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Consensus Revenue Estimating Group

Date: July 28, 2015

To: Governor Matt Mead
Members, 63rd Legislature

From: Alex Kean, Co-chairman
Don Richards, Co-chairman

Subject: July 2015 Revenue Update

Purpose of Update *- This revenue update and the table accompanying it, taken in combination with the October Consensus Revenue Estimating Group (CREG) forecast, the January forecast update and the April Revenue Update is intended to provide a quarterly summary of the state's major revenue sources. The January 16, 2015 CREG report remains the official fiscal forecast and is used to derive the revenue pacing expectations in this update. The March 19, 2015 fiscal profile remains LSO's estimate of projected account balances as of June 30, 2016, after taking into account forecasted revenues, transfers and appropriations. This report does not modify those forecasts and estimated account balances. The information in this update represents revenue collections received from July 1, 2014 through June 30, 2015.*

A Note About Fiscal Year 2015 Capital Gains - As explained in the group's October 23, 2014 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) 2015 investment income including distributed capital gains**. The FY 2015 realized gains in the two permanent funds were sufficient to trigger statutorily established spending policy provisions. Further, all but $3.3 million in realized capital gains from the PWMTF were either subject to the spending policy provisions or appropriated as FY 2015 contingent appropriations in the 2015 Supplemental Budget Bill.

General Fund - At the end of this update, a summary table of revenues deposited into the General Fund (GF) and Budget Reserve Account (BRA) is presented. The three largest sources of revenue for the GF (sales and use taxes, investment income and severance taxes) are displayed separately. All other revenue sources (franchise taxes, cigarette taxes, charges from sales and service, fees, penalties and interest, etc.) are grouped together for purposes of this update.

Column A reflects the total FY 2015 CREG projections of revenue by major source. Column B contains the actual year-to-date (YTD) revenue received. Column C represents the forecast through June, and Column D is the difference from 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. Column G shows the difference of the actual revenue to date as a percentage of the total amount forecast for FY 2015 less the expected pace of the FY 2015 forecast (column E minus column F). Occasionally, percentages may not add due to rounding.

As of July 21, 2015, FY 2015 actual GF revenue in total across all sources are tracking $380.5 million ahead of pacing expectations for the year (See line 11) with two months of most revenue sources yet to be received. Although GF revenues appear to be robust, the reality is the pacing for projected GF revenues without including realized and distributed capital gains, is just 0.3 percent ahead of forecasted pace (See line 10). In fact, actual revenue received for several categories including sales and use tax and severance tax which were ahead of projections as of April are now trailing projections. The only other bright spot for GF revenue aside from investment earnings is the "all other" category, specifically franchise taxes, which are exceeding the projection by a combined $18.2 million or 13.3 percent (See line 9).

State sales and use tax receipts have tapered off significantly over the past three months and now trail the January 2015 CREG estimate by $4.8 million or 0.8 percent at this point in the fiscal year (See line 1) after spending much of the year exceeding projections. Although total collections are now slightly behind the projected pace it is important to realize Wyoming will experience year-over-year increases in sales and use tax collections. Campbell, Converse, Crook, Laramie, Platte, Teton and Weston counties will still experience double digit percentage increases year over year. However, there have been declines in Goshen, Johnson, Niobrara, Sweetwater and select counties in the Big Horn Basin including Big Horn, Hot Springs and Park counties which benefited from a one-time increase from a single vendor in FY2014, compromising comparisons in those three counties.

The GF benefited from significant realized capital gains in both the Pooled account and PWMTF. The GF portion of the pooled account ended FY 2015 with interest, dividends and realized capital gains totaling $114,227,416 (See line 7) outpacing the CREG GF projection of $92,100,000 by $22,127,416. Although the final PWMTF investment income derived from dividends and interest payments fell short of the CREG projection for FY 2015 realized capital gains more than covered this shortfall. Final FY 2015 PWMTF income, including realized capital gains, (See line 4) was $494,234,249 exceeding CREG projection of investment income of $147.8 million by $346,434,249. Of this revenue, $113.2 million will be made available for appropriations made in Section 345 of the 2015 Supplemental Budget, $20 million will be transferred to the State Facilities Construction Account as directed by the 2014 Budget Bill, $3.2 million remains in the General Fund and the remaining earnings which exceeded the spending policy amount (SPA) by $209,961,968 will transfer automatically to the PWMTF Spending Policy Reserve Account (SPRA). Legislation adopted in 2015, SF 146, Spending policy amendments (2015 Laws, Chapter 195) increased the PWMTF SPRA cap to 90 percent of the SPA. In FY 2015, that amount equals $255.8 million. Since the PWMTF SPRA currently has a balance of $190 million and an appropriation of $10 million, only $75.8 million of the $209.9 million in excess of the SPA can remain in the PWMTF SPRA. Therefore $134,181,909 "tipped" into the PWMTF corpus on July 1, 2015.

As noted in the April update, major indices for Wyoming oil and natural gas prices have been substantially below the January 2015 CREG estimate for the last few months, and it was a matter of time before the GF share of severance taxes would weaken. With two months remaining the GF share of severance taxes is now trailing the forecasted pace by $3 million or 1.4 percent. A more detailed discussion of this revenue category is included in a subsequent section of this memo.

Budget Reserve Account - The summary table at the conclusion of this memo also illustrates the two primary revenue streams for the BRA: severance taxes and federal mineral royalties (FMRs). Consistent with the GF, severance tax receipts to the BRA are now trailing the January 2015 CREG forecast pacing, lagging the estimate year-to-date by $7 million or 3.2 percent (See line 12). FMRs directed to the BRA, including an adjustment for the federal fiscal year (FFY) 2014 budget sequester (withholding), are $3.2

million ahead of the January CREG forecast through June. When combined the BRA is now $3.8 million or 0.7 percent behind the forecasted pace (See line 14).

Bottom-line: General Fund/Budget Reserve Account - In total, GF revenues are not strong enough to overcome the weakness of BRA revenue as compared to annualized pacing of the overall January 2015 CREG estimates through June 2015, without including distributed capital gains. When capital gains generated from the PWMTF and Pooled account are included, it appears likely GF revenue will roughly offset the expected shortfall in the BRA.

Mineral Severance Taxes - Through June 2015 total severance tax collections are 1.8 percent behind the January 2015 CREG forecast, using pacing estimates. As of July 21, 2015 oil and gas rig counts totaled 21 (of which just 10 were seeking oil) a 60 percent drop from a year ago. Natural gas prices received by Wyoming producers are averaging just over $3.70/mcf for the current fiscal year to date, as compared to the CREG forecast of $4.00/mcf. Oil prices for Wyoming producers are averaging just over $60/bbl for the current fiscal year to date, as compared to the CREG forecast of $62/bbl. Coal prices to date are in step with the forecast level of $13.50/ton. Through ten months, reported oil, gas and coal production volumes to date are in-line or slightly ahead of the January 2015 CREG forecast.

Bottom-line: Severance Taxes - In total, severance tax collections are slightly behind the January 2015 CREG estimates and will most likely miss the forecasted level for oil and natural gas. The price environment for the first part of the fiscal year was much stronger than the second half and continued weakness in spot market prices from February through July will most likely not be offset by production volumes in excess of projection. As noted in the April Revenue Update, further exacerbating the slightly optimistic severance tax projection is a correction of roughly $10 million in overpayment of taxes by a major oil and gas producer.

Federal Mineral Royalties - Total FMRs to date are 1.4 percent ahead of forecast pace (See line 25) through June 2015. Other than the overpayment of tax issue, the phenomena impacting oil and natural gas receipts (the decline in pricing environments) that apply to severance taxes mirrors that of FMRs and as a result, the current funds in excess of expectations will likely be eroded over the next two months.

Coal lease bonuses are also shown in the summary table. Actual receipts of coal lease bonus payments occur annually over five years beginning at the time the federal government finalizes the lease agreement; therefore amounts reflected here are not indicative of revenue trends. Coal lease bonus payments are proceeding as expected, as adjusted by the federal sequester.

Other Revenue Issues of Note - As with the PWMTF, the Common School Permanent Land Fund (CSPLF) can benefit from investment capital gains. Consistent with the PWMTF and Pooled Investments, capital gains in the CSPLF are not forecasted by CREG. Final CSPLF income (line 17) for FY2015 totaled $215,739,848 which exceeded CREG projections by $151,439,848. When including capital gains total SFP revenue (line 20) is outpacing projections by $154.7 million. Earnings from the CSPLF are subject to a statutory spending policy, in the same manner as the PWMTF. In FY 2015, the CSPLF SPA is $121,865,368. Therefore, an amount of SFP FMR revenues equal to the CSPLF earnings in excess of the SPA will transfer to the CSPLF SPRA. For FY2015, $93.87 million will transfer from SFP FMRs into the CSPLF SPRA. The current balance in the CSPLF SPRA is $80.7 million. 2015 SF 146, Spending policy amendments (2015 Laws, Chapter 195) increased the CSPLF SPRA cap to 90 percent of the SPA, or $109.67 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 $65 million automatically “tipped” back from the SPRA to the CSPLF corpus on July 1, 2015.

Recall that any revenues in excess of the forecast levels for the education accounts (SFP and School Capital Construction Account) roll over to the Permanent Land Fund (PLF) Holding Account. Any amount in excess of $600 million at the end of the biennium in the PLF Holding Account will also be transferred to the CSPLF corpus.

Finally, several executive branch agencies reverted $1.47 million during the 4th quarter of FY 2015 in unexpended, unobligated appropriations from the GF. These funds will appear on the next regularly-issued LSO profile ("goldenrod") as part of the BRA cash balance.

Conclusions - At the current pace of collection and when considering only revenue streams projected by CREG it is probable that the GF and BRA (combined) will miss January CREG projections. However, the Wyoming State Treasurer generated sizeable unforecasted, but anticipated, realized capital gains from the PWMTF, State Agency Pool and the CSPLF which are expected to roughly offset any shortfall from sales and use tax, severance tax and FMRs. Revenues from oil and natural gas production continue trending downward and sales and use tax collections have slowed considerably over the last three months. Through June 30, the current trends indicate:

- the total fiscal year 2015 revenue forecast for the GF and BRA combined, SFP and SCCA will likely be met largely due to the strength of investment income;
- the contingent appropriations adopted in Section 345 of the 2015 Supplemental Budget are fully funded;
- the spending policy reserve accounts are fully funded; and
- significant automatic savings will be experienced in the permanent funds (PWMTF $134 million and CSPLF $65 million).

This Revenue Update is limited to current fiscal year revenues. CREG's next regularly scheduled update of projections will occur in October 2015, whereby revisions to future revenue projections, including those for FY 2016, may occur. Importantly, commodity price and production estimates are based upon calendar year averages, though current prices of natural gas and oil are both below projected levels for CY 2015.

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

Fiscal Year 2015 Revenue Update Summary: Actual vs. January 2015 CREG Forecast

	Revenue Sources	A CREG Forecast FY15 Total	B Actual through June	C Forecast (1) through June	D Difference YTD $	E Actual YTD % of Total	F Forecast YTD % of Total	G YTD Pace
1	GF — Sales & Use Tax (5)	$561,100,000	$496,545,634	$501,300,000	-$4,754,366	88.5%	89.3%	-0.8%
2	GF — PWMTF Income from dividends & interest	$147,800,000	$144,901,264	$147,800,000	-$2,898,736	98.0%	100.0%	-2.0%
3	GF — PWMTF Income from capital gains (2)	N/A	$349,332,985	N/A	N/A	N/A	N/A	N/A
4	GF — Total PWMTF Income	$147,800,000	$494,234,249	$147,800,000	$346,434,249	334.4%	100.0%	234.4%
5	GF — Pooled Income from dividends & interest	$92,100,000	$87,394,287	$92,100,000	-$4,705,713	94.9%	100.0%	-5.1%
6	GF — Pooled Income from capital gains (2)	N/A	$26,833,130	N/A	N/A	N/A	N/A	N/A
7	GF — Total Pooled Income	$92,100,000	$114,227,416	$92,100,000	$22,127,416	124.0%	100.0%	24.0%
8	GF — Severance Tax	$207,000,000	$178,601,131	$181,600,000	-$2,998,869	86.3%	87.7%	-1.4%
9	GF — All Other	$137,400,000	$154,126,214	$135,900,000	$18,226,214	112.2%	98.9%	13.3%
10	**General Fund — Total (without capital gains)**	**$1,145,400,000**	**$1,061,568,529**	**$1,058,700,000**	**$2,868,529**	**92.7%**	**92.4%**	**0.3%**
11	**General Fund — Total (with capital gains)**	**$1,145,400,000**	**$1,437,734,644**	**$1,058,700,000**	**$379,034,644**	**125.5%**	**92.4%**	**33.1%**
12	BRA (from Severance Taxes)	$220,900,000	$164,196,287	$171,200,000	-$7,003,713	74.3%	77.5%	-3.2%
13	BRA (from FMRs) (3)	$328,000,000	$267,359,848	$264,200,000	$3,159,848	81.5%	80.5%	1.0%
14	**Budget Reserve Account — Total**	**$548,900,000**	**$431,556,135**	**$435,400,000**	**-$3,843,865**	**78.6%**	**79.3%**	**-0.7%**
15	SFP CSPLF dividends & interest portion of Investment Income	$64,300,000	$69,251,035	$64,300,000	$4,951,035	107.7%	100.0%	7.7%
16	SFP CSPLF capital gains portion (2)	N/A	$146,488,813	N/A	N/A	N/A	N/A	N/A
17	Total SFP CSPLF from Investment Income	$64,300,000	$215,739,848	$64,300,000	$151,439,848	335.5%	100.0%	235.5%
18	SFP FMRs (3)	$252,700,000	$222,424,032	$219,100,000	$3,324,032	88.0%	86.7%	1.3%
19	**School Foundation Program — Total (without capital gains)**	**$317,000,000**	**$291,675,067**	**$283,400,000**	**$8,275,067**	**92.0%**	**89.4%**	**2.6%**
20	**School Foundation Program — Total (with capital gains)**	**$317,000,000**	**$438,163,880**	**$283,400,000**	**$154,763,880**	**138.2%**	**89.4%**	**48.8%**
21	SCCA (from Coal Lease Bonus)	$209,100,000	$215,609,844	$209,100,000	$6,509,844	103.1%	100.0%	3.1%
22	SCCA (from FMRs)	$5,300,000	$5,346,000	$5,300,000	$46,000	100.9%	100.0%	0.9%
23	**School Capital Construction Account — Total**	**$214,400,000**	**$220,955,844**	**$214,400,000**	**$6,555,844**	**103.1%**	**100.0%**	**3.1%**
24	**Severance Taxes — Total**	**$818,100,000**	**$677,084,439**	**$692,000,000**	**-$14,915,561**	**82.8%**	**84.6%**	**-1.8%**
25	**Federal Mineral Royalties (without CLB) — Total (3)**	**$692,000,000**	**$601,079,880**	**$591,200,000**	**$9,879,880**	**86.9%**	**85.4%**	**1.4%**
26	**Federal Mineral Royalties (including CLB) — Total (3) (4)**	**$910,200,000**	**$825,789,724**	**$811,800,000**	**$13,989,724**	**90.7%**	**89.2%**	**1.5%**

(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 2015 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 May 2015 was $976,573.00; sales and use tax collections have been reduced by this amount. In addition, sales and use tax collections were reduced by $977,584.49 in May 2015 for the special fuel survey.

(6) $209,961,968 was transferred statutorily from GF to PWMTF SPRA on July 1, 2015.

(7) $93,874,480 was transferred statutorily from SFP FMRs to CSPLF SPRA on July 1, 2015.