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To: Members, 60th Legislature

From: Bill Mai, Budget/Fiscal Manager

Subject: July 2010 Revenue Update

The information presented in this report constitutes the July 2010 revenue update. The LSO budget/fiscal section prepares revenue updates in April and July, which together with the October and January CREG reports provide revenue information on a quarterly basis. Please note this report does not change the January 2010 CREG projections nor the goldenrod dated March 11, 2010. Those are still the official fiscal documents. This report is intended to provide a comparison of actual revenues as they currently stand, to the projections made in January for FY 2010.

General Fund

An analysis of general fund revenues is presented in Table 1. The three largest sources of general fund revenue are shown individually as follows: severance taxes; sales and use taxes; and investment income. All other sources are grouped together.

Column 1 reflects the total FY 2010 CREG projection of general fund revenue by major source. Column 2 contains the actual YTD revenue received from each source. Column 3 is the percentage of the projection that has been received, and column 4 is the percentage of the projection expected at this point in the fiscal year. Column 5 compares actual revenue to expected revenue.

Actual total general fund revenues received are currently 12.9% ahead of expected levels. The mineral severance tax and investment categories are running ahead of projected levels, while sales and use taxes are lagging January projected levels.

Severance tax receipts are 23.7% ahead of projections, with two months of collections remaining. This is primarily due to the prices of oil and natural gas. Even allowing for a seasonal downturn in gas prices this summer, severance tax revenues to the general fund may exceed projections by \$40 million.

Table 1 also reveals that sales and use tax revenues are still behind projected levels, with two months of collections remaining. So far this fiscal year, actual revenues received are lower than projected levels by 4.2%. The numbers show a bit of a recovery in this revenue area, as compared to the 5.1% lag in the April update. To date, it appears that sales and use taxes for the year will be short of projections by about \$1.1 million, again, an improvement over the April update which showed a potential level around \$34 million less than the projection.

Investment income received exceeds the estimate by 32.2%. All FY 2010 investment income is now accounted for, including net realized capital gains. \$62.5 million more than the January estimate of \$194.2 million has been deposited into the general fund, as seen in Table 1.

Miscellaneous revenue sources are a bit of a mixed bag, with some individual categories above projections and some below.

One notable exception occurred in revenues from state land mineral lease sales which took place on May 12, 2010. That lease sale resulted in a \$14.9 million unanticipated windfall to the general fund. Another lease sale took place on July 9, 2010 and produced over \$13 million for the general fund, but this later amount will affect the 2011 fiscal year. Therefore, only receipts from the first sale appear in this FY 2010 update. Other accounts, most notably the common school account, received significant proceeds from these sales, as well.

The remaining miscellaneous categories should end relatively close to the projected levels, and therefore no additional projected income from these sources is included in the general fund total of this update.

Bottom-line - General Fund

It is likely that actual revenues will exceed the FY 2010 general fund January 2010 CREG projections by \$133.4 million. The next report of FY 2010 revenues will occur in the official October 2010 CREG revenue estimates. At that time, the final accounting adjustments to FY 2010 will have been completed, and the FY 2010 numbers will show as actual amounts rather than projections.

Mineral Severance Taxes

Following the same columnar format as Table 1, Table 2 shows that total severance tax revenues are 28.1% ahead of FY 2010 projected levels. Contained in that positive severance tax pace, oil and gas prices account for the majority of receipts above the projection. Coal severance taxes are slightly ahead of expectations, primarily the result of a slight price improvement. Market concerns that resulted in CREG's conservative January outlook for the current fiscal year seem not to have affected commodity prices as negatively as expected. Storage levels to this point in the traditional injection season remain high, and non-traditional producing areas in other parts of the country continue to show increased production. Though the supply side of the equation has been about in line with projections, the markets for both natural gas and oil have well outperformed CREG pricing expectations. The result is greater than anticipated severance tax collections.

Bottom-line - Severance Taxes

With two months remaining, total severance taxes may exceed projections by about \$195.4 million for FY 2010. If that is the case, there would be \$80.9 million extra flowing to the PMTF and PMTF spending policy reserve account, \$38.5 million extra to the general fund and \$75.9 million extra to the BRA.

Federal Mineral Royalties

Also presented in Table 2 of this report is an analysis of federal mineral royalties. The columns in this table are identical to those in Table 1, with column 5 indicating that currently we are 25% ahead of expectations for the year. If this pace continues, revenues would exceed the projection by \$159 million for FY 2010, with \$53 million extra flowing to the school foundation program and \$106 million extra flowing to the BRA.

Coal lease bonuses are also shown in Table 2. Actual receipts of coal lease bonus payments occur on a payment schedule determined at the time the federal government finalizes the lease agreement, therefore amounts reflected here are not indicative of revenue trends. Barring additional coal lease sales, the amount shown in column 1 as projected revenue will be the amount finally received by the state for the fiscal year. This category is shown as a separate line to make clearer the variable flow of regular federal mineral royalties, so that the totals can be readily tied to the projections in the CREG report.

Conclusions

In total, and at the current pace of collection, the general fund may exceed projections by \$133.4 million, the budget reserve account may exceed projections by \$181.9 million, the school foundation program account by \$53 million (in addition to significant proceeds from the minerals leasing activities on state lands), and the PMTF/PMTF SPRA by \$80.9 million in FY 2010.

The next update will come in the form of the October 2010 CREG report, which will be issued sometime in late October. At that time, FY 2010 information will be finalized, and will appear in the bottom line projected balances of the fiscal profile (goldenrod).

As always, we will continue to monitor the revenue situation and keep you informed. Please contact me with any questions.

July 2010 Revenue Update

Table 1 - FY 2010 General Fund Revenue Update

Source	1 Projected FY10 Total	2 Actual Revenue Received. YTD	3 Actual as % of Proj.	4 % of Proj. Expected	5 Actual % vs. Proj. %
¹ Severance Tax	\$180,900,000	\$198,349,274	109.6%	85.9%	23.7%
¹ Sales & Use Tax	\$433,200,000	\$359,892,813	83.1%	87.3%	-4.2%
² PMTF & Pooled Interest	\$194,200,000	\$256,746,641	132.2%	100.0%	32.2%
³ All Other Sources	\$117,600,000	\$147,780,598	125.7%	86.4%	39.3%
Totals	\$925,900,000	\$962,769,326	104.0%	91.1%	12.9%

Table 2 - FY 2010 Mineral Severance Tax & Federal Mineral Royalty Revenue Update

Source	1 Projected FY10 Total	2 Actual Revenue Received. YTD	3 Actual as % of Proj.	4 % of Proj. Expected	5 Actual % vs. Proj. %
¹ Total Severance Tax	\$694,100,000	\$773,779,844	111.5%	83.3%	28.1%
Federal Mineral Royalties (FMRs) and Coal Lease Bonuses (CLBs)					
¹ FMRs	\$631,600,000	\$685,352,657	108.5%	83.5%	25.0%
² CLBs	\$47,200,000	\$47,222,169	100.0%	100.0%	0.0%
Total FMR & CLB	\$678,800,000	\$732,574,826	107.9%	NA	NA

Notes

¹ These revenue categories represent 10 months of actual receipts through April, with May and June revenues included at current CREG projection levels.

² These revenue categories are preliminary actual FY2010 totals.

³ This revenue category represents a mix of accounts with preliminary actual total receipts and 10 month actual receipts.