

# STATE TREASURER

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# STATE of WYOMING

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October 27, 2011

Senator Drew Perkins, Chairman  
Select Committee on Capital Financing & Investments  
State Capitol  
Cheyenne, WY 82002

RE: Spending Policy Modification Recommendations

Dear Senator Perkins:

In accordance with Wyoming State Statute 9-4-719(p), the State Treasurer, in consultation with the State Loan and Investment Board, is to annually, not later than November 1, 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 seventy-five percent (75%) 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 seventy-five percent (75%) 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 2011 for each of these permanent funds is based on the statutory percentage rate of five percent (5%) 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. During the 2011 legislative session, Chapter 88, Section 301 repealed this provision for the PWMTF such that funds are to once again spill over to corpus if the balance in the PWMTF reserve account exceeds the spending policy amount.

Below is a summary of each of the reserve accounts.

**PWMTF reserve account:** During fiscal year 2011, the total investment income flowing into the PWMTF amounted to \$215,755,659 while the five percent spending policy for the PWMTF for fiscal year 2011 was \$192,420,646. Investment income for FY 2011 exceeded the spending policy amount by \$23,335,015. This amount flowed into the PWMTF reserve account at the end fiscal year 2011. This increased the balance in the reserve account to \$179,790,957 which exceeded seventy-five percent (75%) of the spending policy amount by \$35,475,472. Therefore, this amount was credited the PWMTF corpus, leaving a balance of \$144,315,485 in the PWMTF reserve account at the end of FY 2011.

**CSPLF reserve account:** Investment earnings flowing into the CSPLF for fiscal year 2011 amounted to \$98,387,094, while the five percent (5%) spending policy amount for fiscal year 2011 was \$83,399,564. Investment income exceeded the spending policy amount by \$14,987,530. This amount, therefore, was deposited into the CSPLF reserve account. This left a balance of \$61,980,028 in the CSPLF reserve account. This ending balance in the reserve account was not more than seventy-five percent (75%) of the spending policy amount so no funds were to flow to the CSPLF corpus. In addition, no funds are to spill over to the CSPLF corpus until June 30, 2012 in accordance with 2010 session laws, Chapter 39, Section 301(b). Therefore, the ending balance in the CSPLF reserve account at the end of FY 2011 remained at \$61,980,028.

**Higher Ed reserve account:** During fiscal year 2011, the total investment income earned on the Higher Ed fund amounted to \$6,086,019, while the five percent (5%) spending policy amount for fiscal year 2011 was \$4,308,383. Investment income exceeded the spending policy amount by \$1,777,636 which was deposited into the Higher Ed reserve account, leaving a balance of \$6,386,974. Although this amount exceeded seventy-five percent (75%) of the spending policy amount for FY 2011 by \$3,155,687, this amount did not spill over to the Higher Ed corpus, but instead remains in the Higher Ed reserve account in accordance with the 2010 legislation. Therefore, the ending balance in the Higher Ed reserve account at the end of fiscal year 2011 was \$6,386,974.

Based on the current five percent (5%) spending policies, the spending policy amount for fiscal year 2012 for the PWMTF is \$214,972,698, for the CSPLF it is \$88,137,394 and for the Higher Ed it is \$4,939,139.

Attached are spreadsheets for each of the spending policy reserve accounts that display the spending policy calculations for prior fiscal years, the spending policy amounts for fiscal year 2012 (highlighted in green), and 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 07/01/11 and adding any additional funds that are to flow into the accounts during each fiscal year, while investment income projections are based on the October 2011 CREG estimates. Projections are updated each year following the release the October & January CREG reports.

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

If 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 (PWSTRF)**

Prepared using October 2011 CREG Projections

last update 10/21/11

W.S. 9-4-719 established annual spending policy amounts from the PWSTRF (currently five percent (5%) of the average five (5) year rolling average market value) and created the PWSTRF reserve account. To the extent earnings from the PWSTRF exceed the five percent (5%) spending policy amount, the excess earnings flow to the PWSTRF 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 PWSTRF.

Chapter 39, Section 301(a), 2010 Session Laws, stipulated that no funds were to spill over to corpus until June 30, 2012. Therefore, at the end of fiscal year 2010, \$26,062,872 that would have spilled over to corpus remained in the PWSTRF spending policy account. During the 2011 legislative session, Chapter 88, Section 301 repealed this provision such that funds are to once again spill over to corpus if the balance in the PWSTRF reserve account exceed 75% of the spending policy amount.

The spending policy amount for fiscal year 2011 was \$192,420,646. Total PWSTRF investment income for FY 2011 was \$215,755,659. As investment earnings were greater than the spending policy amount by \$23,335,013, this amount was deposited into the PWSTRF reserve account leaving a balance of \$179,790,957 in reserve which was greater than 75% of the spending policy amount for fiscal year 2011. Therefore, \$35,475,472 did spill over to corpus leaving an ending balance of \$144,315,485 in the PWSTRF reserve account at the end of fiscal year 2011.

The spending policy amount for fiscal year 2012 is \$214,972,698. Investment income is projected to be less than the spending policy amount for fiscal year 2012 through fiscal year 2016 based on October 2011 CREG estimates, so no funds are projected to flow into the reserve account unless there are realized capital gains that increase investment earnings. Capital gains/losses are not included in investment income projections.

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% spills over 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 (b)	56,747,488 (c)	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)		74,583,915	78,350,382	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	19,239,709 (e)	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	171,125,137	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	0	102,191,169
7/1/09	3,893,843,313	2010	3,477,148,576	5.000%	173,857,429	139,450,800	0	54,264,775 (g)	156,455,944	130,393,072	0 (h)	156,455,944
7/1/10	4,414,080,035	2011	3,848,412,926	5.000%	192,420,646	215,755,659	23,335,013		179,790,957	144,315,485	35,475,472 (i)	144,315,485
7/1/11	5,325,828,961	2012	4,299,453,950	5.000%	214,972,698 *	124,700,000 **	0		144,315,485	161,229,523	0	144,315,485
7/1/12	5,727,970,610	2013	4,699,431,657	5.000%	234,971,583	128,000,000 **	0		144,315,485	176,228,687	0	144,315,485
7/1/13	6,131,602,610	2014	5,098,665,106	5.000%	254,933,255	137,700,000 **	0		144,315,485	191,199,941	0	144,315,485
7/1/14	6,539,051,610	2015	5,627,706,765	5.000%	281,385,338	146,800,000 **	0		144,315,485	211,039,004	0	144,315,485
7/1/15	6,950,781,610	2016	6,135,047,080	5.000%	306,752,354	156,100,000 **	0		144,315,485	230,064,266	0	144,315,485

\* FY 2012 spending policy amount calculated using actual market value as of 06/30/11

\*\* Investment Income based on Oct 2011 CREG estimate--All amounts shown in yellow are projections and does not include projections for any capital gain/loss distributions

Source: W.S. 9-4-719

Notes:

- (a) Total Market Value for FY12 & Prior are Actual Market Values; FY13 & beyond use FY12 market value plus Oct 2011 CREG projected additions
- (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) Reflects the net of the special appropriation of severance tax into the reserve account which amounted to \$74,264,775 (2009 session laws, Ch 159, Sec. 350) and the appropriation of \$20,000,000 from this reserve account to the office of state lands and investments to be allocated to cities, towns and counties (2010 Session laws, Ch 39, Sec 335)
- (h) 2010 Session laws, Ch 39, Sec 301(a) - no funds are to spill over to corpus until June 30, 2012
- (i) 2011 Session laws, Ch 88, Sec 301 repeals the provision of Ch 39, Sec 301(a) of the 2010 session laws such that funds are to once again spill over to corpus if the balance in reserve exceeds the spending policy amount.

**SPENDING POLICY: COMMON SCHOOL PERMANENT LAND FUND (CSPLF)  
PREPARED USING OCTOBER 2011 CREG PROJECTIONS**

last update 10/21/11

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 2011 was \$83,399,564. Total CSPLF investment income for FY11 was \$98,387,094. As investment earnings exceeded five percent (5%) spending policy amount, \$14,987,530 flowed to the spending policy reserve account at the end of fiscal year 2011. The fiscal year end balance in the reserve account was \$61,980,028 and did not exceed 75% of the spending policy amount so no funds were to flow back to corpus. Legislation passed during the 2010 session (Chapter 39, Section 301(b) states that no funds are to spill over to corpus until June 30, 2012.

The spending policy amount for fiscal year 2012 is \$88,137,394. Investment income is projected to be less than the spending policy amount for fiscal year 2012 through fiscal year 2016 based on October 2011 CREG estimates, so no funds are projected to flow into the reserve account unless there are realized capital gains that increase investment earnings. Capital gains/losses are not included in investment income projections.

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% spills over to Corpus	Ending Reserve Balance
7/1/97	782,431,215	1998										
7/1/98	838,949,498	1999										
7/1/99	857,362,587	2000										
7/1/00	839,611,767	2001										
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 (b)	37,852,862 (e)	35,230,020	2,622,841 (g)	34,282,538 (f)
7/1/05	1,165,218,792	2006	1,004,588,616	5.000%	50,229,431	53,845,180	3,615,749 (h)		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)	(13,500,000) (c)				
7/1/07	1,678,302,393	2008	1,248,672,632	5.000%	62,433,632	133,866,782	71,433,150	(4,200,000) (d)	30,538,910	41,215,571	0	30,538,910
7/1/08	1,766,046,029	2009	1,399,102,685	5.000%	69,955,134	56,969,255	0		101,972,060	46,825,224	55,146,837	46,825,224
7/1/09	1,622,477,081	2010	1,520,734,368	5.000%	76,036,718	54,643,154	0	167,274 (i)	46,992,498	52,466,351	0	46,992,498
7/1/10	1,901,503,362	2011	1,667,991,282	5.000%	83,399,564	98,387,094	14,987,530		46,992,498	57,027,539	0 (j)	46,992,498
7/1/11	2,236,530,927	2012	1,762,747,889	5.000%	88,137,394 *	53,100,000	0		61,980,028	62,549,673	0 (j)	61,980,028
7/1/12	2,406,530,927	2013	1,935,231,787	5.000%	96,761,589 **	54,000,000	0		61,980,028	66,103,046	0	61,980,028
7/1/13	2,566,530,927	2014	2,083,269,876	5.000%	104,163,494 **	57,600,000	0		61,980,028	72,571,192	0	61,980,028
7/1/14	2,723,530,927	2015	2,242,850,692	5.000%	112,142,535 **	61,100,000	0		61,980,028	78,122,620	0	61,980,028
7/1/15	2,873,530,927	2016	2,451,359,666	5.000%	122,567,983 **	64,500,000	0		61,980,028	84,106,901	0	61,980,028
									61,980,028	91,925,987	0	61,980,028

\* FY 2012 spending policy amount calculated using actual market value as of 06/30/11

\*\*Investment Income based on Oct 2011 CREG estimate--All amounts shown in yellow are projections and does not include projections for any capital gain/loss distributions

Source: W.S. 9-4-719

- (a) Total Market Value for FY12 & Prior are Actual Market Values; FY13 & beyond use FY12 market value plus Oct 2011 CREG projected additions
- (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 Hathaway 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--\$1,099,854 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 \$167,274 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 spill over to corpus until June 30, 2012

**SPENDING POLICY: EXCELLENCE IN HIGHER EDUCATION ENDOWMENT (Higher Ed)**  
**PREPARED USING OCTOBER 2011 CREG PROJECTIONS**

last update 10/21/11

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. Distributions of the annual spending policy amount is to be distributed on a quarterly basis, 2/3 to UW and 1/3 equally to the community colleges. If there are insufficient funds in the income account at the time the quarterly payments are to be made, then funds are to be taken from the reserve account to make the distributions to UW and the community colleges.

The spending policy amount for fiscal year 2011 was \$4,308,383. Total investment income from the Higher Education Endowment fund for FY11 was \$6,086,019 which exceeded the the five percent (5%) spending policy amount by \$1,777,636. This amount flowed into the spending policy reserve account at the end of fiscal year 2011. The balance in the reserve account at the end of fiscal year 2011 exceeded 75% of this spending policy amount by \$3,155,687, however, this amount did not spill over 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 2012 is \$4,939,139. Investment income is projected to be less than the spending policy amount for fiscal year 2012 through fiscal year 2016 based on the October 2011 CREG estimates, which means there would be an insufficient funds in the reserve account to distribute to UW and the community colleges for the difference between the spending policy amount & projected investment income. However, investment income projections do not include any projections for capital gains/losses that might occur.

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	Transfer to/from income account	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% spills over to Corpus	Ending Reserve Balance
7/1/05	929,697 (a)	2006		5.000%	0.00	0	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	58,199	93,417 (d)		0	1,444,812	2,900,861	0	1,444,812
7/1/09	96,094,847 (b)	2010	82,040,931	5.000%	4,102,047	3,493,118	0		3,852,480 (c)	(608,929)	4,688,364	3,076,535	0 (e)	4,688,364
7/1/10	102,674,540 (b)	2011	86,167,653	5.000%	4,308,383	6,086,019	1,777,636	(79,026) (f)		0	6,386,974	3,231,287	0 (e)	6,386,974
7/1/11	111,455,606 (b)	2012	98,782,784	5.000%	4,939,139 *	2,670,000	0			(2,269,139)	4,117,835	3,704,354		4,117,835
7/1/12	111,455,606 (b)	2013	105,300,311	5.000%	5,265,016 **	2,470,000	0			(2,795,016)	1,322,819	3,948,762		1,322,819
7/1/13	111,455,606 (b)	2014	106,627,241	5.000%	5,331,362 **	2,470,000	0			(2,861,362)	0	3,998,522		0
7/1/14	111,455,606 (b)	2015	109,699,393	5.000%	5,484,970 **	2,470,000	0			(3,014,970)	0	4,113,727		0
7/1/15	111,455,606 (b)	2016	111,455,606	5.000%	5,572,780 **	2,470,000	0			(3,102,780)	0	4,179,585		0

\* FY 2012 spending policy amount calculated using actual market value as of 06/30/11

\*\*Investment Income based on Oct 2011 CREG estimate--All amounts shown in yellow are projections and do not include projections for capital gain/loss distributions

Amount Short in Reserve to distribute to UW & colleges for difference between 5% spending policy amount & projected investment income	
FY12	\$0
FY13	\$0
FY14	\$1,538,543
FY15	\$3,014,970
FY16	\$3,102,780

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-FY12 are actual market value & for FY13 & beyond assumes same market value & no projected additions
- (c) Appropriation - federal mineral royalty diversion - 2009 session, Ch 159, Sec 342
- (d) Reflects transfer of realized earned income from income account
- (e) 2010 Session Laws, Ch 39 Sec 301(c) - no funds are to spill over to corpus until June 30, 2012
- (f) Reflects correction of investment income-transfer to general fund