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## **Consensus Revenue Estimating Group**

Date: April 29, 2021

- To: Governor Mark Gordon Members, 66<sup>th</sup> Legislature
- From: Don Richards, Co-chairman Kevin Hibbard, Co-chairman

Subject: April 2021 Revenue Update

<u>Purpose of Update</u> – This revenue update and the accompanying table, taken in combination with the October 2020 and January 2021 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 12, 2021 CREG report remains the official fiscal forecast and is used to derive the revenue pacing expectations in this update. The April 26, 2021 fiscal profile remains the Legislative Service Office's (LSO's) estimate of projected account balances as of 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, 2020 through March 2021.

A summary table of selected revenue sources deposited into the General Fund (GF), Budget Reserve Account (BRA), One Percent Severance Tax Account (OPSTA), 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 also included regardless of the disposition of those revenues. Column A reflects the total fiscal year (FY) 2021 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 2021, 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 2021 minus the FY 2021 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 exceed the January 2021 CREG projections by \$45.5 million, or 4.6 percent. Specifically, with 70.7 percent of FY 2021 collections anticipated to date, the actual collections are 75.3 percent of total FY 2021 forecast revenue. The BRA is trending much further ahead, exceeding the forecast by \$25.7 million, or 16.2 percent. This means that the GF/BRA are \$71 million ahead of pace, before considering an additional \$25.2 million in net capital gains from "Pooled Income." Revenue directed to the SFP outpaces the forecast by \$11.4 million, or a more modest 3.2 percent, while the revenue directed to the SCCA is falling short of the January 2021 CREG forecast by \$333,675, or 1.2 percent, due to state royalties modestly lagging CREG's forecast. Finally, if the fiscal year were to end in April 2021, \$61.8 million in investment income would be deposited into the Strategic Investments

and Projects Account (SIPA) and a like amount into the Legislative Stabilization Reserve Account (LSRA). Below are a summary of revenue collections through March:

- For traditional state funds supporting the general operations of government, both the GF and BRA revenue collections through March exceed the January 2021 CREG forecast with roughly 70 percent of revenues for the fiscal year anticipated to be collected. Combined, revenue collections are \$71.3 million ahead of pace or 6.2 percent higher than projected at this point in the fiscal year.
- Sales and use tax collections, traditionally the largest single revenue contributor to the GF and a major revenue source for cities, towns, and counties, outperformed CREG's forecast by 4.0 percent (\$18.1 million) through March 2021. As noted in a recent comparison of sales, and lodging tax by county authored by the Department of Administration and Information's Economic Analysis Division, annual changes in sales and use tax collections are exceptionally disparate, with Sublette, Niobrara, and Converse counties reporting FY-over-FY declines of 49.4 percent, 47.2 percent, and 35.0 percent, respectively, while Carbon and Albany counties are demonstrating FY-over-FY increases of 38.6 percent and 26.6 percent, respectively.
- Spurred primarily by stronger than anticipated mineral production to date, severance tax and FMR collections through March exceed CREG forecasts. Severance taxes are ahead of pace by \$43.4 million (10.7 percent) and FMRs without coal lease bonus payments exceed the forecast by \$31.3 million (8.6 percent). Through March collections, oil, natural gas, and trona all surpass the January 2021 CREG forecast. Revenue derived from surface coal is in line with the CREG forecast.
- "Pooled Income", or interest and dividends derived from the GF portion of the State Agency Pool lag the CREG estimate by \$1.1 million (2.1 percent) through March. Interest and dividends generated from the Permanent Wyoming Mineral Trust Fund (PWMTF) and Common School Permanent Land Fund (CSPLF) investments exceed the CREG forecast. Specifically, interest and dividend collections are ahead of pace for the PWMTF by \$16.3 million (8.9 percent) and for the CSPLF by \$12.1 million (9.9 percent). Due to the statutory guarantee for investment income derived from the two permanent funds, the summary table at the end of this memorandum demonstrates total investment income is on pace at 75 percent of the projection. In sum, regardless of whether investment income exceeds or falls short of the CREG forecast, the GF and SFP balances are unaffected. Additional discussion on net realized capital gains and the effect of higher than forecast interest and dividend collections can be found in the investment discussions later in this memorandum.
- Total revenue deposited in the Common School Land Income Fund and subsequently the SFP from state lease and bonus payments through March is ahead of the January 2021 CREG forecast by \$945,838, or 6.2 percent.

**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 4.6 percent (\$45.5 million) above the forecast pace for the year. (See line 10.)

The January 2021 CREG forecast projected FY-over-FY decreases in statewide sales and use tax collections of 7.3 percent (\$35.5 million). However, actual sales and use tax deposits to the GF outpace the projection by 4.0 percent (\$18.1 million). Put differently, while FY 2021 sales and use tax collections are still on pace to fall short of FY 2020 levels, the FY-over-FY difference is narrowing. Furthermore, recent collections do not yet account for potentially increased consumer spending, stimulated by the most recent round of direct individual payments from the American Rescue Plan Act (ARP Act). As noted in

the summary bullets of this memorandum, the geographic disparity of sales and use tax collections is dramatic, with declines largely seen in Wyoming counties with significant mineral production (or pipelines) and strength in counties with greater economic diversification, especially those with current wind projects or impacts from tourism.

Looking at collections by major industry, the greatest FY-over-FY weakness in sales and use tax collections is found in the mining sector at negative 61.4 percent. Accommodations and food services are off last year's pace by 13.2 percent. Collections from retail trade exceed last fiscal year's collections by 1.8 percent, with online sales outperforming last fiscal year's collections by 35.0 percent, through March. Finally, notable strength is evident in the public administration category, a major contributor of which is vehicle and trailer sales since sales and use taxes are paid with licensing and registration to the county. This category is up 11.5 percent FY-over-FY.

It is worth mentioning that the traditional GF share of statewide sales and use tax collections is reduced by local impact assistance payments pursuant to W.S. 39-15-111(c), which amount to \$12.6 million for FY 2021 through March. While this is certainly a material reduction, FY 2021 impact assistance payments are substantially less than the \$21.5 million impact assistance payments for the same time period in FY 2020.

Severance tax collections directed to the GF are ahead of the forecast pace by 10.8 percent, or \$13.6 million through March. Oil production and prices, natural gas production and prices and trona production are all exceeding the January 2021 CREG forecast. Surface coal production, surface coal prices, and trona prices are nearly matching the CREG forecast and pacing expectations. Overall, this outperformance, with limited underperformance, results in higher than forecast severance tax (and FMR) collections. It should also be noted that these revenue collections are generally limited to production through January. Oil production and natural gas prices are the discrete metrics with the largest positive divergence from the forecast among minerals. Wyoming natural gas prices through January production average \$2.77/mcf, or \$0.27 higher than the CREG forecast. Furthermore, Wyoming natural gas spot prices in February were substantially higher than the CREG forecast, with the monthly average price at the Cheyenne hub recording \$19.29/mcf and at the Opal hub recording \$17.23/mcf. While these prices reflect spot prices, not actual prices received by Wyoming producers, these prices suggest higher than forecast natural gas tax and royalty collections may be forthcoming and are not yet incorporated into the actual revenue collections to date. Wyoming spot crude oil prices through the spring exceed the CY 2021 CREG oil price forecast of \$40/bbl. Oil production through January is over CREG's forecast by approximately 6 million barrels. In contrast with the better than expected pricing environment, the January 2021 CREG forecast was prepared prior to and does not include any impacts from the federal leasing moratorium and cancelation of federal lease sales. The impact from these federal actions on Wyoming production is yet to be seen.

In terms of investment income, interest and dividends deposited to the GF from the State Agency Pool ("Pooled Income") is short of the forecast pace by \$1.1 million, or 2.1 percent. However, as of April 20, 2021, there are \$25.2 million in net realized capital gains attributed to the GF from Pooled Income, which would easily cover any underperformance in interest and dividend deposits. Recall that CREG does not project or include any realized capital gains in its forecast. While it is possible that these net gains to date could grow or be offset by realized capital losses in the coming months, if the fiscal year were to end in late April 2021, this additional \$25.2 million would be deposited in the GF and reflect revenue in excess of CREG's FY 2021 forecast.

Interest and dividends from the PWMTF through March 2021 are \$153.7 million. Moreover, as of April 20, 2021 the State Treasurer's Office has realized \$164.0 million in net capital gains from the PWMTF. In accordance with W.S. 9-4-719, the first 2.5 percent of the five-year market value of the corpus, or \$194.0 million in FY 2021, of any investment earnings from the PWMTF will be deposited into and remain in the GF. Since this \$194.0 million figure is "guaranteed," the summary table at the end of this memorandum reflects 75 percent of the year (9 of 12 months) of the guarantee. However, given the current interest,

dividends, and capital gains generated to date, FY 2021 investment income derived from the PWMTF currently exceeds the 2.5 percent spending policy amount guaranteed to the GF. If the fiscal year were to end in April, half of the investment earnings in excess of \$194 million, or 2.5 percent of the five-year market value of the corpus, would be transferred in equal amounts to the SIPA and LSRA. These amounts could increase, or decrease, given interest, dividends, or net realized capital gains (or losses) earned in the last three months of FY 2021. Without accounting for any future investment income, as of this writing, \$123.6 million (in total), or \$61.8 million would be available for distribution to each account.

The "all other" category of state revenues exceeds the January forecast pace, surpassing the forecast by \$15.0 million, or 9.4 percent in total. Many of these "all other" revenue streams are not collected with predictable timing over the course of the fiscal year. The following other revenue sources have collections ahead of the 75 percent pacing expected through March: a catch-all category of "revenue from others" (160.8 percent), rental of buildings to state agencies (138.3 percent), insurance agent licenses (97.3 percent), insurance premium tax (89.9 percent), corporation taxes/asset fee (87.3 percent). Revenue sources in-line with expectations include cigarette taxes (77.1 percent) and profits from liquor sales (73.1 percent). Penalties and interest and cost allocation are the only two revenue streams falling short of the January 2021 CREG projection, and both could be subject to timing issues of the revenue deposits.

**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 exceed the January 2021 CREG forecast pace by \$4.9 million (8.6 percent). FMRs directed to the BRA, including an adjustment for the federal fiscal year (FFY) 2020 budget sequester (withholding), are \$20.8 million (20.5 percent) above the January 2021 CREG forecast. The only two recurring revenue sources benefiting the BRA are derived from mineral production. The comparative outperformance reflects similar trends noted in the above explanation. Moreover, since mineral revenue is exceeding the forecast and the BRA only benefits from revenue "over-the-statutory-cap," the higher than forecast revenue results from earlier deposits and could overstate the excess in percentage terms.

**C. One Percent Severance Tax Account** – For the FY 2021-2022 biennium, revenue derived from the statutory one percent severance tax is first deposited to the One Percent Severance Tax Account (OPSTA) and thereafter transferred to the PWMTF and the CSPLF in equal amounts.<sup>1</sup> By law, transfers of the OPSTA occur in April 2021 and again as soon as practicable after the end of FY 2022. This month, \$22.14 million was ultimately deposited to the PWMTF and CSPLF in equal amounts of \$11.07 million. Like other accounts benefiting from severance taxes, revenues deposited to the OPSTA exceed January 2021 CREG forecast, with deposits of \$7.1 million (11.3 percent) in excess of the expected pacing.

**D.** 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. In total, SFP revenue deposits are \$11.4 million ahead of the January 2021 CREG forecast and associated pacing, or 3.2 percent.

Akin to investment data from the PWMTF, interest and dividends from the CSPLF are over the CREG forecast, in this case by \$12.1 million, or 9.9 percent. Furthermore, the State Treasurer's Office has realized \$86.1 million in net realized capital gains so far this fiscal year. Unlike the PWMTF, 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 (CSPLF RA). Therefore, the summary table at the end of this update illustrates the spending policy guarantee through nine months. Interest, dividends, and net realized capital gains to date from the CSPLF total \$190.0, \$6.1 million shy of the 5 percent spending

<sup>&</sup>lt;sup>1</sup> Due to the timing of the revisions to the 2020 Budget Bill, Section 314, Mineral Severance Tax Diversion, implemented by the 2021 Budget Bill, the share of the OPSTA revenue directed to the CSPLF was temporarily deposited into the LSRA prior to being transferred to the CSPLF shortly thereafter.

policy. In other words, investment income is on pace to exceed the CSPLF 5 percent spending policy, in which case any excess would be deposited to the CSPLF RA. For both the SFP and GF, caution should be exercised when considering any prediction for investment earnings. Historic investment experience is not necessarily indicative of realized capital gains, or losses, to be generated over the next three months.

Consistent with comments elsewhere in this memorandum, FMRs received by the state exceed CREG projections. In the case of the SFP, this means that FMRs received to date are \$10.4 million, or 7.3 percent, ahead of the January 2021 forecast and associated pacing. State oil and gas lease auctions results, which have concluded for the balance of FY 2021, combined with state land lease income total \$12.4 million, or 6.2 percent ahead of the forecast pacing.

For the SCCA, total revenues are slightly off the forecast pace by approximately 1.2 percent, or just over \$300,000. Specifically, mineral royalties from common school lands (state lands) deposited to the SCCA are modestly falling short of CREG's forecast pacing by \$380,000, or 1.7 percent.

**E. Mineral Severance Taxes and FMRs, including mineral prices and production** – After applying the revenue pacing estimates through March 2021, total severance tax collections are \$43.4 million, or 10.7 percent, ahead of the January 2021 CREG forecast. Total FMRs received through March are \$31.3 million, or 8.6 percent, ahead of the forecast pace through March 2021.

The average price of Wyoming oil for FY 2021 through January production is \$38.82/bbl, or \$12.28/bbl lower than the same point in FY 2020. Currently, there are 7 rigs operating in Wyoming (6 seeking oil). The number of oil rigs is identical to April 2020 but down from 25 in mid-April 2019. Natural gas prices received by Wyoming producers are averaging \$2.77/mcf for the current fiscal year through January production, as compared to the January 2021 CREG forecast price of \$2.50/mcf. There is a single natural gas rig operating in Wyoming, compared to none at this time last year. Statewide average surface coal prices through March severance tax collections are \$12.41/ton, quite close to the January 2021 CREG weighted forecast of \$12.28/ton.

Total oil production through January 2021 for FY 2021 is approximately 7.9 percent ahead of forecast pacing, while natural gas production is approximately 3.3 percent higher than forecast pacing. Surface coal production is matching the January 2021 CREG forecast and pacing expectations, and trona production through January is approximately 4.9 percent ahead of the January 2021 CREG 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

	Fiscal Year 2021 Revenue Update Summary: Actual vs. January 2021 CREG Forecast							
		A	В	С	D	E Actual	F Forecast	G
	Revenue Sources	CREG Forecast FY21 Total	Actual through March	Forecast through March (1)	Difference YTD \$		YTD % of Total	YTD Pace
1 G!	F - Sales & Use Tax (2)	\$451,700,000	\$322,399,383	\$304,300,000	\$18,099,383	71.4%	67.4%	4.0%
2 GI	F - PWMTF from dividends & interest (3)	\$194,000,000	\$145,500,000	\$145,500,000	\$0	75.0%	75.0%	0.0%
3 GI	F - PWMTF from capital gains (3)	N/A	\$0	N/A	N/A	N/A	N/A	N/A
4	GF - Total PWMTF Income (3)	\$194,000,000	\$145,500,000	\$145,500,000	\$0	75.0%	75.0%	0.0%
5 GI	F - Pooled income from dividends & interest (3)	\$54,000,000	\$39,366,775	\$40,500,000	(\$1,133,225)	72.9%	75.0%	-2.1%
6 GI	F - 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)	\$54,000,000	\$39,366,775	\$40,500,000	(\$1,133,225)	72.9%	75.0%	-2.1%
8 GI	F - Severance Tax	\$125,000,000	\$98,950,396	\$85,400,000	\$13,550,396	79.2%	68.3%	10.8%
9 GI	F - All Other	\$159,000,000	\$134,325,085	\$119,300,000	\$15,025,085	84.5%	75.0%	9.4%
10	General Fund - Total (3)	\$983,700,000	\$740,541,639	\$695,000,000	\$45,541,639	75.3%	70.7%	4.6%
11	General Fund - Total with capital gains (losses) (3)	\$983,700,000	\$740,541,639	\$695,000,000	\$45,541,639	N/A	N/A	N/A
12 BI	RA (from Severance Taxes)	\$57,000,000	\$4,894,866	\$0	\$4,894,866	8.6%	0.0%	8.6%
13 BI	RA (from FMRs) (6)	\$101,800,000	\$25,042,424	\$4,200,000	\$20,842,424	24.6%	4.1%	20.5%
14	Budget Reserve Account - Total	\$158,800,000	\$29,937,290	\$4,200,000	\$25,737,290	18.9%	2.6%	16.2%
15 <b>O</b> r	one Percent Severance Tax Account (4)	\$62,700,000	\$42,992,339	\$35,900,000	\$7,092,339	68.6%	57.3%	11.3%
16 SF	FP CSPLF dividends & interest portion of investment income (3)	\$196,100,000	\$147,100,000	\$147,100,000	\$0	75.0%	75.0%	0.0%
17 SF	FP 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)	\$196,100,000	\$147,100,000	\$147,100,000	\$0	75.0%	75.0%	0.0%
19 SF	FP FMRs (6)	\$143,600,000	\$105,225,212	\$94,800,000	\$10,425,212	73.3%	66.0%	7.3%
20 SF	FP Lease and bonus	\$15,300,000	\$12,445,838	\$11,500,000	\$945,838	81.3%	75.2%	6.2%
21	School Foundation Program - Total (without capital gains) (3)	\$355,000,000	\$264,771,050	\$253,400,000	\$11,371,050	74.6%	71.4%	3.2%
22	School Foundation Program - Total (with capital gains) (3)	\$355,000,000	\$264,771,050	\$253,400,000	\$11,371,050	N/A	N/A	N/A
23 SC	CCA (from Coal Lease Bonus) (5)	\$0	\$0	\$0	\$0	N/A	N/A	N/A
24 SC	CCA (from FMRs)	\$5,300,000	\$5,346,000	\$5,300,000	\$46,000	100.9%	100.0%	0.9%
25 SC	CCA (from State Royalties) (6)	\$22,000,000	\$16,120,325	\$16,500,000	(\$379,675)	73.3%	75.0%	-1.7%
26	School Capital Construction Account - Total	\$27,300,000	\$21,466,325	\$21,800,000	(\$333,675)	78.6%	79.9%	-1.2%
27 Se	everance Taxes - Total	\$405,700,000	\$275,161,755	\$231,800,000	\$43,361,755	67.8%	57.1%	10.7%
28 Fe	ederal Mineral Royalties (without CLB) - Total (7)	\$364,700,000	\$249,563,635	\$218,300,000	\$31,263,635	68.4%	59.9%	8.6%
29 F4	ederal Mineral Royalties (including CLB) - Total	\$365,200,000	\$250,024,435	\$218,800,000	\$31,224,435	68.5%	59.9%	8.5%

[As of April 29, 2021]

(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 2021 was \$12,642,243.94; 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 distributed actual FY21 investment income through March 2021. The table above reflects actual and forecasted investment income from the State Agency Pool through March 2021. 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) 2020 Wyoming Session Laws, Ch. 80, Sec. 314 diverts revenue from the statutory one percent severance tax previously directed to the PWMTF to the One Percent Severance Tax Account (OPSTA) for the 2021-22 biennium. The FY21 forecast of severance tax to the OPSTA is \$62.7 million. 2020 Wyoming Session Laws, Ch. 80, Sec. 314 as amended by 2021 Wyoming Session Laws, Ch. 69, Sec. 314 distributes the severance taxes in the OPSTA 50% to the PWMTF on April 1, 2021 and 50% to the CSPLF on April 15, 2021. This 50/50 distribution is repeated after the end of fiscal year 2022.

(5) 2020 Wyoming Session Laws, Ch. 80, Sec. 316 diverts coal lease bonus revenue previously directed to the School Capital Construction Account (SCCA) to the School Foundation Program (SFP) Reserve Account for the 2021-22 biennium. FY 2021 coal lease bonus revenue to the SFP Reserve Account is projected at \$180,000. FY 2021 coal lease bonus revenue of \$184,320 has been distributed to the SFP Reserve Account.

(6) 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. 2019 Wyoming Session Laws, Ch. 204 removes this \$8 million per year limit, directing one-third of all state royalties from school lands to the School Lands Mineral Royalties Account (SLMRA). 2020 Session Laws, Ch. 80, Sec. 300(g) transfers all FY 2021 and FY 2022 state royalty revenue from the SLMRA to the SCCA. The FY21 forecast of state mineral royalties to be transferred from the SLMRA to the SCCA is estimated at \$22.0 million.

(7) 2020 Wyoming Session Laws, Chapter 80, Section 315 requires annual regular FMRs received over \$485.5 million in FY21 to be distributed one-half to the SFP and onehalf to the BRA. No FMRs are anticipated to be distributed above the \$485.5 million cap in FY21. FY21 FMRs are forecasted at \$364,700,000.