

STATE TREASURER

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September 27, 2010

Representative Roy Cohee, Chairman
Senator Drew Perkins, Vice Chairman
Select Committee on Capital Financing & Investments
State Capitol Building
Cheyenne, WY 82002

RE: Spending Policy Modification Recommendations

Dear Representative Cohee and Senator Perkins:

In accordance with State Statute 9-4-719(p), the State Treasurer, in consultation with the State Loan and Investment Board, is to annually, not later than September 30, provide 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 (PWMTF), the Common School Account within the Permanent Land Fund (CSPLF) and the Excellence in Higher Education Endowment Fund (Higher Ed).

The Wyoming State Legislature established investment earnings spending policy reserve accounts for three of the state's permanent funds; the Permanent Wyoming Mineral Trust Fund (PWMTF), the Common School Account within the Permanent Land Fund (CSPLF) and the Excellence in Higher Education Fund (Higher Ed Fund).

In the 2000 Session, the Legislature established annual spending policy amounts for earnings from PWMTF and the CSPLF. To the extent earnings exceed the amount set in statute for the PWMTF, the excess flows to the PWMTF reserve account. For the CSPLF, earnings in excess of the spending policy amount still 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. 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 75 percent of the spending policy amount, the excess reserves are placed in the appropriate corpus. The purpose of these spending policies is to make the earnings flow consistent and to protect the corpus from inflation.

In the 2007 Session, an annual spending policy amount and a spending policy reserve account was established for the Higher Ed Fund. Like the PWMTF spending policy and reserve account, to the extent earnings from the Higher Ed Fund exceed the spending policy amount, excess earnings flow to the Higher Ed reserve account. Once the reserve account reaches more than 75 percent of the spending policy amount, the excess reserves are placed in the Higher Ed Fund corpus. The 2007 legislation also provided for a continuous appropriation from the Higher Ed reserve account to supplement the spending from the earnings of the Higher Ed Fund in those years earnings fail to meet the spending policy amount. (This automatic appropriation of funds from the PWMTF and CSPLF reserve accounts was repealed in 2004.)

The spending policy amount for FY 10 for each of these permanent funds is based on the statutory percentage rate of 5 percent of the five-year rolling average market value. During the 2010 Session, a footnote to the appropriations bill was approved (Chapter 39, Section 301) which stipulates that no funds are to flow from these spending policy reserve accounts to the corpus of their respective accounts until June 30, 2012.

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Below is a summary of each of the reserve accounts.

PWMTF reserve account: During fiscal year 2010, the total investment income flowing into the PWMTF amounted to \$139,450,800 while the five percent spending policy for the PWMTF for fiscal year 2010 was \$173,857,429. Investment income for FY 2010 was less than the spending policy amount. Therefore, there was no flow of funds into the PWMTF reserve account from this source. However, there was a total of \$56,451,039 deposited into the PWMTF reserve account during FY 10 from a diversion of mineral severance tax in accordance with legislation passed during the 2009 legislative session (HB 0001, Chapter 159, Section 350). The ending balance in the PWMTF reserve account following this deposit was \$158,642,208 and this balance remains in the reserve account at the end of fiscal year 2010 due to the 2010 legislation which the flow of funds out of any of the reserve accounts.

CSPLF reserve account: Investment earnings flowing into the CSPLF for fiscal year 2010 amounted to \$54,494,121, while the five percent spending policy amount for fiscal year 2010 was \$76,036,718. As investment income did not exceed the spending policy amount, no funds were deposited into the reserve account and no funds flowed to the corpus of the CSPLF. The ending balance in the CSPLF reserve account at the end of FY 2010 was \$46,992,498.

Higher Ed reserve account: During fiscal year 2010, the total investment income earned on the Higher Ed fund amounted to \$3,493,118, while the five percent spending policy amount for fiscal year 2010 was \$4,102,047. As the spending policy amount exceeded investment earnings by \$608,929 during FY 2010, this difference was distributed to the University of Wyoming and community colleges from the Higher Ed reserve account in accordance with W.S. 9-4-719(m). This left a balance \$4,688,364 in the Higher Ed reserve account. Although this amount exceeds seventy-five percent (75%) of the spending policy amount for FY10 by \$1,611,829, this amount did not revert to the Excellence in Higher Education Endowment (corpus) but instead remains in the Higher Ed reserve account, in accordance with the 2010 legislation. The balance at the end of FY 2010, therefore, remains at \$4,688,364.

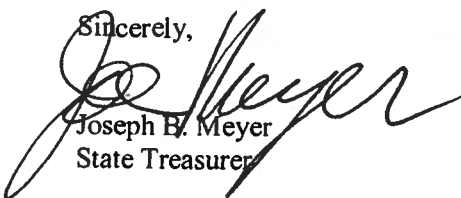
Based on the current five percent (5%) spending policy, the spending policy amount for fiscal year 2011 for the PWMTF is \$193,833,910, for the CSPLF it is \$84,060,302 and for the Higher Ed it is \$4,323,128.

Attached are spreadsheets for each of the spending policy reserve accounts that display the spending policy calculations for prior fiscal years and for fiscal year 2011 (highlighted in green), as well as the projected calculations for fiscal years 2012 through 2014 (highlighted in yellow). Market value projections (in yellow) are calculated by using the market values on 07/01/10 and adding any additional funds that are to flow into the accounts during each fiscal year, while investment income projections are based on the January 2010 CREG estimates. Projections are updated semi-annually following the release of each CREG report.

At this point in time, I do not have any recommendations for modifications to the current spending policies for any of these funds.

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

Sincerely,



Joseph B. Meyer
State Treasurer

Attachments

SPENDING POLICY: PERMANENT WYOMING MINERAL TRUST FUND (PWTMFF)
2010 Fiscal Year End

W.S. 9-4-719 established annual spending policy amounts from the PWTMFF (currently five percent (5%) of the average five (5) year rolling average market value) and created the PWTMFF reserve account. To the extent earnings from the PWTMFF exceed the five percent (5%) spending policy amount, the excess earnings flow to the PWTMFF reserve account. If the balance in the reserve account reaches more than 75% of the spending policy amount, the excess in the reserve account is transferred to the corpus of the PWTMFF.

The spending policy amount for fiscal year 2010 was \$173,857,429. Total PWTMFF investment income for FY10 was \$139,450,800. As investment earnings were less than the five percent (5%) spending policy amount, no funds flowed to the spending policy reserve account at the end of fiscal year 2010. During the 2009 session, an appropriation was made diverting a portion of mineral severance tax distribution into the reserve account, this amounted to \$56,451,039 (2009 Session, Chapter 159, Section 350). Although, the balance in the reserve account at fiscal year end exceeded 75% of the spending policy amount, no funds reverted to corpus at the end of FY 2010 in accordance with the 2010 session laws, Chapter 39, Section 301(a) which states that no funds within the PWTMFF reserve account shall be credited to the PWTMFF until June 30, 2012.

The spending policy amount for fiscal year 2011, using the current 5% spending policy level, is \$193,833,910 while the investment income projection for FY11 is \$128,100,000 based on the Jan 2010 CREG estimate. Since investment income projections are less than the spending policy amounts for FY11 through FY14, no investment income is projected to flow to the reserve account at the end of these fiscal years.

As of	Total Market Value (a)	For FY	Rolling 5-year Average	Spending Policy Level	Spending Policy Amount	Investment Income	Investment Income over Spending Policy to Reserve Acct.	Legislative Appropriation	Year End Reserve Bal. Before Reversion	75% of Spending Policy	Over 75% reverts to Corpus	Ending Reserve Balance
7/1/97	1,396,009,173	1998										
7/1/98	1,507,006,444	1999										
7/1/99	1,540,767,270	2000										
7/1/00	1,539,636,928	2001										
7/1/01	1,755,553,508	2002	1,547,794,665	8.000%	123,823,573	90,510,496	0			92,867,680	0	
7/1/02	1,864,380,749	2003	1,641,468,980	7.625%	125,162,010	58,647,855	0			93,871,507	0	
7/1/03	2,050,845,569	2004	1,750,236,805	5.000%	87,511,840	98,110,315	10,598,475 (f)		10,598,475	65,633,881	0	10,598,475
7/1/04	2,218,179,475	2005	1,885,719,246	5.000%	94,285,962	87,789,397	0	44,500,000 (h)	10,598,475	70,714,472	0	55,098,475 (d)
7/1/05	2,557,758,285	2006	2,089,343,517	5.000%	104,467,176	123,952,616	19,485,440 (f)		56,747,488 (c)	74,583,915	0	74,583,915
7/1/06	3,070,623,840	2007	2,352,357,584	5.000%	117,617,879	150,487,083	32,869,204 (f)		107,453,119	88,213,409	0	88,213,409
7/1/07	3,728,082,077	2008	2,725,097,849	5.000%	136,254,892	321,357,789	185,102,897		273,316,306	102,191,169	19,239,709 (e)	102,191,169
7/1/08	4,135,435,366	2009	3,142,015,809	5.000%	157,100,790	135,264,226	0		102,191,169	117,825,593	171,125,137	102,191,169
7/1/09	3,893,843,313	2010	3,477,148,576	5.000%	173,857,429	139,450,800	0	56,451,039 (g)	158,642,208	130,393,072	0 (h)	158,642,208
7/1/10	4,555,406,396	2011	3,876,678,198	5.000%	193,833,910 *	128,100,000 **	0		158,642,208	145,375,432	0 (h)	158,642,208
7/1/11	4,837,606,396	2012	4,230,074,710	5.000%	211,503,735	135,500,000 **	0		158,642,208	158,627,802	0 (h)	158,642,208
7/1/12	5,162,906,396	2013	4,517,039,573	5.000%	225,851,979	145,300,000 **	0		158,642,208	169,388,984	0	158,642,208
7/1/13	5,539,306,396	2014	4,797,813,779	5.000%	239,890,689	156,200,000 **	0		158,642,208	179,918,017	0	158,642,208

* FY 2011 spending policy amount calculated using actual market value as of 06/30/10

** Investment Income based on Jan 2010 CREG estimate--All amounts shown in yellow are projections and does not include projections for any capital gain distributions

Source: W.S. 9-4-719

Notes:

- (a) Total Market Value for FY09 & Prior are Actual Market Values
- (b) Appropriation from General Fund to this reserve account-2004 budget session
- (c) Reflects addition of \$1,649,014 realized earned income on reserve account.
- (d) Reflects balance following correction of \$1,649,014 realized earned income-transfer out to general fund.
- (e) Reflects \$12,109,656 reduction of reversion to corpus following correction of market values
- (f) Reflects reduction in amount to reserve following correction of market values--\$9,599,515 transferred back to general fund
- (g) Special appropriation severance tax - 2009 session laws, Ch 159, Sec. 350
- (h) 2010 Session laws, Ch. 39, Sec 301(a) - no funds are to revert to corpus until June 30, 2012

SPENDING POLICY: COMMON SCHOOL PERMANENT LAND FUND (CSPLF)

2010 Fiscal Year End

W S 9-4-719 established annual spending policy amounts from the CSPLF (currently five percent (5%) of the average five (5) year rolling average market value) and created the CSPLF reserve account. To the extent earnings from the CSPLF exceed the five percent (5%) spending policy amount, the excess earnings flow to the CSPLF reserve account. If the balance in the reserve account reaches more than 75% of the spending policy amount, the excess in the reserve account is transferred to the corpus of the CSPLF.

The spending policy amount for fiscal year 2010 was \$76,036,718. Total CSPLF investment income for FY10 was \$54,494,121. As investment earnings were less than the five percent (5%) spending policy amount, no funds flowed to the spending policy reserve account at the end of fiscal year 2010. The fiscal year end balance in the reserve account did not exceed 75% of the spending policy amount, however, no funds are to revert to corpus until June 30, 2012, in accordance with the 2010 Session Laws, Chapter 39, Section 301(b).

The spending policy amount for fiscal year 2011, using the current 5% spending policy level, is \$84,060,302 while the investment income projection for FY11 is \$51,700,000 based on the Jan 2010 CREG estimate. Since investment income projections are less than the spending policy amounts for FY11 through FY14, no investment income is projected to flow to the reserve account at the end of these fiscal years.

As of	Total Market Value (a)	For FY	Rolling 5-year Average	Spending Policy Level	Spending Policy Amount	Investment Income	Investment Income over Spending Policy to Reserve Acct.	Legislative Appropriation	Year End Reserve Bal. Before Reversion	75% of Spending Policy	Over 75% reverts to Corpus	Ending Reserve Balance
7/1/97	782,431,215	1998										
7/1/98	838,949,498	1999			69,167,267	37,700,000	0			51,875,450	0	
7/1/99	857,362,587	2000			68,319,038	36,070,760	0			51,239,278	0	
7/1/00	839,611,767	2001			69,167,267	37,700,000	0			51,875,450	0	
7/1/01	899,161,216	2002	843,503,257	8.200%	69,167,267	37,700,000	0			51,875,450	0	
7/1/02	930,348,643	2003	873,086,742	7.825%	68,319,038	36,070,760	0			51,239,278	0	
7/1/03	1,013,895,764	2004	908,075,995	5.000%	45,403,800	48,190,294	2,786,494 (h)		2,786,494	34,052,850	0	2,786,494
7/1/04	1,014,318,667	2005	939,467,211	5.000%	46,973,361	51,092,246	4,118,885 (h)	30,000,000 (h)	37,852,862 (e)	35,230,020	2,622,841 (g)	34,282,538 (i)
7/1/05	1,165,218,792	2006	1,004,588,616	5.000%	50,229,410	53,845,180	3,615,749 (h)	(13,500,000) (c)	37,898,288	37,672,073	226,214 (g)	37,672,073
7/1/06	1,371,627,543	2007	1,099,081,882	5.000%	54,954,094	65,520,931	10,566,837 (h)	(4,200,000) (d)	30,538,910	41,215,571	0	30,538,910
7/1/07	1,678,302,393	2008	1,248,672,632	5.000%	62,433,632	133,866,782	71,433,150		101,972,060	46,825,224	55,146,837	46,825,224
7/1/08	1,766,046,029	2009	1,399,102,685	5.000%	69,955,134	56,672,431	0		46,992,498	52,466,351	0	46,992,498
7/1/09	1,622,477,081	2010	1,520,734,368	5.000%	76,036,718	54,494,121	0	167,274 (i)	46,992,498	57,027,539	0	46,992,498
7/1/10	1,967,577,173	2011	1,681,206,044	5.000%	84,060,302 *	51,700,000 **	0		46,992,498	63,045,227	0 (j)	46,992,498
7/1/11	2,130,577,173	2012	1,832,995,970	5.000%	91,649,798	55,100,000 **	0		46,992,498	68,737,349	0 (j)	46,992,498
7/1/12	2,300,577,173	2013	1,957,450,926	5.000%	97,872,546	59,300,000 **	0		46,992,498	73,404,410	0	46,992,498
7/1/13	2,460,577,173	2014	2,096,357,155	5.000%	104,817,858	63,100,000 **	0		46,992,498	78,613,393	0	46,992,498

* FY 2011 spending policy amount calculated using actual market value as of 06/30/10

** Investment Income based on Jan 2010 CREG estimate--All amounts shown in yellow are projections and does not include projections for any capital gain distributions

Source: W.S. 9-4-719

- (a) Total Market Value for FY09 & Prior are Actual Market Values
- (b) \$30,000,000 was appropriated from the school foundation account into this reserve account-2004 budget session
- (c) \$13,500,000 was appropriated from this reserve account into the Hahway scholarship expenditure account-2006 budget session
- (d) \$4,200,000 was appropriated from this reserve account for distribution to the community colleges and the University of Wyoming to begin to implement the plan for excellence in the higher education endowment--\$2.8 million to UW and \$1.4 million equally split among the seven (7) community colleges
- (e) Reflects addition of \$947,482 realized earned income on reserve account
- (f) Reflects balance following correction of \$947,482 realized earned income-transfer out to CSPLF income fund
- (g) Reflects reduction in amount to revert to corpus following correction of market values--\$1,099,954 transferred back to reserve
- (h) Reflects reduction in amount to reserve following correction of market values--\$1,076,494 transferred back to general fund
- (i) UW returned \$1,672,74 of the \$2.8 million distributed from the \$4,200,000 appropriation to begin to implement the plan for the excellence in higher education endowment
- (j) 2010 Session Laws, Ch 39 Sec 301(b) - no funds are to revert to corpus until June 30, 2012

SPENDING POLICY: EXCELLENCE IN HIGHER EDUCATION ENDOWMENT (Higher Ed)

2010 Fiscal Year End

last update 09/22/2010

W.S. 9-4-719 established annual spending policy amounts from the Excellence in Higher Education (Higher Ed) Endowment fund (currently five percent (5%) of the average five (5) year rolling average market value) and created the Excellence in Higher Education Endowment (Higher Ed) reserve account. To the extent investment earnings from the Higher Ed Endowment fund exceed the five percent (5%) spending policy amount, the excess earnings flow to the Higher Ed reserve account. If the investment earnings from the Higher Education Endowment fund are less than the five percent (5%) spending policy amount, an amount equal to the difference is taken from the Higher Ed reserve account and distributed to the University of Wyoming and seven community college foundations in accordance with W.S. 21-16-1201.

The spending policy amount for fiscal year 2010 was \$4,102,047. Total investment income from the Higher Education Endowment fund for FY10 was \$3,493,118. As investment earnings were less than the five percent (5%) spending policy amount, no funds flowed to the spending policy reserve account at the end of fiscal year 2010. The balance in the reserve account at the end of fiscal year 2010 exceeded 75% of this spending policy amount by \$1,611,829, however, this amount did not revert to the Higher Ed corpus in accordance with legislation passed during the 2010 legislative session (Ch 39, Sec 301 (c)).

The spending policy amount for fiscal year 2011, using the current 5% spending policy level, is \$4,323,128, while the investment income projection for FY11 based on the Jan 2010 CREG estimates is \$2,960,000. Investment income projections for FY12 through FY14 are also less than the 5% spending policy amounts thus no funds would flow from the reserve account to corpus. The amount of revenue needed to ensure distribution of the full spending policy amount is taken from the reserve account, however, current projections indicate there will be insufficient funds in the reserve account to distribute the full spending policy amount in FY13 and FY14 as indicated in the pink box below.

As of	Total Market Value	For FY	Rolling 5-year Average	Spending Policy Level	Spending Policy Amount	Investment Income *	Earnings over 5% of spending policy amount to Reserve Acct	Legislative Appropriations	Earnings less than 5% of spending policy from Reserve Acct to be distributed	Year End Reserve Balance Before Reversion to Corpus or to cover shortfall	75% of Spending Policy	Over 75% reverts to Corpus	Ending Reserve Balance
7/1/05	929,697 (d)	2006		5.000%	0.00	0				0	0	0	0
7/1/06	48,379,952 (a)	2007	48,379,952	5.000%	2,418,998	726,921	0			0	1,814,248	0	0
7/1/07	78,867,967 (a)	2008	63,623,960	5.000%	3,181,198	4,474,394	1,293,196			1,293,196	2,385,898	0	1,293,196
7/1/08	104,820,958 (b)	2009	77,356,292	5.000%	3,867,815	3,926,014	151,616 (d)			1,444,812 (d)	2,900,861	0	1,444,812 (d)
7/1/09	96,094,847	2010	82,040,931	5.000%	4,102,047	3,493,118	0	3,832,480 (c)	(608,929)	4,688,364 (d)	3,076,555	0	4,688,364 (d)
7/1/10	104,149,091	2011	86,462,563	5.000%	4,323,128 *	2,960,000 **	0		(1,363,128)	3,325,236 (d)	3,242,346	0	3,325,236
7/1/11	104,149,091	2012	97,616,391	5.000%	4,880,820	2,940,000 **	0		(1,940,820)	1,384,416	3,660,615	0	1,384,416
7/1/12	104,149,091	2013	102,672,616	5.000%	5,133,631	2,940,000 **	0		(2,193,631)	0	3,850,223	0	0
7/1/13	104,149,091	2014	102,538,242	5.000%	5,126,912	2,940,000 **	0		(2,186,912)	0	3,845,184	0	0

* FY 2011 spending policy amount calculated using actual market value as of 06/30/10

** Investment Income based on Jan 2010 CREG estimate--All amounts shown in yellow are projections and does not include projections for any capital gain distributions

Source: W.S. 9-4-719

Notes:

(a) Total Market Value for FY06 - FY08 are based on Higher Ed portion of SAP market value

(b) Total Market Value for FY09 is based on actual market value

(c) Appropriation - federal mineral royalty diversion - 2009 session, Ch 159, Sec. 342

(d) Reflects balance following correction of \$93,417, realized earned income transfer, out of Higher Ed income fund

(e) 2010 Session Laws, Ch 301 (c) - no funds are to revert to corpus until June 30, 2012

amount short to distribute to UW & colleges difference between 5% spending policy amounts & projected investment income

FY13	\$809,215
FY14	\$2,186,912