FISCAL NOTE

This bill contains transfers totaling $639,600,000 from the LEGISLATIVE STABILIZATION RESERVE ACCOUNT to the following reserve accounts on July 1, 2023:

	Transfer Amount
Permanent Wyoming Mineral Trust Fund (PWMTF) Reserve Account	$ 274,700,000
Common School Permanent Land Fund (CSPLF) Reserve Account	$ 359,100,000
Hathaway Reserve Account	$ 4,600,000
Excellence in Higher Education Endowment (EHEE) Reserve Account	$ 1,200,000
Total	$ 639,600,000

	FY 2024	FY 2025	FY 2026
NON-ADMINISTRATIVE IMPACT			
Anticipated Revenue increase/(decrease)			
LEGISLATIVE STAB. RES. ACCT.	$248,000,000	$111,100,000	$0
SCHOOL FOUNDATION FUND	($248,000,000)	($111,100,000)	($0)

Source of revenue increase(decrease):

This legislation would divert federal mineral royalties (FMRs) from the School Foundation Program Account to the Legislation Stabilization Reserve Account (LSRA) until $359,100,000 has been transferred.

Assumptions:

The revenue increases to the LSRA and the revenue decreases to the SFP are based on the FMR revenue forecast in the October 2022 CREG forecast.

Impact to Reserve Accounts: Reserve accounts are currently invested in the State Agency Pool. The State Treasurer’s Office (STO) indicates these accounts could be invested for more potential long-term return if they were increased according to this legislation.

Using STO’s expected yield and return and the increased reserve account balances after the transfers in this legislation, LSO estimates the PWMTF Reserve Account could potentially have an annual increase ranging between $9.3 million (yield) to $15.5 million (return) for FY 24 to FY 26. The CSPLF Reserve Account could potentially have an annual increase ranging between $8.1 million (yield) and $13.4 million (return) for FY 24 to FY 26. The difference in investment earnings between $639.6 million in the LSRA compared to $639.6 million in the reserve accounts depends on which part of the LSRA portfolio the money is taken from and how the reserve accounts are ultimately invested. Statutorily, the Hathaway Scholarship Reserve Account and Excellence in Higher Education Reserve Account may not be invested in equities and would remain in the State Agency Pool.

Impact to Corpus: The State Loan and Investment Board (SLIB) has assigned each corpus/endowment an investment objective as listed in the following table.

Fund	SLIB Investment Objective	5-Year Average Market Value as of 7/1/2022 (rounded)
PWMTF Corpus	Long-Term Total Return	$ 8,175,200,000
Hathaway Endowment	Long-Term Total Return	$ 608,500,000
CSPLF Corpus	Income -Focused	$ 4,133,300,000
Excellence in Higher Education Endowment (EHEE)	Income -Focused	$ 124,600,000

The size of the associated reserve accounts is a factor when the SLIB determines the investment objective. Larger reserve accounts may result in the SLIB shifting from an income-focused investment objective to a long-term total return objective, or an endowment-like asset allocation. This would position the income-focused funds to potentially achieve higher investment growth over the long term.

The estimates of yield and return for FY 24 to FY 26 provided by the STO do not distinguish between income-focused permanent funds and long-term total return permanent funds. Annually, an increase of 1 percent would be approximately $41 million for the CSPLF and $1 million for the EHEE.

The STO states that, generally speaking, the appropriations to the reserve accounts would allow them to be invested in a longer-term strategy which should receive higher returns over the long run. For example, the reserve accounts are currently invested in a money market type of investment. Historically, a well-diversified endowment-like asset allocation has significantly outperformed cash over a 10-plus year investment horizon. By building up the reserve accounts to five to seven times the spending policy, these reserves would be able to supplement the spending policy for a number of down years while still allowing an investment in a total return strategy. If the inviolate intended structure was not adhered to, and there were appropriations from these reserve accounts, the STO would need to revert back to our current asset allocation. This change would entail selling illiquid securities at a steep discount to current market value which is approximately 10 percent during normal market conditions. This could increase to 20-30 percent during times of fiscal stress. This could result in an estimated loss of 50 to 150 million dollars depending on our asset allocation model.

The STO projects yields in FY24 through FY26 to be around 3.74% for permanent funds and 2.47% for State Agency Pool funds including the Legislative Stabilization Reserve Account. Yield is defined as the interest and dividend income from the investment. Over the long term, total return for permanent funds is expected to be 5.0%, while total return for State Agency Pool funds is expected to be 2.9%. This is in accordance with the State’s Investment Policy. Total return is defined as growth in the value of the investment, including both yield and realized & unrealized gains.

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