 | $3,564,570 | 31.5% | 25.0% | 6.5%
6. GF - Pooled income from capital gains (losses) (3) | N/A | $0 | N/A | $0 | N/A | N/A | N/A
7. GF - Total Pooled Income (3) | $55,100,000 | $17,364,570 | $13,800,000 | $3,564,570 | 31.5% | 25.0% | 6.5%
8. GF - Severance Tax (4) | $253,100,000 | $174,411,993 | $167,000,000 | $7,411,993 | 68.9% | 66.0% | 2.9%
9. GF - All Other | $152,300,000 | $125,380,335 | $114,200,000 | $11,180,335 | 82.3% | 75.0% | 7.3%
10. General Fund - Total (3) | $1,195,000,000 | $800,573,759 | $799,000,000 | $1,573,759 | N/A | N/A | N/A
11. General Fund - Total with capital gains (losses) (3) | $1,195,000,000 | $800,573,759 | $799,000,000 | $1,573,759 | N/A | N/A | N/A
12. BRA (from Severance Taxes) | $128,800,000 | $41,639,744 | $32,800,000 | $8,839,744 | 32.3% | 25.5% | 6.9%
13. BRA (from FMRs) (6) | $177,500,000 | $94,152,670 | $56,800,000 | $37,352,670 | 53.0% | 32.0% | 21.0%
14. Budget Reserve Account - Total | $306,300,000 | $135,792,414 | $89,600,000 | $46,192,414 | 44.3% | 29.3% | 15.1%
15. SFP CSPLF dividends & interest portion of investment income (3) | $188,500,000 | $141,400,000 | $141,400,000 | $0 | 75.0% | 75.0% | 0.0%
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) | $188,500,000 | $141,400,000 | $141,400,000 | $0 | 75.0% | 75.0% | 0.0%
18. SFP FMRs (6) | $181,500,000 | $139,780,335 | $121,100,000 | $18,680,335 | 77.0% | 66.7% | 10.3%
19. School Foundation Program - Total (without capital gains) (3) | $370,000,000 | $281,180,335 | $262,500,000 | $18,680,335 | 76.0% | 70.9% | 5.0%
20. School Foundation Program - Total (with capital gains) (3) | $370,000,000 | $281,180,335 | $262,500,000 | $18,680,335 | N/A | N/A | N/A
21. SCCA (from Coal Lease Bonus) | $180,000 | $184,320 | $180,000 | $4,320 | 102.4% | 100.0% | 2.4%
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) | $38,000,000 | $29,503,526 | $28,500,000 | $1,003,526 | 77.6% | 75.0% | 2.6%
24. School Capital Construction Account - Total | $43,480,000 | $35,033,846 | $33,900,000 | $1,053,846 | 80.6% | 78.2% | 2.4%
25. Severance Taxes - Total | $589,100,000 | $366,224,333 | $345,500,000 | $20,724,333 | 62.2% | 58.6% | 3.5%
26. Federal Mineral Royalties (without CLB) - Total | $478,300,000 | $353,229,006 | $297,100,000 | $56,129,006 | 73.9% | 62.1% | 11.7%
27. Federal Mineral Royalties (including CLB) - Total | $478,800,000 | $353,863,606 | $297,600,000 | $56,263,606 | 73.9% | 62.2% | 11.8%

(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 2020 was $21,516,837.20; sales and use tax collections have been reduced by this amount. In addition, sales & use tax collections will be adjusted in May 2020 for the special fuel survey.

(3) Capital gains income from PWMTF, Pooled, and CSPLF investments are not currently part of the CREG projection process. The State Treasurer's Office has provided actual FY20 investment income through September 2019. The table above reflects actual and forecasted investment income from the State Agency Pool through September 2019. The investment income forecasted from the PWMTF and CSPLF are guaranteed by transfers from the PWMTF Reserve Account and the CSPLF Reserve Account, respectively. The forecasts from the PWMTF and CSPLF anticipated through March are shown as actual PWMTF and CSPLF revenues received because of the spending policy guarantees.

(4) The FY20 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 $92.2 million in FY20.

(5) The School Capital Construction 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 FY20 forecast of state mineral royalties to the SCCA is estimated at a total of $38.0 million, an increase of $30.0 million.

(6) 2018 Wyoming Session Laws, Chapter 134, Section 316 as amended by 2019 Wyoming Session Laws, Chapter 80, Section 347 requires annual regular FMRs received over $500 million in FY20 to be distributed one-half to the SFP and one-half to the BRA. No FMRs are anticipated to be distributed above the $500 million cap in FY20. FY20 FMRs are forecasted at $478,300,000.