S&P Global Ratings

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Wyoming; General Obligation

Primary Credit Analyst:
Savannah Gilmore, Englewood + 1 (303) 721 4132; savannah.gilmore2@spglobal.com

Secondary Contact:
Rob M Marker, Englewood + 1 (303) 721 4264; Rob.Marker@spglobal.com

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Credit Highlights

- S&P Global Ratings revised its outlook to positive from stable and affirmed its 'AA' issuer credit rating (ICR) on the State of Wyoming.
- The positive outlook reflects the state's robust budgetary performance over the current biennium, including projections to finish with surpluses and boosting its already high reserves over the past two years, in addition to increasing its permanent funds, which we believe helps mitigate fluctuations from the state's cyclical revenue base.

Credit overview

Wyoming's credit profile is strengthened by its historically very strong fund balances and reserves, which is an important consideration in our view of the state's volatile revenue base, given its reliance on oil-, gas-, and coal-derived revenues. We believe the state's statutory ability to make midbiennium cuts, generally aside from education, provides it flexibility to navigate fluctuations in the mineral market. We view the economy as somewhat cyclical, as it is sensitive to fluctuations in energy prices and production. At the same time, Wyoming maintains a very low debt profile, and we expect its pension liabilities to be manageable over the medium term.

The state is approaching the end of its 2023-2024 biennium, which has exhibited strong revenue performance driven by robust mining production and energy prices. Specifically, natural gas had exceptionally strong prices over the course of the biennium. Currently, most of the state's major revenue sources are exceeding forecasts. The state projects to finish the biennium at fiscal 2024 year-end with a surplus in both the general fund and school foundation program fund, amounting to an estimated combined 10.5% surplus on a budgetary basis. At the same time, the state has continued to build up its reserves, with its combined budget reserve account (BRA), legislative stabilization reserve account, general fund, and school foundation program balances expected to be $2.5 billion at June 30, 2024, or a high 93% of combined budgeted general fund and school foundation program biennium appropriations on an annualized budgetary basis. This is an increase from an expected 70% at this time last year.

Wyoming's legislature adopted its budget for the upcoming 2025-2026 biennium in March 2024. The state increased general fund appropriations by 6.4% from the current biennium, and by 32% for the school foundation program fund. The notable increase in the school foundation program fund appropriations is largely driven by the consolidation of the school capital construction account into the school foundation program fund. The legislature added $100 million in energy matching funds for projects in excess of $50 million, and restored state funding toward Departments of Corrections, Health and Family Services following the usage of American Rescue Plan Act (ARPA) funding as revenue replacement in the previous biennium. The budget also includes modest capital construction investments and a one-time large capital expenditure related to kindergarten-through-grade 12 (K-12) education in the school foundation program fund. At the same time, the state expects its combined reserves will total $2.27 billion at biennium-end (June 30, 2026), or an estimated 72% of combined budgeted general fund and school foundation program biennium appropriations on an annualized budgetary basis. This does not include the state's permanent funds, including its Permanent Mineral Trust Fund (PMTF) and Common School Account within the Permanent Land Fund (CSPLF), both of which are generally unable to be spent, but provides steady investment income for the state. According to the 2023 audited comprehensive financial report (ACFR), the PMTF had $10.1 billion in cash and pooled investments and the CSPLF had $4.9 billion.

The state's latest Consensus Revenue Estimating Group (CREG) forecast was released in January 2024, and had limited revisions compared with its October 2023 forecast. The largest forecast revision was a general fund increase of $10 million in sales and use taxes. At the same time, CREG also slightly revised its forecasts for major mineral production and prices, which led to severance taxes to the general fund and the BRA decreasing by $4.8 million for fiscal 2024 and decreasing by $10.6 million by fiscal 2025. Crude oil severance tax revenues are projected to make up the majority of total mineral severance tax revenues across all funds in 2024 and 2025 (53%-54%), a shift from natural gas being the largest component in 2023 (41%), but more in line with recent historical trends.

Another notable change that took place in the 2024 legislative session was the state moving to actuarially determined contributions (ADCs) for the state's public employee pension plan. The move is scheduled to commence in fiscal 2027, and will be reflected in the next biennial budget. While the effort to jumpstart this effort to increase employer and employee contributions was vetoed by the governor, we view this legislative change as a positive step toward strengthening the state's pension funding discipline. We will continue to monitor how this change is incorporated in the next biennium, and we expect it could lead to more pension funding progress over time.

Currently, S&P Global Ratings' economists are forecasting steady U.S. real GDP growth of 2.5% in 2024, based on a sturdy labor market, and they still expect the economy to transition to slightly below potential growth in the next couple of years. Overall, we expect inflation will remain above the Fed's 2% target through 2024, primarily reflecting persistently higher service price inflation. We expect real GDP growth to be 1.5% in 2025 and 1.7% in 2026. For more information, see "Economic Outlook U.S. Q2 2024: Heading For An Encore," published March 26, 2024, on RatingsDirect. S&P Global Market Intelligence forecasts Wyoming's real gross state product (GSP) will continue to grow in 2024 and 2025, at 4.1% and 2.1%, respectively.

The ICR reflects what we view as:

- An economy based on mining, tourism, agriculture, and governmental employment that has been somewhat cyclical historically;
- The governor's strong statutory ability to make midbiennium cuts in the event of revenue shortfalls, as well as regular consensus revenue forecasting;
- Wyoming's historical maintenance of very large operating fund balances, despite the cyclical components of the state's economic and revenue base, enhanced by the existence of large permanent funds whose interest and capital gains earnings, up to 5% of principal, are available for general fund expenditures; and
- Low overall debt and low other postemployment benefits (OPEB) liabilities.

Offsetting factors include:

- History of cyclical revenue performance; and
- Annual retirement contributions that have been somewhat less than the annual ADC, which could change in the future given the state's recent legislative changes related to its main state employees' pension plan, combined with consistent reductions in what previously had been aggressive return assumptions that have contributed to a three-year average pension-funded ratio of 80%.

Based on the analytical factors we evaluate for states, on a scale of '1.0' (strongest) to '4.0' (weakest), we have assigned Wyoming an overall composite anchor score of '1.7', which is indicative of a 'AA+' rating; however, we have used the discretion allowed under our criteria for a one-notch downward adjustment to 'AA' from our anchor score, given the mineral industry's effects on the state's tax performance over time.

Environmental, social, and governance

Wyoming's dependence on the coal, oil, and gas mining industries for both the state's economic activity and its tax revenue could have an impact on budgetary performance in the long term. This is because the evolving federal regulatory landscape that encourages the transition to renewable energy sources from traditional carbon sources may negatively affect states with reliance on these industries for economic growth and major revenue sources. In 2023, 5.8% of Wyoming's nonfarm employment was in mining and logging, compared with 0.4% nationally. We believe its reliance on this sector for economic growth exposes the state to potential budgetary challenges, given that about 27% of the state's fiscal 2023 school foundation program fund and 26% of general fund revenue on a generally accepted accounting principles (GAAP) basis were derived from this sector. To date, the state maintains very large financial reserves, despite the volatility in revenues due to oil price performance. We believe social and governance factors are neutral in our credit analysis.

Outlook

The outlook reflects our expectation that there is a one-in-three chance we could raise our rating over the next two years. We expect that the state will continue to maintain available reserves at high levels, as well as preserving its large, stabilizing permanent funds to provide additional cushion that could mitigate fluctuations from the state's cyclical revenue base, and that it will take corrective budget action if budgetary pressure unfolds over the near term.

Downside scenario

Should the state experience significant budgetary pressure over the next biennium, leading to a material drawdown in reserves, we could revise our outlook back to stable. We could also lower the rating if deficits begin to emerge on a sustained basis, without resolutions to realign revenues with expenditures.

Upside scenario

We could raise the rating on the state if we anticipate it will maintain long-term structural balance, and that its reserve levels will remain very high to help mitigate Wyoming's historical swings in severance-related revenues.

Credit Opinion

Government Framework

Budget laws and procedures are set by statutory law, although the state constitution specifies that revenue bills must originate in the state house of representatives. Under statutory law, the governor must submit a balanced budget with a 5% reserve fund in even-numbered years, which the legislature has the opportunity to modify. However, there is no legal requirement for the legislature to enact a balanced budget. The legislature typically enacts statutory enabling legislation at the time of budget adoption requiring the governor to review revenues against budget, with authorization to reduce midbiennium expenditures if they determine that a midbiennium budget shortfall exists. The state constitution grants the governor a line-item veto authority over any bill making appropriations of money, which includes budget bills. The legislature also has the power to add supplemental appropriations during legislative sessions in odd-numbered years.

Except for a 12-mill constitutional limit on state property taxes, Wyoming has legal flexibility to raise taxes at its discretion, though it can assess only a maximum of 4 mills of the property tax for noneducational purposes. The state constitution does require that if Wyoming were ever to impose an income tax, that tax must include credits for sales and property taxes. Rents and other income earned from land grants dedicated to public school purposes are restricted for the use of schools in the common school account. A portion of federal mineral royalty income is also statutorily dedicated to school funding.

Wyoming has wide legal latitude to adjust disbursements, although state courts have ruled that the state constitution requires sufficient resources be available to deliver a proper educational "basket of goods and services" to each student. Therefore, Wyoming must provide each school district with a minimum state-determined foundation amount to help equalize school resources per student. This equalization of school resources up to the minimum standard includes equalization of school capital facilities, as well as of school operating revenues, although Wyoming has some discretion to set the overall level of school funding for both operations and capital facilities.

The state's PMTF is established by the Wyoming Constitution (Article 15, section 19) and receives a 1.5% mineral severance tax. In 2005, the legislature added an additional statutory 1.0% severance tax deposit to the PMTF (W.S. 38-14-801(b)) for a total of 2.5%. While the majority in the PMTF is unable to be spent, investment income is deposited into the general fund as unrestricted income. The state has a 5% spending limitation on interest and capital gains earnings from the fund. Wyoming also has a restricted common school account within the permanent land fund (CSPLF) that provides investment income for school expenditures.

Wyoming Constitution requires initiative petitions to have signatures equal to at least 15% of the voters in the previous statewide election, and to have signatures within each of at least two-thirds of the counties equal to least 15% of those who voted in that county in the previous election. Initiatives cannot dedicate revenue or make or repeal appropriations, and must be for a single subject, among other restrictions. In our view, the initiative process has not had a significant effect on state finances. Overall, we view it as very difficult to get on a ballot any measure that would have a material effect on the state's finances.

Wyoming has not had general obligation (GO) debt for many years, although it is permitted under the state constitution, if authorized by state referendum. GO debt, if issued, is limited to 1% of state assessed value, and debt may not be issued in excess of taxes for the current year. If GO debt were issued, S&P Global Ratings believes it is unclear what priority of payment it would have under the state constitution, although it would appear to be after payment of any dedicated tax bonds outstanding from its specifically pledged revenue streams.

On a scale of '1.0' (strongest) to '4.0' (weakest), we assigned a score of '1.9' to Wyoming's governmental framework.

Financial Management

S&P Global Ratings views Wyoming's financial management practices as good under our Financial Management Assessment (FMA) methodology. An FMA of good indicates financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them. The state uses extensive planning and analysis to devise revenue and expenditure assumptions, including those in the consensus revenue estimating group (CREG) forecast, as well as long-term profiles and modelling and more consistent measures of forecast prediction intervals incorporating historical error rates. The recently created state budget department provides monthly budget updates to the governing body, with the governor having the ability to make midyear reductions in appropriations to state agencies. Wyoming also makes multiyear budgeting and cash flow projections that are updated annually, with both the current and next two budget years being addressed. The state also implements a multiyear agency-level capital improvement program that is approved through the biennial budget process. The state's formal investment management policy provides regular reporting to elected officials, including the governor, and review by the Investment Funds Committee. In addition, the state maintains multiple reserve accounts with a 5% statutory reserve requirement within the BRA, also as specified in the governor's budget request. Although, we note that the legislature has not adhered to this requirement for the adopted budget on at least one occasion.

Budget Management Framework

A consensus revenue forecast is produced twice a year, and the consensus forecasting group also monitors and publishes a monthly update against the most recent revenue projection. The state budget office tracks monthly revenues against the biennial budget during the year, and can issue an alert that the governor will need to cut midyear expenditures, if necessary. The governor's ability to make midbiennium cuts is statutory, and is a routine provision in biennium budgets.

On a four-point scale where '1.0' is the strongest and '4.0' is the weakest, S&P Global Ratings assigned a score of '1.5' to Wyoming's financial management.

Economy

Historically, Wyoming's economy has tended to follow energy cycles, given the effects from coal, oil, trona, and natural gas mining and the influence it has on the state's economy. The state's economy also relies on agriculture and tourism, and Wyoming has the smallest population of any U.S. state (584,057). After weak population growth or decreases in the first half of the last decade, the state was in line with the country's population growth in 2020 and exceeded the nation in 2021 (0.33%, versus 0.16%). Most recently, the state has been slightly below the national growth rate, at 0.46 and 0.33% in 2023 and 2024, respectively (versus the nation's 0.49% and 0.38% in those years).

Mining and logging made up 5.8% of Wyoming's employment in 2023, notably above the overall U.S. level of 0.4%. However, the largest employment sector within the state is government at 23.7%, followed by trade, transportation and utilities at 18%, and leisure and hospitality at 13.2%. Since 2018, Wyoming's unemployment rate has either been below or in line with the U.S. unemployment rate. In 2023, the state's 2.9% unemployment rate was lower than the nation's 3.6%. The state's gross state product (GSP) per capita has exceeded the country's over the last three years, and most recently was 105% of U.S. levels in 2023. Wyoming's per capita personal incomes have also historically been above those of the U.S., and were 114% of U.S. levels in 2023.

The state has had multiple economic development projects underway across industries, including wind development projects, trona mining expansions, uranium mining, data expansion and development, and the potential for rare earth developments. A major project underway includes the buildout of the TransWest electric transmission line, Chokecherry's wind project, and TerraPower's natrium nuclear power plant. We view these ongoing developments as favorable, especially their spread across industries.

On a scale of '1.0' (strongest) to '4.0' (weakest), we assigned a '2.4' score to Wyoming's economy.

Budgetary Performance

At the start of the pandemic, Wyoming had been forecasting sizable deficits, largely driven by both sales tax and severance tax performance. As the pandemic progressed, however, the state found itself recognizing material revenue growth and surpluses. Strong oil and gas prices, including better-than-expected natural gas prices, led to very strong performance throughout the current biennium (2023-2024). Fiscal 2023 ended with a 41% combined surplus in the general fund and foundation program fund, prior to transfers, on a GAAP basis. The state is budgeting to finish the biennium, which will be the fiscal 2024 year-end, with surpluses in both the general fund and school foundation program and $2.5 billion in the combined BRA, legislative stabilization reserve account, general fund, and school foundation program balanced, or a high 93% of combined budgeted GF and school foundation program biennium appropriations on an annualized basis.

We believe these extraordinary reserve balances are important for the state's credit profile, as they provide flexibility for the state when there are energy-driven downturns that affect state revenues. On a GAAP basis, the state derived 27% of its school foundation program fund revenues from federal mineral royalties, which are revenues distributed back from the federal government for mineral production in the state. In total, about 26% of revenues were derived from mineral severance and royalty taxes and federal mineral royalties in the general fund. Other major general fund revenue sources in 2023 were sales and uses taxes, which represented 18.6% of revenues on a GAAP basis, followed by investment income (14.9%), largely driven by the state's permanent funds, which we believe provides a stabilizing factor to its revenues that somewhat mitigates fluctuations in oil and gas prices.

Schools are funded from a separate school foundation program fund, which also receives revenues from the following sources: a 12-mill state property tax, motor vehicle registration fees, royalties from a portion of federal land mineral royalties, trust fund earnings from the common school account (which receives rents and royalties from common school account dedicated land grants), and general fund appropriations for schools. Because of large fund balances and recent increases in oil and gas prices, Wyoming has not had to increase tax rates in recent years. The state constitution requires sufficient resources be available to deliver a proper education "basket of goods and services" to each student. Court cases have ruled that Wyoming must provide each school district with a minimum state-determined foundation amount to help equalize operating resources per student. A court case in 2001 also required the state to equalize school district funding by providing adequate capital resources for school facilities.

While the state had been facing deficits in the school foundation program fund in six out of the last seven audited years, it recognized a large surplus in 2023 on a GAAP basis. The state's strong severance tax performance, as well as robust property tax performance, led to the substantial surplus. The state projects finishing the 2023-2024 biennium with an overall surplus in the fund. The state is also projecting a $231 million deficit in the school program foundation fund in the 2025-2026 biennium, driven by a multitude of factors, including a one-time transfer to the Common School Permanent Land Fund Reserve Account of $215 million, a one-time large capital expenditure for a new high school, and property tax relief. Given that a majority of the actions were related to one-time actions, we view this as manageable with the state's larger beginning fund balance, but we will be closely monitoring whether deficits become recurring, which could weaken our view of the positive pressure on the state's credit profile.

In addition, the PMTF is required under the state constitution to receive a 1.5% mineral severance tax, the corpus of which is preserved under this constitution, with income from it equal to 5.0% of the five-year average market value amount currently dedicated to the general fund on an unrestricted basis. This fund held $11.3 billion as of February 2024. Wyoming also has what we consider a strong cash position and high liquidity. If necessary, Wyoming can interfund borrow from a common cash pool. The state has reported that it forecasts cash flow and monitors it on a regular basis.

We believe Wyoming has wide latitude to adjust services, other than local education, and expenditures are more predictable, in our opinion, than mineral-based tax revenues. The legislature has routinely granted the governor the power to make unilateral midbiennium cuts in appropriations to the extent that revenues are below budget. We view this as another tool benefiting the state with expenditure flexibility when revenue performance pressures the budget.

Fiscal 2023 audited results

According to audited financial statements for fiscal 2023, the general fund finished with a combined school foundation program and a $468 million surplus net of transfers, or 12.8% of combined expenditures. The state increased its combined unassigned and assigned balance for both funds from $3.5 billion in 2022 to $3.6 billion in 2023, or a very strong 98.4% of combined expenditures. Additionally, the state's total combined general fund and school program foundation fund balance increased from $4.3 billion in 2022 to $4.8 billion in 2023.

On a scale ranging from '1.0' (strongest) to '4.0' (weakest), we have assigned a score of '1.6' to Wyoming's budgetary performance.

Debt And Liability Profile

Wyoming's low debt profile strengthens its overall creditworthiness. There is no state GO debt, and state tax-supported debt at fiscal year-end consisted of $4.8 million in revenue bonds secured by federal mineral royalty payments. In addition, our debt profile incorporates leases. Debt service as a percentage of general governmental spending was a low 1.0% in 2023, and tax-supported debt per capita was an also low $337. We note that both of these figures recognized increases recently as a result of Governmental Accounting Standards Board (GASB) 87's implementation, which materially increased the state's lease liabilities. Correspondingly, the state's debt amortization went from very rapid to rapid. However, we understand that the increase was primarily driven by long-term office leases, and the change does not materially alter our view of the state's debt profile.

Pension and other postemployment benefits liabilities

Wyoming's combined pension funds (public employees, state patrol, volunteer firefighters, judges, law enforcement, and others) had a combined funded ratio of 75% in 2023 and a three-year average funded ratio of 80%, which we view as relatively low. Contributing to a decline in the funded ratio in recent years has been a lowering of the actuarial assumed rate of return from what we view as an aggressive 7.75% to currently 6.8%. The state uses a statutory funding formula that has funded somewhat less than ADC for some plans. However, during the 2024 legislative session, it passed legislation to require funding ADC, which will begin in fiscal 2027. We expect this could lead to some improvement in the state's overall funding ratios over the longer term.

The state's five-year average return for its public employee pension plan was above its assumed 6.8% rate of return. However, retirement fund contributions were less than the combined service costs, interest costs, and amortization component costs, and S&P Global Ratings calculates that while the main state employees' pension plan contributed close to the contributions necessary to maintain static funding levels in fiscal 2023, contributions were less than what we view as minimum funding progress toward amortization of unfunded liabilities.

In our view, Wyoming's net pension liability is small, either in relation to state income or on a per capita basis. The proportionate share of the state's pension systems' net pension liability for its combined pension funds was $584 million, or $1,000 per capita. Wyoming currently uses a statutory formula to fund its pension contributions, allowing it to contribute at times less than what we calculate as static funding contributions. Actuarial assumptions for the main pension plan, the state's public employee pension plan, as of its 2023 audit included a 6.80% rate-of-return assumption, a closed 25-year amortization of unfunded liabilities, and a 2.5% payroll growth assumption. We calculate overall combined state employee-only unfunded state pension liabilities for all pension plans in the state retirement system unfunded liabilities to personal income is low, at 1.3%.

We consider Wyoming's $428.3 million proportionate share of net OPEB liability in fiscal 2023 to be low. There is no money set aside in an OPEB trust fund, and benefits are funded on a pay-as-you go basis. Wyoming offers only an implicit retiree health care subsidy, whereby retired and current state employees under age 65 pay a single blended rate for health care premiums, which are fully paid each year under Wyoming's pay-as-you-go funding.

On a scale of '1.0' (strongest) to '4.0' (weakest), S&P Global Ratings assigned a '1.3' score to Wyoming's debt and liability profile.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022