Kevin Hibbard, Co-chairman
State Budget Department
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 30, 2021

To: Governor Mark Gordon
Members, 66th Legislature

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

Subject: July 2021 Revenue Update

***<u>Purpose of Update</u>* –** *The revenue pacing update and the accompanying table, taken in combination with the October 2020 and January 2021 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. The January 12, 2021 CREG report remains the official fiscal forecast and is used to derive the revenue pacing expectations in this update. The April 26, 2021 fiscal profile remains the Legislative Service Office's (LSO's) estimate of projected account balances as of 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, 2020 through June 2021.*

At the end of this update, a summary table of selected revenues deposited into the General Fund (GF), Budget Reserve Account (BRA), One Percent Severance Tax Account (OPSTA), 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) 2021 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 2021 minus the FY 2021 forecast YTD as a percentage (column E minus column F). Occasionally, percentages may vary due to rounding.

Special Notes – The January 2021 CREG revenue forecast, in retrospect, was generally somewhat conservative (though not intentionally), particularly in the near-term because of limited information availability on additional fiscal stimulus, tremendous uncertainty of the virus duration, and the pace of deployment and efficacy of the vaccine.

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 2021 investment income including realized and distributed capital gains (losses) as accounted through June 30, 2021. The final figures for FY

2021 may be somewhat modified. 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 $375.2 million, or 38.1 percent above the forecast pace for fiscal year 2021 (line 11). Without including capital gains and losses, GF revenue is still outpacing projections by $81.3 million or 8.3 percent (line 10) mainly due to the strengths of sales and use taxes, severance taxes, and the GF - all other revenue category.

The January 2021 CREG forecast expected year-over-year decrease in statewide sales and use tax collections of 7.3 percent. However, actual sales and use tax collections are outpacing this projection by 7.7 percent, or $34.6 million. This outpacing of the forecast is occurring despite impact assistance payments to local governments of nearly $13.1 million. Compared to FY 2020, a majority of major industrial sectors experienced declines in sales and use tax collections. Wyoming's pivotal industry, mining, endured the largest decline of 58.1 percent due to the reduction in exploration activities. Construction, manufacturing, transportation, and auto & machinery leasing industries that act in tandem with mineral extraction operations, also declined more than 20.0 percent. Attributed to wind power projects, wholesale trade and other services including commercial machinery maintenance increased over 22.0 percent. Retail trade, the largest industry sector in terms of sales tax collections, increased 4.6 percent. Sales and use taxes from on-line shopping (a sub-sector of retail trade) increased 31.3 percent. In addition, certain retail trade businesses such as motor vehicles, building material & garden supplies, grocery stores, sporting goods stores, warehouse club & super centers still demonstrated year-over-year growth in sales, attributable, at least in part, to the rounds of federal government relief and stimulus payments.

Year-over-year statewide sales and use tax collections are up in 13 counties, led by Albany (26.1%) and Lincoln (23.0%). Carbon and Washakie counties also experienced about 17.0 percent increases, each. Niobrara (-45.8%), Sublette (-42.9%), Converse (-33.8%), and Campbell (-28.2%) counties suffered the steepest declines in statewide sales and use tax collections over fiscal year 2021 due to reduction in mineral activities. Lastly, the traditional GF share of statewide sales and use tax collections are reduced due to impact assistance payments to local governments, which amount to $13.1 million for FY 2021, far less than the impact assistance payments of $30.3 million for FY 2020.

Severance taxes directed to the GF in FY 2021 are ahead of the January 2021 CREG forecast by $18.8 million, or 15.0 percent. Both Wyoming oil production and prices are on pace to exceed the forecast levels. In particular, oil prices have rebounded at a much faster pace since late 2020 than CREG expected, thanks to the winding-down of the pandemic and government's stimulus payments which, in particular, boosted consumers' demand on travel and recreation. In addition, 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 the summer 2020, particularly the lucrative horizontals wells. As the global economy gradually reopens from COVID-19, the demand for U.S. natural gas is also strong, resulting in record breaking exports to Asia, Europe, and Mexico. Due to the warmer than average temperatures this summer domestically and restraint of drilling response from large exploration and production businesses, demand/supply balances are tight and pressure for prices is high for the market. Underground storage is running about 17 percent below the previous year level and 6.0 percent lower than the 5-year average. As a result, recent spot prices are well over $3.0/MCF and even hover near $4.0/MCF, reaching the highest summer prices since 2014. However, both oil and natural production were still double-digit percentages lower than the previous year levels. Among the increased demand in energy and higher prices for natural gas, surface coal production is experiencing strong rebound recently, generally consistent with the January 2021 CREG forecast. Trona production is just slightly higher than expected.

The anticipated but not forecast final realized capital gains from the PWMTF for FY 2021 was $259.2 million. Together with interest and dividends of $198.0 million, preliminary FY 2021 investment income derived from the PWMTF totaled $457.2 million, which surpassed the full spending policy amount (SPA) of $388.0 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 $194.0 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 ($194.0 million) but less than the spending policy amount will be transferred to the Strategic Investments and Projects Account (SIPA) and Legislative Stabilization Reserve Account (LSRA) in equal amounts of $97.0 million. The remaining amount ($69.2 million) in excess of the spending policy total is distributed to the PWMTF Spending Policy Reserve Account for FY 2021. No funds will be deposited, or "tipped" to the PWMTF corpus.

Interest and dividends directed to the GF from the State Agency Pool (pooled income) was short of CREG's projection by 10.9 percent, or $5.9 million. However, the State Agency Pool has $34.7 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 preliminary FY 2021 total investment income from the pooled account was $82.9 million, which is more than the CREG projection by $28.9 million, or 53.4 percent. Finally, the "all other" category of state revenues is ahead of the forecast pace by $29.7 million, or 18.7 percent. Rental of building to state agencies (92.4%), insurance premium tax (40.4%), insurance agent licenses (31.5%), corporation asset taxes (20.5%) were higher than expectations, while collections of penalties and interest (-11.0%) and cost allocation (-7.6%) fell short of the forecast. Many miscellaneous revenues not mentioned above such as refunds, reversals, and reimbursements from the previous year showed strong increase.

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 January 2021 CREG forecast pace by $37.6 million (66.0%). FMRs directed to the BRA, including an adjustment for the federal fiscal year (FFY) 2021 budget sequester (withholding), are $49.2 million (48.3%) above the January 2021 CREG forecast.

Bottom-line: General Fund/Budget Reserve Account - In total without consideration of realized capital gains from the PWMTF and Pooled fund, GF and BRA revenue collections, are $168.0 million, or 16.6 percent ahead of the annualized pacing of the overall January 2021 CREG estimates. Since CREG does not include a forecast of realized capital gains (losses) 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 while realized capital gains from pooled income stays in GF, 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 $198.7 million.

One Percent Severance Tax Account – For the FY 2021-2022 biennium, revenue derived from the statutory one percent severance tax is first deposited to the One Percent Severance Tax Account (OPSTA) and thereafter transferred to the PWMTF and the CSPLF in equal amounts. Like other accounts benefiting from severance taxes, revenues deposited to the OPSTA exceed January 2021 CREG forecast, with deposits of $15.9 million (25.4 percent) in excess of the expected pacing.

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 2021 investment income derived from the CSPLF totaled \$211.6 million, including \$130.4 million of interest and dividends, and \$81.3 million of realized capital gains. This amount surpassed the spending policy amount (5 percent of the five-year average market value of the corpus) of \$196.1 million by \$15.5 million. As a result, while the full amount of investment earnings, \$211.6 million, will be deposit into Common School Land Income Account (CSLIA) where the amount is then directed to SFP, an amount of SFP FMR revenues equal to \$15.5 million will automatically be appropriated to the CSPLF Spending Policy Reserve Account (CSPLF SPRA).

Total revenues from FMRs are on the pace to exceed CREG projections. Specifically, FMRs deposited to the SFP to date are \$24.5 million, or 17.1 percent ahead of the CREG forecast. Total FY 2021 fee and lease revenues including bonus payments from state lands were approximately \$15.3 million, which virtually matched the CREG projection. These revenues are also dedicated to K-12 education through depositing to the CSLIA, and subsequently to the SFP.

Lease royalties from common school lands and minerals to be deposited to the SCCA are final for FY 2021, with collections of \$25.1 million, \$3.1 million over forecast. However, the collection for FY 2021 was 31.2 percent, or \$11.4 million, lower than that of FY 2020.

Finally, federal coal lease bonus payments deposited into the School Foundation Program Reserve Account for FY 2021 have been received as expected..

Total Mineral Severance Taxes and Total FMRs - Through June 2021, total severance tax collections are \$99.5 million (24.5 percent) ahead of the January 2021 CREG forecast pace. Total FMRs received through June are \$73.7 million (20.2 percent) higher than the forecast pace.

The average price of Wyoming oil for FY 2021 to date is \$43.8/bbl, similar to the same period in FY 2020 but was \$6.31/bbl ahead of the projection for FY 2021. Moreover, oil prices continue to trend higher this summer, approaching levels not seen since late 2014. Total oil production for FY 2021 through April is approximately 11.0 percent higher than forecasting pace, but was 17.3 percent lower than one year ago. Using counts from Baker Hughes, there are 12 active oil rigs that are currently operating in Wyoming, compare to 1 rig at the same time one year ago and 23 rigs in 2019. Natural gas prices received by Wyoming producers are averaging \$3.40/mcf for the current fiscal year to date, approximately 36.0 percent higher than FY 2020 YTD prices of the \$2.50/mcf forecast. The FY 2021 YTD prices reflected a couple days of record breaking prices during the mid-February which were caused by the temporary disruption in supply and high demand due to the heavy snow and cold weather in Texas. Wyoming natural gas production for FY 2021 YTD period has continued to decline at a double-digit pace compared to the previous year but is about 4.3 percent ahead of forecasting pace. There is still only a single active gas rig now, in comparison with the monthly average of 10 rigs in 2019. Statewide average surface coal prices of \$12.33/ton for FY 2021 to date are nearly identical to the January forecast level and slightly higher than FY 2020 YTD of \$12.16/ton. The volume of coal production to date was slightly behind expectations and was 15.3 percent lower than FY 2020 level.

Fiscal Year-To-Date (YTD) Comparison of Major Mineral Price and Production

	Crude Oil		Natural Gas		Surface Coal	
Fiscal YTD (July through April)	Price ($/bbl)	Production (millions of bbl)	Price ($/mcf)	Production (billions of cubic feet)	Price ($/ton)	Production (millions of ton)
Actual for FY 2020 YTD	$44.90	86.7	$2.46	1,323.1	$12.16	214.1
Forecast for FY 2021 YTD	$37.50	64.6	$2.50	1,135.4	$12.30	185.4
Actual for FY 2021 YTD	$43.81	71.7	$3.40	1,184.1	$12.33	181.3

In summary, severance tax collections are above the January 2021 CREG projections, mainly attributed to the less drastic declines in both oil and natural gas production, and quicker rebound of prices compared to the levels projected by CREG.

Conclusions - Current revenue collections directed to the GF and BRA for FY 2021 are exceeding the January 2021 CREG projections. In addition, the preliminary figures indicate that the Wyoming State Treasurer's Office generated sizeable unforecasted but anticipated, realized capital gains from the PWMTF and the CSPLF. However, in total, GF/BRA is still 9.9 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 January 2021 revenue forecasts are 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 $34.6 million, benefiting from wind projects in the state and increased consumer spending due to rounds of federal stimulus;

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

- PWMTF investment income totaling $97.0 million will be deposited into LSRA and SIPA, respectively; and

- Severance tax and FMR collections are exceeding CREG estimates, with potential upward opportunity from strong oil and natural gas prices caused by demand/supply imbalance. However, caution is still warranted regarding the recovery momentum on multiple fronts.

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 30, 2021]

Fiscal Year 2021 Revenue Update Summary: Actual vs. January 2021 CREG Forecast

		A	B	C	D	E	F	G
	Revenue Sources	CREG Forecast FY21 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)	$451,700,000	$439,193,976	$404,600,000	$34,593,976	97.2%	89.6%	7.7%
2	GF - PWMTF from dividends & interest (3)	$194,000,000	$198,020,909	$194,000,000	$4,020,909	102.1%	100.0%	2.1%
3	GF - PWMTF from capital gains (3)	N/A	$259,228,373	N/A	N/A	N/A	N/A	N/A
4	GF - Total PWMTF Income (3)	$194,000,000	$457,249,282	$194,000,000	$263,249,282	235.7%	100.0%	135.7%
5	GF - Pooled income from dividends & interest (3)	$54,000,000	$48,118,506	$54,000,000	($5,881,494)	89.1%	100.0%	-10.9%
6	GF - Pooled income from capital gains (losses) (3)	N/A	$34,731,603	N/A	$34,731,603	N/A	N/A	N/A
7	GF - Total Pooled Income (3)	$54,000,000	$82,850,109	$54,000,000	$28,850,109	153.4%	100.0%	53.4%
8	GF - Severance Tax	$125,000,000	$129,999,659	$111,200,000	$18,799,659	104.0%	89.0%	15.0%
9	GF - All Other	$159,000,000	$188,744,685	$159,000,000	$29,744,685	118.7%	100.0%	18.7%
10	**General Fund - Total (3)**	**$983,700,000**	**$1,004,077,735**	**$922,800,000**	**$81,277,735**	**102.1%**	**93.8%**	**8.3%**
11	**General Fund - Total with capital gains (losses) (3)**	**$983,700,000**	**$1,298,037,711**	**$922,800,000**	**$375,237,711**	**132.0%**	**93.8%**	**38.1%**
12	BRA (from Severance Taxes)	$57,000,000	$66,994,322	$29,400,000	$37,594,322	117.5%	51.6%	66.0%
13	BRA (from FMRs) (6)	$101,800,000	$111,855,909	$62,700,000	$49,155,909	109.9%	61.6%	48.3%
14	**Budget Reserve Account - Total**	**$158,800,000**	**$178,850,231**	**$92,100,000**	**$86,750,231**	**112.6%**	**58.0%**	**54.6%**
15	**One Percent Severance Tax Account (4)**	**$62,700,000**	**$67,913,311**	**$52,000,000**	**$15,913,311**	**108.3%**	**82.9%**	**25.4%**
16	SFP CSPLF dividends & interest portion of investment income (3)	$196,100,000	$130,351,346	$196,100,000	($65,748,654)	66.5%	100.0%	-33.5%
17	SFP CSPLF from capital gains (3)	N/A	$81,260,676	N/A	N/A	N/A	N/A	N/A
18	Total SFP CSPLF from investment income (3)	$196,100,000	$211,612,022	$196,100,000	$15,512,022	107.9%	100.0%	7.9%
19	SFP FMRs (6)	$143,600,000	$148,631,954	$124,100,000	$24,531,954	103.5%	86.4%	17.1%
20	SFP Lease and bonus	$15,300,000	$15,306,960	$15,300,000	$6,960	100.0%	100.0%	0.0%
21	**School Foundation Program - Total (without capital gains) (3)**	**$355,000,000**	**$294,290,260**	**$335,500,000**	**($41,209,740)**	**82.9%**	**94.5%**	**-11.6%**
22	**School Foundation Program - Total (with capital gains) (3)**	**$355,000,000**	**$375,550,936**	**$335,500,000**	**$40,050,936**	**105.8%**	**94.5%**	**11.3%**
23	SCCA (from Coal Lease Bonus) (5)	$0	$0	$0	$0	**N/A**	**N/A**	**N/A**
24	SCCA (from FMRs)	$5,300,000	$5,346,000	$5,300,000	$46,000	100.9%	100.0%	0.9%
25	SCCA (from State Royalties) (6)	$22,000,000	$25,075,097	$22,000,000	$3,075,097	114.0%	100.0%	14.0%
26	**School Capital Construction Account - Total**	**$27,300,000**	**$30,421,097**	**$27,300,000**	**$3,121,097**	**111.4%**	**100.0%**	**11.4%**
27	**Severance Taxes - Total**	**$405,700,000**	**$435,646,671**	**$336,100,000**	**$99,546,671**	**107.4%**	**82.8%**	**24.5%**
28	**Federal Mineral Royalties (without CLB) - Total (7)**	**$364,700,000**	**$379,783,863**	**$306,100,000**	**$73,683,863**	**104.1%**	**83.9%**	**20.2%**
29	**Federal Mineral Royalties (including CLB) - Total**	**$365,200,000**	**$380,244,663**	**$306,600,000**	**$73,644,663**	**104.1%**	**84.0%**	**20.2%**

(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 2021 was $13,056,545.53; sales and use tax collections have been reduced by this amount. In addition, sales & use tax collections have been reduced by $333,282.90 for the special fuel survey.

(3) Capital gains income from PWMTF, Pooled, and CSPLF investments are not currently part of the CREG projection process. The table above reflects actual and forecasted investment income from the PWMTF, CSPLF and State Agency Pool through June 2021. Actual PWMTF revenue exceeded the forecast by $263.2 million. Of this amount, $97.0 million will be distributed to both the LSRA and SIPA and $69.2 million will be distributed to the PWMTF Reserve Account. Actual CSPLF revenue exceeded the forecast by $15.5 million, which will be transferred to the CSPLF Reserve Account.

(4) 2020 Wyoming Session Laws, Ch. 80, Sec. 314 diverts revenue from the statutory one percent severance tax previously directed to the PWMTF to the One Percent Severance Tax Account (OPSTA) for the 2021-22 biennium. The FY21 forecast of severance tax to the OPSTA is $62.7 million. 2020 Wyoming Session Laws, Ch. 80, Sec. 314 as amended by 2021 Wyoming Session Laws, Ch. 69, Sec. 314 distributes the severance taxes in the OPSTA 50% to the PWMTF on April 1, 2021 and 50% to the CSPLF on April 15, 2021. This 50/50 distribution is repeated after the end of fiscal year 2022.

(5) 2020 Wyoming Session Laws, Ch. 80, Sec. 316 diverts coal lease bonus revenue previously directed to the School Capital Construction Account (SCCA) to the School Foundation Program (SFP) Reserve Account for the 2021-22 biennium. FY 2021 coal lease bonus revenue to the SFP Reserve Account is projected at $180,000. FY 2021 coal lease bonus revenue of $184,320 has been distributed to the SFP Reserve Account.

(6) The School Capital Construction 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. 2019 Wyoming Session Laws, Ch. 204 removes this $8 million per year limit, directing one-third of all state royalties from school lands to the School Lands Mineral Royalties Account (SLMRA). 2020 Session Laws, Ch. 80, Sec. 300(g) transfers all FY 2021 and FY 2022 state royalty revenue from the SLMRA to the SCCA. The FY21 forecast of state mineral royalties to be transferred from the SLMRA to the SCCA is estimated at $22.0 million.

(7) 2020 Wyoming Session Laws, Chapter 80, Section 315 requires annual regular FMRs received over $485.5 million in FY21 to be distributed one-half to the SFP and one-half to the BRA. No FMRs are anticipated to be distributed above the $485.5 million cap in FY21. FY21 FMRs are forecasted at $364,700,000.