Dan Noble, Co-chairman
Dept. of Revenue
122 West 25th Street
2nd Floor West
Cheyenne, WY 82002
307-777-5287

Don Richards, Co-chairman
Legislative Service Office
State Capitol Building
Room 213
Cheyenne, WY 82002
307-777-7881

Consensus Revenue Estimating Group

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To: Governor Matt Mead
Members, 64th Legislature

From: Dan Noble, Co-chairman
Don Richards, Co-chairman

Subject: July 2018 Revenue Update

Purpose of Update *- This revenue update and the accompanying table, taken in combination with the October Consensus Revenue Estimating Group (CREG) forecast and the January update, are intended to provide a quarterly summary of the state's major revenue sources. A similar revenue update is issued in April of each year. The January 15, 2018 CREG report remains the official fiscal forecast and is used to derive the revenue pacing expectations in this update. The March 27, 2018 fiscal profile remains the Legislative Service Office's (LSO's) estimate of projected account balances as of June 30, 2018 and June 30, 2020. 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 from July 1, 2017 through June 2018.*

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, 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 respectively included. Column A reflects the total fiscal year (FY) 2018 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, 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 G shows the difference of the actual revenue YTD as a percentage of the total amount forecast for FY 2018 minus the FY 2018 forecast YTD as a percentage (column E minus column F). Occasionally, percentages may vary due to rounding.

A Note About Fiscal Year 2018 Capital Gains and Losses - As explained in the group's January 15, 2018 forecast, CREG does not currently estimate income from capital gains (or losses) on investments in the Permanent Wyoming Mineral Trust Fund (PWMTF), Pooled Income, or Common School Permanent Land Fund (CSPLF). This update includes **final fiscal year (FY) 2018 investment income including distributed capital gains/losses**. 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. 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, actual total revenues received and directed to the GF, including distributed capital gains and losses are currently tracking $294.0 million, or 27.2 percent above the forecast pace for the year (line 11). Without including capital gains and losses, GF revenue is still outpacing projections by $34.8 million or 3.2 percent (line 10) mainly due to the strength of sales and use taxes.

The January 2018 CREG forecast called for year-over-year increases in statewide sales and use tax collections of 8.5 percent. However, actual sales and use tax collections are outpacing this projection by an additional 6.1 percent ($27.1 million). The strength of economic recovery in the state has been mainly driven by mineral extraction activities, which helped the revival in other industries such as manufacturing, transportation, and professional businesses. Year-over-year statewide sales and use tax collections are up in vast majority of the state, with only four counties (Crook, Goshen, Washakie, and Weston), recording year-over-year declines for FY 2018. Three counties (Converse, Sublette, and Niobrara) report year-over-year increases of over 43.0 percent. Nearly all major industries and sectors are up, with only one exception – information (-7.0%). Sales and use tax collections related to mining (including oil & gas extraction) are up by 57.2 percent compared to this point in FY 2017.

Wyoming oil, natural gas, and coal production and prices are generally in line to moderately exceeding January 2018 CREG estimates. The oil spot prices for the first six months of 2018 were over 30 percent higher than the same period in last year, and exceeded $60.00/bbl for the first time since November of 2014. Given the few months delay in severance tax payments, one could reasonably expect to see the actual oil prices received in Wyoming to continue to exceed the January 2018 CREG estimate for the remainder of FY 2018. This would provide upside potential for actual severance tax, and federal mineral royalty payments. Conversely, the average natural gas price reported by Wyoming severance taxpayers is approximately $2.99/mcf, slightly below the January 2018 CREG FY 2018 price estimate of $3.05/mcf at present.

With interest, dividends, and capital gains, FY 2018 investment income derived from the PWMTF totaled $447.6 million, which surpassed the full spending policy amount (SPA) of $352.5 million, or 5 percent of the five-year 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 $176.2 million, of any investment earnings from the PWMTF will be deposited into and remain in the GF. Investment earnings in excess of 2.5 percent ($176.2 million) but less than the spending policy amount (5.0 percent, $352.5 million) will be transferred to the Strategic Investments and Projects Account (SIPA) and Legislative Stabilization Reserve Account (LSRA) in equal amounts of $88.1 million. The remaining amount ($95.2 million) in excess of the spending policy amount (5.0 percent, $352.5 million) are distributed to the PWMTF Spending Policy Reserve Account. Accordingly, all four priorities for conditional appropriations from the Strategic Investments and Projects Account (SIPA) will be fully funded (State [health] Facilities Account - $37 million; UW Science Initiative Account - $9.4 million; State facilities – Casper - $15 million; and a transfer of $4.2 million to the SCCA). This would still leave a balance of $22.5 million in the SIPA.

Interest and dividends directed to the GF from the State Agency Pool (pooled income) are lagging CREG's projection by 3.6 percent, or $3.0 million. Moreover, the State has $8.6 million in net realized capital losses attributable to the GF from investments in the State Agency Pool. This is shown in the summary table on line 6. Under the 2009 State Treasurer's interpretative policy, realized losses attributable to the GF within the State Agency Pool reduce the available cash, unlike realized losses experienced in a permanent fund. As a result, the GF share of final FY 2018 investment income from the pooled account was $70.4 million, which is short of CREG projection by $11.6 million, or 14.1 percent. Finally, the "all other" category of state revenues is ahead of the forecast pace by $0.9 million, or 0.4 percent.

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 12) and FMRs (line 13). Severance tax receipts to the BRA are currently exceeding the January 2018 CREG forecast pace by $12.3 million (9.2 percent). FMRs directed to the BRA, including an adjustment for the federal fiscal year (FFY) 2018 budget sequester (withholding), are $9.4 million (4.4 percent) above the January CREG forecast through June.

Bottom-line: General Fund/Budget Reserve Account - In total, GF and BRA revenue collections are $56.5 million, or 4.4 percent ahead of the annualized pacing of the overall January 2018 CREG estimates through June 2018 ($315.7 million, or 24.7 percent ahead when including capital gains and losses). The 2018 Budget Bill (2018 Wyoming Session Laws, Chapter 134, Section 311) provided for an interfund transfer from the One Percent Severance Tax Account, which is funded for the 2017-2018 biennium from a diversion of the one percent severance tax traditionally deposited into the PWMTF over the last decade. Like all severance tax collections, this revenue stream is exceeding the January CREG estimates, in this case by $5.9 million, or 6.5 percent.

Mineral Severance Taxes - Through June 2018, total severance tax collections are $34.9 million, or 5.9 percent, ahead of the January 2018 CREG forecast. The average price of Wyoming oil for FY 2018 to date is $51.53/bbl, roughly $8.00/bbl higher than the same period in FY 2017 and roughly $4.00/bbl ahead of the weighted projection for FY 2018. Notably, the rise in oil prices for the recent months should continue the differential between actual and forecast oil prices. Oil and gas rig counts have increased from 16 at the end of March 2017 (of which eight were oil) to 26 at the end of June 2018 (of which 16 were seeking oil). However, natural gas prices received by Wyoming producers are averaging $2.99/mcf for the current fiscal year to date, about 2.0 percent lower than the January 2018 CREG forecast price of $3.05/mcf, and Wyoming natural gas prices are particularly weak this summer. Statewide average surface coal prices of $12.77/ton for FY 2018 to date are slightly higher than the January forecast level of $12.75/ton. Reported oil and gas production are quite strong, and will likely exceed the January CREG forecast by the end of FY 2018, but coal production volume to date is roughly in agreement with expectations.

Bottom-line: Severance Taxes - In total, severance tax collections are above the January 2018 CREG projections, mainly attributed to the outperformances of both pricing and production of oil and production of gas compared to the projected levels.

Federal Mineral Royalties - Total FMRs to date are $14.1 million (2.6 percent) ahead of the forecast pace through June 2018. Recall that a provision in the 2018 Budget Bill (2018 Wyoming Session Laws, Chapter 134, Section 316) directed one-third of the revenue in excess of $500 million of FMR collections to the BRA and two-thirds to the SFP, an increase of one-third over prior years. To the extent FMR collections exceed the January CREG forecast, which they are on pace to do, the SFP will benefit more than the BRA in FY 2018.

Wyoming's share of coal lease bonus payments, as adjusted by the federal sequester, are also shown in the summary table. Receipt of coal lease bonus payments occurs annually over five years beginning at the time the federal government finalizes the lease agreement; therefore, amounts reflected here are not indicative of any price or production trends. Coal lease bonus payments met the projections in the January 2018 CREG report and no further payments are expected this fiscal year.

Other Revenue Issues of Note – Final FY 2018 investment income derived from the CSPLF (including interest, dividends, and capital gains) totaled $213.5 million and surpassed the SPA (5 percent of the five-year market value of the corpus) of $164.6 million by $48.9 million. Recall, for FY 2018, the spending policy amount is guaranteed through a transfer from the Common School Permanent Fund Spending Policy Reserve Account (CSPLF RA) to the Common School Land Income Account. Of course, this guarantee is unnecessary to be exercised, and therefore the full $48.9 million will be deposited into the CSPLF RA. For FY 2018 the CSPLF RA cap is 150 percent of the SPA, or $246.9 million.

The state oil and gas lease auction in March 2018 fell somewhat short of CREG's expectations, resulting in a modest shortfall in FY 2018 fee and lease revenues. Total FY 2018 fee and lease revenues were approximately $42.0 million, roughly $1.0 million under the $43.0 million projection.

Conclusions and a Look Ahead - Current revenue collections directed to the GF, BRA, and One Percent Severance Tax Account are exceeding the January 2018 CREG projections, in total. In addition, the Wyoming State Treasurer generated sizeable unforecasted, but anticipated, realized capital gains from the PWMTF and the CSPLF. Through June 30, the current trends indicate:

- While it is still too early to project with one hundred percent certainty, the current pace of the GF, BRA, and One Percent Severance Tax collections suggest that the revenue forecasts are almost certain to be exceeded.
- Investment earnings for the contingent appropriation priorities adopted in 2016 Wyoming Session Laws, Chapter 97, Section 8 and modified by 2018 Wyoming Session Laws, Chapter 136, Section 8 will be fully funded. The accounts and projects include deposits to the State [health] facilities construction account; the University of Wyoming Science Initiative account; the Casper state facilities account; and the SCCA.
- $88.1 million of PWMTF investment income will be deposited into LSRA.
- Investment earnings exceeded the five percent spending policy amounts for both PWMTF and the Common School Account within the Permanent Land Fund. So $95.2 million and $48.9 million will be deposited to the associated reserve accounts, respectively.
- Severance tax and FMR collections are in line with or exceed CREG estimates, with potential for increased gains resulting from strong oil prices and strong oil and gas production, but some caution regarding collections from natural gas given recent price levels.
- Sales and use taxes, the largest revenue contribution to the GF and a major revenue source for cities, towns, and counties, are exceeding CREG's GF forecast by approximately $27.0 million.

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

LSO Budget/Fiscal Division
[As of June 30, 2018]

Fiscal Year 2018 Revenue Update Summary: Actual vs. January 2018 CREG Forecast

		A	B	C	D	E	F	G
	Revenue Sources	CREG Forecast FY18 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)	$442,000,000	$426,712,318	$399,600,000	$27,112,318	96.5%	90.4%	6.1%
2	GF - PWMTF guarantee / dividends & interest (3), (4)	$176,200,000	$179,785,984	$176,200,000	$3,585,984	102.0%	100.0%	2.0%
3	GF - PWMTF from capital gains (3), (4)	N/A	$267,863,934	N/A	N/A	N/A	N/A	N/A
4	GF - Total PWMTF Income (3)	$176,200,000	$447,649,918	$176,200,000	$271,449,918	254.1%	100.0%	154.1%
5	GF - Pooled income from dividends & interest (3)	$82,000,000	$79,025,043	$82,000,000	($2,974,957)	96.4%	100.0%	-3.6%
6	GF - Pooled income from capital gains (losses) (3)	N/A	($8,599,185)	N/A	($8,599,185)	N/A	N/A	N/A
7	GF - Total Pooled Income (3)	$82,000,000	$70,425,858	$82,000,000	($11,574,142)	85.9%	100.0%	-14.1%
8	GF - Severance Tax (5)	$170,000,000	$156,120,396	$150,000,000	$6,120,396	91.8%	88.2%	3.6%
9	GF - All Other (6)	$209,200,000	$208,633,806	$207,700,000	$933,806	99.7%	99.3%	0.4%
10	**General Fund - Total (3)**	**$1,079,400,000**	**$1,050,277,547**	**$1,015,500,000**	**$34,777,547**	**97.3%**	**94.1%**	**3.2%**
11	**General Fund - Total with capital gains (losses) (3)**	**$1,079,400,000**	**$1,309,542,296**	**$1,015,500,000**	**$294,042,296**	**121.3%**	**94.1%**	**27.2%**
12	BRA (from Severance Taxes)	$133,700,000	$105,811,807	$93,500,000	$12,311,807	79.1%	69.9%	9.2%
13	BRA (from FMRs) (7)	$213,400,000	$180,387,337	$171,000,000	$9,387,337	84.5%	80.1%	4.4%
14	**Budget Reserve Account - Total**	**$347,100,000**	**$286,199,144**	**$264,500,000**	**$21,699,144**	**82.5%**	**76.2%**	**6.3%**
15	**One Percent Severance Tax Account**	**$91,500,000**	**$81,944,442**	**$76,000,000**	**$5,944,442**	**89.6%**	**83.1%**	**6.5%**
16	SFP CSPLF guarantee / dividends & interest (3)	$164,600,000	$89,287,158	$164,600,000	($75,312,842)	54.2%	100.0%	-45.8%
17	SFP CSPLF from capital gains (3)	N/A	$124,192,570	N/A	N/A	N/A	N/A	N/A
18	Total SFP CSPLF from investment income (3)	$164,600,000	$213,479,728	$164,600,000	$48,879,728	129.7%	100.0%	29.7%
19	SFP FMRs (7)	$215,600,000	$178,924,729	$174,200,000	$4,724,729	83.0%	80.8%	2.2%
20	**School Foundation Program - Total (without capital gains) (3)**	**$380,200,000**	**$268,211,887**	**$338,800,000**	**($70,588,113)**	**70.5%**	**89.1%**	**-18.6%**
21	**School Foundation Program - Total (with capital gains) (3)**	**$380,200,000**	**$392,404,457**	**$338,800,000**	**$53,604,457**	**103.2%**	**89.1%**	**14.1%**
22	SCCA (from Coal Lease Bonus)	$5,309,756	$5,309,756	$5,309,756	$0	100.0%	100.0%	0.0%
23	SCCA (from FMRs)	$5,300,000	$5,346,000	$5,300,000	$46,000	100.9%	100.0%	0.9%
24	**School Capital Construction Account - Total**	**$10,609,756**	**$10,655,756**	**$10,609,756**	**$46,000**	**100.4%**	**100.0%**	**0.0%**
25	**Severance Taxes - Total**	**$594,500,000**	**$528,720,588**	**$493,800,000**	**$34,920,588**	**88.9%**	**83.1%**	**5.9%**
26	**Federal Mineral Royalties (without CLB) - Total**	**$540,300,000**	**$470,608,066**	**$456,500,000**	**$14,108,066**	**87.1%**	**84.5%**	**2.6%**
27	**Federal Mineral Royalties (including CLB) - Total**	**$545,609,756**	**$475,917,822**	**$461,809,756**	**$14,108,066**	**87.2%**	**84.6%**	**2.6%**

(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, or withheld, FMRs.

(2) The Impact Assistance balance at the end of June 2018 was $254,947.81; sales and use tax collections have been reduced by this amount. In addition, sales & use tax collections were adjusted in May 2018 by $358,450.93 for the special fuel survey.

(3) Capital gains income from PWMTF, Pooled, and CSPLF investments are not currently part of the CREG projection process. Pursuant to the State Treasurer's interpretative policy, realized capital losses in the State Agency Pool are entered regularly in the state's accounting system as a reduction to the cash balance. The forecast includes the statutorily guaranteed amounts; whereas revenues include only dividends and interest, where specified.

(4) There is no distinction between (i) interest and dividends and (ii) realized capital gains within the statutory term "earnings". The net effect this year for the PWMTF is the portion of investment earnings statutorily guaranteed and directed to remain in the General Fund (2.5 percent, $176,200,000) was exceeded by $271,449,918. According to the spending policy, investment earnings in excess of 2.5 percent ($176,200,000) and less than the spending policy amount (5.0 percent, $352,500,000) are distributed equally to the Strategic Investments and Projects Account (SIPA) and the Legislative Stabilization Reserve Account (LSRA). Investment earnings in excess of the spending policy amount (5.0 percent, $352,500,000) are distributed to the PWMTF Spending Policy Reserve Account.

(5) The FY18 forecast of severance tax to the General Fund includes the mineral severance tax diversion adopted in 2016 Wyoming Session Laws, Chapter 31, Section 325. This severance tax diversion is estimated at $6.7 million in FY18.

(6) The FY18 forecast of federal mineral royalties (FMRs) to the General Fund includes the FMR diversion adopted in 2016 Wyoming Session Laws, Chapter 31, Section 326. This FMR diversion is estimated at $60.1 million in FY18.

(7) The FY18 forecast of FMRs to the Budget Reserve Account (BRA) and the School Foundation Program Account (SFP) includes the distribution of FMRs over the new $500 million cap created in 2018 Wyoming Session Laws, Chapter 134, Section 316. Annual FMRs received over $500 million in FY18, FY19 and FY20 will be distributed two-thirds to the SFP and one-third to the BRA. This new $500 million cap will result in a projected increased FMR distribution to the SFP and a corresponding projected decrease in FMR distribution to the BRA of $13.5 million in FY18.