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# *Consensus Revenue Estimating Group*

Date: April 26, 2022

To: Governor Mark Gordon
Members, 66th Legislature

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

Subject: April 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 performance of the state's revenue forecasts compared to collections from major sources. A similar revenue update (Pacing Report) is issued in July 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 March 31, 2022.*

*A summary table of selected revenue sources 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. Revenues collected from mineral severance taxes and federal mineral royalties (FMRs) are also included regardless of the disposition of those revenues. 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 March 2022, and Column D is the difference between the YTD forecast and the actual revenues collected (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 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 2022 minus the FY 2022 forecast YTD as a percentage (column E minus column F). Occasionally, percentages may vary due to rounding.*

**Summary –** At this point in the fiscal year, without considering the spending policy or net realized capital gains, current revenue collections directed to the GF exceed January 2022 CREG projections by $20.7 million, or 1.9 percent. Specifically, with 69.1 percent of FY 2022 collections anticipated to date, the actual collections are 71.0 percent of total FY 2022 forecast revenue. The BRA is trending much further ahead of projections, exceeding the forecast by $78.4 million, or 22.3 percent. Revenue directed to the SFP outpaces the forecast by $17.0 million, or 4.8 percent. Similarly, revenue directed to the SCCA is exceeding the January 2022 CREG revenue forecast pacing by $2.9 million, or 7.3 percent, due to higher than anticipated state royalties. Finally, based upon the most recent accounting of investment earnings available, if the fiscal year were to end with recorded earnings to date, $79.2 million in investment income would be deposited into the Strategic Investments and Projects Account (SIPA) and a like amount into the Legislative Stabilization Reserve Account (LSRA). Below are a summary of FY 2022 revenue collections:

- For traditional state funds supporting the general operations of government, collectively the GF and BRA revenue collections through March exceed the January 2022 CREG forecast with roughly 71 percent of revenues for the fiscal year anticipated to be collected for the GF and 60 percent for the BRA.[1] Combined, revenue collections are $99.1 million ahead of pace or 6.7 percent higher than projected at this point in the fiscal year. Although most revenue streams, other than interest and dividend income, are exceeding the January 2022 CREG forecast, the primary drivers of the outperformance are severance taxes and federal mineral royalties (FMRs) on Wyoming's extractive commodities, especially oil and natural gas.
- Sales and use tax collections, traditionally the largest single revenue contributor to the GF and a major revenue source for cities, towns, and counties, is outperforming CREG's forecast by $15.7 million (3.1 percent) through March 2022.
- Spurred primarily by stronger than anticipated mineral prices to date, severance tax and FMR collections through March exceed CREG forecasts. Severance taxes are ahead of pace by $81.0 million (12.8 percent) and FMRs without coal lease bonus payments exceed the forecast by $71.6 million (13.5 percent). Through March collections, oil, natural gas, surface coal and trona all surpass the January 2022 CREG forecast.
- "Pooled Income", or interest and dividends derived from the GF portion of the State Agency Pool lag the CREG estimate by -$2.3 million (-5.3 percent) through February. Interest and dividends generated from the Permanent Wyoming Mineral Trust Fund (PWMTF) and Common School Permanent Land Fund (CSPLF) investments also lag the CREG forecast. Specifically, interest and dividend collections are short of the forecast pace for the PWMTF by -$21.1 million (-9.8 percent) and for the CSPLF by -$9.7 million (-7.1 percent) through January. However, due to the statutory guarantee for investment income derived from the two permanent funds, regardless of whether investment income exceeds or falls short of the CREG forecast, the GF and SFP balances are unaffected. Additional discussion on net realized capital gains and the effect of lower than forecast interest and dividend collections can be found in the investment discussions later in this update.[2]
- Total revenue deposited in the Common School Land Income Fund and subsequently the SFP from state lease and bonus payments through March is ahead of the January 2022 CREG forecast by $2.9 million, or 19.3 percent. This is also a reflection of higher-than-forecast energy commodity prices.

**A. 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 attached summary table. All other GF revenue sources (franchise taxes, cigarette taxes, charges from sales and service, fees, penalties, and interest, etc.) are classified collectively. As shown in column G of the summary table, actual total revenues received and directed to the GF are currently estimated at $20.7 million (1.9 percent) above the forecast pace for the year. (See line 9.)

The January 2022 CREG forecast projected FY-over-FY increases in statewide sales and use tax collections of $20.0 million (4.0 percent). Actual sales and use tax deposits to the GF outpace that projection by $15.7 million (3.1 percent). Further, total sales and use tax receipts are on pace to record an all-time high for Wyoming, though the strength of collections vary by county. Specifically, sales and use tax collections to

[1] The pacing for the BRA is lower since this account only benefits from "over-the-cap" revenues later in the fiscal year.
[2] This report uses the most recent information, as provided to CREG by the State Treasurer's Office (STO) and posted reports on the STO website reflecting investment interest & dividends through February 2022 but capital gains through January 2022 rather than through February 2022.

date in Carbon and Converse counties for FY 2022 are 46.8 percent and 23.5 percent lower than collections for a similar period in FY 2021, respectively. In contrast, collections in Teton county are exceeding FY 2021 levels by 33.3 percent. In short, wind energy projects provided a significant boost to sales tax receipts in Carbon and Converse counties in FY 2021 and have dropped off considerably in FY 2022. Stronger tourism has benefited Teton county in FY 2022.

Looking at collections by major industry, nearly all of the major industries have higher sales and use tax collections to date compared to FY 2021. Particular strength is evident in two of the largest industries for sales and use tax remittance: accommodation and food services (36.2 percent) and retail trade (15.0 percent). Inflation has definitely played a large role for the strong performance. Sales and use taxes for mining are now outpacing FY 2021 collections by 43.4 percent, though this is coming off of a very low comparison period in FY 2021. For example, sales and use tax receipts from mining comprise 6.6 percent of total collections for FY 2022 to date. Typically, the mining sector contributes 10 to 20 percent of total sales and use tax collections, occasionally even higher.

It is worth mentioning that the traditional GF share of statewide sales and use tax collections is reduced by local impact assistance payments pursuant to W.S. 39-15-111(c), which amount to less than $1 million for FY 2022 through March – a notable decline from the $13.1 million total for FY 2021 and the $30.3 million total for FY 2020, illustrating the decline in major industrial projects, especially wind development.

Severance tax collections directed to the GF are ahead of the forecast pace by $15.4 million (9.2 percent) through March. The drivers of the additional severance tax revenue are Wyoming reported oil prices, which are averaging $71.34/bbl through March or $8.84/bbl above the January 2022 CREG forecast, and natural gas prices, which are averaging $5.78/mcf through March or $1.66/mcf above the forecast.

In terms of investment income, interest and dividends deposited to the GF from the State Agency Pool ("Pooled Income") is short of the forecast pace by -$2.3 million, or -5.3 percent. The State Treasurer's Office also reports $63.8 million in realized, but undistributed, net capital gains generated from the LSRA that would be deposited to the GF at the end of the fiscal year if these gains are not needed to offset any capital losses. Recall CREG does not project or include any realized capital gains in its forecast and will report these when and if distributed after the end of the fiscal year.

Interest and dividends earned from the PWMTF and distributed through February 2022 are $123.4 million. Moreover, the State Treasurer's Office reports realized net capital gains of $239.4 million from the PWMTF. 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 in FY 2022, of any investment earnings from the PWMTF will be deposited into and remain in the GF. Since this $204.4 million figure is guaranteed through a payment from the Permanent Wyoming Mineral Trust Fund Reserve Account, the summary table accompanying this update reflects 66.7 percent of the year (8 of 12 months) of the guarantee. However, given the current interest, dividends, and capital gains generated to date, FY 2022 investment income derived from the PWMTF currently exceeds the 2.5 percent spending policy amount guaranteed to the GF. If the fiscal year were to end in April, half of the investment earnings in excess of the amount statutorily dedicated to the GF of $204.4 million, or 2.5 percent of the five-year market value of the corpus, would be transferred in equal amounts to the SIPA and LSRA. These amounts could increase, or decrease, given interest, dividends, or net realized capital gains (or losses) earned in the last five months of FY 2022. Without accounting for any future investment income, as of this writing, $158.4 million (in total), or $79.2 million would be available for distribution to each account. The maximum distribution from investment earnings to the LSRA and SIPA in FY 2022 under the statutory spending policy is $102.2 million for each account.

The “all other” category of state revenues exceeds the January forecast pace, surpassing the forecast by $13.1 million (7.5 percent). Many of these “all other” revenue streams are not collected with predictable timing over the course of the fiscal year. The following other revenue sources have collections ahead of the 75 percent pacing expected through March: insurance agent licenses (113.0 percent); penalties and interest (101.9 percent); insurance premium tax (96.4 percent); franchise tax (86.1 percent); and charges for sales and services (84.0 percent). Remitted profits from liquor sales and the catchall category of revenue from others are the only two major revenue streams falling short of the January 2022 CREG forecast. All other streams are in-line with the projections. The shortfall in the category of remitted profits from liquor sales is due, in part, to the retention of revenue in order to fund one-time liquor warehouse system expenditures, not from reduced sales.

**B. Budget Reserve Account –** The summary table accompanying this update also illustrates the two earmarked revenue streams for the BRA: severance taxes (line 11) and FMRs (line 12). Severance tax deposits to the BRA exceed the January 2022 CREG forecast pace by $30.6 million (21.2 percent). FMRs directed to the BRA, including an adjustment for the federal fiscal year (FFY) 2020 budget sequester (withholding), are $47.7 million (23.0 percent) above the January 2022 CREG forecast. The only two recurring revenue sources benefiting the BRA are derived from mineral production. The comparative outperformance reflects similar trends noted in the above explanation: principally oil and natural gas prices. The Legislature adopted a "second cap" for both severance taxes and FMRs in the 2020 Budget Bill. Once those caps are reached, which will occur in the coming months, a larger proportion of the revenue in excess of the CREG forecast will be shared with the School Foundation Program Reserve Account (up to $50 million) in the case of severance taxes and with the SFP in the case of FMRs.

**C. State Revenues Supporting K-12 Education –** This Revenue Update includes a pacing of revenue sources supporting K-12 education, including investment income, FMRs and lease income and royalties from school lands and minerals. In total, SFP revenue deposits are $17.0 million ahead of the January 2022 CREG forecast and associated pacing, or 4.8 percent.

Akin to investment data currently available to CREG from the PWMTF, interest and dividends from the CSPLF are falling short of the CREG forecast, in this case by -$9.7 million, or -7.1 percent. However, as a bright spot on investment earnings, the State Treasurer's Office has realized $53.6 million in net realized capital gains so far this fiscal year. Unlike the PWMTF, the full 5 percent of the five-year average market value of the CSPLF corpus is guaranteed through a transfer from the Common School Permanent Land Fund Reserve Account (CSPLF RA). Therefore, the summary table accompanying this update illustrates the forecast of just interest and dividends (line 15) and the spending policy guarantee through seven months (line 16). Interest, dividends, and net realized capital gains to date from the CSPLF total $134.8 million, or $71.9 million shy of the full 5 percent spending policy for the year. In other words, total investment earnings are on pace to just slightly exceed the CSPLF 5 percent spending policy if realized capital gains continue at the same pace for the last five months of the fiscal year. Any excess would be deposited to the CSPLF RA through a swap of FMRs. For both the SFP and GF, caution should be exercised when considering any prediction for investment earnings. Historic investment experience is not necessarily indicative of realized capital gains, or losses, to be generated, especially in volatile financial markets.

Consistent with comments elsewhere in this update, FMRs received by the state exceed CREG projections. In the case of the SFP, this means that FMRs received to date are $23.9 million, or 11.7 percent ahead of the January 2022 CREG forecast and associated pacing. State oil and gas lease auctions results, which have concluded for the balance of FY 2022, combined with state land lease income total $14.0 million, or 19.3 percent ($2.9 million) ahead of the forecast pacing. Similar, though not identical to the contributions to severance tax and FMR results, state leases and bonus payments are also supported by stronger than anticipated oil and natural gas price environments.

For the SCCA, total revenues are ahead of the forecast pace by approximately $2.9 million, or 7.3 percent. Specifically, mineral royalties from common school lands (state lands) deposited to the SCCA are outpacing CREG's forecast pacing by $2.8 million, or 8.3 percent. This result is also attributable to higher than forecast energy prices.

**D. Mineral Severance Taxes and FMRs, including mineral prices and production –** After applying the revenue pacing estimates through March 2022, total severance tax collections are $81.0 million, or 12.8 percent, ahead of the January 2022 CREG forecast. Total FMRs received through March are $71.6 million, or 13.5 percent, ahead of the forecast pace through March 2022. Again, given the current Wyoming oil and natural gas prices, expect the spread on actual revenue collections and the January forecast to widen, at least for the next three months of producer returns.

According to Baker Hughes, there are 15 rigs operating in Wyoming as of this writing (13 seeking oil and 2 seeking natural gas), down from 36 in mid-April 2019, prior to COVID. The number of oil and natural gas rigs is up substantially from the single digits evident in late calendar year (CY) 2020 and early CY 2021. Through January 2022, Wyoming oil, natural gas and surface coal production all exceeded the CREG estimate by less than two-thirds of one percent. In other words, the forecast for energy commodity production has been extremely close to actual. Trona production for the first seven months of the fiscal year are exceeding projections by 4.5 percent. Prices for surface coal and trona are both in-line with the January CREG forecast; however, as noted previously, natural gas and oil prices are both considerably higher than the January projections due, in part, to larger number of heating degree days, restrained supply, the Russian-Ukraine conflict and associated sanctions. Given the current pricing environment, including the known spot prices for production completed but not yet reported, continued strength can reasonably be expected for at least the next few monthly reporting cycles.

As always, we will continue to monitor the revenue situation and keep you informed. Let us know if you have any questions.

| | 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 March | Forecast through March (1) | Difference YTD $ | Actual YTD % of Total | Forecast YTD % of Total | YTD Pace |
| 1 | GF - Sales & Use Tax (2) | $513,100,000 | $360,585,368 | $344,900,000 | $15,685,368 | 70.3% | 67.2% | 3.1% |
| 2 | GF - PWMTF from dividends & interest (3) | $216,700,000 | $123,358,647 | $144,500,000 | ($21,141,353) | 56.9% | 66.7% | -9.8% |
| *3* | *GF - PWMTF with guarantee (3)* | *$204,400,000* | *$136,266,667* | *$136,266,667* | $0 | 66.7% | 66.7% | 0.0% |
| 4 | GF - PWMTF with capital gains (3) | N/A | $362,776,502 | N/A | N/A | N/A | N/A | N/A |
| 5 | GF - Pooled income from dividends & interest (3) | $43,900,000 | $26,963,506 | $29,300,000 | ($2,336,494) | 61.4% | 66.7% | -5.3% |
| 6 | GF - Pooled income with capital gains (3) | $43,900,000 | $90,735,238 | N/A | N/A | N/A | N/A | N/A |
| 7 | GF - Severance Tax | $166,900,000 | $136,473,758 | $121,100,000 | $15,373,758 | 81.8% | 72.6% | 9.2% |
| 8 | GF - All Other | $176,000,000 | $145,139,082 | $132,000,000 | $13,139,082 | 82.5% | 75.0% | 7.5% |
| 9 | **General Fund - Total (3)** | **$1,116,600,000** | **$792,520,361** | **$771,800,000** | **$20,720,361** | **71.0%** | **69.1%** | **1.9%** |
| 10 | **General Fund - Total with capital gains (3)** | **$1,116,600,000** | **$1,095,709,948** | **$771,800,000** | **N/A** | **N/A** | **N/A** | **N/A** |
| | | | | | | | | |
| 11 | BRA (from Severance Taxes) | $144,300,000 | $79,942,715 | $49,300,000 | $30,642,715 | 55.4% | 34.2% | 21.2% |
| 12 | BRA (from FMRs) (6) | $207,500,000 | $132,533,915 | $84,800,000 | $47,733,915 | 63.9% | 40.9% | 23.0% |
| 13 | **Budget Reserve Account - Total** | **$351,800,000** | **$212,476,630** | **$134,100,000** | **$78,376,630** | **60.4%** | **38.1%** | **22.3%** |
| | | | | | | | | |
| 14 | **One Percent Severance Tax Account (4)** | **$101,000,000** | **$76,356,549** | **$62,500,000** | **$13,856,549** | **75.6%** | **61.9%** | **13.7%** |
| | | | | | | | | |
| 15 | SFP CSPLF dividends & interest portion of investment income (3) | $136,500,000 | $81,264,189 | $91,000,000 | ($9,735,811) | 59.5% | 66.7% | -7.1% |
| *16* | *SFP CSPLF with guarantee (3)* | *$206,700,000* | *$137,800,000* | *$137,800,000* | *$0* | *66.7%* | *66.7%* | *0.0%* |
| 17 | SFP CSPLF with capital gains (3) | $206,700,000 | $134,841,177 | N/A | N/A | N/A | N/A | N/A |
| 18 | SFP FMRs (6) | $203,900,000 | $158,970,957 | $135,100,000 | $23,870,957 | 78.0% | 66.3% | 11.7% |
| 19 | SFP Lease and bonus | $14,800,000 | $13,959,796 | $11,100,000 | $2,859,796 | 94.3% | 75.0% | 19.3% |
| 20 | **School Foundation Program - Total (without capital gains) (3)** | **$355,200,000** | **$254,194,942** | **$237,200,000** | **$16,994,942** | **71.6%** | **66.8%** | **4.8%** |
| 21 | **School Foundation Program - Total (with capital gains) (3)** | **$355,200,000** | **$307,771,930** | **$237,200,000** | **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 | $28,311,947 | $25,500,000 | $2,811,947 | 83.3% | 75.0% | 8.3% |
| 25 | **School Capital Construction Account - Total** | **$39,300,000** | **$33,657,947** | **$30,800,000** | **$2,857,947** | **85.6%** | **78.4%** | **7.3%** |
| | | | | | | | | |
| 26 | **Severance Taxes - Total** | **$635,500,000** | **$471,841,208** | **$390,800,000** | **$81,041,208** | **74.2%** | **61.5%** | **12.8%** |
| 27 | **Federal Mineral Royalties (without CLB) - Total (7)** | **$530,700,000** | **$410,800,872** | **$339,200,000** | **$71,600,872** | **77.4%** | **63.9%** | **13.5%** |
| 28 | **Federal Mineral Royalties (including CLB) - Total** | **$531,200,000** | **$411,261,672** | **$339,700,000** | **$71,561,672** | **77.4%** | **63.9%** | **13.5%** |

(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 March 2022 was $834,490.10; sales and use tax collections have been reduced by this amount. In addition, sales & use tax collections will be adjusted in April 2022 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 March 2022. The table reflects actual and forecasted investment interest and dividends from the PWMTF, CSPLF and State Agency Pool through **February** 2022 and net, realized capital gains through **January** 2022.

(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.