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Consensus Revenue Estimating Group

Date: July 29, 2024
To: Governor Mark Gordon
Members, 67th Legislature
From: Kevin Hibbard, Co-chairman
Don Richards, Co-chairman
Subject: July 2024 Revenue Update

Purpose of Update – This revenue pacing update and the accompanying table, taken in combination with the October 2023 and January 2024 Consensus Revenue Estimating Group (CREG) forecasts, are 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, 2024 CREG report remains the official fiscal forecast and is used to derive the revenue pacing expectations in this update. The March 26, 2024 fiscal profile remains the Legislative Service Office’s (LSO’s) estimate of projected account balances as of June 30, 2024 and June 30, 2026. 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 2023 through June 2024, 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 shows the January 2024 CREG forecast of total fiscal year (FY) 2024 revenue by major source. Column B contains the actual year-to-date (YTD) revenue received. Column C represents the forecast through June 2024 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 2024 minus the FY 2024 forecast YTD as a percentage (column E minus column F). Occasionally, percentages may vary due to rounding.

Summary – Overall, with the exception of investment income from dividends and interest and sales and use tax, actual FY 2024 revenue is pacing ahead of the January 2024 CREG forecast. Total revenue collections for the GF and BRA, excluding realized capital gains from the Permanent Wyoming Mineral Trust Fund (PWMTF), exceed the CREG forecast by \$70.4 million (3.8 percent). However, it is reasonable to anticipate that the revenue pacing of severance taxes and FMRs in excess of January 2024 CREG forecast may decrease as remaining accrued revenues are collected, mostly reflecting the continued weak natural gas prices and reduced coal production through the balance of FY 2024. Final FY 2024 revenues will be released with the October 2024 CREG report.

CREG does not forecast investment income from capital gains or losses for the PWMTF and Common School Account within Permanent Land Fund (CSPLF). This update includes actual FY 2024 investment income, including interest, dividends, and realized and distributed capital gains (losses) as provided by the Wyoming State Treasurer's Office (STO) through May 31, 2024, for the PWMTF, CSPLF and Legislative Stabilization Reserve Account (LSRA). 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 the purposes of this update.

As shown in line six, columns D and G of the summary table, actual total revenues received and directed to the GF, without consideration of realized capital gains on investment from the PWMTF, are outpacing projections by \$41.4 million (2.8 percent) mainly due to the strengths of pooled income from dividends and interest, as well as realized capital gains from the LSRA. Franchise taxes in the “All Other” category and severance taxes also contributed meaningfully.

The January 2024 CREG forecast expected a year-over-year increase in FY 2024 sales and use taxes of 2.5 percent. The actual sales and use tax distribution to the GF is lagging behind this projection by \$2.8 million (0.4 percent). However, compared to FY 2023, the cash-based total statewide sales and use tax collections in FY 2024 were 5.9 percent higher. The GF share of statewide sales and use tax collections are reduced due to impact assistance payments to local governments, which amount to \$23.7 million for FY 2024, significantly larger than the \$4.8 million payment in FY 2023. Nearly every major industrial sector experienced an increase in collections. Transportation & warehousing (33.1 percent) and Utilities (21.1 percent) led the growth. Machinery & equipment leasing and professional & business services also each grew nearly 20.0 percent. Retail trade (excluding motor vehicles), the largest industry sector in terms of sales tax collections, increased 3.3 percent. This is a notable slowdown from the growth rate of 8.4 percent in FY 2023, partially reflecting the deceleration in inflation. Wyoming's pivotal industry, mining, demonstrated a moderate growth rate of 4.8 percent over FY 2023 collections. However, the amount collected from this industry is still 10.7 percent lower than FY 2019. Finally, sales and use taxes from online shopping (a sub-sector of retail trade) continued to be strong, increasing 12.5 percent annually.

Year-over-year statewide sales and use tax collections are up in 16 counties, led by Niobrara (50.0 percent) and Albany (38.6 percent). Uinta and Lincoln counties each experienced over 20.0 percent increases. These counties benefited either from increased utilities construction or increased mineral exploration activities in FY 2024. Hot Springs (-13.9 percent) and Carbon (-10.9 percent) counties experienced double-digit declines in collections compared to FY 2023. Broad-based disinflation across most consumer and producer goods and reduced oil and gas drilling played a large role for the weakening sales and use tax collections in recent months.

Severance taxes directed to the GF in FY 2024 are ahead of the January 2024 CREG forecast by \$10.6 million (5.8 percent). Wyoming oil production is moderately higher than the forecast level, while prices are nearly equal to the forecast. After a few months of weak performance during the past winter, oil prices have rebounded and have been moving in a fairly steady manner recently. Though the U.S. benchmark Henry Hub natural gas spot price dropped to multi-decade lows in the spring due to weather-related weak demand and elevated storage inventories, Wyoming producers have consistently received higher prices. U.S. power generation from coal continues to decline steeply, mostly due to falling natural gas prices. Additionally, production and demand are negatively impacted from high coal stockpiles and continued retirement of coal power plants. As a result, Wyoming surface coal production has declined substantially since the beginning of 2024.

Interest and dividends generated from the PWMTF through May 31, 2024, total \$234.2 million, short of the forecast by \$48.9 million (15.8 percent). However, the anticipated but not forecast realized capital gains from the PWMTF for FY 2024 are approximately \$112.2 million. Together with the interest and dividends of \$234.2 million, FY 2024 investment income derived from the PWMTF total \$346.4 million through May, which is far short of the full spending policy amount (SPA) of \$439.6 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 \$219.8 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 2024, investment earnings in excess of 2.5 percent of the five-year market value of the corpus (\$219.8 million) but less than the SPA of 5 percent of the five-year average market value of the corpus (\$439.6 million) will be transferred to the Strategic Investments and Projects Account (SIPA) and LSRA in equal amounts of \$63.3 million. No funds would be distributed to the PWMTF Spending Policy Reserve Account for FY 2024.

Interest and dividends directed to the GF through May from the LSRA and State Agency Pool (pooled income) surpass CREG's projection by \$24.8 million (18.2 percent). In particular, the LSRA has \$31.0 million in net realized capital gains through May, which are distributed to the GF. Investment earnings including net realized capital gains from pooled income are \$55.8 million ahead of forecast. Net realized capital gains for the GF do not yet include any realized gains from funds other than the LSRA.

The GF "all other" category of state revenue collections is almost final for FY 2024, and the amount is currently surpassing the forecast by \$26.7 million (13.6 percent). Most major categories within this revenue source are higher than expectations, led by quarterly insurance premium tax (33.9 percent), and corporation asset taxes (17.9 percent), while cigarette tax (-5.0 percent) continue to fall short of the forecast.

Budget Reserve Account – The summary table also 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 2024 CREG forecast pace by \$10.6 million (7.8 percent). FMRs directed to the BRA, including an adjustment for the federal fiscal year (FFY) 2024 budget sequester (withholding), are \$18.4 million (8.1 percent) above the January 2024 CREG forecast.

Bottom-line: General Fund/Budget Reserve Account – In total, excluding realized capital gains from the PWMTF, revenue collections for the GF and BRA, exceed the January 2024 CREG forecast pace by \$70.4 million (3.8 percent). Realized capital gains from the PWMTF are currently \$112.2 million though these would not remain in the GF since interest and dividends from the PWMTF already exceed the statutory spending policy.

Statutory One Percent Severance Tax – Beginning in FY 2023, revenue derived from the statutory one percent severance tax is deposited to the PWMTF and the CSPLF in equal amounts. Like other accounts benefiting from severance taxes, revenues from the statutory one percent severance tax exceed the January 2024 CREG forecast pace by \$8.7 million (7.7 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 2024 investment income derived from the CSPLF totals \$160.7 million, including \$157.8 million of interest and dividends (which is \$4.5 million (2.5 percent) short of the forecasted amount) and \$2.9 million of realized net capital gains. This amount is currently \$58.5 million less than the SPA (5 percent of the five-year average market value of the corpus) of \$219.2 million. Depending upon final FY 2024 investment income, any shortfall of the SPA will be automatically appropriated through a transfer from the Common School Permanent Fund Reserve Account.

FMRs deposited to the SFP are pacing \$12.2 million (5.6 percent) ahead of the forecast. Total FY 2024 lease and bonus revenues on school lands totaled \$21.6 million, which is \$1.6 million (8.0 percent) higher

than the CREG forecast. These revenues are also dedicated to K-12 education through deposits to the Common School Land Income Account, and subsequently deposited to the SFP. State mineral royalties from common school lands are final for FY 2024, with collections of \$137.9 million, \$0.9 million over forecast. This full amount will be deposited to the CSPLF in FY 2024.

Total Mineral Severance Taxes and Total FMRs – Through June 2024, total severance tax collections are \$54.7 million (7.8 percent) ahead of the January 2024 CREG forecast pace. Total FMRs received through June are \$30.6 million (5.4 percent) ahead of pace. In recent months, the “secondary caps” established in accordance with 2022 Budget Bill, Section 314 and 315 for both severance taxes and FMRs collections 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 are distributed to the BRA and 40 percent to the SFP.

As shown in Table 1, the average price of Wyoming oil in FY 2024 to date is \$75.31/bbl, 6.8 percent lower than the same period in FY 2023, but \$0.31/bbl ahead of the projection for FY 2024. Oil prices have been relatively less volatile this summer compared to previous years. Total oil production for FY 2024 through April is 9.0 percent higher than forecast pace and is 12.5 percent higher than one year ago. According to a proprietary source, currently, there are 12 active oil rigs operating in Wyoming, compared to 16 rigs at the same time one year ago. Natural gas prices received by Wyoming producers are averaging \$4.04/mcf for the current fiscal YTD, 56.2 percent lower than FY 2023 YTD prices, but \$0.66/mcf ahead of forecast. Compared to the previous year, Wyoming natural gas production has been increasing since late 2023. As a result, the FY 2024 YTD production is also 9.0 percent higher than the forecast pace. There are 2 active natural gas rigs as of this writing compared to 2 rigs last year and the monthly average of 10 rigs in 2019. The statewide average surface coal price of \$14.86/ton for FY 2024 to date is 3.3 percent higher than the January forecast level but identical to the FY 2023 YTD value. However, coal production is tracking 6.0 percent lower than the forecast amount, and 22.4 percent lower than FY 2023 YTD figure.

Table 1. Fiscal Year-To-Date (YTD) Comparison of Major Mineral Price and Production.

Fiscal YTD (July through April)	Crude Oil		Natural Gas		Surface Coal	
	Price (\$/bbl)	Production (millions of bbl)	Price (\$/mcf)	Production (billions of cubic feet)	Price (\$/ton)	Production (millions of ton)
Actual for FY 2023	\$80.79	76.7	\$9.22	1,058.4	\$14.86	205.7
Forecast for FY 2024	\$75.00	79.2	\$3.38	985.4	\$14.38	191.7
Actual for FY 2024	\$75.31	86.3	\$4.04	1,074.0	\$14.86	180.2

In summary, the sales and use tax distribution to the GF is slightly behind the January 2024 CREG projection, while mineral revenues are moderately exceeding forecasts due to higher than expected oil and natural gas productions and natural gas prices enjoyed early in the fiscal year.

Current revenue collections directed to the GF and BRA for FY 2024 are exceeding the January 2024 CREG projection. The preliminary figures indicate that the STO generated modest unforecasted but anticipated realized capital gains from the PWMTF, CSPLF and the LSRA. The current revenue trends indicate:

- Actual revenues directed to and remaining in the GF and BRA are expected to exceed the January 2024 CREG's 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 slightly behind forecast by approximately \$2.8 million, resulting from the slowdown of inflation, reduced mineral activities, and increased economic impact assistance payment to local governments;
- In combination, approximately \$115.1 million in net capital gains have been realized from the PWMTF and CSPLF as well as \$31.0 million in net gains from the LSRA. Through May 2024, PWMTF investment income equaling \$63.3 million will be deposited into both the LSRA and SIPA;
- With about two months left, despite the substantial decrease in coal production, severance tax and FMR collections are both exceeding the January 2024 CREG forecasts, due to the increased efficiency or productivity in oil and gas exploration, as well as the persistent positive differential between natural gas price that Wyoming producers received and the national benchmark market, the Henry Hub price;
- As noted in the April 2024 Revenue Update, known low spot prices for natural gas for production completed but not yet reported and declining coal production may reduce the fiscal year averages and bring mineral revenue excess more in-line with the January 2024 CREG forecast.

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, 2024]

Fiscal Year 2024 Revenue Update Summary: Actual vs. January 2024 CREG Forecast

		A	B	C	D	E	F	G
Revenue Sources		CREG Forecast FY24 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)	\$651,700,000	\$576,982,569	\$579,800,000	(\$2,817,431)	88.5%	89.0%	-0.4%
2	GF - PWMTF with guarantee (3)	\$219,800,000	\$201,500,000	\$201,500,000	\$0	91.7%	91.7%	0.0%
2a	GF - PWMTF from dividends & interest (3)	\$308,800,000	\$234,181,567	\$283,100,000	(\$48,918,433)	75.8%	91.7%	-15.8%
2b	GF - PWMTF with capital gains (3)	N/A	\$346,444,470	N/A	N/A	N/A	N/A	N/A
3	GF - Pooled income with capital gains (losses) (3)	\$136,000,000	\$180,539,701	\$124,700,000	\$55,839,701	132.7%	91.7%	41.1%
3a	GF - Pooled income from dividends & interest (3)	\$136,000,000	\$149,519,805	\$124,700,000	\$24,819,805	109.9%	91.7%	18.2%
4	GF - Severance Tax	\$181,700,000	\$169,794,189	\$159,200,000	\$10,594,189	93.4%	87.6%	5.8%
5	GF - All Other	\$196,300,000	\$222,974,764	\$196,300,000	\$26,674,764	113.6%	100.0%	13.6%
6	General Fund - Total (without PWMTF capital gains or guarantee) (3)	\$1,474,500,000	\$1,384,472,790	\$1,343,100,000	\$41,372,790	93.9%	91.1%	2.8%
7	General Fund - Total with guarantee (3)	\$1,385,500,000	\$1,351,791,223	\$1,261,500,000	\$90,291,223	97.6%	91.1%	6.5%
8	BRA (from Severance Taxes)	\$136,300,000	\$124,391,180	\$113,800,000	\$10,591,180	91.3%	83.5%	7.8%
9	BRA (from FMRs)	\$226,500,000	\$193,308,359	\$174,900,000	\$18,408,359	85.3%	77.2%	8.1%
10	Budget Reserve Account - Total	\$362,800,000	\$317,699,539	\$288,700,000	\$28,999,539	87.6%	79.6%	8.0%
11	One Percent Severance Tax (50% to PWMTF and 50% to CSPLF)	\$112,400,000	\$102,671,357	\$94,000,000	\$8,671,357	91.3%	83.6%	7.7%
12	SFP CSPLF with guarantee (3)	\$219,200,000	\$200,900,000	\$200,900,000	\$0	91.7%	91.7%	0.0%
12a	SFP CSPLF from dividends & interest (3)	\$177,000,000	\$157,840,179	\$162,300,000	(\$4,459,821)	89.2%	91.7%	-2.5%
12b	SFP CSPLF with capital gains (losses) (3)	N/A	\$160,723,753	N/A	N/A	N/A	N/A	N/A
13	SFP FMRs	\$219,600,000	\$197,442,906	\$185,200,000	\$12,242,906	89.9%	84.3%	5.6%
14	SFP Lease and bonus	\$20,000,000	\$21,599,287	\$20,000,000	\$1,599,287	108.0%	100.0%	8.0%
15	School Foundation Program - Total (w/out cap. gains or guarantee) (3)	\$416,600,000	\$376,882,372	\$367,500,000	\$9,382,372	90.5%	88.2%	2.3%
16	School Foundation Program - Total (with guarantee) (3)	\$458,800,000	\$419,942,193	\$406,100,000	\$13,842,193	91.5%	88.5%	3.0%
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)	\$137,000,000	\$137,915,135	\$137,000,000	\$915,135	100.7%	100.0%	0.7%
19	Severance Taxes - Total	\$701,200,000	\$640,557,806	\$585,900,000	\$54,657,806	91.4%	83.6%	7.8%
20	Federal Mineral Royalties - Total	\$565,400,000	\$510,047,264	\$479,400,000	\$30,647,264	90.2%	84.8%	5.4%

(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 2024 was \$23,722,451; sales and use tax collections have been reduced by this amount. In addition, sales & use tax collections were reduced in May 2024 by \$488,472 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 realized capital gains through May 2024. 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).