CURTIS E. MEIER, JR.
WYOMING STATE TREASURER

DAWN A. WILLIAMS, DEPUTY STATE TREASURER

MEMORANDUM

To: Select Committee on Capital Financing & Investments

From: Curtis E. Meier Jr., State Treasurer

Date: November 1, 2019

Re: Spending Policy Modification Recommendations

Pursuant to Wyoming Statute 9-4-719(p), in consultation with the State Loan and Investment Board, the State Treasurer is to provide by November 1 of each year 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).

Recommendations Regarding Modifications to Spending Policies

First, while reductions in the annual spending policy percentages were initially adopted during the 2017 legislative session (2017 HB 55), this phased in approach has been pushed back with subsequent legislation to FY23 and beyond. For the purpose of further securing the State's financial health, it would be prudent to reinstate the reduced annual spending policy percentage for the CSPLF and the Higher Ed Fund. Successfully reaching a 5% spending policy amount has become less likely for the foreseeable future because of the reduced interest rate environment and global recession concerns. A more realistic amount would be 4% or 2 ½% on a real basis, without factoring in inflation, still using the rolling five year average of the market value of the corpus of each fund. If the State determines that 4% is a more reasonable amount, the phased in approach should be reinstated to provide a smooth transition e.g., 4.75% for FY21, 4.5% for FY22, and 4% in FY23. It should be noted the Higher Ed Fund, which currently has a spending policy of 4.75%, could be matched up to move in conjunction with the CSPLF (essentially holding the 4.75% through FY21).

For the CSPLF, this change would not result in direct spending cuts currently but rather would place a ceiling on spending going forward. However, for the Higher Ed Fund, the reduction could result in direct spending cuts to the higher education institutions since the earnings have been supplemented from the Higher Ed Fund reserve account. This is why I am recommending the stair step approach. As previously reported, the Higher Ed Fund reserve account ran out of funds, which required a supplemental appropriation to fund the encumbered expenditures for higher education. This led to a statutory policy change of only covering one-half of any spending policy income shortfall with the Higher Ed Fund reserve account. The other one-half of the shortfall would be covered by the institutions themselves. In addition, higher education institutions may now only spend 90% of the distribution in years which the spending policy is reached or exceeded, which will allow the institutions to build up a reserve account of their own during periods of lower return.

Second, I would also recommend stair stepping the maximum amount allowed in the reserve account (spillover percentage) for the CSPLF reserve account to match the reduction in the spending policy. The suggested match would be a spillover percentage of 150% for the 4.75% spending policy (FY21), a 125% spillover percentage for a 4.5% spending policy (FY22), and a 100% spillover percentage for the 4% spending policy (FY23). The 2017 legislation that reduced the spending policy percentages mentioned above (2017 HB55) also increased the spillover percentage from 90% to 150%, which allows the reserve account to grow, but to the detriment of the long-term growth and stability of the corpus. Reducing the spillover percentage linked to the spending policy down to a floor of 100% would increase the amount of revenue flowing into the corpus over time to a point where these funds could operate more like an endowment.

Third, for the Permanent Wyoming Mineral Trust Fund (PMTF), I offer the following change to the spending policy. Lower the spending policy down to 3.75%, but fully guarantee the 3.75% with the PMTF Reserve Account. This would be distributed 2.5% to the General Fund, and the remaining 1.25% would go to a newly created Priority Contingency Account. The Priority Contingency Account could be used by the legislature as appropriated, but could include things like construction, special projects, major maintenance, K-12, higher education, permanent fund corpus deposits, etc. Any investment income over 3.75% would flow directly to the PMTF Reserve Account. Once the PMTF Reserve Account reaches 100% of the spending policy, the monies in excess would flow 50% to the Legislative Stabilization Reserve Account (LSRA) and 50% back to the corpus of the PMTF. This would allow for some inflation proofing of the PMTF and allow for intermediate savings within the LSRA. The attached graphic demonstrates visually the new spending policy for the PMTF.

I understand that in a low return environment, as well as a low state revenue environment overall, 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.