

ERY CHRISTMAS — AND HAPPY RESOLUTIONS



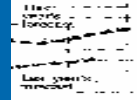
Wyoming Economic Outlook

And the boom goes on...

Outlook

Oil forecast for 2006 is about 10 percent higher than last year's.

Oil prices in constant dollars are expected to rise about 10 percent over the next year.



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Prediction:
Oil prices at or above \$50 a barrel for years

From staff and wire reports

Wyoming's energy boom is likely to continue, with oil prices persisting near or above \$50 a barrel for years, the government said Monday.

The analysis reflected a significant change from the Energy Department's projections a year ago when it predicted oil prices in constant dollars — not counting normal inflation — would retreat in the long term and settle at about \$30 a barrel by 2025.

Natural gas prices, meanwhile, aren't expected to stay at the extremely high levels of recent weeks. The forecast said they would retreat from the recent spikes — to more than \$4 per thousand cubic feet — and settle at under \$5 in the long term as demand weakens, especially for electricity production. That's still nearly twice the price of \$2.50 per thousand cubic feet seen in the late 1990s.

The government also predicted Monday that coal would remain the primary fuel for producing electricity through 2030. Wyoming is the nation's leading coal producer, and coal prices in recent months have reached some of their highest levels in years.

Wyoming's tight energy market has flooded government coffers with the spoils of mineral severance tax and royalty revenues. As the nation's leading energy export state, Wyoming is enjoying low unemployment and one of the biggest budget surpluses in the nation.

Businesses and individuals outside Wyoming's energy industry feel the same pinch as others across the nation. However, the energy boom presents a different set of challenges here.

"Our main challenge in Wyoming now is work force development," said Ron Fus-

co, president of First Interstate Bank in Casper. "We need to attract workers to Wyoming because there is a big shortage. It's extremely challenging right now for everybody in the business sector in Wyoming."

Energy companies are desperately seeking to fill positions to keep up with a steady increase in natural gas and coal production.

Continuing high fuel prices also threaten Wyomingites who are on fixed incomes. Last

Please see **BOOM**, A10

Tough

Tears of joy

Presented by: Buck McVeigh

American Association of Petroleum Geologists (Rocky Mountain Section)

2006 Conference

Billings, Montana

June 11, 2006

Why is mineral production important to Wyoming?

- Mineral income currently makes up close to two-thirds of total revenue.
- Mineral income is obtained from:
 - Severance taxes (\$727 million in FY05).
 - Federal mineral royalties (\$629 million in FY05).
 - Mineral property taxes (\$600 million in FY05).
 - Coal lease bonuses (\$217 million in FY05).

How mineral income is used:

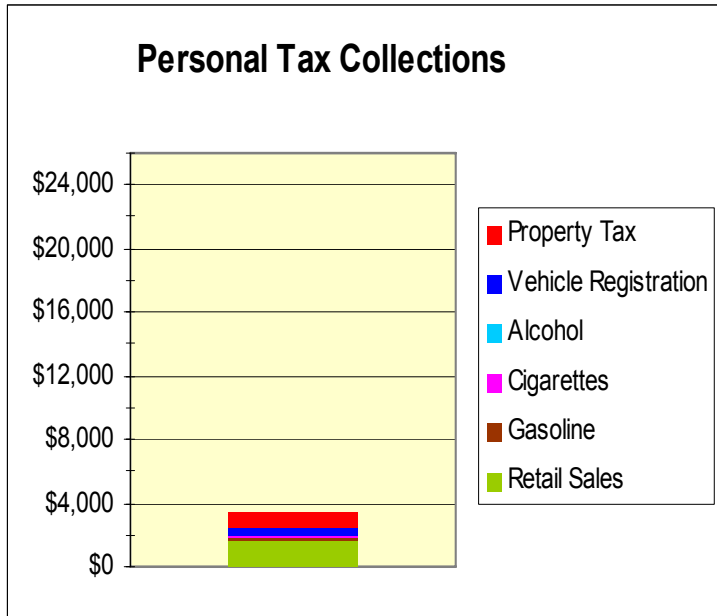
- Severance taxes: general fund & permanent mineral trust fund.
- Federal mineral royalties: school foundation & state highways.
- Property taxes: school foundation.
- Coal lease bonuses: capital construction for schools and county and local governments.

Wyoming Tax Facts

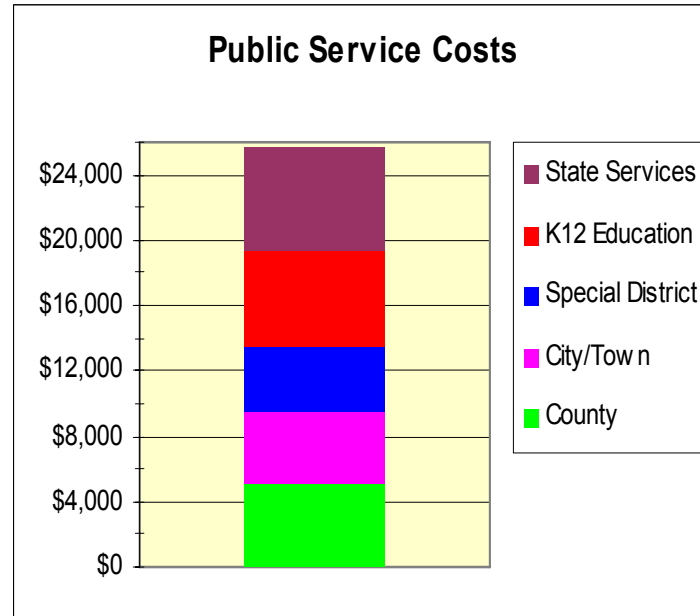
- Wyoming ranks 2nd and 3rd highest, respectively, in per capita state and local government revenue and expenditures.
- Yet, household tax burden ranks among the lowest in nation.
- No personal/corporate income tax, low property taxes.
- Bulk of tax burden is exported out of state in the form of mineral taxes, which residents do not pay.

Direct Tax Collections and Public Service Costs: 2005

For a 4-person family with income of \$50,000 and own home valuing \$140,000



Retail Sales	\$1,620
Gasoline	\$160
Cigarettes	\$120
Alcohol	\$10
Vehicle Registration	\$500
Property Tax	\$1,000
TOTAL:	\$3,410



County	\$5,090
City/Town	\$4,360
Special District	\$4,100
K12 Education	\$5,850
State Services	\$6,360
TOTAL:	\$25,760

Prepared by Wyoming Economic Analysis Division

Current Economic Conditions

Upside - Energy continues to bolster the economy!

- Net population in-migration last 4 years.
- Jobs, jobs, jobs!!!
 - 8,800 (3.4%) between April 2005 to April 2006.
 - 3,100 (14.2%) in Nat. Res. & Mining from April 2005 to April 2006.
 - 3.2% unemployment; U.S. at 4.7%.
- Year-over-year income growth continues in 2005.
 - TPI increased 8.0% to \$18.7 billion; ranked 4th in U.S.
 - PCI increased 7.3% (1st in U.S.) to \$36,778.
- Consumer spending continues to climb.
 - Retail sales taxes up 14% from year ago.
- State revenue out-pacing forecast.
 - General Fund ahead 7.4% (\$65 million).
- Gross State Product soars in 2004.
 - GSP increased 7.6% to \$24 billion; ranked 12th in U.S. (6.7%).

Current Economic Conditions

- **Downside: Influx of workers stress communities.**
 - Increases traffic, domestic violence, drug use, 911 emergency services.
 - Housing shortage: escalating property values, affordable housing becoming non-existent.
 - Lodging shortage – accommodations for travelers short supply.
- Population: low growth and net in-migration.
 - Transient versus permanent population.
- Uneven growth: energy boom is spreading wealth unevenly across state.
- Low industrial diversification.
- Workforce availability: strong regional competition for construction labor/ in-state competition from growing mining industry.
- 4Q05 inflation hits 5%; U.S. at 3.4%

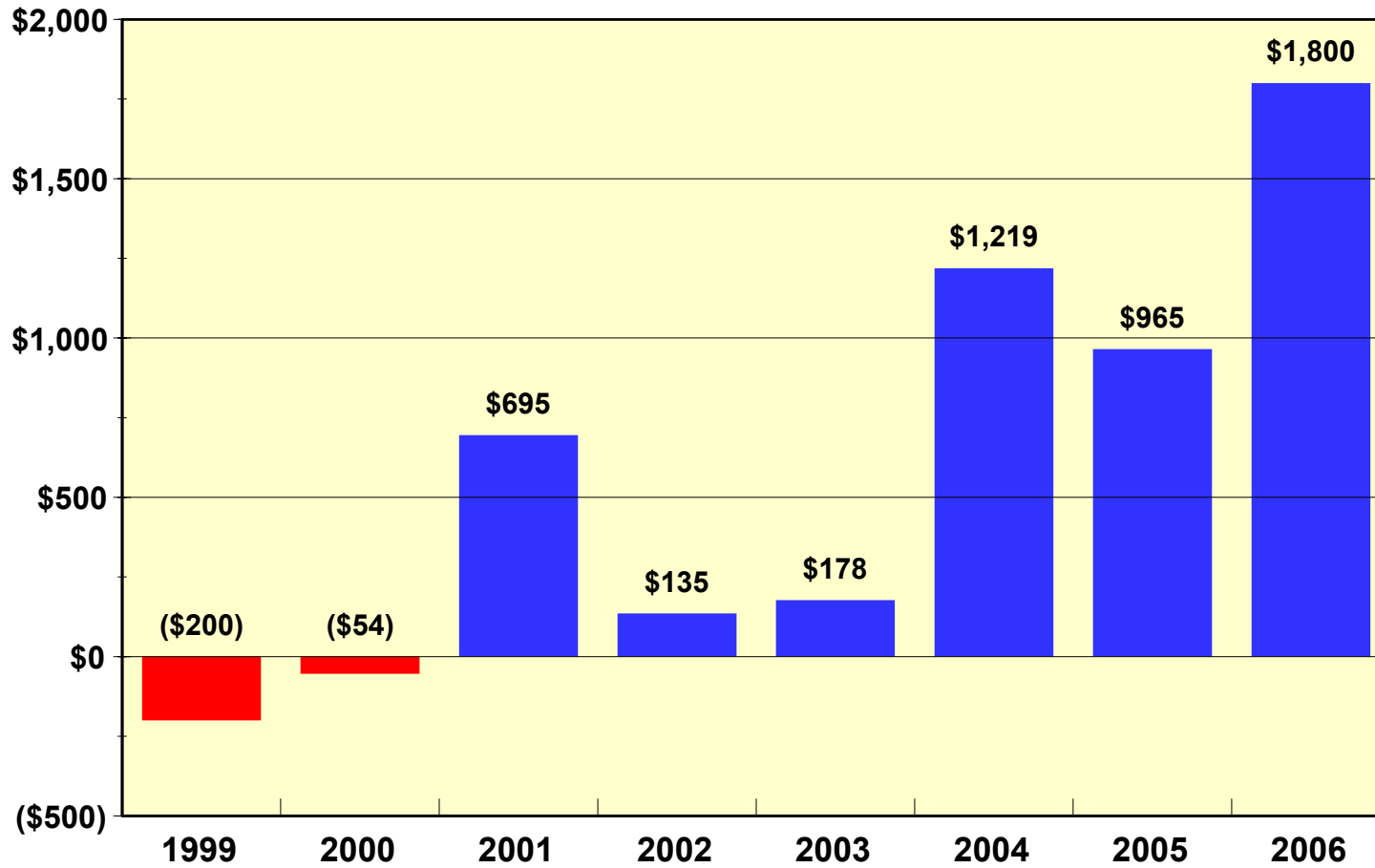
Energy Price Sensitivity

- Crude Oil → [\$0.25 per bbl. change]
± \$1.6 million revenue change.
- Coal → [\$0.25 per ton price change]
± \$13.6 million revenue change.
- Natural Gas → [\$0.25 per mcf change]
± \$50.7 million revenue change.

Note: revenue sources include severance taxes, federal mineral royalties, and the school foundation portion of ad valorem taxes (based on FY06 projections). Source: January 2006 CREG Forecast and Legislative Services Office.

Wyoming State Fiscal Profile

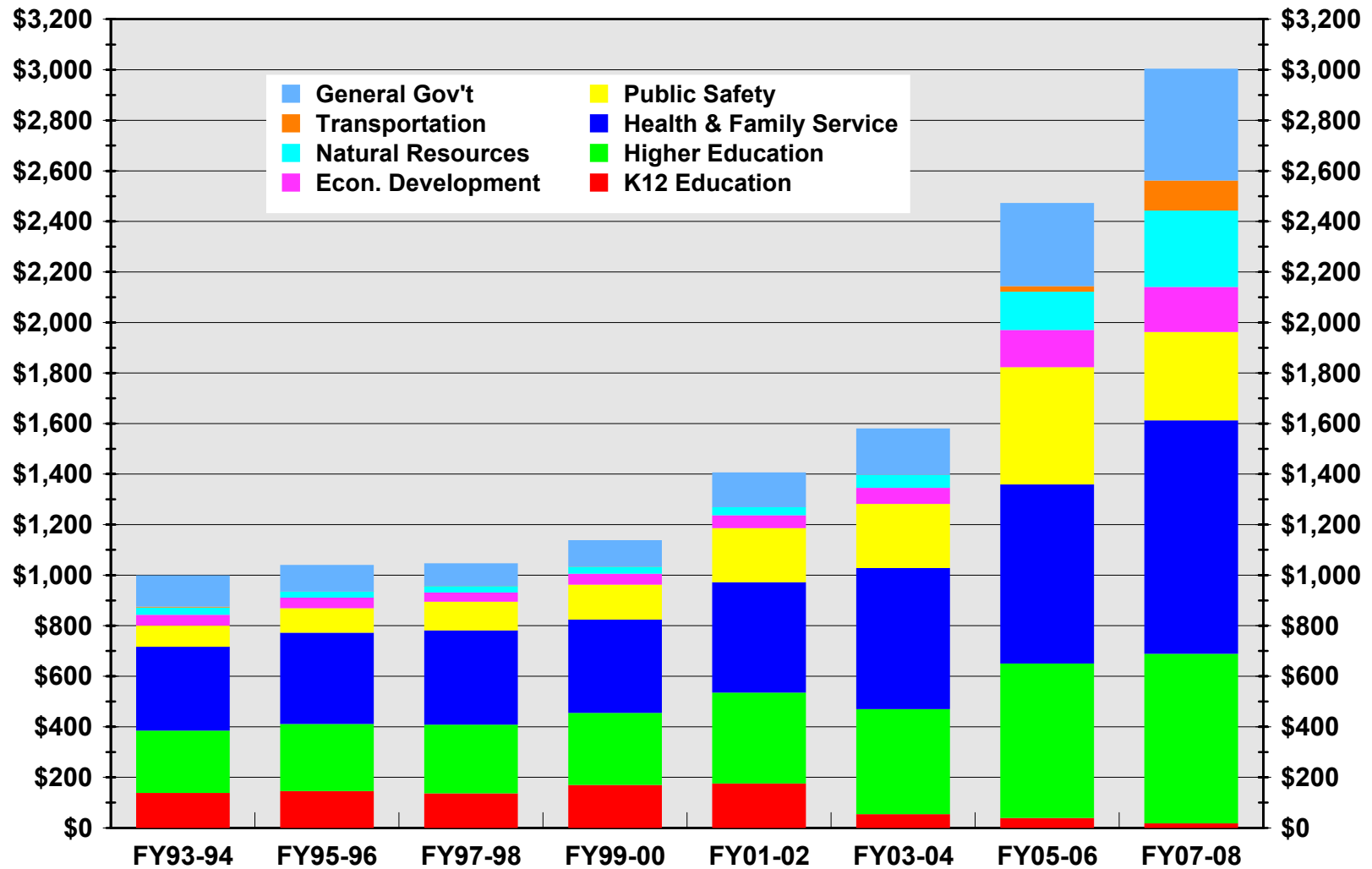
Shortfall or Surplus (in millions of current dollars)



Projected biennium balance on January 1 of each year

Appropriations from General Fund and Other Reserve Accounts

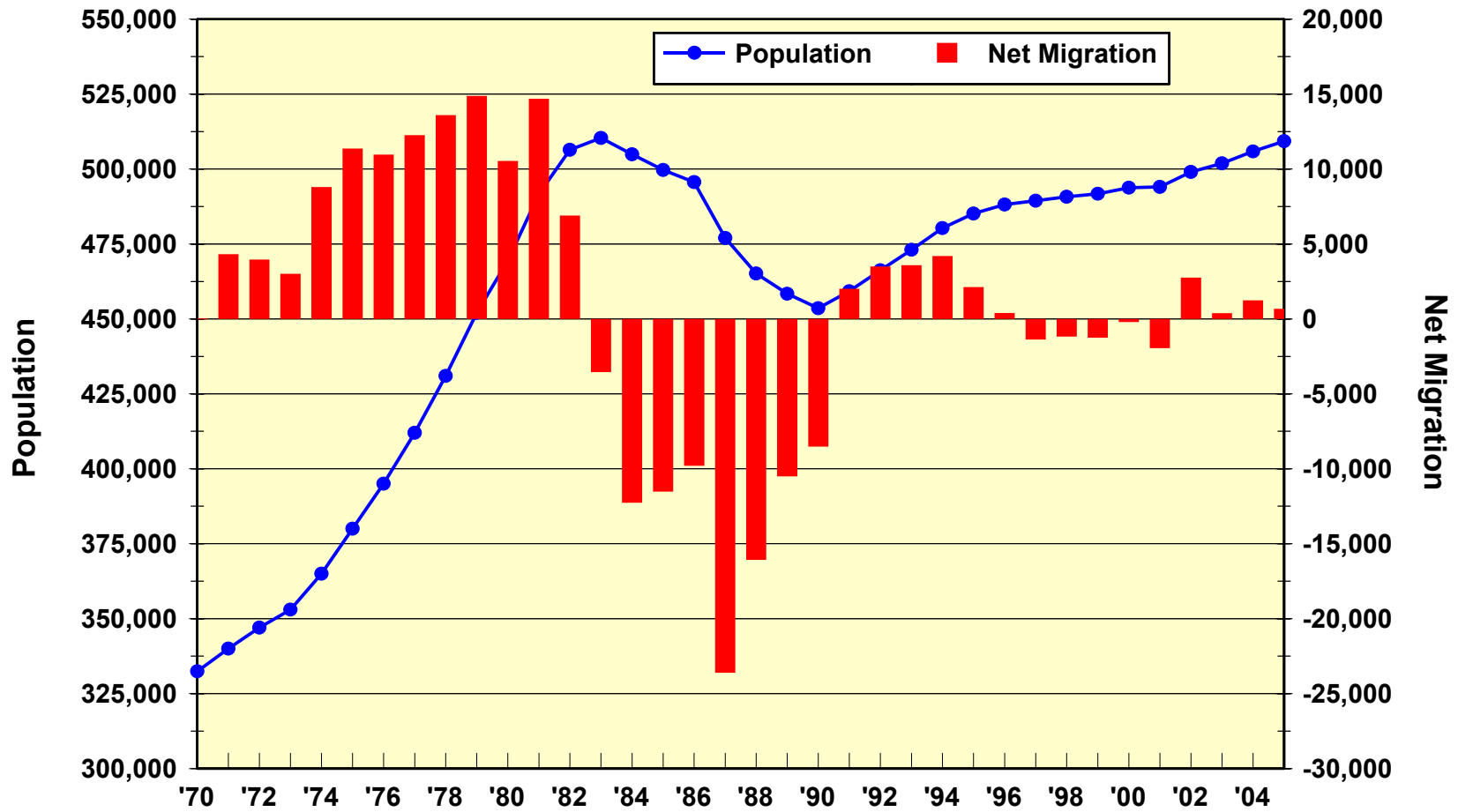
(in millions of current dollars)



Source: LSO (through 2006 Budget Session)

Prepared by Wyoming Economic Analysis Division

Wyoming Population and Net Migration: 1970 to 2005

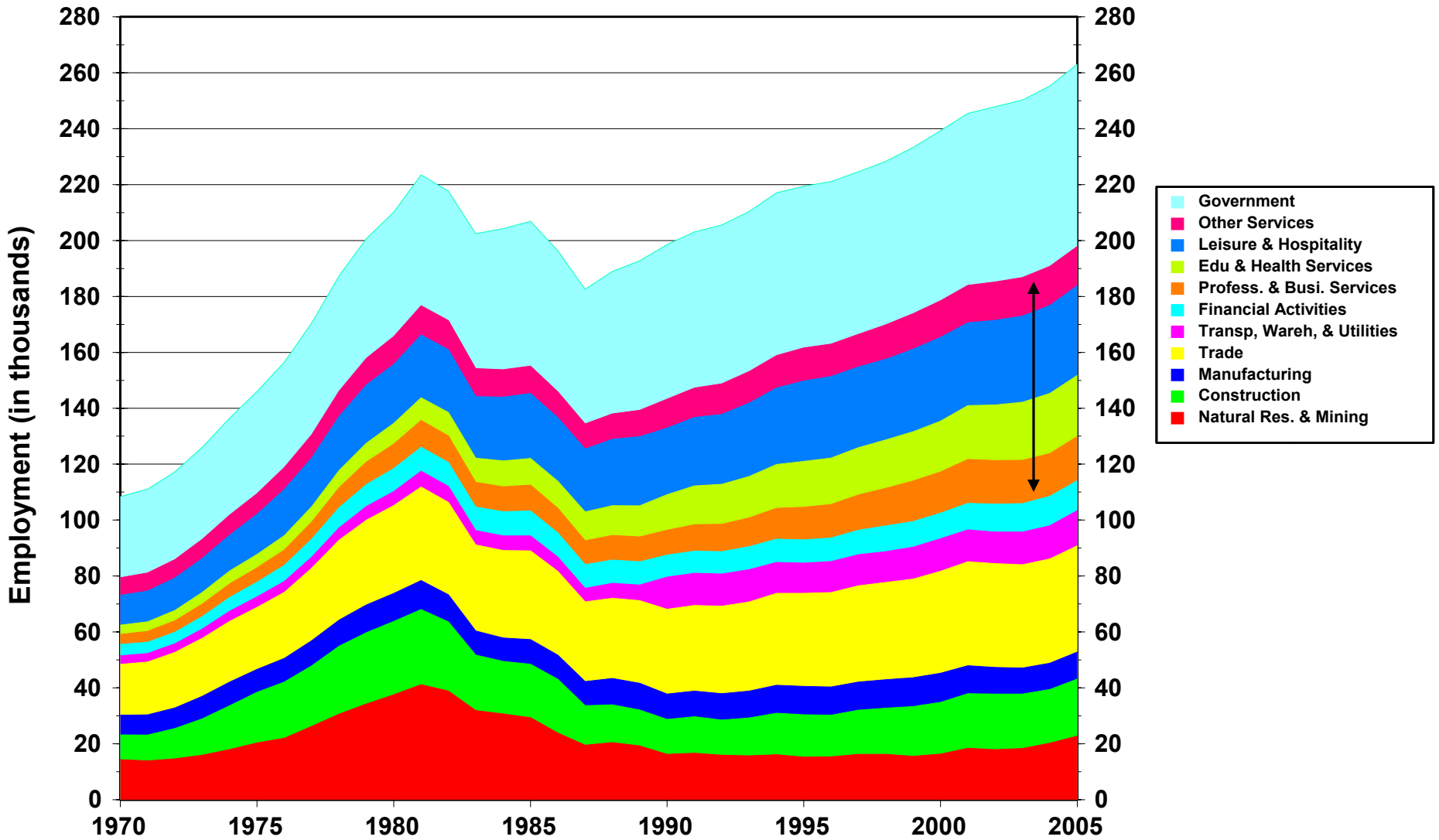


Net Migration = Immigration - Outmigration

Source: U.S. Census Bureau

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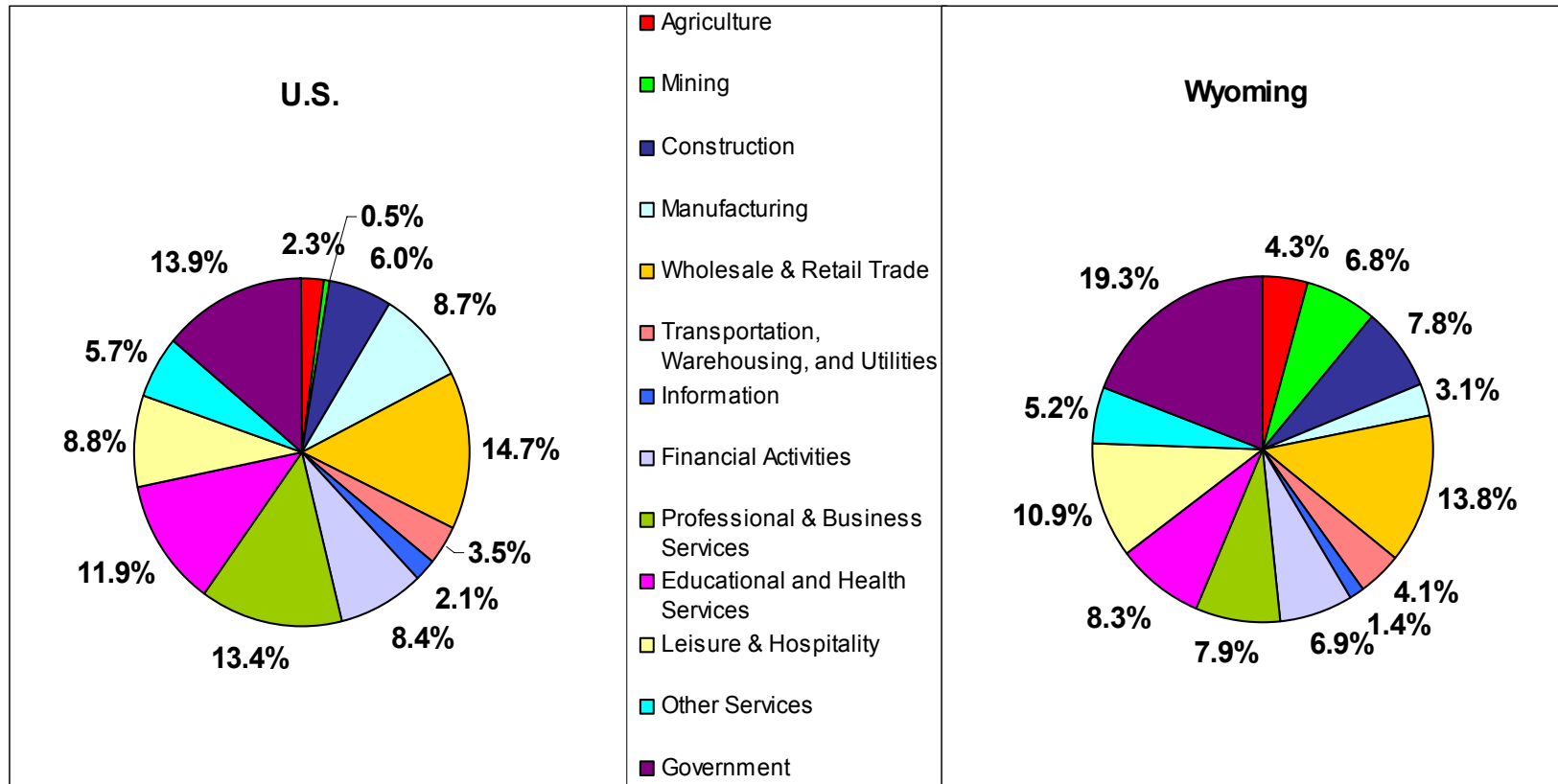
Non-Farm Employment by Industry (NAICS) for Wyoming 1970 to 2005



Source: U.S. Bureau of Labor Statistics, Economy.Com, and Wyoming Economic Analysis Division

Employment by Industry (NAICS) for Wyoming and U.S.: 2004

(Includes: full and part-time wage and salary jobs, and proprietors employment.)

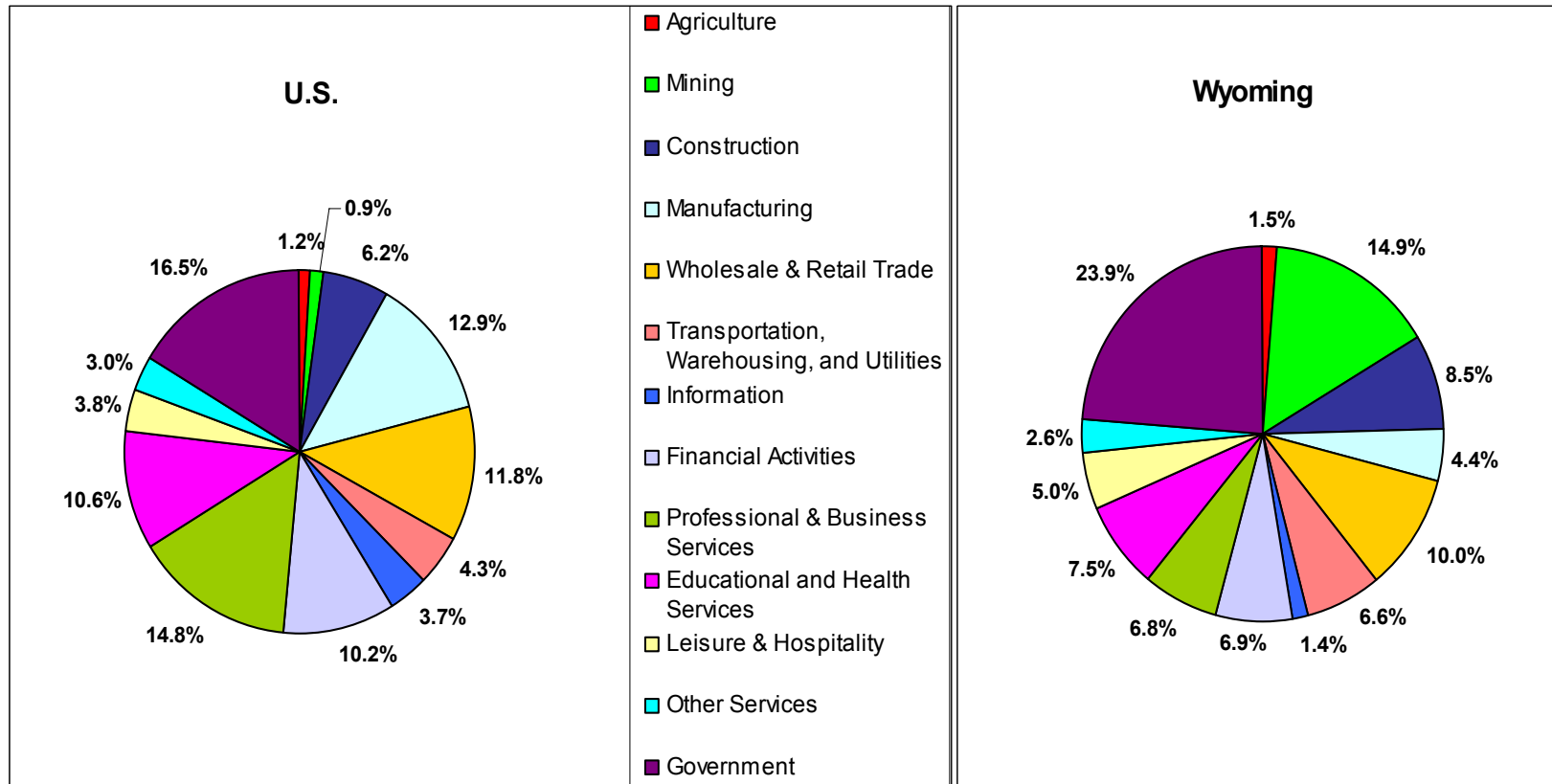


Ranking in U.S.

- Mining - 1st**
- Construction - 2nd**
- Leisure & Hospitality - 4th**
- Government - 4th**

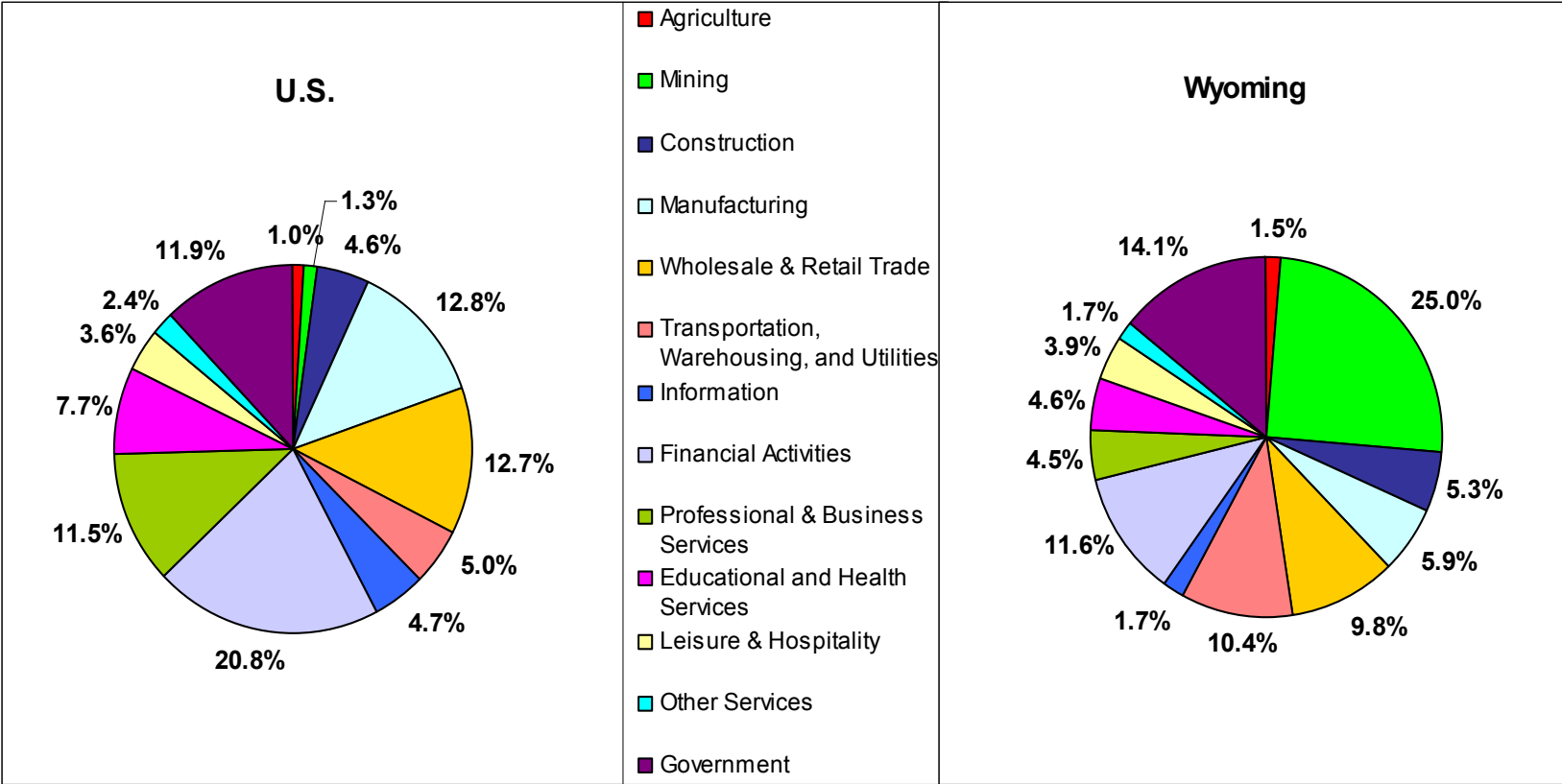
- Manufacturing - 49th**
- Prof. & Business Services - 48th**
- Education & health Services - 49th**

Earnings by Industry (NAICS) for Wyoming and U.S.: 2004



Note: Earnings include wage and salary disbursements, employer contributions for employee pension and insurance funds, employer contributions for government social insurance, and proprietors' income.

Gross State Product by Industry (NAICS) for Wyoming and U.S.: 2004



Note: GDP is often referred to as its "value added", is equal to its gross output (sales or receipts and other operating income, plus inventory change) minus its intermediate inputs (consumption of goods and services purchased from other industries or imported).

The Diversification Issue

“Wyoming’s never going to be another Silicon Valley.”

“... you’ve got to dance with the one that brung ya.”

- Rep. Dick Wallis, October 1993

Industrial Diversification Index

- **Comparison of employment diversification derived by measuring differences in employment share by industry at the state level compared with the same at the U.S. level.**
- **The lower the index value the closer the industry mix is to U.S. industry mix.**

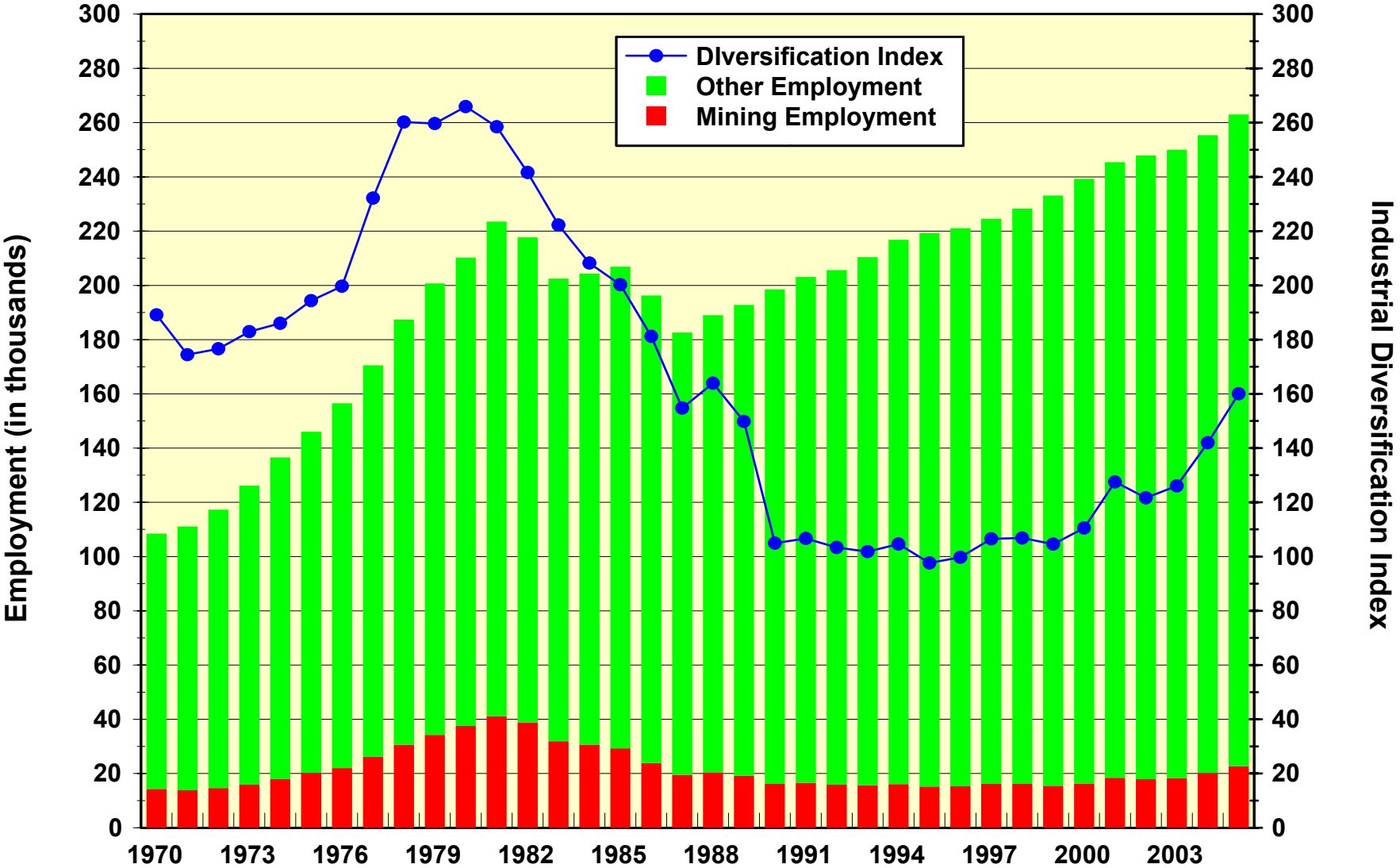
Industrial Diversification Index 2005

■ Missouri	0.37	➤ Louisiana	11.38
➤ Utah	1.61	➤ New Mexico	15.53
➤ Nebraska	2.04	➤ Hawaii	15.75
➤ Idaho	2.14	➤ W. Virginia	26.71
➤ Colorado	4.20	➤ Alaska	35.94
➤ So. Dakota	4.83	➤ Nevada	46.74
➤ No. Dakota	6.41	➤ Wyoming	159.73
➤ Montana	11.96		

Wyoming Industrial Diversification Index

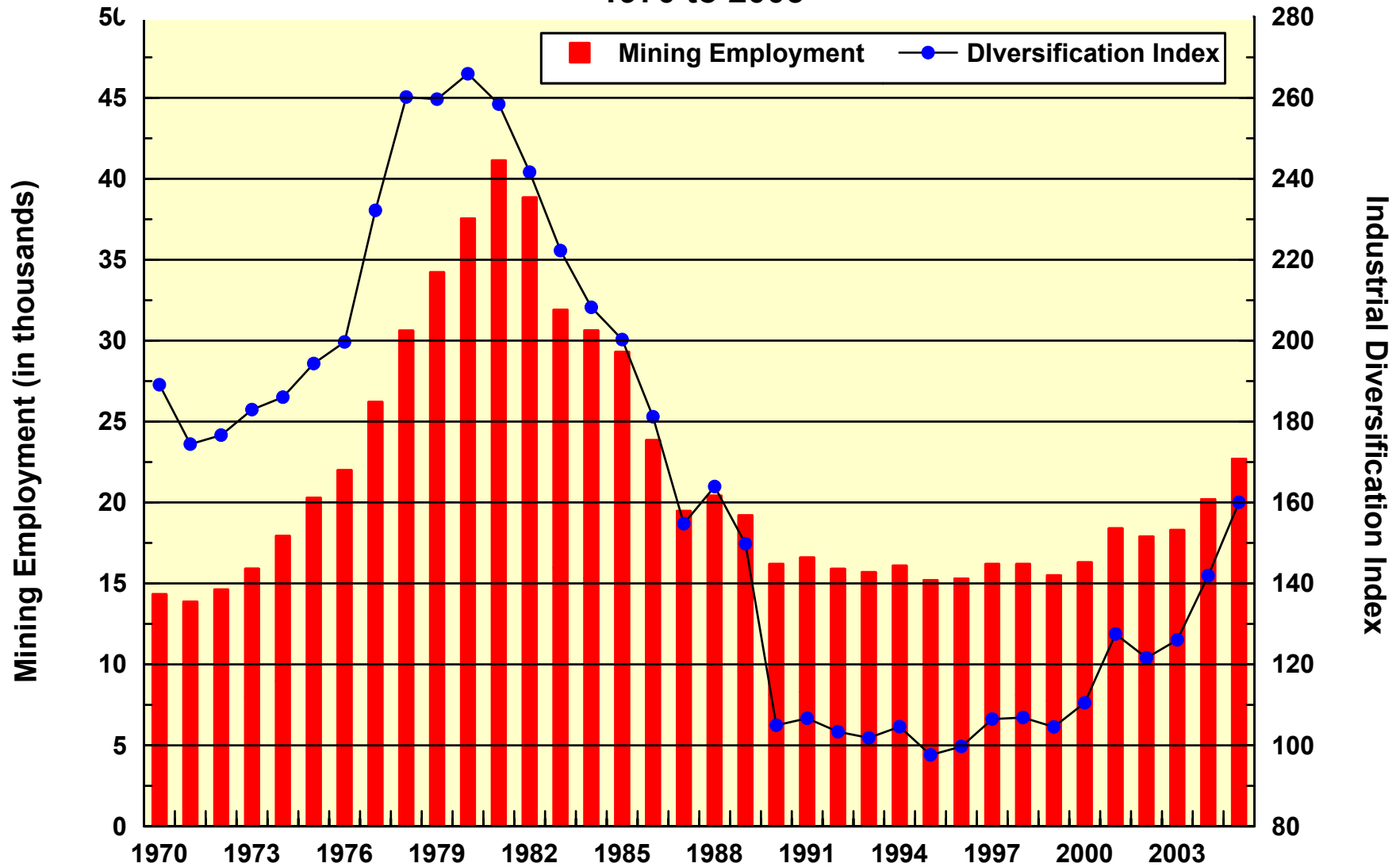
1970	187.69
1980	265.75
1990	103.25
1995	96.98
2000	110.11
2005	159.73

Employment vs. Industrial Diversification for Wyoming: 1970 to 2005



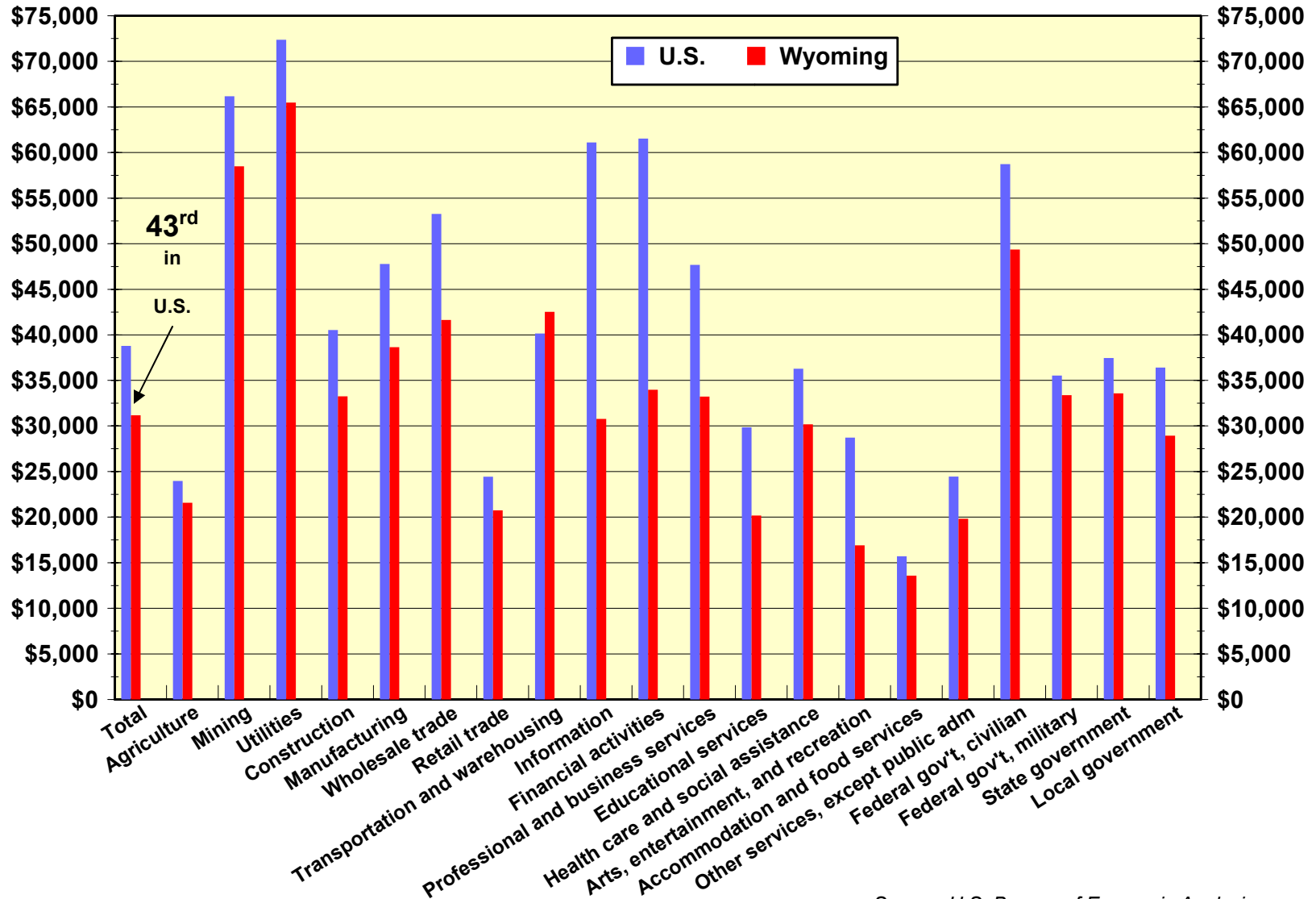
Source: U.S. Bureau of Labor Statistics, Economy.Com, and Wyoming Economic Analysis Division

Mining Employment vs. Industrial Diversification for Wyoming: 1970 to 2005



Source: U.S. Bureau of Labor Statistics, Economy.Com, and Wyoming Economic Analysis Division

Average Wage Per Job by Industry for U.S. and Wyoming: 2004



Source: U.S. Bureau of Economic Analysis

Investing in the future...

Education is top priority:

- \$400 million Hathaway Scholarship Program.
- \$105 million endowed professorships
- \$2 billion K-12 education funding.

Other:

- \$564 million Permanent Wyoming Mineral Trust Fund.
- \$100 million tax cut (sales tax on groceries.)
- \$40 million Wildlife Trust Fund (conservation grants, habitat improvement.)
- Infrastructure increased bonding authority from \$1 billion to \$3 billion.
- Capital improvements – schools, prison, state buildings.

The Road Ahead

- ▶ Energy production is the key in the near-term.
 - Low business costs/ favorable tax structure to continue.
 - Employment, earnings will remain strong.
- ▶ Low industrial diversification will continue to hamper payroll growth potential.
- ▶ Tight labor market will continue to temper economic growth.
- ▶ Long-term outlook (through 2014):
 - Population to average 0.6% per year.
 - Employment to average 1.3% per year.
(3 out of every 4 jobs created will be in Services & Trade.)
 - Income to average 3.9% per year.

Economic Analysis Division – **EAD**

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