Don Richards, Co-chairman
Legislative Service Office
State Capitol Building
Cheyenne, WY 82002
307-777-7881

Kevin Hibbard, Co-chairman
Budget Department
2800 Central Avenue
Cheyenne, WY 82002
307-777-6045

Consensus Revenue Estimating Group

Date: April 27, 2023

To: Governor Mark Gordon
Members, 67th Legislature

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

Subject: April 2023 Revenue Update

Purpose of Update **–** *This revenue update and the accompanying summary table, taken in combination with the October 2022 and January 2023 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 each July. The January 12, 2023, CREG report remains the official fiscal forecast and is used to derive the revenue pacing expectations in this update. The March 22, 2023, fiscal profile remains the Legislative Service Office's (LSO's) estimate of projected account balances as of June 30, 2024. This update does not formally modify the official CREG revenue forecast or the LSO fiscal profile. The information in this update represents revenue collections received and reported from July 2022 through March 2023.*

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 update. Revenues collected from mineral severance taxes, federal mineral royalties (FMRs), and state mineral royalties are also included regardless of the disposition of those revenues. Column A shows the total fiscal year (FY) 2023 January 2023 CREG forecast of revenue by major source. Column B shows the actual year-to-date (YTD) revenue received. Column C shows the forecast revenues through March 2023. Column D shows the difference between the actual YTD revenues collected and forecast YTD revenues (column B minus column C). Column E shows the percentage of the forecast that has been received (column B divided by column A). Column F shows the percentage of the forecast 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 pacing difference: the actual YTD revenue as a percentage of the total amount forecast for FY 2023 minus the FY 2023 YTD forecast as a percentage (column E minus column F). Occasionally, percentages may vary due to rounding.

Summary – At this point in the fiscal year, current revenue collections directed to the GF exceed the paced, January 2023 CREG forecasts by $33.4 million (2.6 percent). The BRA is trending much further ahead, exceeding the forecast pace by $112.1 million (21.9 percent). Revenue directed to the SFP exceeds the forecast pace by $52.4 million (11.8 percent). All pacing excludes the statutory guarantee of investment income under the respective spending policies. The pace for both the GF and SFP are somewhat higher with consideration of the investment income guarantees. Throughout this report, the major takeaway is that revenue collections are largely in-line with CREG forecasts, within some expected level of deviation, except for the outsized impact of very strong reported natural gas prices in early winter. Natural gas prices have since fallen precipitously and annual revenue collections could reasonably be expected to revert toward the CREG forecast at least in the near-term. The following is a summary of revenue collections for FY 2023:

- For traditional state funds supporting the general operations of government, the GF and BRA revenue collections through March exceed the forecast pace with roughly 71.0 percent of revenues for the fiscal year anticipated to be collected for the GF and 78.2 percent for the BRA. Combined, revenue collections are $145.5 million (8.2 percent) higher than the forecast pace. Although most revenue streams are exceeding the forecast, the primary drivers of the outperformance are severance taxes and FMRs on Wyoming's extractive commodities, especially natural gas. Given the uncharacteristically strong winter natural gas prices, especially on the west side of the state at the Opal hub, combined with the steep reductions in natural gas spot prices beginning in mid to late winter, the revenue collections are unlikely to continue at this pace, at least in the near-term.
- Sales and use tax collections, traditionally the largest single revenue contributor to the GF and a major revenue source for cities, towns, and counties, is outperforming the forecast pace by $15.9 million (2.6 percent) through March 2023.
- Spurred primarily by strong mineral prices, especially natural gas prices in the early winter of 2022-2023, severance tax, FMR, and state mineral royalty collections through March exceed forecast paces. Severance taxes are ahead of the forecast pace by $122.6 million (13.6 percent), and FMRs exceed the forecast pace by $145.1 million (19.7 percent). Through March, oil, natural gas, surface coal and trona severance tax collections all surpass the forecasts. Total state mineral royalties exceed the forecast pace by $11.2 million (7.9 percent).
- "Pooled Income", or interest and dividends derived from the GF portion of the State Agency Pool, exceeds the forecast pace by $16.8 million (28.3 percent) through February. However, unlike permanent funds, any realized capital losses to the State Agency Pool or Legislative Stabilization Reserve Account (LSRA) in excess of realized capital gains immediately reduce investment earnings. The State Treasurer's Office reports $20.6 million net realized losses for the LSRA through February. Including realized capital losses in the LSRA and invested American Rescue Plan Act (ARPA) funds brings "Pooled Income" behind pace by $3.8 million (6.4 percent). Interest and dividends generated from the Permanent Wyoming Mineral Trust Fund (PWMTF) and Common School Account within the Permanent Land Fund (CSPLF) investments lag the forecast pace. Specifically, interest and dividend collections are short of forecast pace for the PWMTF by $7.1 million (3.5 percent) and for the CSPLF by $10.7 million (7.6 percent). However, due to the statutory guarantee for investment income derived from the two permanent funds, the GF and SFP balances are unaffected regardless of whether investment income exceeds or falls short of the forecast. 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 update.
- Total revenue deposited in the Common School Account within the Permanent Land Income Fund and subsequently the SFP from state lease and bonus payments through March is ahead of the forecast pace by $5.1 million (29.2 percent). This is also a reflection of strong energy commodity prices in the early winter months of the past year.

A. General Fund – The summary table lists the three largest sources of revenue for the GF (sales and use taxes, investment income, and severance taxes) separately, and it lists all other GF revenue sources (franchise taxes, cigarette taxes, charges from sales and service, fees, penalties, and interest, etc.) collectively. As shown in columns D and G of the summary table, actual total revenues directed to the GF (line 6) are currently estimated at $33.4 million (2.6 percent) above the forecast pace for the year, exclusive of the statutory guarantee for the spending policy of the PWMTF.

The January 2023 CREG forecast projected FY-over-FY increases in statewide sales and use tax collections of $37.5 million (6.7 percent growth). Actual sales and use tax deposits to the GF outpace the forecast by $15.9 million (2.6 percent). Further, total sales and use tax receipts are on pace to record an all-time high for Wyoming. At the county level through March, all counties show stronger sales and use tax collections than they did for a similar period in FY 2022, though the strength of collections varies among the counties. Specifically, with perhaps one exception, counties with energy production and energy infrastructure, in general, demonstrate outsized growth year-over-year in sales and use tax collections. Campbell, Carbon, Converse, Niobrara, and Sublette counties all show collections that are 30.0 percent or more higher than FY 2022 collections through March, whereas on the low end, Teton county shows 1.0 percent growth compared to FY 2022 collections, primarily due to robust tourism in FY 2022.

Nearly all major industries show higher sales and use tax collections to date compared to FY 2022 through March. Two industries in particular show greatly increased collections: mining (67.2 percent) and transportation and warehousing (45.7 percent), though the latter makes up an extremely small fraction of total sales and use tax collections. Sales and use tax collections from mining comprise 12.4 percent of total collections to date, an increase from 6.6 percent in FY 2022. Other large industries for sales and use tax remittance, specifically accommodation and food services and retail trade, show increases over FY 2022 collections of 1.0 percent and 10.7 percent, respectively. Inflationary prices and expanding mineral production continue to drive increased sales and use tax collections.

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) and W.S. 39-16-111(d), which amount to $2.3 million for FY 2023 through March – an increase from FY 2022's total of $1.1 million but a large decline from the $13.1 million total for FY 2021 and the $30.3 million total for FY 2020, illustrating the lack of major industrial projects in the last two years, especially in wind development. Future planned industrial and wind projects will likely increase local impact assistance payments as the projects proceed.

Severance tax collections directed to the GF are ahead of the forecast pace by $24.4 million (11.1 percent) through March. The primary driver of the additional severance tax revenue is Wyoming producer-reported natural gas prices, which average $10.56/Mcf for FY 2023, well above the CREG weighted fiscal year forecast for FY 2023 of $6.58. In fact, the average spot price at Opal hub in December 2022 exceeded $26/mcf. Nevertheless, natural gas spot prices have dropped to under $3.00/Mcf in the late winter and spring, demonstrating extreme volatility in the commodities market.

Interest and dividends deposited to the GF from the State Agency Pool, LSRA and ARPA funds ("Pooled Income") are ahead of the forecast pace by $16.8 million (28.3 percent). However, the State Treasurer's Office reports approximately $20.6 million in realized net capital losses. Combining interest, dividends, and realized capital losses leaves "Pooled Income" $3.8 million (6.4 percent) behind pace. Recall, CREG does not project or include any realized capital gains in its forecast.

Interest and dividends earned from the PWMTF and distributed through February 2023 are $126.2 million. Moreover, the State Treasurer's Office reports realized net capital gains of $30.2 million from the PWMTF. In accordance with W.S. 9-4-719, the first 2.5 percent of the five-year average market value of the corpus, or $210.2 million in FY 2023, of any investment earnings from the PWMTF will be deposited into and remain in the GF. Since this $210.2 million figure is "guaranteed," the summary table reflects 66.7 percent (8 of 12 months) of the annualized guaranteed amount. Investment income derived from the PWMTF for FY 2023, including realized capital gains to date, is on pace to exceed the 2.5 percent spending policy amount guaranteed to the GF, though realized capital gains and losses do not follow a linear path through the fiscal year.

The "all other" category of state revenues exceeds the forecast pace by $3.9 million (2.0 percent). Many of these "all other" revenue streams are not collected with predictable timing over the course of the fiscal year.

Franchise taxes are 13.0 percent ahead of the 75 percent pacing expected through March. Property and money use fees lag the forecast pace by 8.8 percent.

B. Budget Reserve Account – The summary table lists the two earmarked revenue streams for the BRA: severance taxes (line 8) and FMRs (line 9). Severance tax deposits to the BRA exceed the January 2023 CREG forecast pace by $25.0 million (13.8 percent). FMRs directed to the BRA, including an adjustment for the federal fiscal year (FFY) 2022 budget sequester, are $87.1 million (26.3 percent) above the forecast pace. The only two recurring revenue sources directed to the BRA are derived from mineral production. Like the GF, strong mineral prices at the end of calendar year (CY) 2022 and early CY 2023 drive the ahead-of-pace performance of BRA revenue streams. The Legislature adopted a "second cap" for both severance taxes and FMRs in the 2022 Budget Bill for the 2023-2024 biennium. Those caps were reached in January 2023 for severance taxes and February 2023 for FMRs, therefore a larger proportion of the revenue in excess of the CREG forecast will be shared with the School Foundation Program Reserve Account in the case of severance taxes and the SFP in the case of FMRs under the secondary caps.

C. State Revenues Supporting K-12 Education – The summary table lists the pacing of revenue sources supporting K-12 education, including investment income, FMRs, and lease and bonus income and state mineral royalties from school lands. The SFP revenue deposits are $52.4 million (11.8 percent) ahead of the January 2023 CREG forecast pace, exclusive of the statutory spending policy guarantee (line 15).

Akin to investment data from the PWMTF, interest and dividends from the CSPLF are falling short of the forecast pace by $10.7 million (7.6 percent). The State Treasurer's Office has realized $1.5 million in net realized capital gains so far this fiscal year on the CSPLF. Unlike the PWMTF, the full five percent of the five-year average market value of the CSPLF corpus is guaranteed through a transfer from the Common School Permanent Fund Reserve Account (CSPLF RA). Therefore, the summary table illustrates the forecast pace of only interest and dividends (line 12a) and the spending policy guarantee through eight months (line 12). Interest, dividends, and net realized capital gains to date from the CSPLF total $84.1 million, which is $57 million shy of the full five percent spending policy for the year. Funds in the CSPLF RA will supplement any shortfall in investment income below the spending policy at the end of the fiscal year. 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, especially in volatile financial markets.

Consistent with comments elsewhere in this update, FMRs received by the state exceed the forecast pace. FMRs received to date earmarked for the SFP are $58.0 million (20.3 percent) ahead of the forecast pace. State oil and gas lease auction results, which have concluded for FY 2023, combined with state land lease income total $18.1 million, which is $5.1 million (29.2 percent) ahead of the forecast pace. Similar, though not identical to the contributions to severance tax and FMR results, state leases and bonus payments are supported by strong oil and natural gas price environments earlier this winter and a stronger than forecast final lease sale in FY 2023.

State mineral royalties from common school lands (state lands) deposited to the School Lands Mineral Royalties Account (one-third) and CSPLF (two-thirds) are outpacing the forecast by $11.2 million (7.9 percent). This is also attributable to higher than forecast energy prices. The Legislature modified the distribution of the state mineral royalties deposited in the School Lands Mineral Royalties Account from the School Capital Construction Account to the CSPLF for FY 2023 and FY 2024 in the 2023 Budget Bill.

D. Mineral Severance Taxes and FMRs, including mineral prices and production – After applying the revenue pacing estimates through March 2023, total severance tax collections are $122.6 million (13.6 percent) ahead of the forecast pace. Total FMRs received through March are $145.1 million (19.7 percent) ahead of the forecast pace. Low natural gas spot prices observed in the late winter and spring will offset the unprecedentedly high natural gas prices recorded in December and January, so the spread on actual revenue collections and the January CREG forecast will likely narrow throughout the remainder of the fiscal year.

Currently, there are 18 rigs operating in Wyoming (3 seeking natural gas and 15 seeking oil), down from 36 in mid-April 2019 prior to COVID. The number of oil and natural gas rigs is up substantially from the single digits recorded in late CY 2020 and early CY 2021. Through the first seven months of FY 2023, Wyoming oil, natural gas, and surface coal production all fell within 3 percent or less of the forecast pace. In other words, the forecast for energy commodity production has been extremely close to actual. Trona production for the first half of the fiscal year lags the forecast pace by 2.5 percent. Average prices through the fiscal year to date for oil and surface coal are both on pace with the January CREG forecast. Average trona prices this fiscal year so far are moderately higher than the forecast, and as previously mentioned, average natural gas prices this fiscal year so far are significantly higher than forecast. Known low spot prices for natural gas for production completed but not yet reported will reduce the fiscal year average and bring it closer to the 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, 2023]

	Fiscal Year 2023 Revenue Update Summary: Actual vs. January 2023 CREG Forecast							
		A	B	C	D	E	F	G
	Revenue Sources	CREG Forecast FY23 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)	$600,000,000	$414,890,445	$399,000,000	$15,890,445	69.1%	66.5%	2.6%
2	GF - PWMTF with guarantee (3)	$210,200,000	$140,100,000	$140,100,000	$0	66.7%	66.7%	0.0%
2a	*GF - PWMTF from dividends & interest (3)*	*$200,000,000*	*$126,233,036*	*$133,300,000*	*($7,066,964)*	*63.1%*	*66.7%*	*-3.5%*
2b	*GF - PWMTF with capital gains (3)*	*N/A*	*$156,454,266*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*
3	GF - Pooled income with capital gains (losses) (3)	$59,500,000	$35,916,311	$39,700,000	($3,783,689)	60.4%	66.7%	-6.4%
3a	*GF - Pooled income from dividends & interest (3)*	*$59,500,000*	*$56,540,188*	*$39,700,000*	*$16,840,188*	*95.0%*	*66.7%*	*28.3%*
4	GF - Severance Tax	$219,900,000	$178,133,233	$153,700,000	$24,433,233	81.0%	69.9%	11.1%
5	GF - All Other	$193,500,000	$149,043,163	$145,100,000	$3,943,163	77.0%	75.0%	2.0%
6	**General Fund - Total (without capital gains or guarantee) (3)**	**$1,272,900,000**	**$904,216,188**	**$870,800,000**	**$33,416,188**	**71.0%**	**68.4%**	**2.6%**
7	**General Fund - Total with guarantee (3)**	**$1,283,100,000**	**$918,083,152**	**$877,600,000**	**$40,483,152**	**71.6%**	**68.4%**	**3.2%**
8	BRA (from Severance Taxes)	$181,200,000	$139,380,170	$114,400,000	$24,980,170	76.9%	63.1%	13.8%
9	BRA (from FMRs)	$330,800,000	$260,927,851	$173,800,000	$87,127,851	78.9%	52.5%	26.3%
10	**Budget Reserve Account - Total**	**$512,000,000**	**$400,308,021**	**$288,200,000**	**$112,108,021**	**78.2%**	**56.3%**	**21.9%**
11	**One Percent Severance Tax (50% to PWMTF and 50% to CSPLF)**	**$146,000,000**	**$110,688,950**	**$91,000,000**	**$19,688,950**	**75.8%**	**62.3%**	**13.5%**
12	SFP CSPLF with guarantee (3)	$211,700,000	$141,100,000	$141,100,000	$0	66.7%	66.7%	0.0%
12a	*SFP CSPLF from dividends & interest (3)*	*$140,000,000*	*$82,601,383*	*$93,300,000*	*($10,698,617)*	*59.0%*	*66.6%*	*-7.6%*
12b	*SFP CSPLF with capital gains (losses) (3)*	*N/A*	*$84,138,761*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*
13	SFP FMRs	$285,800,000	$239,211,456	$181,200,000	$58,011,456	83.7%	63.4%	20.3%
14	SFP Lease and bonus	$17,300,000	$18,056,642	$13,000,000	$5,056,642	104.4%	75.1%	29.2%
15	**School Foundation Program - Total (w/out cap. gains or guarantee) (3)**	**$443,100,000**	**$339,869,481**	**$287,500,000**	**$52,369,481**	**76.7%**	**64.9%**	**11.8%**
16	**School Foundation Program - Total (with guarantee) (3)**	**$514,800,000**	**$398,368,098**	**$335,300,000**	**$63,068,098**	**77.4%**	**65.1%**	**12.3%**
17	**School Capital Construction Account - FMRs / Total**	**$5,300,000**	**$5,346,000**	**$5,300,000**	**$46,000**	**100.9%**	**100.0%**	**0.9%**
18	**State Royalties - Total (4)**	**$141,000,000**	**$116,995,960**	**$105,800,000**	**$11,195,960**	**83.0%**	**75.0%**	**7.9%**
19	**Severance Taxes - Total**	**$899,700,000**	**$682,511,263**	**$559,900,000**	**$122,611,263**	**75.9%**	**62.2%**	**13.6%**
20	**Federal Mineral Royalties - Total**	**$735,900,000**	**$619,435,306**	**$474,300,000**	**$145,135,306**	**84.2%**	**64.5%**	**19.7%**

(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 2023 was $2,346,905; sales and use tax collections have been reduced by this amount. In addition, sales & use tax collections will be reduced in May 2023 for the special fuel survey.

(3) Capital gains income from PWMTF, Pooled, and CSPLF investments are not currently part of the CREG projection process. This table illustrates the pacing with and without the spending policy guarantee of 2.5 percent for the GF and 5.0 percent for the SFP as well as realized capital gains through February 2023. Investment income is also shown with and without the statutory spending policy guarantee. The realized capital gains (and losses) from non-permanent funds do immediately impact the recipient accounts, e.g., Pooled Income to the GF.

(4) One-third of state royalties are redirected to the Common School Account within the Permanent Land Fund for the 2023-2024 biennium pursuant to 2023 Wyoming Session Laws, Chapter 94, Section 300(c)(i).