

# **Primer: Strategic Revenue Declines**

## ***2020 Interim Topic Priority #3***



**WYOMING LEGISLATIVE SERVICE OFFICE**

*July 13-14, 2020 – Joint Appropriations Committee (updated July 13, 2020)*

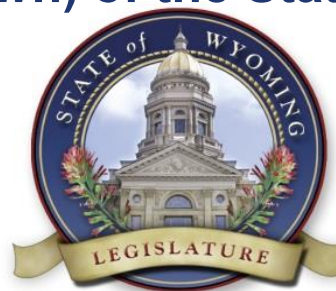
# Presentation Outline

- I. Major Sources of WY Revenue & Trends (p. 3)
- II. Recap - Volatility of Major State Revenue Sources (p. 11)
- III. State & School Appropriation & Funding Trends (p. 12)
- IV. Reserves (p. 19)
- V. FY2021 Preliminary Cashflow Analysis (p. 22)
- VI. Takeaways (p. 23)



# I. Major Sources of WY Revenue & Trends

- Sales and use taxes
- Ad valorem taxes (considered through changes in assessed valuations)
- Investment income
- Mineral taxes and payments (Severance, Ad valorem, Royalties)
  - Oil
  - Natural gas
  - Coal
- Technical notes:
  - Hashed bars or dashed lines reflect projections
  - “Measure of volatility” for this presentation uses the standard deviation of the annual percentage change in collections. The higher the measure, the greater the annual variation (up and down) of the State’s major revenue streams.



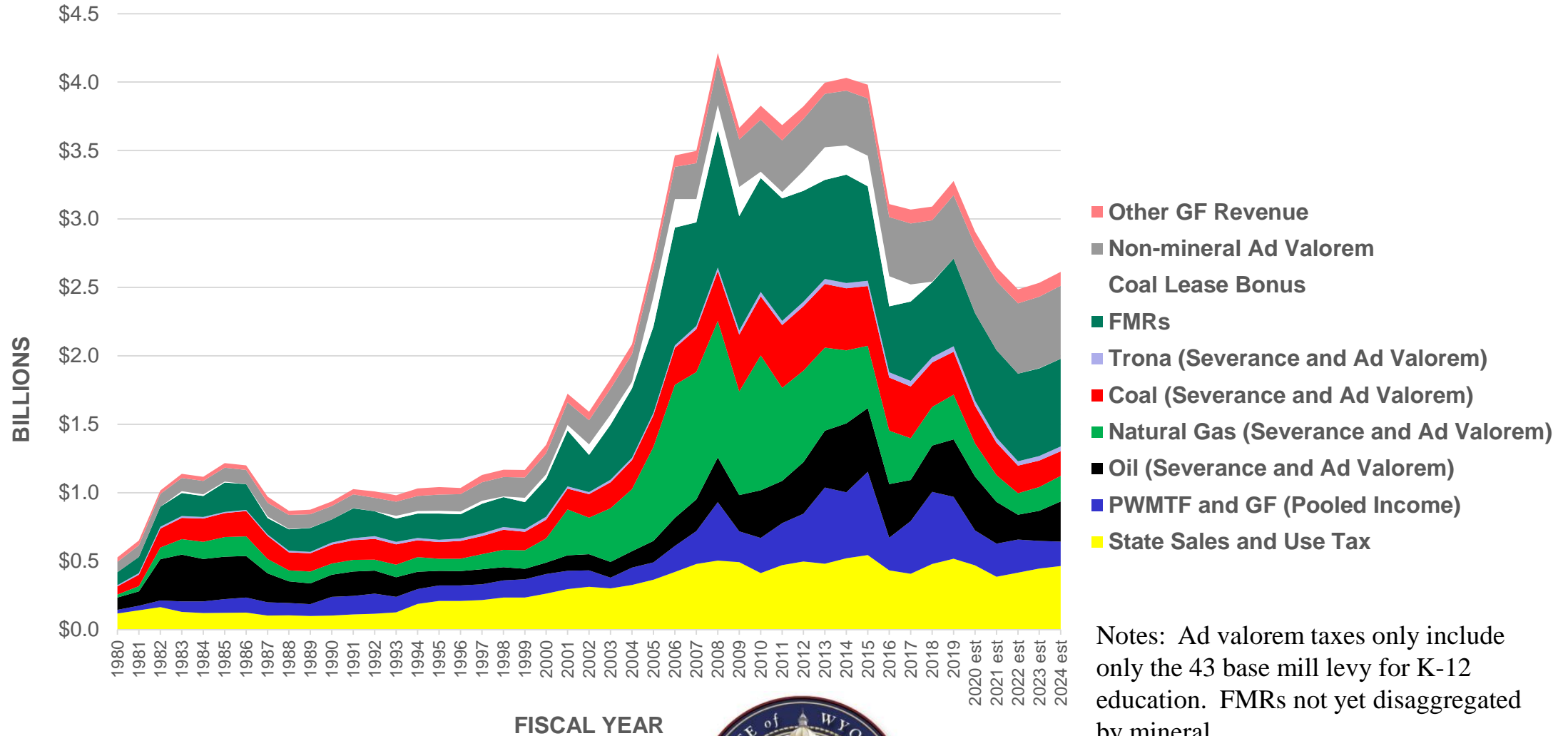
# Summary: Revenue Volatility and Revenue Decline Contribution

Revenue Source	Estimated Long-term Volatility Measure	Contribution to May 2020 CREG Revenue Decline (April 2020 – June 2022)
Sales and Use Tax	~11%	(\$387 million)
Investment Income	~32%	(\$20 million)
Oil	~29%	(\$798 million)
Natural Gas	~35%	(\$233 million)
Coal	~24%	(\$213 million)
Non-mineral A.V.	~4%	\$0
Other	NA	(\$192 million)
<b>TOTAL*</b>	<b>~13%</b>	<b>(\$1,843 million)</b>

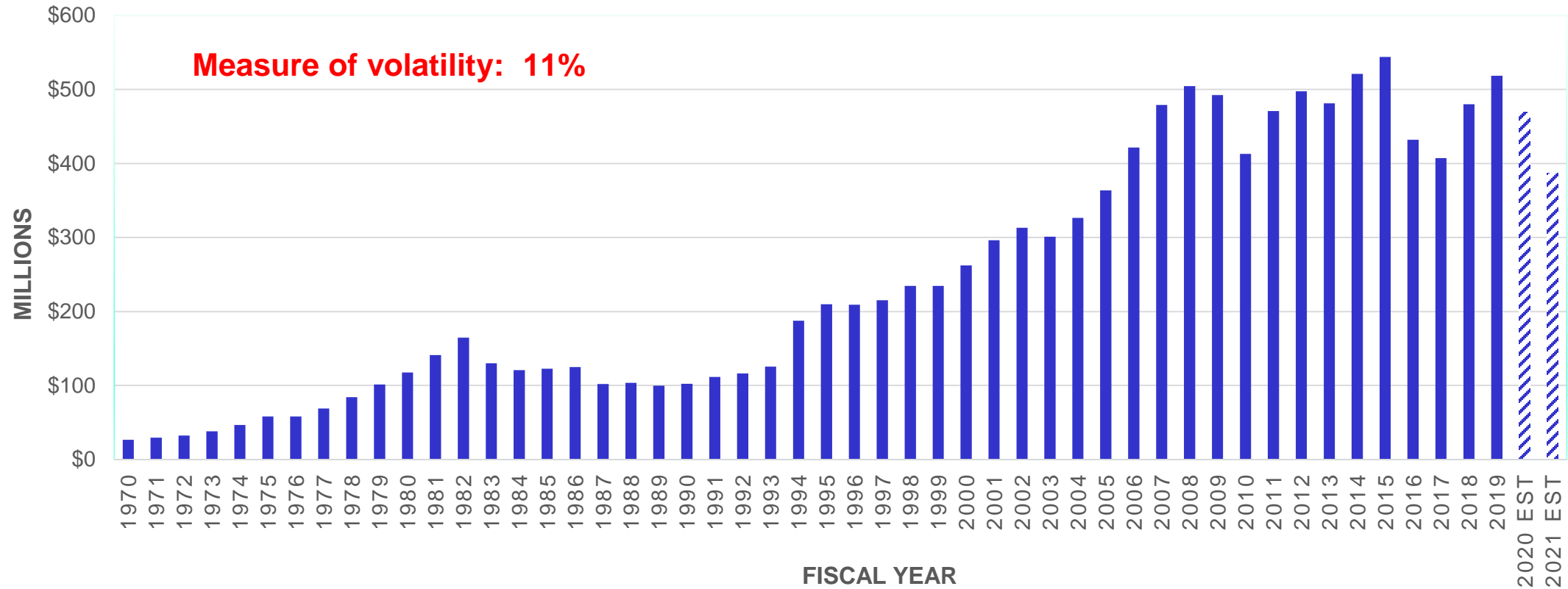
\*Note: Total includes \$352 million impact to the PWMTF from all minerals, without which the impact is \$1,491 million.



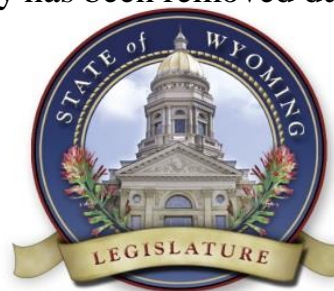
# Revenue by Major Source



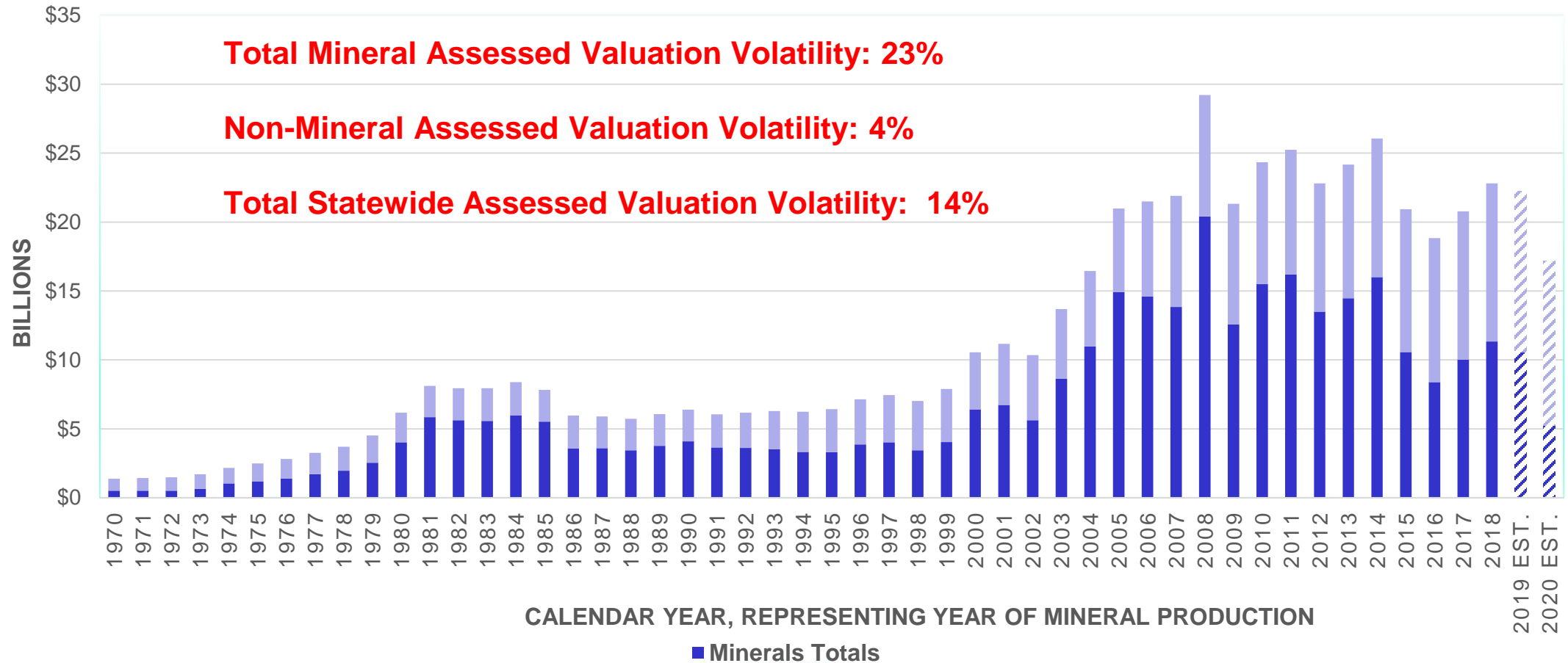
# GF Share: Sales and Use Taxes



Note: The percent change in FY 1994 for measuring volatility has been removed due to the statewide sales and use tax rate change from 3 to 4 percent.



# Assessed Valuations

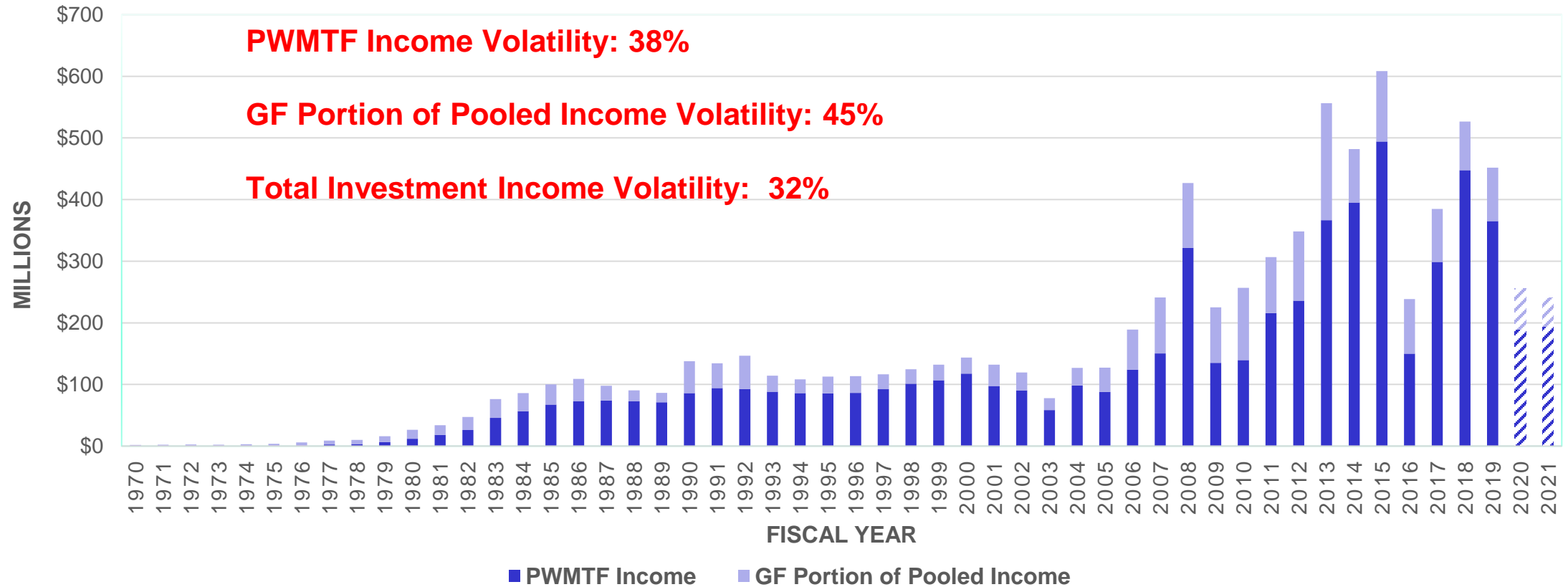


CALENDAR YEAR, REPRESENTING YEAR OF MINERAL PRODUCTION

■ Minerals Totals



# Investment Income

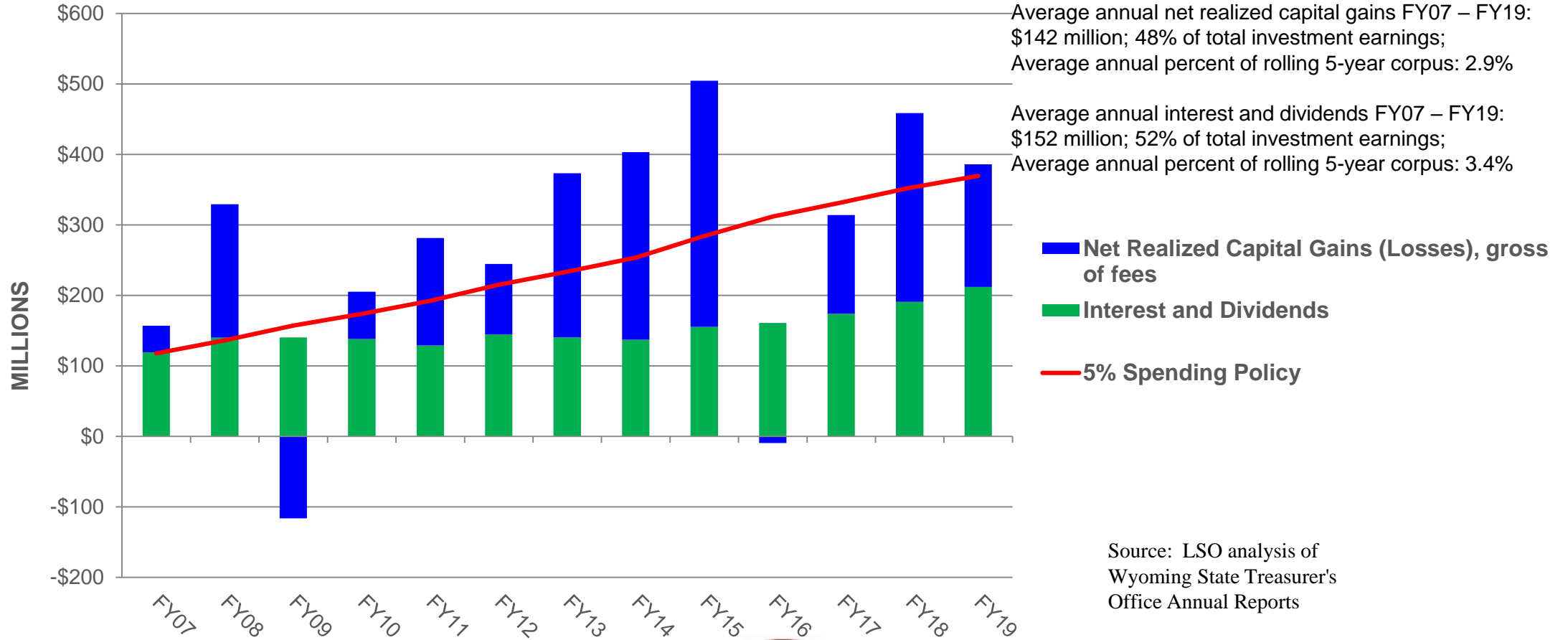


Note: Calculation of PWMTF investment income volatility does not include FY1970 through FY1977.





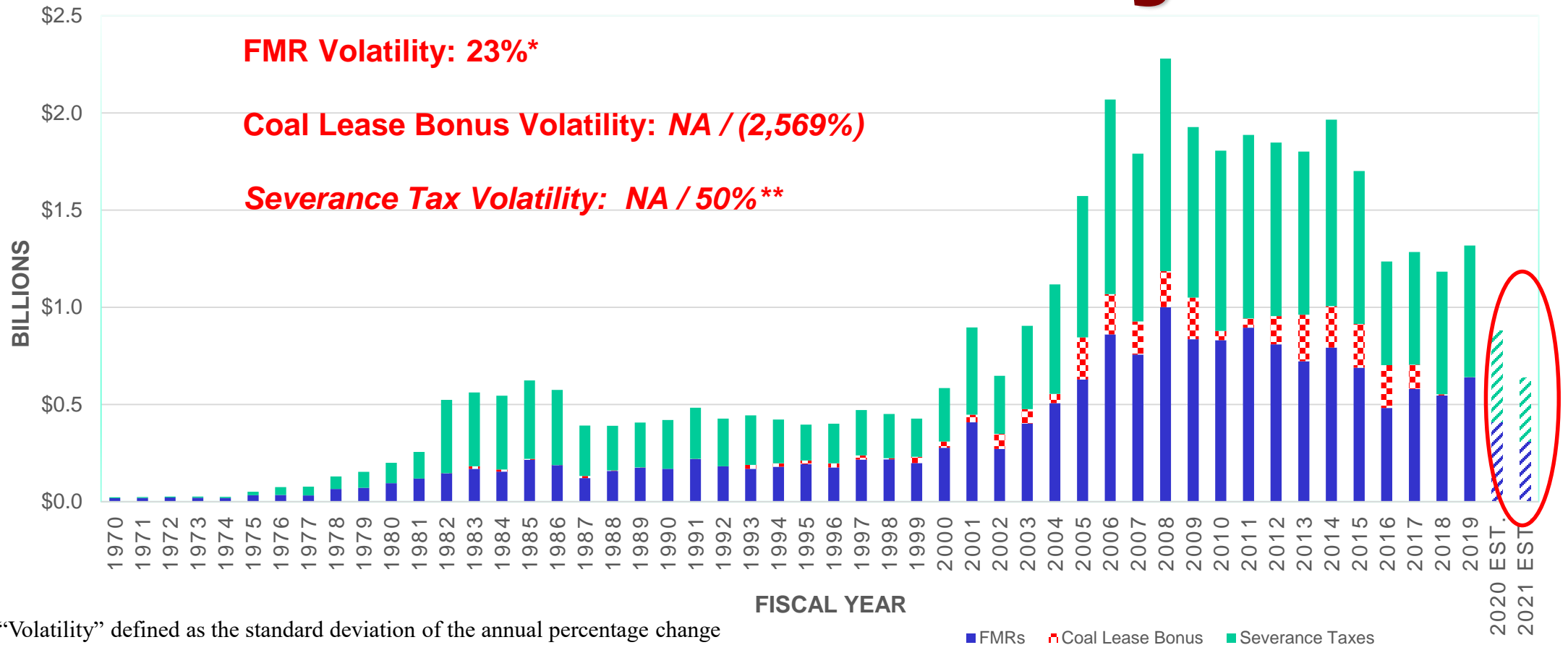
# PWMTF Investment Earnings by Type and Spending Policy Amount



Source: LSO analysis of Wyoming State Treasurer's Office Annual Reports



# Mineral Taxes and Payments



Notes: “Volatility” defined as the standard deviation of the annual percentage change in collections.

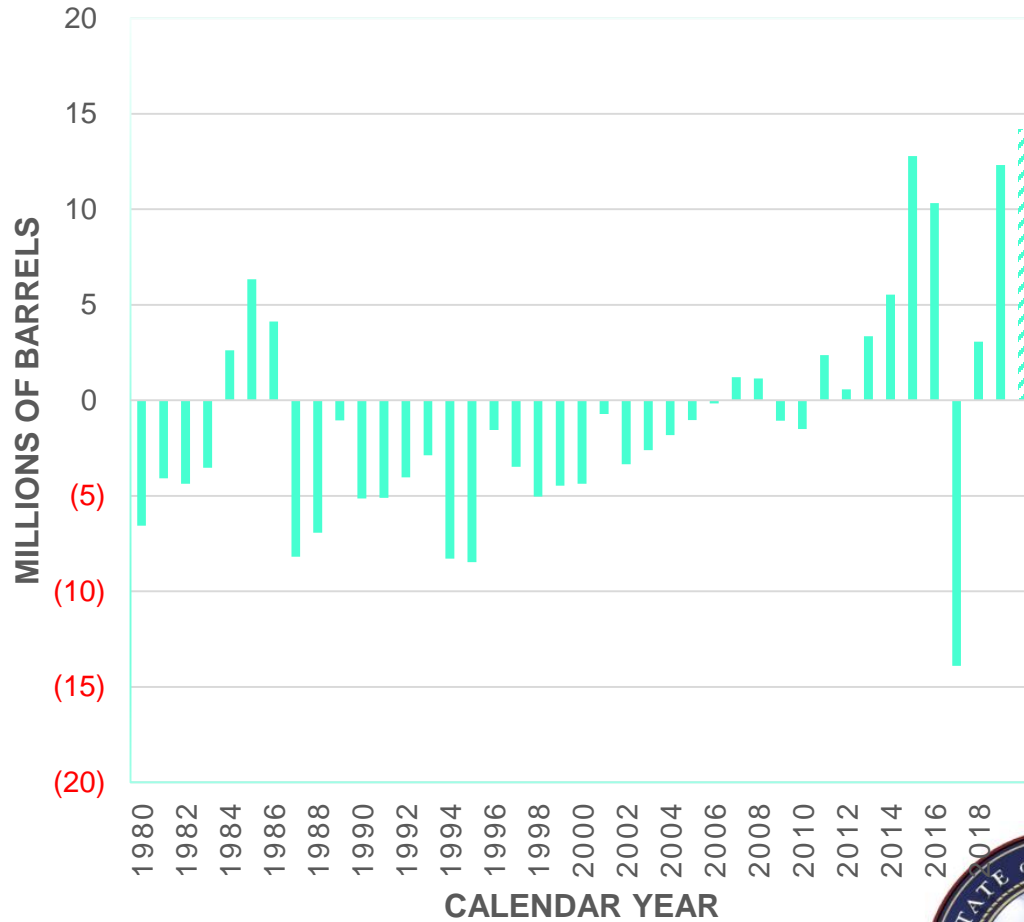
\*FMR volatility does not include FY 1978 since Wyoming’s share of FMRs was increased from 37.5% to 50% on January 1, 1977.

\*\*Severance tax volatility does not account for numerous revisions in tax rates, therefore should not be relied upon.

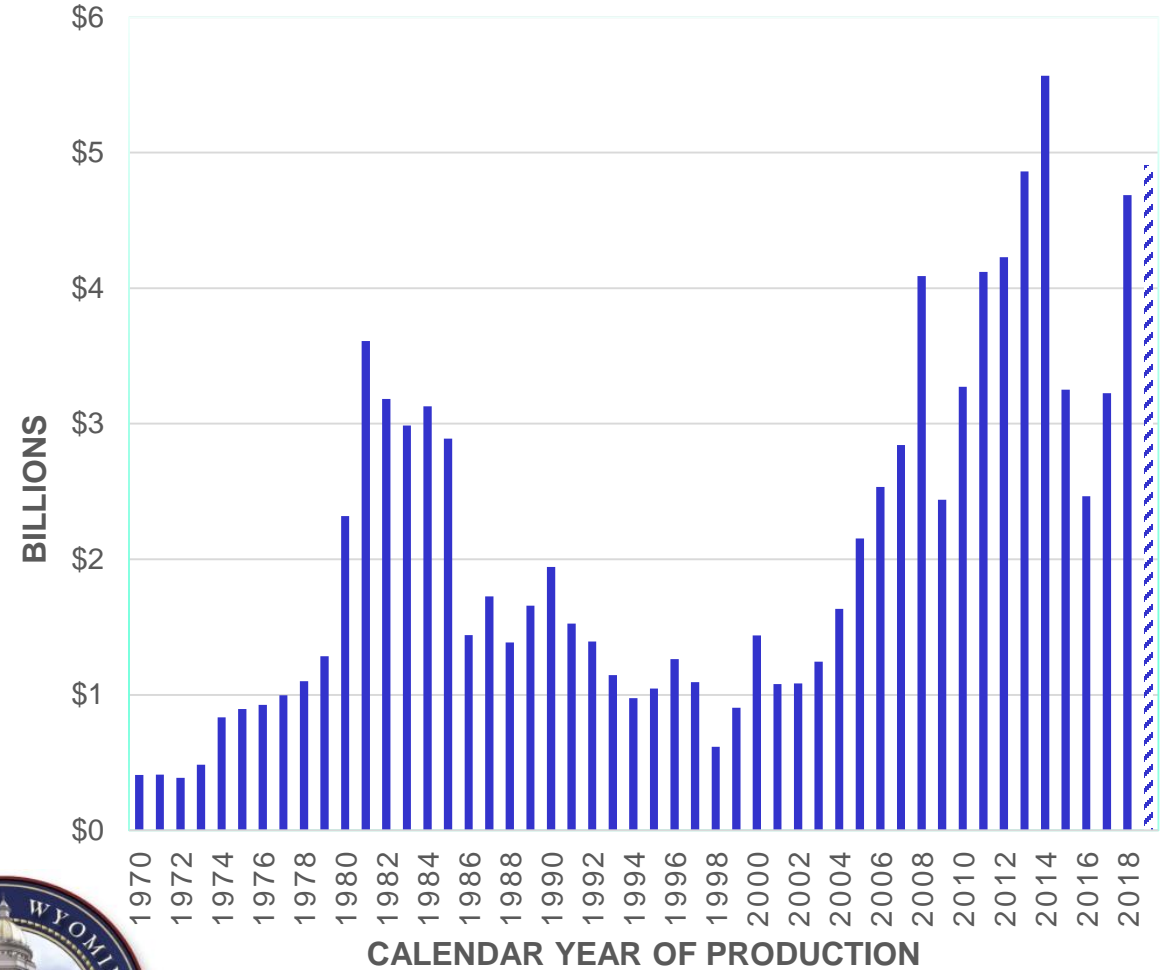


# Oil Production / Assessed Value

## YEAR-OVER-YEAR CHANGE IN OIL PRODUCTION

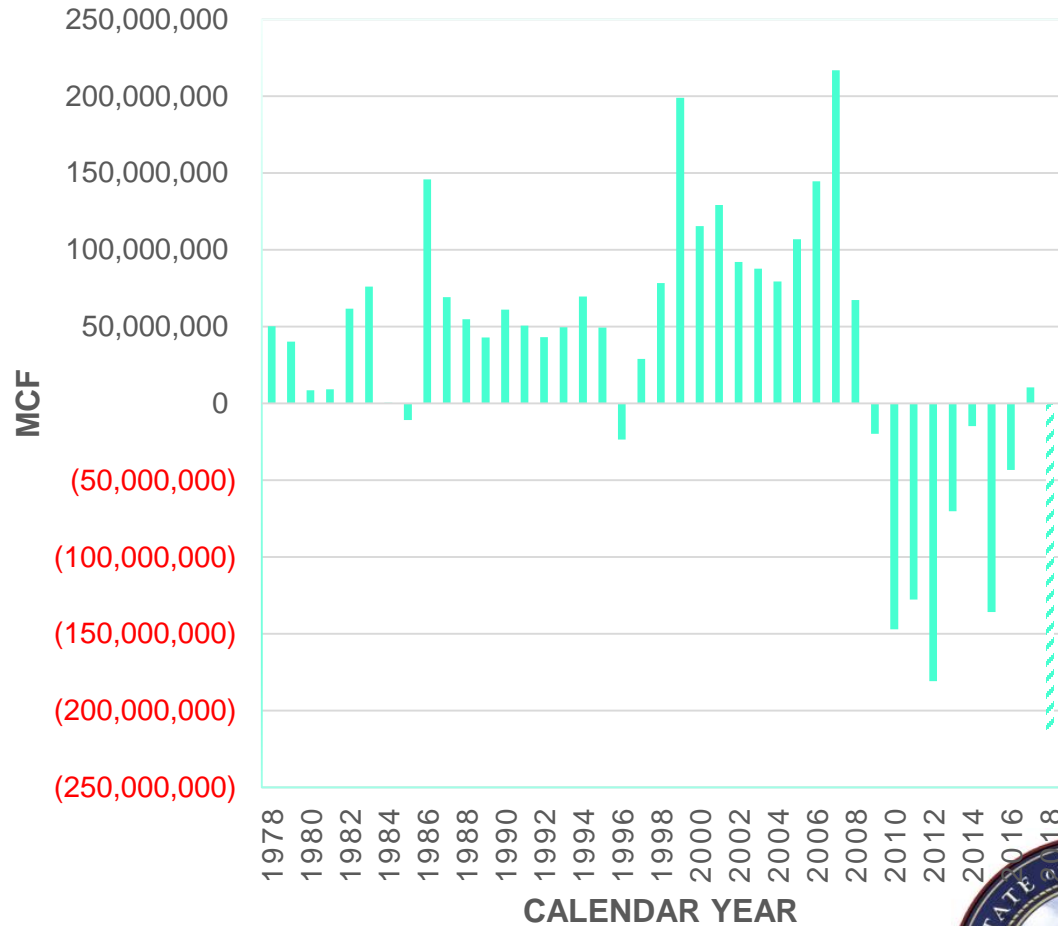


## ASSESSED VALUATION OF OIL

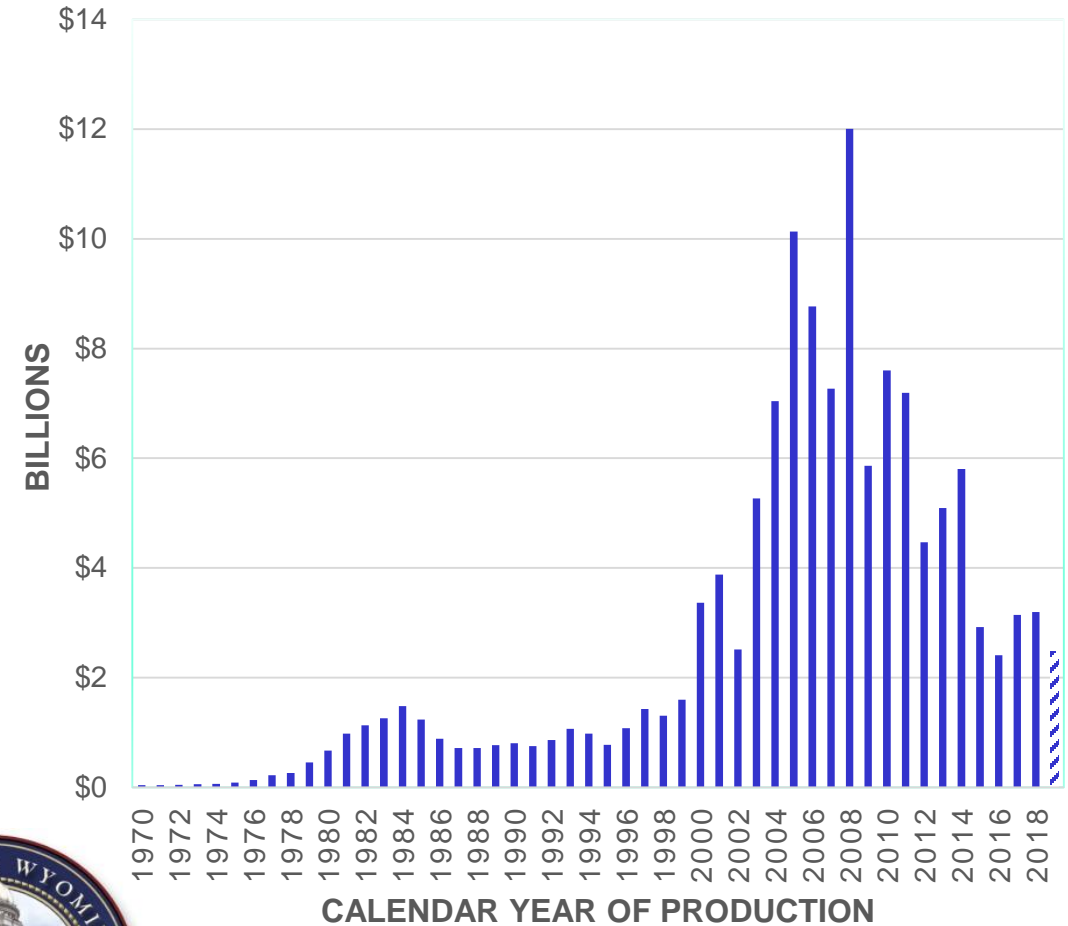


# Natural Gas Production / Assessed Value

## YEAR-OVER-YEAR CHANGE IN NATURAL GAS PRODUCTION

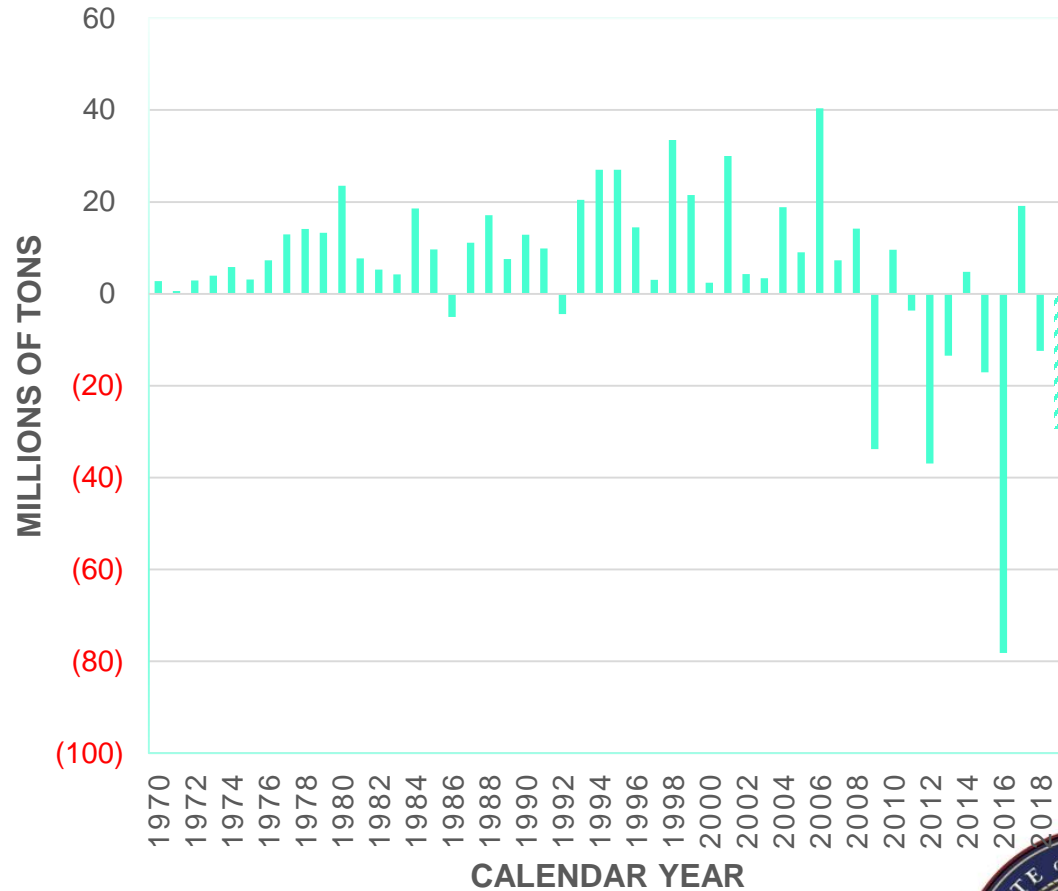


## ASSESSED VALUATION OF NATURAL GAS

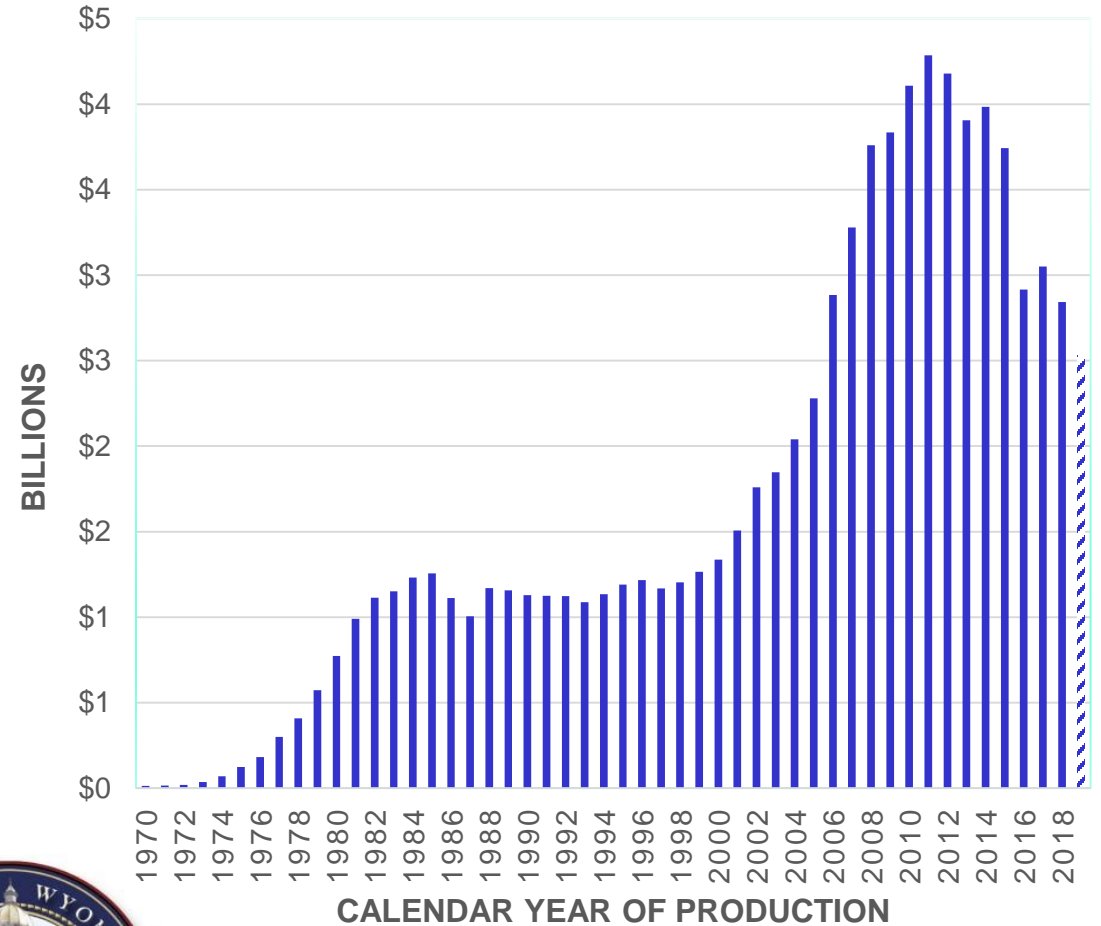


# Coal Production / Assessed Value

YEAR-OVER-YEAR CHANGE IN COAL PRODUCTION



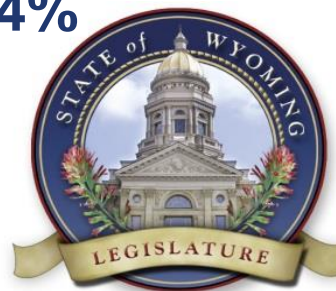
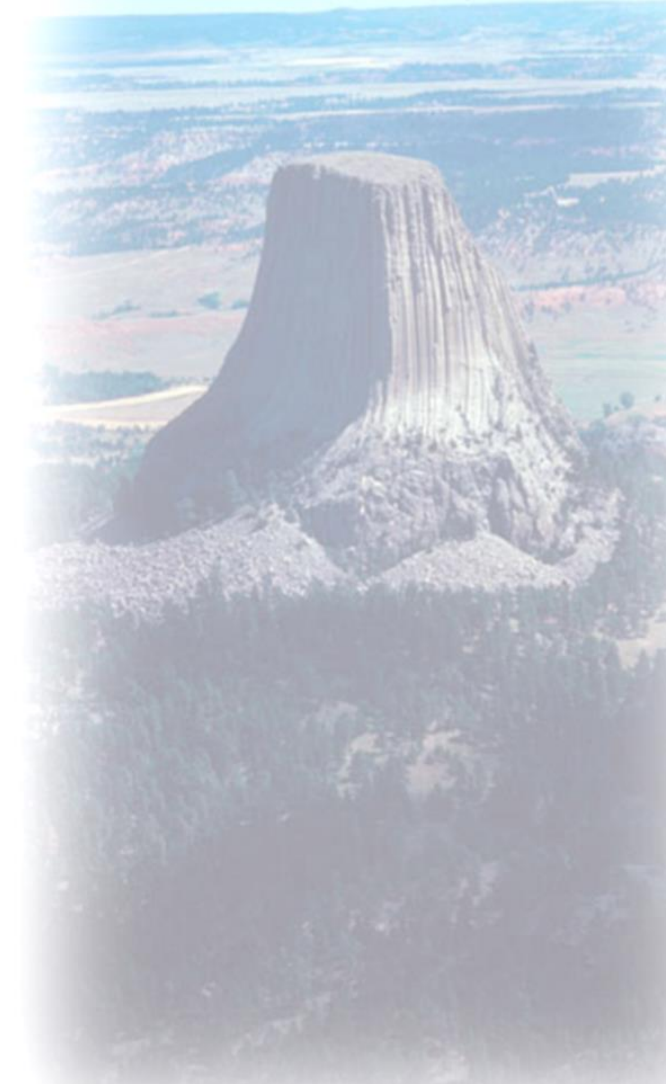
ASSESSED VALUATION OF COAL



# II. Recap - Volatility of Major State Revenue Sources

In order of approximated volatility, Wyoming's major revenue sources are as follows:

- Natural gas ~35%
- Investment income ~32%
- Oil ~29%
- Coal ~24%
- Sales and use taxes ~11%
- Non-mineral property taxes ~4%

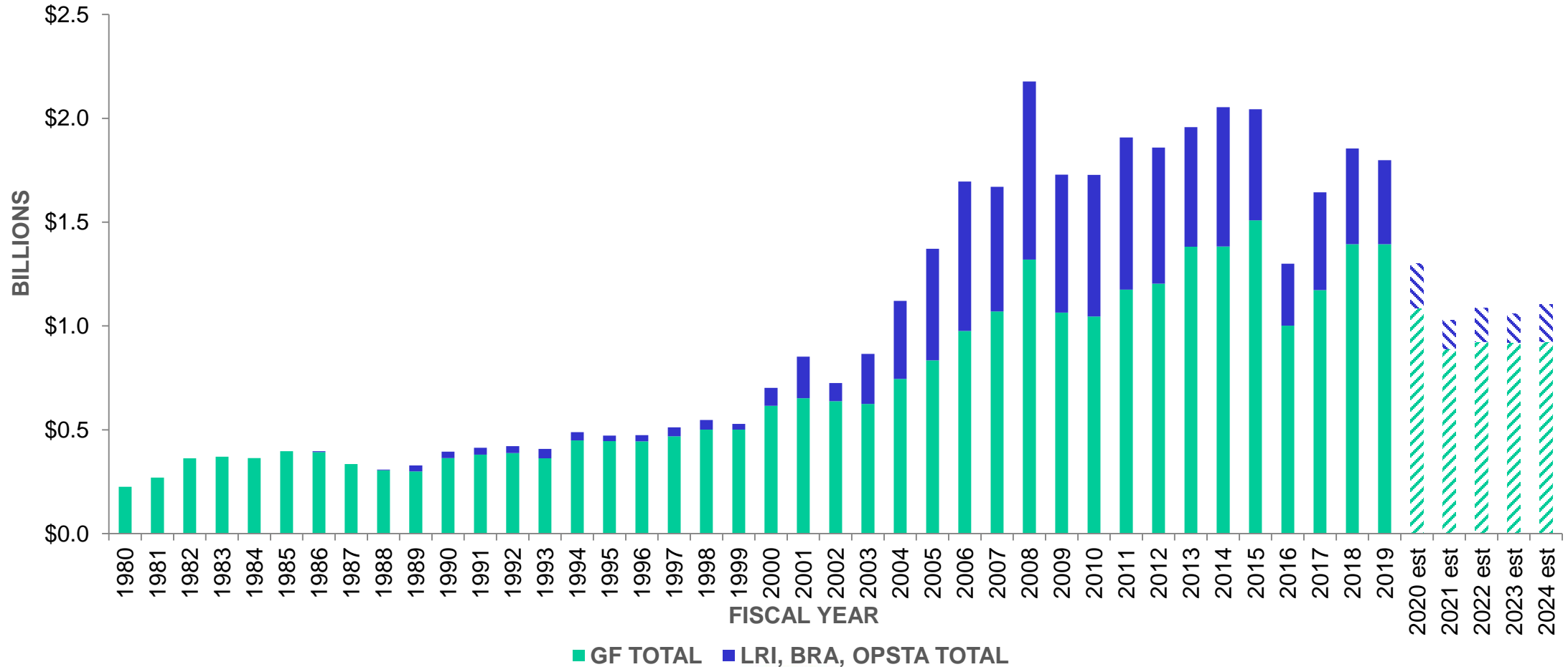


# III. State & School Appropriation & Funding Trends

- Wyoming's traditional state revenue **increased by 300%** in a decade (**\$528 M in FY1999 to \$2.2 B in FY2008**)
- Similarly, State K-12 Revenue - School Foundation Program (SFP) and School Capital Construction Account (SCCA) – **increased by more than 300%** in a decade (**\$500 M in 1999-2000 to \$2.26 B in 2009-2010**)
- Over the next twelve fiscal years, traditional annual revenues averaged 17 percent lower than the peak of FY2008; biennial K-12 state revenues averaged 20 percent lower than the peak
- State support for K-12 school districts exceeded local support in FY2017, FY2018 and is forecast to do so in FY2021 and beyond. This means the majority of K-12 funding is from the State.

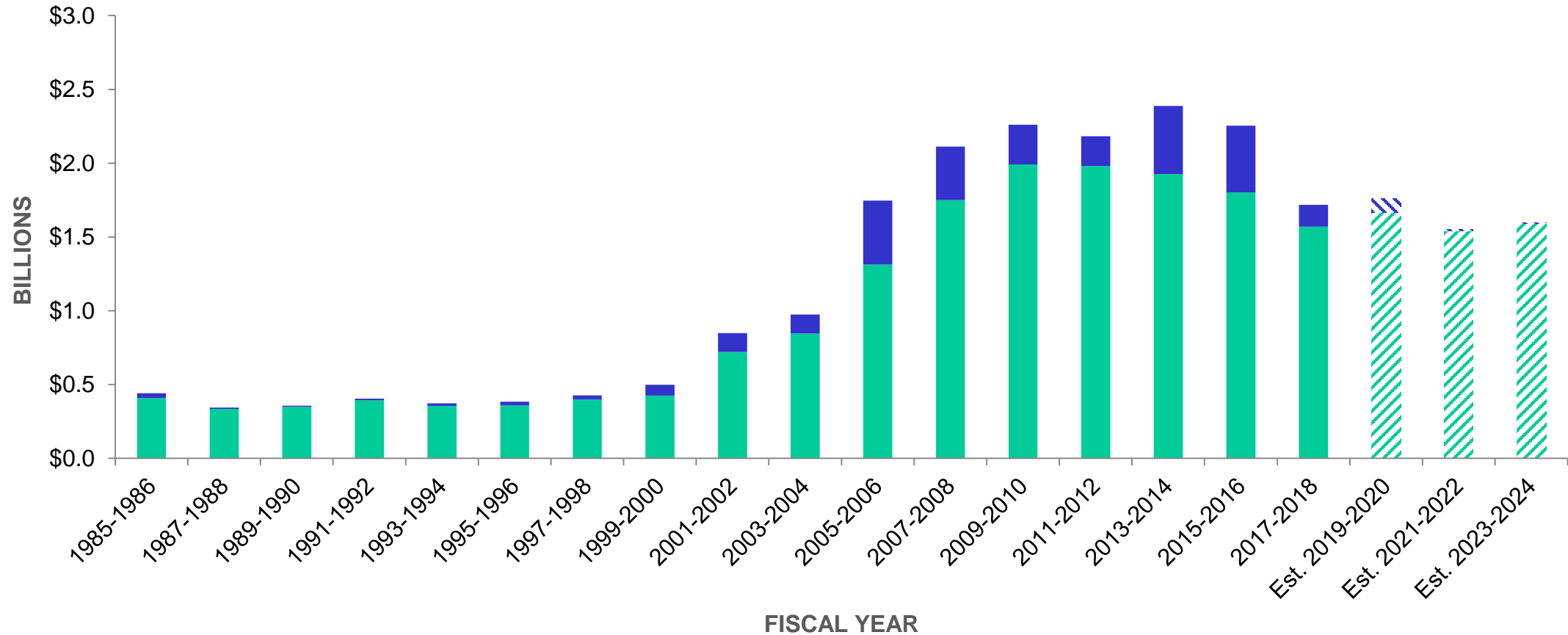


# Traditional State Govt. Revenue

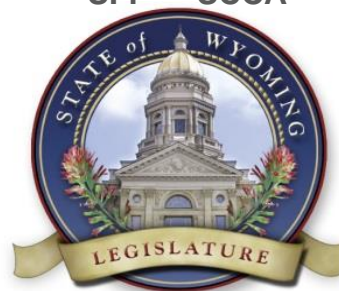




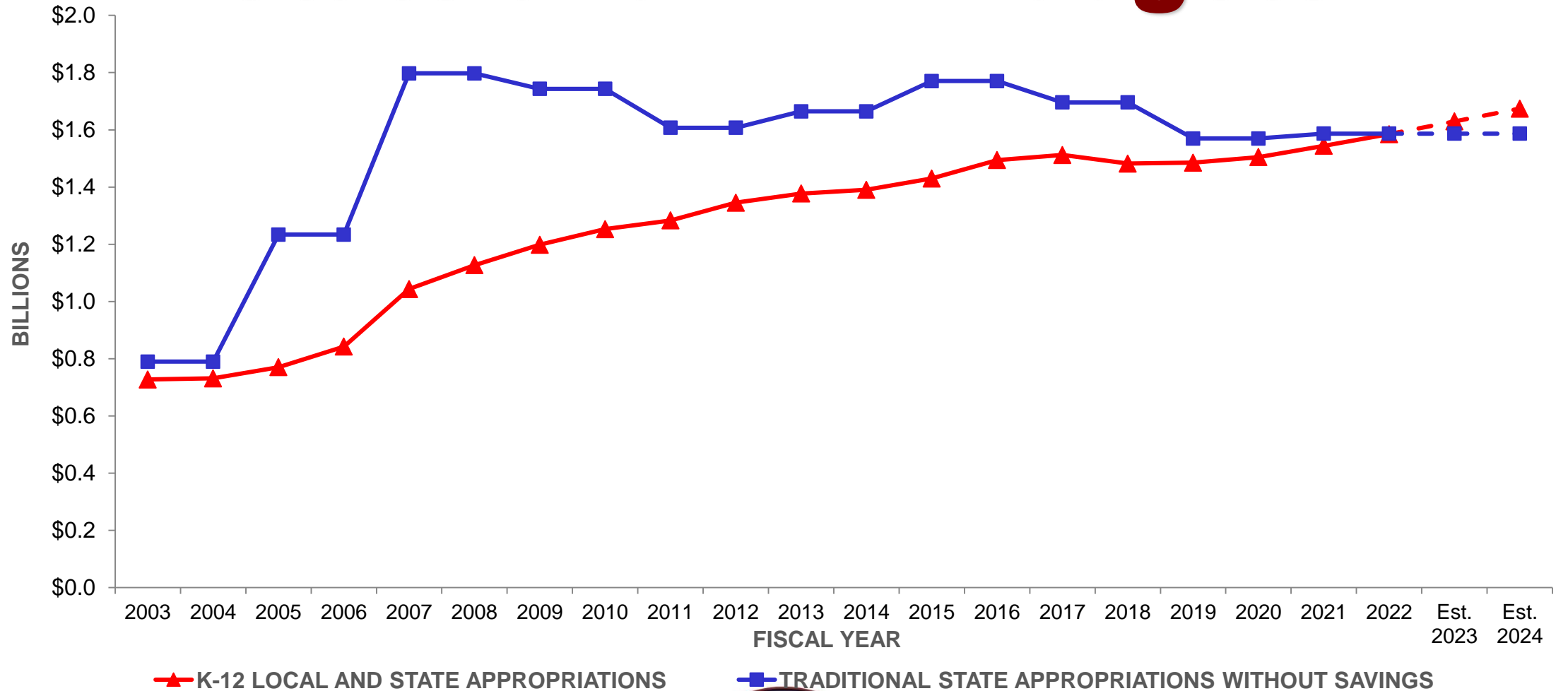
# SFP and SCCA Revenue



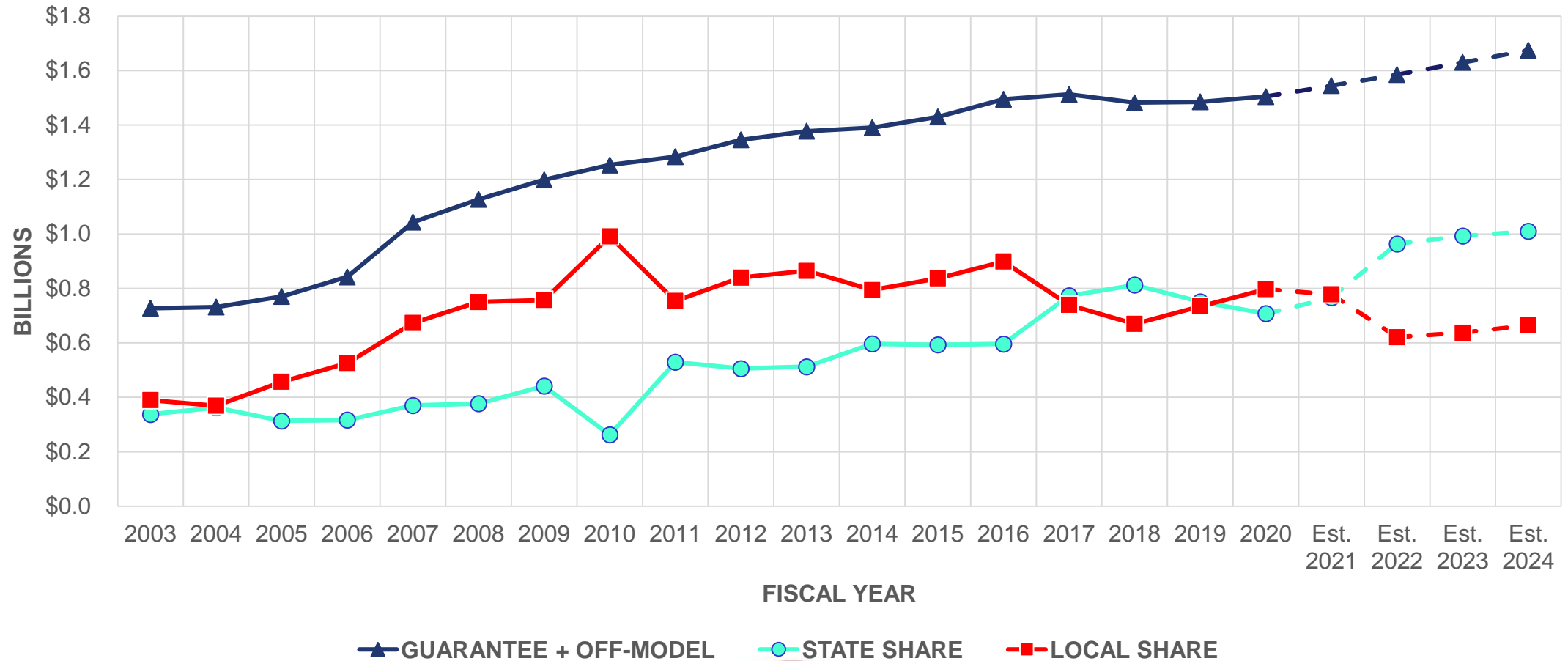
■ SFP ■ SCCA



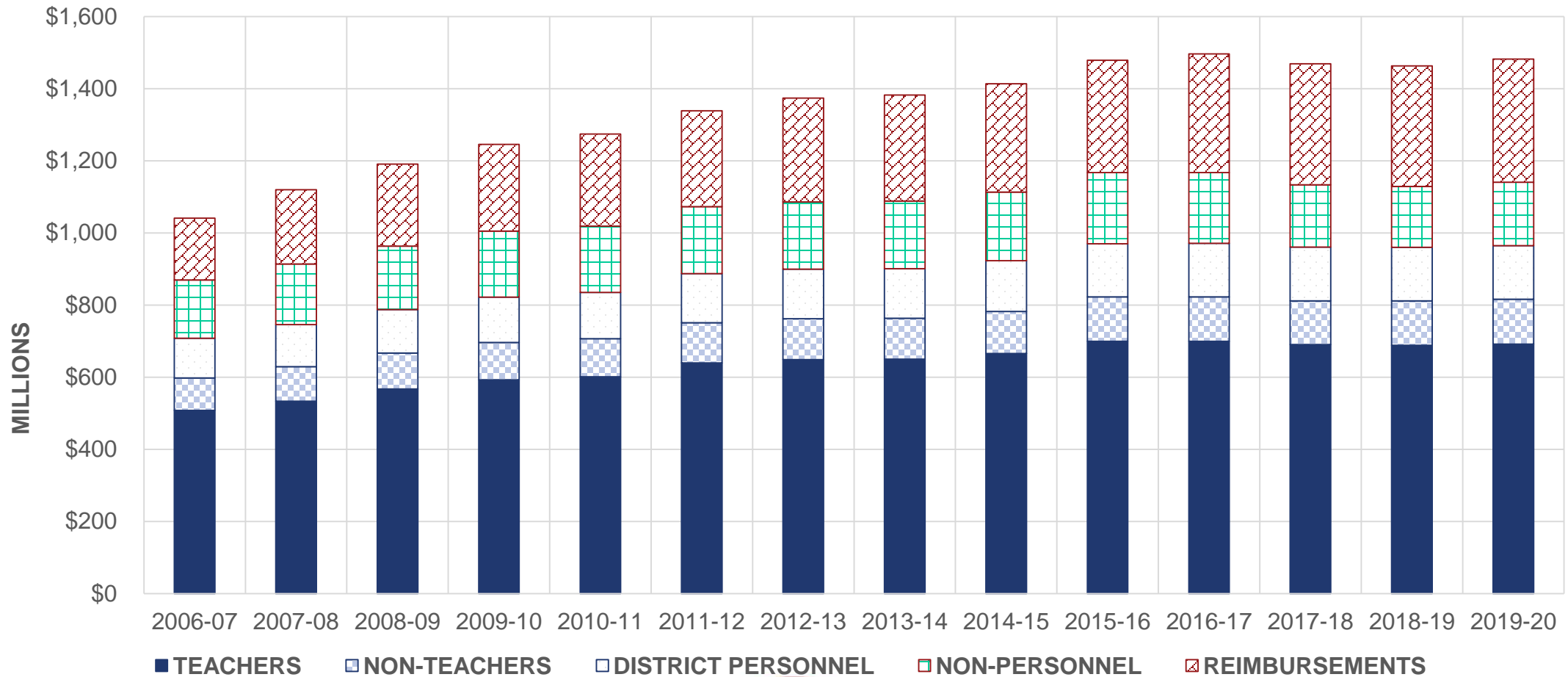
# State and K-12 Budgets



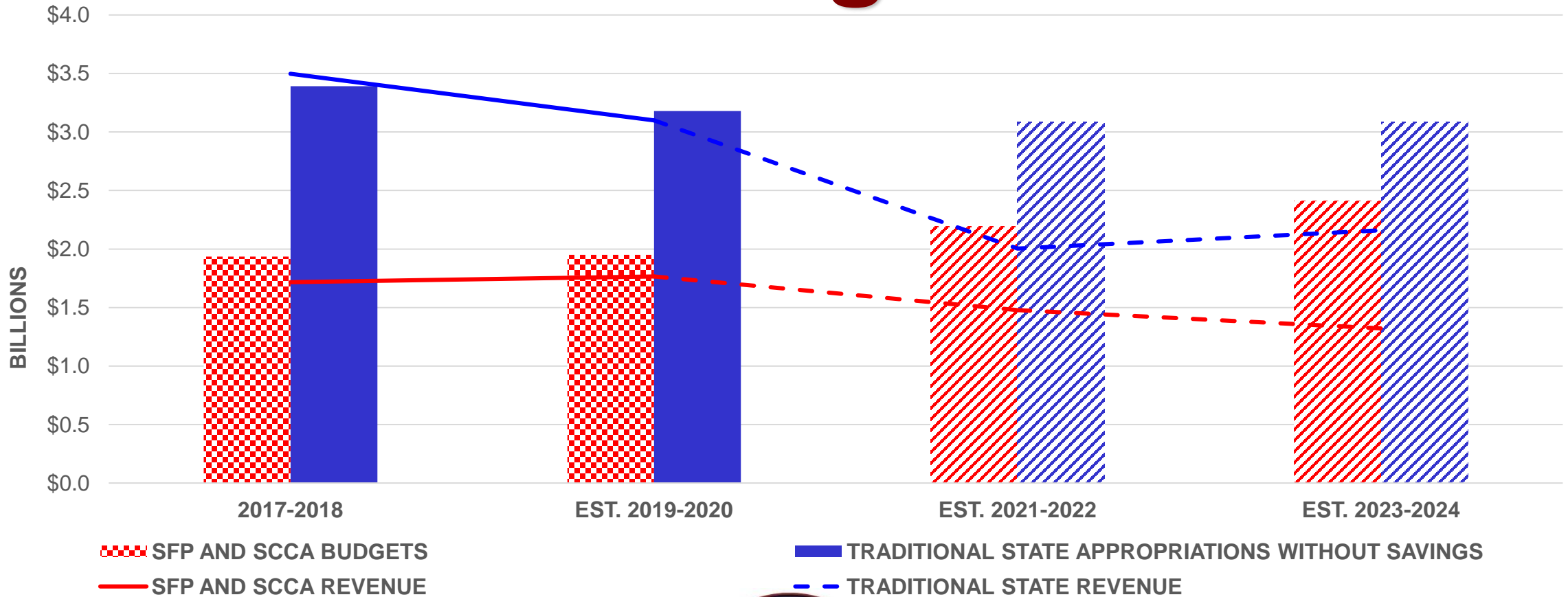
# School Foundation Program Funding



# Historical “Guarantee”

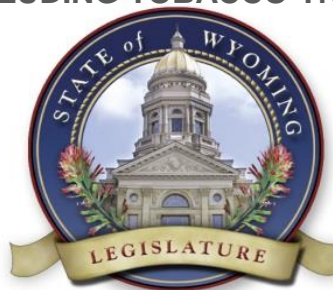
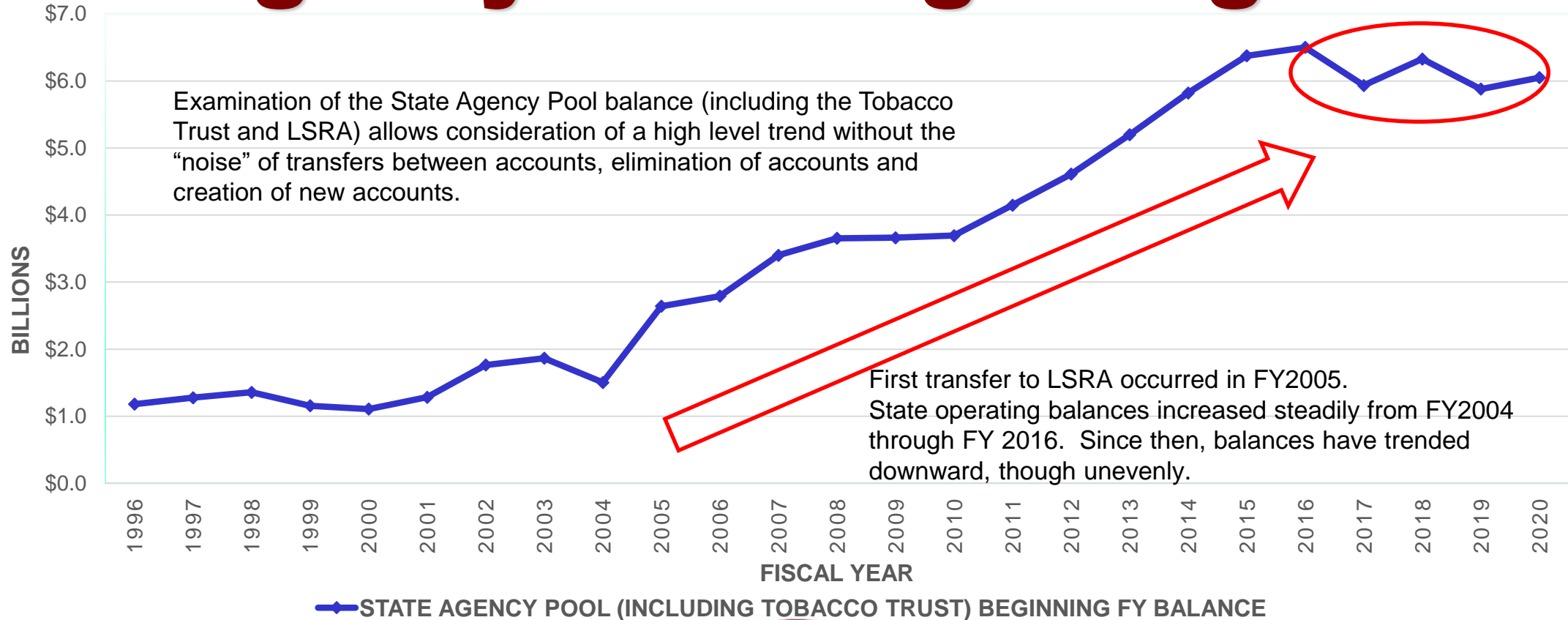


# Estimated State and K-12 Revenue v. Budgets



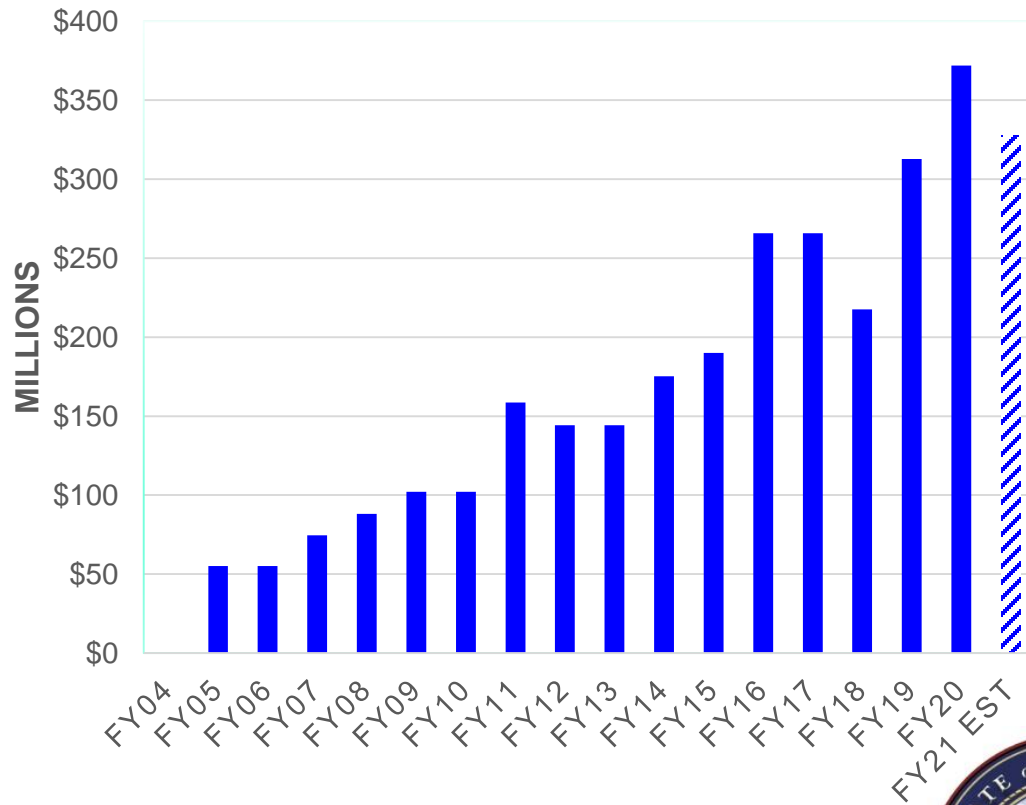
# IV. Reserves.

## State Agency Pool Beginning Balance

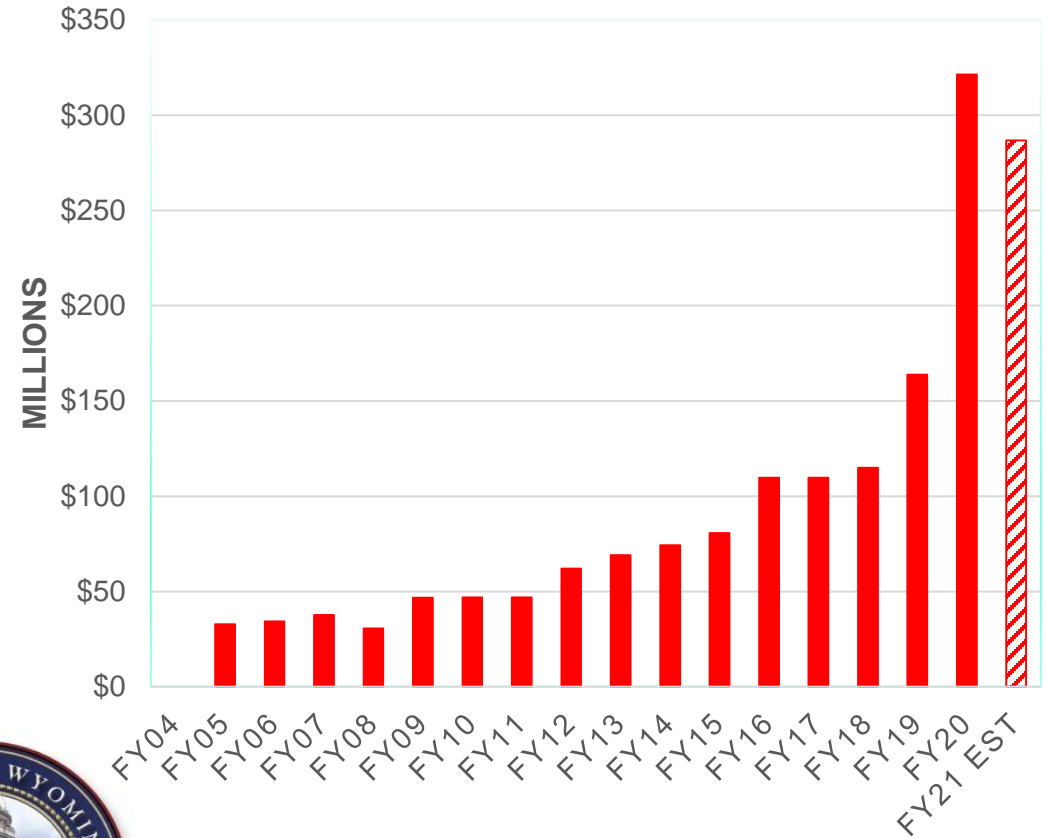


# Spending Policy Reserve Beginning Balances

PWMTF RESERVE ACCOUNT

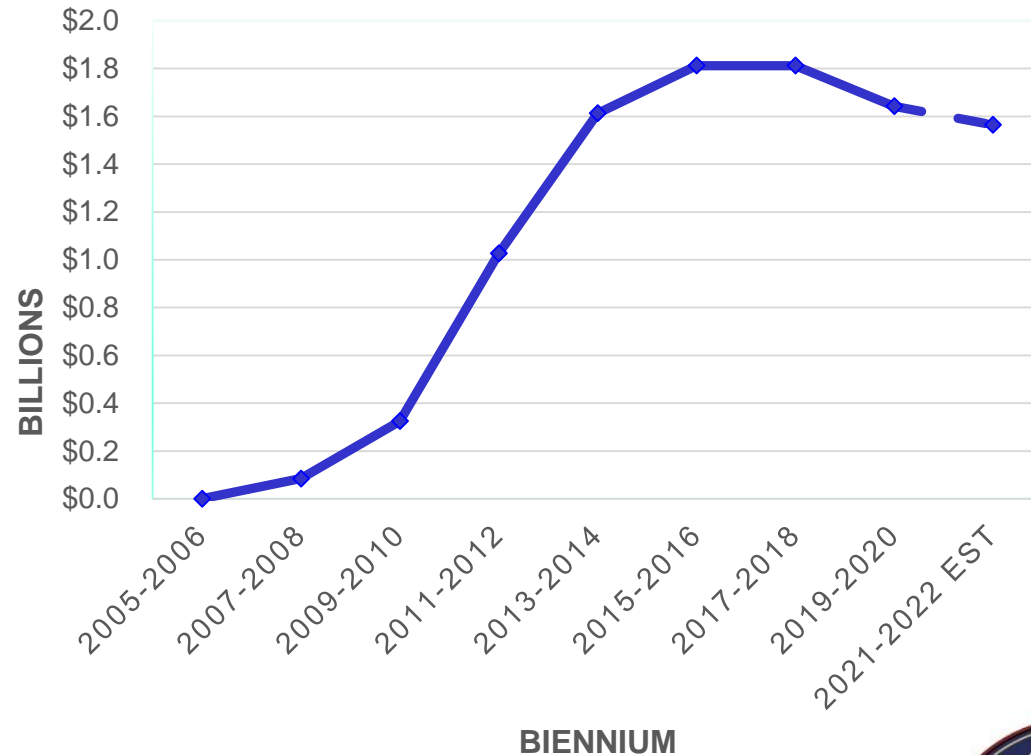


CSPLF RESERVE ACCOUNT

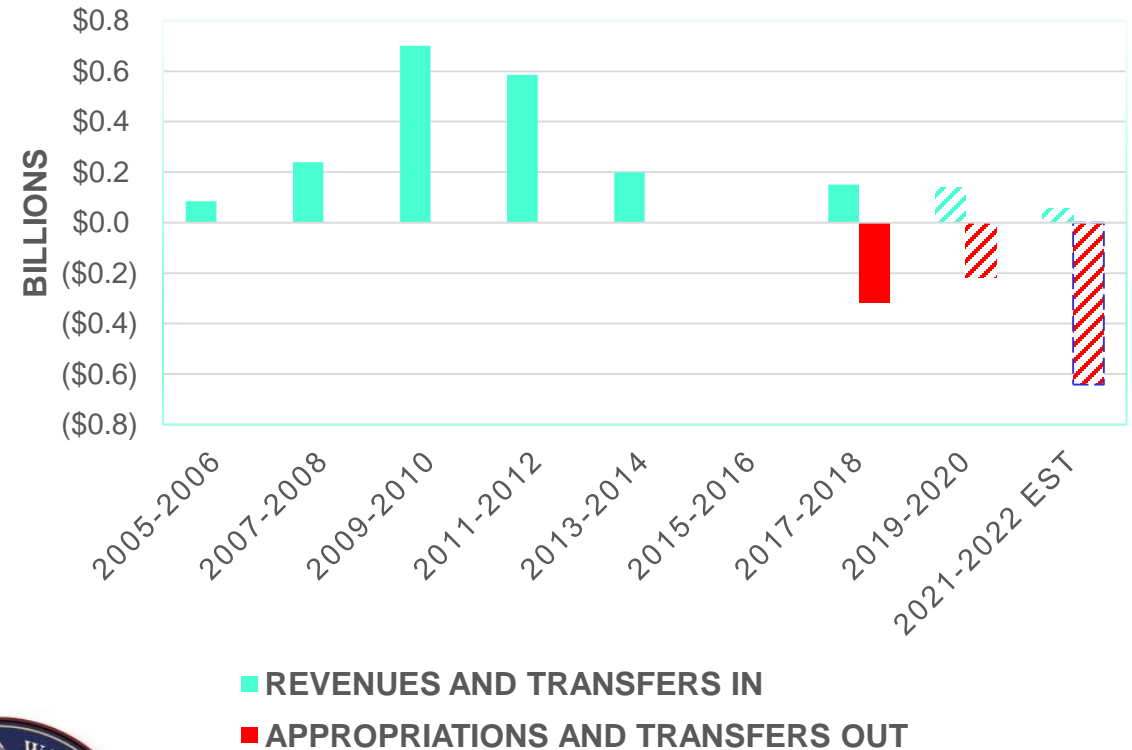


# Legislative Stabilization Reserve Account

BIENNIAL BEGINNING BALANCE

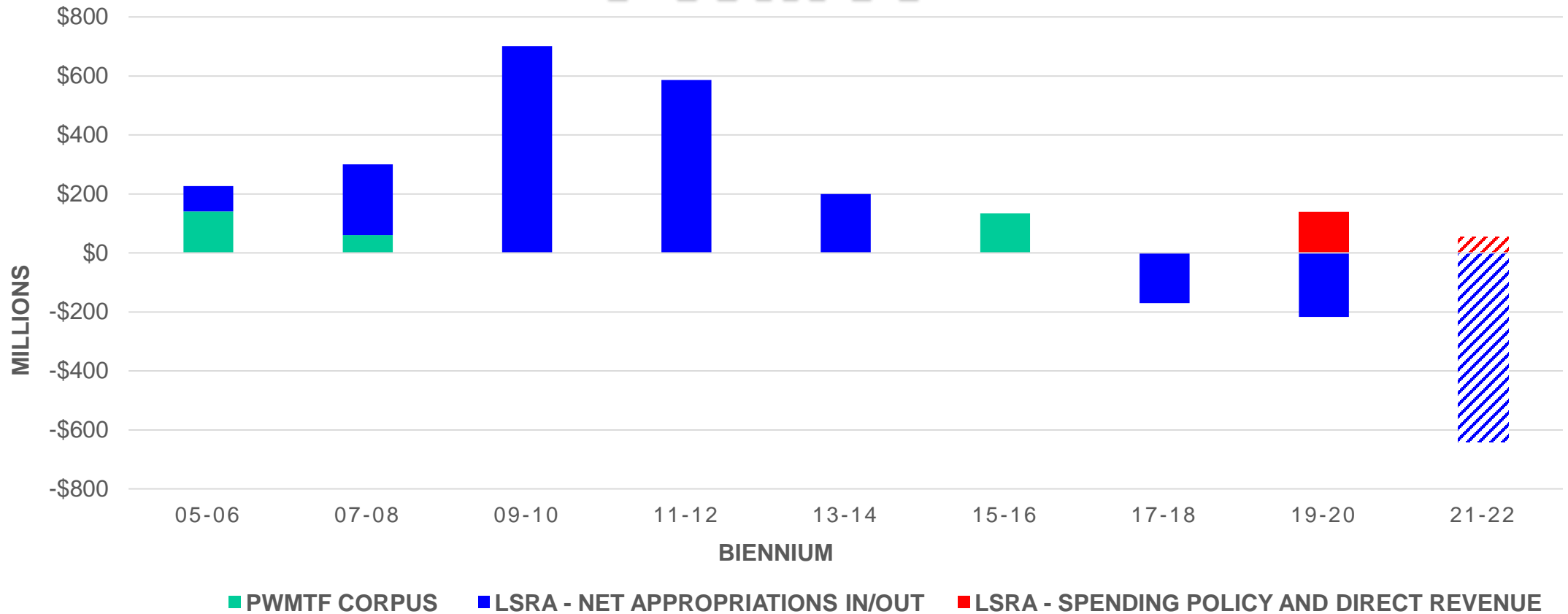


REVENUE AND EXPENDITURES

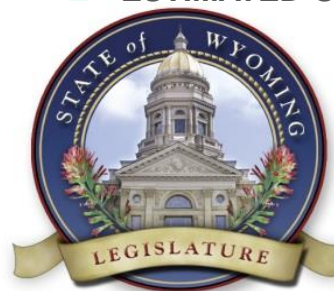
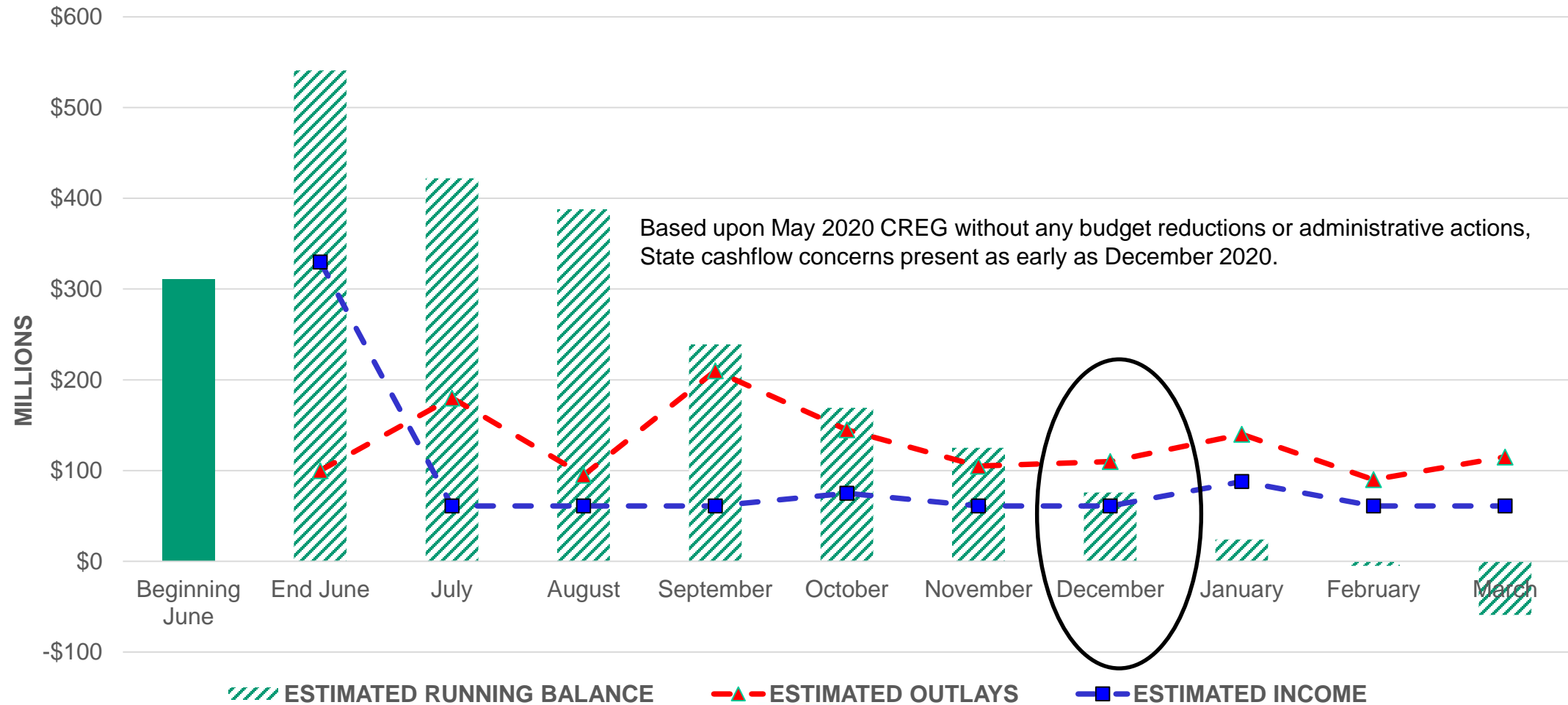




# Legislative Savings to LSRA and PWMTF



# V. FY2021 Preliminary Cashflow Analysis



# VI. Takeaways

- Wyoming's revenue sources are highly volatile – individually (and compared to other states)
- Revenues increased dramatically in the first decade of this century, followed by variable, but lower overall levels
- Over the last decade state appropriations (not including savings) have been steady to slightly declining
- K-12 total budgets have been steady to slightly increasing in most years
- Wyoming policymakers exercised six forms of savings: (1) constitutional severance taxes; (2) constitutional royalties; (3) statutory severance taxes (at times); (4) statutory reserve amount in budgeting; (5) investment spending policies; and (6) ad hoc tips, reversions and direct appropriations



# Takeaways

- Overall reserves were modestly declining prior to COVID-19; “rainy day” funds were being expended
- Economic ramifications of COVID-19 and associated policies are accelerating the underlying revenue-expenditure structural disconnects
- May 2020 CREG revenue forecast indicates substantial declines in both state government and K-12 school district projected revenues (*Some near-term actual results are somewhat more optimistic*)
- Regardless, the revenue-expenditure disconnect is growing, unsustainable, and with history as a guide may have stints of sizeable volatility



# Questions?

