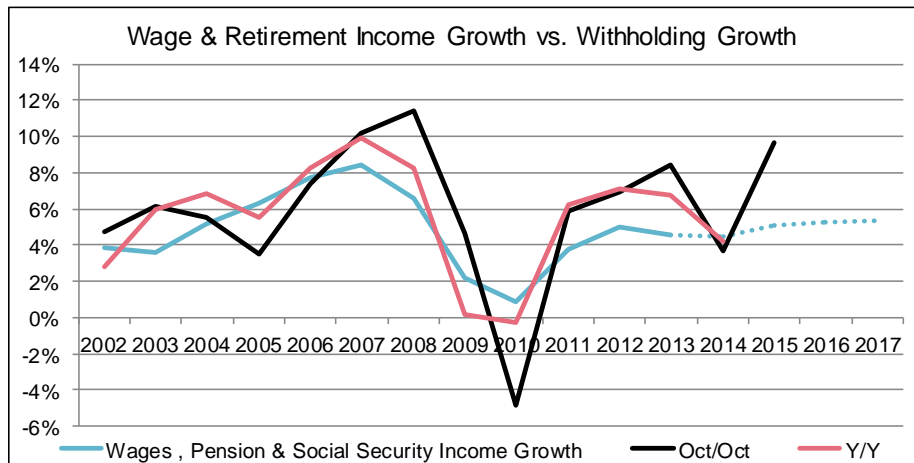


## LEGISLATIVE OPTIONS

The committee may wish to consider a variety of alternative assumptions from the LFD estimate recommendation. Potential options are listed for three revenue sources.

### Individual Income

Current year-to-date withholding growth is 9.7%, well above the combined wage, pension, and taxable social security income estimated fiscal year growth rate of 5.1%. The chart below illustrates the combined wage and retirement income growth rate, the October-to-October withholding growth rate, and the fiscal year withholding growth rate. There is a correlation between withholding growth and wage income growth; however, the correlation is not particularly strong.



Given that the October-to-October withholding growth rate has nearly matched the year-end withholding growth rate, and the year-end growth rate exceeds the income growth rate by an average of only 1.8% in non-declining revenue years, the committee may wish to adopt a revenue addition equivalent to increasing the income growth rate by 2.8%.

Depending on whether the committee felt that the IHS forecast was simply underestimating recent wage growth in the state, or may be overlooking a key source of wage growth would determine the next option: whether to include the adjustment for FY 2015 only, or for the three-year estimate period. The general fund impact of these options is summarized in the table below:

General Fund Impact of Including an Adjustment Equivalent to a 2.8% Increase in Wage & Retirement Income (\$ Millions)		
	One-Time	On-Going
FY 2015	\$23.0	\$23.0
FY 2016		24.4
FY 2017		25.8
<b>Total</b>	<b>\$23.0</b>	<b>\$73.2</b>

## Oil & Natural Gas Production Tax

While the LFD estimate recommendation for oil & natural gas production tax is closely tied to the IHS forecast of West Texas Intermediate (WTI) oil price and Henry Hub (HH) natural gas price, the committee may wish to explore options regarding the forecast of new drilling in the state. The LFD recommendation assumes an average of 10 oil drilling rigs per month throughout the forecast period. The table below summarizes the revenue impact of assuming alternative drilling rig assumptions.

General Fund Impact of Including Alternative Numbers of Oil Rigs (\$ Millions)				
Number of Rigs	FY 2015	FY 2016	FY 2017	3-Year Total
0	(\$0.018)	(\$5.294)	(\$11.080)	(\$16.392)
5	(0.846)	(2.647)	(5.540)	(9.033)
10	-	-	-	-
20	1.692	5.294	11.080	18.066

## Treasury Cash Account (TCA) Interest Earnings

The LFD estimate recommendation for TCA interest earnings is based on an average of short-term interest rates from IHS and a moving average of average daily cash. The increase in revenue for this source assumes short-term interest rates will eventually rebound. However, historical IHS forecasts have predicted a rebound in short-term interest rates for the last several years, only to see them remain near zero. The LFD estimate recommendation assumes average short-term interest rates of 1.10% in FY 2016 and 2.52% in FY 2017. The committee may wish to adopt a revenue risk mitigating factor based on alternative short-term rates. The table below summarizes various revenue risk mitigating factors based on alternative rates.

TCA Revenue Risk Mitigation Factor Equivalent Alternative Short-Term Interest Rates (\$ Millions)				
Interest Rates FY 2016, FY 2017	FY 2015	FY 2016	FY 2017	3-Year Total
0.50%, 1.00%	-	(\$5.010)	(\$12.899)	(\$17.909)
0.75%, 1.50%	-	(2.917)	(8.659)	(11.576)
1.00%, 2.00%	-	(0.824)	(4.419)	(5.243)