

WYOMING TAXPAYERS ASSOCIATION



Dear Board Members:

The following is a brief summary of the Consensus Revenue Estimating Group's (CREG) January 2016 *Wyoming State Forecast Fiscal Year 2016-Fiscal Year 2020*. As expected, the revised revenue forecast is much worse than the October report. Suffice it to say, the current and future revenue environment leaves a lot to be desired.

As highlighted in the table below, the general fund/budget reserve account have been reduced by \$32 million for the current fiscal year. To put that in perspective, coupled with the \$160 million shortfall in the October forecast, the profiled revenue shortfall now becomes \$192 million. For FY 2017-18, the forecasted revenue shortfall in October stood at \$419 million. Coupled with the additional \$46.4 million resulting from the current revisions, the total shortfall increases to \$465 million for the FY 2017-18 biennium.

Changes in estimated revenue for the General Fund and Budget Reserve Accounts as compared to October 2015 forecast report (Millions \$)

Revenue Source	2015-16 Biennium Oct. 2015 CREG	2015-16 Biennium Jan. 2016 CREG	2017-18 Biennium Oct. 2015 CREG	2017-18 Biennium Jan. 2016 CREG
Severance Tax	\$ 741.0	\$ 725.6	\$ 676.8	\$ 656.2
Federal Mineral Royalties	\$ 583.4	\$ 566.8	\$ 527.4	\$ 501.6
Total General Fund/BRA	\$3,476.6	\$3,444.6	\$2,941.0	\$2,894.6
Difference from Oct. 2015 Report		\$ 32.0		\$ 46.4

Making the situation even more difficult, many of the hedges that the State has had in the past couple of years are not available. In particular, capital gains. This year the State will not be realizing the capital gains realized over the last three years. As of December, the Treasurer's Office has identified \$16.8 million in capital gains from the PWMTF and \$7.4 million from the state agency pool for General Fund purposes for a total of \$24M. That is a far cry from the hundreds of millions of dollars per year that have been generated over the past few years.

With respect to the assumptions in the January report, only two positive modifications were made in this report. The first one was an increase in the coal lease bonus payments of \$6.5 million. That payment will be deposited in the school capital construction account. Please note: this was not the result of a new lease sale; rather it was the result of the timing of a sequestered payment in the fall of 2015. The second positive change was the increase of 2 million barrels in oil production from the October forecast for calendar 2015, and 4 million barrels for calendar 2016.

On the negative side, the CREG reduced oil prices by \$3.00 per barrel, to \$42 per barrel for calendar year 2016. That is after lowering the price to \$38.00 per barrel for the first 6 months of calendar year 2016. That will be an issue given current prices for WTI closed at \$28.46 per barrel yesterday. Wyoming prices typically range from \$5.00 to \$12.00 per barrel depending on the quality of oil sold. You can see that the CREG projection is substantially above the market price as of yesterday.

The CREG reduced natural gas production by 7 million mcf per year through the forecast horizon. Natural gas prices were reduced by \$0.10 per mcf for calendar 2015, \$0.35 per mcf for calendar 2016, and \$0.25 per mcf for calendar 2017. The final estimates for calendar year 2015 were \$2.73 per mcf, \$2.85 per mcf for calendar year 2016, and \$3.00 per mcf for calendar year 2017. The price at Opal yesterday was around \$2.15 per mcf, which is a far cry from the \$2.75 and the \$2.85 estimate. Additionally, the liquids portion of natural gas is not included in this price.

The CREG reduced coal production forecast by 5 million tons for calendar years 2015, 2016, and 2017. For coal, the two sources of check data that the CREG uses are in conflict with one another. The state data are showing that the estimate of 370 million is right on, while the Energy Information Administration is showing the level at 7 percent lower, and closer to 360 million.

So, you might be asking yourself, what is the CREG thinking? Here is a brief explanation as to why the group settled in where it did. For the first 5 months of the fiscal year, July through November, revenue was outpacing the October estimate by 1 percent, between \$5 -\$12 million. Coal was tracking, oil was generating more revenue than CREG anticipated in October as prices were higher, natural gas was tracking, sales and use taxes were outpacing October forecast levels, Permanent Wyoming Mineral Trust Fund and pooled investments were running \$4 million ahead of projections, school foundation program investment earnings were \$360,000 ahead of forecast, and all other revenue was either on target, seasonally adjusted, or \$5 million ahead (cigarette tax, franchise taxes, etc.). So, for the first 5 months of the fiscal year, the October estimate really couldn't have been any closer. That said, the CREG recognizes there has been a shift in the energy markets in the past month or so, and that is yet another slice of the downside. Because of the ripple effect, it will take some time for that to reflect in the revenue collections.

The state has gone from as much as \$12 million ahead of projections during the year, and now the CREG is taking off an additional \$32 million. So, essentially the CREG is saying the next 5 months are going to be down by \$44 million. A bit of a conundrum for the CREG.

Fiscal Profile for 2015-16 and 2017-18, January 2016 CREG Revenue Forecast, January 14, 2016

Funds Available (Cash, Revenue, & Net Transfers)	2015-16 Biennium Gov.'s Rec. Oct. CREG	2015-16 Biennium Gov.'s Rec. Oct. CREG	2017-18 Biennium Gov.'s Rec. Oct. CREG	2017-18 Biennium Gov.'s Rec. Oct. CREG
Total Traditional Funds Available	\$3,839,888,527	\$3,809,218,808	\$3,045,750,360	\$2,968,255,641
Total Funds Appropriated/Transferred	-\$3,735,138,167	-\$3,3,735,563,167	-\$2,911,353,640	-\$2,909,637,378
General Fund/BRA Balance	\$104,750,360	\$73,655,641	\$134,396,720	\$58,598,263
Less: Statutory Reserve (5% of GF revenues)	-\$109,860,000	-\$109,860,000	\$104,550,000	\$104,550,000
Total Traditional Funds Available for Appropriation	-\$5,109,640	-\$36,204,359	\$29,846,720	-\$45,951,737

Note: The front page of the profile is typically a summary of the general fund and the budget reserve account, as both accounts are available for appropriation at the discretion of the legislature. In the Governor's budget, however; the LSRA becomes another appropriation account, as opposed to a reserve account. In order to truly illustrate this, the LSRA, budget reserve, and the general fund will need to be included in this table.