



Wyoming State Treasurer

Mark Gordon

TO: Governor Matt Mead
Joint Appropriations Interim Committee
Joint Education Interim Committee
Select Committee for Capital Financing and Investments

FROM: Mark Gordon, State Treasurer *MG*

DATE: October 31, 2016

RE: Excellence in Higher Education Endowment Fund Spending Policy Reserve Account Distributions

In accordance with Wyoming State Statute 9-4-719(n), the State Treasurer, in consultation with the University of Wyoming and the Community College Commission, is to report to the Governor, Joint Appropriations Interim Committee, Joint Education Interim Committee and Select Committee on Capital Financing and Investments no later than November 1st of any year in which funds have been or are anticipated to be distributed from the Excellence in Higher Education Endowment Fund (Higher Ed Fund) spending policy Reserve Account.

Total net investment income earned on the Higher Ed Fund during the fiscal year amounted to \$2,522,838 (\$2,528,330 in investment income less a \$5,492 loss) which in total was below the spending policy amount of \$5,761,758. Therefore, in order to meet the spending policy amount, \$3,238,920 was transferred from the Reserve Account. As monies were transferred out of the Reserve Account; the balance of the Reserve Account did not exceed 75% of the spending policy amount and thus no funds were transferred to the Higher Ed Fund corpus. The balance in the Reserve Account at the end of FY16 was \$1,023,030.

In FY15, we reported:

"The latest investment income projections for fiscal years 2016 through 2021 (using October 2015 CREG estimates) are less than the five percent (5%) projected spending policy amounts. Thus the difference will need to be made up by the Higher Ed Reserve Account for each of these years. Current CREG income projections (which do not include any projections for capital gain/loss distributions) indicate there will not be sufficient funds available in the Reserve Account to distribute to the University and community colleges beginning in fiscal year 2016, unless investment income along with any realized capital gains are greater than current CREG projections would indicate."

As previously report, the Higher Education Reserve Account will likely run out of funds in January 2017.

Attached you will find a page from the Treasurer's Annual Report showing the previous five years cash flow for the Higher Education Endowment Fund and the ending cash balance in the Reserve Account.

If you or any member of your committee has questions, please feel free to contact me.

cc: Jim Rose, Community College Commission
Chris Boswell, University of Wyoming
Kari Gray, Governor's Office
Kevin Hibbard, A&I Budget Division
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EXCELLENCE IN HIGHER EDUCATION FUND SPENDING POLICY RESERVE ACCOUNTS

Wyoming Statute 21-16-1201 through 1204, passed in 2005, authorized the creation of the Excellence in Higher Education Endowment Program which consists of three separate accounts: the Excellence in Higher Education Endowment Fund (Higher Ed. Fund), the Excellence in Higher Education Income Account (Income Account) and the Excellence in Higher Education Endowment Reserve Account (Reserve Account). A portion of the federal mineral royalties, over the \$200 million cap, was transferred from the School Foundation Fund to the Higher Ed. Fund until a maximum of \$105 million had been deposited. It was fully funded in April of fiscal year 2008.

The Higher Ed. Fund is retained by the State and invested by the State Treasurer in the same manner as any other permanent fund and held inviolate. Investment earnings from the Higher Ed. Fund are transferred to the Income Account and distributed quarterly to the Wyoming's seven community colleges and the university.

W.S. 9-4-719(k) created the Reserve Account and W.S. 9-4-719(o) established the annual spending policy amount for the Higher Ed Fund (currently 5% of the average five-year rolling average market value of the corpus). Earnings from the Higher Ed. Fund during each fiscal year in excess of the spending policy amount are deposited into the Reserve Account. To the extent investment earnings from the Higher Ed. Fund are less than the 5% spending policy amount, an amount equal to the difference is taken from the Reserve Account and then distributed. If the Reserve Account balance exceeds 75% of the spending policy amount, the flows to the Higher Ed. Fund.

The spending policy amount for FY 16 for the Higher Ed. Fund is based on the statutory percentage rate of 5% of the five-year rolling average market value of the corpus. At the end of FY 16, \$0 flowed into the corpus of the Higher Ed. Fund.

The bottom of this page shows a summary of the cash flows from FY 12 through FY 16. The illustration on the following page shows the flow of the spending policy for the Higher Ed. Fund.

EXCELLENCE IN HIGHER EDUCATION ENDOWMENT FUND SUMMARY FROM FY 12 TO FY 16 AS OF JUNE 30 TH											
Prior FY Beginning Balance	Prior FY Coat	Prior FY Investments at Market	Spending Policy Amount	Investment Income Off Expenditure Account	Distributions to UW and Community Colleges	Net Transfers	Investment Income Off Reserve Account	Total	Cash Balance Before Spillover	Spillover to Corpus	Ending Cash Balance
2012	108,407,594	111,455,707	4,939,140	5,634,089	(4,939,140)	718,407	7,101	725,508	7,112,482	(3,408,127)	3,704,355
2013	110,870,385	111,829,141	5,268,752	7,791,230	(5,268,752)	2,549,657	159,810	2,709,467	6,413,822	(2,462,258)	3,951,564
2014	112,220,128	113,851,145	5,359,054	6,727,157	(5,359,054)	1,381,257	36,211	1,417,468	5,369,032	(1,349,742)	4,019,290
2015	114,147,273	121,068,507	5,608,790	7,652,452	(5,608,790)	2,043,662	70,787	2,114,449	6,133,739	(1,927,147)	4,206,593
2016	113,895,458	117,971,275	5,761,758	2,528,330	(5,761,758)	(3,238,920)	55,357	(3,183,563)	1,023,030	0	1,023,030

Higher Education Spending Policy

