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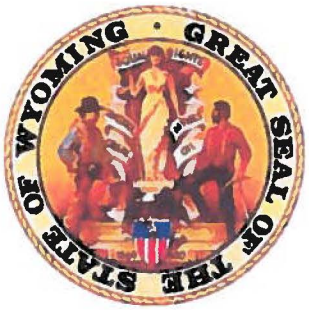

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STATE CAPITOL
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CHEYENNE, WY 82002

November 01, 2015

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 (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).

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 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 ninety percent (90%) (2015 legislative session, Chapter 195, changed the percentage from 75% to 90%) 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 ninety percent (90%) 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.)

During the 2010 legislative session, a footnote to the appropriations bill was approved (Chapter 39, Section 301) which stipulated that no funds were to flow from the PWMTF and CSPLF 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 were to once again spill over to corpus if the balance in the PWMTF reserve account exceeded the spending policy amount.

Below is a summary of each of the reserve accounts at the end of fiscal year 2015:

PWMTF reserve account: During fiscal year 2015, total investment income that flowed into the PWMTF amounted to $494,234,268, while the five percent spending policy amount for the PWMTF for fiscal year 2015 was $284,272,300, the investment income was more than the spending policy amount. Therefore, $209,961,969 flowed into the PWMTF reserve account leaving a balance of $390,026,980. This ending balance exceeded ninety percent (90%) of the spending policy amount by $134,181,910. This amount, therefore, spilled over to the PWMTF corpus leaving an ending balance of $255,845,070 in the PWMTF reserve account at the end of fiscal year 2015.

CSPLF reserve account: Investment earnings flowing into the CSPLF for fiscal year 2015 amounted to $215,739,848 while the five percent (5%) spending policy amount for fiscal year 2015 was $121,865,368. Investment income exceeded the spending policy amount by $93,874,480. This amount was deposited into the CSPLF reserve account leaving a balance of $174,593,122. This ending balance in the reserve account exceeded ninety percent (90%) of the spending policy amount by $64,914,291. Therefore, this amount was transferred to the CSPLF corpus at the end of fiscal year 2015 leaving an ending balance of $109,678,831 in the CSPLF reserve account.

Higher Ed reserve account: The total investment income earned on the Higher Ed fund during fiscal year 2015 amounted to $7,652,452, while the five percent (5%) spending policy amount for fiscal year 2015 was $5,608,790. Investment income exceeded the spending policy amount by $2,043,662 which was deposited into the Higher Ed reserve account, leaving a balance of $6,133,738. This amount exceeded seventy-five percent (75%) of the spending policy amount for FY 2015 by $1,927,146, this amount spilled over to the Higher Ed corpus. The ending balance in the Higher Ed reserve account at the end of fiscal year 2015, therefore, was $4,206,593.

Based on the current five percent (5%) spending policies, the spending policy amount for fiscal year 2015 for the PWMTF is $284,272,300, for the CSPLF it is $121,865,368 and for the Higher Ed it is $5,608,790.

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 2015 (highlighted in green), and the projected calculations for fiscal years 2016 through 2021 (highlighted in yellow). Market value projections (in yellow) are calculated by using the market values on 07/01/15 and adding any additional funds that are projected to flow into the accounts during each fiscal year, while investment income projections are based on the October 2015 CREG estimates. Projections are updated each year following the release the October & January CREG reports.

At this point in time, the State Treasurer does 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,

Mark Gordon
State Treasurer

Attachments

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

SPENDING POLICY: COMMON SCHOOL PERMANENT LAND FUND (CSPLF)

2015 FISCAL YEAR END (06-30-15)

last update 06/30/15

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 90% (increased during the 2014 Session from 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 2015 was $121,865,368. Total CSPLF investment income for FY 15 was $215,739,848. As investment earnings exceeded the five percent (5%) spending policy amount, $93,874,480 flowed to the spending policy reserve account at the end of fiscal year 2015, leaving a fiscal year end balance in the reserve account of $174,593,122. This amount exceeded 90% (increased during the 2014 Session from 75%) of the spending policy amount by $64,914,291 which spilled over to Corpus and left an ending balance in the reserve account of $109,678,831 at the end of fiscal year 2015.

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	90% of Spending Policy *(l)*	Over 90% spills over to Corpus *(l)*	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
								(13,500,000) *(c)*				
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	56,969,255	0	167,274 *(i)*	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	54,643,154	0		46,992,498	57,027,539	0 *(j)*	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		61,980,028	62,549,673	0 *(j)*	61,980,028
7/1/11	2,236,530,927	2012	1,840,971,958	5.000%	92,048,598	99,567,151	7,518,553		69,498,581	69,036,448	462,132	69,036,448
7/1/12	2,371,333,538	2013	1,979,578,187	5.000%	98,978,909	142,833,282	43,854,373		112,890,821	74,234,182	38,656,639	74,234,182
7/1/13	2,630,640,734	2014	2,152,497,128	5.000%	107,624,856	172,478,233	64,853,377		139,087,559	80,718,642	58,368,916	80,718,642
7/1/14	3,046,528,217	2015	2,437,307,356	5.000%	121,865,368	215,739,848	93,874,480		174,593,122	109,678,831	64,914,291	109,678,831

Source: W.S. 9-4-719

*During the 2014 Session the reserve account limit was increased from 75% to 90%.

(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 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) comunity 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 educaton endowment
(j) 2010 Session Laws, Ch 39 Sec 301(b) - no funds are to spill over to corpus until June 30, 2012
(l) 2014 Session Laws, Ch 195 - changed the percentage from 75% to 90%

SPENDING POLICY: PERMANENT WYOMING MINERAL TRUST FUND (PWMTF)

2015 FISCAL YEAR END (06-30-15)

last update 06/30/15

W.S. 9-4-719 established annual spending policy amounts from the PWMTF (currently five percent (5%) of the average five (5) year rolling average market value) and created the PWMTF reserve account. To the extent earnings from the PWMTF exceed the five percent (5%) spending policy amount, the excess earnings flow to the PWMTF reserve account. If the balance in the reserve account reaches more than 90% (increased during the 2014 Session from 75%) of the spending policy amount, the excess in the reserve account is transferred to the corpus of the PWMTF.

The spending policy amount for fiscal year 2015 was $284,272,300. Total PWMTF investment income for FY 15 was $494,234,268. As investment earnings exceeded the five percent (5%) spending policy amount, $209,961,969 flowed into the spending policy reserve account at the end of fiscal year 2015, leaving a fiscal year end balance in the reserve account of $390,026,980. This amount exceeded 90% (increased during the 2014 Session from 75%) of the spending policy amount by $134,181,910 which spilled over to Corpus and left an ending balance in the reserve account of $255,845,070 at the end of fiscal year 2015.

As of	Total Market Value *(a)*	For FY	Rolling 5-yr 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	90%* of Spending Policy *(l)*	Over 90%* spills over to Corpus *(l)*	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	205,847,144 *(j)*			144,315,485	161,229,523	0	144,315,485
7/1/12	5,595,493,940	2013	4,672,936,323	5.000%	233,646,816	366,635,722	132,988,906		277,304,391	175,235,112	102,069,278	175,235,112
7/1/13	6,112,755,251	2014	5,068,400,300	5.000%	253,420,015	395,337,466	141,917,451		317,152,563	190,065,011	127,087,552	190,065,011
7/1/14	6,979,071,774	2015	5,685,445,992	5.000%	284,272,300	494,234,268	209,961,968	10,000,000 *(k)*	390,026,980	255,845,070	134,181,910	255,845,070

Source: W.S. 9-4-719

*During the 2014 Session the reserve account limit was increased from 75% to 90%.

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) 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.

(j) 2012 Session laws, Ch 26, Sec 300 (c) - excludes $30 million from earnings calculation for general fund appropriation to AML fund balancing account

(k) 2015 Session laws, Ch 142, Sec 4, Sec 320(q) - excludes $10 million from earnings calculation for PMTF Reserve appropriation to Carbon County for road and bridge construction.

(l) 2014 Session laws, Ch 195 - chenged percentage from 75% to 90%

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

2015 FISCAL YEAR END (06-30-15)

last update 06/30/15

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 2015 was $5,608,790. Total investment income from the Higher Education Endowment fund for FY 15 was $7,652,452 which exceeded the the five percent (5%) spending policy amount by $2,043,662. This amount flowed into the spending policy reserve account at the end of fiscal year 2015. However, a total of 3,495,028 was transferred from the reserve account to the Higher Ed income account during FY 15 as there were insufficient funds in the income account to make the quarterly payments to the colleges due to timing of the investment income distributions. A balance of $3,495,028 in unexpended, unobligated funds was remaining in the income account at fiscal year end which was transferred to the reserve account. The balance in the reserve account at the end of fiscal year 2015 exceeded 75% of the spending policy amount by $1,927,146 which spilled over to Corpus at the end of fiscal year 2015. The balance in the Higher Ed reserve account at the end of FY 15 is $4,206,593.

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 to Reserve Acct	Earnings less than 5% of spending policy from Reserve Acct to be distributed	Legislative Appropriations	Transfers to (from) Reserve Account	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	2009	77,356,292	5.000%	3,867,815	3,926,014	151,616 *(c)*	0			1,444,812 *(c)*	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	(608,929)	3,852,480 *(b)*		4,688,364 *(c)*	3,076,535	0	4,688,364 *(d)*
7/1/10	102,674,540	2011	86,167,653	5.000%	4,308,383	6,086,019	1,777,636	0		(79,026)	6,386,974 *(c)*	3,231,287	0	6,386,974
7/1/11	111,455,707	2012	98,782,804	5.000%	4,939,140	5,634,089	694,949	0		30,558	7,112,481	3,704,355	3,408,126	3,704,355
7/1/12	111,829,141	2013	105,375,039	5.000%	5,268,752	7,791,230	2,522,478	0		186,988	6,413,821	3,951,564	2,462,257	3,951,564
7/1/13	113,851,145	2014	107,181,076	5.000%	5,359,054	6,727,157	1,368,103	0		49,366	5,369,033	4,019,290	1,349,743	4,019,290
7/1/14	121,068,507	2015	112,175,808	5.000%	5,608,790	7,652,452	2,043,662	0		70,787	6,133,739	4,206,593	1,927,146	4,206,593

(a) Total Market Value for FY06 - FY08 are based on Higher Ed portion of SAP market value
(b) Appropriation - federal mineral royalty diversion - 2009 session, Ch 159, Sec 342
(c) Reflects balance following correction of $93,417, realized earned income-transfer out of Higher Ed income fund
(d) 2010 Session Laws, Ch 39 Sec 301(b) - no funds are to spill over to corpus until June 30, 2012