



# Wyoming State Treasurer

## Mark Gordon

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October 31, 2016

Select Committee on Capital Financing & Investments  
State Capitol  
Cheyenne, WY 82002

RE: Spending Policy Modification Recommendations

Dear Chairman:

In accordance with Wyoming State Statute 9-4-719(p), the State Treasurer, in consultation with the State Loan and Investment Board, is to provide annually, not later than November 1, recommendations to the Select Committee on Capital Financing and Investments regarding modifications to the spending policy for the earnings on the Permanent Wyoming Mineral Trust Fund (PMTF), the Common School Account within the Permanent Land Fund (CSPLF) and the Excellence in Higher Education Endowment Fund (Higher Ed Fund).

### Spending Policy Amount

The Legislature has established the same annual spending policy amount for earnings from the PMTF, the CSPLF and the Higher Ed Fund, which currently is five percent (5%) of the rolling five year average of the market value of the corpus of each such Fund.

### Permanent Mineral Trust Fund

To the extent earnings exceed the spending policy amount set in statute for the PMTF in any fiscal year, the excess flows to the PMTF reserve account. If the earnings are less than the spending policy amount for a fiscal year for the PMTF, monies in the PMTF reserve account are *not* utilized to make up the difference under current legislation. If the PMTF reserve account in a fiscal year reaches more than ninety percent (90%) of its spending policy amount, the excess reserves are placed in the PMTF.

### Common School Permanent Land Fund

For the CSPLF, earnings in excess of the spending policy amount in a fiscal year flow ultimately to the School Foundation Program account; however, an automatic appropriation is made from federal mineral royalties which would otherwise be deposited into the School Foundation Program account in an amount equal to the excess earnings to the CSPLF reserve account. If the earnings are less than two and one-half percent (2.5%) of the rolling five year average of the market value of the

CSPLF, then the difference between the earnings and such amount are transferred from the CSPLF reserve account into the common school account within the permanent land income fund. If the CSPLF reserve account in a fiscal year reaches more than ninety percent (90%) of its spending policy amount, the excess reserves are placed in the CSPLF.

### **Excellence in Higher Education Endowment Fund**

To the extent earnings from the Higher Ed Fund exceed the spending policy amount, excess earnings flow to the Higher Ed Fund reserve account. If earnings are less than the spending policy amount, the legislature has provided for a continuous appropriation from the Higher Ed Fund reserve account in the amount of such difference to supplement the spending from the earnings of the Higher Ed Fund. Once the Higher Ed Fund reserve account reaches more than seventy-five percent (75%) of the spending policy amount, the excess reserves are placed in the Higher Ed Fund.

### **Reserve Account Spill Over to Corpus**

For fiscal year 2016, there were no earnings in excess of the spending policy amount for the PMTF, the CSPLF or the Higher Ed Fund. Thus, no monies flowed to the reserve accounts for the PMTF, the CSPLF or the Higher Ed Fund and therefore, no monies from any of the reserve accounts spilled over to the PMTF, the CSPLF or the Higher Ed Fund.

Attached are spreadsheets from the Treasurer's Annual Report for each of the spending policy reserve accounts which display cash flows for the previous five years.

### **Recommendations Regarding Modifications to Spending Policies**

In accordance with W.S. 9-4-719(p), I as State Treasurer offer the following recommendations.

First, for the purpose of further securing the State's financial health, it would be best to reduce the annual spending policy amount for all three Funds. Successfully reaching a five percent (5%) spending policy amount has become less likely for the next few years. After careful analysis with our investment consultant, RVK Inc., a more realistic amount would be four percent (4%), still using the rolling five year average of the market value of the corpus of each Fund. If the State determines that four percent (4%) is a more reasonable amount, I suggest that a phased approach be considered to smooth the shift; e.g. 4.75% the first fiscal year, 4.5% the fiscal year thereafter, etc., until the target rate of four percent (4%) is reached.

For the PMTF and the CSPLF, this change would not result in spending cuts currently but rather would place a ceiling on spending going forward. However, for the Higher Ed Fund, this reduction could result in spending cuts since at present their earnings are supplemented from the Higher Ed Fund reserve account. This is why I am recommending the stair step approach. As previously reported in 2015, the Higher Ed Fund reserve account is likely to run out of funds in January 2017.

Secondly, I would also recommend reducing the spillover percentage for the PMTF reserve account and the CSPLF reserve account from ninety (90%) to seventy-five percent (75%) as it would also serve to enhance the State's long term health. This would increase the amount in the corpus over time to a point where these funds could operate more like an endowment, providing the State a more stable income and mitigating her reliance on severance taxes and other volatile income streams.

I understand that in a low return environment it may be difficult to make these changes even if they move the State towards better long term financial health. However, it is my recommendation as Treasurer and in accordance with W.S. 9-4-719(p) that the State position itself to move in the direction recommended as these changes will help to inflation proof the corpus and provide a more stable income to meet future spending needs.

Sincerely,



Mark Gordon  
State Treasurer

Attachments

cc: Governor Matt Mead  
Kari Jo Gray, Chief of Staff, Governor's Office  
Kevin Hibbard, A&I Budget  
Matt Obrecht, LSO

## PERMANENT MINERAL TRUST FUND SPENDING POLICY RESERVE ACCOUNTS

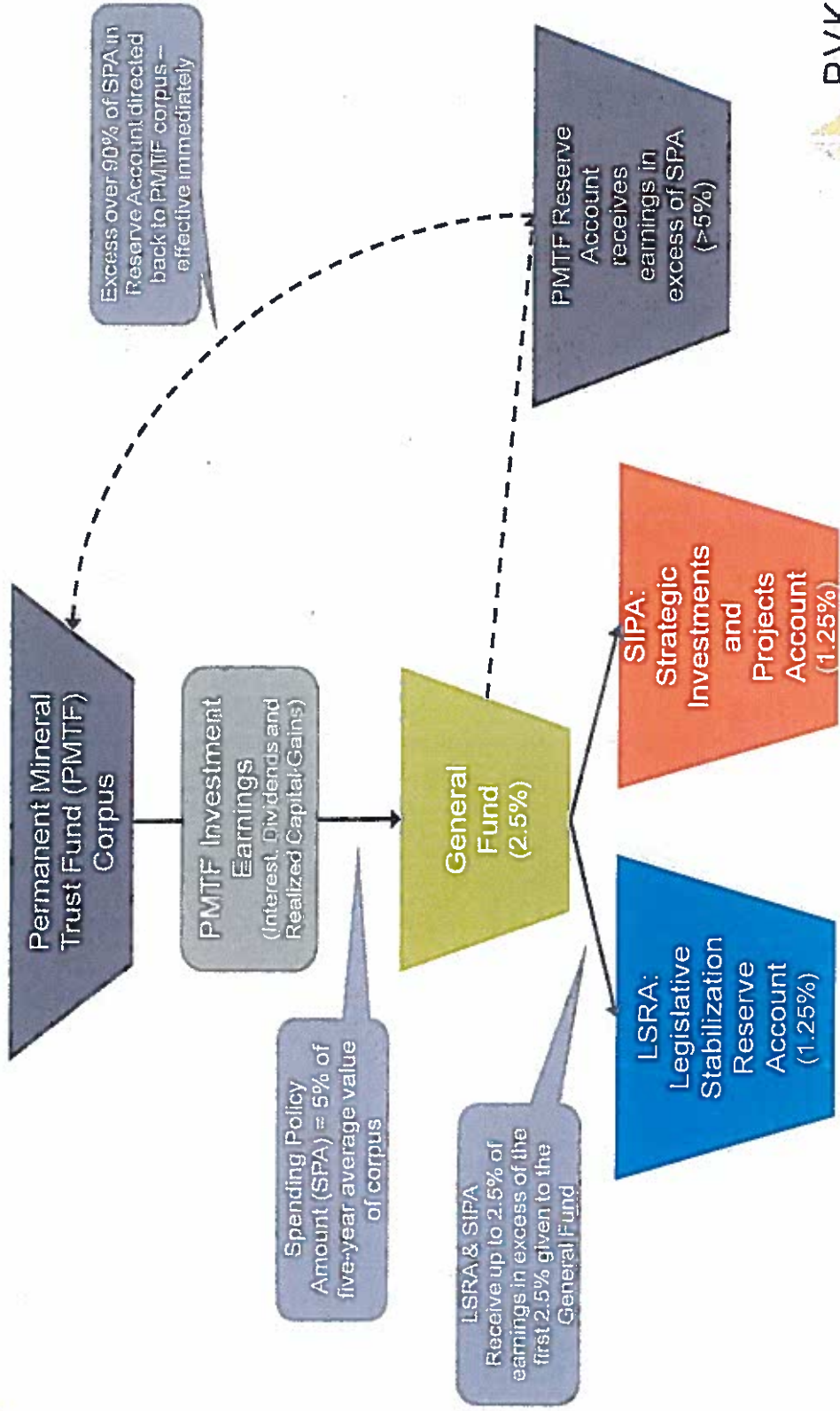
In the 2000 Session, the Legislature established annual spending policy amounts for earnings from the Permanent Mineral Trust Fund (PMTF). To the extent earnings exceed the spending policy amount set in statute for the PMTF, the excess flows to the PMTF Reserve Account (Reserve Account). Monies in the Reserve Account are available to supplement earnings for those years in which earnings fail to reach the spending policy amount. If the Reserve Account reaches more than 90% of the spending policy amount, the excess reserves are placed in the PMTF corpus.

The spending policy amount for FY 16 for the PMTF 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 PMTF from the Reserve Account.

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 PMTF.

| PERMANENT WYOMING MINERAL TRUST FUND<br>SUMMARY FROM FY 12 TO FY 16<br>AS OF JUNE 30TH |               |                                |                   |  |                               |                        |                     |                     |  |
|--|---------------|--------------------------------|-------------------|--|-------------------------------|------------------------|---------------------|---------------------|--|
| Prior FY Beginning Balance   | Prior FY Cost | Prior FY Investments at Market | Investment Income | Investment Income Over Spending Policy-Reserve | Cash Balance Before Spillover | 90% of Spending Policy | Spillover to Corpus | Ending Cash Balance |  |
| 2012   | 5,440,883,651 | 5,325,828,961                  | 205,847,144       | 0  | 144,315,485                   | 161,229,523            | 0                   | 144,315,485         |  |
| 2013   | 5,888,454,802 | 5,595,493,940                  | 366,635,722       | 132,988,906                                    | 277,304,391                   | 175,235,112            | (102,069,279)       | 175,235,112         |  |
| 2014   | 6,368,298,515 | 6,112,755,251                  | 395,337,466       | 141,917,451                                    | 317,152,563                   | 190,065,011            | (127,087,552)       | 190,065,011         |  |
| 2015   | 6,848,939,024 | 6,979,071,775                  | 494,234,268       | 209,961,968                                    | 400,026,980                   | 255,845,070            | (134,181,910)       | 265,845,070         |  |
| 2016   | 7,066,416,652 | 7,172,217,627                  | 149,823,404       | 0  | 265,845,070                   | 280,668,308            | 0                   | 265,845,070         |  |

# PMTF Spending Policy, Effective FY17





## COMMON SCHOOL PERMANENT LAND FUND SPENDING POLICY RESERVE ACCOUNTS

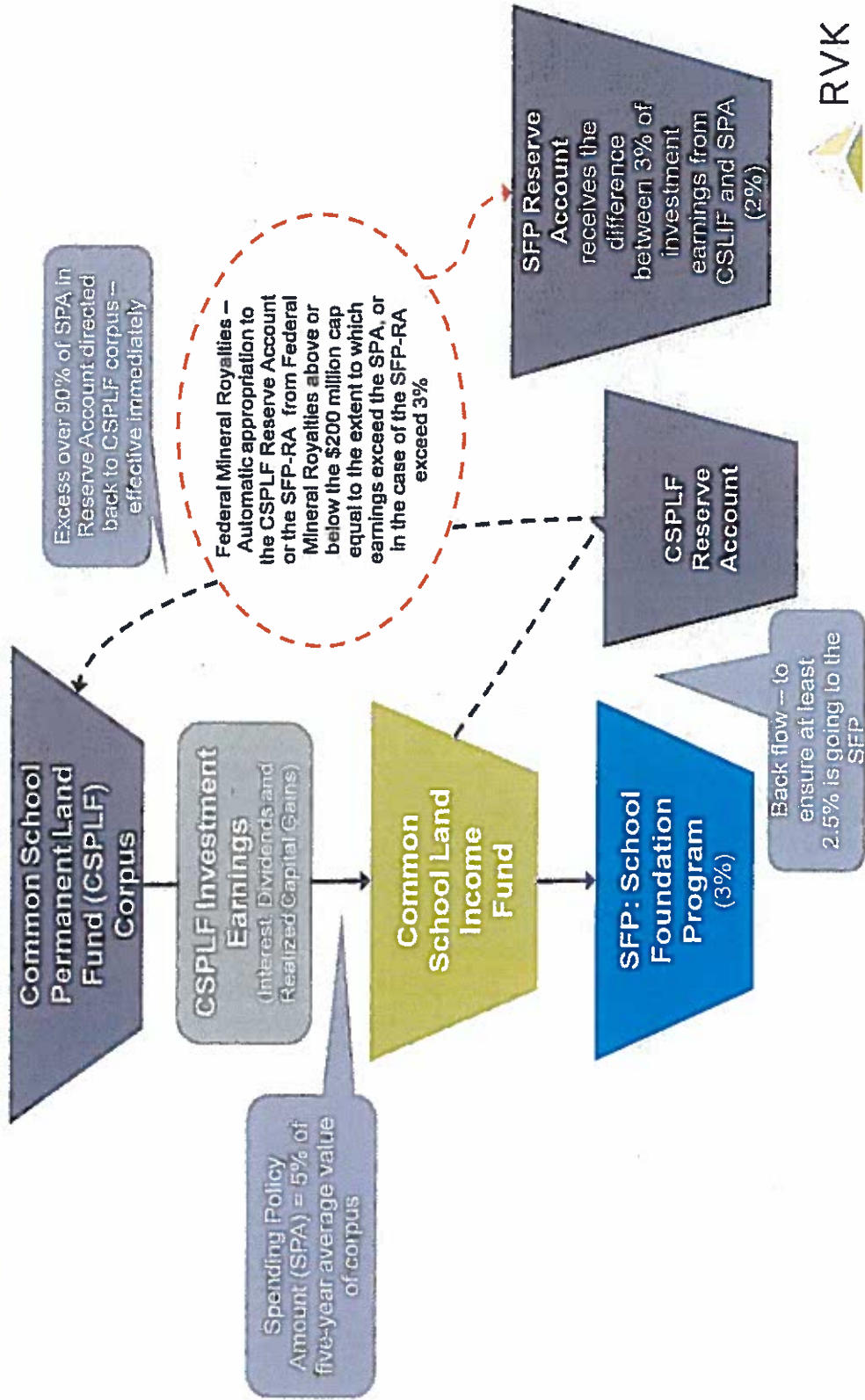
In the 2000 Session, the Legislature established annual spending policy amounts for earnings from the Common School Permanent Land Fund (CSPLF). For the CSPLF, earnings in excess of the spending policy amount flow to the Common School Land Income Account and School Foundation Program Account. However, an automatic appropriation is made from "over the \$200 million cap" in federal mineral royalties which would otherwise be deposited into the School Foundation Program Account in an amount equal to the excess earnings to the CSPLF Reserve Account (Reserve Account). Monies in the Reserve Account are available to supplement earnings for those years in which earnings fail to reach the spending policy amount. If the Reserve Account reaches more than 90% of the spending policy amount, the excess reserves are placed in the CSPLF corpus.

The spending policy amount for FY 16 for the CSPLF 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 CSPLF from the Reserve Account.

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 CSPLF.

| COMMON SCHOOL PERMANENT LAND FUND<br>SUMMARY FROM FY 12 TO FY 16<br>AS OF JUNE 30TH |               |                                |                   |  |                               |                        |                     |                     |  |
|---|---------------|--------------------------------|-------------------|--|-------------------------------|------------------------|---------------------|---------------------|--|
| Prior FY Beginning Balance  | Prior FY Cost | Prior FY Investments at Market | Investment Income | Investment Income Over Spending Policy-Reserve | Cash Balance Before Spillover | 90% of Spending Policy | Spillover to Corpus | Ending Cash Balance |  |
| 2012  | 2,318,017,077 | 2,236,530,927                  | 99,567,151        | 7,518,553                                      | 69,498,581                    | 69,036,448             | (462,133)           | 69,036,448          |  |
| 2013  | 2,533,432,505 | 2,371,333,538                  | 142,833,282       | 43,854,373                                     | 112,890,821                   | 74,234,182             | (38,656,639)        | 74,234,182          |  |
| 2014  | 2,782,303,206 | 2,630,640,734                  | 172,478,233       | 64,853,377                                     | 139,087,559                   | 80,718,642             | (58,368,916)        | 80,718,642          |  |
| 2015  | 3,261,661,104 | 3,046,528,217                  | 215,739,848       | 93,874,480                                     | 174,593,123                   | 109,678,831            | (64,914,291)        | 109,678,831         |  |
| 2016  | 3,401,119,825 | 3,405,296,800                  | 76,888,127        | 0  | 109,678,831                   | 123,212,972            | 0                   | 109,678,831         |  |

# CSPLF Spending Policy, Effective FY16



## 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<sup>TH</sup>

| Prior FY Beginning Balance | Prior FY Cost | 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   | 111,455,207                    | 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

