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Consensus Revenue Estimating Group

Date: July 28, 2017

To: Governor Matt Mead
Members, 64th Legislature

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

Subject: July 2017 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, 2017 CREG report remains the official fiscal forecast and is used to derive the revenue pacing expectations in this update. The March 21, 2017 fiscal profile remains LSO's estimate of projected account balances as of June 30, 2018, 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, 2016 through June 30, 2017.*

A Note About Fiscal Year 2017 Capital Gains and Losses - As explained in the group's January 16, 2017 forecast, CREG does not currently estimate income from capital gains (or losses) on investments in the Permanent Wyoming Mineral Trust Fund (PWMTF), Pooled Income, or Common School Permanent Land Fund (CSPLF). This update includes **final fiscal year (FY) 2017 investment income including distributed capital gains/losses**. A more detailed discussion of this revenue category is included in subsequent sections of this memo.

General Fund – Presented at the end of this update is a summary table of revenues deposited into the General Fund (GF), Budget Reserve Account (BRA) and the One Percent Severance Tax Account. 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 services, fees, penalties and interest, etc.) are grouped together for purposes of this update.

Column A reflects the total FY 2017 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 2017, less the expected pace of the FY 2017 forecast (column E minus column F). Occasionally, percentages may not add due to rounding.

As of July 28, 2017, FY 2017 actual GF revenue across all sources, including distributed capital gains and losses, is tracking $143.6 million or 14.2 percent above pacing expectations for the year (line 11) with two months of most revenue sources yet to be received. Without including capital gains and losses, GF revenue is still outpacing projections by $14.2 million or 1.4 percent (line 10) on the strength of severance taxes and the "all other" category.

After 24 consecutive months of year-over-year declining sales and use tax distributions into the GF, the trend reversed in April of 2017 and has now been positive for three consecutive months. No doubt this demonstrates an improvement in the economy, but it is imperative to note that collections remain nearly 30 percent below where they were two years ago. Sales and use tax collections now trail the January 2017 CREG estimate by $3.5 million, or 0.9 percent at this point in the fiscal year (line 1). On a local level for FY 2017, only four counties have seen year over year increases: Teton (5.6 percent); Crook (4.1 percent); Washakie (1.4 percent); and Albany (0.5 percent). The rest of the state has experienced decreases, with three counties dropping by more than 15 percent: Campbell (-19.1 percent); Converse (-17.1 percent); and Weston (-33.9 percent).

Although Wyoming oil prices, natural gas prices, and coal production are exceeding January 2017 CREG estimates through ten months of the fiscal year, the positive margin has diminished since the start of calendar year 2017. Wyoming oil and natural gas production, as well as trona prices, are in step with January 2017 CREG estimates. The net result is the GF share of severance taxes is exceeding the January forecast to date by $7.2 million or 4.5 percent (line 8). A more detailed discussion of this revenue category is included in a subsequent section of this memo.

FY 2017 investment income derived from the PWMTF totaled $298.79 million, which did not reach the full spending policy amount (SPA) of $331.62 million, or 5 percent of the five-year market value of the corpus. In accordance with W.S. 9-4-719, the first 2.5 percent of the five-year market value of the corpus, or $165.80 million, of any investment earnings from the PWMTF will be deposited into and remain in the GF. The remaining investment earnings will be transferred from the GF to the Strategic Investments and Projects Account (SIPA) and Legislative Stabilization Reserve Account (LSRA) in equal amounts of $66.49 million. In addition, as required by 2017 HB 291, the first $4.3 million of the $66.49 million transferred into the LSRA will be further deposited into the State Construction Account (health facilities) and the funds transferred into the SIPA will be further appropriated as prioritized in the 2016 State Funded Capital Construction bill[1].

[1] 2016 Wyoming Session Laws, Chapter 97, Section 7 provided conditional appropriations from the SIPA for the following projects from FY 2017 investment earnings in priority order: State facilities construction account (health facilities, $20 million); LCCC Ludden library ($2.5 million); University science initiative ($24.4 million); State facilities – Casper ($12 million); Capitol building rehabilitation and restoration account ($20 million); and mineral impacted roads (in an amount to be determined). Final FY 2017 investment earnings fully fund the first four projects, and funded $7.6 million of the Capitol building rehabilitation and restoration account appropriation.

The GF share of final FY 2017 investment income from the pooled account was $85.97 million, which exceeded the January 2017 CREG projection by $3.97 million, or 4.8 percent (line 5). However, the State Treasurer's Office has also posted a realized capital loss attributable to the GF in the state's accounting system of $15.12 million, of which $10.75 million is attributable to FY 2017 and $4.37 million was carried forward from FY 2016 (line 6). Unlike realized losses from the state permanent funds, pursuant to the State Treasurer's interpretative policy, these realized capital losses are entered as a reduction to the cash balance of the affected fund and therefore the total GF share of final FY 2017 pooled investment income is trailing projection by $6.78 million, or 8.3 percent (line 7).

The "all other" category of state revenues is ahead of the forecast pace by $13.6 million, or 6.8 percent (line 9). Of the major revenue components in the "all other" revenue category, charges for sales and services are exceeding the projection by $8.5 million while penalties and interest are lagging the forecast by $2.4 million.

Budget Reserve Account - The summary table at the conclusion of this memo also illustrates the two revenue streams for the BRA: severance taxes and federal mineral royalties (FMRs). Consistent with the GF, severance tax receipts to the BRA remain ahead of January 2017 CREG forecast pacing year-to-date by $14.5 million, or 12.9 percent (line 12). FMRs directed to the BRA, including an adjustment for the federal fiscal year (FFY) 2016 budget sequester (withholding), are $62.8 million, or 32.7 percent (line 13) ahead of the January CREG forecast through June. As mentioned in the April revenue update, the BRA received two-thirds of the February federal oil and gas lease sale, which generated a bonus payment of approximately $59 million for Wyoming. When combined, revenue deposited into the BRA is now $77.3 million, or 25.4 percent ahead of the forecasted pace (line 14).

Bottom-line: General Fund/Budget Reserve Account - In total, GF and BRA revenue collections are $91.5 million, or 7.8 percent ahead of the annualized pacing of the overall January 2017 CREG estimates through June 2017 ($220.8 million, or 18.9 percent when including capital gains and losses). Additionally, the 2016 Budget Bill (2016 Wyoming Session Laws, Chapter 31, Section 322) provided for an interfund loan from the One Percent Severance Tax account, which is funded for the FY 2017-2018 biennium from a diversion of the one percent severance tax traditionally deposited into the PWMTF over the last decade. Like all severance tax collections, this source of funding is exceeding the January CREG estimates. For the one percent diversion, actual collections are $7.0 million, or 8.5 percent, ahead of forecast.

Mineral Severance Taxes - Through June 2017 total severance tax collections are 7.6 percent ahead of the January 2017 CREG forecast, using pacing estimates. As of July 15, 2017 oil and gas rig counts have increased to twenty-five from eight one year ago. Natural gas prices received by Wyoming producers are averaging $3.07/mcf for the current fiscal year to date, as compared to the CREG forecast of $2.75/mcf. Oil prices for Wyoming producers are averaging approximately $43.50/bbl for the current fiscal year to date, as compared to the weighted CREG forecast of approximately $40.50/bbl. Surface coal prices are slightly behind the forecast level of $13.25/ton however, surface coal production appears to have substantially recovered from the dismal production experienced during the spring of 2016 and is currently running well ahead of projections.

Bottom-line: Severance Taxes - In total, severance tax collections will exceed projections for FY 2017 given known spot prices and production reports covering the remainder of the fiscal year.

Federal Mineral Royalties - Total FMRs (without coal lease bonus payments) to date are $94.3 million, or 19.3 percent ahead of forecast pace (line 26) through June 2017 due in large part to a single February federal oil and gas lease sale, which generated a bonus payment of approximately $59 million for Wyoming. Furthermore, the pricing and production environments that apply to FMRs mirror that of severance taxes and as a result, total FMR collections will exceed the forecasted level.

The summary table also includes coal lease bonus (CLB) payments. Actual receipts of CLB 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. CLB payments are proceeding as expected, as adjusted by the federal sequester (line 22).

Other Revenue Issues of Note – Final FY 2017 investment income derived from the CSPLF totaled $154.9 million and surpassed the SPA (5 percent of the five-year market value of the corpus) of $149.7 million by $5.3 million. In accordance with the spending policy provisions under W.S. 9-4-719 and 9-4-601, the full $154.9 million will be deposited into the School Foundation Account while an amount of SFP FMR revenues equal to $59.86 million (calculated as the amount equal to the extent to which earnings from the CSPLF exceed three percent of the previous five year average market value of the corpus and are less than or equal to the SPA) will transfer to the School Foundation Program Reserve account. Because investment income exceeded the SPA, an amount of SFP FMR revenues equal to $5.3 million will automatically be appropriated to the CSPLF Spending Policy Reserve Account (CSPLF SPRA). For FY 2017 the CSPLF SPRA cap is 90 percent of the SPA, or $134.7 million. Although the total CSPLF income exceeds the SPA, the resultant "transfer" into the CSPLF SPRA of $5.3 million will not cause that account's balance to exceed its maximum allowable level and the CSPLF SPRA will have an estimated balance of $114.95 million. Furthermore, the Legislature suspended any "tips" to the CSPLF for FY 2017 even in the event the threshold was met.

Conclusions – Revenue collections directed to the GF, BRA and SFP will exceed January 2017 CREG projections. In addition, the Wyoming State Treasurer generated sizeable unforecasted, but anticipated, realized capital gains from the PWMTF and the CSPLF. Through June 30, the current trends indicate:

- the total FY 2017 revenue forecast for the GF, BRA, One Percent Severance Tax Account, SFP and School Capital Construction Account will all be met or exceeded;
- the first $66.5 million by project priority in Section 7 of the 2016 State Funded Capital Construction bill are funded, and the Capitol building rehabilitation and restoration account appropriation will be partially funded; and

- $62.19 million of PWMTF investment income will be deposited into the LSRA and $4.3 million will be deposited into the State Construction Account (Health Facilities).

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 June 30, 2017]

Fiscal Year 2017 Revenue Update Summary: Actual vs. January 2017 CREG Forecast

		A	B	C	D	E	F	G
	Revenue Sources	CREG Forecast FY17 Total	Actual through June	Forecast through June (1)	Difference YTD $	Actual YTD% of Total	Forecast YTD % of Total	YTD Pace
1	GF - Sales & Use Tax (2)	$405,000,000	$362,234,066	$365,700,000	($3,465,934)	89.4%	90.3%	-0.9%
2	GF - PWMTF from dividends & interest (3), (4)	$165,800,000	$158,683,655	$165,800,000	($7,116,345)	95.7%	100.0%	-4.3%
3	GF - PWMTF from capital gains (3), (4)	N/A	$140,106,356	N/A	N/A	N/A	N/A	N/A
4	GF - Total PWMTF Income (3)	$165,800,000	$298,790,011	$165,800,000	$132,990,011	180.2%	100.0%	80.2%
5	GF - Pooled income from dividends & interest (3)	$82,000,000	$85,972,480	$82,000,000	$3,972,480	104.8%	100.0%	4.8%
6	GF - Pooled income from capital gains (losses) (3)	N/A	($10,747,723)	N/A	($10,747,723)	N/A	N/A	N/A
7	GF - Total Pooled Income (3)	$82,000,000	$75,224,757	$82,000,000	($6,775,243)	91.7%	100.0%	-8.3%
8	GF - Severance Tax (5)	$159,400,000	$147,635,946	$140,397,179	$7,238,767	92.6%	88.1%	4.5%
9	GF - All Other (6)	$200,300,000	$212,266,019	$198,700,000	$13,566,019	106.0%	99.2%	6.8%
10	**General Fund - Total (3), (4)**	**$1,012,500,000**	**$966,792,166**	**$952,597,179**	**$14,194,987**	**95.5%**	**94.1%**	**1.4%**
11	**General Fund - Total with capital gains (losses) (3), (4)**	**$1,012,500,000**	**$1,096,150,799**	**$952,597,179**	**$143,553,620**	**108.3%**	**94.1%**	**14.2%**
12	BRA (from Severance Taxes)	$112,400,000	$88,842,906	$74,365,358	$14,477,548	79.0%	66.2%	12.9%
13	BRA (from FMRs)	$191,900,000	$201,291,424	$138,500,000	$62,791,424	104.9%	72.2%	32.7%
14	**Budget Reserve Account - Total**	**$304,300,000**	**$290,134,330**	**$212,865,358**	**$77,268,972**	**95.3%**	**70.0%**	**25.4%**
15	**One Percent Severance Tax Account**	**$82,400,000**	**$74,716,129**	**$67,743,019**	**$6,973,110**	**90.7%**	**82.2%**	**8.5%**
16	SFP CSPLF dividends & interest portion of investment income (3)	$89,800,000	$86,625,811	$89,800,000	($3,174,189)	96.5%	100.0%	-3.5%
17	SFP CSPLF from capital gains (3)	N/A	$68,311,831	N/A	N/A	N/A	N/A	N/A
18	Total SFP CSPLF from investment income (3)	$89,800,000	$154,937,642	$89,800,000	$65,137,642	172.5%	100.0%	72.5%
19	SFP FMRs	$184,600,000	$189,379,908	$158,000,000	$31,379,908	102.6%	85.6%	17.0%
20	**School Foundation Program - Total (without capital gains) (3)**	**$274,400,000**	**$276,005,719**	**$247,800,000**	**$28,205,719**	**100.6%**	**90.3%**	**10.3%**
21	**School Foundation Program - Total (with capital gains) (3)**	**$274,400,000**	**$344,317,550**	**$247,800,000**	**$96,517,550**	**125.5%**	**90.3%**	**35.2%**
22	SCCA (from Coal Lease Bonus)	$115,300,000	$115,287,115	$115,300,000	($12,885)	100.0%	100.0%	0.0%
23	SCCA (from FMRs)	$5,300,000	$5,346,000	$5,300,000	$46,000	100.9%	100.0%	0.9%
24	**School Capital Construction Account - Total**	**$120,600,000**	**$120,633,115**	**$120,600,000**	**$33,115**	**100.0%**	**100.0%**	**0.0%**
25	**Severance Taxes - Total**	**$539,900,000**	**$485,481,936**	**$444,572,252**	**$40,909,684**	**89.9%**	**82.3%**	**7.6%**
26	**Federal Mineral Royalties (without CLB) - Total**	**$487,800,000**	**$501,967,332**	**$407,700,000**	**$94,267,332**	**102.9%**	**83.6%**	**19.3%**
27	**Federal Mineral Royalties (including CLB) - Total**	**$612,200,000**	**$626,354,447**	**$532,100,000**	**$94,254,447**	**102.3%**	**86.9%**	**15.4%**

(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 (FMRs) use a procedure relying on price and production weights, taking into account the impact of the repayment of sequestered, or withheld, FMRs.

(2) The Impact Assistance balance at the end of June 2017 was $22,621.20; sales and use tax collections have been reduced by this amount. In addition, sales & use tax collections were adjusted in May 2017 by $277,724.21 for the special fuel survey.

(3) Capital gains income from PWMTF, Pooled, and CSPLF investments are not currently part of the CREG projection process. Pursuant to the State Treasurer's interpretative policy, realized capital losses in the State Agency Pool are entered regularly in the state's accounting system as a reduction to the cash balance.

(4) There is no distinction between (i) interest and dividends and (ii) realized capital gains within the statutory term “earnings”. The net effect this year for the PWMTF is the 2.5 percent of the spending policy amount ($165,800,000) was exceeded by $132,990,011. According to the spending policy, investment earnings in excess of 2.5 percent of the spending policy amount ($165,800,000) and less than 5.0 percent of the spending policy amount ($331,600,000) are distributed equally to the Strategic Investments and Projects Account (SIPA) and the Legislative Stabilization Reserve Account (LSRA). 2017 Wyoming Session Laws, Chapter 78 diverts $4.3 million of the FY 2017 LSRA amount to the State Facilities Construction Account.

(5) The FY17 forecast of severance tax to the General Fund includes the mineral severance tax diversion adopted in 2016 Wyoming Session Laws, Chapter 31, Section 325. This severance tax diversion is estimated at $6.7 million in FY17.

(6) The FY17 forecast of federal mineral royalties (FMRs) to the General Fund includes the FMR diversion adopted in 2016 Wyoming Session Laws, Chapter 31, Section 326. This FMR diversion is estimated at $60.1 million in FY17.