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Consensus Revenue Estimating Group

Date: July 28, 2023

To: Governor Mark Gordon
Members, 67th Legislature

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

Subject: July 2023 Revenue Update

Purpose of Update *– This revenue update (Pacing Report) and the accompanying table, taken in combination with the October 2022 and January 2023 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 12, 2023, CREG report remains the official fiscal forecast and is used to derive the revenue pacing expectations in this update. The March 22, 2023, fiscal profile remains the Legislative Service Office's (LSO's) estimate of projected account balances as of June 30, 2024. This update 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 2022 through June 2023, unless otherwise noted.*

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 located at the end of this update. Additionally, revenues collected from mineral severance taxes, federal mineral royalties (FMRs), and state mineral royalties are included in the summary table. Column A reflects the total fiscal year (FY) 2023 January 2023 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 2023 unless otherwise noted. Column D is the difference between the actual YTD revenues collected and the forecast YTD revenues (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 pacing difference of the actual revenue collected YTD as a percentage of the total amount forecast for FY 2023 minus the FY 2023 forecast YTD as a percentage (column E minus column F). Occasionally, percentages may vary due to rounding.

Overall, with the exception of investment income, the actual revenue for FY 2023 is pacing ahead of the January 2023 CREG forecast. However, as the remaining revenues are accrued, it is reasonable to anticipate the pacing of collections in excess of the January 2023 CREG forecast may decrease, mostly reflecting the retreat of mineral prices through the balance of FY 2023. These revenue streams for final FY 2023 tabulation will be released with the October 2023 CREG report. Total revenue collections for the GF and BRA exceed the January 2023 CREG forecast by $176.1 million (11.1 percent ahead of current pacing).

As explained in previous forecast reports, CREG does not forecast investment income from realized capital gains or losses for the Permanent Wyoming Mineral Trust Fund (PWMTF) and Common School Account within Permanent Land Fund (CSPLF). This update includes actual FY 2023 investment income, including interest, dividends, and realized and distributed capital gains (losses), as provided by the State Treasurer's Office through May 31, 2023, for the PWMTF, CSPLF and Legislative Stabilization Reserve Account (LSRA). The final investment figures for FY 2023 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 update.

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 services, 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 $55.3 million (4.3 percent) mainly due to the strengths of sales and use taxes, severance taxes, and pooled income from dividends and interest. (See line 6.)

The January 2023 CREG forecast expected a year-over-year increase in FY 2023 statewide sales and use tax collections of 6.7 percent. However, actual sales and use tax collections are outpacing this projection by $30.0 million (5.0 percent). Compared to FY 2022, nearly every major industrial sector experienced an increase in sales and use tax collections. Retail trade (excluding motor vehicles), the largest industry sector in terms of sales tax collections, increased 8.7 percent. Wholesale trade, transportation, and machinery and equipment leasing and repair industries that act in tandem with mineral extraction operations each grew more than 20.0 percent. Wyoming's pivotal industry, mining, demonstrated the largest growth of 55.8 percent due to the continued rebound in exploration activities. However, the amount collected from this industry is still 14.8 percent lower than FY 2019. As a result of increased activities in wind power projects and general rate increase in utility gas service, collections from the utilities sector grew 32.7 percent. Finally, sales and use taxes from online shopping (a sub-sector of retail trade) increased 17.4 percent.

Year-over-year statewide sales and use tax collections are up in 22 counties, led by Converse (42.6 percent) and Carbon (34.9 percent) counties. Albany, Campbell, Niobrara, and Sublette counties each experienced over 20.0 percent increases. These counties benefited either from rebound in mineral activities or wind power projects in FY 2023. Teton (-0.1 percent) is the only county that experienced a decline in collections in comparison to FY 2022, mostly attributed to the reduced sales in accommodation and food services. The country's oldest national park, Yellowstone, was temporarily closed in June 2022 due to the unusual flooding, and then it reopened with limited admission until December of 2022. Persistent and still elevated broad-based inflation across most goods and services played a large 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 for impact assistance payments to local governments, which amount to $4.0 million for FY 2023, larger than FY 2022 ($1.1 million) but much smaller than the $13.1 million distributed in FY 2021 and $30.3 million distributed in FY 2020.

Severance taxes directed to the GF in FY 2023 are ahead of the January 2023 CREG forecast by $23.9 million (10.9 percent). Wyoming oil production is in-line with the forecast level, while prices are on pace to lag behind. Since last summer, oil prices have been trending steadily downward, influenced by inventory build, weakening global economic conditions, and U.S. economic uncertainty, offset somewhat by OPEC+ restraint on crude production. Similar to the oil market, the U.S. benchmark Henry Hub natural gas price declined precipitously in the past winter and this spring because of continued increases in domestic production but weak demand, resulting in persistent elevated storage inventories (24 percent above last year level and 14 percent higher than five-year average by the end of June). As a result, Henry Hub spot prices were below $2.20/mcf in recent months, the lowest level in about three years. However, several winter weather events on the western part of the U.S., particularly California, boosted regional prices tremendously from high demand for heating, and Wyoming producers benefited from the unprecedented prices for a couple of months. Wyoming's natural gas production, nonetheless, continued the trend of long-term decline. Mostly due to falling natural gas prices and retirement of coal power plants, U.S. power generation from coal continued to decline steeply. However, Wyoming surface coal prices in the current fiscal year are slightly higher than the previous year's level as producers try to meet pre-existing contractual obligations. Wyoming coal production is in-line with last year and the January 2023 CREG forecast.

Interest and dividends generated from the PWMTF through May 31, 2023, are $174.9 million, short of the forecast by $8.4 million (4.2 percent). However, the anticipated, but not forecast, realized capital gains from the PWMTF for FY 2023 are $50.9 million. Together with the interest and dividends of $174.9 million, FY 2023 investment income derived from the PWMTF total $225.8 million through May, which was far short of the full spending policy amount (SPA) of $420.4 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 $210.2 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 2023, investment earnings in excess of 2.5 percent of the five-year market value of the corpus ($210.2 million) but less than the SPA of 5 percent of the five-year average market value of the corpus ($420.4 million) would be transferred to the Strategic Investments and Projects Account (SIPA) and LSRA in equal amounts of $7.8 million. No funds would be distributed to the PWMTF Spending Policy Reserve Account for FY 2023.

Interest and dividends directed to the GF from the LSRA and State Agency Pool (pooled income) is ahead of CREG's projection by $29.5 million (49.6 percent). However, the LSRA and Wyoming's American Rescue Plan Act funds had $28.1 million in combined net realized capital losses through May, which are deducted from the GF share of pooled investment earnings. (See line 3 of the summary table.) As a result, the GF share of FY 2023 pooled income is $55.9 million, which is $1.4 million more than the CREG projection. The net realized capital gains (losses) 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 is almost final for FY 2023, and the amount currently exceeds the forecast by $8.4 million (4.3 percent). Most major categories within this revenue source are higher than expectations, led by insurance agent licenses (41.6 percent), corporation asset taxes (23.7 percent), and insurance premium tax (17.9 percent), while collections of penalties and interest (-62.1 percent), profit from liquor sales (-15.9 percent), cost allocation (-7.8 percent), and cigarette tax (-8.3 percent) fell short of the forecast. Beginning in February 2023, the Wyoming Department of Revenue stopped depositing severance tax penalty payments into the GF and instead distributes them with other penalties to counties for K-12 education funding.

Budget Reserve Account – The summary table illustrates the two earmarked revenue streams for the BRA: severance taxes (line 8) and FMRs (line 9). Severance tax deposits to the BRA are currently exceeding the January 2023 CREG forecast pace by $24.0 million (13.2 percent). FMRs directed to the BRA, including an adjustment for the federal fiscal year (FFY) 2023 budget sequester (withholding), are $96.9 million (29.3 percent) above the January 2023 CREG forecast.

Bottom-line: General Fund/Budget Reserve Account – In total, without consideration of realized capital gains from the PWMTF and pooled income or the spending policy guarantees, GF and BRA revenue collections, are $176.1 million (11.1 percent) ahead of the annualized pacing of the January 2023 CREG forecast. Including the realized capital losses from pooled income, the amount ahead of pacing reduces to $148.0 million. Realized capital gains and losses from the PWMTF are currently $50.9 million, though the much of these would not remain in the GF due to the statutory spending policy.

Statutory One Percent Severance Tax – Beginning in the FY 2023-2024 biennium, revenue derived from the statutory one percent severance tax is distributed to the PWMTF and the CSPLF in equal amounts. Like other accounts benefiting from severance taxes, revenues distributed from the statutory one percent severance tax exceed the January 2023 CREG forecast by $19.8 million (13.6 percent).

State Revenues Supporting K-12 Education – This revenue update monitors major revenue sources supporting K-12 education, including investment income, FMRs, and lease and bonus income and state mineral royalties from school lands. As of May, FY 2023 investment income derived from the CSPLF totaled $105.5 million, including $113.1 million of interest and dividends, which is $15.2 million (10.9 percent) short of the forecast amount, and $7.6 million of realized capital losses. This amount is currently substantially less than the SPA (5 percent of the five-year average market value of the corpus) of $211.7 million by $106.2 million. Depending upon final FY 2023 investment income, any shortfall of the SPA will be automatically appropriated through a transfer from the Common School Permanent Fund Reserve Account.

Total revenues from FMRs are on pace to exceed the January 2023 CREG forecast. Specifically, FMRs deposited to the SFP are pacing $64.6 million (22.6 percent) ahead of the forecast. Total FY 2023 lease and bonus revenues on school lands equaled $20.7 million, which is $3.4 million (19.4 percent) higher than the January 2023 CREG forecast. These revenues are also dedicated to K-12 education through deposits to the Common School Land Income Account and subsequently to the SFP.

State mineral royalties from common school lands are final for FY 2023, with collections of $196.1 million, $55.1 million over forecast. This full amount will be deposited to the CSPLF.

In recent months, the "secondary caps" established in accordance with 2022 Budget Bill Sections 314 and 315 for severance taxes and FMRs, respectively, were reached. Consequently, all severance tax collections in excess of this secondary cap are distributed to the GF, BRA, and School Foundation Program Reserve Account in equal amounts. For FMRs, 60 percent of the amount in excess of this secondary cap is distributed to the BRA and 40 percent to the SFP.

Total Mineral Severance Taxes and Total FMRs - Through June 2023 total severance tax collections are $123.1 million (13.7 percent) ahead of the January 2023 CREG forecast pace. Total FMRs received through June are $161.4 million (21.9 percent) higher than the forecast pace.

As shown in Table 1, the average price of Wyoming oil for FY 2023 to date is $80.79/bbl, 1.4 percent higher than the same period in FY 2022, but $1.71/bbl behind the projection for FY 2023. Oil prices remain moderate this summer, approaching the lowest levels in nearly three years. Total oil production for FY 2023 through April is only 2.3 percent higher than forecast pace but is 6.5 percent larger than one year ago. According to BakerHughes, currently, there are 17 active oil rigs operating in Wyoming, compared to 16 oil rigs at the same time one year ago and 23 oil rigs in 2019. Natural gas prices received by Wyoming producers are averaging $9.22/mcf for the current fiscal YTD, 58.1 percent higher than FY 2022 YTD prices, and $2.64/mcf ahead of forecast. Wyoming natural gas production for FY 2023 YTD has continued to decline compared to the previous year and is just less than 1.0 percent behind the forecast pace. There is just one active gas rig compared to the monthly average of 10 rigs in 2019. The statewide average surface coal prices of $14.86/ton for FY 2023 to date are 4.3 percent higher than the January forecast level and $1.78 higher than FY 2022 YTD of $13.08/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 2022	$79.69	72.0	$5.83	1,112.2	$13.08	206.1
Forecast for FY 2023	$82.50	75.0	$6.58	1,065.0	$14.25	197.9
Actual for FY 2023	$80.79	76.7	$9.22	1,058.4	$14.86	205.7

In summary, mineral revenue and sales and use tax collections are exceeding the January 2023 CREG projections, mostly attributable to the extraordinary surge of Wyoming's natural gas prices in the winter, broad-based inflation, and continued rebound in mineral activities.

Current revenue collections directed to the GF and BRA for FY 2023 are exceeding the January 2023 CREG projections. However, the preliminary figures indicate that the Wyoming State Treasurer's Office generated small unforecasted, but anticipated, realized capital gains from the PWMTF and realized capital losses from the CSPLF and the LSRA. The current revenue trends indicate:

- Actual revenues directed to, and remaining in, the GF and BRA are certain to exceed the January 2023 CREG forecast by a moderate margin;

- Sales and use taxes, the largest revenue contributor to the GF and a major revenue source for cities, towns, and counties, are exceeding the January 2023 CREG forecast by approximately $30.0 million, benefiting from continued consumer spending, persistent inflation, and continued rebounding in mineral extraction;

- In combination, only about $15 million in capital gains have been realized from the state's permanent funds – PWMTF and CSPLF – as well as the LSRA. Total investment earnings are on pace to be approximately half of the 5 percent SPA for both the PWMTF and the CSPLF;

- Severance tax and FMR collections are both exceeding the January 2023 CREG forecast. With about two months left, the fiscal year-to-date total FMRs surpassed the FY 2023 forecast by 7.7 percent.

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 28, 2023]

	Fiscal Year 2023 Revenue Update Summary: Actual vs. January 2023 CREG Forecast							
		A	B	C	D	E	F	G
	Revenue Sources	CREG Forecast FY23 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)	$600,000,000	$566,709,251	$536,700,000	$30,009,251	94.5%	89.5%	5.0%
2	GF - PWMTF with guarantee (3)	$210,200,000	$192,700,000	$192,700,000	$0	91.7%	91.7%	0.0%
2a	*GF - PWMTF from dividends & interest (3)*	*$200,000,000*	*$174,894,397*	*$183,300,000*	*($8,405,603)*	*87.4%*	*91.7%*	*-4.2%*
2b	*GF - PWMTF with capital gains (3)*	*N/A*	*$225,761,297*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*
3	GF - Pooled income with capital gains (losses) (3)	$59,500,000	$55,870,288	$54,500,000	$1,370,288	93.9%	91.6%	2.3%
3a	*GF - Pooled income from dividends & interest (3)*	*$59,500,000*	*$84,015,995*	*$54,500,000*	*$29,515,995*	*141.2%*	*91.6%*	*49.6%*
4	GF - Severance Tax	$219,900,000	$217,426,417	$193,500,000	$23,926,417	98.9%	88.0%	10.9%
5	GF - All Other	$193,500,000	$201,875,521	$193,500,000	$8,375,521	104.3%	100.0%	4.3%
6	**General Fund - Total (without capital gains or guarantee) (3)**	**$1,272,900,000**	**$1,216,775,874**	**$1,161,500,000**	**$55,275,874**	**95.6%**	**91.2%**	**4.3%**
7	**General Fund - Total with guarantee (3)**	**$1,283,100,000**	**$1,234,581,477**	**$1,170,900,000**	**$63,681,477**	**96.2%**	**91.3%**	**5.0%**
8	BRA (from Severance Taxes)	$181,200,000	$178,673,366	$154,700,000	$23,973,366	98.6%	85.4%	13.2%
9	BRA (from FMRs)	$330,800,000	$364,870,822	$268,000,000	$96,870,822	110.3%	81.0%	29.3%
10	**Budget Reserve Account - Total**	**$512,000,000**	**$543,544,188**	**$422,700,000**	**$120,844,188**	**106.2%**	**82.6%**	**23.6%**
11	**One Percent Severance Tax (50% to PWMTF and 50% to CSPLF)**	**$146,000,000**	**$143,799,260**	**$124,000,000**	**$19,799,260**	**98.5%**	**84.9%**	**13.6%**
12	SFP CSPLF with guarantee (3)	$211,700,000	$194,100,000	$194,100,000	$0	91.7%	91.7%	0.0%
12a	*SFP CSPLF from dividends & interest (3)*	*$140,000,000*	*$113,104,043*	*$128,300,000*	*($15,195,957)*	*80.8%*	*91.6%*	*-10.9%*
12b	*SFP CSPLF with capital gains (losses) (3)*	*N/A*	*$105,544,237*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*
13	SFP FMRs	$285,800,000	$308,506,770	$243,900,000	$64,606,770	107.9%	85.3%	22.6%
14	SFP Lease and bonus	$17,300,000	$20,658,979	$17,300,000	$3,358,979	119.4%	100.0%	19.4%
15	**School Foundation Program - Total (w/out cap. gains or guarantee) (3)**	**$443,100,000**	**$442,269,792**	**$389,500,000**	**$52,769,792**	**99.8%**	**87.9%**	**11.9%**
16	**School Foundation Program - Total (with guarantee) (3)**	**$514,800,000**	**$523,265,749**	**$455,300,000**	**$67,965,749**	**101.6%**	**88.4%**	**13.2%**
17	**School Capital Construction Account - FMRs / Total**	**$5,300,000**	**$5,346,000**	**$5,300,000**	**$46,000**	**100.9%**	**100.0%**	**0.9%**
18	**State Royalties - Total (4)**	**$141,000,000**	**$196,097,780**	**$141,000,000**	**$55,097,780**	**139.1%**	**100.0%**	**39.1%**
19	**Severance Taxes - Total**	**$899,700,000**	**$886,902,470**	**$763,800,000**	**$123,102,470**	**98.6%**	**84.9%**	**13.7%**
20	**Federal Mineral Royalties - Total**	**$735,900,000**	**$792,673,591**	**$631,300,000**	**$161,373,591**	**107.7%**	**85.8%**	**21.9%**

(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 2023 was $3,978,721; sales and use tax collections have been reduced by this amount. In addition, sales & use tax collections have been reduced in June 2023 by $501,964 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. In order to incorporate realized capital gains and losses, investment earnings shown in the Table reflect deposits through May 2023. Investment income is also shown with and without the statutory spending policy guarantee. The realized capital gains (and losses) from non-permanent funds do immediately impact the recipient accounts, e.g., Pooled Income to the GF.

(4) One-third of state royalties are redirected to the Common School Account within the Permanent Land Fund for the 2023-2024 biennium pursuant to 2023 Wyoming Session Laws, Chapter 94, Section 300(c)(i).