WYOMING LEGISLATIVE SERVICE OFFICE

Memorandum

DATE July 26, 2013

TO Members, 62nd Legislature

FROM Don Richards, Budget/Fiscal Manager

SUBJECT July 2013 Revenue Update

The information presented in this report constitutes the July 2013 revenue update. The LSO Budget/Fiscal section prepares revenue updates each year in April and July which, together with the October and January Consensus Revenue Estimating Group (CREG) reports, provide revenue information on a quarterly basis. This report does not change the January 2013 CREG projections or the profile (goldenrod) dated March 19, 2013. Respectively, those documents remain the official fiscal forecast and profile of traditional state funds. The purpose of this report is to provide an interim comparison of actual revenues to the projections made in January for FY 2013 as well as offer some additional insights on recent developments that impact state revenues.

General Fund

An analysis of revenues deposited into the General Fund is presented in Table 1. The three largest sources of revenue for the General Fund are shown individually as follows: severance taxes; sales and use taxes; and investment income. All other revenue sources (franchise taxes, cigarette taxes, charges from sales and service, fees, penalties and interest, etc.) are grouped together.

Column 1 reflects the total FY 2013 CREG projection of General Fund revenue by major source. Column 2 contains the actual year-to-date revenue received from each source. Column 3 is the percentage of the projection that has been received (column 2 divided by column 1). Column 4 is the percentage of the projection, as calculated by LSO, expected at this point in the fiscal year. Column 5 shows the difference of the actual revenue to date as a percentage of the total amount forecast for FY 2013 minus the expected pace of the FY 2013 forecast (column 3 minus column 4).

Column 4, the percentage of the projection expected at this point in the fiscal year, has been modified from prior year revenue updates for several revenue categories in order to more accurately reflect seasonal spending patterns, the state's accrual accounting procedures, as well as differences in price and production estimates from calendar year (CY) 2012 and CY 2013. In prior years, LSO generally applied a straight line estimate, which assumes equal collections from these revenue sources each month. This revision in methodology originated in April 2013.

As illustrated in Column 5 in Table 1, actual revenues, not including realized capital gains, are currently 1 percent behind forecasted levels. Including realized capital gains, General Fund revenue exceeds forecasts by 32 percent.

General Fund severance tax receipts from all minerals are 1.5 percent ahead of projections. This is due primarily to the higher than projected revenues from oil, trona, uranium, and miscellaneous minerals. In particular, statewide oil production is exceeding the January 2013 CREG forecast by approximately 6 percent. Severance tax collections from both natural gas and coal are lagging the estimate somewhat. In the case of natural gas, the price forecast, considering the cool spring is ahead of projected levels by roughly five percent through April. Natural gas production, however, is lagging the forecast by roughly five percent. Likewise, coal production is also trending approximately 2 percent less than the January forecast. In aggregate, the resulting FY 2013 severance tax revenues distributed to the General Fund will likely total near the projected level of $209.8 million.

Table 1 illustrates year-to-date sales and use tax revenues tracking 2.3 percent behind the projected levels. The sole outstanding payment for this category represents sales and use tax accruals, which have averaged $57.8 million over the last five years but can be especially difficult to accurately predict. Even by adding the five year average of accruals (or even the highest amount of accruals experienced in the last five years), FY 2013 statewide sales and use tax collections deposited into the General Fund appear to be accumulating several million dollars ($10 to $20 million) lower than the projected levels in the January 2013 CREG forecast. There appear to be two noticeable trends revealed in the sales and use tax collections. First, there is a noticeable decline in sales and use tax collections in Sublette, Sweetwater, and Campbell counties, consistent with declines in natural gas exploration, coal bed methane development, and coal production in these counties and the increase in collections in Converse and Niobrara counties, at the heart of the southern Powder River Basin oil play. Second, it appears that the sales and use tax collections associated with the state's increased oil development is more muted than recent natural gas developments in the state. In an unrelated note, sales and use tax collections in Teton county are also especially strong, illustrating a ten percent gain, year-over-year.

Investment income, in the form of interest and dividends, directed to the General Fund from the Permanent Wyoming Mineral Trust Fund (PWMTF) and pooled interest from the State Agency Pool ended the year 3.3 percent, or $7.2 million, behind the official CREG forecast. Recall, however, that CREG does not project realized capital gains or losses for the state's profiled accounts. The State Treasurer's Office reports realized capital gains from the PWMTF of $232.8 million and from the General Fund portion of the State Agency Pool, another $113.9 million. While the capital gains in the State Agency Pool directed to the General Fund will exclusively benefit the General Fund, the net investment earnings from the PWMTF in excess of the forecast ($232.4 million), pursuant to statute and the 2013 Supplemental Budget bill, will be distributed as follows: $90 million to the newly created Strategic Investments and Projects Account (SIPA); $9.4 million to the General Fund; $30.9 million to the PWMTF Reserve Account and $102.1 million to the PWMTF corpus.

The “All Other Sources” category is exceeding projected levels by 3.4 percent. Several revenue sources are included in this category, and not all of them flow with predictable timing. Overall, the miscellaneous categories have already exceeded the FY 2013 projections slightly.

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Bottom-line - General Fund

Due largely to the anticipated, but unforecasted, realized capital gains, actual General Fund revenues are on pace to exceed the January 2013 CREG projections for FY 2013 by approximately $300 million. However, pursuant to statute and session law, note that more than $220 million of this amount will be transferred to other accounts (SIPA - $90 million; PWMTFRA - $30.9 million; and PWMTF - $102 million) as noted previously in this memo. In addition, revenue sources with higher than forecasted collections will offset revenue categories that are lagging the forecast, e.g., sales and use taxes and interest in dividends and sequestered federal mineral revenues to the Budget Reserve Account, discussed in a later section. Once all revenues are accounted for and statutory transfers have been made, actual General Fund and Budget Reserve Account revenues for FY 2013 may exceed January CREG estimates by roughly $65 to $75 million, possibly more. Finally, recall that pursuant to the 2012 Budget Bill, net revenues which exceed forecasted levels in the Budget Reserve Account (BRA) and GF, unless expended in the 2014 Budget Session are scheduled to be transferred to the legislative stabilization reserve account (LSRA) on June 30, 2014.

Mineral Severance Taxes

Following the same columnar format as Table 1, Table 3 shows that total severance tax revenues are 0.3 percent ahead of expectations for the fiscal year. This may be slightly optimistic since the revenue forecasts for calendar year 2013 are higher than the forecasts for calendar year 2012. In other words, there are slowly increasing expectation for revenue collections over the fiscal year. The strength in severance tax receipts is driven primarily by oil production, and to a lesser degree, higher than anticipated collections in "other" minerals, including trona and uranium. Stronger than anticipated natural gas prices, especially in the spring of 2013 are offset by lower than forecasted natural gas production volumes. Coal production is also falling just shy of forecasted levels.

Bottom-line - Severance Taxes

Total severance tax distributions for FY 2013 should be in line with the January 2013 CREG forecast of $840 million, or $50 million less than FY 2012 collections. Any receipts over the forecasted amounts would be distributed to the PWMTF, General Fund, and Budget Reserve Account (BRA) since the distribution cap for severance taxes for FY 2013 has been met. Any receipts less than the forecasted amounts will be offset by revenue categories that exceeded projections for the fiscal year.

Federal Mineral Royalties

Included in Table 3 of this report is an analysis of federal mineral royalties (FMRs). The columns in this table are identical to those in Table 1, with Column 5 indicating that currently the state is 4.2 percent behind expectations for the year. As in the case of severance taxes, the amounts collected to date are in line with the January 2013 CREG projections, with one significant exception: the federal sequester of federal mineral revenues. Before accounting for the federal sequester, FMR payments to Wyoming are lagging projections by just 0.8 percent. After considering the impact of the federal sequester, the receipts are lagging projections by 4.2 percent. Since the federal sequester impacts the total amount received, no account or state beneficiary that receives "under-the-cap" FMRs will be negatively impacted. The entire impact of the sequester on FMRs will be borne by the Budget Reserve Account (BRA) and the School Foundation Program (SFP). In addition, the federal Office of

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Natural Resource Revenue advised the State of Wyoming on June 25, 2013 that the accounting for the sequester of federal mineral revenue has changed from the guidance issued on March 22, 2013. In short, rather than reducing five months (March through July 2013) of Wyoming's payments by approximately $10.6 million, the federal government withheld 5.1 percent of payments from October 2012 through June 2013 in the June 2013 payment, making adjustments for any prior deductions. Federal mineral revenue payments in July, August, and September 2013, through the balance of federal fiscal year 2013, will include a 5.1 percent deduction for the federal sequester. This change will impact Wyoming's accounting for the sequester since the September payment will be a deduction in a payment for state fiscal year 2014, rather than state fiscal year 2013.

Coal lease bonuses are also shown in Table 3. 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. One additional sale, the Maysdorf II North Coal Tract, has been announced and will occur on August 21, 2013. If this sale occurs on a regular schedule, the addition could be included in the October 2013 or January 2014 CREG forecast.

The coal lease bonus category is shown as a separate line to clarify the variable flow of regular federal mineral royalties and so that the totals can be readily tied to the projections in the CREG report. Coal lease bonus payments are also subject to the same 5.1 percent federal sequester for federal fiscal year 2013.

Conclusions

At the current pace of collection, the General Fund and Budget Reserve Account (combined) may exceed projections by $65 to $75 million though several revenue categories have yet to be finalized. The largest source of higher than profiled revenue collections came in the form of realized capital gains. Categories that are likely to fall materially short of the January forecast include sales and use taxes, FMRs and coal lease bonus payments (due to the federal sequester) and interest and dividends.

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

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Table 1. FY 2013 General Fund (GF) Revenue Update
(Revenues received from July 1, 2012 through June 30, 2013)

Source	1 Projected FY 2013 Total	2 Actual Revenue Received YTD	3 Actual as % of Proj.	4 LSO % of Proj. Expected	5 Actual % vs. Proj. %
Severance Tax	$209,800,000	$184,588,580	88.0%	86.5%	1.5%
Sales & Use Tax	$498,700,000	$426,561,855	85.5%	87.8%	-2.3%
PWMTF & Pooled Interest and Dividends	$216,900,000	$209,746,425	96.7%	100%	-3.3%
PWMTF & Pooled Distributed Capital Gains	NA	$346,722,940	NA	NA	NA
All Other Sources	$122,500,000	$124,922,946	102.0%	98.6%	3.4%
Totals (incl cap gains)	$1,047,900,000	$1,292,542,746	123.3%	91.3%	32.0%
Totals (not incl cap gains)	$1,047,900,000	$945,819,806	90.3%	91.3%	-1.0%

Table 2. FY 2013 Budget Reserve Account (BRA) Revenue Update
(Revenues received from July 1, 2012 through June 30, 2013)

Source	1 Projected FY 2013 Total	2 Actual Revenue Received YTD	3 Actual as % of Proj.	4 LSO % of Proj. Expected	5 Actual % vs. Proj. %
Severance Tax	$226,500,000	$176,171,187	77.8%	74.9%	2.9%
FMRs	$366,700,000	$260,040,734	70.9%	76.7%	-5.8%
Totals	$593,200,000	$436,211,921	73.5%	76.0%	-2.5%

Table 3. FY 2013 Mineral Severance Tax & Federal Mineral Royalty Revenue Update
(Revenues received from July 1, 2012 through June 30, 2013)

Source	1 Projected FY 2013 Total	2 Actual Revenue Received YTD	3 Actual as % of Proj.	4 LSO % of Proj. Expected	5 Actual % vs. Proj. %
Total Severance Tax	$840,000,000	$698,187,947	83.1%	82.8%	0.3%
<u>FMRs</u>					
FMRs wo/coal bonus	$750,100,000	$590,100,111	78.7%	82.9%	-4.2%
Coal lease bonus	$247,500,000	$237,478,060	96.0%	100%	-4.0%
Total FMRs	$997,600,000	$827,578,171	83.0%	NA	NA

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