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Consensus Revenue Estimating Group

Date: July 29, 2014

To: Governor Matt Mead
Members, 62nd Legislature

From: Dan Noble, Co-chairman
Don Richards, Co-chairman

Subject: July 2014 Revenue Update

<u>Purpose of Update</u> *- This summary (to be issued in April and July) and the table accompanying it, taken in combination with the October CREG forecast and the January forecast update, is intended to provide a quarterly summary of the state's major revenue sources. Comparisons to CREG's January 17, 2014 projections are made using revenue pacing expectations. The information below and in the table on the next page refers to revenues received from July 1, 2013 through June 30, 2014.*

<u>A Note About Fiscal Year 2014 Capital Gains</u> - As explained in the group's October 23, 2013 forecast, CREG does not currently estimate income from capital gains on investments in the Permanent Wyoming Mineral Trust Fund (PWMTF), Pooled Income, or Common School Permanent Land Fund. This update includes **final fiscal year (FY) 2014 investment income including distributed capital gains**. The FY 2014 realized gains in the two permanent funds were sufficient to trigger statutorily established spending policy provisions. The attached table considers those provisions.

General Fund/Budget Reserve Account Revenues. As of July 15, 2014, FY 2014 General Fund (GF)(line 11) and Budget Reserve Account (BRA)(line 14) revenues in total across all sources are tracking ahead of pacing expectations with two months of most revenue sources yet to be received and without adjusting projected revenue for sequestration of Federal Mineral Royalties (FMRs) directed to the BRA (See Federal Sequestration Section for additional discussion).

<u>General Fund -</u> General Fund revenues are especially strong with sales and use tax actual revenue to date outpacing the expected actual by $18.6 million or 3.7% (line 1). The next largest contributor to the GF, as projected by CREG, severance tax, was outpacing the forecast by $14.6 million or 6.7% (line 8). The catchall "All Other" category (line 9) is currently $18.4 million or 14.3% ahead of pacing expectations driven primarily by franchise taxes. The GF also benefited from significant realized capital gains in both the Pooled account and PWMTF. The GF portion of the pooled account ended FY 2014 with interest, dividends and realized capital gains totaling $86,425,307 outpacing the CREG GF projection of $69,100,000 by $17,325,307 or 25%. As noted earlier in this update capital gains are not projected by

CREG however, this result is a significant turnaround from the April update which had identified realized capital losses totaling more than $22 million attributable to the General Fund. Although the final PWMTF investment income derived from dividends and interest payments fell short of the CREG projection for FY 2014, realized capital gains more than covered this shortfall. Final FY 2014 PWMTF income (line 4) was $395,337,466 exceeding CREG projection of $135.5 million by $259,837,466 or 191.8%. Of this revenue, $73 million will remain in the General Fund, $45 million will be transferred to the Strategic Investments and Projects Account as directed by the 2014 Budget Bill and the remaining earnings which exceeded the spending policy amount (SPA) by $141,917,451 will transfer automatically to the PWMTF Spending Policy Reserve Account (SPRA). The SPRA balance is statutorily limited to 75% of the SPA. In FY 2014, that amount equals $190 million. Since the SPRA currently has a balance of $175.2 million, only $14.8 million of the $141.9 million in excess of the SPA can remain in the SPRA. Therefore $127.1 million will automatically "tip" into the PWMTF corpus on July 1, 2014.

Budget Reserve Account - The BRA has two revenue sources, severance tax and FMRs. As with severance tax to the GF, severance tax to the BRA (line 12) was outpacing the forecast by $29.2 million or 11.9%. FMRs (line 13), without adjusting for the federal sequester were *behind the forecasted pace by -$4.2 million or -1%*; however, after taking into account the federal sequestration, FMRs to the BRA were slightly ahead of the forecasted pace

Federal Sequester - CREG did not adjust projected FMRs or Coal Lease Bonus Payments in the January 17, 2014 report for any level of sequester due to the anticipation of additional guidance forthcoming from the Office of Natural Resource Revenue (ONRR). Since the writing of the January 17, 2014 CREG report, the State Treasurer did receive new guidance from the Department of Interior in a letter dated January 28, 2014 indicating sequestration will continue but at the reduced rate of 7.2% replacing the previous level of 8%. In addition the letter directed ONRR to restore the difference between the new 7.2% withholding and the previous 8% rate for the first three months of the Federal Fiscal Year (FFY) (November, December and January). This reconciliation was included in the February payment. As noted in the January 2014 CREG report, any payments withheld in FY2014 are expected to be restored in the next fiscal year. The January report also included a statement of support for the Legislative Service Office to incorporate the best available information regarding the level of federal sequester in its 2014 Budget Session profiles (goldenrods). LSO Budget/Fiscal section adjusted the three affected accounts: BRA (-$33.6 million), School Foundation Program (SFP) (-$16.8 million) and SCCA (- $15.4 million) in the Legislature's March 18, 2014 profile (goldenrod). At this point in time it appears the impact of sequestration as identified in the Legislature's March 18, 2014 profile is overstated given the performance of FMRs through ten months of collections.

School Foundation Program Account (SFP)

CREG-projected revenue to the SFP (line 19), FMRs (not adjusted for the federal sequester shown on line 18), and dividend and interest income from Common School Permanent Land Fund (CSPLF) investments (line 15) *is behind pacing expectations by -$5.8 million or -1.7%* mainly due to dividend and interest income not meeting the CREG projection. However, as with the PWMTF, the CSPLF can benefit from investment capital gains. And also like the PWMTF and Pooled Investments, capital gains in the CSPLF are not forecasted by CREG. Final CSPLF income (line 17) for FY2014 totaled $172,478,233 which exceeded CREG projections by $112,378,233 or 187%. When including capital gains total SFP revenue (line 20) is outpacing projections by $110.4 million or 31.6%. Earnings from the CSPLF are subject to a statutory spending policy, in the same manner as the PWMTF. In FY 2014, the CSPLF SPA is $107.6 million. Therefore, an amount of SFP FMR revenues equal to the CSPLF earnings in excess of the SPA will transfer to the CSPLF SPRA. For FY2014, $64.85 million will transfer from SFP FMRs into the CSPLF SPRA. The current balance in the CSPLF SPRA is $74.2 million. Again, as with the PWMTF, the CSPLF SPRA is limited to 75% of the SPA, or $80.7 million. Since the total CSPLF income exceeds the SPA, and because the resultant "tip" into the CSPLF SPRA will cause that account's balance to exceed its maximum allowable level, about $58.4 million will automatically "tip" back from the SPRA to the CSPLF corpus on July 1, 2014.

Conclusion – Overall, when considering only revenue streams projected by CREG actual revenues to date are tracking ahead of January 2014 CREG projections. In addition, the Wyoming State Treasurer generated sizable unforecasted capital gains in the PWMTF, CSPLF and the Pooled accounts. While federal sequestration continues to impact the flow of FMRs and CLBs, it is expected these funds will be restored in FY 2015. At the current pace of collection, the General Fund and Budget Reserve Account (combined) may exceed the January 17, 2014 forecast by approximately $200 million after the transfer of investment income above the SPA. Any final FY 2014 General Fund and Budget Reserve Account revenue in excess of the January 17, 2014 forecast will be swept into the Strategic Investments and Projects Account, up to $45 million in accordance with the 2014 Budget Bill, and the remainder to the Legislative Stabilization Reserve Account in accordance with the 2012 Budget Bill.

As always, we will continue to monitor the revenue situation and keep you informed.

Economic Analysis Division
[As of July 29, 2014]

Fiscal Year 2014 Revenue Update Summary: Actual vs. January 2014 CREG Forecast

		A	B	C	D	E	F	G	H
	Revenue Sources	CREG Forecast FY14 Total	Actual through June	Forecast (1) through June	Difference YTD $	Difference YTD %	Actual YTD % of Total	Forecast YTD % of Total	YTD Pace
1	GF — Sales & Use Tax (5)	$504,800,000	$463,823,501	$445,200,000	$18,623,501	4.2%	91.9%	88.2%	3.7%
2	GF — PWMTF Income from dividends & interest (2) (9)	$135,500,000	$129,263,108	$135,500,000	-$6,236,892	-4.6%	95.4%	100.0%	-4.6%
3	GF — PWMTF Income from capital gains (6)	N/A	$266,074,358	N/A	N/A	N/A	N/A	N/A	N/A
4	GF — Total PWMTF Income (7)	$135,500,000	$395,337,466	$135,500,000	$259,837,466	191.8%	291.8%	100.0%	191.8%
5	GF — Pooled Income from dividends & interest (2) (9)	$69,100,000	$74,225,294	$69,100,000	$5,125,294	7.4%	107.4%	100.0%	7.4%
6	GF — Pooled Income from capital gains (6)	N/A	$12,200,013	N/A	N/A	N/A	N/A	N/A	N/A
7	GF — Total Pooled Income	$69,100,000	$86,425,307	$69,100,000	$17,325,307	25.1%	125.1%	100.0%	25.1%
8	GF — Severance Tax	$219,300,000	$204,207,191	$189,600,000	$14,607,191	7.7%	93.1%	86.5%	6.7%
9	GF — All Other	$128,500,000	$145,000,778	$126,600,000	$18,400,778	14.5%	112.8%	98.5%	14.3%
10	**General Fund — Total (without capital gains)**	**$1,057,200,000**	**$1,016,519,871**	**$966,000,000**	**$50,519,871**	**5.2%**	**96.2%**	**91.4%**	**4.8%**
11	**General Fund — Total (with capital gains)**	**$1,057,200,000**	**$1,294,794,242**	**$966,000,000**	**$328,794,242**	**34.0%**	**122.5%**	**91.4%**	**31.1%**
12	BRA (from Severance Taxes)	$245,600,000	$215,408,410	$186,200,000	$29,208,410	15.7%	87.7%	75.8%	11.9%
13	BRA (from FMRs) (3)	$400,800,000	$310,496,466	$314,700,000	-$4,203,534	-1.3%	77.5%	78.5%	-1.0%
14	**Budget Reserve Account — Total**	**$646,400,000**	**$525,904,876**	**$500,900,000**	**$25,004,876**	**5.0%**	**81.4%**	**77.5%**	**3.9%**
15	SFP CSPLF dividends & interest portion of Investment Income (2) (9)	$60,100,000	$56,310,533	$60,100,000	-$3,789,467	-6.3%	93.7%	100.0%	-6.3%
16	SFP CSPLF capital gains portion (6)	N/A	$116,167,700	N/A	N/A	N/A	N/A	N/A	N/A
17	Total SFP CSPLF from Investment Income (8)	$60,100,000	$172,478,233	$60,100,000	$112,378,233	187.0%	287.0%	100.0%	187.0%
18	SFP FMRs (3)	$289,100,000	$243,998,812	$246,000,000	-$2,001,188	-0.8%	84.4%	85.1%	-0.7%
19	**School Foundation Program — Total (without capital gains)**	**$349,200,000**	**$300,309,345**	**$306,100,000**	**-$5,790,655**	**-1.9%**	**86.0%**	**87.7%**	**-1.7%**
20	**School Foundation Program — Total (with capital gains)**	**$349,200,000**	**$416,477,045**	**$306,100,000**	**$110,377,045**	**36.1%**	**119.3%**	**87.7%**	**31.6%**
21	SCCA (from Coal Lease Bonus)	$217,900,000	$203,802,870	$203,800,000	$2,870	0.0%	93.5%	93.5%	0.0%
22	SCCA (from FMRs) (9)	$5,346,000	$5,346,000	$5,346,000	$0	0.0%	100.0%	100.0%	0.0%
23	**School Capital Construction Account — Total**	**$223,246,000**	**$209,148,870**	**$209,146,000**	**$2,870**	**0.0%**	**93.7%**	**93.7%**	**0.0%**
24	**Severance Taxes — Total**	**$888,500,000**	**$807,031,942**	**$737,000,000**	**$70,031,942**	**9.5%**	**90.8%**	**82.9%**	**7.9%**
25	**Federal Mineral Royalties (without CLB) — Total (3)**	**$801,200,000**	**$665,791,278**	**$672,000,000**	**-$6,208,722**	**-0.9%**	**83.1%**	**83.9%**	**-0.8%**
26	**Federal Mineral Royalties (including CLB) — Total (3) (4)**	**$1,028,200,000**	**$878,694,149**	**$892,600,000**	**-$13,905,851**	**-1.6%**	**85.5%**	**86.8%**	**-1.4%**

(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 use a procedure relying on price and productions weights.

(2) Capital gains income from PWMTF, Pooled, and CSPLF investments are not currently part of the CREG projection process.

(3) The forecasted amounts for these items do not incorporate any potential federal budget sequestration of Wyoming's share of federal fiscal year 2014 federal mineral royalties and coal leases bonuses.

(4) The "Difference YTD" can be greatly impacted by the receipt of CLBs.

(5) The Impact Assistance balance at the end of June 2014 was $5,272,936.56; sales and use tax collections have been reduced by this amount. In addition, sales and use tax collections have been reduced by $784,506.81 for the special fuel survey.

(6) Capital gains income from PWMTF, CSPLF, and Pooled investments are not currently part of the CREG projection process.

(7) An amount for $141,917,451 was transferred statutorily from GF to PWMTF SPRA on July 1, 2014.

(8) An amount for $64,853,377 was transferred statutorily from SFP FMRs to CSPLF SPRA on July 1, 2014.

(9) These are final fiscal 2014 values.