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Consensus Revenue Estimating Group

Date: July 25, 2016

To: Governor Matt Mead
Members, 63rd Legislature

From: Alex Kean, Co-chairman
Don Richards, Co-chairman

Subject: July 2016 Revenue Update

Purpose of Update *- This revenue update and the table accompanying it, taken in combination with the October Consensus Revenue Estimating Group (CREG) forecast, the January forecast update and the April Revenue Update is intended to provide a quarterly summary of the state's major revenue sources. The January 14, 2016 CREG report remains the official fiscal forecast and is used to derive the revenue pacing expectations in this update. The March 21, 2016 fiscal profile remains LSO's estimate of projected account balances as of June 30, 2016, after taking into account forecasted revenues, transfers and appropriations. This report does not modify those forecasts or estimated account balances. The information in this update represents revenue collections received from July 1, 2015 through June 30, 2016.*

General Fund - At the end of this update, a summary table of revenues deposited into the General Fund (GF) and Budget Reserve Account (BRA) is presented. The three largest sources of revenue for the GF (sales and use taxes, total investment income and severance taxes) are displayed separately. All other revenue sources (franchise taxes, cigarette taxes, charges from sales and service, fees, penalties and interest, etc.) are grouped together for purposes of this update.

Column A reflects the total FY 2016 CREG projections of revenue by major source. Column B contains the actual year-to-date (YTD) revenue received. Column C represents the forecast through June 30, and Column D is the difference from 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. Column G shows the difference of the actual revenue to date as a percentage of the total amount forecast for FY 2016 less the expected pace of the FY 2016 forecast (column E minus column F). Occasionally, percentages may not add due to rounding.

As of July 22, 2016, FY 2016 actual GF revenue in total across all sources are tracking $47.6 million or 4.5 percent below pacing expectations for the year (See line 11) with two months of most revenue sources yet to be received. For the first time since FY 2009, sales and use tax, severance tax and Permanent Wyoming Mineral Trust Fund (PWMTF) investment income, historically the three most important contributors to the GF, will all experience year over year decreases in the same fiscal year.

Sales and use tax distributions into the GF were below $30 million in consecutive months (April and May 2016) an occurrence not seen since FY 2004 and now trail the January 2016 CREG estimate by $30.2 million or 6.5 percent at this point in the fiscal year (See line 1). On a local level, only three counties have seen year over year increases, Lincoln (5.0 percent), Teton (4.8 percent) and Weston (18.7 percent), while the rest of the state has experienced decreases with three counties dropping by more than 30 percent, Campbell (-31.5 percent), Converse (-54.2 percent) and Sublette (-32.2 percent).

Although oil and natural gas prices have improved from the multi-year lows experienced in January and February, actual prices received by Wyoming producers through April continue to be below the January 2016 CREG assumptions. Recall that Section 325 of the 2016 Budget Bill (2016 Wyoming Session Laws, Chapter 31) provided for a diversion of the one percent statutory severance tax from the Permanent Wyoming Mineral Trust Fund (PWMTF) to the GF for the balance of this fiscal year in an effort to address the immediate shortfall. Therefore the negative impact to the GF is increased each month severance tax collections trail projections. With two months remaining and after adjusting the January 2016 CREG estimate to account for the diversion, the GF share of severance taxes is now trailing the forecasted pace by $23.6 million or 10.8 percent (See line 8). A more detailed discussion of this revenue category is included in a subsequent section of this memo.

Final FY 2016 distributed investment income generated by the PWMTF for FY 2016 totaled $149.8 million, which exceeded the January 2016 CREG projection by $6.2 million. In accordance with section 13 of 2016 SF0041, State funded capital construction (2016 Wyoming Session Laws, Chapter 97) and 2015 Supplemental Budget Bill (2015 Wyoming Session Laws, Chapter 142, Section 346), the State Auditor will transfer this revenue in excess of projection into the Capital Restoration and Renovation Account. It is also worth noting that the state's accounting system reflects that the State Treasurer's Office has posted a realized but undistributed capital loss in the PWMTF totaling $9.4 million and this loss will carry forward until offset by realized capital gains, pursuant to the 2009 State Treasurer's interpretive policy.

The GF share of final FY 2016 investment income from the Pooled account was $88.8 million, which exceeded the January 2016 CREG projection by $3.8 million or 4.5 percent. However, as with the PWMTF, the State Treasurer's Office has posted a realized but undistributed capital loss attributable to the GF in Pooled account of $4.4 million. Also like the PWMTF, this loss will carry forward until offset by realized capital gains.

The "all other" category of state revenues is trailing the forecast pace by $3.9 million or 2.6 percent (See line 9). Of the major revenue components in the "all other" revenue category, charges for sales and services are exceeding the projection by $3.1 million while penalties and interest are lagging the forecast by $7.1 million.

Budget Reserve Account - The summary table at the conclusion of this memo also illustrates the two primary revenue streams for the BRA: severance taxes and federal mineral royalties (FMRs). Consistent with the GF, severance tax receipts to the BRA are now trailing the January 2016 CREG forecast pacing, lagging the estimate year-to-date by $26.9 million or 18.3 percent (See line 12). FMRs directed to the BRA, including an adjustment for the federal fiscal year (FFY) 2015 budget sequester (withholding), are $39.7 million or 16.5 percent (See line 13) behind the January CREG forecast through June. When combined, the BRA is now $66.6 million or 17.2 percent behind the forecasted pace (See line 14).

Bottom-line: General Fund/Budget Reserve Account - In total, GF and BRA revenue collections are $114.2 million or 9.0 percent below the annualized pacing of the overall January 2016 CREG estimates through June 2016.

Mineral Severance Taxes - Through June 2016 total severance tax collections are 10.8 percent behind the January 2016 CREG forecast, using pacing estimates. As of July 15, 2016 oil and gas rig counts totaled eight (of which just three were seeking oil) a drop of 13 from July 2015 and a drop of 44 from July 2014. Natural gas prices received by Wyoming producers are averaging $2.42/mcf for the current fiscal year to date, as compared to the CREG forecast of $2.80/mcf. Oil prices for Wyoming producers are averaging approximately $34/bbl for the current fiscal year to date, as compared to the CREG forecast of $39/bbl. Surface coal prices to date are in step with the forecast level of $13.50/ton but surface coal production abruptly dropped from 91 million tons in the second quarter of FY 2016 (October, November and December 2015) to 65 million tons in the third quarter (January, February and March 2016). In fact, it is now likely surface coal production will only marginally exceed 300 million tons for the twelve-month fiscal year, a level last seen in 1997.

Bottom-line: Severance Taxes - In total, severance tax collections are substantially behind the January 2016 CREG estimates and will fall short of the forecasted level for oil, natural gas and coal. The stronger prices received over the past three months will not offset the price environment experienced in January, February and March for oil and natural gas. Recent reports of surface coal production remain well below the projected levels.

Federal Mineral Royalties - Total FMRs (without coal lease bonus payments) to date are 10.5 percent behind forecast pace (See line 25) through June 2016. The pricing and production environments that apply to severance taxes mirror that of FMRs and as such, total FMR collections will miss the forecasted level.

The summary table also includes coal lease bonus (CLB) payments. Actual receipts of CLB payments occur annually over five years beginning at the time the federal government finalizes the lease agreement; therefore, amounts reflected here are not indicative of revenue trends. CLB payments are proceeding as expected, as adjusted by the federal sequester (See line 21).

Other Revenue Issues of Note – Final FY 2016 investment income derived from the Common School Permanent Land Fund (CSPLF) totaled $76.9 million exceeding the estimate by $4.6 million or 6.3 percent (See line 15). Further, at this writing the State Treasurer's Office has posted a realized but undistributed capital loss of $3.3 million from the CSPLF in the state's accounting system until such time net realized gains are available to offset the loss.

Conclusion The April 22, 2016 revenue update included the caution that revenue collections were continuing to deteriorate and identified $110 million to $130 million as the range in which actual revenue will miss the January CREG forecast for the GF/BRA, after accounting for reversions received to date. Through June 30, collections are on pace to hit the high end of this range, or more likely exceed the largest shortfall range. Given the weakness in surface coal production it is probable the miss will be greater than $130 million and could rise as high as $150 million, prior to additional reversions of unexpended appropriations.

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

	Fiscal Year 2016 Revenue Update Summary: Actual vs. January 2016 CREG Forecast	A	B	C	D	E	F	G
	Revenue Sources	CREG Forecast FY16 Total	Actual through June	Forecast (1) through June	Difference YTD $	Actual YTD % of Total	Forecast YTD % of Total	YTD Pace
1	GF — Sales & Use Tax (5)	$466,800,000	$391,088,422	$421,300,000	-$30,211,578	83.8%	90.3%	-6.5%
2	GF — PWMTF Income from dividends & interest	$143,600,000	$149,823,404	$143,600,000	$6,223,404	104.3%	100.0%	4.3%
3	GF — PWMTF Income from capital gains (2)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
4	GF — Total PWMTF Income	$143,600,000	$149,823,404	$143,600,000	$6,223,404	104.3%	100.0%	4.3%
5	GF — Pooled Income from dividends & interest	$85,000,000	$88,843,568	$85,000,000	$3,843,568	104.5%	100.0%	4.5%
6	GF — Pooled Income from capital gains (2)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
7	GF — Total Pooled Income	$85,000,000	$88,843,568	$85,000,000	$3,843,568	104.5%	100.0%	4.5%
8	GF — Severance Tax (6)	$217,500,000	$156,746,637	$180,300,000	-$23,553,363	72.1%	82.9%	-10.8%
9	GF — All Other	$148,400,000	$142,810,229	$146,700,000	-$3,889,771	96.2%	98.9%	-2.6%
10	**General Fund — Total (without capital gains)**	**$1,061,300,000**	**$929,312,260**	**$976,900,000**	**-$47,587,740**	**87.6%**	**92.0%**	**-4.5%**
11	**General Fund — Total (with capital gains)**	**$1,061,300,000**	**$929,312,260**	**$976,900,000**	**-$47,587,740**	**87.6%**	**92.0%**	**-4.5%**
12	BRA (from Severance Taxes)	$146,600,000	$78,200,986	$105,100,000	-$26,899,014	53.3%	71.7%	-18.3%
13	BRA (from FMRs) (3)	$240,700,000	$144,000,706	$183,700,000	-$39,699,294	59.8%	76.3%	-16.5%
14	**Budget Reserve Account — Total**	**$387,300,000**	**$222,201,692**	**$288,800,000**	**-$66,598,308**	**57.4%**	**74.6%**	**-17.2%**
15	SFP CSPLF dividends & interest portion of Investment Income	$72,300,000	$76,888,127	$72,300,000	$4,588,127	106.3%	100.0%	6.3%
16	SFP CSPLF capital gains portion (2)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
17	Total SFP CSPLF from Investment Income	$72,300,000	$76,888,127	$72,300,000	$4,588,127	106.3%	100.0%	6.3%
18	SFP FMRs (3)	$209,100,000	$160,725,956	$180,100,000	-$19,374,044	76.9%	86.1%	-9.3%
19	**School Foundation Program — Total (without capital gains)**	**$281,400,000**	**$237,614,083**	**$252,400,000**	**-$14,785,917**	**84.4%**	**89.7%**	**-5.3%**
20	**School Foundation Program — Total (with capital gains)**	**$281,400,000**	**$237,614,083**	**$252,400,000**	**-$14,785,917**	**84.4%**	**89.7%**	**-5.3%**
21	SCCA (from Coal Lease Bonus)	$209,100,000	$210,481,962	$209,100,000	$1,381,962	100.7%	100.0%	0.7%
22	SCCA (from FMRs)	$5,300,000	$5,346,000	$5,300,000	$46,000	100.9%	100.0%	0.9%
23	**School Capital Construction Account — Total**	**$214,400,000**	**$215,827,962**	**$214,400,000**	**$1,427,962**	**100.7%**	**100.0%**	**0.7%**
24	**Severance Taxes — Total**	**$625,200,000**	**$453,023,821**	**$520,400,000**	**-$67,376,179**	**72.5%**	**83.2%**	**-10.8%**
25	**Federal Mineral Royalties (without CLB) — Total (3)**	**$561,100,000**	**$416,022,662**	**$475,000,000**	**-$58,977,338**	**74.1%**	**84.7%**	**-10.5%**
26	**Federal Mineral Royalties (including CLB) — Total (3) (4)**	**$779,300,000**	**$635,604,625**	**$693,300,000**	**-$57,695,375**	**81.6%**	**89.0%**	**-7.4%**

(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 use a procedure relying on price and productions weights.

(2) Capital gains income from PWMTF, Pooled, and CSPLF investments are not currently part of the CREG projection process.

(3) The forecasted amounts for these items do not incorporate any potential federal budget sequestration of Wyoming's share of federal fiscal year 2016 federal mineral royalties and coal leases bonuses.

(4) The "Difference YTD" can be greatly impacted by the receipt of CLBs.

(5) The Impact Assistance balance at the end of June 2016 was $635,077; the Special Fuel Survey was $376,179; sales and use tax collections have been reduced by these amounts.

(6) The FY2016 forecast of severance tax to the General Fund includes the mineral severance tax diversion adopted in Section 325 of Ch. 31, 2016 Session Laws. This severance tax diversion is estimated at $47.7 million in FY16 and has been added to the January 2016 CREG forecast for tracking purposes.