# Governor's Presentation to Joint Appropriations Committee

**Buck McVeigh, WTA Executive Director, attended the Joint Appropriations Committee which was held June 21-22 in Cheyenne.**

Hard times in Wyoming. Idle coal trains, large layoffs in the energy sector are just the tip of the iceberg. In the wake of an enduring energy industry downturn and an overly-optimistic revenue forecast, a somber Governor Matt Mead delivered his 8 percent budget reduction plan to the Joint Appropriation Committee.

## Governor's additional budget cuts

The current budget does not give the Governor authority to further access the "rainy day fund" or the Legislative Stabilization Reserve Account (LSRA) to meet shortfall amounts. The only avenue available to him was to cut agency budgets. But why now? Mead explained he cannot wait until next legislative session which ends in March 2017. The scale of the reductions would be magnified, and the impact on basic services would become exponentially worse.

Mead's reduction plan includes targeted cuts within programs in order to maintain services that remain effective. The Governor said that there is no way to reach an 8 percent reduction, or $248 million, without substantial reductions in the five agencies that compose 72 percent of state general fund expenditures. The five agencies are the Department of Health (DOH), Department of Family Services (DFS), Department of Corrections, Community Colleges (CC), and the University of Wyoming.

Cutting state funding in DOH and DFS means losing federal funds as both agencies receive a significant amount of federal funds to match varying percentages of state-funded expenditures. Additionally, as DOH, DFS, and CC distribute the majority of funding through grants, programs, or services throughout the state, the impact of these reductions will have far-reaching consequences. These reductions are in addition to the austerity budget reductions and precision cuts, meaning that the reductions are in addition to what the legislature made during the last session.

The majority of the reductions come from the DOH, totaling $90 million. This comes at an estimated cost of 677 private sector jobs. Mead said the reductions are a necessity, albeit, had the legislature approved the Medicaid expansion, as he had recommended, cuts would still be necessary, but likely not to the degree they are now.

Reductions are a last resort, without access to the LSRA funds, and they are at the low end of what is truly needed. Additional cuts may be necessary with declining revenues.

In summary, authorized positions have been reduced by 304 through vacancies, and seven positions will be lost due to a reduction in force. Mead said he does not like the cuts, but cannot undo decisions already made. He hopes the cuts were made in the right places and at the right amount. He suggested to the committee that if there is a better way or a better plan, the legislature has the option of calling a special session.

# Revenue Update at Joint Appropriations Committee Meeting

CREG Co-Chair Don Richards, who is also the LSO Budget/Fiscal Administrator, gave a revenue update at the June JAC meeting. This revenue update is as of June 16; however, it includes some revenue sources only through the month of March, such as severance taxes.

## Actual revenue predicted to fall way short of forecast

Richards expects actual revenue will fall way short of forecast. Few opportunities exist where revenues will exceed forecast and those are in interest and dividends from the PWMTF and pooled investment accounts. However, only the pooled income will help the fiscal profile because, to the extent that the PWMTF income exceeds forecasted levels, those funds are legislatively directed to the first payment of FY2016 for the Capital Square Project. Therefore, this overage would not help offset the shortages realized in severances taxes or sales and use taxes.

The Governor has $105 million in statutory reserves from the Budget Reserve Account, if needed, in the event CREG misses its forecast. That is less than the $110-$130 million projected shortfall, so the legislature will need to identify other funds to address the immediate FY2016 revenue needs. The executive branch reported that it is expecting agency reversions of up to $30 million. The combination of the two revenue sources should be ample for the remainder of FY2016.

Although only three months remain in the FY2015-2016 biennium, Richards noted it was crucial that the state curtailed expenditures when it did so it would have sufficient revenues to make it through.

## Main contributors to the revenue concern going forward

The monthly general fund sales and use tax collections are running approximately 21 percent behind last year (which was a record high). The last four months of collections in this fiscal year have been below the FY2010 level, which was the worst year in the recent decade. The dismal sales and use tax collections are due solely to low oil and natural gas prices and resultant low number of working rigs. Employment levels have waned significantly and are an impetus for languished sales and use tax collections in the state.

A 52-week coal production extrapolation using EIA data suggests the annual production of just under 250 million tons. This is a difference of over 100 million tons from the January CREG forecast level. Never before has the state seen a drop-off in coal production like it has seen in the first six months of this year. So is this the new normal?

Last June, the state had well in excess of $6 billion in the state agency pool which is comprised of the school capital construction account, the LSRA, the general fund, and numerous smaller accounts. The state has expended roughly $750 million in just the first eight months of the fiscal year due to a backlog of appropriations for school capital construction. This will have a dramatic effect on yet another leg of the State's revenue, interest income. As the corpus erodes so does the State's interest income. It is not unreasonable to think that the corpus could further erode by $1-$1.5 billion in the next biennium.

Richards is in agreement with the Governor's estimated shortfall range of $240-$510 million for the FY2017-18 biennium. In fact, he believes that it will be at the high end of that range or possibly even higher. Offsets to that number are reversions, whether or not the legislature elects to use the full amount of the 1-percent severance tax diversion from the PWMTF (roughly $60 million likely to become available), the Governor's $248 million budget reduction package, and the legislature's $2 million budget reduction.

## Funding for the School Foundation Program

Fortunately, the School Foundation Program (SFP) is operating on property taxes from the valuations of 18-months ago. As a result, the FY2016 shortfall (School Year 2015-16) is rather modest at $25 million. The Permanent Land Fund Holding Account (PLFHA) can transfer that amount to offset the shortfall amount. Additionally, for School Year 2016-17, property taxes will be based on Calendar Year 2015 assessed valuations, which was the final year of increasing valuations before the downturn

Richards said he expects the CREG will need to reduce revenues to the SFP by $30-$45 million in FY2017 due to current commodity prices. The PLFHA, with a balance $60 million, would be further reduced by that amount.

In FY2018, Richards said the problems really manifest in the SFP due to the first year of the double-whammy effect of lower property taxes and lower federal mineral royalties. He predicts revenues will need to be revised downward by $100-$130 million for that one year. The PLFHA would not be able to address that shortfall amount.

Other reserves or means would need to be identified to cover the FY2018 shortfall. Options include tapping the SFP Reserve Account, which currently has a $100 million balance. In FY2019-20 the state could be looking at a forecasted shortfall of approximately $360 million per year, which does not include the $50 million needed annually for major maintenance and excludes any expenditures for new capital construction. The PLFHA will be completely exhausted, and the SFP Reserve Account will be close to being exhausted. The cash balance in the SFP, which is maintained at $100 million for cash flow, may need to be tapped, as well as other means such as revenue options, expenditure reductions, and savings. Richards cautioned that in 2019-20 essentially the only savings that will be remaining is the LSRA.

## Special Districts Task Force Holds First Meeting

The Task Force on Special Districts held its first meeting in Casper on June 21. The task force, created through the passage of HB53 last session, is charged with studying the operation of special districts in the state including the formation, functionality, efficiency, accountability and continued operation of special districts. It is directed to limit its consideration to only issues which can be properly studied within the short time period and is required to report to the Joint Corporations, Elections and Political Subdivisions Interim Committee on or before September 15, 2016.

### Members

The 11-member task force is comprised of Senator Cale Case - S25, Fremont; Senator Chris Rothfuss - S09, Albany; Representative Dan Kirkbride - H04, Platte/Converse; Representative Jerry Paxton - H47, Carbon/Albany/Sweetwater; Jeffrey O'Holleran, Secretary of State's Office; County Commissioner Paul Vogelheim, Teton County; County Clerk Julie Freese, Fremont; Shaun Sims, Wyoming Association of Conservation Districts; Josh Shorb, Park County Weed and Pest; Mark Pepper, Wyoming Association of Rural Water Systems; Buck McVeigh, Wyoming Taxpayers Association; and Bobby Rolston, Anadarko.

### First meeting included:

- An overview of special district issues and concerns, and a chronology of special district legislative reviews and major legislation from the LSO staff
- Presentations from Pam Robinson, Department of Audit - Public Funds Division; Jeffrey O'Holleran - Secretary of State's Office; Wyoming County Commissioners: Jim Hicks, Paul Vogelheim, and Bill Novotny; Julie Freese - Fremont County Clerk and Wyoming County Clerks Association; Wyoming Association of Municipalities, Shelley Simonton and Scott Badley

### Public testimony was received from

- Bill Lindstrom - Arts Cheyenne regarding formation of cultural districts.
- Dr. David Throgmorton - Carbon County Higher Education Center, regarding current statutes and financial reporting requirements for BOCES.
- Carol Pickett - Hot Springs County resident and watershed district taxpayer who spoke about board issues and concerns including lack of governance, abuse of power, and taxation without representation.
- Bobbie Frank - Wyoming Association of Conservation Districts, talked about board training programs and offered assistance of her association to assist in developing a comprehensive training program for all of the special districts.
- Boyd Wiggins - Wyoming Liberty Group expressed concerns regarding lack of transparency within special districts.
- Rick Baker - Blackwell Irrigation District, spoke regarding the need for clearly defined regulations for special districts.

### Topics for July 8 meeting

The task force concluded the day by identifying several topics it will pursue for the next meeting on July 8 in Casper. Those topics include a presentation from the County Treasurer's Association; review of existing oversight and approval authority in current statutes; dissolution or termination of special districts; merger or consolidation of special districts; standardization of bid requirements; standardization of budget requirements; and development of special district training manual.

## Highlights from the June Wyoming Insight Report

The June 2016 issue of the Wyoming Insight is available at the State of Wyoming's Economic Analysis Division website http://ai.wyo.gov/economic-analysis. The Wyoming Insight serves as an energy index and business indicators report for the State.

Highlights from this month's issue include:

- **Three Counties Show Gains in Sales and Use Tax Collections in Fiscal 2016.** After eleven months of fiscal year (FY) 2016, the state's 4 percent sales and use tax collections declined by $157.6 million (-21.0%) in a year-to-date comparison to FY 2015. "Lincoln, Teton, and Weston were the only counties to register gains after eleven months of collections. Campbell and Converse counties recorded the largest declines, $43.6 million and $33.3 million, respectively. Of the twelve industry sectors that are tracked, only transportation & utilities generated a gain in a year-over-year comparison," according to Jim Robinson, principal economist for the state's Economic Analysis Division.

- **Natural Gas and Crude Oil Prices Improve in June.** "The price of natural gas increased once again in June while oil continued a series of monthly increases that started in February," noted Robinson. The June 2016 price at the Opal Hub averaged $2.30 per thousand cubic feet (mcf) to date, up from the $1.80 per mcf average in May 2016, an increase of 27.8 percent. By comparison, the June 2015 average price was $2.60 per mcf. The West Texas Intermediate crude oil price averaged $48.69 per bbl. in June 2016, up from the May 2016 average of $46.73 per bbl. but was $11.11 per bbl. less than the June 2015 price. The oil rig count numbered 2 for May, while conventional gas rigs remained unchanged in May at 5. Applications for permits to drill for oil reached 2,456 through the end of May compared to 2,175 in 2015. Oil and gas jobs numbered 10,800 in May, a decline of 3,400 from a year earlier.

- **May YTD 2016 Total Residential Building Permits Declined Compared to Last Year.** Total housing units permitted through the end of May 2016 decreased by 9.2 percent compared to 2015. "Single family permits declined by 11.0 percent after five months in 2016 while multifamily permits were ahead of last year's pace by 6 units," remarked Robinson.

## Bloomberg: World's Top Oil Trader Says Prices Won't Rise Much Further

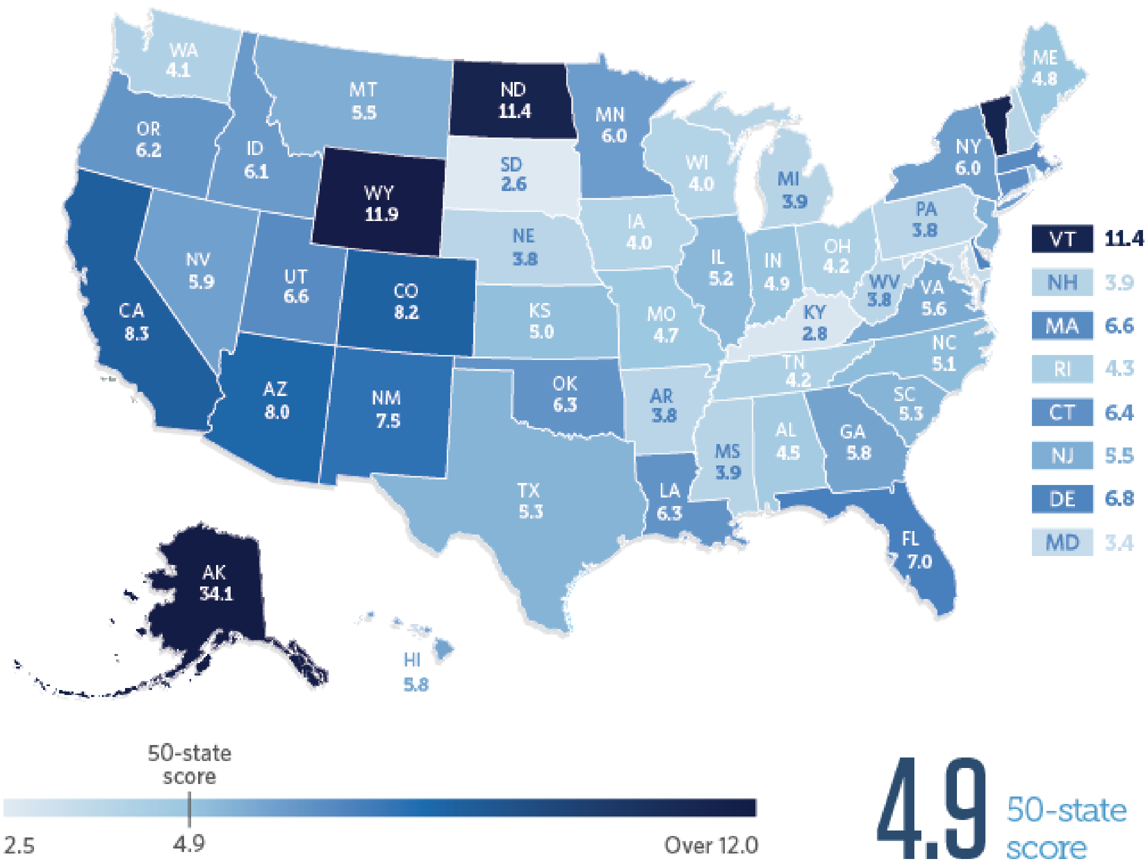
Oil prices won't rise much further over the next year and a half as demand growth slows and refiners comfortably meet gasoline consumption, according to the world's largest independent oil-trading house. The forecast, which coincides with a similar view from Goldman Sachs Group Inc., would mean oil-rich countries and the energy industry face a prolonged period of low prices, more akin to the 1986 to 1999 downturn than the swift recovery after the 2008 financial crisis. Read the article

## The PEW Charitable Trusts: Revenue Volatility Greater for Some States, Certain Tax Types

States experienced vastly different fluctuations in tax revenue over the past two decades, with the greatest year-to-year volatility occurring in Alaska and the least in South Dakota. Alaska had the highest score-34.1-meaning the state's total tax revenue showed wide variability from year to year, typically fluctuating within 34.1 percentage points above or below its overall growth trend. The next most volatile tax revenue streams were in Wyoming (11.9) and in North Dakota and Vermont (both 11.4). **Read the article**

## How the States Scored on Tax Revenue Volatility

Based on FY 1995-2014 collections, adjusted for policy changes

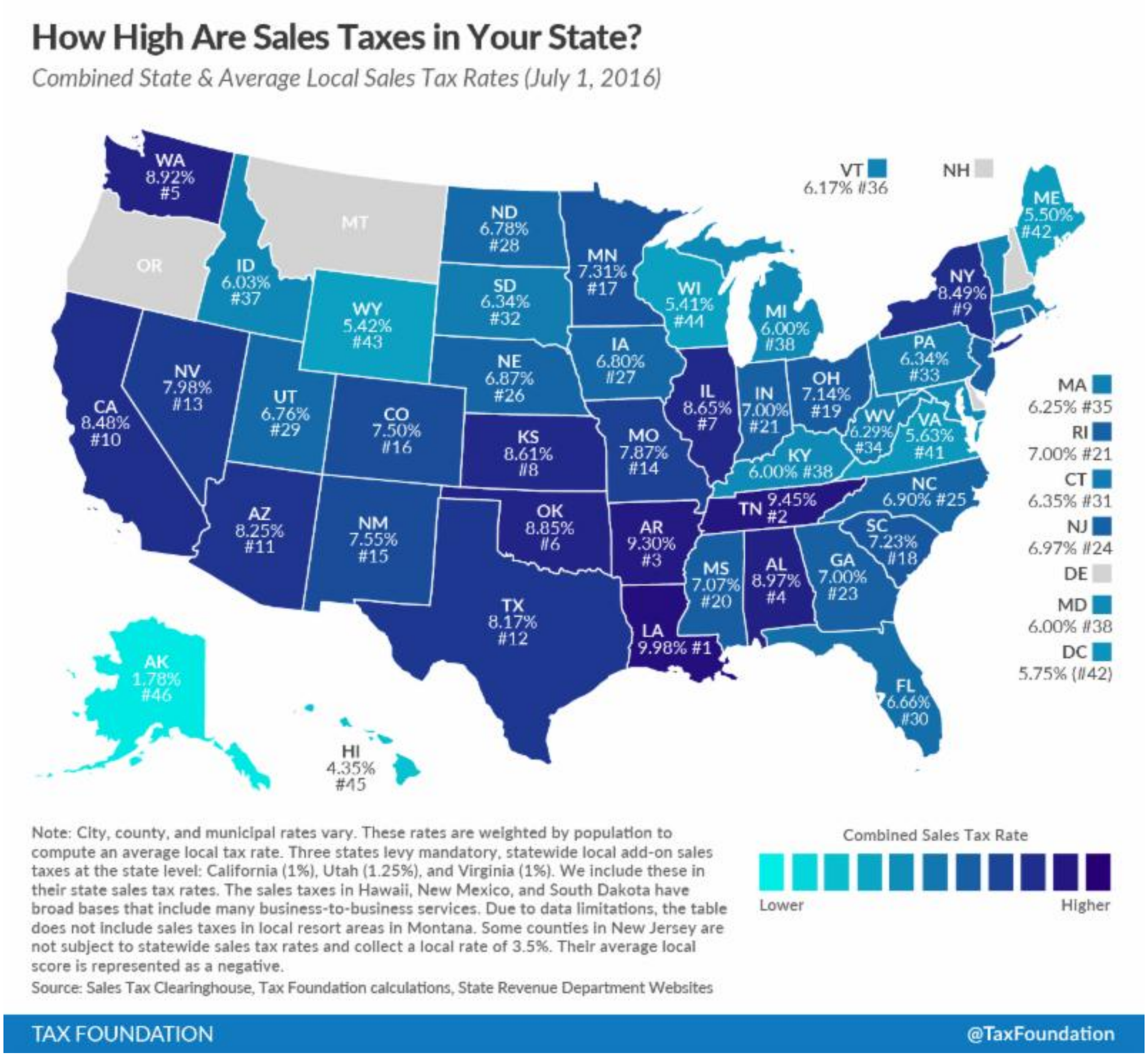



Source: Pew analysis of U.S. Census Bureau's State Government Tax Collections historical series, adjusted for tax policy changes using the National Conference of State Legislatures' State Tax Action reports



## Tax Foundation: State and Local Sales Tax Rates, Midyear 2016

Retail sales taxes are one of the more transparent ways to collect tax revenue. While graduated income tax rates and brackets are complex and confusing to many taxpayers, sales taxes are easier to understand; consumers can see their tax burden printed directly on their receipts. The five states with the lowest average combined rates are Alaska (1.78 percent), Hawaii (4.35 percent), Wisconsin (5.41 percent), Wyoming (5.42 percent), and Maine (5.5 percent). Read the article

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## SAVE THE DATES!!

- The Interim Revenue Committee reception will be held on September 21 in Buffalo.
- The WTA annual meeting will be held on October 28 in Laramie.