Kevin Hibbard, Co-chairman
Dept. of Administration and Information
2800 Central Avenue
Cheyenne, WY 82002
307-777-6045

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

Consensus Revenue Estimating Group

Date: July 31, 2019

To: Governor Mark Gordon
Members, 65th Legislature

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

Subject: July 2019 Revenue Update

Purpose of Update *- This revenue update and the accompanying table, taken in combination with the October and January Consensus Revenue Estimating Group (CREG) forecasts, are intended to provide a quarterly summary of the state's major revenue sources. A similar revenue update is issued in April of each year. The January 14, 2019 CREG report remains the official fiscal forecast and is used to derive the revenue pacing expectations in this update. The March 18, 2019 fiscal profile remains the Legislative Service Office's (LSO's) estimate of projected account balances as of June 30, 2020. 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, 2018 through June 2019.*

At the end of this update, a summary table of selected revenues deposited into the General Fund (GF), Budget Reserve Account (BRA), School Foundation Program account (SFP) and the School Capital Construction Account (SCCA) is presented. Additionally, total mineral severance taxes and federal mineral royalties (FMRs) are respectively included. Column A reflects the total fiscal year (FY) 2019 CREG forecast 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 between the actual revenues collected and the YTD forecast (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 2019 minus the FY 2019 forecast YTD as a percentage (column E minus column F). Occasionally, percentages may vary due to rounding.

A Note About Fiscal Year 2019 Capital Gains and Losses - As explained in CREG's January 14, 2019 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 **FY 2019 investment income including distributed capital gains/losses** as accounted through July 30, 2019. A more detailed discussion of this revenue category is included in subsequent sections of this memo.

General Fund - The three largest sources of revenue for the GF (sales and use taxes, investment income and severance taxes) are listed separately. All other GF revenue sources (franchise taxes, cigarette taxes, charges from sales and service, fees, penalties and interest, etc.) are classified collectively for purposes of this update.

As shown in columns D and G of the summary table, actual total revenues received and directed to the GF, including distributed capital gains and losses are currently tracking $201.0 million, or 16.9 percent above the forecast pace for the year (line 11). Without including capital gains and losses, GF revenue is still outpacing projections by $43.0 million or 3.6 percent (line 10) mainly due to the strengths of sales and use taxes, severance taxes, especially from oil production, and PWMTF dividend & interest earnings.

The January 2019 CREG forecast expected year-over-year increases in statewide sales and use tax collections of 4.0 percent. However, actual sales and use tax collections are outpacing this projection by an additional 3.3 percent, or $16.5 million, despite the Impact Assistance Payment of nearly $11 million to local governments. Wyoming's economic rebound has continued to be driven by oil exploration in the east of the state. Nearly every major industry demonstrated growth in sales and use taxes, led by financial activities (where taxes mostly generated from automotive, machinery and equipment leasing and rental) and mining (including oil & gas extraction), about 20 percent, each. Other industries associated with extraction activities such as manufacturing and transportation also showed double-digit growth. Retail trade, the largest sector in terms of sales tax collections, increased 13.0 percent. Year-over-year statewide sales and use tax collections are up in 21 counties, with only Sublette (-17.3%) and Fremont (-1.1%) recording year-over-year declines for FY 2019. Converse county experienced the largest growth, at 53.4 percent. Five counties (Carbon, Crook, Goshen, Platte, and Weston) report increases of over 20 percent. Besides drilling activities, purchase and building of oil & gas pipelines also greatly contributed to the increase of sales and use taxes.

Severance tax directed to the GF in FY 2019 are ahead of the January 2019 CREG forecast by $16.1 million, or 6.1 percent. Both Wyoming oil production and prices are on the pace to exceed the forecast levels. In particular, oil production has been growing at a strong pace, about 17 percent growth between fiscal YTD 2018 and 2019. Though the recent spot prices of Opal are running the lowest in three years, the average natural gas fiscal YTD price reported by Wyoming severance taxpayers is approximately $3.61/mcf, substantially higher than the previous year level and the January 2019 CREG FY 2019 estimate of $2.95/mcf. The higher than expected fiscal YTD prices were mainly attributable to the heightened prices in the past winter. However, natural gas production is about 5 percent below forecast pace, and both surface coal production and prices were also slightly lower than forecasts. Severance tax collections from trona are marginally lower than forecasts, though by a small amount, with both production and prices somewhat lagging expectation.

The anticipated but not forecasted final realized capital gains from the PWMTF for FY 2019 was $167.4 million. Together with interest and dividends of $197.7 million, FY 2019 investment income derived from the PWMTF totaled $365.1 million, which was just short of the full spending policy amount (SPA) of $369.4 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 $184.7 million, of any investment earnings from the PWMTF will be deposited into and remain in the GF. Investment earnings in excess of 2.5 percent ($180.4 million) will be transferred to the Strategic Investments and Projects Account (SIPA) and Legislative Stabilization Reserve Account (LSRA) in equal amounts of $90.2 million. Unlike FY 2018, there is no amount to be distributed to the PWMTF Spending Policy Reserve Account for FY 2019. Then, $69.2 million will be transferred to PWMTF Reserve Account from the SIPA, pursuant to a one-time transfer required by 2018 Wyoming Session Laws, Chapter 134, Section 334. As a result, the rest of the amount, $21.0 million, will remain in SIPA in FY 2019.

Interest and dividends directed to the GF from the State Agency Pool (pooled income) lagged CREG's projection by 8.8 percent, or $8.3 million. Moreover, the State Agency Pool has $9.5 million in net realized capital losses attributable to the GF from investments in the State Agency Pool. This is shown in the summary table on line 6. Under the 2009 State Treasurer's interpretative policy, revised in 2018, realized losses attributable to the GF within the State Agency Pool reduce the available cash, unlike realized losses experienced in a permanent fund. As a result, the GF share of final FY 2019 investment income from the pooled account was $77.2 million, which is short of CREG projection by $17.8 million, or 18.7 percent. Finally, the "all other" category of state revenues is ahead of the forecast pace by $5.8 million, or 4.0 percent.

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 receipts to the BRA are currently exceeding the January 2019 CREG forecast pace by $17.2 million (11.8 percent). FMRs directed to the BRA, including an adjustment for the federal fiscal year (FFY) 2019 budget sequester (withholding), are $7.7 million (3.4 percent) above the January CREG forecast through June.

<u>Bottom-line: General Fund/Budget Reserve Account</u> - In total, GF and BRA revenue collections are $67.9 million, or 4.8 percent ahead of the annualized pacing of the overall January 2019 CREG estimates. If capital gains and losses are included, the total actual GF and BRA revenue through June 2019 is already 14.5 percent higher than the CREG forecast for FY 2019.

Mineral Severance Taxes - Through June 2019, total severance tax collections are $46.5 million, or 7.3 percent, ahead of the January 2019 CREG forecast. The average price of Wyoming oil for FY 2019 to date is $55.1/bbl, roughly $2.78/bbl higher than the same period in FY 2018 and about $2.40/bbl ahead of the weighted projection for FY 2019. The oil production, especially, has been increasing at a strong pace in FY 2019, surpassing the CREG projection by 7.5 percent, and surpassing FY 2018 YTD level by about 17.0 percent. Oil and gas rig counts have increased from 25 in the mid-year of 2018 (of which 14 were seeking oil) to 32 in June 2019 (of which 21 were seeking oil). Boosted by higher prices in the past winter, natural gas prices received by Wyoming producers are averaging $3.60/mcf for the current fiscal year to date, about 20 percent higher than either January 2019 CREG forecast or FY 2018 YTD prices. However, Wyoming natural gas spot prices are particularly weak this summer - the lowest in three years. Natural gas production is approximately 5 percent below CREG forecast pace for FY 2019 YTD, and moreover the year-over-year decreasing rate has been running double-digits since November 2018. Statewide average surface coal prices of $12.23/ton for FY 2019 to date are lower than the January forecast level of $12.50/ton, and coal production volume to date is also slightly lower than expectations.

In summary, severance tax collections are above the January 2019 CREG projections, mainly attributed to the outperformances of both pricing and production of oil, and prices of gas compared to the projected levels, and their contribution to revenue growth has more than offset the negative factors from decline in natural gas and coal production, and coal prices.

Federal Mineral Royalties - Total FMRs to date are $23.2 million (4.0 percent) ahead of the forecast pace through June 2019. Recall that a provision in the 2018 Budget Bill (2018 Wyoming Session Laws, Chapter 134, Section 316) directed one-third of the revenue in excess of $500 million of FMR collections to the BRA and two-thirds to the SFP, an increase of one-third over prior years. To the extent FMR collections exceed the January CREG forecast, which they are on pace to do, the SFP benefits more than the BRA in FY 2019.

Other Revenues in Support of K-12 Education – As of this writing, FY 2019 investment income derived from the CSPLF totaled $179.5 million, including $101.6 million of interest & dividends, and $77.9 million of realized capital gains. This amount surpassed the SPA (5 percent of the five-year market value of the corpus) of $178.2 million by $1.3 million. Recall, for FY 2019, the spending policy amount is guaranteed through a transfer from the Common School Permanent Fund Spending Policy Reserve Account (CSPLF RA) to the Common School Land Income Account (CSLIA) where the amount is then directed to SFP. Of course, this guarantee is unnecessary to be exercised, and therefore $1.3 million will be deposited into the CSPLF RA. For FY 2019 the CSPLF RA cap is 150 percent of the SPA, or $267.3 million.

As noted earlier, total revenues from FMRs are on the pace to exceed CREG projections. Specifically, FMRs deposited to the SFP to date are $15.4 million, or 6.3 percent ahead of CREG forecast.

Total FY 2019 fee and lease revenues including bonus payments were approximately $35.2 million, which was $7.2 million above the $28.0 million CREG projection. These revenues are also dedicated to K-12 education through deposits to the CSLIA, and subsequently to the SFP.

Lease income and royalties from common school lands and minerals deposited to the SCCA are final for FY 2019, and the amount of $46.5 million was $3.5 million short of forecast.

Finally, the state has been advised of two, small coal lease bonus leases that will impact FY 2019. The final amounts are not yet available, but the total deposits for FY 2019 will be under $1 million and final accounting will be available prior to the October 2020 CREG report.

Conclusions - Current revenue collections directed to the GF and BRA are exceeding the January 2019 CREG projections, in total. 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:

- While it is still too early to project with certainty, the current pace of actual revenues directed to, and remaining in, the GF and BRA suggest that the revenue forecasts are almost certain to be exceeded.

- $90.2 million of PWMTF investment income will be deposited into LSRA and SIPA, respectively.

- Investment earnings were close to the five percent SPA for PWMTF but exceeded the SPA for CSPLF.

- Sales and use taxes, the largest revenue contributor to the GF and a major revenue source for cities, towns, and counties, are exceeding CREG's GF forecast by approximately $16.5 million.

- Severance tax and FMR collections are in line with or exceed CREG estimates, with potential for increased gains resulting from strong oil prices, and particularly strong oil production, but cautions regarding recent natural gas price levels and on-going declines in natural gas and coal productions.

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

[As of July 29, 2019]

	Fiscal Year 2019 Revenue Update Summary: Actual vs. January 2019 CREG Forecast							
		A	B	C	D	E	F	G
	Revenue Sources	CREG Forecast FY19 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)	$499,300,000	$463,371,536	$446,900,000	$16,471,536	92.8%	89.5%	3.3%
2	GF - PWMTF from dividends & interest (3)	$184,700,000	$197,645,238	$184,700,000	$12,945,238	107.0%	100.0%	7.0%
3	GF - PWMTF from capital gains (3)	N/A	$167,436,022	N/A	N/A	N/A	N/A	N/A
4	GF - Total PWMTF Income (3)	$184,700,000	$365,081,260	$184,700,000	$180,381,260	197.7%	100.0%	97.7%
5	GF - Pooled income from dividends & interest (3)	$95,000,000	$86,659,646	$95,000,000	($8,340,354)	91.2%	100.0%	-8.8%
6	GF - Pooled income from capital gains (losses) (3)	N/A	($9,457,869)	N/A	($9,457,869)	N/A	N/A	N/A
7	GF - Total Pooled Income (3)	$95,000,000	$77,201,777	$95,000,000	($17,798,223)	81.3%	100.0%	-18.7%
8	GF - Severance Tax (4)	$264,300,000	$250,303,912	$234,200,000	$16,103,912	94.7%	88.6%	6.1%
9	GF - All Other	$146,500,000	$150,340,002	$144,500,000	$5,840,002	102.6%	98.6%	4.0%
10	**General Fund - Total (3)**	**$1,189,800,000**	**$1,148,320,334**	**$1,105,300,000**	**$43,020,334**	**96.5%**	**92.9%**	**3.6%**
11	**General Fund - Total with capital gains (losses) (3)**	**$1,189,800,000**	**$1,306,298,487**	**$1,105,300,000**	**$200,998,487**	**109.8%**	**92.9%**	**16.9%**
12	BRA (from Severance Taxes)	$145,300,000	$125,285,177	$108,100,000	$17,185,177	86.2%	74.4%	11.8%
13	BRA (from FMRs) (6)	$228,200,000	$208,895,057	$201,200,000	$7,695,057	91.5%	88.2%	3.4%
14	**Budget Reserve Account - Total**	**$373,500,000**	**$334,180,234**	**$309,300,000**	**$24,880,234**	**89.5%**	**82.8%**	**6.7%**
15	SFP CSPLF dividends & interest portion of investment income (3)	$178,200,000	$101,596,836	$178,200,000	($76,603,164)	57.0%	100.0%	-43.0%
16	SFP CSPLF from capital gains (3)	N/A	$77,911,017	N/A	N/A	N/A	N/A	N/A
17	Total SFP CSPLF from investment income (3)	$178,200,000	$179,507,853	$178,200,000	$1,307,853	100.7%	100.0%	0.7%
18	SFP FMRs (6)	$245,200,000	$206,548,767	$191,100,000	$15,448,767	84.2%	77.9%	6.3%
19	**School Foundation Program - Total (without capital gains) (3)**	**$423,400,000**	**$308,145,603**	**$369,300,000**	**($61,154,397)**	**72.8%**	**87.2%**	**-14.4%**
20	**School Foundation Program - Total (with capital gains) (3)**	**$423,400,000**	**$386,056,620**	**$369,300,000**	**$16,756,620**	**91.2%**	**87.2%**	**4.0%**
21	SCCA (from Coal Lease Bonus)	$0	$0	$0	$0	0.0%	0.0%	0.0%
22	SCCA (from FMRs)	$5,300,000	$5,346,000	$5,300,000	$46,000	100.9%	100.0%	0.9%
23	SCCA (from State Royalties) (5)	$50,000,000	$46,512,642	$50,000,000	($3,487,358)	93.0%	100.0%	-7.0%
24	**School Capital Construction Account - Total**	**$55,300,000**	**$51,858,642**	**$55,300,000**	**($3,441,358)**	**93.8%**	**100.0%**	**-6.2%**
25	**Severance Taxes - Total**	**$635,300,000**	**$581,134,961**	**$534,600,000**	**$46,534,961**	**91.5%**	**84.1%**	**7.3%**
26	**Federal Mineral Royalties (without CLB) - Total**	**$584,700,000**	**$526,739,824**	**$503,500,000**	**$23,239,824**	**90.1%**	**86.1%**	**4.0%**
27	**Federal Mineral Royalties (including CLB) - Total**	**$584,700,000**	**$526,739,824**	**$503,500,000**	**$23,239,824**	**90.1%**	**86.1%**	**4.0%**

(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 Permanent Wyoming Mineral Trust Fund 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 June 2019 was $10,852,986.79; sales and use tax collections have been reduced by this amount. In addition, sales & use tax collections have been adjusted by $423,400.17 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) The FY19 forecast of severance tax to the General Fund includes the mineral severance tax diversion adopted in 2018 Wyoming Session Laws, Chapter 134, Section 314. This severance tax diversion is estimated at $99.3 million in FY19.

(5) The School Capital Constrction 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. 2018 Wyoming Session Laws, Chapter 134, Section 315 removes this $8 million per year limit for FY19 and FY20, directing one-third of all state royalties from school lands to the SCCA. The FY19 forecast of state mineral royalties to the SCCA is estimated at a total of $50.0 million, an increase of $42.0 million

(6) The FY19 forecast of FMRs to the Budget Reserve Account (BRA) and the School Foundation Program Account (SFP) includes the distribution of FMRs over the new $500 million cap created in 2018 Wyoming Session Laws, Chapter 134, Section 316. Annual FMRs received over $500 million in FY18, FY19 and FY20 will be distributed two-thirds to the SFP and one-third to the BRA. This new $500 million cap will result in an increased FMR distribution to the SFP and a corresponding decrease in FMR distributions to the BRA of $28.2 million in FY19.