



SELECT COMMITTEE ON CAPITAL FINANCING & INVESTMENTS

Members, Sixty-fourth Wyoming Legislature,

In the 2000 Budget Session, the Legislature established annual spending policy amounts for earnings from the Permanent Wyoming Mineral Trust Fund (PWMTF) and the Common School account within the Permanent Land Fund (CSPLF). The spending policies are intended to identify the amount of earnings available for expenditure from these permanent funds, make the availability of earnings revenue for appropriation and expenditure more consistent year to year, and protect the corpuses from inflation.

For the PWMTF, to the extent earnings exceed the amount set in statute as the spending policy amount, the excess earnings flow to a reserve account for that fund. For the CSPLF, by statute, earnings in excess of the spending policy amount still flow to the Common School Land Income fund (CSLI) and School Foundation Program account (SFP). However, a "swap" of funds is required by statute, as an automatic appropriation from federal mineral royalties (FMRs) is made to the CSPLF reserve account. These FMRs would otherwise be deposited into the SFP. The amount of FMRs deposited to the CSPLF reserve account is equal to the earnings in excess of the spending policy amount. Monies in the reserve accounts are available to supplement earnings for those years in which earnings fail to reach the spending policy amounts. If the reserve accounts reach more than 150 percent of the spending policy amount, statute provides for the excess reserves to be placed in the appropriate corpus. This threshold, or "cap," of 150 percent was established by the legislature at 90 percent prior to fiscal year (FY) 2018 and 75 percent prior to FY 2015. In the 2017 General Session, the Legislature increased the threshold to 150 percent, effective July 1, 2017, allowing more funds to be available in the reserve accounts to address years in which investment earnings are less than the spending policy amount.¹

In the 2007 General Session, the Legislature established an annual spending policy amount for the Excellence in Higher Education Endowment fund. Like the PWMTF spending policy and reserve account, to the extent earnings from the Excellence in Higher Education Endowment fund exceed the spending policy amount, excess earnings flow to the reserve account for that fund. Also like the PWMTF and CSPLF, once the reserve account reaches more than 150 percent of the spending policy amount, the excess reserves are placed in the applicable corpus, here the Excellence in Higher Education Endowment fund.

¹ 2017 Wyoming Session Laws, Chapter 206.

In the legislation adopted in 2017 that increased the “cap” on the reserve accounts, the Legislature also modified the spending policy amounts for the PWMTF, CSPLF, and Excellence in Higher Education Endowment fund.¹ Table 1 depicts the newly adopted spending policy amounts for each fund, which were previously established at 5 percent of the five-year average market value for all three funds.

Table 1. Spending Policy Amounts (as a percent of the five-year average market value)

Fiscal Year	PWMTF	CSPLF	Excellence in Higher Education Endowment Fund
2018	5.0%	5.0%	5%
2019	5.0%	5.0%	4.75%
2020	5.0%	5.0%	4.75%
2021	4.75%	4.75%	4.75%
2022 and thereafter	4.5%	4.5%	4.75%

Source: W.S. 9-4-719(d), (h), and (o).

In the 2007 legislation establishing the spending policy for the Excellence in Higher Education Endowment fund, the legislation also provided for a continuous appropriation from the Excellence in Higher Education Endowment reserve account to supplement the spending from the excellence in higher education endowment income account in those years earnings failed to meet the spending policy amount. This type of automatic appropriation of funds was repealed in 2004 for the PWMTF and CSPLF reserve accounts.

In the 2015 legislation that increased the maximum thresholds of the PWMTF and CSPLF reserve accounts, the Legislature also modified the distribution of investment earnings less than, or under, the 5 percent spending policy amounts.² Specifically, beginning in FY 2016, an amount equal to the first 3 percent of the five-year market average from investment earnings from the CSPLF was directed to the CSLI and an amount equal to the next 2 percent was directed to the School Foundation Program Reserve Account (SFPR). Furthermore, the first 2.5 percent of investment earnings directed to the CSLI was guaranteed from funds within the CSPLF reserve account, to the extent funds are available, similar to the operation of the Excellence in Higher Education Endowment Reserve Account previously described.

Likewise, beginning in FY 2017, the first 2.5 percent of the five-year market average of investment earnings from the PWMTF was guaranteed to the General Fund, to the extent funds are available in the PWMTF reserve account. The next 2.5 percent of investment earnings from the PWMTF, to the extent the earnings are realized, were directed from the General Fund in equal amounts to the Legislative Stabilization Reserve Account (LSRA) and the Strategic Investments and Projects Account (SIPA).

In 2017, the Legislature also amended the flow of revenues under the spending policy amounts for each of the three funds. Specifically, for the PWMTF, the first 2.5 percent of investment earnings from the PWMTF continues to be guaranteed to the General Fund, to the extent funds

² 2015 Wyoming Session Laws, Chapter 195.

are available in the PWMTF reserve account. The amount in excess of 2.5 percent and less than the spending policy amount (4.75 percent in FY 2021 and 4.5 percent in FY 2022 and thereafter) is equally split between the LSRA and the SIPA. The effect of reducing the spending policy amount is that for FY 2021, up to 2.25 percent and for FY 2022 and thereafter, up to 2 percent of the investment earnings may be split between the LSRA and SIPA.

For the CSPLF, all thresholds under the spending policy amount were repealed in 2017. However, beginning in FY 2018 the full amount of investment earnings up to the spending policy amount is now directed to the CSLI and guaranteed from funds within the CSPLF reserve account, to the extent funds are available.

For the Excellence in Higher Education Endowment fund, one-half of the difference between the spending policy amount and the actual investment earnings is supplemented from the Excellence in Higher Education reserve account, to the extent funds are available, to maintain payments to the benefiting institutions. Additionally, benefitting higher education institutions' expenditures from the investment earnings distributed are limited to 90 percent of the distribution in fiscal years in which the spending policy amount is reached or exceeded. The remainder (10 percent) is set aside within the higher education institution to be used to supplement investment earnings in years in which the spending policy is not reached. The higher education institutions are authorized to expend the saved funds in equal parts with the supplement from the Excellence in Higher Education Reserve fund.

The Select Committee on Capital Financing and Investments is required to report annually regarding recommended modifications to the annual spending policy amounts established by W.S. 9-4-719.

Establishment of annual spending policy amounts

Since initially establishing the spending policies for the PWMTF and CSPLF, the Legislature has modified the annual spending policy amounts by changing them from dollar amounts set in statute to a target rate of return. The target started at 8 percent for the PWMTF (8.2 percent for the CSPLF) of the five-year average market value of the applicable corpus and was initially set to decrease annually by $\frac{3}{8}$ percent increments to what was viewed as a "sustainable" 5 percent target amount in 2010 (2011 for the CSPLF). In 2004, given the State's increasing revenue picture, the Legislature eliminated the "stair step" reductions and established the spending policy amounts at the 5 percent of the five-year average market value level for subsequent fiscal years. For the Excellence in Higher Education Endowment fund, the annual spending policy was established at the "sustainable" 5 percent of the five-year average market value target amount with the implementation of a spending policy for that fund in 2007. In 2017, the Legislature further reduced future spending policy amounts as previously illustrated in Table 1.

Corpus values, earnings and distributions

Permanent Wyoming Mineral Trust Fund

The annual spending policy amount is calculated based upon a five-year rolling average market value of the PWMTF. That average for FY 2017 was \$6.636 billion; for FY 2017 it is \$7.050 billion.³

Thus, the spending policy amount for the PWMTF for FY 2017 was \$331.8 million; investment income in the fiscal year was \$298.8 million. Given that investment income was lower than the spending policy amount, no funds were deposited to the PWMTF reserve account. The amount in the reserve account at the end of the fiscal year was \$265.8 million, which fell shy of the "cap" amount of 90 percent of the spending policy (\$298.6 million).

For FY 2018, the annual spending policy amount for the PWMTF is \$352.5 million. Using October, 2017 Consensus Revenue Estimating Group (CREG) projections, which do not include investment earnings other than an estimate of interest and dividends, the PWMTF is projected to have earnings for FY 2018 of \$163.9 million, which falls short of the spending policy amount for that fund by \$188.6 million. A shortfall scenario is also projected for the subsequent fiscal years projected. Consistent with the State Treasurer's policy, projected earnings from the CREG report do not include capital gains and losses that might occur. This holds true for all projected earnings discussed in this report. Of note, 2.5 percent of the five-year average market value of the PWMTF corpus is guaranteed to be distributed to the General Fund, and this guarantee is incorporated into the October 2017 CREG projections. As a result, rather than an estimate of \$163.9 million for investment earnings from the PWMTF, CREG projects \$176.2 million, taking into account the guarantee distribution from the PMWTF Reserve Account to the General Fund.

Since the inception of the spending policy for the PWMTF in 2000, approximately \$756 million of investment income over the spending policy amount has been earned and deposited into the PWMTF reserve account. Additionally, the Legislature appropriated \$44.5 million to the reserve account from the General Fund in the 2004 Budget Session and a net amount of \$54.3 million was deposited into the reserve account by diversion of a portion of the severance tax under 2009 legislation. From excess earnings and other funds placed into the reserve account, approximately \$589 million has been transferred from the reserve account to the PWMTF corpus.

Common School Permanent Land Fund

For the CSPLF the five-year rolling average market value for FY 2017 was \$2.995 billion. That average for FY 2018 is \$3.293 billion.⁴

³ As of July 1, 2017, the PWMTF had a market value of \$7.666 billion, as compared to a market value of \$7.319 billion as of July 2016, \$7.172 billion as of July 2015, \$6.979 billion as of July 2014, and \$6.113 billion as of July 1, 2013.

⁴ As of July 1, 2017 the CSPLF had a market value of \$3.86 billion, as compared to a market value of \$3.52 billion as of July 2016, \$3.41 billion as of July 2015, \$3.05 billion as of July 2014, and \$2.63 billion as of July 2013.

Thus, the spending policy amount for the CSPLF for FY 2017 was \$149.7 million; investment income for FY 2017 was \$154.9 million. Therefore, because the actual income exceeded the spending policy amount for this fund, \$5.2 million was deposited into the CSPLF reserve account. The reserve account balance is \$114.9 million, less than the 90 percent cap of \$134.8 million. Therefore, no funds were deposited from the reserve account to the CSPLF corpus. In addition, the Legislature placed a temporary hold on any transfers from the reserve account to the corpus for the period of the 2017-2018 biennium, even if the balance did exceed the threshold.⁵ For FY 2018 the annual spending policy amount for the CSPLF is \$164.6 million. Using October, 2017 CREG projections, the CSPLF is projected to have earnings for FY 2018 of \$85.6 million, which falls shy of the guaranteed 5 percent minimum and short of the spending policy amount for that fund by \$79 million. There are sufficient funds within the CSPLF reserve account in the event final earnings, including realized capital gains, fall short of the projections in FY 2018 to make the full 5 percent spending policy. An annual shortfall scenario is also projected for the subsequent fiscal years projected by CREG.

Since the inception of the spending policy for the CSPLF in 2000, approximately \$323 million of investment income over the spending policy amount has been earned. Thus, appropriations of that amount have been deposited into the CSPLF reserve account.⁶ In addition, \$30 million was appropriated from the school foundation program account into the CSPLF reserve account in 2004. In 2007, \$13.5 million was appropriated from the CSPLF reserve account to the Hathaway Scholarship Expenditure account and \$4.2 million was appropriated from the CSPLF reserve account to be distributed by legislative direction to the University and community colleges for excellence in higher education programs.⁷ Since the establishment of the spending policy, approximately \$220 million has been transferred from the reserve account to the CSPLF corpus.

Excellence in Higher Education Endowment Fund

The Excellence in Higher Education Endowment fund received certain "over the cap" federal mineral royalties, until those specified distributions to that fund equaled \$105 million. As of July 1, 2008, FMRs distributed to that fund were \$105 million.⁸ For FY 2016, the five-year average market value of the Excellence in Higher Education Endowment fund corpus was \$115.2 million; resulting in a spending policy of \$5.8 million. Investment earnings were approximately \$3.7 million. The net shortfall of approximately \$2.1 million (rounded) could have been transferred from the Excellence in Higher Education reserve account, though the reserve account had just \$1 million available. After the withdrawal, the reserve account balance was zero. In the 2017 Supplemental Budget Bill, the Legislature appropriated \$1.25 million from the LSRA to

⁵ 2017 Wyoming Session Laws, Chapter 120, Section 300(n).

⁶ In 2008 the Select Committee on Capital Financing and Investments recommended that the funding source for "excess earnings" to the CSPLF reserve account be changed from general funds to other funds being deposited to the school foundation program account. The Appropriations Committee sponsored legislation which changed the funding source from general funds to "over the cap" FMRs which would otherwise flow to the School Foundation Program account. The legislation was enacted as 2008 Wyoming Session Laws, Chapter 102.

⁷ Of that \$4.2 million, the University returned \$167,274 to the CSPLF reserve account in FY 09.

⁸ The Excellence in Higher Education Endowment fund had a market value as of July 1, 2015 of \$117.97 million as compared to a market value of \$121.1 million as of July 2014, \$113.9 million as of July 2013, \$111.8 million as of July 2012, \$111.5 as of July 2011, and \$102.7 million as of July 2010.

the reserve account in the event certain conditions were met. Those conditions were met and the funds were transferred.

For FY 2018 the annual spending policy amount is \$5.9 million. The State Treasurer's Office projects the Excellence in Higher Education Endowment fund to have investment income for FY 2017 of \$2.7 million, which falls short of the spending policy amount by approximately \$3.2 million. With the automatic "shortfall flow" provision, the full available balance in the reserve account of \$1.25 million is projected to be deposited into the expenditure account from the reserve account for distribution to the University and community colleges in FY 2018. Even after this transfer, the account is anticipated to be \$2 million short of the spending policy, without consideration of realized capital gains or losses. A shortfall scenario is also projected for the subsequent fiscal years projected.

Since inception of the Excellence in Higher Education Endowment fund, the reserve account has received excess earnings of \$9.8 million. Additionally, 2009 legislation appropriated \$3.85 million to the reserve account from "over the cap FMRs" which would otherwise flow to the School Foundation Program account. As of the end of the last fiscal year, \$9.1 million in excess reserve account funds had flowed to the corpus.

Appendices A1 and A2 show the history of spending policy amounts, reserve account balances and market values for the PWMTF and CSPLF and Appendices B1 and B2 show graphical illustrations of the funding flows for the PWMTF and CSPLF, respectively.

As noted earlier, for all of the above calculations of spending policy amounts, "earnings" include interest, dividends and realized gains. For projected earnings, only interest and dividends are included. While there are potential unrealized gains, it is not possible to quantify those gains as market conditions, asset allocations and the need to rebalance the portfolio and other timing issues will affect the ability to realize gains.

Modifications to spending policy statutes

The Committee makes no recommendation for changes to the spending policies at this time.

Respectfully submitted this 10th day of November 2017,



Representative Michael Madden, Chairman,
Select Committee on Capital Financing and Investments

APPENDIX A-1

Projection of Spending Policy Amounts -- PMTF
W.S. 9-4-719(b-d)

PMTF as of 7/1	Total PMTF Investments at MARKET	Percentage Change from Prior FY	Rolling 5 Year Average	%	Spending Policy Amount	For FY	Estimated Income	Income percent	General Fund 2.5%	LSRA 1.25% up to SPA	SIPA 1.25% up to SPA	amount over 2.5%	Investment Income over Spending Policy to Reserve Acct	Cash Balance of PMTF Spending Policy Reserve (433)	150% of Spending Policy*	Amount Reverts to the PMTF Corpus (M01)	transfer to		
																	General Fund to ensure 2.5% of SPA in GF	Ending Cash Bal of Reserve	
2017	7,665,940,594	4.73%	7,049,874,679.20	5.000%	352,493,733.96	FY18	163,900,000	2.14%	176,200,000.00	0	0	0	0	181,845,069.65	528,740,600.94	* 0	0	(12,300,000.00)	169,545,069.65
2018	7,807,982,938	1.85%	7,388,920,216.60	5.000%	369,446,010.83	FY19	169,800,000	2.17%	184,700,000.00	0	0	0	0	169,545,069.65	554,169,016.25	* 0	0	(14,900,000.00)	154,645,069.65
2019	8,029,282,938	2.83%	7,598,962,449.40	5.000%	379,948,122.47	FY20	174,800,000	2.18%	190,000,000.00	0	0	0	0	154,645,069.65	569,922,183.71	* 0	0	(15,200,000.00)	139,445,069.65
2020	8,252,382,938	2.78%	7,814,995,511.60	4.750%	371,212,286.80	FY21	179,900,000	2.18%	195,400,000.00	0	0	0	0	139,445,069.65	556,818,430.20	* 0	0	(15,500,000.00)	123,945,069.65
2021	8,476,082,938	2.71%	8,046,334,469.20	4.500%	362,085,051.11	FY22	185,000,000	2.18%	201,200,000.00	0	0	0	0	123,945,069.65	543,127,576.67	* 0	0	(16,200,000.00)	107,745,069.65
2022	8,700,882,938	2.65%	8,253,322,938.00	4.500%	371,399,532.21	FY23	0	0.00%	0.00	0	0	0	0	107,745,069.65	557,099,298.32	* 0	0	0.00	107,745,069.65

APPENDIX A-2

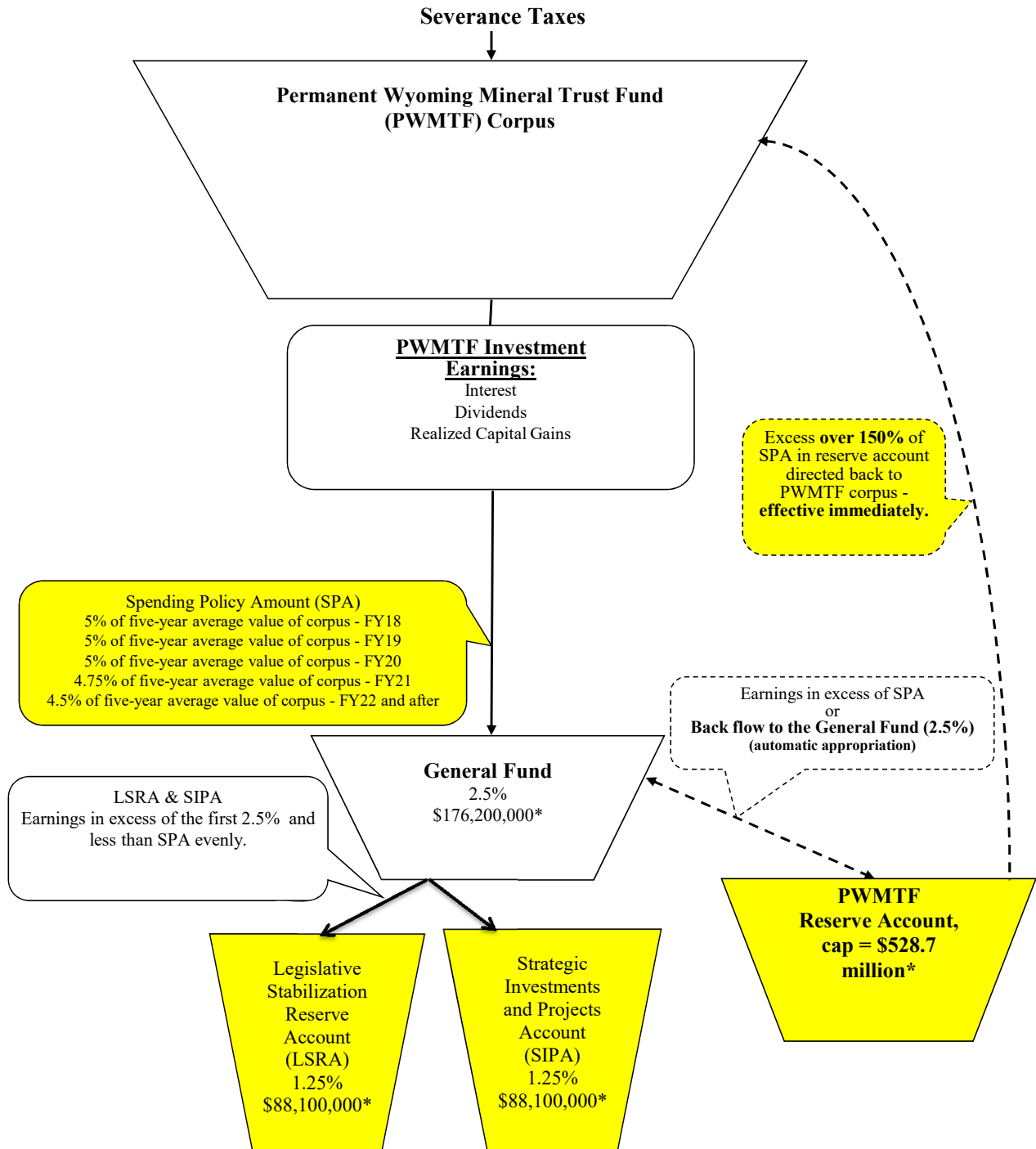
Projection of Spending Policy Amounts--CSPLF
W.S. 9-4-719(f-h)

CSPLF as of 7/1	Total CSPLF Investments at MARKET	Percentage Change from Prior FY	Rolling 5 year Average	%	Spending Policy Amount	For FY	Actual Income	5.00% School Fdn Acct (min in Fdn)	Amount to Reserve	Cash Balance of CSPLF Spending Policy Reserve (434)	150% of Spending Policy*	Amount Reverts to the CSPLF Corpus (L04)	transfer to SFP to ensure SPA in SFP	Ending Cash Balance of Reserve
2017	3,859,838,175	9.64%	3,292,522,099.00	5.000%	164,626,104.95	FY18	85,600,000.00	164,600,000.00	0	114,875,414.64	246,939,157.43	*	0	35,875,414.64
2018	4,023,863,709	4.25%	3,571,166,694.00	5.000%	178,558,334.70	FY19	89,200,000.00	178,600,000.00	0	35,875,414.64	267,837,502.05	*	0	0.00
2019	4,191,989,881	4.18%	3,800,259,026.80	5.000%	190,012,951.34	FY20	93,000,000.00	190,000,000.00	0	0.00	285,019,427.01	*	0	0.00
2020	4,364,319,207	4.11%	3,992,063,508.20	4.750%	189,623,016.64	FY21	97,200,000.00	189,600,000.00	0	0.00	284,434,524.96	*	0	0.00
2021	4,540,956,766	4.05%	4,196,193,547.60	4.500%	188,828,709.64	FY22	101,200,000.00	188,800,000.00	0	0.00	283,243,064.46	*	0	0.00

Permanent Wyoming Mineral Trust Fund (PWMTF)

APPENDIX B-1

2017 HB 55 JCC

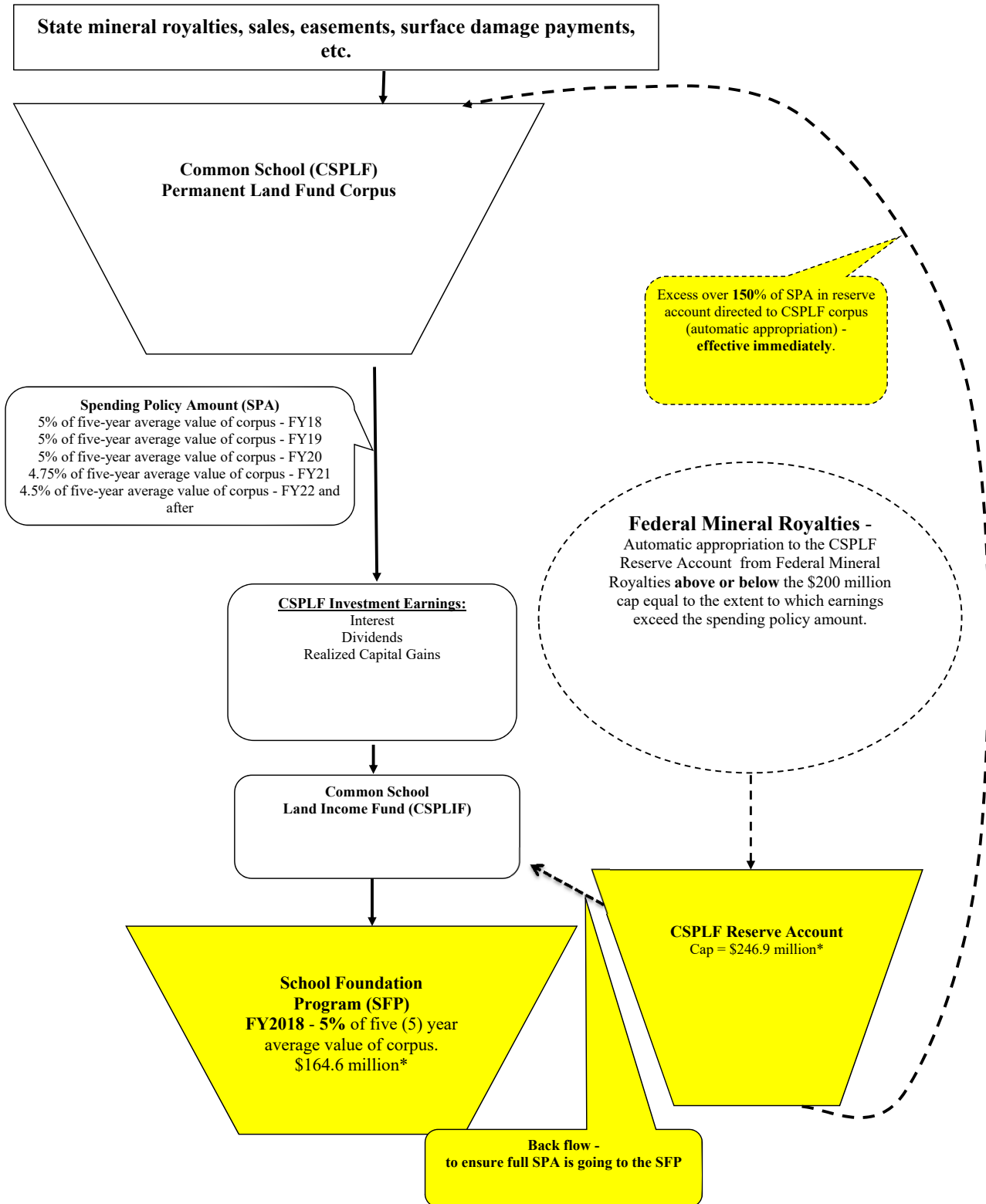


*For illustrative purposes only, based on FY2018 distribution.

Common School Permanent Land Fund (CSPLF)

APPENDIX B-2

2017 HB 55 JCC



*For illustrative purposes only, based on FY2018 distributions.