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Consensus Revenue Estimating Group

Date: July 29, 2022

To: Governor Mark Gordon
Members, 66th Legislature

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

Subject: July 2022 Revenue Update

Purpose of Update *– This revenue update (Pacing Report) and the accompanying table, taken in combination with the October 2021 and January 2022 Consensus Revenue Estimating Group (CREG) forecasts, is 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 14, 2022 CREG report remains the official fiscal forecast and is used to derive the revenue pacing expectations in this update. The March 29, 2022 fiscal profile remains the Legislative Service Office's (LSO's) estimate of projected account balances as of June 30, 2022 and June 30, 2024. 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 and reported from July 1, 2021 through June 30, 2022, unless otherwise noted.*

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 included in the summary table. Column A reflects the total fiscal year (FY) 2022 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 unless otherwise noted. 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 forecast amount that has been received (column B divided by column A). Column F illustrates the percentage of the forecast amount 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 collected YTD as a percentage of the total amount forecast for FY 2022 minus the FY 2022 forecast YTD as a percentage (column E minus column F). Occasionally, percentages may vary due to rounding.

The January 2022 CREG revenue forecast, in retrospect, was generally conservative, particularly in the near term because of limited information available at the time on additional fiscal stimulus impacting Wyoming's revenue, uncertainty of the virus intensity, and importantly, impacts on energy prices from the Russian invasion of Ukraine and the scale of inflation. For example, severance tax and federal mineral royalty (FMR) collections are each more than 25 percent ahead of the forecast pace. Total revenue collections for the GF and BRA exceed the CREG forecast by $170.2 million, or 13.2 percent. As the remaining revenues are accrued, it is reasonable to anticipate that the collections in excess of CREG's January 2022 forecast will continue to increase through FY 2022. These amounts will be released with the October 2022 CREG report.

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 2022 investment income including realized and distributed capital gains (losses) as accounted through May 31, 2022 based upon postings of the interest and dividends in the state's accounting system through May, and realized capital gains (losses) for the PWMTF, CSPLF and Legislative Stabilization Reserve Account (LSRA) as publicly released by the State Treasurer's Office. The final investment figures for FY 2022 will include more investment data from the State Treasurer's Office. 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 in the summary table. 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, without consideration of realized capital gains, are outpacing projections by $41.2 million or 3.7 percent (line 9) mainly due to the strengths of sales and use taxes, severance taxes, and the GF - all other GF revenue category.

The January 2022 CREG forecast expected a year-over-year increase in FY 2022 statewide sales and use tax collections of 4.1 percent. However, actual sales and use tax collections are outpacing this projection by 7.8 percent, or $40.1 million. Compared to FY 2021, a majority of major industrial sectors experienced strong increases in sales and use tax collections. Retail trade (excluding motor vehicles), the largest industry sector in terms of sales tax collections, increased 15.0 percent. Leisure & hospitality, another sector that contributes greatly to the sales and use tax collections, increased 30.0 percent. Manufacturing, transportation, and auto & machinery leasing industries that act in tandem with mineral extraction operations, also grew more than 26.0 percent, respectively. Wyoming's pivotal industry, mining, demonstrated the largest growth of 57.5 percent due to the rebound in exploration activities. However, the amount collected from this industry is still 34.0 percent lower than FY 2020. As a result of the reduced activities in wind power projects, wholesale trade and other services including commercial machinery maintenance decreased approximately 24.0 percent, each. Sales and use taxes from on-line shopping (a sub-sector of retail trade) increased 18.4 percent.

Year-over-year statewide sales and use tax collections are up in 18 counties, led by Campbell (36.5 percent), Platte (30.6 percent), and Teton (29.3 percent). Johnson and Sublette counties experienced over 20.0 percent increases, each. These counties benefited either from rebound in mineral activities and/or record breaking outdoor and recreation tourism in FY 2022. Carbon county (-41.3 percent) experienced the steepest declines in collections over FY 2021 due to reduced wind energy activities. Heightened and broad-based inflation across most goods and services has definitely played a significant role in the overall strong sales and use tax collections. Lastly, it should be noted that the GF share of statewide sales and use tax collections are reduced due to impact assistance payments to local governments, which amount to only $0.8 million for FY 2022, a fraction of the $13.1 million distributed in FY 2021 and $30.3 million distributed in FY 2020.

Severance taxes directed to the GF in FY 2022 are ahead of the January 2022 CREG forecast by $16.9 million, or 10.1 percent. Both Wyoming oil production and prices are on pace to exceed the forecast levels. In particular, oil prices have increased at a much faster pace since the beginning of calendar year (CY) 2022 than CREG expected, mostly due to the global imbalance between demand and supply, the war in Ukraine, and the subsequent geopolitical policies on embargoes and sanctions. Similar to the oil market, as the United States (U.S.) and countries around the world grappled with robust demand for natural gas, production has only gradually recovered from levels during the pandemic. Russia's invasion of Ukraine has also amplified this natural gas demand and supply imbalance. With elevated demand from Europe, the U.S. liquefied natural gas export facilities are operating near their capacities. Intense domestic weather this summer is also adding upward pressure on natural gas prices. As a result, recent Henry Hub spot prices are well over $8.00/MCF, reaching the highest summer prices since 2008. However, comparing Wyoming's natural gas production levels in the first four months of 2022 to prior year levels, natural gas production is still lower while oil production is about the same. Given the increased demand in energy and higher prices for natural gas, surface coal production continues to rebound in CY 2022, with a 14.5 percent increase year-over-year through April. Trona production is also slightly higher than last year.

Interest and dividends generated from the PWMTF through May 31, 2022 is $168.4 million, short of the forecast by $30.2 million or 14.0 percent. However, the anticipated but not forecast realized capital gains from the PWMTF for FY 2022 is $276.1 million. Together with the interest and dividends of $168.4 million, FY 2022 investment income derived from the PWMTF total $444.5 million through May, which surpassed the full spending policy amount (SPA) of $408.8 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 $204.4 million, of any investment earnings from the PWMTF will be deposited into and remain in the GF. Assuming no change during the last month of FY 2022, investment earnings in excess of 2.5 percent of the five-year market value of the corpus ($204.4 million) but less than the SPA of five percent of the five-year average market value of the corpus ($408.8 million) would be transferred to the Strategic Investments and Projects Account (SIPA) and LSRA in equal amounts of $102.2 million. The remaining amount ($35.7 million) in excess of the spending policy total would be distributed to the PWMTF Spending Policy Reserve Account for FY 2022. No funds would be deposited, or "tipped" to the PWMTF corpus.

Interest and dividends directed to the GF from the LSRA and State Agency Pool (pooled income) lagged CREG's projection by 5.3 percent, or $2.3 million. However, the LSRA had $46.7 million in net realized capital gains through May, which are deposited to the GF. This is incorporated in the summary table on line 6. As a result, the GF share of FY 2022 total investment income from the pooled account is $84.6 million, which is more than the CREG projection total by $40.7 million over the forecast. The net realized capital gains for the GF also do not yet include any realized gains from funds other than the LSRA which have not been disaggregated in the State Treasurer's Office monthly report.

The GF "all other" category of state revenue collections are almost final for FY 2022, and the amount is surpassing the forecast by $16.8 million, or 9.5 percent. Most major categories within this revenue source are higher than expectations, led by insurance agent licenses (46.6 percent), rental of building to state agencies (44.9 percent), penalties and interest (33.1 percent), and corporation asset taxes (22.2 percent), while collections of profit from liquor sales (-22.0 percent) and cigarette tax (-5.5 percent) fell short of the forecast. However, the shortfall in remitted profit from liquor sales is partially due to retention of revenue for funding warehousing expenditures, not from reduced sales.

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 11) and FMRs (line 12). Severance tax deposits to the BRA are currently exceeding the January 2022 CREG forecast pace by $54.6 million (37.8 percent). FMRs directed to the BRA, including an adjustment for the federal fiscal year (FFY) 2022 budget sequester (withholding), are $74.5 million (35.9 percent) above the January 2022 CREG forecast.

Bottom-line: General Fund/Budget Reserve Account – As stated in the introduction, in total without consideration of realized capital gains from the PWMTF and pooled income, GF and BRA revenue collections, are $170.2 million, or 13.2 percent ahead of the annualized pacing of the overall January 2022 CREG forecast. Including the realized capital gains from pooled income, the amount ahead of pacing jumps to $216.9 million. Realized capital gains and losses from the PWMTF are currently $276.1 million, though the majority of these would not remain in the GF due to the statutory spending policy.

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 OPSTA. Thereafter, the revenues are transferred to the PWMTF and the CSPLF in equal amounts. Like other accounts benefiting from severance taxes, revenues deposited to the OPSTA exceed January 2022 CREG forecast, with revenues of $28.3 million (28.1 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 May, FY 2022 investment income derived from the CSPLF totaled $177.1 million, including $107.9 million of interest and dividends, which is $17.2 million or 12.6 percent short of the forecast amount, and $69.1 million of realized capital gains. This amount is currently less than the SPA (5 percent of the five-year average market value of the corpus) of $206.7 million by $29.6 million. Depending upon investment results from June 2022, by the end of FY 2022, any shortfall of the SPA will be automatically appropriated by statutory guarantee through a transfer from the CSPLF Spending Policy Reserve Account.

Total revenues from FMRs are on pace to exceed CREG projections. Specifically, FMRs deposited to the SFP to date are $58.9 million, or 28.9 percent ahead of the forecast. Total and final FY 2022 fee and lease revenues including bonus payments from state lands are approximately $16.9 million, or 14.4 percent higher than the CREG projection. These revenues are also dedicated to K-12 education through deposits to the Common School Land Income Account, and subsequently to the SFP.

Lease royalties from common school lands and minerals to be deposited to the SCCA are final for FY 2022, with collections of $43.5 million, $9.5 million over forecast. However, the collection for FY 2022 was 6.5 percent, or $3.0 million, lower than that for FY 2019, prior to the coronavirus pandemic. Federal coal lease bonus payments of approximately $0.5 million, for FY 2022 have been received as expected, though none will be deposited into the SCCA for FY 2022 in accordance with a temporary change to statute in the 2020 Budget Bill, Section 316.

In recent months, the "secondary caps" for both severance taxes and FMR collections were reached. Consequently, pursuant to the 2020 Budget Bill, Section 314 and 315, all severance tax collections in excess of this secondary cap are to be distributed to the School Foundation Program Reserve Account and BRA in equal amounts. All future FMRs in excess of this secondary cap are to be distributed to the SFP and BRA in equal amounts.

Note: In July 2022, the State Construction Department has reverted approximately $17.2 million of prior school capital construction appropriations to the SCCA. Some of these appropriations date back to the FY 2011-2012 biennium. This deposit to the SCCA is not a revenue stream forecast by CREG, but given the magnitude and its availability for appropriation or savings, it is worth mentioning. This deposit will be formally included in the LSO Fiscal Profile released with the October 2022 CREG report. The LSO Fiscal Profile had anticipated $2.26 million from unexpended FY 2021-2022 major maintenance appropriation, which is included in the $17.2 million reversion amount.

Total Mineral Severance Taxes and Total FMRs - Through June 2022 total severance tax collections are $165.0 million (26.0 percent) ahead of the January 2022 CREG forecast pace. Total FMRs received through June are $133.4 million (25.1 percent) higher than the forecast pace.

The average price of Wyoming oil for FY 2022 to date is $79.70/bbl, 81.1 percent higher than the same period in FY 2021, and $17.20/bbl ahead of the projection for FY 2022. Moreover, oil prices remain elevated this summer, approaching levels not seen since 2008. Total oil production for FY 2022 through April is only 1.7 percent higher than forecast pace and is about the same level as one year ago. There are

19 active oil rigs operating in Wyoming, compared to 12 oil rigs at the same time one year ago and 26 oil rigs in 2019. Natural gas prices received by Wyoming producers are averaging $5.83/mcf for the current fiscal YTD, 71.0 percent higher than FY 2021 YTD prices, and is $1.70/mcf ahead of forecast. Wyoming natural gas production for FY 2022 YTD period has continued to decline compared to the previous year and is approximately 1.0 percent behind the forecast pace. There are six active gas rigs compared to the monthly average of 10 rigs in 2019. The statewide average surface coal prices of $13.08/ton for FY 2022 to date are 6.3 percent higher than the January forecast level and 6.2 percent higher than FY 2021 YTD of $12.32/ton.

Table 1. 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 2021 YTD	$43.97	71.7	$3.41	1,184.1	$12.32	181.1
Forecast for FY 2022 YTD	$62.50	70.8	$4.13	1,122.9	$12.30	193.8
Actual for FY 2022 YTD	$79.69	72.0	$5.83	1,111.2	$13.08	206.1

In summary, mineral revenue and sales and use tax collections are exceeding the January 2022 CREG projections, mainly attributable to the stronger than anticipated increases in both oil and natural gas prices and broad-based inflation.

Conclusions - Current revenue collections directed to the GF and BRA for FY 2022 are exceeding the January 2022 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. In comparison, revenue directed to the GF and BRA are 8.9 percent more than the amount for the same period in FY 2019, including all investment income. The current revenue trends indicate:

- Actual revenues directed to, and remaining in, the GF and BRA are certain to exceed CREG's January 2022 forecast by a large margin;
- 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 $40.1 million, benefiting from robust consumer spending, heightened inflation, and outdoor recreation;
- Nearly $400 million in capital gains have been realized from the state's permanent funds – PWMTF and CSPLF as well as the LSRA. Total investment earnings surpassed the five percent SPA for PWMTF but are on track to fall short for the CSPLF;
- PWMTF investment income totaling $102.2 million may be deposited into the LSRA and SIPA, respectively; and
- Severance tax and FMR collections are exceeding CREG estimates by roughly 25 percent, and should continue at an elevated level in the near future.

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, 2022]

Fiscal Year 2022 Revenue Update Summary: Actual vs. January 2022 CREG Forecast

		A	B	C	D	E	F	G
	Revenue Sources	CREG Forecast FY22 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)	$513,100,000	$499,965,700	$459,900,000	$40,065,700	97.4%	89.6%	7.8%
2	GF - PWMTF from dividends & interest (3)	$216,700,000	$168,357,347	$198,600,000	($30,242,653)	77.7%	91.6%	-14.0%
3	*GF - PWMTF with guarantee (3)*	*$204,400,000*	*$187,366,667*	*$187,366,667*	$0	91.7%	91.7%	0.0%
4	GF - PWMTF with capital gains (3)	N/A	$444,478,431	N/A	N/A	N/A	N/A	N/A
5	GF - Pooled income from dividends & interest (3)	$43,900,000	$37,869,714	$40,200,000	($2,330,286)	86.3%	91.6%	-5.3%
6	GF - Pooled income with capital gains (3)	$43,900,000	$84,572,759	N/A	N/A	N/A	N/A	N/A
7	GF - Severance Tax	$166,900,000	$166,852,170	$150,000,000	$16,852,170	100.0%	89.9%	10.1%
8	GF - All Other	$176,000,000	$192,807,285	$176,000,000	$16,807,285	109.5%	100.0%	9.5%
9	**General Fund - Total (3)**	**$1,116,600,000**	**$1,065,852,216**	**$1,024,700,000**	**$41,152,216**	**95.5%**	**91.8%**	**3.7%**
10	**General Fund - Total with capital gains (3)**	**$1,116,600,000**	**$1,388,676,345**	**$1,024,700,000**	**N/A**	**N/A**	**N/A**	**N/A**
11	BRA (from Severance Taxes)	$144,300,000	$161,587,299	$107,000,000	$54,587,299	112.0%	74.2%	37.8%
12	BRA (from FMRs) (6)	$207,500,000	$235,861,269	$161,400,000	$74,461,269	113.7%	77.8%	35.9%
13	**Budget Reserve Account - Total**	**$351,800,000**	**$397,448,568**	**$268,400,000**	**$129,048,568**	**113.0%**	**76.3%**	**36.7%**
14	**One Percent Severance Tax Account (4)**	**$101,000,000**	**$113,930,705**	**$85,600,000**	**$28,330,705**	**112.8%**	**84.8%**	**28.1%**
15	SFP CSPLF dividends & interest portion of investment income (3)	$136,500,000	$107,947,493	$125,100,000	($17,152,507)	79.1%	91.6%	-12.6%
16	*SFP CSPLF with guarantee (3)*	*$206,700,000*	*$189,475,000*	*$189,475,000*	*$0*	*91.7%*	*91.7%*	*0.0%*
17	SFP CSPLF with capital gains (3)	$206,700,000	$177,077,704	N/A	N/A	N/A	N/A	N/A
18	SFP FMRs (6)	$203,900,000	$232,298,602	$173,400,000	$58,898,602	113.9%	85.0%	28.9%
19	SFP Lease and bonus	$14,800,000	$16,927,289	$14,800,000	$2,127,289	114.4%	100.0%	14.4%
20	**School Foundation Program - Total (without capital gains) (3)**	**$355,200,000**	**$357,173,384**	**$313,300,000**	**$43,873,384**	**100.6%**	**88.2%**	**12.4%**
21	**School Foundation Program - Total (with capital gains) (3)**	**$355,200,000**	**$426,303,595**	**$313,300,000**	**N/A**	**N/A**	**N/A**	**N/A**
22	SCCA (from Coal Lease Bonus) (5)	$0	$0	$0	$0	**N/A**	**N/A**	**N/A**
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) (6)	$34,000,000	$43,459,250	$34,000,000	$9,459,250	127.8%	100.0%	27.8%
25	**School Capital Construction Account - Total**	**$39,300,000**	**$48,805,250**	**$39,300,000**	**$9,505,250**	**124.2%**	**100.0%**	**24.2%**
26	**Severance Taxes - Total**	**$635,500,000**	**$702,621,449**	**$537,600,000**	**$165,021,449**	**110.6%**	**84.6%**	**26.0%**
27	**Federal Mineral Royalties (without CLB) - Total (7)**	**$530,700,000**	**$587,455,871**	**$454,100,000**	**$133,355,871**	**110.7%**	**85.6%**	**25.1%**
28	**Federal Mineral Royalties (including CLB) - Total**	**$531,200,000**	**$587,916,671**	**$454,600,000**	**$133,316,671**	**110.7%**	**85.6%**	**25.1%**

(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 2022 was $834,490.10; sales and use tax collections have been reduced by this amount. In addition, sales & use tax collections have been reduced by $791,805 for the special fuel survey.

(3) Capital gains income from PWMTF, Pooled, and CSPLF investments are not currently part of the CREG projection process. This table illustrates the pacing with and without the spending policy guarantee of 2.5 percent for the GF and 5.0 percent for the SFP as well as with and without realized capital gains through January 2022. The State Treasurer's Office has distributed actual FY22 interest and dividends through May 2022. The table reflects actual and forecasted investment interest and dividends from the PWMTF, CSPLF and State Agency Pool through May 2022 and net, realized capital gains through May 2022. Realized gains/losses do not yet incorporate FY2022 in-kind gains/losses.

(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 FY22 forecast of severance tax to the OPSTA is $101.0 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 and 50% to the CSPLF.

(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 2022 coal lease bonus revenue to the SFP Reserve Account is projected at $180,000.

(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 FY22 forecast of state mineral royalties to be transferred from the SLMRA to the SCCA is estimated at $34.0 million.

(7) 2020 Wyoming Session Laws, Chapter 80, Section 315 requires annual regular FMRs received over $500.8 million in FY22 to be distributed one-half to the SFP and one-half to the BRA. $29.9 million in FMRs are anticipated to be distributed above the $500.8 million cap in FY22. FY22 FMRs are forecasted at $530.7 million.