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Consensus Revenue Estimating Group

Date: July 29, 2020

To: Governor Mark Gordon
Members, 65th Legislature

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

Subject: July 2020 Revenue Update

Purpose of Update **–** *The revenue pacing update and the accompanying table, taken in combination with the October 2019 and January 2020 Consensus Revenue Estimating Group (CREG) forecasts, are normally intended to provide a quarterly summary of the state's revenue collections from major sources. A similar revenue update is issued in April of each year. However, because of the economic downturn driven by the COVID-19 pandemic and the added revenue pressure from the oil price crash, a special CREG meeting was convened on May 19, 2020 to update revenue projections. This revenue pacing and update are based on, or compared with, the May 26, 2020 CREG report, which remains the official state fiscal forecast. The May 26, 2020 fiscal profile remains the Legislative Service Office's (LSO's) estimate of projected account balances as of June 30, 2020 and June 30, 2022. 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, 2019 through June 2020.*

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) 2020 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 revenue 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 2020 minus the FY 2020 forecast YTD as a percentage (column E minus column F). Occasionally, percentages may vary due to rounding.

Special Note - The early stage of state fiscal impacts related to the COVID-19 pandemic, associated business restrictions and closures, and the fallout in energy demand are included in this revenue update. Because of limited data availability and tremendous uncertainty of the virus duration and trajectory, the revenue projections from the special May 2020 CREG, in the rearview mirror, were generally somewhat conservative (though not intentionally), particularly in the near-term.

A Note About Fiscal Year 2020 Capital Gains and Losses - As explained in previous forecast reports, CREG does not normally estimate income from capital gains or losses on investments in the Permanent Wyoming Mineral Trust Fund (PWMTF) or Common School Permanent Land Fund (CSPLF). This update includes the actual FY 2020 investment income including realized and distributed capital gains (losses) as accounted through June 30, 2020. Expected capital gains were discussed in the narrative in the special May 2020 CREG forecast. 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 $112.8 million, or 10.4 percent above the forecast pace for the year (line 11). Without including capital gains and losses, GF revenue is still outpacing projections by $44.6 million or 4.1 percent (line 10) mainly due to the strengths of sales and use taxes, severance taxes, especially from oil prices and production, and the all other revenue category.

The May 2020 CREG forecast expected year-over-year decrease in statewide sales and use tax collections of 9.5 percent. However, actual sales and use tax collections are outpacing this projection by 4.8 percent, or $22.7 million. This outpacing of the forecast is occurring despite impact assistance payments to local governments of nearly $30.3 million. Compared to FY 2019, about half of major industrial sectors demonstrated growth in sales and use tax collections. Retail trade, the largest industry sector in terms of sales tax collections, increased 12.6 percent and was the largest contributor to the resiliency of sales and use tax collections. Mostly attributed to new legislation regarding tax collections from remote sellers and market facilitators (effective on July 1, 2019), sales and use taxes from on-line shopping (a sub-sector of retail trade) increased 152 percent. In addition, even during the darkest economic period of pandemic to date - the second quarter of 2020 - certain retail trade businesses such as building material & garden supplies, grocery stores, sporting goods stores, warehouse club & super centers still demonstrated year-over-year growth in sales, offsetting some of the substantial declines in leisure and hospitality services. Wyoming's pivotal industry, mining, experienced the largest decline of 17.2 percent due to the reduction in exploration activities.

Year-over-year statewide sales and use tax collections are up in 14 counties, led by Carbon's 53.4 percent growth, which was mainly attributed to its utility projects – construction of wind turbines and power transmission lines. Niobrara, Hot Springs, and Converse counties also experienced around 10 percent increases, respectively. Sublette (-32.9%), Platte (-22.9%), and Johnson (-17.5%) counties suffered the steepest declines in statewide sales and use tax collections over the fiscal year. Lastly, the traditional GF share of statewide sales and use tax collections are reduced due to impact assistance payments pursuant to W.S. 39-15-111(c), which amount to $30.3 million for FY 2020 through June. This compares to $10.9 million in impact assistance payments made for FY 2019.

Severance taxes directed to the GF in FY 2020 are ahead of the May 2020 CREG forecast by $11.5 million, or 5.5 percent. Both Wyoming oil production and prices are on pace to exceed the forecast levels. In particular, oil production has been declining at a much slower pace than CREG expected since the pandemic started. As a result, the production still showed a slight increase (3.5%) between April YTD 2019 and 2020. It appears that oil producers did not shut-in as many oil wells as CREG projected, or producers re-opened some wells quickly as prices rebounded since early May, particularly the lucrative horizontals wells. Continuing economic sluggishness from COVID-19 and mitigation efforts are weighing down demand for natural gas. Currently, the effects of reduced natural gas demand are outweighing the effects of falling U.S. natural gas production and are contributing to low natural gas prices. A relatively mild winter and the COVID-19 economic response have led to declining global natural gas demand. Further, high natural gas inventories in Europe and Asia depress the need for U.S. liquefied natural gas (LNG). Despite the sustained hotter-than-normal weather pattern this summer, depressed coronavirus-induced demand, uncertain supply response, and weak LNG exports continue to weigh on markets. As a result, recent spot prices are less than prior years, and the average natural gas fiscal YTD price reported by Wyoming severance taxpayers is substantially lower than the previous year level. However, the decline in natural gas production has not yet accelerated as expected by CREG, possibly attributable to less well shut-ins (similar to the shut-in trend of oil wells). Among the weakened demand in energy, surface coal production is also experiencing significant contraction, and the pace of decline accelerated this spring. Severance tax collections from trona are marginally lower than forecasts, with price, in particular, somewhat lagging expectations.

The anticipated but not forecast final realized capital gains from the PWMTF for FY 2020 was $60.2 million. Together with interest and dividends of $182.6 million, FY 2020 investment income derived from the PWMTF totaled $242.8 million, which was well short of the full spending policy amount (SPA) of $379.1 million, or 5 percent of the five-year average 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 $189.6 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 of the five-year market value of the corpus ($53.2 million) will be transferred to the Strategic Investments and Projects Account (SIPA) and Legislative Stabilization Reserve Account (LSRA) in equal amounts of $26.6 million. Consequently, there is no amount to be distributed to the PWMTF Spending Policy Reserve Account for FY 2020.

Interest and dividends directed to the GF from the State Agency Pool (pooled income) just slightly surpassed CREG's projection by 0.8 percent, or $0.6 million. However, the State Agency Pool has $7.9 million in net realized capital gains attributable to the GF from investments in the State Agency Pool. This is shown in the summary table on line 6. As a result, the GF share of final FY 2020 investment income from the pooled account was $74.4 million, which is more than CREG projection by $8.4 million, or 12.8 percent. Finally, the "all other" category of state revenues is ahead of the forecast pace by $17.0 million, or 11.1 percent. Cost allocation, liquor sales profit, and insurance premium tax were ahead of expectations, while collections of penalties and interest were behind the forecast.

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 deposits to the BRA are currently exceeding the May 2020 CREG forecast pace by $11.0 million (13.6 %). FMRs directed to the BRA, including an adjustment for the federal fiscal year (FFY) 2020 budget sequester (withholding), are $46.8 million (35.3%) above the May 2020 CREG forecast.

Bottom-line: General Fund/Budget Reserve Account - In total without consideration of realized capital gains from the PWMTF, GF and BRA revenue collections, are $102.5 million, or 8.7 percent ahead of the annualized pacing of the overall May 2020 CREG estimates. Since CREG does not include a forecast of realized capital gains (losses) from the permanent funds and since investment earnings in excess of 2.5 percent of the five-year average market value of the PWMTF and less than 5 percent of the five-year average market value of the PWMTF are automatically transferred to the SIPA and LSRA, comparisons to the forecast are not direct. Setting aside those factors, the combined revenue in excess of the forecast that will remain in the GF and BRA as of this update is $117.4 million.[1]

State Revenues Supporting K-12 Education – This revenue update monitors major revenue sources supporting K-12 education, including investment income, FMRs and lease income and royalties from school lands and minerals. As of this writing, FY 2020 investment income derived from the CSPLF totaled $138.4 million, including $105.6 million of interest & dividends, and $32.8 million of realized capital gains.

[1] CREG did include forecast capital gains of the State Treasurer's bond ladder strategy in October 2019 due to the buy and hold to maturity structure. However, given data currently available, the gains from trades are not easily separable from gains from the bond ladder strategy.

This amount was well short of the SPA (5 percent of the five-year average market value of the corpus) of $188.5 million. However, the spending policy amount is guaranteed through a transfer from the Common School Permanent Land Fund Spending Policy Reserve Account (CSPLF RA) to the Common School Land Income Account (CSLIA) where the amount is then directed to SFP. Therefore, $50.1 million will be transferred to CSLIA from the CSPLF RA in FY 2020.

Total revenues from FMRs are on the pace to exceed CREG projections. Specifically, FMRs deposited to the SFP to date are $23.4 million, or 14.7 percent ahead of the CREG forecast. Total FY 2020 fee and lease revenues including bonus payments from state lands were approximately $18.5 million, which was $0.5 million (2.8%) above the CREG projection. These revenues are also dedicated to K-12 education through deposits to the CSLIA, and subsequently to the SFP.

Lease royalties from common school lands and minerals deposited to the SCCA are final for FY 2020, and final collections of $36.5 million are $3.2 million over forecast.

Finally, federal coal lease bonus payments deposited into the SCCA for FY 2020 has been received as expected – though merely $184,320.

Mineral Severance Taxes - Through June 2020, total severance tax collections are $33.1 million, or 7.1 percent, ahead of the May 2020 CREG forecast pace. The average price of Wyoming oil for FY 2020 to date is $44.92/bbl, roughly $10.0/bbl lower than the same period in FY 2019 and about $3.89/bbl ahead of the projection for FY 2020. Facing the collapse of global demand and subsequently prices, oil production in Wyoming has been declining since the beginning of 2020, but so far, at a much slower pace than CREG has projected, potentially influenced by the quick price rebound. However, the global oil inventory is still at the highest level in many decades and the oversupply may require both supply and demand response before returning to more traditional production and consumption relationships. In addition, some economic tracking data suggests that the national economy has weakened recently as the number of confirmed coronavirus cases have increased, resulting in a number of states pausing or rolling back reopening efforts. With the coronavirus resurgence there remains a risk of either a longer duration, second downturn or possibly a much slower economic recovery. Oil and gas rig counts in Wyoming have dropped to 1 from more than 30 in mid-2019. Natural gas prices received by Wyoming producers are averaging $2.46/mcf for the current fiscal year to date, about 32 percent lower than FY 2019 YTD prices. Moreover, Wyoming natural gas production has continued to decline at a double-digit pace compared the previous year. Statewide average surface coal prices of $12.16/ton for FY 2020 to date are very close to the May forecast level of $12.05/ton, and the volume of coal production to date was slightly better than expectations through the first a few months of 2020.

In summary, severance tax collections are above the May 2020 CREG projections, mainly attributed to the less drastic declines in both oil and natural gas production, and quicker rebound of oil prices compared to the levels projected by CREG.

Federal Mineral Royalties – Total FMRs received through June are $70.1 million (17.1 percent) ahead of the forecast pace. Total oil production through April is still approximately 3.5 percent ahead of the same period in 2019. Furthermore, oil production on federal lands was significantly outpacing the CREG projection at 72 percent of total state oil production for the first four months, compared to the CREG estimate of 65 percent. The location of new oil wells contributes to the higher than anticipated FMR revenues. This doubles the impact of this out-performance from Wyoming oil production for FY 2020 due to higher than estimated production compounded by production on federal lands.

Conclusions - Current revenue collections directed to the GF and BRA for FY 2020 are exceeding the May 2020 CREG projections. However, in total, GF/BRA is still 17.6 percent less than the amount for the same period in FY 2019, including investment income. Through June 30, the current trends indicate:

- The current pace of actual revenues directed to, and remaining in, the GF and BRA suggest that the May 2020 revenue forecasts are almost certain to be exceeded;

- 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 $22.7 million, benefiting from legislation on tax collection and submission from remote sellers;

- $26.6 million of PWMTF investment income will be deposited into LSRA and SIPA, respectively;

- Modest amounts of capital gains were realized from the state's permanent funds – PWMTF and CSPLF, but the total investment earnings were well short of the five percent SPA for both funds;

- Although the totals for the SFP indicate actual revenues are falling short of the May 2020 CREG forecast (lines 20 and 21 of the summary table), after accounting for the investment guarantee, both SFP and SCCA collections are currently ahead of the CREG projection; and

- Severance tax and FMR collections are in line with or exceeding CREG estimates, with potential upward opportunity from less drastic oil and natural gas production declines, and warranted caution regarding the slowdown of the recovery momentum due to the surge in virus cases recently.

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, 2020]

	Fiscal Year 2020 Revenue Update Summary: Actual vs. May 2020 CREG Forecast							
		A	B	C	D	E	F	G
	Revenue Sources	CREG Forecast FY20 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)	$469,300,000	$440,672,768	$418,000,000	$22,672,768	93.9%	89.1%	4.8%
2	GF - PWMTF from dividends & interest (3)	$189,600,000	$182,573,836	$189,600,000	($7,026,164)	96.3%	100.0%	-3.7%
3	GF - PWMTF from capital gains (3)	N/A	$60,240,382	N/A	N/A	N/A	N/A	N/A
4	GF - Total PWMTF Income (3)	$189,600,000	$242,814,218	$189,600,000	$53,214,218	128.1%	100.0%	28.1%
5	GF - Pooled income from dividends & interest (3)	$66,000,000	$66,553,304	$66,000,000	$553,304	100.8%	100.0%	0.8%
6	GF - Pooled income from capital gains (losses) (3)	N/A	$7,895,726	N/A	$7,895,726	N/A	N/A	N/A
7	GF - Total Pooled Income (3)	$66,000,000	$74,449,030	$66,000,000	$8,449,030	112.8%	100.0%	12.8%
8	GF - Severance Tax (4)	$209,200,000	$202,176,481	$190,700,000	$11,476,481	96.6%	91.2%	5.5%
9	GF - All Other	$152,300,000	$169,268,558	$152,300,000	$16,968,558	111.1%	100.0%	11.1%
10	**General Fund - Total (3)**	**$1,086,400,000**	**$1,061,244,947**	**$1,016,600,000**	**$44,644,947**	**97.7%**	**93.6%**	**4.1%**
11	**General Fund - Total with capital gains (losses) (3)**	**$1,086,400,000**	**$1,129,381,055**	**$1,016,600,000**	**$112,781,055**	**104.0%**	**93.6%**	**10.4%**
12	BRA (from Severance Taxes)	$81,500,000	$71,549,222	$60,500,000	$11,049,222	87.8%	74.2%	13.6%
13	BRA (from FMRs) (6)	$132,700,000	$150,297,171	$103,500,000	$46,797,171	113.3%	78.0%	35.3%
14	**Budget Reserve Account - Total**	**$214,200,000**	**$221,846,393**	**$164,000,000**	**$57,846,393**	**103.6%**	**76.6%**	**27.0%**
15	SFP CSPLF dividends & interest portion of investment income (3)	$188,500,000	$105,638,657	$188,500,000	($82,861,343)	56.0%	100.0%	-44.0%
16	SFP CSPLF from capital gains (3)	N/A	$32,788,433	N/A	N/A	N/A	N/A	N/A
17	Total SFP CSPLF from investment income (3)	$188,500,000	$138,427,090	$188,500,000	($50,072,910)	73.4%	100.0%	-26.6%
18	SFP FMRs (6)	$159,000,000	$167,852,586	$144,500,000	$23,352,586	105.6%	90.9%	14.7%
19	SFP Lease and bonus	$18,000,000	$18,510,627	$18,000,000	$510,627	102.8%	100.0%	2.8%
20	**School Foundation Program - Total (without capital gains) (3)**	**$365,500,000**	**$292,001,870**	**$351,000,000**	**($58,998,130)**	**79.9%**	**96.0%**	**-16.1%**
21	**School Foundation Program - Total (with capital gains) (3)**	**$365,500,000**	**$324,790,303**	**$351,000,000**	**($26,209,697)**	**88.9%**	**96.0%**	**-7.2%**
22	SCCA (from Coal Lease Bonus)	$180,000	$184,320	$180,000	$4,320	102.4%	100.0%	2.4%
23	SCCA (from FMRs)	$5,300,000	$5,346,000	$5,300,000	$46,000	100.9%	100.0%	0.9%
24	SCCA (from State Royalties) (5)	$33,300,000	$36,468,555	$33,300,000	$3,168,555	109.5%	100.0%	9.5%
25	**School Capital Construction Account - Total**	**$38,780,000**	**$41,998,875**	**$38,780,000**	**$3,218,875**	**108.3%**	**100.0%**	**8.3%**
26	**Severance Taxes - Total**	**$467,600,000**	**$447,259,386**	**$414,200,000**	**$33,059,386**	**95.6%**	**88.6%**	**7.1%**
27	**Federal Mineral Royalties (without CLB) - Total**	**$411,000,000**	**$437,445,757**	**$367,300,000**	**$70,145,757**	**106.4%**	**89.4%**	**17.1%**
28	**Federal Mineral Royalties (including CLB) - Total**	**$411,500,000**	**$438,080,357**	**$367,760,000**	**$70,320,357**	**106.5%**	**89.4%**	**17.1%**

(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 June 2020 was $30,266,994; sales and use tax collections have been reduced by this amount. In addition, sales & use tax collections have been reduced by $486,841 for the special fuel survey.

(3) 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. The LSO Fiscal Profile has already incorporated the FY2019 net realized losses, though the State Treasurer’s Office reported them in FY2020. The full amount of the SFP investment income is guaranteed by statute at five percent of the five-year average market value of the CSPLF. As such, the difference (column D, line 15) will be transferred from the CSPLF Spending Policy Reserve Account.

(4) The FY20 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 $72.0 million in FY20.

(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 FY20 forecast of state mineral royalties to the SCCA is estimated at a total of $33.3 million, an increase of $25.3 million. 2019 Wyoming Session Laws, Chapter 204 made this change in the distribution of state mineral royalties permanent.

(6) 2018 Wyoming Session Laws, Chapter 134, Section 316 as amended by 2019 Wyoming Session Laws, Chapter 80, Section 347 requires annual regular FMRs received over $500 million in FY20 to be distributed one-half to the SFP and one-half to the BRA. No FMRs are anticpated to be distributed above the $500 million cap in FY20. FY20 FMRs are forecast at $411,000,000.