



October 2018 Revenue Update

State's Fiscal Position Continues to Improve

The October 2018 CREG report increases projected General Fund and Budget Reserve Account revenues by \$305M from the January forecast level for the current biennium fueled by hearty increases in sales and use taxes, severance taxes, and investment income.

The Consensus Revenue Estimating Group (CREG) released its October revenue forecast on Wednesday, October 24th. The report indicates state revenue is accelerating which is positive news after the dismal performance realized over the past two years. Wyoming's primary accounts including the General Fund (GF), Budget Reserve Account (BRA), Permanent Wyoming Mineral Trust Fund (PWMTF), School Foundation Program Account (SFP), and Common School Permanent Land Fund (CSPLF) are all projected to benefit from the improved forecast revenue deposits. The same is true for the Spending Policy Reserve Accounts.

Total General Fund (GF) revenue for the FY 2019-2020 biennium is forecast to reach \$2.43 billion, which represents a decrease of \$141.1M, or -5.5 percent, from the FY 2017-2018 actual total. The report cautions this comparison is misleading for three reasons: 1) the Legislature in the 2018 Budget Bill redirected one percent severance tax collections to the GF for FY 2019 and FY 2020; 2) the Legislature redirected \$133.7M in severance taxes and Federal Mineral Royalties (FMRs) from the Highway Fund to the GF during the FY 2017-2018 biennium, replacing these funds with a like amount of Abandoned Mine Land (AML) funds to keep the Highway Fund whole; 3) the FY 2017-2018 biennium actual revenue receipts include realized capital gains for those years. No capital gains are included in the CREG forecast for the FY 2019-2020 biennium. Despite increasing projections for sales and use taxes and investment income throughout the forecast horizon, total revenue directed to the GF is forecasted to be lower in the latter biennia (FY 2021-2022 and FY 2023-2024) due to the expiration of the temporary redirection of the one percent severance tax to the GF.

What changed between the January 2018 and October 2018?

Account	FY 2018	FY 2019-2020	Total
Gen Fund (GF)	\$314.2M	\$212.1M	\$526.3M
Bud Res (BRA)	\$ 15.3M	\$92.6M	\$107.9M
Total	\$329.5M	\$304.7M	\$634.2M

Fiscal 2018 Revenues Exceed Forecast

Realized capital gains from the PWMTF accounted for the vast majority (85.3%) of the increase.

- Actual FY 2018 GF revenues exceeded the January 2018 CREG forecast by \$314.2M.
- BRA revenues exceeded the forecast by \$15.3M.
- Total investment income (PWMTF and State Agency Pool) distributed to the GF for FY 2018 totaled \$526.7M, which exceeded the January forecast by 104 percent.
- Three major revenue sources contributed to the difference between actual and forecast revenues: realized capital gains (not forecast by CREG) \$267.9M; sales and use taxes \$38.0M; and severance taxes \$26.7M.

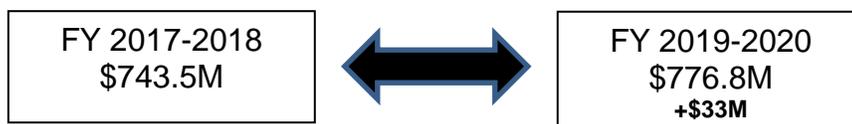
- Transfers of investment income of \$88.1M were made to both the Strategic Investments and Projects Account (SIPA) and Legislative Stabilization Reserve Account (LSRA); Permanent Wyoming Mineral Trust Fund Reserve Account \$95.2M.
- Deposits to the One Percent Severance Tax Account (OPSTA), which was used in the FY 2017-2018 biennium as a budget balancing revenue stream, exceeded the January 2018 CREG forecast by \$6.9M.
- The projected net LSRA Balance as of October 24, 2018 is \$1,642.0M

FY 2019-2020 Biennium General Fund Revenue Forecast Comparisons



- CREG increased the FY 2019-2020 forecast by \$212.1M over the January 2018 forecast: sales and use taxes (\$91.3M), severance taxes (\$43.0M), and investment income (\$82.9M). The forecast for the all other category was decreased by \$5.1M.

FY 2019-2020 Biennium Budget Reserve Account Revenue Forecast Comparisons



K-12 Education Revenues

- Deposits from FMRs to the School Foundation Program Account (SFP) in FY 2018 were \$220.0M, exceeding the January 2018 forecast by \$4.4M or 2.0 percent.
- Investment earnings from the Common School Account within the Permanent Land Fund (CSPLF) totaled \$213.5M, or \$127.9M more than the January 2018 CREG forecast. This difference was due mostly to \$124.2M in realized capital gains. All investment earnings were directed to the CSLIA and subsequently the SFP.
- Total coal lease bonus payments directed to the School Capital Construction Account (SCCA) met the forecast value of \$5.3M in FY 2018. Note: there have been no successful federal coal lease sales since FY 2013, and there are currently no anticipated sales throughout the balance of CY 2018.

Commodity Price and Production Assumptions

The most significant revisions to the October 2018 CREG forecast are those related to oil. The strength in the Wyoming oil sector is also evident in two recent federal oil and gas lease auctions held in June and September 2018, which generated more than \$47M for Wyoming. Natural gas and coal prices have been revised downward. The outlook for coal production has been revised downward.

Crude Oil: Prices were increased by \$10/bbl from the January forecast levels for most of the forecast horizon. CREG increased production forecast by 5 percent in CY 2019 and 3 percent thereafter throughout the forecast period.

Comparison of Oil Production and Price Forecasts: bbls. and \$/bbl.

<u>Calendar Year</u>	<u>January 2018 Forecast</u>	<u>October 2018 Forecast</u>
2018	77.3 M bbls. / \$50.00	85.0 M bbls. / \$60.00
2019	78.1 M bbls. / \$50.00	89.3 M bbls. / \$60.00
2020	78.9 M bbls. / \$50.00	92.0 M bbls. / \$60.00
2021	79.7 M bbls. / \$50.00	92.0 M bbls. / \$60.00
2022	80.5 M bbls. / \$50.00	92.0 M bbls. / \$55.00
2023	NA	92.0 M bbls. / \$55.00
2024	NA	92.0 M bbls. / \$55.00

Natural gas: According to the Oil and Gas Conservation Commission, Wyoming natural gas production has experienced eight consecutive years of production declines by as much as 9 percent annually. However, based on the first six months of CY 2018, this trend is on pace to reverse.

The CREG reduced the annual average price for CY 2018 to \$3.00/mcf for CY 2018, a reduction of \$0.10/mcf from the January 2018 forecast. Additionally, the average annual price for CY 2019, and years thereafter, were reduced to \$2.90/mcf reflecting decreases between \$0.20 to \$0.35/mcf. The CREG specified that a stable forecast at a lower price level would position it to better respond to annual changes with the goal of less overall volatility within the forecast. The CREG reversed its declining forecast trend from January and opted to increase production by 3 percent in CY 2019, 1 percent in CY 2020, and held it level for the remainder of the forecast period.

Comparison of Natural Gas Production and Price Forecasts:

<u>Calendar Year</u>	<u>January 2018 Forecast</u>	<u>October 2018 Forecast</u>
2018	1.687 Tcf / \$3.10	1.810 Tcf / \$3.00
2019	1.645 Tcf / \$3.10	1.864 Tcf / \$2.90
2020	1.604 Tcf / \$3.15	1.883 Tcf / \$2.90
2021	1.572 Tcf / \$3.25	1.883 Tcf / \$2.90
2022	1.541 Tcf / \$3.25	1.883 Tcf / \$2.90
2023	NA	1.883 Tcf / \$2.90
2024	NA	1.883 Tcf / \$2.90

Coal: Note: this commodity historically provided the most stable contributions of all of the major energy commodities to the State's revenue base through severance taxes, FMRs, and ad valorem taxes. Its abrupt and severe decline in production between CY 2015 and CY 2016 and continued gradual decline thereafter has had severe impact on state funds. Headwinds continue to face Wyoming coal, including increased competition and fuel switching for new and existing power plants as well as federal environmental regulations.

The CREG reduced its surface coal prices to \$12.50/ton for CY 2018 and held it there for the remainder of the forecast period. Additionally, the CREG revised its CY 2018 forecast downward from 310M tons to 300M tons, and continues to forecast a decline in Wyoming surface coal production throughout the forecast horizon.

Comparison of Surface Coal Production and Price Forecasts: tons and \$/ton

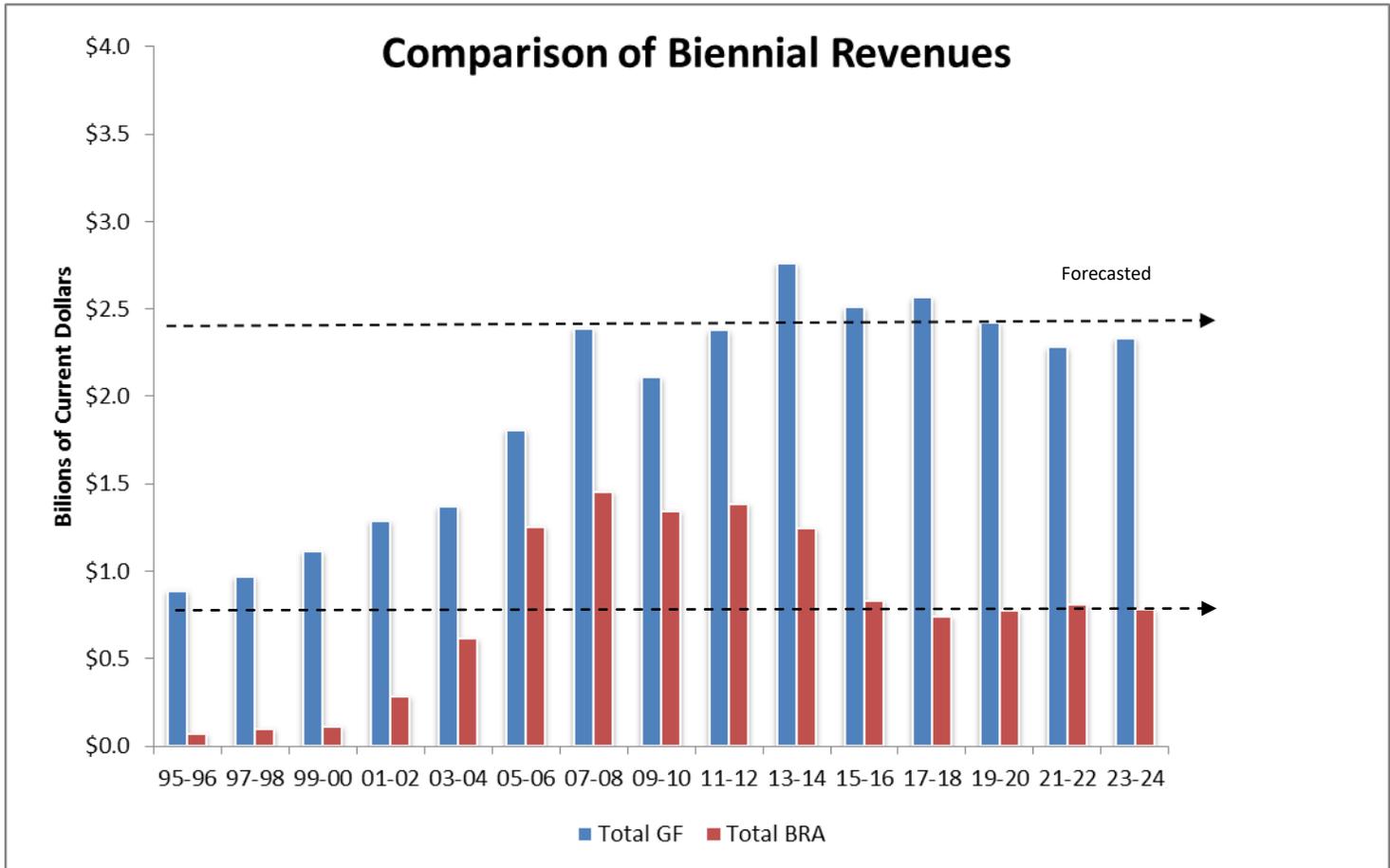
<u>Calendar Year</u>	<u>January 2018 Forecast</u>	<u>October 2018 Forecast</u>
2018	310 M tons / \$12.75	300 M tons / \$12.50

2019	310 M tons / \$12.75	295 M tons / \$12.50
2020	300 M tons / \$12.50	295 M tons / \$12.50
2021	300 M tons / \$12.50	290 M tons / \$12.50
2022	290 M tons / \$12.50	290 M tons / \$12.50
2023	NA	290 M tons / \$12.50
2024	NA	285 M tons / \$12.50

Trona: The CREG forecasted its trona prices throughout the projection period at \$75/ton, and production at 21M tons through CY 2020, increasing to 21.5M tons thereafter. Pricing and production was therefore unchanged from the January forecast.

Comparison of Trona Production and Price Forecasts: tons and \$/ton

<u>Calendar Year</u>	<u>January 2018 Forecast</u>	<u>October 2018 Forecast</u>
2018	21.0 M tons / \$75.00	21.0 M tons / \$75.00
2019	21.0 M tons / \$75.00	21.0 M tons / \$75.00
2020	21.0 M tons / \$75.00	21.0 M tons / \$75.00
2021	21.5 M tons / \$75.00	21.5 M tons / \$75.00
2022	21.5 M tons / \$75.00	21.5 M tons / \$75.00
2023	NA	21.5 M tons / \$75.00
2024	NA	21.5 M tons / \$75.00



FY 2018 General Fund Revenues by Major Source

