WYOMING TAXPAYERS ASSOCIATION

January 2017 CREG Update

Revisions result in nominal improvement for the current biennium.

The **Consensus Revenue Estimating Group (CREG)** released its January revenue forecast on Monday. The CREG updated five main components in its forecast from October 2016. The most significant revision was in the projected investment income from the State Agency Pool (SAP) to the general fund. CREG reduced the projected yield from the SAP for the FY 2017- 2018 biennium by nearly $19 million from the October forecast due to a declining balance in that pooled account. The sales and use tax forecast was also revised downward by $8.1 million for the biennium, primarily due to lower than anticipated job recoveries in the mineral industry. The CREG made an upward revision to its the severance tax projections to reflect recent increases in coal production and increased assessed valuation for natural gas (to match current trends). Overall, these revisions resulted in a decrease of $21.1 million in the General Fund, and a contrasting increase in the Budget Reserve Account of $17.2 million for FY 2017-2018. Additionally, the revisions increased the projected revenue flowing into the One Percent Severance Tax Account by $4.8 million. The net effect of these changes resulted in a $0.9 million increase in total funds available for appropriation (General Fund, Budget Reserve Account, and the One-percent Severance Tax Account) for the FY 2017-2018 biennium.

Commodity Price and Production Assumptions

<u>Crude Oil:</u> Price and production levels for crude oil were unchanged from the October forecast levels. For calendar year 2017, the CREG is forecasting a price of $45.00 per barrel with production at 67 million barrels. West Texas Intermediate prices in December averaged $51.59 per barrel.
<u>Natural gas:</u> Price and production levels for natural gas were unchanged from the October forecast levels, as well. For calendar year 2017, the forecasted price remained at $3.00 per Mcf with a production level of 1.813 Tcf. The price of natural gas at Opal Hub in December averaged $3.50 per Mcf.
<u>Coal:</u> Surface coal prices were unchanged from the October forecast of $13.25 per ton for calendar year 2017; however production was increased by 10 million tons, to 310 million, from the level forecasted in October.
<u>Trona:</u> The price and production forecast for trona was unchanged from the October forecast levels. For calendar year 2017, the CREG is forecasting a price of $75.00 per ton with a production level of 20.5 million tons.

The Wyoming Permanent Mineral Trust Fund (PWMTF) ended FY 2016 with $9.4 million in deferred losses. However, as of January 13, 2017, the PWMTF had net realized capital gains of $55.4 million, after accounting for the deferred capital losses from FY 2016. The CREG warned in the October 2016 forecast report of the elevated risk of potential capital losses in the SAP. Ironically, there are currently net capital gains of $2.7 million after accounting for net realized losses from FY 2016. It is important to note, however, that in an environment of increasing interest rates, the fixed income portion of the State's investment portfolio could realize capital losses not included in these projections. For this very reason, the CREG does not forecast potential realized capital gains.

FY 2017-2018 Biennium General Fund, Budget Reserve Account, and One-Percent Severance Tax Account Forecast Comparison

Revenue Source	October 2016 Forecast FY 2017-2018 Biennium	January 2017 Forecast FY 2017-2018 Biennium	Difference
Sales and Use Tax	$833.0 M	$825.0 M	($8.0) M
Pooled Income (SAP)	$170.2 M	$151.4 M	($18.8) M
Severance Tax	$538.9 M	$556.3 M	$17.4 M
Federal Mineral Royalties	$389.8 M	$395.3 M	$5.5 M
One Percent Severance	$163.7 M	$168.5 M	$4.8 M
Total GF/BRA/1% Sev Tax Account	$2,836.6 M	$2,837.4 M	$0.9 M

Accompanying the report, the Legislative Service Office also released its corresponding Fiscal Profile that illustrates the effects of the current revenue and spending. The report provides in-depth information on revenue and budgeting for the current biennium, FY 2017 and FY 2018.

Highlights from the January 16, 2017 profile include:

- Total Traditional Funds Available for Appropriations are in the red at -$10.245M. This total is made up of three key items. The first of which is the $10.1M in undistributed capital gains for FY 2017, the $900K that the CREG added in January, and the 1M that did not materialize as expected in transfers and reversions.
- This is a very modest change from the Governor's profile.
- Notable reductions of $253M from executive branch agency budget reductions, legislative branch agency reductions, and judicial branch agency reductions are positives in the report.
- The Governor Supplemental Budget Request includes: $8.2M from the General Fund ($5M for local governments, the remaining balance for the ENDOW Program and UW's Enrollment Program and Science Initiative), along with $40.2 million in contingent funding from the Legislative Stabilization Reserve Account.
- Budget Reserve Account balance of $94.3, which falls short of the 5% statutory reserve amount of $104.5M by approximately $10.2M.
- The one-percent severance tax diversion is being fully utilized at $168.5M, which is up approximately $5M from the October CREG Report.
- It is anticipated that the Governor will make a revision to his recommendation of $104.5M statutory reserve for contingent appropriation. It is the LSO's understanding that the $40.2M in contingent appropriations for Title 21 and the Rawlins penitentiary would not be separate appropriations (from the LSRA), but rather would come out of the $104.5M statutory reserve. If this materializes, the LSRA ending balance, provided the contingent funds are spent, would be $1.486B instead of $1.446B.
- The School Capital Construction Account has ending balance of -$700K balance. This is not an estimate; rather it is a known number. Wyoming received its last scheduled coal lease bonus payment in October.