**2016 WPSA State Budget Roundtable**

**“There Is No Way To Perfume The Pig”[[1]](#footnote-1)**

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**There Is No Way To Perfume The Pig**

**INTRODUCTION**

The Wyoming Legislature completed its 2016 twenty-day budget session on March 4, 2016 after passing a $3 billion biennial budget. Facing an almost $500 million drop in revenues over the next biennium, Wyoming lawmakers cut funding to almost all state agencies, while completely eliminating others (Hancock, 3/4/16). The downturn in oil, natural gas, and coal prices are expected to have a severe impact on the state’s financial future.

Beyond the ground level budget cuts, at a more general political level, as Benjamin Storrow notes, the “Budget shortfall could prompt [a] shift in [the] political landscape in Wyoming (10/7/16). Two primary issues reflect this sentiment: 1) the governor’s call for health care expansion to over 17,000 Wyomingites without insurance, and 2) guidelines for tapping into the state’s $1.8 billion rainy day account – also known as the Legislative Stabilization and Reserve Account (LSRA). With a skeptical and reluctant House as a ideological backdrop for dipping into the LSRA, the Senate President Phil Nicholas commented that “everything is on the table, but it doesn’t make the discussion any easier” (Ibid.). In many ways, this year’s budget session continues two major themes from last year’s general legislative session where lawmakers became sensitized to falling oil prices ($222 million at the end of last year’s legislative session) and the (at least for the state’s democrats) disappointment caused by the failure to pass a Medicaid expansion plan.

**STATE OF THE ECONOMY**

**Budget Health of the State**

The January 2016 Consensus Revenue Estimating Group’s Revenue Forecast (CREG) strikes an ominous, cautionary tone. Because of falling oil and natural gas prices, Wyoming’s recent and relatively stable (and in many ways increasing) revenue stream has been dealt a powerful blow. So much so that at the beginning of the January 2016 Report, CREG’s co-chairs issued a cautionary note:

The state’s short-term revenue-generating ability is more pessimistic than this FY 2015-16 bottom-line implies. For example, between the time CREG members gathered oil price data for purposes of the forecasts in this report and finalization and publication of the report, the price of oil has declined approximately another 18 percent (CREG, 1, January 2016).

Specifically, in the January Report, sales and use tax forecasts were projected to decline in FY16 by 14.2% year-over-year, while severance taxes deposited into the state’s general fund are expected to decline by 15.4% over the same period. Not surprisingly, Wyoming’s major revenue malfunction is connected to the rapid drop in oil and gas prices. CREG reduced the estimates for Federal Mineral Royalty receipts for the same reasons that severance tax estimates were cut.

According to CREG, the most significant change to this year’s quarterly forecast (from the October 2015 forecast to the January 2016 forecast) is the “significant change to natural gas prices (January 2016, 5). In addition, CREG notes that the “supply/demand imbalance prominent in both natural gas and oil has been magnified in natural gas due to the unusually mild weather to this point in the heating season” (2). Specifically, the amount of natural gas in storage around the country was 17.2% above last year and 14.6% above the five-year average (Ibid.).

Further adding to Wyoming’s financial woes, demand for coal has decreased through the fall of 2015. In part, this is due to the abundance of inexpensive natural gas available to power producers and the concomitant basket of increasingly costly environmental regulations placed on coal users.

Total general fund revenues (all sources) are expected to decline over the next two biennium relative to current amounts. Here, using FY16 as the baseline, FY18 will show a decline of 17.3% and FY20 will show an increase of 3.4% from FY18, but a decline of 14.5% from current (FY16) levels.

 Wyoming’s economy tends to run counter to the economic trends experienced by the national economy. As the nation booms, Wyoming’s economy lags behind. As the nation’s economy cools, Wyoming’s fiscal situation often improves. Currently, Wyoming's economy remains supported by three primary industries: extractive industries such as minerals/oil/gas, agriculture, and tourism. Projections indicate that despite lower prices the mining sector will continue to be an important contributor to the Wyoming economy, with few other sources of income available.

Luckily, much of Wyoming was spared from the sub-prime mortgage woes that impacted many other parts of the country over portions of the previous decade. Wyoming never experienced the housing “boom” and, therefore, never experienced the full force of the housing “bust.” Unfortunately, the instability of oil and natural gas prices continue to cloud Wyoming’s budgetary landscape. Oil production is forecast to be steady in the very near term, natural gas production slightly down, with coal and trona production predicted to be steady.

One of the most important sources of income for the Wyoming budget is the Permanent Wyoming Mineral Trust Fund (PWMTF). In 1975, when the Trust Fund was first established, the intent was to provide a much-needed stabilizing force during the creation of the biennial budget (the PWMTF was created by a constitutional amendment passed in 1974). Interest from the Fund was to be utilized as a relatively consistent and predictable revenue source for the General Fund, the state’s main operating account. Legislators viewed this as something vitally necessary for the boom and bust cycles inherent in an economy built largely on mineral extraction (Western, 2012). As of December 31, 2015, the market value of the Fund sits at $7.03 billion (Wyoming State Treasurer, 2015, 1). Significant revenue in the recent years of the boom cycle, when natural gas prices reached an all-time high, was diverted to the Fund in an effort to increase its corpus and hedge off the effects of the bust cycle. Article 15, Sec. 19 of the Wyoming Constitution guarantees that a tax of 1.5 percent be imposed on the value of all minerals extracted and that this tax flow automatically into the Fund, but an additional 1% tax is currently deposited there at lawmakers discretion (Wyoming Constitution). In terms of the value of all severance tax dollars collected each year, of those, roughly 40 percent are deposited directly into the PWMTF, the remainder are directly allocated to the general fund budget (see, for example, Graph 1) (CREG 2015).

**Graph 1**

(source: CREG January 2016, Table 4).

**Graph 2**

(source: Source: CREG January 2016, Table 2)

A number of economists indicate that the percentage of revenues earned from the PWMTF, going to the General Fund, is relatively high. Here, according to Boettner, Kriesky, McIlmoil, and Paulhus (2012), only Wyoming and North Dakota deposit all fund earnings into their general fund (11). Current sentiment is that Wyoming simply has no other stable revenue stream available at this time. Samuel Western’s analysis “shows that from 1987-2011, interest from the PWMTF has supplied an average of 18.6% of the general fund revenue” (Western, 2012), with that figure climbing to 27.6% in 2014, 25.3% in 2016, and dropping back to 16.5% by 2018 (CREG, January 2016). Related, direct severance tax collections accounted for an additional 20% during Western’s analysis, with a slight dip to 16% in 2014, 14.7% in 2016, and 16.7% in the 2018 biennium.

As Gregory Nickerson notes, “the Permanent Mineral Trust fund has grown by 55 percent over the past four years” (12/2/14). Some argue this has created an attitude of complacency within the state in terms of economic and tax diversification. There seems little incentive to diversify the economy more with the relatively high percentage of interest from the WPMTF used for the General Fund. Indeed, when measuring economic diversity using the Hachman Index (HI), compared to the United States as a whole, Wyoming has the least economically diverse economy in the nation (with Alaska – energy, Nevada – tourism, West Virginia, and Oklahoma finishing the top five (Boettner, et al., 2012, 4).

In addition to the PWMTF, the state has a Legislative Stabilization and Reserve Account (LSRA). The so-called “rainy-day” account is projected to have a balance of $1.8 billion as of June 2016 (CREG, October 2015, iv), with an informal proposed savings goal of $2.5 billion by 2018 (Nickerson, 12/02/2014). One continuing concern over this fund is its “appropriate size” (Brown, 3/7/15). Some legislators maintain that this fund should amount to a full biennium’s expenses, which would put the target size at $3.3 billion (Brown, 3/16/14). Mary Throne, the House Minority Floor Leader, worried about the growing size of the savings account and suggests that the state could “use the money for immediate needs” rather than plow it into this type of savings (Ibid.). The hope is that over the next few years the state will take a look at how much this savings account should hold and what is needed to stabilize short-term revenue requirements.

**Graph 3**

(source: CREG January 2016, Table 2)

 In terms of the Wyoming tax structure, much of the state appears to be "business-friendly" and continues to have a supportive business environment. According to the Tax Foundation, the State Business Tax Climate Index (2016) continues to rank Wyoming first overall for its State Business Tax Climate (ranking South Dakota 2nd, Alaska 3rd, and Florida 4th, Montana 6th, and Utah 9th). The Small Business and Entrepreneurship Council’s latest (2014) Business Tax Index shows Wyoming ranks fourth, behind South Dakota (1st), Nevada (2nd), and Texas (3rd) (SBE Council, 2015).

Currently, Wyoming collects no tax on intangible assets (bank accounts, stocks, or bonds), no tax on retirement income earned and received from other states, and the state collects no personal income tax, corporate income tax, or business inventory tax. According to the Business Tax Index, until 2014 Wyoming had the second lowest state gas tax of $0.14, just behind Alaska ($0.08), but is now mid-pack (21st) with an additional ten cents on top of the fourteen. In addition, Wyoming is 46th for unemployment taxes, 44th for property taxes as a share of personal income, and 43rd for sales and excise taxes as share of personal income (SBE Council, 2015). According to the Beacon Hill Institute, Wyoming has the lowest electrical prices per million BTU and according to Dun and Bradstreet, the second lowest business failure rate (WY Sheridan Works, 2013). Furthermore, the state only began taxing the mineral industry in 1969. With no personal or corporate income tax and relatively low fuel taxes, however, Wyoming is more reliant on the few taxes it does have and becomes more susceptible to price fluctuations for those commodities that it does tax. In addition, the state becomes more reliant on property and sales taxes to fund the costs of state and local government (and these taxes tend, therefore, to be higher as noted above).

 Because Wyoming’s economy is only loosely tethered to the rest of the country’s economic condition, the state missed most of the recent recession. Historically, Wyoming lags behind the nation in entering recession, as well as in pulling out of it and the state’s economy has not been as negatively affected here as it has been elsewhere. The past decade has been a period of incredible growth in Wyoming, with job growth close to 30 percent since 2001 and state government revenue doubling. Indicative of some continued economic growth, in 2014 the Goss Institute for Economic Research published the state’s “business conditions index.” Wyoming registered a 55.8 (down from last year’s 59.4). According to the publishers, a number greater than 50 still points to an expanding economy over the next three to six months. By way of comparison, Utah’s October 2014 number was 50.9 and Colorado’s number for the same month was 44.9 (Goss Institute 2014).

**ENERGY**

**Natural Gas**

According to the October 2015 CREG Report, natural gas will continue to be a significant contributor to Wyoming’s mineral revenue stream, accounting for 30 percent of the state’s total severance tax distribution in 2015 (Table 6). This places natural gas as the third largest income producer among the top three (oil, coal, and natural gas). The price for natural gas in 2015 landed at $3.80/mcf and is expected to stabilize at 4.00/mcf by the end of 2016. Production, too, is projected to decline slightly year-over-year, but should stabilize again in 2016 in the area of 1.7 Tcf for the next five years. Each $1 change in the price per mcf of natural gas equals approximately $120 million (up or down) in the state general fund. According to one analysis, natural gas prices are the manic-depressive of the state’s commodities (Western, 2012). Unfortunately for Wyoming, changing natural gas prices coupled with variable demand keeps the legislature on pins and needles.

**Oil**

Crude oil is the second largest contributor to the state’s mineral taxes, accounting for 32.5% of the total severance tax distribution in 2015. Oil production increased in 2014 nearly 20% and increased again in the first half of 2015 by another 19%. Although CREG reduced the projected price of oil, Wyoming oil production to date has been stronger than levels projected in October 2015 (CREG, January 2016, 3). Further, oil rigs in the state have declined from a high of 36 in September 2014 to 11 in September 2015. Wyoming monthly oil production peaked in March 2015 (250,000 barrels/day). Important for Wyoming oil development, prices for Wyoming crude are between $7 and $10 lower than West Texas Intermediate prices. Regardless, production rates are expected to decline in 2016 by 14.5%, and another decline of 6% in 2017, and yet another 3% in 2018 (CREG, October 2015).

**Coal**

After seeing its production decline in 2009 for the first time in a decade, Wyoming’s coal industry bounced back starting in 2010 and 2011 as prices and demand regained strength along with the national economy. Since then, Wyoming coal production has remained relatively steady over the last few years with 2015 production levels near 375 M tons and with prices expected to also stabilize near $13.50/ton in 2015 and beyond. This predictability in both price and production is being attributed to the idea that as natural gas prices begin to climb, power generation plants will switch back to coal from natural gas (see Table 1). The expectation is that coal will remain the largest contributor of mineral severance taxes to the Wyoming budget throughout the next decade (see Appendix Table 2).

**Trona**

Little known, Wyoming has the largest deposit of trona in the world (trona is a compound processed into soda ash or baking soda). Making up approximately 2.4% of the state’s severance taxes, trona production levels are expected to be relatively stable for at least four more years. Prices are expected to stabilize at $75 per ton generating a smaller portion, but yet much needed severance tax revenue (CREG January 2015) (see also Table 1 for mineral production estimates).

**Table 1**

**Price and Production Level Assumptions for Major Mineral Commodities**

Crude Oil Natural Gas Coal Trona

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Year | Price  | Production | Price | Production | Price | Production | Price | Production |
| 2014 | $80.00 | 74,900,000 | $4.70 | 1,925,000,000 | $13.50 | 385,000,000 | $75.00 | 20,000,000 |
| 2015 | $40.00 | 85,000,000 | $2.75 | 1,976,000,000 | $13.50 | 375,000,000 | $75.00 | 20,000,000 |
| 2016 | $42.00 | 75,000,000 | $2.85 | 1,929,000,000 | $13.50 | 365,000,000 | $75.00 | 20,500,000 |
| 2017 | $50.00 | 67,000,000 | $3.00 | 1,891,000,000 | $13.50 | 360,000,000 | $75.00 | 20,500,000 |
| 2018 | $55.00 | 65,000,000 | $3.30 | 1,853,000,000 | $13.50 | 360,000,000 | $75.00 | 21,000,000 |
| 2019 | $55.00 | 65,000,000 | $3.35 | 1,816,000,000 | $13.50 | 360,000,000 | $75.00 | 21,000,000 |
| 2020 | $55.00 | 65,000,000 | $3.40 | 1,779,000,000 | $13.50 | 360,000,000 | $75.00 | 21,000,000 |

(source: CREG January 2016)

Related to the extractive industries, 2016 sales and use taxes were up from 2014 by slightly less than 1%, with a decrease expected for 2018 of 6% biennium-to-biennium (it is important to note that from 2010 to 2014 sales and use taxes, having grown along with the oil and gas industry, increased by 11% for that period). Spending associated with the mining industry was the main driver of both the previous increases and the expected decreases over the next decade.

**EMPLOYMENT**

According to the Wyoming Department of Workforce Services, Wyoming’s 2015 unemployment rate increased from 4.1 percent in November to 4.3% in December (1/26/2016). These numbers are slightly higher than a year ago, and still remain below the national average, according to the US Bureau of Labor Statistics, of 4.9 percent. In Wyoming, during a typical year, almost all county unemployment rates peak in January, and then decline through the spring and summer months, reaching their lowest point in August or September. The seasonal decline is expected each year due to the change in weather and associated job losses seen in the construction industry.

Until very recently, as the U.S. economy has slowly been improving, unemployment in Wyoming continued to fall due, in large part, to the “continuing growth in the state’s mineral and energy extraction industries, particularly in oil extraction endeavors across the state” (Chilton, 12/26/14). Even under the current environment, the extractive industry has been reticent to lay off workers because “in general, folks like to hang onto their workers because it’s hard to get them back” (Storrow, 1/7/16). By way of example, while output from Wyoming coal mines has fallen by 14% since 2011, employment in the industry has decreased by only half that amount, according to the U.S. Mine Safety and Health Administration (Ibid.). This is possible, in part, because the “low labor costs help make Wyoming coal more economically competitive with natural gas than its Appalachian and Illinois Basin competitors” (Ibid.).

A slightly different story exists, however, in the petroleum industry. Anadarko Petroleum announced in early March that “it will cut 17% of its corporate workforce (approximately 1000 employees across its operations) in an effort to navigate a prolonged drop in crude prices” (Storrow, 3/10/16). Anadarko is one of the most influential oil companies in Wyoming, and serves as a bellwether for understanding industry employment in the state. Indeed, Anadarko has “all but halted” its oil drilling program in Wyoming and sold off many of its assets in Salt Creek and Powder River Basin (Ibid.).

As noted in Table 2 (below), overall employment across the state is down 2.2%, with the major contributor being the mining and logging sector. The construction industry shows a decline due to the seasonal nature of that sector’s employment. Indeed, unemployment has risen across 8 of 12 employment categories.

Unemployment, despite remaining below the national average, did increase slightly from last year due to factors like students aging into the workforce (Ibid.). Despite recent employment growth, overall unemployment remains high compared to the period of 2005-2008 where total unemployment rates were in the 2-3 % range. This means that while employment growth has occurred in Wyoming, the state has yet to recoup the total job loss that occurred as a result of the recession in 2009 and 2010.

Table 2

December 2015 Wyoming Nonfarm Employment (Preliminary)

|  |  |  |
| --- | --- | --- |
| Category | Number of Jobs | 12-month % change |
| Statewide | 288,600 | -2.2 |
| Mining and Logging | 21,800 | -19.9 |
| Construction | 23,400 | -1.7 |
| Leisure and Hospitality | 35,600 | -1.1 |
| Professional/Business Services | 19,100 | 0 |
| Government | 72,400 | 1.5 |
| Trade, Transportation and Utilities | 53,800 | -3.1 |
| Manufacturing | 9,700 | -2.0 |
| Information | 3,700 | -2.6 |
| Financial Activities | 11,700 | 3.5 |
| Education and Health | 27,700 | 1.8 |
| Other | 9,700 | -2.0 |

(source: Bureau of Labor Statistics, http://www.bls.gov/eag/eag.wy.htm)

**DEMOGRAPHICS**

Wyoming, while still the least populated state in the nation, had the 14th fastest population growth from 2000 to 2010, but has now slowed considerably relative to the rest of the nation and is tied for 21st fastest with Tennessee, Maryland, and Alaska (U.S. Census Bureau, 2016). 2015 Census numbers show an overall increase in the state’s population from April 1, 2010 to July 1, 2015 of 4.0 percent with a total population of 586,107 (Census Bureau Quickfacts 2016). Much of the state’s population increase over the last few years can be attributed to the recent job growth, the bulk of which has taken place in the oil and natural gas industry. However, for the first time since 2001, between July 2013 and July 2014, Wyoming’s net migration was nearly 2,200 people outward – but the state’s total population grew by just 930 when accounting for natural births and deaths. This recent outmigration is tied to the energy sector – namely, the drop in natural gas prices and subsequent loss of jobs in that portion of the state’s energy sector” (Chilton, 12/27/14). Adding to this trajectory is the fact that “other states with lots of mineral extraction industries like Colorado, North Dakota and Texas were really expanding fast during that period” (Ibid.). However, as Sweetwater’s County Board of Commissioners Wally J. Johnson noted “people who don’t have jobs, they have to go wherever those jobs might be” (Woodall, 12/19/15).

The median age in Wyoming has climbed over the last three decades from 32.1 (1990) to 36.2 (2000) and then 36.8 in 2010, according to the U.S Census Bureau 2012). The “graying of Wyoming” has slowed, but this trend is not expected to last. The population of person’s over the age of 65 continues to increase slowly but steadily, showing an increase from 12.7 percent in 2011 to 13.1 percent in 2012, and another increase to 13.5 percent in 2013, and yet another increase to 14.0 percent in 2014 (see Graph 4). The rise in the overall median age is kept in check by increased employment in the oil and gas industry, which is now on the decline. As this employment sector slows (and overall employment growth slows), Wyoming is expected to return to previous trends where younger populations out-migrate, leaving behind older workers (U.S. Census Bureau 2016). And another category of population growth is the number of uninsured. According to Kerry Drake, “Wyoming is the only state that has seen an increase in its uninsured population from 2013 to 2015” (Drake, 9/1/15). A new Gallup survey found that Wyoming’s uninsured rate has gone up 1.6% since the Affordable Care Act went into effect (Ibid.).

**Graph 4: The Graying of Wyoming**

**POLITICAL COMPOSITION OF STATE GOVERNMENT**

Wyoming has a strong conservative history. Eight of the ten territorial governors were Republican and of the thirty-one governors the state has seen, eighteen have represented the GOP (National Governors Association, 2014). For the last two decades Republican state legislators have outnumbered Democrats by at least six to one—as of today (the 63rd Legislature) there are 51 Republicans and 9 Democrats in the state House and 26 Republicans and four Democrats in the Senate. This partisan distribution is not surprising. According to the Secretary of State’s Office (2016), as of March 1, 2016, of the state's 201,637 registered voters, 139,955 (69.4 percent) were Republican, and 39,050 (19.4 percent) were Democrat, with the remainder classified as Constitution, Libertarian, unaffiliated, or “other” (Secretary of State). In addition, the state has a Republican governor, replacing a Democrat who was term limited. In the last general election in 2014, Republicans maintained all five of the top state elected positions and control both Houses with an overwhelming majority. With the November 2016 election on the horizon, all Wyoming House members will be up for reelection along with Senators from even-numbered districts (4-year term). Indeed, Republicans hold (and are expected to maintain) every statewide office.

In terms of gender balance, according to a new report from the National Conference of State Legislators and the Pew Charitable Trusts, “only 13% of Wyoming lawmakers are women, with just one woman serving in the Senate” (Woodall, 12/1015). Nationally, 24% of state lawmakers are women (Ibid.).

**Table 3: Political Composition of State Government**

Session 63rd 62nd 61st

Year 2015-2016 2013-14 2011-2012

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Dem | Rep | Dem | Rep | Dem | Rep |
| Governor |  | \* |  | \* | \* |  |
| House | 9 | 51 | 8 | 52 | 10 | 50 |
| Senate | 4 | 26 | 4 | 26 | 7 | 23 |

In the spirit of Wyoming's part-time "citizen legislature," Wyoming legislators may meet for *not more than* sixty days in odd numbered years, although the governor may convene additional days for special sessions. Every other year, twenty days are reserved for the budget session (occurring in even numbered years). Furthermore, Wyoming legislators do not maintain offices in the Capitol, and rarely do so in their home districts. Instead, they have a desk on the chamber floor and possibly a file cabinet in a committee meeting room. Legislators also lack the resources of a personal staff. The Legislative Services Office (LSO)—a non-partisan central office—and temporary session staff are used in lieu of individual professional support personnel. The LSO staff evaluates executive branch programs, provides technical support, and audits school finances. The Legal Services Division of the LSO provides general and legal research in addition to drafting bills for committees and individual legislators. The LSO’s Budget and Fiscal Section provides support to the Joint Appropriations Committee (JAC) and to the rest of the legislature on budget matters and general state expenditures. The manager of this section also serves as co-chair of the state’s Consensus Revenue Estimating Group (CREG). CREG is responsible for projecting state revenues from the general fund, mineral severance tax, federal mineral royalties, and the Common School Land Income Account, and for the state’s assessed property valuations.

**THE BUDGET AND MAJOR CURRENT ISSUES**

 During this year’s budget session, elected officials approved a $3 billion, two-year budget (down from the $3.5 billion budget two years ago). Prior to signing the budget bill, Governor Matt Mead vetoed more parts than he has in past spending measures, and although still finding fault, signed the bill into law. As Hancock noted, “facing a projected revenue decline of about $477 million over the next two years, lawmakers reduced state agency budgets and slashed some programs. They did not lay off state employees or raise taxes during the 20-day session” (3/5/16). In reducing state agency budgets, the legislature cut most agencies’ budgets by 1.5% over the next two years and spent $221 million from the state’s $1.8 billion rainy day account to balance the remainder. Importantly, Steve Harshman (chairman of the Joint Appropriations Committee) notes that this budget is still $70 million more than it was two years ago” (Ibid.).

 Perhaps the most hotly contested budget-related issue this year was the idea of Medicaid expansion and the failure to secure enough votes for passage. Even the governor (a conservative Republican) was disappointed that these efforts failed. Here, Mead notes, “it’s no secret that I don’t like the budget as it is because it starts out with not accepting Medicaid. And when we failed to accept Medicaid, you immediately have to take off the top about $30 million dollars” (Hancock, 3/3/16). Having originally opposed Medicaid expansion in previous years, Mead realized that accepting $270 million in federal dollars would have helped the Department of Health save money on programs that it already provides (i.e., saving the $30 million that the governor references earlier). In addition, this expansion would have offered health care to an additional 20,000 low-income adults in the state. State Republicans remain opposed to the Affordable Care Act and have let Washington know by limiting Medicaid expansion (Ibid.).

A few spending highlights from this year’s budget bill include:

* $150 million for improvements to the Wyoming State Hospital and Wyoming Life Resource Center in Lander.
* $40 million (over three years) for a future state office building in Casper.
* $100 million (over three years) for a new biological sciences building at UW.
* $12 million for penitentiary expansion
* $7.5 million for state prison repairs
* $240 million in federal abandoned mine land money for highway construction and mine reclamation
* $8 million match for UW “athletic competitiveness”

And in a new form of revenue, which was approved during the last legislative budget session (2014), the new Wyoming lottery’s ticket sales have been brisk since its August 2014 start date. Over the last six months the lottery has sold more than $6.5 million worth of tickets, with individual players winning more than $843,000. Until mid-January 2015 players have had access to only the two largest multi-state lotteries (Powerball and Mega Millions). Now, players have access to state-level games where Wyomingites will compete against other Wyoming lottery players (which, apparently, is something that consumers have asked for) (Chilton 2015).

The new lottery began with a $2.6 million private loan to get it up and running. By January 30, 2016 the Wyoming Lottery Corporation had made its final startup loan payment and has announced that its first revenue transfer to the state coffers will be $1 million in April 2016 (WyoLotto, 2016). Once the private loan is paid off, according to lottery CEO Jean Clontz, the law requires [the lottery] to pay up to 50 percent of the revenue back to the players in prizes, then we pay operational costs” (Chilton 2015). According to WyoLotto, the first revenue transfer to the Wyoming Treasurer’s Office came faster than expected. In part, this was due to the increased ticket sales for the huge 1.6 billion Powerball jackpot in late 2015. The $1 million will be distributed to the 99 cities and towns and 23 counties across Wyoming based on the formula developed in state statute. Additional payments will follow once each quarter, up to a maximum of $6 million per year. Anything above that amount will be placed into the Wyoming Permanent Land Fund’s Common School Account (Ibid.). So far, Wyoming lottery players have won $11 million and commissions have been paid to retailers in the amount of $2.38 million. Each retailer receives 6 percent commission on ticket sales and a 1 percent commission on validated winning tickets (Ibid.).

**THE BUDGETING PROCESS**

 Appropriating public funds is one of the greatest challenges faced by the Wyoming State Legislature. Budget requests are prepared by agencies in conjunction with the Budget Division of the Department of Administration and Information. Each summer prior to a budget session, the Budget Division prepares a standard request for each agency to submit to the governor. This template contains budget figures that are roughly equivalent to the amount the agency received in the prior biennium with adjustments made for fund transfers and changing revenue streams. After the agency reviews this standard outline they may make “exception” or “expanded” requests if changes in funding are necessary to: 1) maintain current levels of service, 2) transfer funds from intra-agency programs, or 3) expand services.

 Once the requests are completed, agency budget requests are returned to the Budget Division in the fall (September or October). A package of agency requests is then presented to the governor. The governor compares the agency request with revenue forecasts developed by CREG. Next, the governor, in conjunction with the Budget Division, prepares his budget recommendations to give to the legislature. This can take place no later than the first of December, prior to the beginning of the budgeting session. It is interesting to note that the budget requests for the legislative and judicial branches are not included in this package – they are submitted separately.

 The governor’s budget request is analyzed by the LSO. The LSO’s “detailed reports” help the Joint Appropriations Committee (JAC) review agency requests while its “summary reports” provide the committee with an overview of the administration's total request, taking into account forecasted revenues. The JAC—a bipartisan committee made up of members of both chambers—meets in December or January prior to the budget session to hold agency budget hearings. During these hearings, agency heads present their department's achievements, goals, and action plans, along with detailed explanations of their budgets. Although the JAC will ask questions during this time, formal action is not taken. After hearings with all of the agencies, the JAC examines each budget, program-by-program, resulting in a recommendation to approve, deny, or adjust the agency’s funding request. Although this hearing/recommendation process takes four or five weeks, this procedure expedites the short legislative budget session. After the JAC finishes its preliminary budget work, the LSO’s budget staff writes two identical general appropriations bills for concurrent introduction into both the Senate and the House. Sections of each bill are then assigned to JAC members for explanation on the floor of each chamber.

 The budgeting process in Wyoming makes it difficult for ordinary citizens to learn about how the state handles its finances. Like other states, it must balance its budget every year. Yet the money available to the legislature in a given year is difficult to determine in advance, and can be manipulated by the legislature itself. Having billions of dollars in a trust fund is a boon to the state budget each year, but it also means that the amount of money the fund earns varies based on larger, national market forces. Wyoming legislatures can have increased revenue to spend, while cutting taxes, if the trust fund’s returns are high. Conversely, lawmakers can find themselves pinched, despite their efforts to raise revenue, if the markets cause a drop in the trust fund’s return.

 The complexity of these budgeting factors is illustrated almost every year when the legislature seems to “find” money in the multitude of state accounts. This state of affairs is perhaps exacerbated by Wyoming’s tradition of having citizen legislatures, who are perhaps unable to devote the time or resources to investigating the budget in as much detail as they would like.

**SUMMARY AND CONCLUSION**

This year’s twenty-day legislative budget session was completed on time and clearly anchored to the precipitous decline in crude oil and natural gas prices. As a result, the state placed into law a budget that was almost 14% lower than the last biennium. With a price slide expected throughout the near- and mid-term future, Wyoming’s revenue estimating group was more pessimistic than usual. The most recent quarter-over-quarter projections prompted the co-chairs to write “the state’s short-term revenue-generating ability is more pessimistic than this FY 2015-16 bottom-line implies” (CREG, January 2016, 1). The state’s rainy-day fund was tapped for $180 million to get revenues in line with spending this year, but much hand-wringing remains over how to best utilize this fund and what constitutes a day of rain. In essence, what are the conditions under which this fund can be tapped? What is the appropriate size? And shouldn’t Wyoming have a policy to guide these decisions? The general idea that the size of the LSRA should match one biennium of spending is a start, but which biennium? If it were the FY16 biennium that amount would equal $3.5 billion. If it were the FY18 biennium that amount would equal $3 billion.

 Others argue that there is “no justification for getting the fund up to that level. We have no justification for one full biennium’s worth of savings” said House Minority Floor Leader Rep. Mary Throne (Brown, 3/16/14). In part, the reason for the concern is that the LSRA earns lower interest than the PMTF, which itself earns approximately 5%. To this last point, during the most recent 2105 legislative session, elected officials passed a bill that would allow a potential constitutional amendment be placed on the 2016 ballot allowing for the state to invest this rainy-day fund (and other accounts) in stocks and equities in the same way that the PWMTF can. The idea is that millions are lost each year to the strict investment practices currently allowed by law (Brown, 12/19/14). In the end, Benjamin Storrow is right that “Wyoming lacks a plan that outlines when and how to spend money from the rainy day fund (LSRA). The state needs a policy that outlines how the reserves are spent” (10/7/15).

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Appendix

Table 1

General Fund Revenues

Fiscal Year Collections by Source

(in thousands)

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Fiscal Year | Severance Tax | Sales and Use Tax | PWMTF Income | Pooled Income | Charges- Sales and Services | Franchise Tax | Revenue from Others | Penalties and Interest | Federal Aid and Grants | All Other | Total |
| 2010 | $226,995 | $412,845 | $139,451 | $117,296 | $33,255 | $23,806 | $21,432 | $13,963 | $10,686 | $46,344 | $1,046,072 |
| 2011 | $230,313 | $470,906 | $215,756 | $90,719 | $35,503 | $23,211 | $29,554 | $12,001 | $11,388 | $55,716 | $1,175,066 |
| 2012 | $221,153 | $497,684 | $235,847 | $112,353 | $38,219 | $24,446 | $7,603 | $11,230 | $10,066 | $45,244 | $1,203,844 |
| 2013 | $210,280 | $481,431 | $366,636 | $189,834 | $38,868 | $26,889 | $6,346 | $9,304 | $0 | $51,616 | $1,381,205 |
| 2014 | $234,557 | $521,103 | $395,337 | $86,425 | $41,170 | $36,257 | $5,865 | $11,536 | $0 | $50,126 | $1,382,377 |
| 2015 | $200,734 | $544,030 | $494,234 | $114,227 | $43,580 | $39,314 | $7,111 | $11,441 | $0 | $54,417 | $1,509,089 |
| Projected |  |  |  |  |  |  |  |  |  |  |  |
| 2016 | $169,800 | $466,800 | $143,600 | $85,000 | $43,700 | $33,900 | $6,800 | $11,400 | $0 | $52,600 | $1,013,600 |
| 2017 | $171,700 | $470,500 | $166,300 | $75,200 | $43,700 | $33,900 | $6,800 | $11,400 | $0 | $52,600 | $1,032,100 |
| 2018 | $175,700 | $479,100 | $176,700 | $72,200 | $43,700 | $33,900 | $6,800 | $11,400 | $0 | $52,600 | $1,052,100 |
| 2019 | $178,300 | $491,600 | $185,700 | $70,900 | $43,700 | $33,900 | $6,800 | $11,400 | $0 | $52,600 | $1,074,900 |
| 2020 | $178,100 | $498,500 | $191,700 | $69,800 | $43,700 | $33,900 | $6,800 | $11,400 | $0 | $52,600 | $1,086,500 |

Source: January 2016 Wyoming CREG Report. http://eadiv.state.wy.us/creg/GreenCREG\_Jan16.pdf

Table 2

Mineral Severance Taxes to All Accounts

Fiscal Year Distribution by Mineral

(in thousands)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Oil | Gas | Coal | Trona | Others | Total |
| 2010 | $173,078 | $468,964 | $269,081 | $14,090 | $2,748 | $927,961 |
| 2011 | $204,335 | $427,092 | $294,279 | $15,555 | $4,038 | $945,298 |
| 2012 | $236,554 | $342,373 | $293,110 | $17,170 | $4,502 | $893,709 |
| 2013 | $238,395 | $296,789 | $282,081 | $18,257 | $4,311 | $839,833 |
| 2014 | $322,191 | $340,431 | $274,042 | $18,488 | $4,499 | $959,651 |
| 2015 | $256,105 | $237,010 | $269,521 | $18,864 | $5,443 | $786,943 |
| Projected |  |  |  |  |  |  |
| 2016 | $163,400 | $181,100 | $257,000 | $18,200 | $5,500 | $625,200 |
| 2017 | $170,700 | $186,800 | $253,500 | $18,500 | $6,100 | $635,600 |
| 2018 | $181,600 | $197,200 | $251,500 | $18,700 | $6,900 | $655,900 |
| 2019 | $187,600 | $204,000 | $252,100 | $18,900 | $7,100 | $669,700 |
| 2020 | $187,600 | $202,900 | $252,900 | $18,900 | $7,100 | $669,400 |

(source: Revenue Forecast January 2016)

1. Statement made by Gov. Matt Mead to the Wyoming Senate just prior to the conclusion of this year’s legislative session. [↑](#footnote-ref-1)