



WYOMING LEGISLATIVE SERVICE OFFICE

Memorandum

DATE July 2, 2021

TO Members, Joint Education Interim Committee

FROM Leanne Hoag, Fiscal Analyst

SUBJECT K-12 School Operations and Construction Funding and Historical Revenues and Appropriations

This memorandum serves as background on K-12 school operations and capital construction within the School Foundation Program Account (SFP) and the School Capital Construction Account (SCCA) related to Interim Topic #2 K-12 Education Program and School Finance. This memorandum also offers a historical summary of the revenues deposited to and appropriations from the SFP and the SCCA for K-12 school operations and construction from fiscal year (FY) 2005-2006 biennium to estimated FY 2025-2026 biennium and an update on the projected K-12 education shortfall.

Projected Shortfall

Projections of the estimated K-12 education shortfall for the next three biennia are categorized in two separate areas: 1) operations and 2) capital construction. The revenue assumptions utilized for each category are the January 2021 CREG forecast and any laws enacted during the 2021 General Session. Other assumptions are identified below.

Operations Funding Assumptions

- Actual funding amounts are assumed for FY 2021.
- Current law (no revisions assumed to the K-12 funding model).
- No future external cost adjustments.
- Enrollment is assumed flat, or equal to, school year 2020-2021.
- Annual 6% health insurance increase starting in FY 2023.
- Annual 4% growth for reimbursements starting in FY 2022.
- Agency budgets reflect FY 2021-2022 for all biennia including the 2021 Supplemental Budget, as enacted.

Capital Construction Funding Assumptions

- State Construction Department and School Facilities Commission operations funding assumed \$842,247 reduction is on-going for the FY 2023-2024 and FY 2025-2026 biennia.
- Major maintenance funding for FY 2023-2024 and FY 2025-2026 biennia assume growth of 3%.
- Capital construction projects are estimated at \$70 million for the FY 2023-2024 and FY 2025-2026 biennia.

Summary of Current Forecasts

The **April 2021 Long-Term Revenue-Expenditure Forecast** highlights the estimated shortfalls for the SFP and SCCA for the next three biennia. Table 1 and Table 2 serve as a summary of the long-term forecast. It is important to note that the long-term forecast does not include the April 2021 Revenue Update from the CREG Co-chairmen or the higher energy commodity prices and federal economic stimulus beginning this spring.

K-12 Operations Shortfall

For K-12 operations funding from the SFP, the FY 2021-2022 biennium estimated shortfall is \$331.0 million. For the FY 2023-2024 biennium, the estimated shortfall is \$459.0 million or \$229.5 million per year. For the FY 2024-2025 biennium, the estimated shortfall is \$535.0 million or \$267.5 million per year. Table 1's summary, however, is of limited value at this time. The reasons for this are the Common School Permanent Land Fund's (CSPLF) full 5% spending policy amount for investment earnings was reached in FY 2021 and energy commodity prices are substantially ahead of the January 2021 CREG forecast pace. The shortfall estimates will be updated with the October 2021 CREG.

Table 1. Estimated K-12 Operations Funding Shortfall (\$Millions), FY 2021-2022 to FY 2025-2026.

	2021-2022	2023-2024	2025-2026
SFP Beginning Balance	\$232.4	\$100.0	\$100.0
SFP Ending Balance	\$100.0	\$100.0	(\$435.0)
SFP Balance Difference: <i>(Positive subtracted; Negative added)</i>	\$132.4	\$0.0	(\$535.0)
LSRA Transfer	\$331.0	\$459.0	\$0.0
Est. Shortfall: SFP Balance Difference less LSRA Transfer	(\$198.6)	(\$459.0)	(\$535.0)

Source: LSO analysis.

K-12 Capital Construction Shortfall

For K-12 capital construction funding, the FY 2023-2024 biennium estimated shortfall is estimated at \$76 million under January 2021 CREG forecast. Unlike the SFP shortfall, the SCCA shortfall is not expected to change as much with federal stimulus or increased energy commodity prices. For the FY 2025-2026 biennium, the cumulative estimated shortfall is \$244 million or \$76 million carryover from FY2023-2024 biennium and an additional \$168 million. Table 2 summarizes the estimated K-12 capital construction shortfall by each biennium. The actual amount desired of annual construction expenditures by the Legislature and Governor may be larger or smaller.

Table 2. Estimated K-12 Capital Construction Funding Shortfall (\$Millions), FY 2021-2022 to FY 2025-2026.

	2021-2022	2023-2024	2025-2026
SCCA Beginning Balance	\$21.6	\$0.0	(\$76.0)
SCCA Ending Balance	\$0.0	(\$76.0)	(\$168.0)
SCCA Balance Difference: <i>(Positive subtracted; Negative added)</i>	\$21.6	(\$76.0)	(\$244.0)
Other Acct. Transfers	\$73.2	\$0.0	\$0.0
Est. Shortfall: SCCA Balance Difference less Transfers	(\$51.6)	(\$76.0)	(\$244.0)

Source: LSO analysis.

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K-12 Shortfall Taking April 2021 Revenue Update into Consideration

When considering the **April 2021 Revenue Update** from the CREG Co-chairmen, revenue deposits into the SFP are pacing to be \$11.4 million higher than January 2021 CREG estimates. Federal Mineral Royalties (FMRs) are pacing \$10.4 million ahead of January 2021 CREG and leases and bonuses are pacing just shy of \$1 million ahead. Additionally, investment income from capital gains is on pace to exceed the CSPLF 5% spending policy amount, which would then be deposited into the Common School Permanent Land Fund Spending Policy Reserve Account (CSPLF RA) through a swap of FMRs. Revenues for the SCCA are pacing modestly behind January 2021 CREG by approximately \$300,000. This is attributable to lower than expected State Royalties.

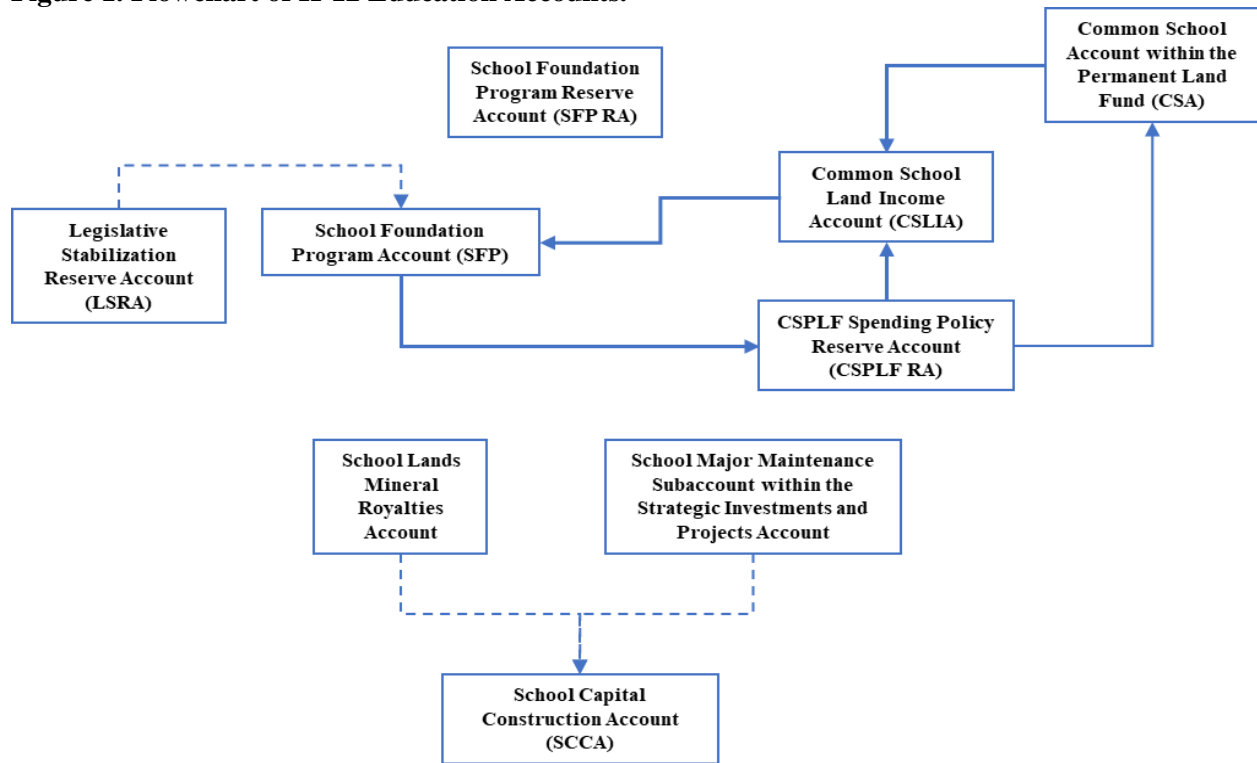
Global K-12 Funding Account Structure

Support for educational operations, maintenance, and construction of facilities is supported by nine accounts at the state level:

- Common School Account within the Permanent Land Fund;
- Common School Land Income Account;
- Common School Permanent Land Fund Spending Policy Reserve Account;
- School Foundation Program Account;
- School Foundation Program Reserve Account;
- School Lands Mineral Royalties Account;
- School Major Maintenance Subaccount within the Strategic Investments and Projects Account;
- School Capital Construction Account; and
- Legislative Stabilization Reserve Account.

These accounts represent a mix of operating accounts, revenues generated from two permanent funds, and several reserve accounts broadly designed to respond to fluctuating levels of revenues and expenditures. The nine state accounts contribute to the fiscal support of Wyoming school districts for daily operations through the foundation program as well as maintenance and construction of K-12 educational facilities. Figure 1 provides a visual depiction of how each of the accounts interact with one another under current law.

Figure 1. Flowchart of K-12 Education Accounts.



Source: LSO analysis.

K-12 Operations Accounts

Common School Account within the Permanent Land Fund

The Act of Admission awarded the State of Wyoming certain lands designated for specific purposes. The state owns approximately 3.5 million surface acres of land and 3.9 million mineral acres, of which approximately 86% are managed for the benefit of public schools.¹ The Permanent Land Fund (PLF) was established to hold the proceeds from these lands, the expenditure of which is also protected by the Act of Admission. Revenues that flow into the PLF may come from the sale of the lands, the production or sale of minerals, or any depletable resource from the land.² These revenues build the corpus of the PLF invested in equities, fixed income, and alternative investments by the State Treasurer.

Wyoming Statute 9-4-310(a) establishes 12 separate funds/accounts within the PLF to account for the revenue received from the specifically designated lands. Examples of the 12 accounts are the Miner’s Hospital Account, the Fish Hatchery Account, the Common School Account (CSPLF), the University Account, and the Agriculture College Account. According to the State Treasurer Office’s monthly portfolio status report, the PLF, including all 12 accounts, had a market value of \$4.9 billion as of May 31, 2021. The CSPLF is the largest of the various accounts; it comprised \$4.6 billion (market value) of the \$4.9 billion. The Wyoming Constitution requires these funds be held in trust for the exclusive benefit

¹ Wyoming Office of State Lands and Investments, Business Plan & Annual Report, FY 2019 (<https://drive.google.com/file/d/1UD9yRPhvT8OBsaw5BRAPxxcZR8qDtoIO/view>)

² Wyoming Constitution Article 7, Section 2 and W.S. 9-4-605(b) provide for 33 and 1/3% of mineral royalties from the lease of school lands to be deposited into the School Lands Mineral Royalties Account.

of public schools.³ The income from the investment of these funds and the income received from the surface leasing of the lands, in most cases, are deposited in the Permanent Land Income Fund (PLIF) and are available for expenditure.

The PLF is funded with royalties, easements, damage payments, funds from land sales, as well as transfers or appropriations to these accounts. The CSPLF, like many, but not all the accounts within the PLF, is a permanent, inviolate account.

In the 2000 Budget Session, the Legislature established annual spending policy amounts for earnings from the CSPLF.⁴ Since then, the Legislature has adopted different spending policy amounts over time. The spending policy amounts determine what amounts are transferred from or to reserve accounts.⁵ The Legislature established spending policies for the Permanent Wyoming Mineral Trust Fund (PWMTF), Excellence in Higher Education Endowment Fund, and the CSPLF to provide:

- consistent, sustainable flow of earnings for expenditure over time;
- protection of the corpus of the permanent funds against inflation; and
- to the extent practicable, increases in earnings available for expenditure to offset the effects of inflation.

If investment income from the CSPLF exceeds 5% of the previous five-year average market value of the CSPLF, then the amount over 5% is directed to the CSPLF RA through a swap of FMRs deposited within the SFP. If investment income falls short of the spending policy, this amount is guaranteed by the CSPLF RA. **Attachment A** provides a visual depiction of how the investment income flows to the different accounts.

Historical Revenue Trends

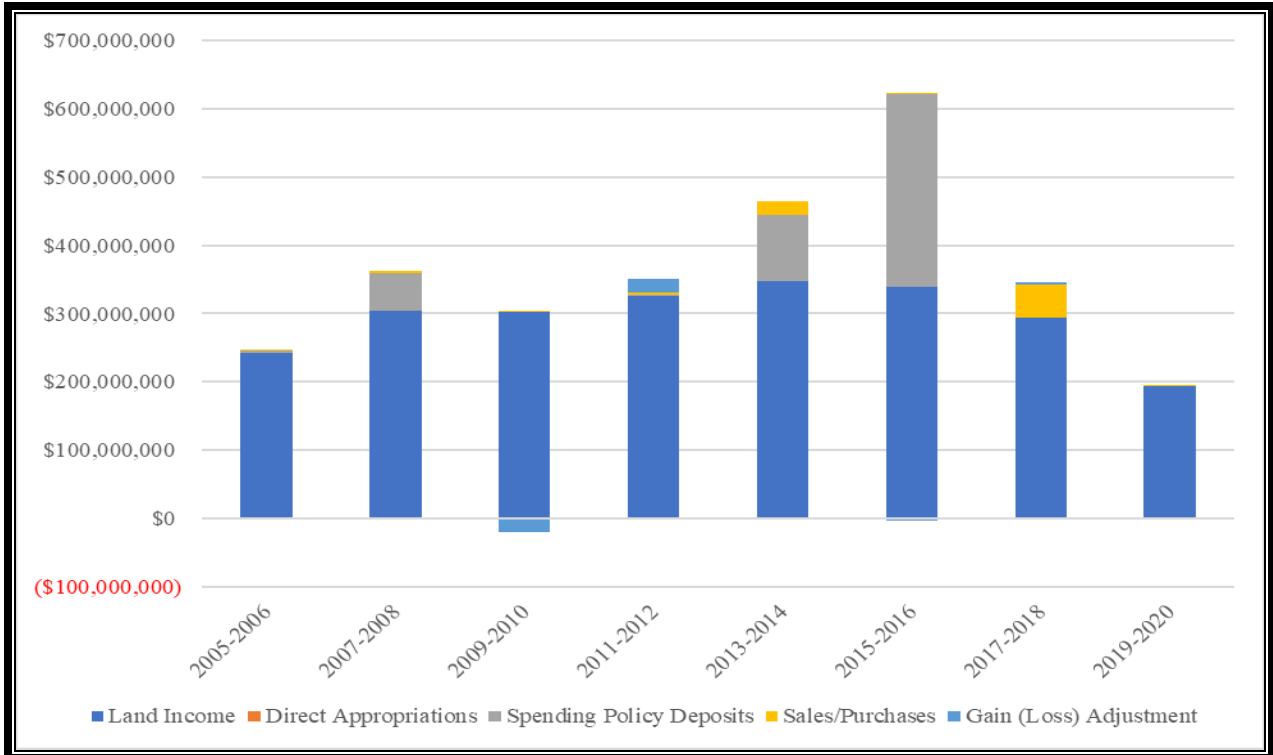
Figure 2 highlights the revenue sources for the CSPLF from FY 2005-2006 to FY 2019-2020. Historically, the CSPLF receives revenue from proceeds from the sale of state lands, mineral royalties, and any money designated by the Wyoming Constitution or Wyoming statutes, including occasional deposits from the CSPLF RA, as illustrated in yellow.

³ Wyoming Constitution Article 7, Section 6.

⁴ 2000 Wyoming Session Laws, Chapter 14.

⁵ Investment earnings from the CSA must be available for expenditure for public schools. Although transfers are based solely on investment performance, to accomplish the transfers to the reserve accounts (SFP Reserve Account and the CSPLF Spending Policy Reserve Account), statute provides an amount of federal mineral royalties equal to the amount of investment earnings that exceeded the spending policy amounts is directed to the SFP Reserve Account (FY 2017 only) and CSPLF Spending Policy Reserve Account. Plainly, since investment earnings must be spent a specific way, the Legislature has elected to designate another stream of revenue (federal mineral royalties) without those expenditure requirements to accomplish its intended purpose. This is simply a “fund swap.”

Figure 2. Common School Permanent Land Fund Historic Revenue by Source, FY 2005-2006 to FY 2019-2020.

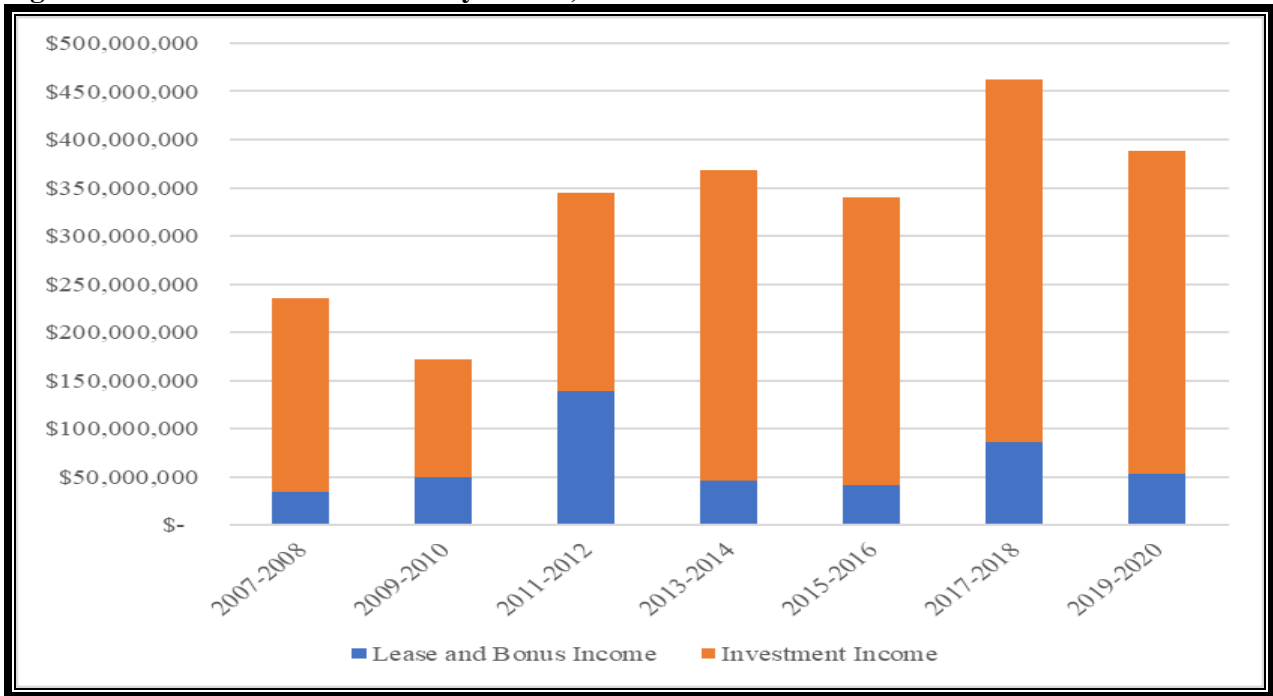


Source: LSO analysis

Common School Land Income Account

The Common School Land Income Account (CSLIA), established by W.S. 9-4-310(c)(ii), receives the investment earnings from the CSPLF, which come in the form of interest, dividends, and net realized capital gains. The CSLIA also receives revenue from non-depletable activities on the CSPLF lands. These include revenue streams like grazing leases, and oil or coal bonus payments. The revenues supporting the CSLIA are subsequently directed to the SFP to assist with statewide funding for K-12 operations. Revenue from FY 2007-2008 to FY 2019-2020 is depicted in Figure 3.

Figure 3. CSLI Historical Revenue by Source, FY 2007-2008 to FY 2019-2020.



Source: LSO analysis.

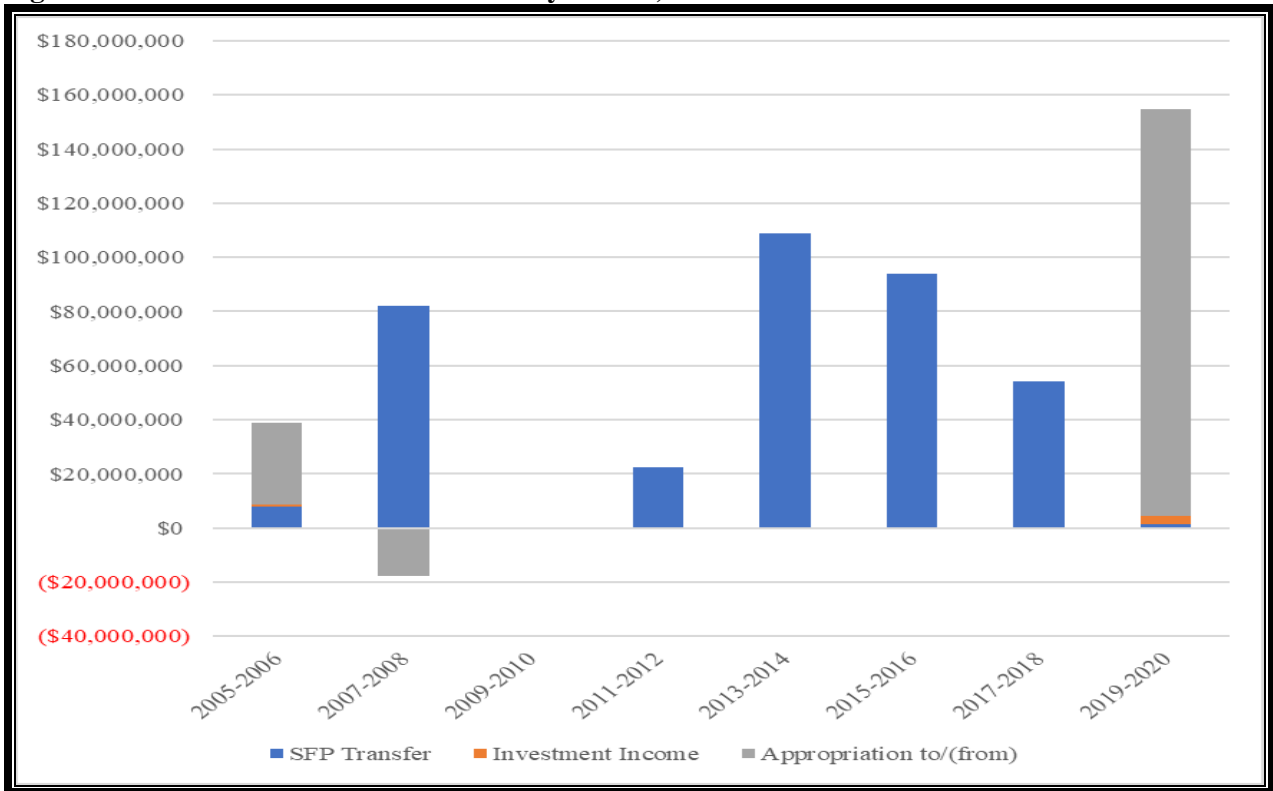
School Foundation Program Reserve Account (SFP RA)

The SFP RA was established during the 2014 Budget Session by 2014 Wyoming Session Laws, Chapter 26, Section 300(g). The Legislature initially deposited \$100 million by appropriating (transferring) \$40 million from the Strategic Investments and Projects Account and \$60 million from the General Fund. During the 2015 General Session, the SFP RA was codified into law in 2015 Wyoming Session Laws, Chapter 195 by creating W.S. 21-13-306.1. For the FY 2021-2022 biennium, it receives coal lease bonus revenue that would have otherwise been deposited within the SCCA. It also would receive severance taxes pursuant to 2020 Wyoming Session Laws, Chapter 80, Section 314(e) if certain conditions are met.

Common School Permanent Land Fund Spending Policy Reserve Account

The CSPLF RA is established by W.S. 9-4-719(f). The CSPLF RA has its own distribution policy established to deposit funds into the CSPLF. In years with comparatively high investment returns, the Legislature has created a mechanism to permanently save a portion of those investment earnings. Each fiscal year, any balance more than 150% of the CSPLF spending policy amount will be transferred to the CSPLF, unless otherwise directed by the Legislature. The CSPLF RA also receives FMRs from the SFP equal to the proportion that investments earnings from the CSPLF exceed the CSPLF spending policy amount. Figure 4 illustrates the revenues directed to the CSPLF RA for FY 2005-2006 to FY 2019-2020.

Figure 4. Historical CSPLF RA Revenues by Source, FY 2005-2006 to FY 2019-2020.



Source: LSO analysis.

School Foundation Program Account

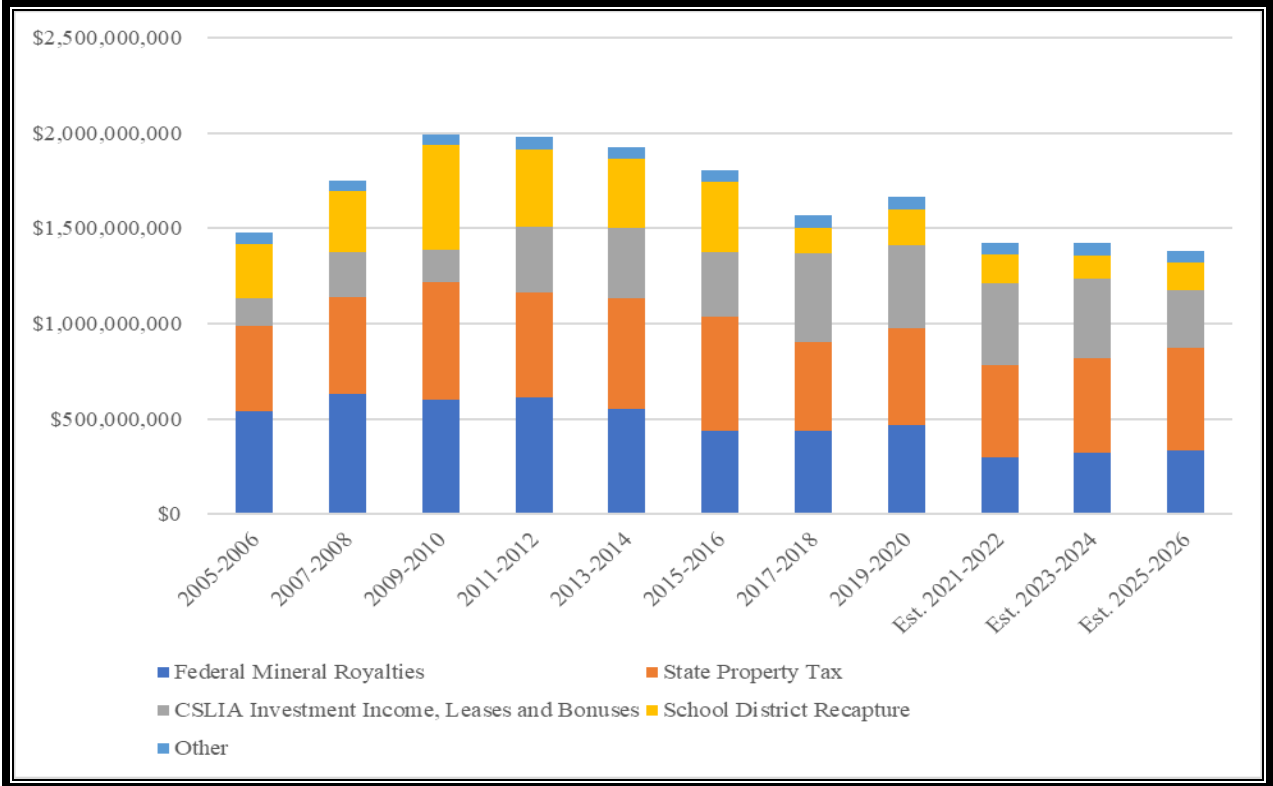
The SFP receives its traditional revenue from the following sources:

- 12-mill statewide levy (state school tax);
- FMRs;
- School district recapture payments;
- Common school land income;
- Auto taxes; and
- Other minor sources (E-rate, pooled interest, and car company taxes).

The SFP and school districts are overwhelmingly dependent on the mineral industry for revenue. Mineral production is subject to ad valorem taxation and is assessed at 100% of fair market value. Approximately 47.1% of all statewide assessed valuation was attributable to mineral production in Calendar Year (CY) 2019 and 34.9% was attributable to mineral production in CY 2020. Additionally, FMRs are dependent upon prices and production of mineral extraction on federal lands. The assessed valuation projections are based on mineral price and production estimates and estimates of assessed valuation for all other property consider historical trends. Based upon the January 2021 CREG report, the assessed values for minerals are currently projected to be approximately 38.2% less than FY 2019 levels.

Figure 5 provides the historical and estimated traditional revenue to the SFP, by revenue category, for FY 2005-2006 to estimated FY 2025-2026.

Figure 5. SFP Revenues by Source, FY 2005-2006 to Estimated FY 2025-2026.



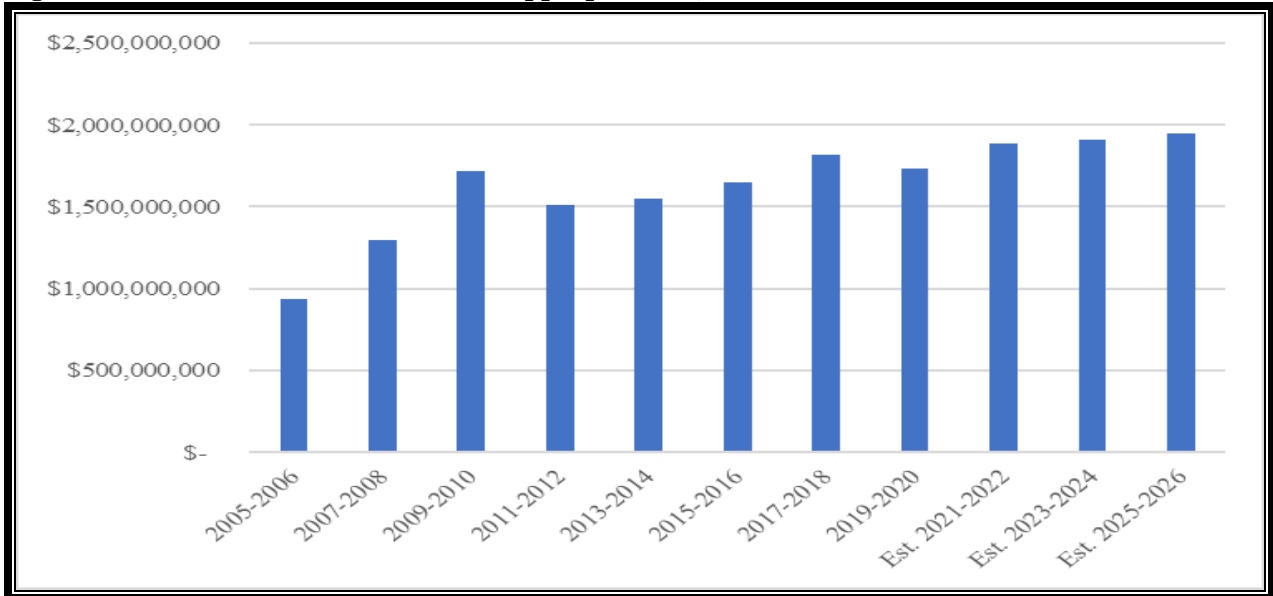
Source: LSO analysis.

The SFP is the main account in which the Legislature appropriates funds for K-12 operations. Although the appropriations from the SFP are primarily to school districts in the form of entitlement payments, the total appropriations from the SFP can be grouped into the following categories:

- Entitlement payments;
- Categorical program funding;
- Additional assistance outside the school finance funding model; and
- Other (funding for state agencies related to K-12 needs).

Figure 6 identifies the total appropriations from the SFP since FY 2005-2006 to estimated FY 2025-2026 biennium. Amounts estimated for FY 2021-2022 to 2025-2026 use January 2021 CREG estimates and adjust for any legislation enacted during the 2021 General Session.

Figure 6. Historical and Estimated SFP Appropriations, FY 2005-2006 to Estimated FY 2025-2026.



Source: LSO analysis.

K-12 Capital Construction Accounts

School Major Maintenance Subaccount within the Strategic Investments and Projects Account

In the 2018 Budget Session (**2018 Wyoming Session Laws, Chapter 136, Section 2**), the Legislature guaranteed 45% of the maximum earnings that could be directed to the Strategic Investments and Projects Account (SIPA) from the PWMTF to the newly created School Major Maintenance Subaccount beginning in FY 2021.

In the 2019 General Session (**2019 Wyoming Session Laws, Chapter 201**), the Legislature further amended the PWMTF spending policy (W.S. 9-4-719) to fully guarantee the maximum earnings that could be directed to the SIPA from the PWMTF from funds available in the PWMTF Spending Policy Reserve Account. The 45% directed to the School Major Maintenance Subaccount was unchanged. **Attachment B** depicts the current PWMTF spending policy.

School Lands Mineral Royalties Account

In the 2019 General Session (**2019 Wyoming Session Laws, Chapter 204, Sections 1 and 2**), the Legislature created the School Lands Mineral Royalties Account, which receives one-third of state mineral royalties as of July 1, 2020. Prior to FY 2019, one-third of the annual state mineral royalty stream, up to a maximum of \$8 million was deposited into the SCCA. It is important to note that state mineral royalties, although historically dedicated to school capital construction, are not required to be used for school capital construction, but rather for the purpose of supporting public schools generally.

School Capital Construction Account

Prior to the FY 2019-2020 biennium, the SCCA traditional revenues consisted of federal coal lease bonuses, state mineral royalties on school lands, and federal mineral royalties. These revenues were used to fund K-12 school capital construction projects, major maintenance and the operations of the School

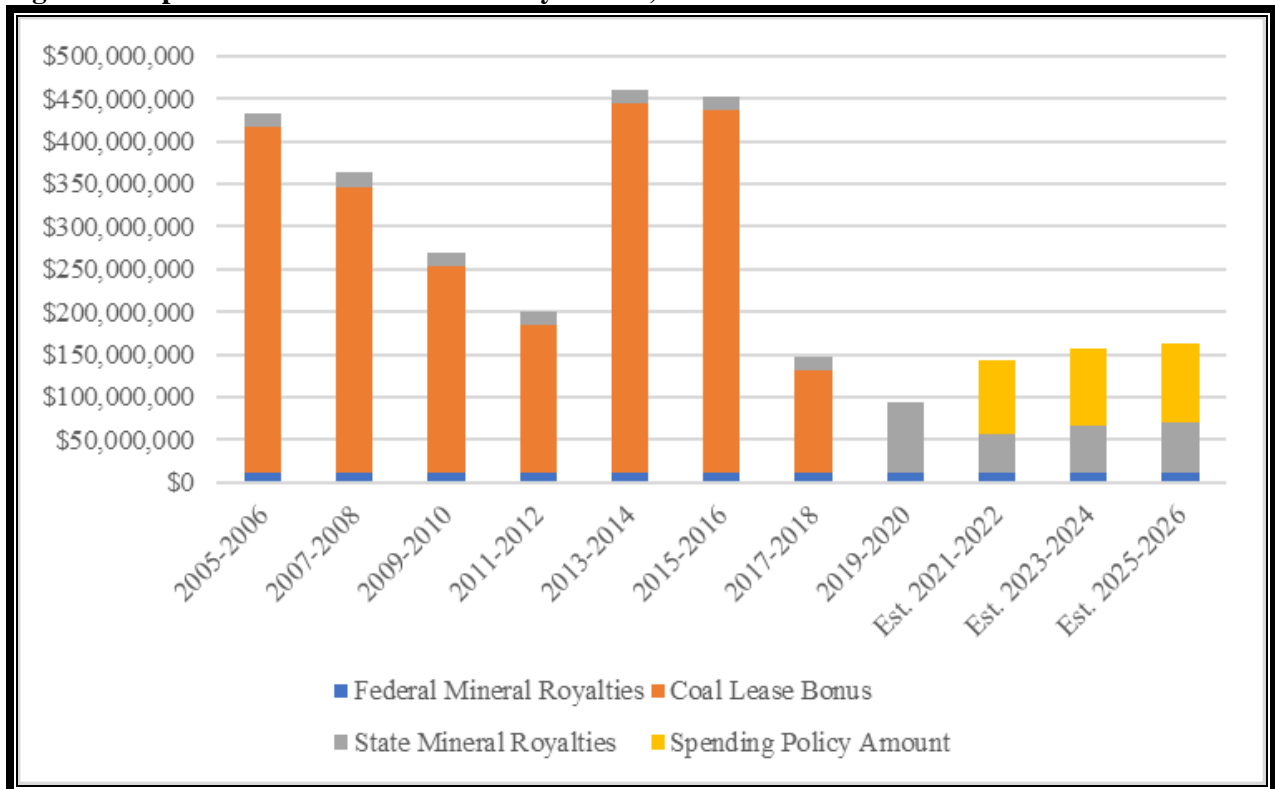
Facilities Commission and the School Facilities Division within the State Construction Department. Additionally, the SCCA relied upon augmentations or transfers from other accounts.

Due to the substantial decline of federal coal lease bonus revenues, the Legislature has modified the revenue sources for K-12 school capital construction by increasing available state mineral royalties on school lands and dedicating a portion of investment income from the PWMTF for expenditure on K-12 school capital construction.

While the Legislature has broadened the revenue sources for K-12 school capital construction by directing investment income to the School Major Maintenance Subaccount and permanently depositing the full one-third of state royalties on school lands to the School Lands Mineral Royalties Account, there is no permanent mechanism to transfer these funds to the SCCA. The **2020 Budget Bill, Section 300(g)** provides for the State Auditor to transfer these amounts to the SCCA throughout the biennium. The **2020 Budget Bill, Section 301(b)** also provides interfund borrowing authority to the State Treasurer up to \$60 million to meet cash flow requirements of the SCCA.

The SCCA has historically operated with a large cash balance due to coal lease bonus revenues, transfers from the other accounts, and the relatively long time period between appropriation of capital construction projects and final completion. With the decrease in federal coal lease bonuses, the elimination of transfers from the SFP, and large projects nearing completion, the cash balance of the SCCA is dwindling, and will likely be the new norm. Figure 7 highlights historical revenues for FY 2005-2006 to estimated FY 2025-2026.

Figure 7. Capital Construction Revenues by Source, FY 2005-2006 to Estimated FY 2025-2026.

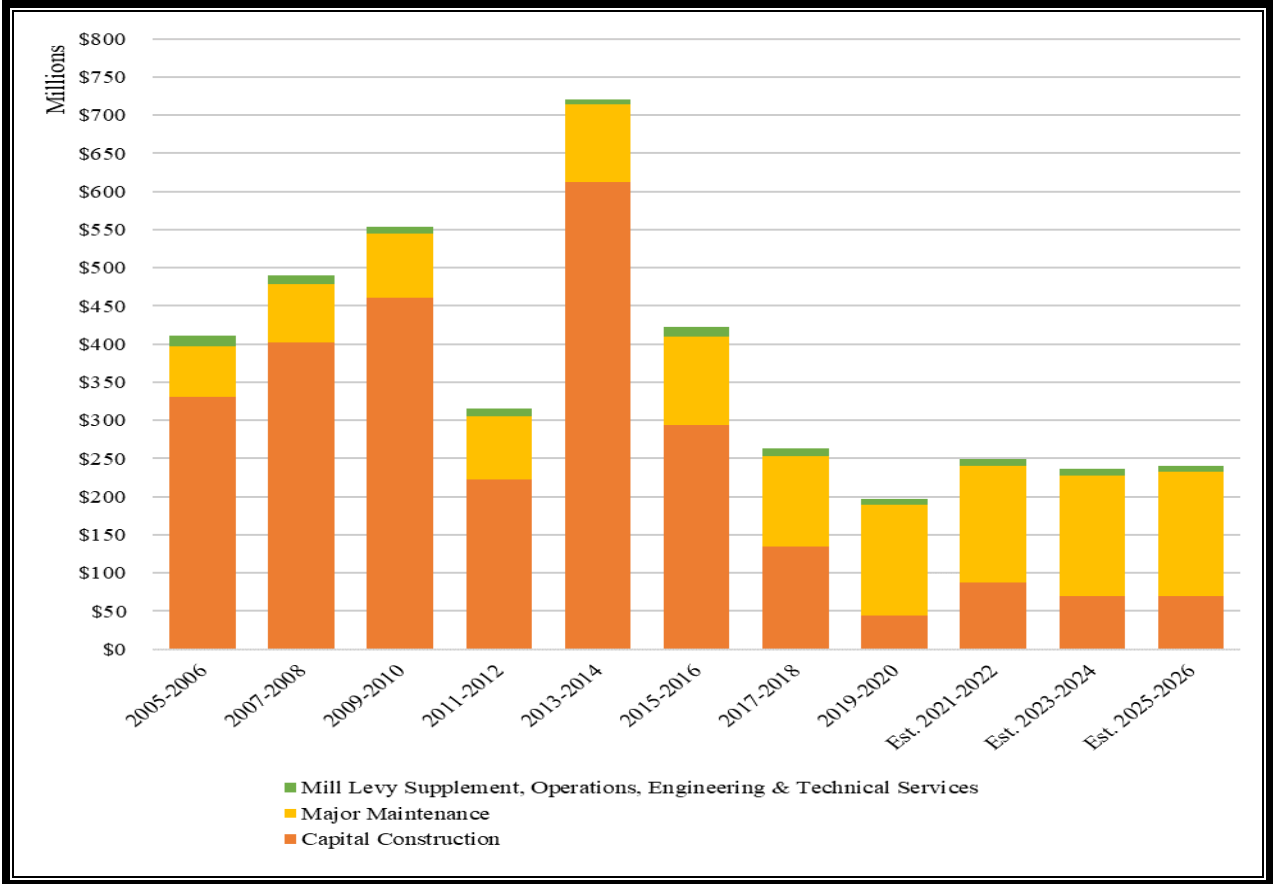


Source: LSO analysis.

Please note, the state mineral royalties for FY 2021-2022 through FY 2025-2026 show estimated deposits into the SCCA and State Mineral Royalties Account. Additionally, the spending policy amounts for FY 2021 and FY 2022 are guaranteed through the spending policy. For FY 2023 and FY 2024, the spending policy amounts are dependent upon available balances within the SIPA and the PWMTF Spending Policy Reserve Account.

Figure 8 highlights historic and estimated appropriations from the SCCA.

Figure 8. SCCA Appropriations (Net Reversion), FY 2005-2006 to Estimated FY 2025-2026.



Source: LSO analysis.

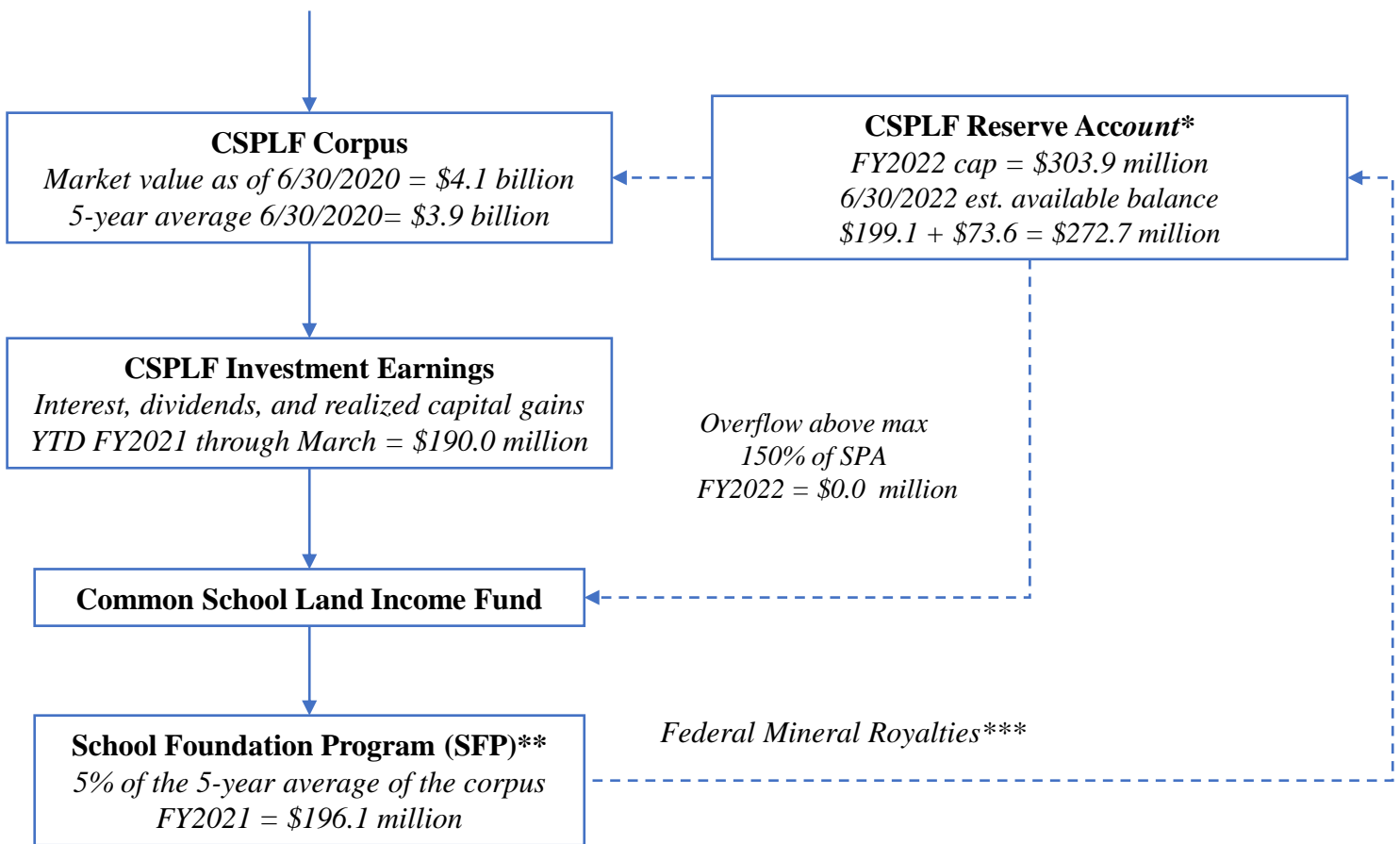
Should the Committee have any questions, please advise.

Attachments (2)

ATTACHMENT A
FY 2021 Spending Policy
Common School Permanent Land Fund (CSPLF)
W.S. 9-4-719

Changes the **Spending Policy Amount (SPA)** to be static at 5% of the five-year average of the value of the corpus.* In addition to its investment earnings, the CSPLF RA 1/2 of the revenue stream from one percent of severance taxes in FY2023-FY2028 and 1/3 in FY2029 and thereafter.

Sale of school lands, at least 2/3 of production and sale of state mineral royalties, easements, surface damage payments, etc.



Notes:

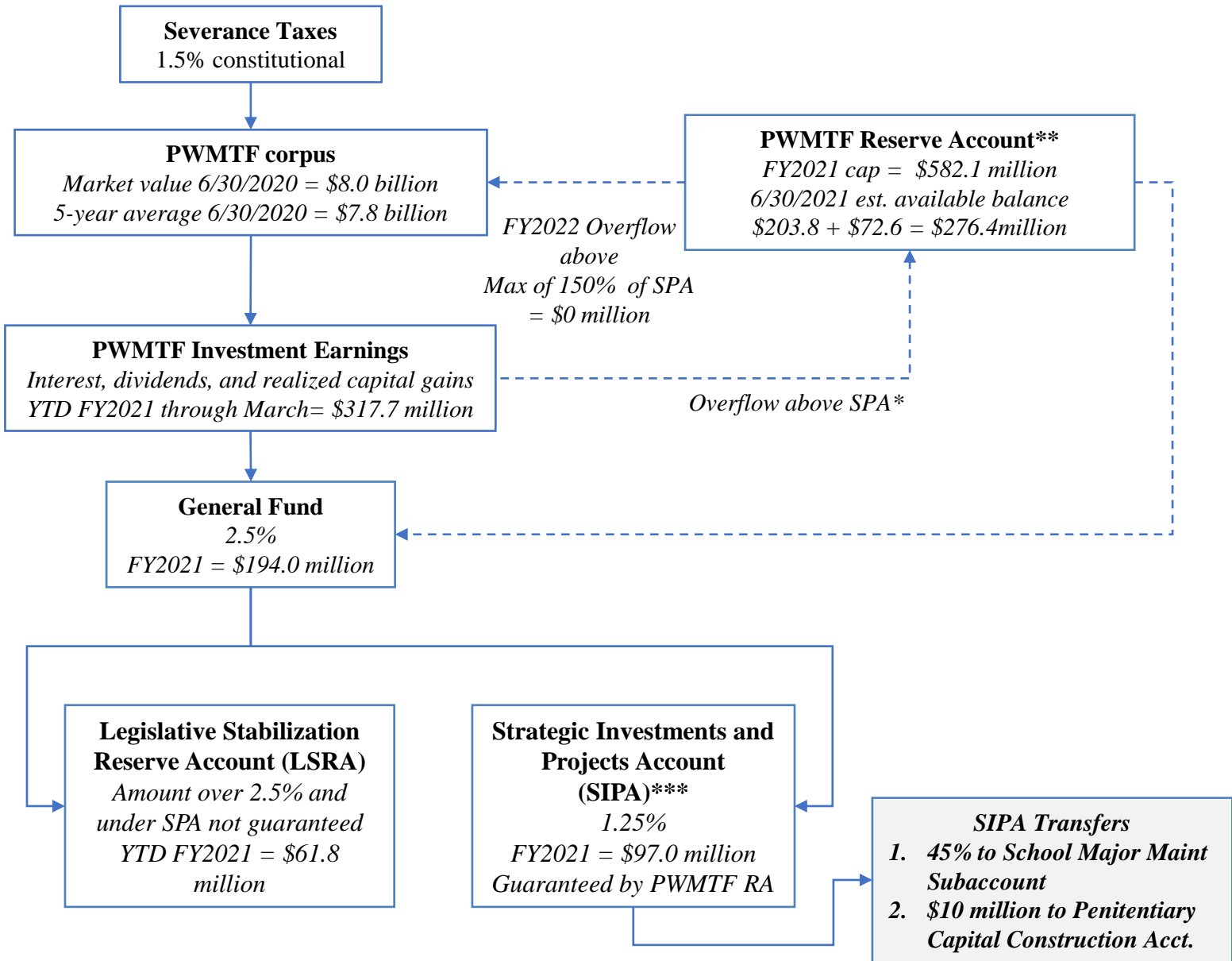
*The SPA is “guaranteed” from the CSPLF Reserve Account to the Common School Land Income Fund. The excess within the CSPLF Reserve Account over 150% of the SPA is directed to the CSPLF corpus (automatic appropriation).

**SPA is static at 5.0%

***There is an automatic appropriation to the CSPLF Reserve Account from FMR amounts exceeding \$200 million that would otherwise be deposited in the SFP for any amounts in excess of the SPA.

ATTACHMENT B
FY 2021 Spending Policy
Permanent Wyoming Mineral Trust Fund (PWMTF)
W.S. 9-4-719

Changes the **Spending Policy Amount (SPA)** to be static at 5% of the five-year average of the value of the corpus.* In addition to the 1.5% constitutional severance taxes, the PWMTF corpus receives 1/2 of the revenue stream from one percent of severance taxes in FY2023-FY2028 and 2/3 in FY2029 and thereafter. Repeals the Legislative Deficit Control Account effective immediately.



Notes:

*SPA is static at 5.0%

**Excess over 150% of the SPA in the PWMTF RA goes to the PWMTF corpus.

***Further transfers from SIPA: 45% to the School Major Maintenance Account estimated at \$43.7 million for FY2021; \$10 million to the Wyoming State Penitentiary Capital Construction Account.