

Economic Challenges for Wyoming in 2016 and some ideas about what we can do to better our State's future.

April 18, 2016

A snapshot of Wyoming's economy and an outline of a few opportunities for local governments and the State as a whole in the coming year to meet the challenges of different times.

-Mark Gordon, Treasurer

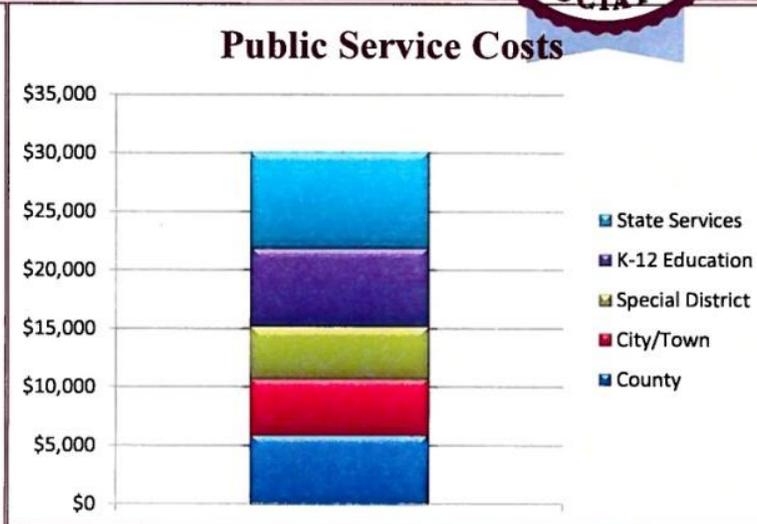
Direct Tax Collections & Public Service Costs 2014

For a 3-person family with income of \$60,000 and owning a home valued at \$160,000



Personal Tax Collections

Retail Sales	\$ 1,000	} \$ 2,960
Gasoline	\$ 200	
Cigarettes	\$ 100	
Alcohol	\$ 10	
Vehicle Registration	\$ 450	
Property Tax	\$ 1,200	



Public Service Costs

County	\$ 5,900	} \$30,100
City/Town	\$ 4,800	
Special District	\$ 4,500	
K-12 Education	\$ 6,700	
State Services	\$ 8,200	

We do alright as citizens of Wyoming paying some of the lowest taxes in the country and enjoying 10 times the benefits which we owe to our extraordinary mineral wealth.

Thank goodness we set some aside for the future because times have not always been so good.

Wyoming's
Investments
Save Taxpayers
More than
\$1500 in taxes
every year.

In 2015 we returned \$1,750 per
Wyoming resident
\$1.02 billion / 580,000 people

	FY 15		FY 14	
	Cost	Market	Cost	Market
Permanent Mineral Trust Fund	\$6,848.9	\$7,172.2	\$6,368.3	\$6,979.1
Permanent Land Funds				
- Common School Perm Land Fund	3,261.7	3,405.3	2,782.3	3,046.5
- University Permanent Land Fund	19.8	20.1	19.3	21.3
- Remaining Permanent Land Funds	175.1	182.7	157.0	171.6
Hathaway Scholarship Fund	552.6	571.3	533.4	575.7
Higher Education Endowment Fund	114.1	118.0	112.2	121.1
Workers Compensation Fund	1,773.0	1,790.8	1,628.0	1,719.5
Tobacco Settlement Fund	84.5	83.4	81.6	82.0
State Agency Pool	<u>6,417.6</u>	<u>6,352.1</u>	<u>6,294.4</u>	<u>6,336.4</u>
Total	\$19,247.3	\$19,695.8	\$17,976.5	\$19,053.2

<u>Investment Income: Distributions by Fund</u>		
	FY 15	FY 14
Permanent Wyoming Mineral Trust Fund	\$494,234,268	\$395,337,466
Common School Permanent Land Fund	216,095,239	172,808,534
University Permanent Land Fund	1,418,395	1,098,504
Remaining Permanent Land Funds	11,774,102	9,360,997
Hathaway Scholarship Endowment Fund	35,858,772	30,959,099
Higher Education Endowment Fund	7,642,287	6,727,157
Workers Compensation Fund	89,494,414	74,079,618
Tobacco Settlement Fund	2,326,048	1,690,078
State Agency Pool	<u>156,512,338</u>	<u>120,112,251</u>
TOTAL	\$1,015,355,83	\$812,173,704

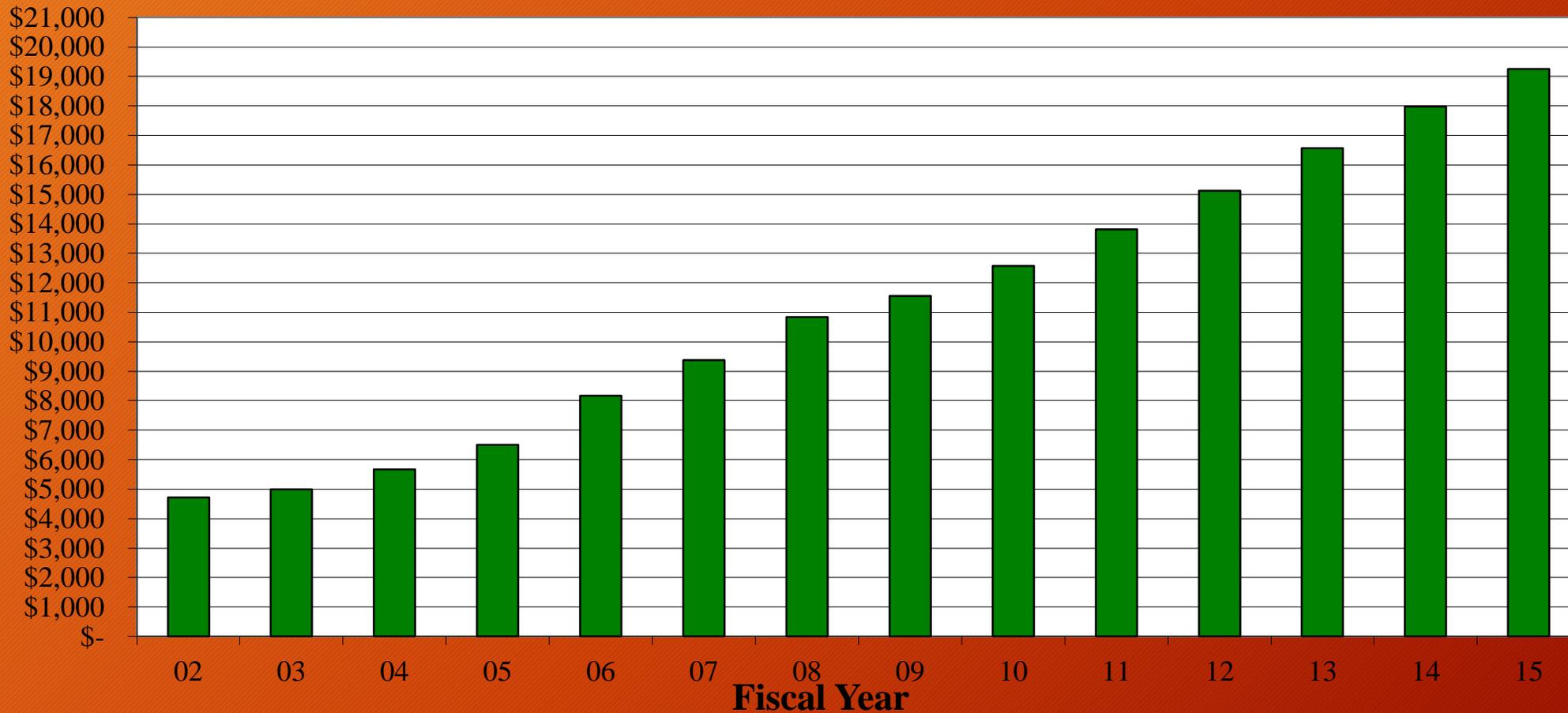
* "Distributed income" is net of management fees paid and accrued.

Annual
Report
available at:
treasurer.state.wy.us

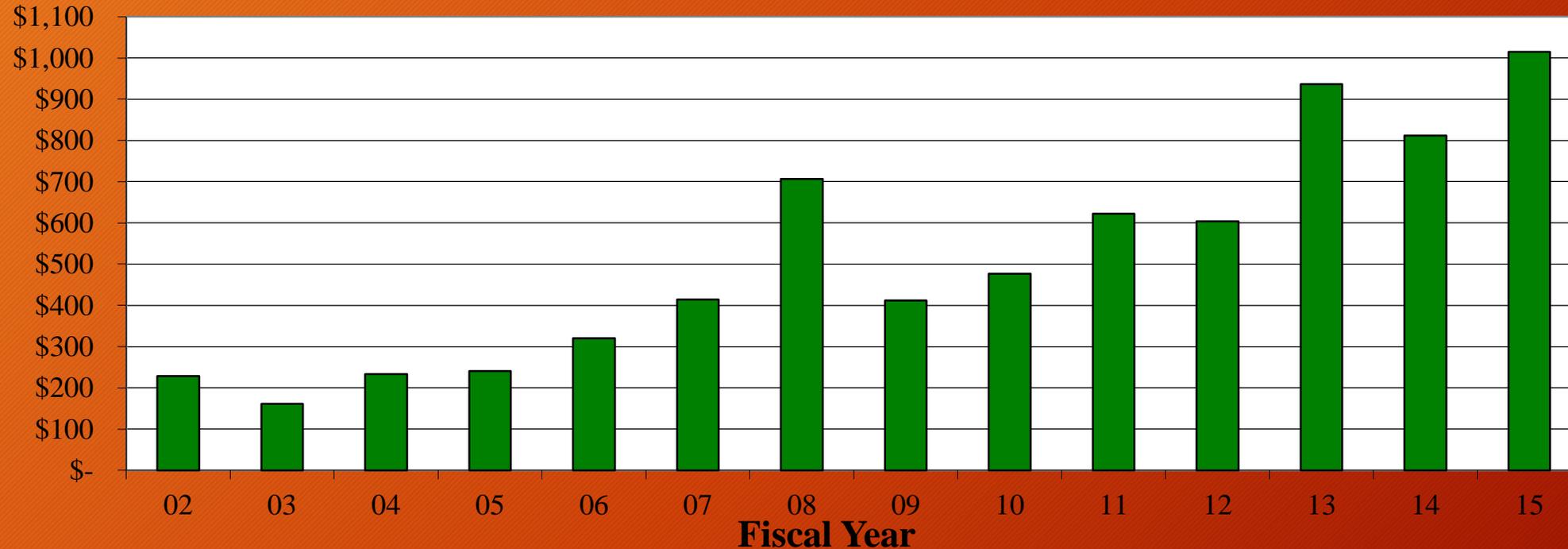
It has been the best of times

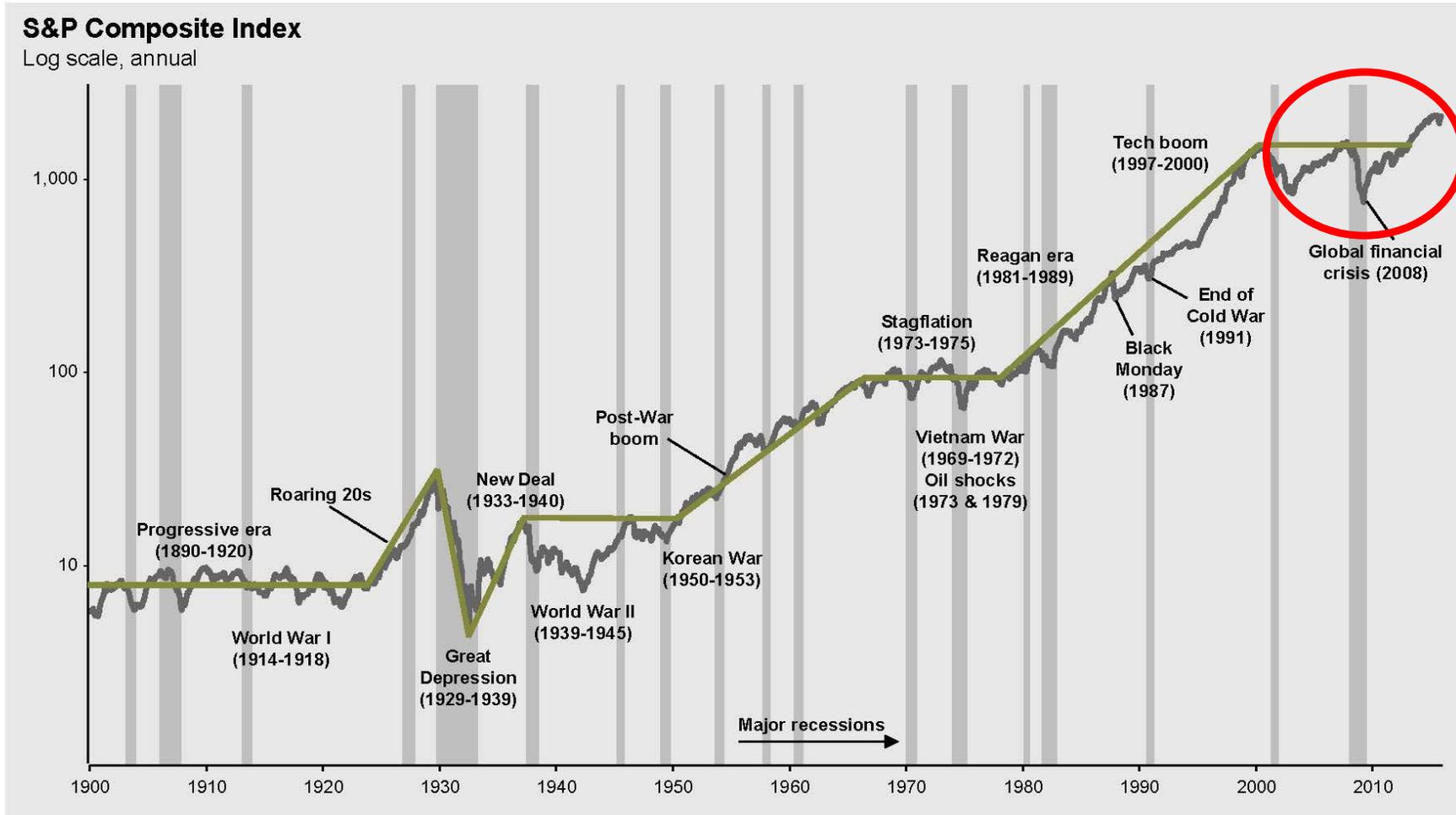
- Wyoming saw extraordinary growth in revenues from Natural Resources.
- Had a great run in the Stock Market especially after 2010.
- Fixed income was great too - much better than today.
- ❖ And after the lean times (1990s), we got budget religion - though we may have strayed a little since then.

Here is what happened to Wyoming's Total State Portfolio since 2002



And here is what the earnings (in millions of \$) from our investments to the budget since 2002 have looked like. No wonder we felt so good.

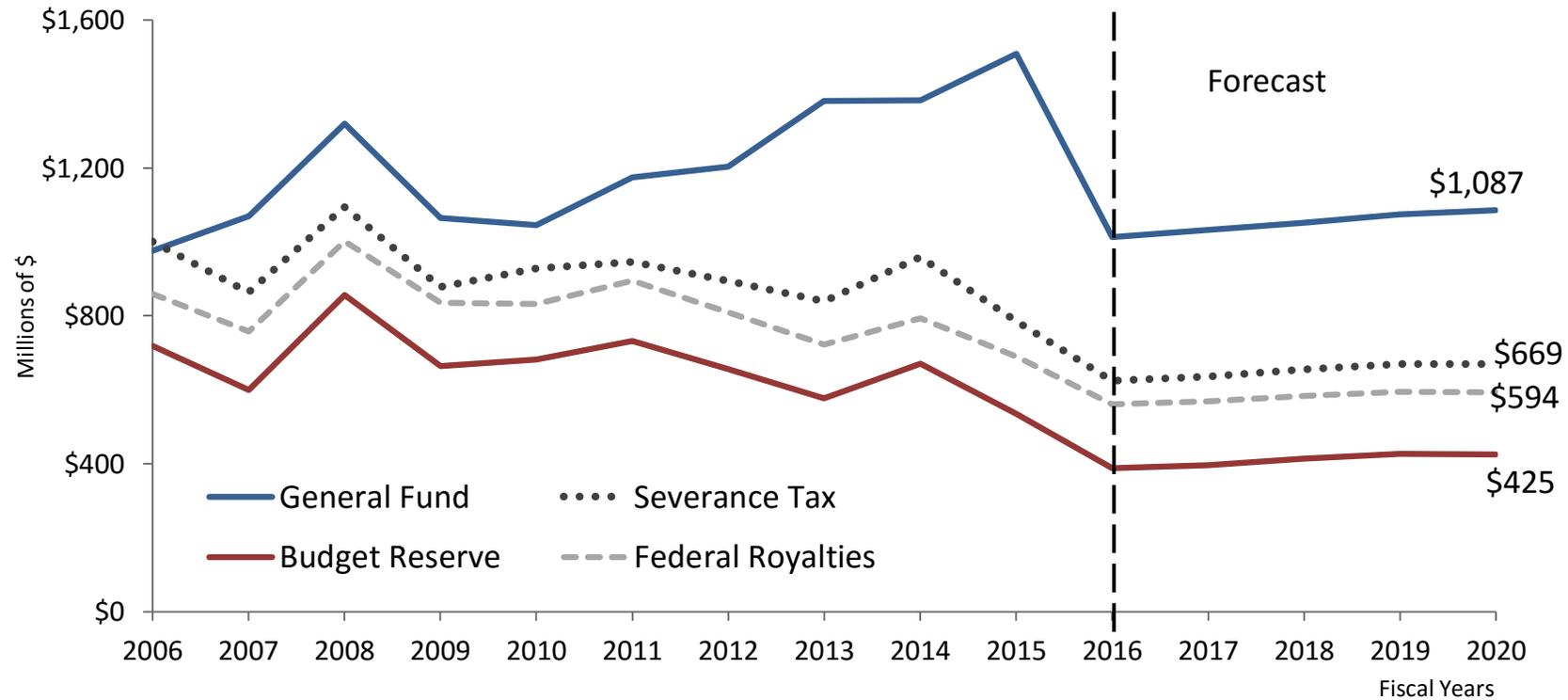




The last 15 years have been ok too.

Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management.
Data shown in log scale to best illustrate long-term index patterns.
Past performance is not indicative of future returns. Chart is for illustrative purposes only.
Guide to the Markets – U.S. Data are as of December 31, 2015.

Major Revenue Streams — Historical and Projected



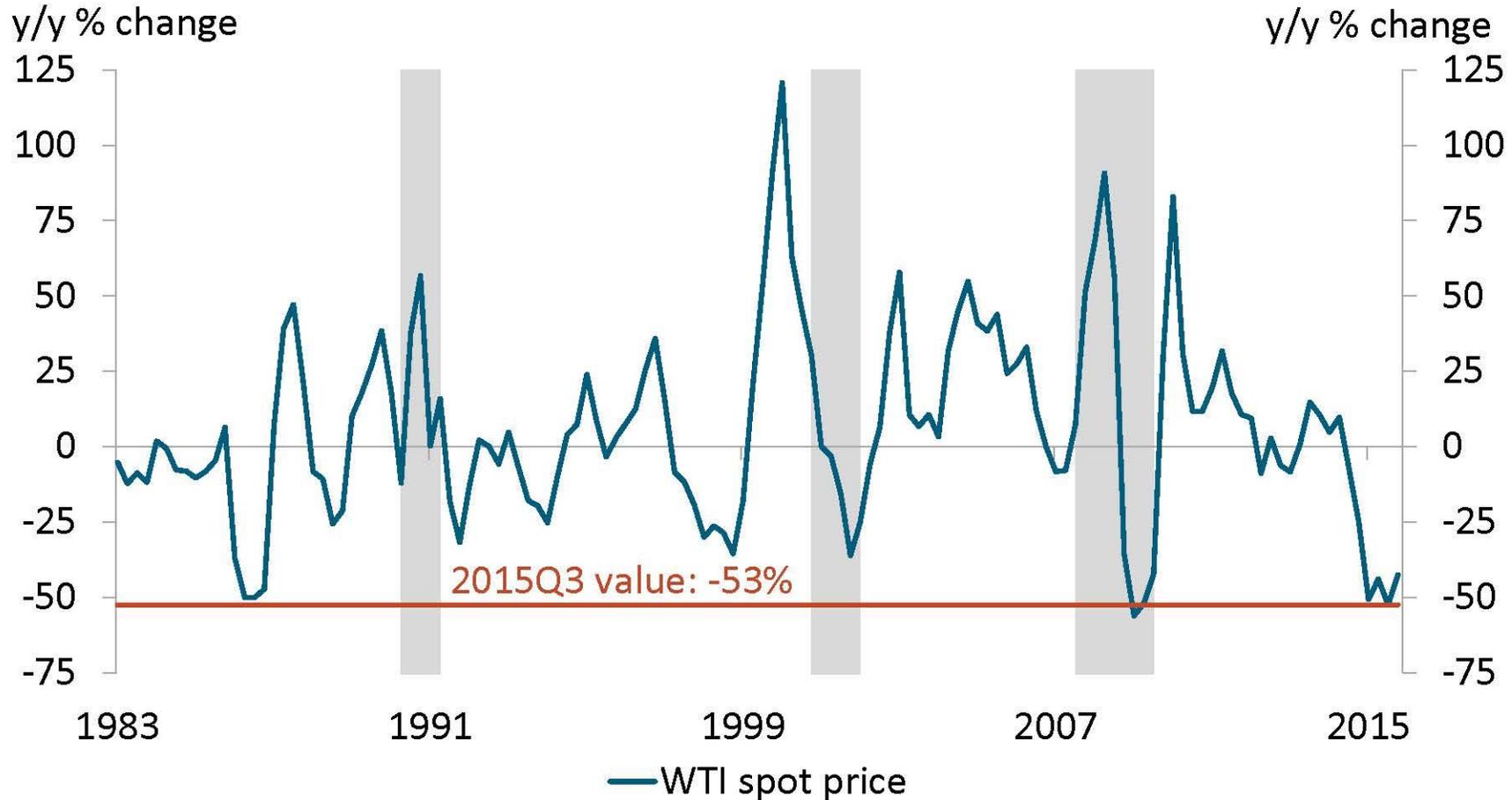
Very large investment gains were realized (but not forecasted) in 2008, 2011, 2012, 2013, 2014, and 2015. For FY 2015, investment income accounted for 40.3% of all General Fund revenues.

Source: January 2016 CREG Forecast.

And so things have changed... (A perfect Storm?)

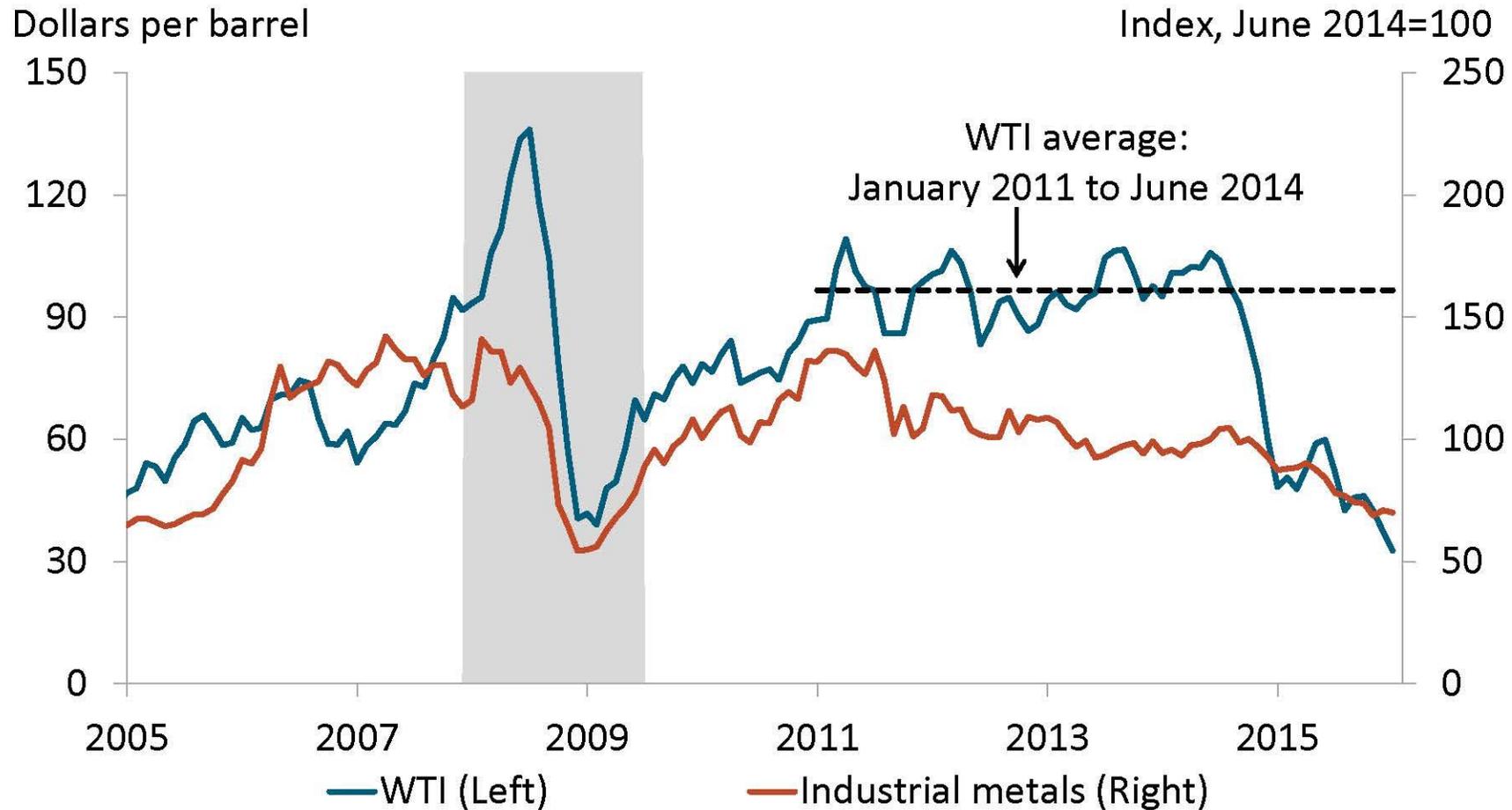
- Oversupply
- Climate Change regulations
- After record gains 2015 proved to be the 3rd worst investment market since 1926
- Anemic economic growth worldwide

The recent decline in oil prices is large by historical standards



Source: EIA, NBER, Haver Analytics

Commodity prices outside of oil have also fallen, but not as much as oil



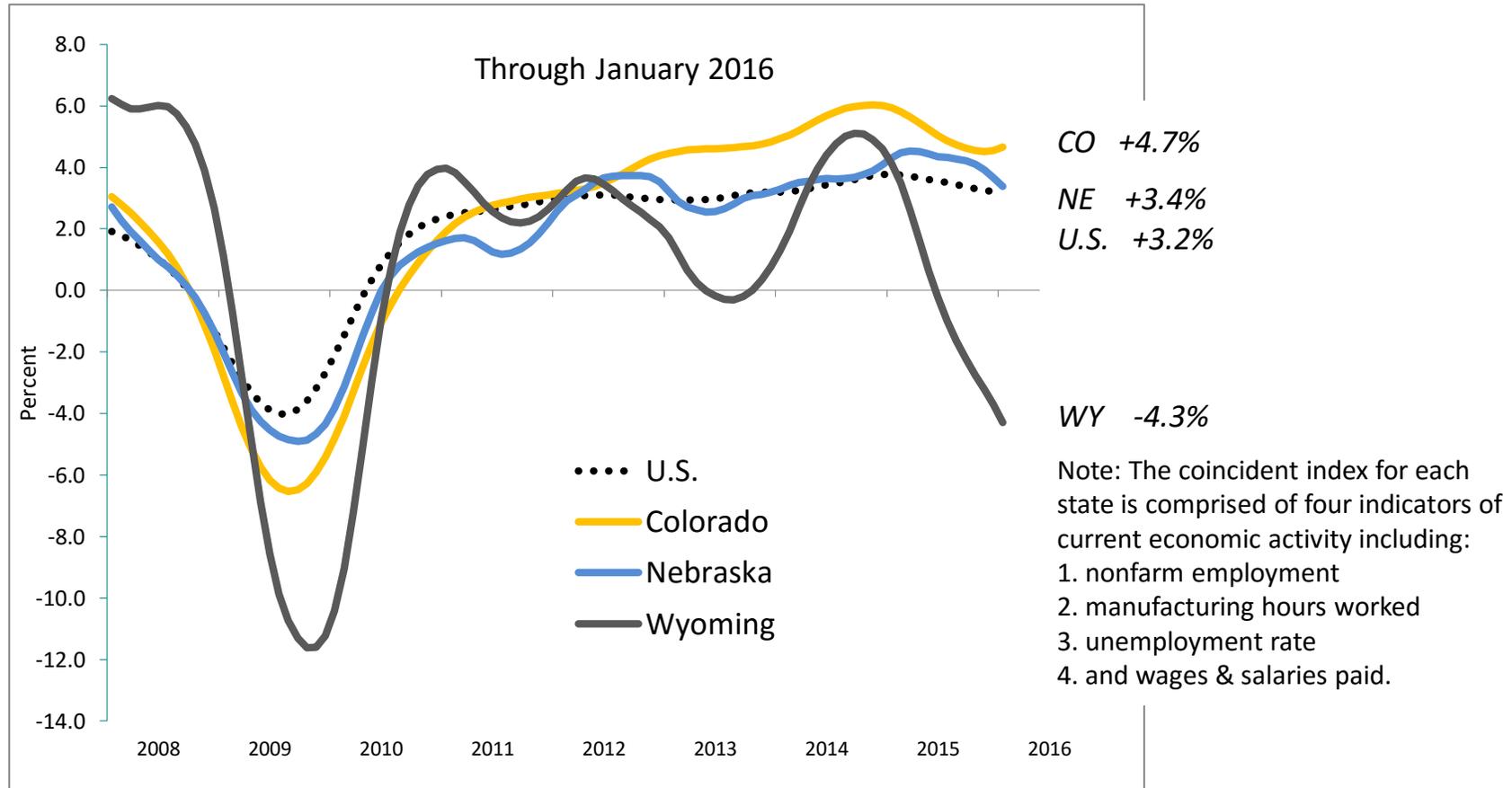
Source: EIA, NBER, WSJ, S&P, Haver Analytics

And Wyoming?



Coincident Index: WY, CO, NE, & U.S.

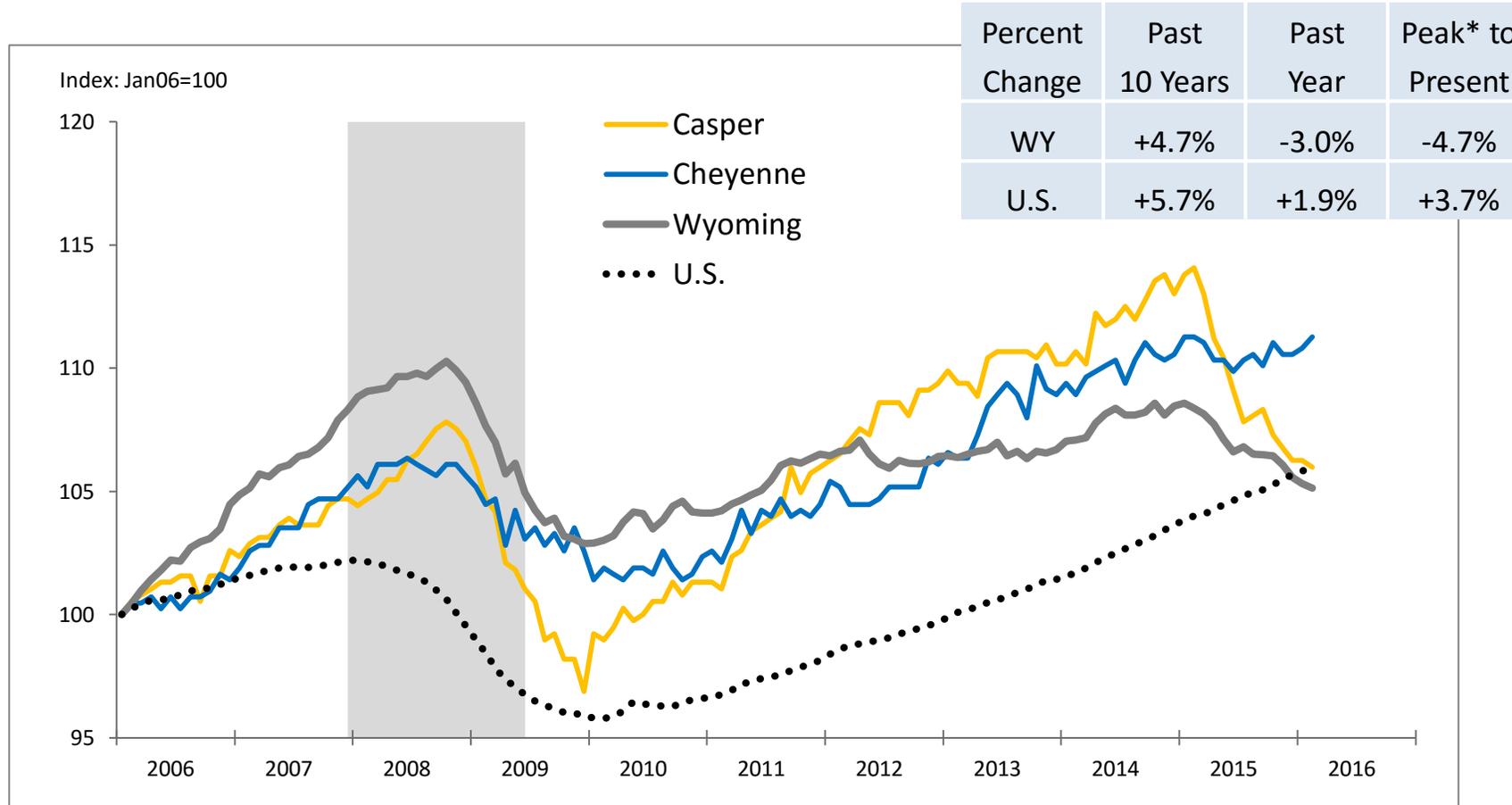
Year-over-Year Percent Change in Index Values



Source: Federal Reserve Bank of Philadelphia.



Nonfarm Employment: Casper, Cheyenne, WY, & U.S. Seasonally Adjusted — Through February 2016



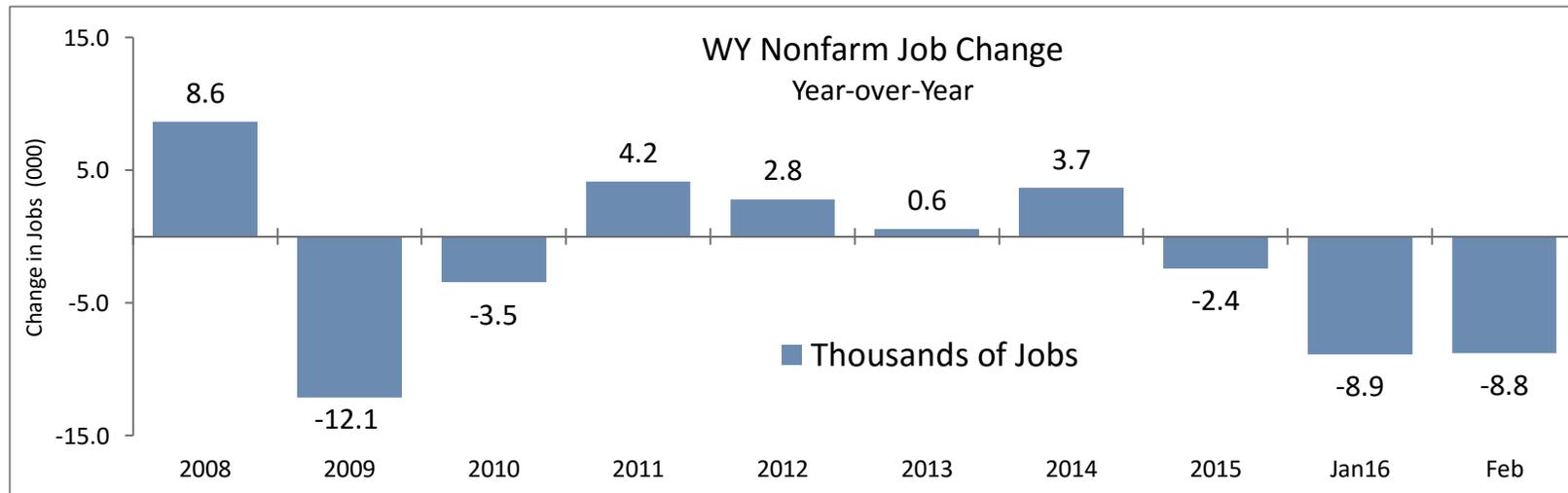
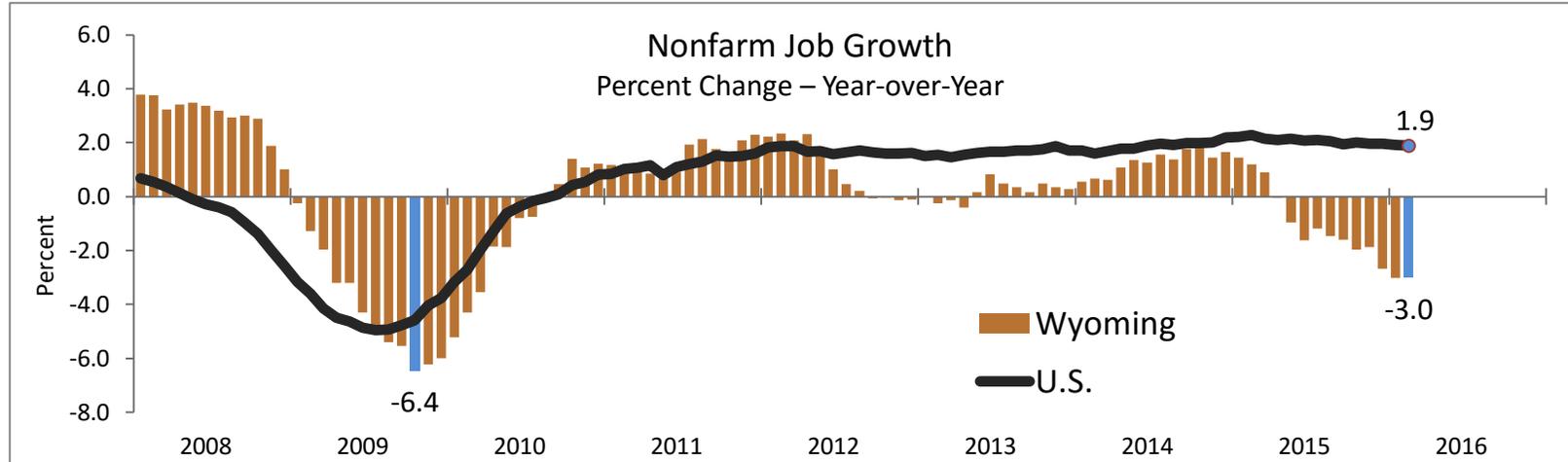
Source: Bureau of Labor Statistics.

Note: Shaded area represents recession.

*Refers to pre-recession peak.



WY and U.S. Nonfarm Employment Through End of February 2016; Seasonally Adjusted

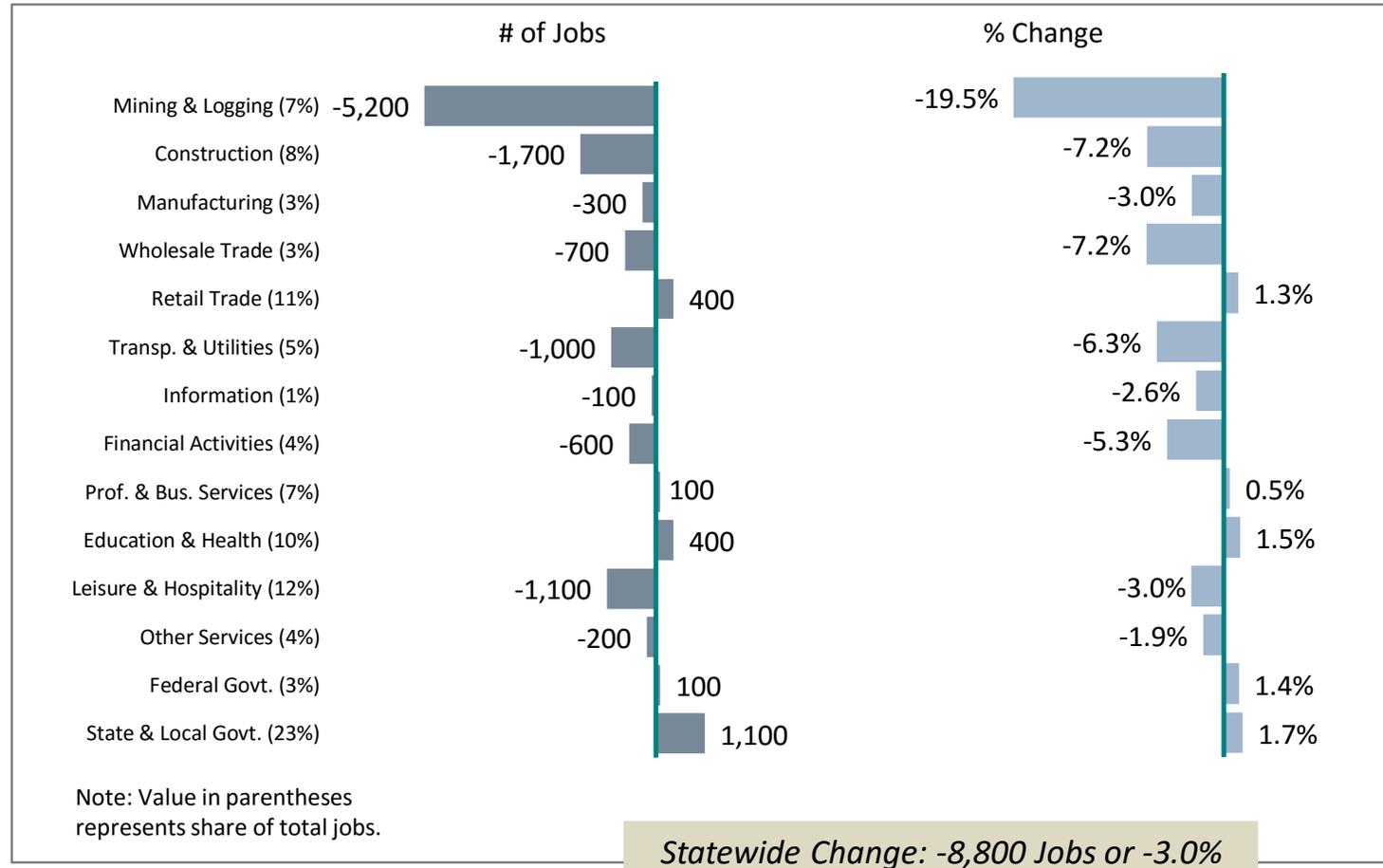


Source: U.S. Bureau of Labor Statistics.



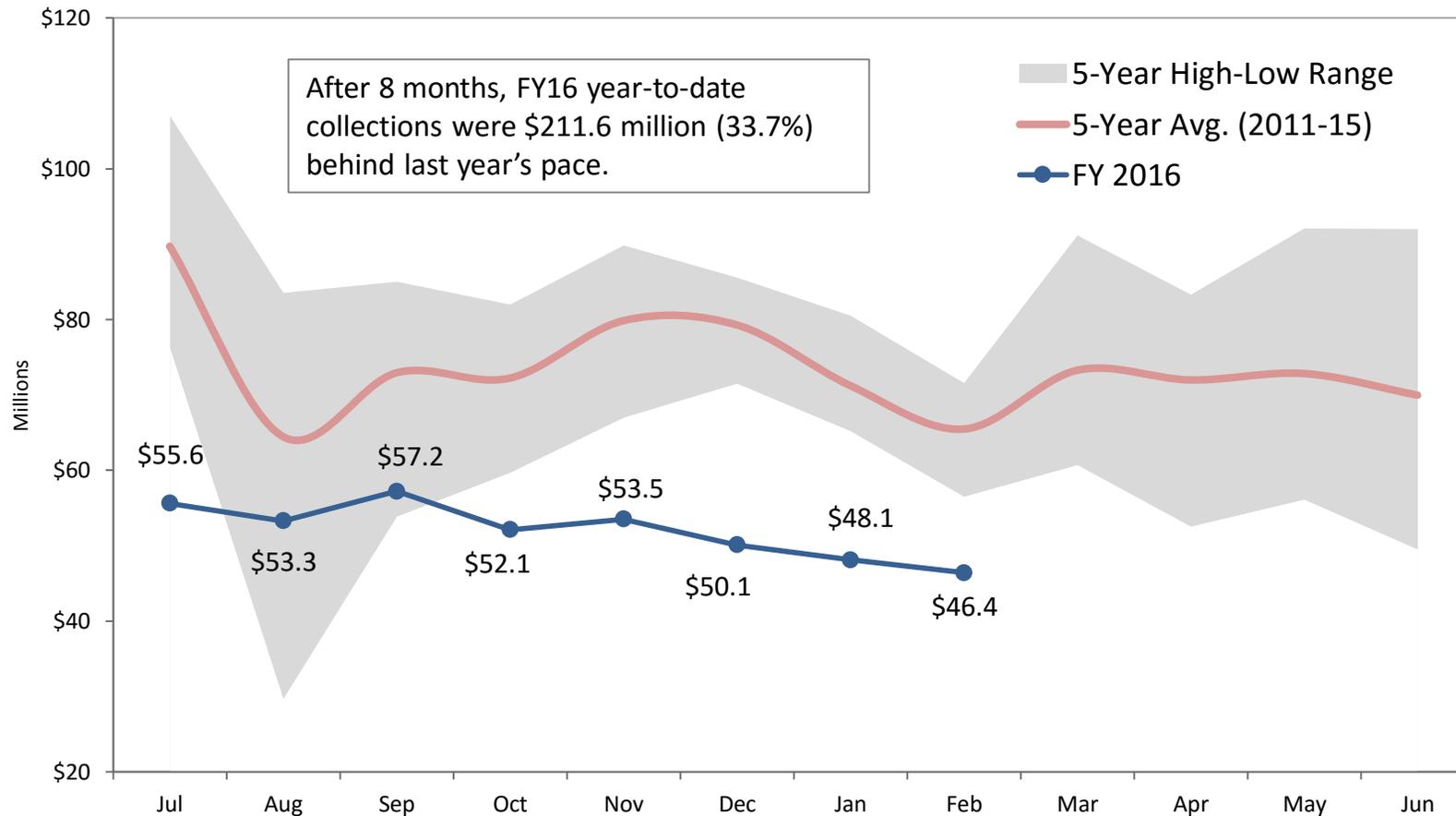
WY Employment Change: February 2016 vs. February 2015

Year-over-Year; Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics.

WY Statewide Severance Tax Collections

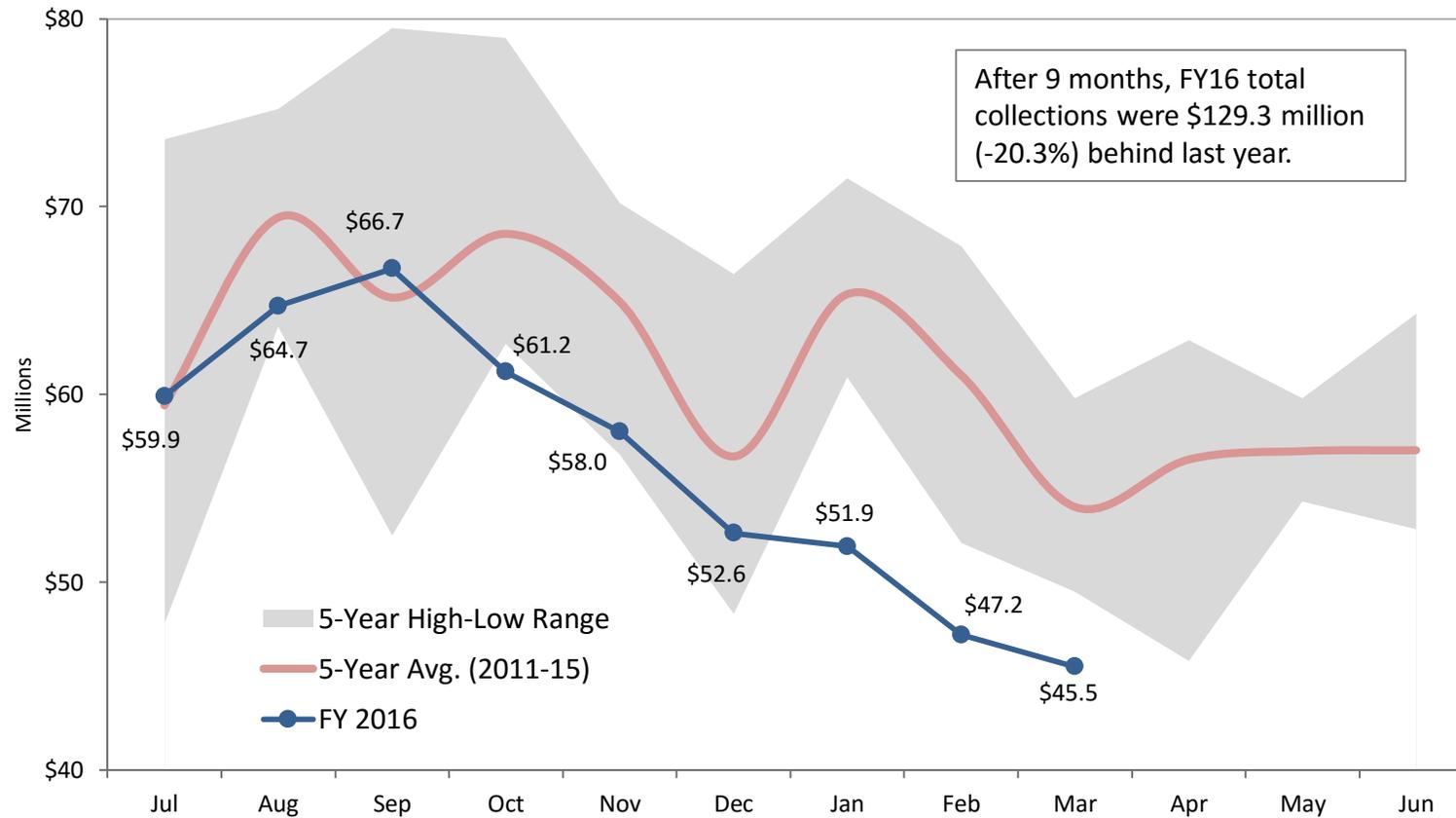


Source: WY Dept. of Revenue.

Note: Includes severance taxes collected on all minerals in Wyoming on a cash receipts basis.



WY Statewide 4% Sales and Use Tax Collections



Source: WY Dept. of Revenue.

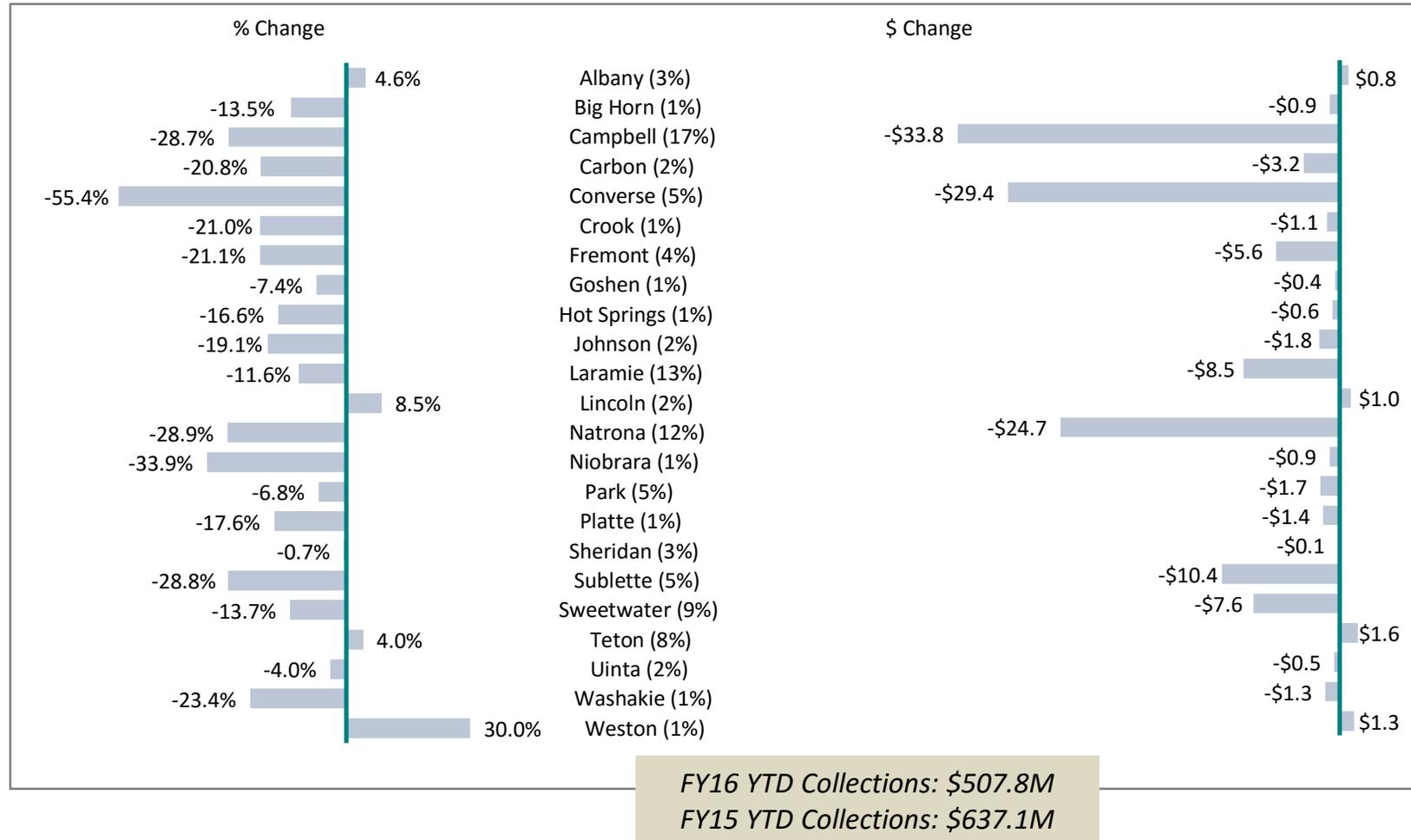
Note: Includes both the state and local shares of the state-wide 4% sales and use tax collections on a cash receipts basis.



WY Statewide 4% Sales and Use Tax Collections by County

Change in Percent and Dollars (Millions)

Year-to-Date Fiscal 2016 vs. Fiscal 2015 — Nine Months of Collections

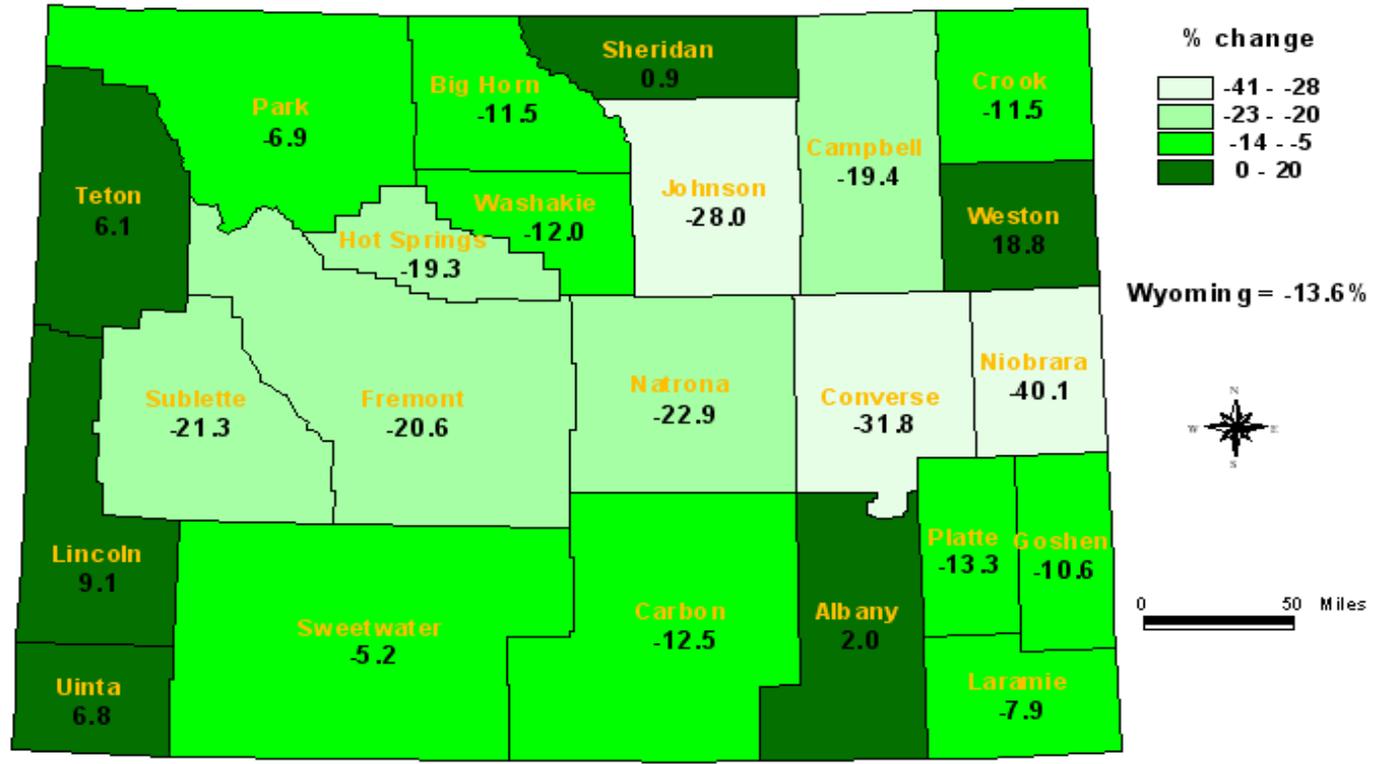


Source: WY Dept. of Revenue.

Note: Includes both the state and local shares of the state-wide 4% sales and use tax collections on a cash receipts basis. Value in parentheses represents share of total collections.



Percent Change in Sales and Use Tax Collections: Apr-Oct 2014 to Apr-Oct 2015

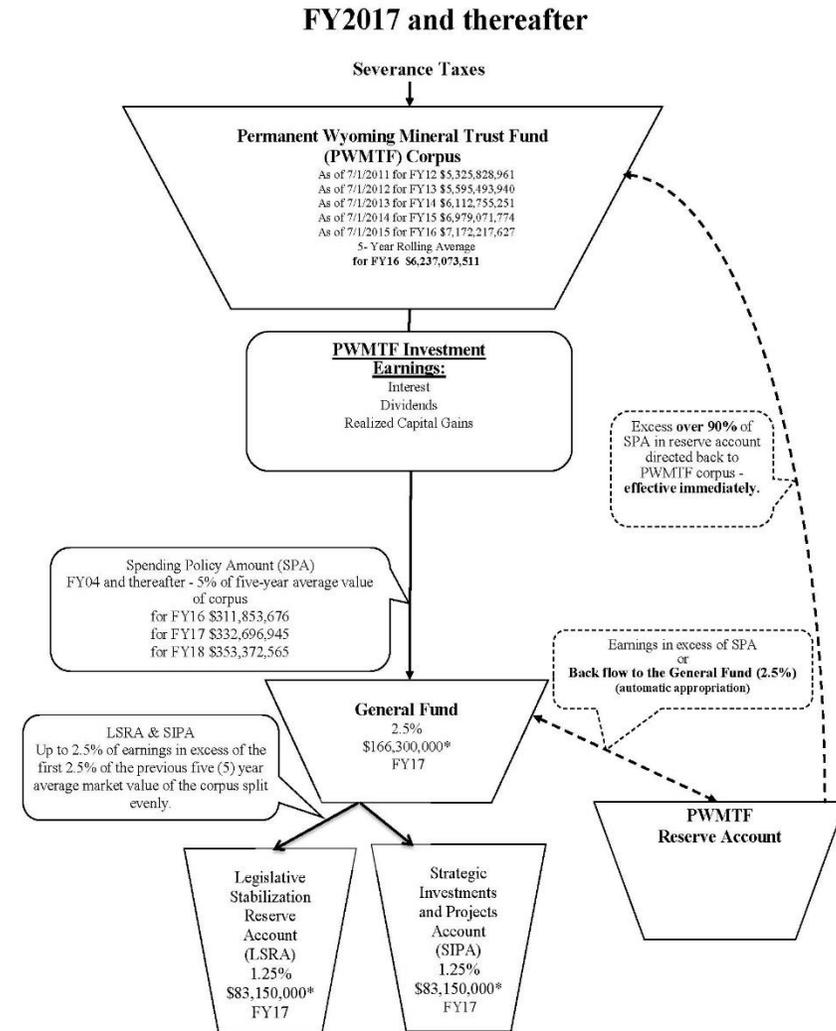


Remember the Spending Policies?

This is what the one for the PMTF looks like.

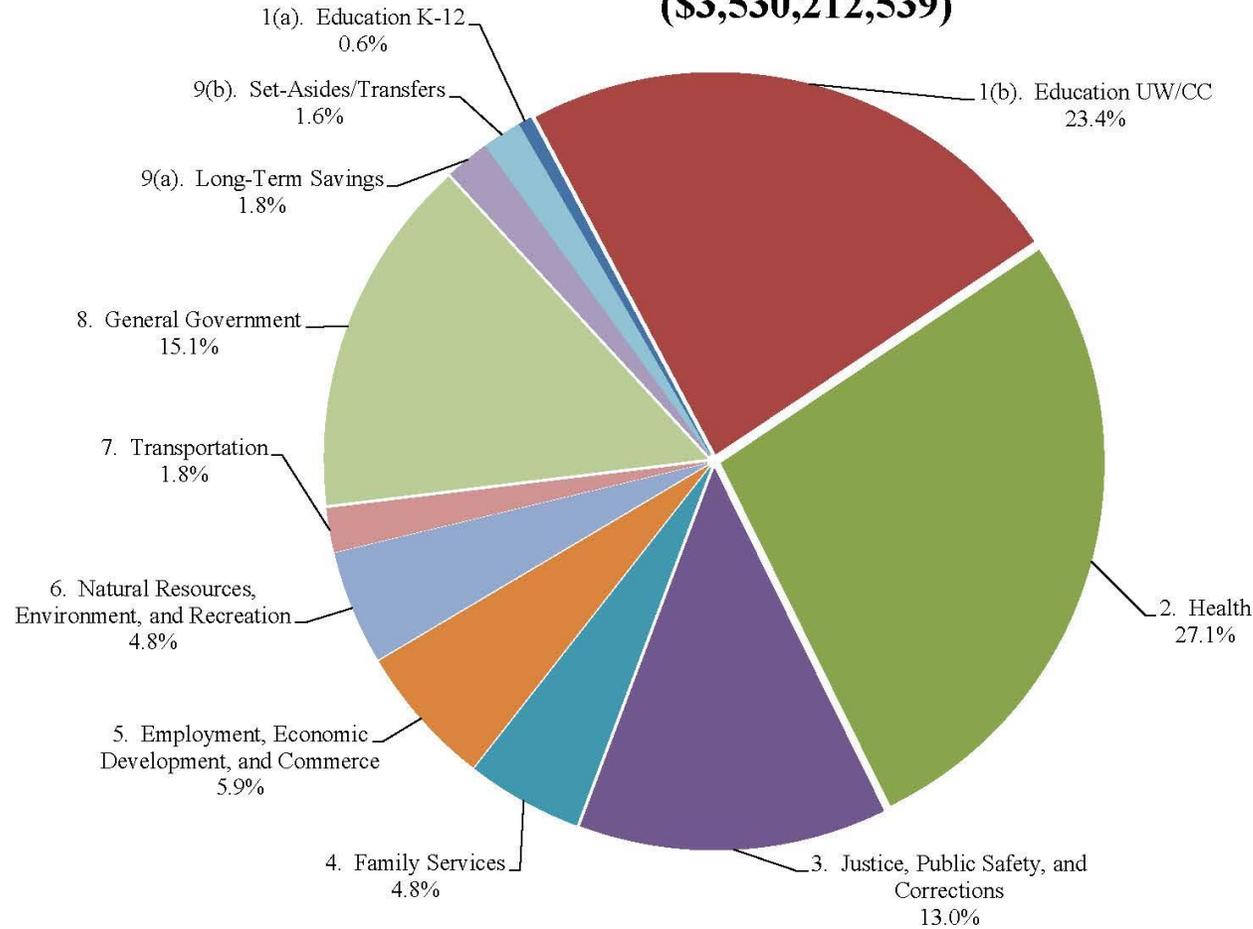
Perhaps it is time to take a look at each of them in light of a new normal.

Flow Chart: Spending Policy Reserve Account (PWTFR), W.S. 9-4-719



*For illustrative purposes only, based on projected FY2017.

**Percent of FY 2015-16 Biennium Appropriations,
General Funds* By Service Category
(\$3,530,212,539)**



* General Funds do not include other Type-3 Funds. Other Type-3 Funds (BRA not transferred to the GF, SIPA, etc.) are included under Other Funds.

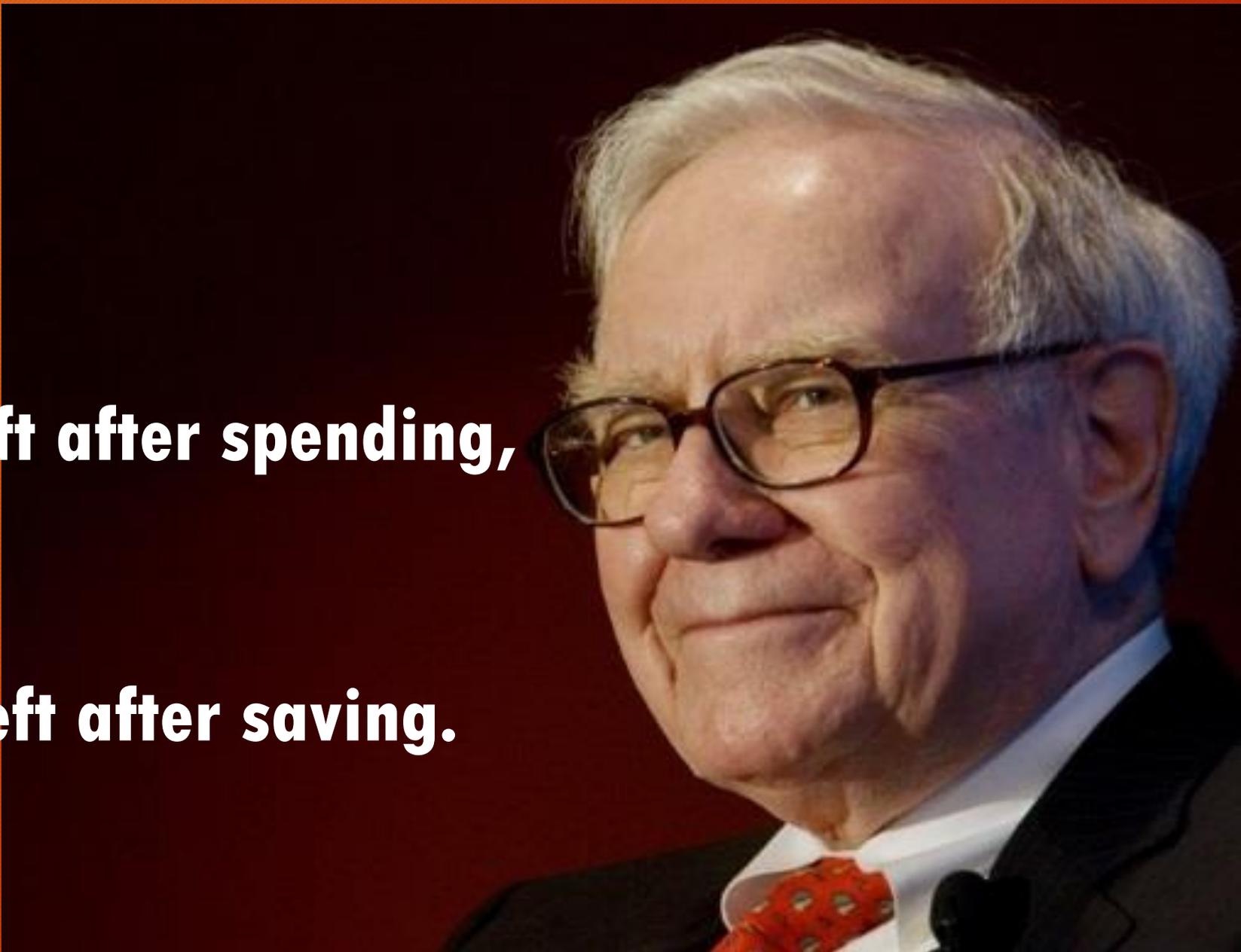
How the budget for the 2015-16 Biennium sorted out - This is the part of the budget we spend most of our time discussing about 1/3 of the whole budget.

So what do we do?

(Warren Buffett might suggest...)

Don't save what is left after spending,

But spend what is left after saving.



The Treasurers Office has 3 Initiatives:

1st Enhance Local Government Opportunity

- Revised Wyoming Investment Statutes
 - Other choices -- more than just an overnight fund
 - County treasurer training
- These changes are transparent in nature and will allow for private sector participation.

2nd Initiative... Is “cheap” really less expensive or even good business?

- We are one of the biggest Sovereign Wealth Funds in the world our portfolio has grown 300% but we have not.
- We have essentially the same staff today that we did in 2006.
- Need to differentiate the pools by objective and purpose. Foundation model.
- Cannot implement best practices with expanded capabilities in house.
(every basis point saved = \$1.9 million in returns to Wyoming.)

3rd of Three Initiatives:

Constitutional Amendment A

Currently, the Wyoming Constitution allows the legislature to authorize the investment of public employee retirement systems funds and permanent state funds in equities, such as stock or shares in private or public companies. Permanent funds of the state include funds designated as permanent funds by the Constitution. The Wyoming Constitution does not allow the state to invest any other funds in equities.

The adoption of this amendment would allow the legislature, by two-thirds vote of the members of both houses, to authorize the investment of additional specified state funds in equities.

Thank You

Thanks to Wyoming Economic Analysis Division and the Wyoming Taxpayers