MEMORANDUM

TO: Governor Dave Freudenthal
    Joint Appropriations Interim Committee
    Joint Education Interim Committee
    Select Committee for Capital Finance and Investments

FROM: Sharon Garland, Deputy State Treasurer

DATE: September 29, 2010

RE: Excellence in Higher Education Endowment Fund Spending Policy Reserve Account Distributions

In accordance with Wyoming State Statute 9-4-719(n), the State Treasurer, in consultation with the University of Wyoming and the Community College Commission, is to report to the governor, joint appropriations interim committee, joint education interim committee and select committee on capital financing and investments no later than October 1, of any year in which funds have been or are anticipated to be distributed from the Excellence in Higher Education Endowment Fund (Higher Ed Fund) spending policy reserve account.

The Wyoming State Legislature established an investment earnings spending policy reserve account for the Excellence in Higher Education Fund during the 2007 legislative session. To the extent earnings from the Higher Ed Fund exceed the established spending policy amount, excess earnings flow to the Higher Ed spending policy 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.

During the 2010 Session, a footnote to the appropriations bill was approved (Chapter 39, Section 301(c)) which stipulates that no funds are to flow from the Higher Ed spending policy reserve account to the Higher Ed fund (corpus) until June 30, 2012.

The spending policy amount for fiscal year 2010 for the Higher Ed Fund was based on the statutory percentage rate of five percent (5%) of the five-year rolling average market value, which amounted to $4,102,047. Total investment income earned on the Higher Ed fund during FY 2010 amounted to $3,493,118. Since the spending policy amount exceeded investment earnings by $608,929, 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 ending balance exceeds seventy-five percent (75%) of the spending policy amount for FY10 by $1,611,829, this amount did not revert to 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.
Attached is a spreadsheet for the Higher Ed spending policy reserve account that displays the spending policy calculations for prior fiscal years and for fiscal year 2011, as well as the projected calculations for fiscal years 2012 through 2014. Market value projections 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. (Actual spending policy amount for FY 2011 is highlighted in green while all future projections are highlighted in yellow.)

The spending policy amount for fiscal year 2011 for the Higher Ed Fund is $4,323,128 based on the current five percent (5%) spending policy.

The latest investment income projections for fiscal years 2011 through 2014 (using January 2010 CREG estimates) are also less than the five percent (5%) projected spending policy amounts. Thus the difference will again need to be made up by the Higher Ed reserve account for each of these years. However, current projections indicate there will not be sufficient funds available in the reserve account to distribute to the University and community colleges for fiscal years 2013 and 2014.

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

Attachments

cc: State Treasurer Joe Meyer
    Jim Rose, Community College Commission
    Don Richards, University of Wyoming
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.

<table>
<thead>
<tr>
<th>Year</th>
<th>As of Market Value</th>
<th>Total Rolling 5-year Average</th>
<th>Spending Policy Level</th>
<th>Spending Policy Amount</th>
<th>Investment Income *</th>
<th>Earnings over 5% of spending policy amount to Reserve Accru</th>
<th>Legislative Appropriation</th>
<th>Earnings less than 5% of spending policy from Reserve Accru to be distributed</th>
<th>Year End Reserve Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/1/10</td>
<td>6,686,687.00</td>
<td>5%</td>
<td>0.00%</td>
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<tr>
<td>7/1/11</td>
<td>7,149,091.00</td>
<td>5%</td>
<td>1,222,222.00</td>
<td>2,600,000 **</td>
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<tr>
<td>7/1/12</td>
<td>7,167,526.00</td>
<td>5%</td>
<td>1,333,333.00</td>
<td>2,900,000 **</td>
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<td>0.00</td>
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</tr>
<tr>
<td>7/1/13</td>
<td>7,167,526.00</td>
<td>5%</td>
<td>1,266,666.00</td>
<td>2,600,000 **</td>
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</tr>
</tbody>
</table>

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

**Investment Income based on Jan 2010 CREG estimates—All amounts shown in yellow are projections and do 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) Refers to balance following withdrawal of $93,417, realized earned income transfers out of Higher Ed income fund
(e) 2010 Session Laws, Ch 301 (c) - no funds are to revert to corpus until June 30, 2012