FISCAL NOTE

This bill would repeal six accounts: the 1) Budget Reserve Account (BRA), 2) Strategic Investments and Projects Account (SIPA), 3) Wyoming State Penitentiary Capital Construction Account (SPCCA), 4) School Capital Construction Account (SCCA), 5) School Lands Mineral Royalties Account (SLMRA), and 6) School Major Maintenance Subaccount (SMMS) within the SIPA effective July 1, 2024, after the end of the FY 2023-2024 biennium.

This bill contains transfers on July 1, 2024, totaling $174,995,404 to the General Fund. Estimated balances transferred to the General Fund include: $115,270,000 from the BRA, $1,104,661 from the SIPA, $58,620,743 from the SPCCA, and $0 from the SMMS. This bill also transfers balances in the SCCA and SLMRA to the School Foundation Program Account (SFP) on July 1, 2024. An estimated $46,952,792 would be transferred from the SCCA to the SFP. Any funds directed by law to revert to these accounts and subaccount would revert to the General Fund or SFP. All transfers in this paragraph do not take into account any other bills with appropriations, including the Supplemental Budget Bill.

This bill contains transfers on July 1, 2024, totaling $639,600,000 from the Legislative Stabilization Reserve Account (LSRA) to the following reserve accounts: $359,100,000 to the Common School Permanent Fund Reserve Account (CSPLF RA), $274,700,000 to the Permanent Wyoming Mineral Trust Fund Reserve Account (PWMTF RA), $4,600,000 to the Hathaway Student Scholarship Reserve Account (Hathaway Reserve Account), and $1,200,000 to the Excellence in Higher Education Endowment Fund Reserve Account (Higher Ed. Reserve Account). Further discussion of this impact on the reserve accounts and investment income is provided below.

Section 3 of this bill, effective immediately, repeals the secondary distribution caps for severance taxes and federal mineral royalties (FMRs), created by 2022 Wyoming Session Laws Chapter 51, Sections 314 and 315, respectively. The severance taxes distributed to the School Foundation Program Reserve Account (SFP RA) under Section 314 and FMRs distributed to the SFP under Section 315, would be redistributed to the BRA. Table 1 depicts the estimated revenue impact, by fund and source, for the FY 2023-2024 biennium.

Table 1. Repeal of 2022 Wyoming Session Laws Chapter 51, Sections 314 and 315.

	FY 2023	**FY 2024**
NON-ADMINISTRATIVE IMPACT		
Anticipated Revenue increase/(decrease)		
BRA (Secondary Cap Severance Taxes)	$65,700,000	$46,700,000
SFP RA (Secondary Cap Severance Taxes)	($67,700,000)	($46,700,000)
BRA (Secondary Cap FMRs)	$18,500,000	$13,500,000
SFP (Secondary Cap FMRs)	($18,500,000)	($13,500,000)

Effective July 1, 2024, this bill redirects severance tax and FMR distributions that would have been deposited within the BRA to the General Fund, resulting in an estimated revenue decrease to the BRA in FY 2025 of $399,900,000 and in FY 2026 of $361,300,000, and a corresponding revenue increase to the General Fund. Table 2 illustrates the estimated revenue impact, by revenue source and fund, for the FY 2025-2026 biennium.

Table 2. Severance Tax and FMR distributions from BRA to General Fund.

	FY 2025	FY 2026
NON-ADMINISTRATIVE IMPACT		
Anticipated Revenue increase/(decrease)		
General Fund (Severance Taxes)	$162,800,000	$144,200,000
BRA (Severance Taxes)	($162,800,000)	($144,200,000)
General Fund (FMRs)	$237,100,000	$217,100,000
BRA (FMRs)	($237,100,000)	($217,100,000)

This bill repeals the SIPA, SPCCA, SMMS and the spending policy amount guarantee from the PWMTF RA to the SIPA, and redirects investment income from the Permanent Wyoming Mineral Trust Fund (PWMTF) that would have been distributed to the SIPA to the LSRA, resulting in corresponding revenue and expenditure decreases. The maximum increase to the LSRA is equal to 1.25 percent of the five-year average market value of the PWMTF, or a portion of the spending policy amount. The SIPA would experience an estimated revenue decrease of $50,650,000 in FY 2025 and $50,200,000 in FY 2026, attributable to PWMTF investment income, and the LSRA would experience a corresponding revenue increase. The SPCCA would experience an estimated revenue decrease of $10,000,000 in FY 2025 and FY 2026, and the SIPA would experience a corresponding expenditure decrease. The SMMS would experience an estimated revenue decrease of $50,300,000 in FY 2025 and $52,100,000 in FY 2026, and the SIPA would experience a corresponding expenditure decrease. The PWMTF RA would experience an estimated expenditure decrease of $61,200,000 in FY 2025 and $65,600,000 in FY 2026, attributable to the spending policy amount guarantee to the SIPA, and the SIPA would experience a corresponding revenue decrease. Tables 3 and 4 depict the estimated revenue and expenditure impact, by fund and source, for the FY 2025-2026 biennium.

Table 3. SIPA, SPCCA, SMMS and LSRA Revenue Attributable to PWMTF Investment Income and Spending Policy Amount.

	FY 2025	FY 2026
NON-ADMINISTRATIVE IMPACT		
Anticipated Revenue increase/(decrease)		
SIPA (PWMTF Investment Income)	($50,650,000)	($50,200,000)
LSRA (PWMTF Investment Income)	$50,650,000	$50,200,000
SIPA (Spending Policy Amount Guarantee)	($61,200,000)	($65,600,000)
SPCCA (SIPA Transfer)	($10,000,000)	($10,000,000)
SMMS (SIPA Transfer)	($50,300,000)	($52,100,000)

Table 4. SIPA, SPCCA and SMMS Transfers Attributable to PWMTF Investment Income and Spending Policy Amount.

	FY 2025	FY 2026
NON-ADMINISTRATIVE IMPACT		
Anticipated Expenditure (decrease)		
SIPA (SMMS Transfer)	($50,300,000)	($52,100,000)
SIPA (SPCCA Transfer)	($10,000,000)	($10,000,000)
PWMTF RA (SIPA Transfer)	($61,200,000)	($65,600,000)

Repealing the SCCA and SLMRA results in revenue decreases to these accounts and corresponding revenue increases to the SFP. The SFP would experience an estimated revenue increase of $5,346,000 in FY 2025 and FY 2026 from FMRs that are redirected from the SCCA. The SFP would experience an estimated revenue increase of $40,000,000 in FY 2025 and $39,000,000 in FY 2026 from state royalties on school lands that are redirected to the SFP with the repeal of the SLMRA. With the repeal of the SCCA, the SFP would appropriate funds for K-12 school major maintenance and capital construction beginning the FY 2025-2026 biennium, resulting in corresponding expenditure increases and decreases to the SFP and SCCA, respectively. Table 5 illustrates the estimated revenue impact, by fund and source, for the FY 2025-2026 biennium.

Table 5. SCCA, SLMRA and SFP Revenue Increases from FMRs and State Royalties.

	FY 2025	**FY 2026**
NON-ADMINISTRATIVE IMPACT		
Anticipated Revenue increase/(decrease)		
SFP (FMRs)	$5,346,000	$5,346,000
SCCA (FMRs)	($5,346,000)	($5,346,000)
SFP (State Royalties)	$40,000,000	$39,000,000
SLMRA (State Royalties)	($40,000,000)	($39,000,000)

This bill diverts FMRs from the SFP to the LSRA until $359,100,000 has been transferred, effective July 1,2024. This results in an estimated revenue decrease attributable to FMRs to the SFP in FY 2025 of $211,300,000 and in FY 2026 of $147,800,000, and a corresponding revenue increase to LSRA. Table 6 illustrates the estimated revenue impact for the FY 2025-2026 biennium.

Table 6. SFP and LSRA FMR Distributions FY 2025 and FY 2026.

	FY 2025	**FY 2026**
NON-ADMINISTRATIVE IMPACT		
Anticipated Revenue increase/(decrease)		
LSRA FMRs	$211,300,000	$147,800,000
SFP RMRs	($211,300,000)	($147,800,000)

This bill also directs the Wyoming Department of Education to modify its FY 2025-2026 standard budget request for the administrative budget of the Hathaway Scholarship Program to no longer request the administrative budget from the Hathaway Student Scholarship Expenditure Account (Hathaway Expenditure Account). It is assumed that the administrative budget would shift to the SFP, as it was historically funded by the SFP until the FY 2023-2024 biennium when the Legislature moved it to the Hathaway Expenditure Account. The estimated impact would be an expenditure increase to the SFP and expenditure decrease to the Hathaway Expenditure Account of $266,789 in FY 2025 and $266,790 in FY 2026. Table 7 depicts the estimated expenditure impact for the FY 2025-2026 biennium.

Table 7. SFP and Hathaway Expenditure Account FY 2025 and FY 2026.

	FY 2025	**FY 2026**
NON-ADMINISTRATIVE IMPACT		
Anticipated Revenue increase/(decrease)		
SFP	$266,789	$266,790
HATHAWAY EXPENDITURE ACCOUNT	($266,789)	($266,790)

This bill repeals W.S. 9-4-219(b), the statutory transfer from the LSRA to the SFP to restore the SFP balance to $100,000,000 at the end of each fiscal year, until as the LSRA balance is less than $500,000,000. There is no associated fiscal impact to the SFP or LSRA under the forecast period with the repeal of W.S. 9-4-219(b).

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 increased according to this bill. This bill also increases the limit (cap) of these reserve accounts prior to any excess funds transfer to the associated corpus. The PWMTF RA cap is increased from 150 percent to 245 percent of the spending policy amount, the CSPLF RA cap is increased from 150 percent to 420 percent of the spending policy amount, the Higher Ed. Reserve Account is increased from 150 percent to 210 percent of the spending policy amount, and Hathaway Reserve Account is increase from 4.5 percent to 8 percent of the five-year average market value of the Hathaway Student Scholarship Endowment fund.

Using STO's expected yield and return and the increased reserve account balances after the transfers under this bill, the LSO estimates the PWMTF RA could potentially have an annual revenue increase ranging between $9.3 million (yield) to $15.5 million (return) for FY 2024 to FY 2026. The CSPLF RA could potentially have an annual revenue increase ranging between $8.1 million (yield) and $13.4 million (return) for FY 2024 to FY 2026. 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 Reserve Account and Higher Ed. 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 fund an investment objective. The PWMTF and the Hathaway Student Scholarship Endowment Fund have a "long-term total return" objective and the Common School Account within the Permanent Land Fund (CSPLF) and the Excellence in Higher Education Endowment Fund (EHEE) have an "income-focus" objective.

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 2024 to FY 2026 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 indicated that the transfers from the LSRA to the reserve accounts would allow the reserve accounts to be invested in a longer-term strategy which should receive future higher returns. 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 increasing the reserve accounts to five to seven times the spending policy amounts, these reserve accounts would be able to supplement the spending policy amounts for a number of 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 change back to the current asset allocations. This change would entail selling illiquid securities at a steep discount to current market values, which is approximately 10 percent during normal market conditions and could increase to 20-30 percent during times of fiscal stress. Reverting back to the current asset allocations could result in an estimated loss of $50 to $150 million depending on the asset allocation model.

This bill also redirects revenues that would be distributed to the BRA to the General Fund attributable to the Municipal Solid Waste Facilities Cease and Transfer Program under W.S. 35-11-528 and inheritance taxes distributed under W.S. 3-19-111. There is no estimated fiscal impact related to these amendments.

Assumptions:

The revenue and expenditure estimates utilize the October 2022 Consensus Revenue Estimating Group (CREG) forecast for FMRs, severance taxes, state royalties on school lands, and investment income distributed to the SIPA. The balances of the BRA, SCCA and SIPA are based upon the October 26, 2022 LSO Fiscal Profile, and the balance of the SPCCA is based upon the balance as of January 3, 2023 plus estimated transfers to the SPCCA from the SIPA during the FY 2023-2024 biennium. The SFP would also receive any federal coal lease bonus revenue, as amended under this bill. However, the October 2022 CREG forecast, estimates no federal coal lease bonus revenue.

The STO projects yields in FY 2024 through FY 2026 to be around 3.74 percent for permanent funds and 2.47 percent 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 percent, while total return for State Agency Pool funds is expected to be 2.9 percent. 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.

The State Auditor's Office indicates that this bill would have not fiscal or personnel impact for the agency.

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