



## WYOMING LEGISLATIVE SERVICE OFFICE

# Review of Revenue from State Trust Lands

**Date:** May 1, 2019

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**Re:** Review of Revenue from State Trust Lands

### INTRODUCTION

This introductory brief provides a summary from the Legislative Service Office describing revenues generated from state lands and severance tax distributions related to activities on state lands. This topic was added to the interim work of the Select Committee on Capital Financing and Investments by Management Council at its March 22<sup>nd</sup> meeting. Specifically, the approved topic states,

The Committee will review and assess options to generate additional revenue from state lands. Specifically, the Committee will consider the level of state royalty rates and severance tax distributions of extractions on state lands. This topic may result in legislation.

### SUMMARY

The federal government dedicated roughly 4.26 million acres of lands to the State of Wyoming through the Act of Admission (and three other congressional acts). Those dedicated lands are known as "state trust lands." The Board of

Land Commissioners, through the staff of the Office of State Lands and Investments manage these lands for the designated beneficiaries, principally education and state institutions. In fiscal year (FY) 2018, leasing, rentals, and royalties from state trust lands generated roughly \$214.1 million. Just over one-quarter (27%) of this revenue was deposited into an income account for the general support of the designated institution or beneficiary. Just under three quarters of the revenue (73%), or much of the revenue derived from "non-renewable" activities, is dedicated to various accounts within the Permanent Land Fund (PLF), where the funds are largely inviolate.<sup>1,2</sup> Investment income generated from the corpus of the PLF, however, is available to the beneficiaries and institutions. In FY18, more than \$225.9 million was generated in investment income from the PLF.

### REVENUE FROM STATE LANDS

Revenue derived from state trust lands support educational and other state institutions. There are two general types of revenue derived from state lands: (i) revenues from non-renewable

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<sup>1</sup> 2018 Wyoming Session Laws, Chapter 134, Section 315 temporarily revised the disposition of state mineral royalties from state lands dedicated to K-12 schools from \$8 million to approximately \$50 million per year, or one-third of the state royalty revenue stream from designated lands. These funds shall be deposited into the School Capital Construction Account (SCCA) for FY 2019 and FY 2020. Subsequently, 2019 Wyoming Session Laws, Chapter 204 made the statutory change permanent, but these funds will be deposited in a new account, the School Lands Mineral Royalties Account. In sum, approximately \$42 million more per year at least through the near future will be deposited into the SCCA or School Lands Mineral Royalties Account for expenditure rather than an account dedicated to savings (the Common School Account within the Permanent Land Fund).

<sup>2</sup> Five of the 12 accounts within the PLF have an associated account within the Permanent Land Income Fund (PLIF). Others deposit earnings and renewable revenues to the General Fund. In several cases, the Legislature can appropriate directly from the account within the PLF.

resources such as mineral royalties, easements, surface damages, and real estate sales; and (ii) revenues deemed to be from renewable sources such as mineral lease rentals, timber sales, lease bonus bids, and special and temporary use permits. With limited exceptions, revenues from non-renewable resources are deposited into 1 of 12 accounts within the PLF. Each account has its own defined beneficiary (e.g., University of Wyoming, State Hospital, fish hatcheries, K-12 education, etc.) With some exceptions, revenue from renewable sources, as well as investment income in the form of interest earnings, dividends, or net realized capital gains generated from PLF accounts is deposited into the appropriate account within the Permanent Land *Income* Fund (PLIF) or the General Fund and is then available for the support of the specific beneficiary or institution.

The exception to the flow of revenue from non-renewable sources resides in W.S. 9-4-305(b) which directs one-third of the state mineral royalties from school trust lands shall be deposited into the School Capital Construction Account (SCCA) for FY 2019 and FY 2020 and the School Lands Mineral Royalties Account beginning FY 2021 and beyond. This revenue has recently been used for legislative appropriations toward K-12 education school buildings and facilities.

Similar to the exception to the flow of revenue from non-renewable sources, there are exceptions to the normal flow of funds from renewable sources. W.S. 9-4-307(a) provides that 75 percent of the income revenue attributable to the lands of state, charitable, educational, penal, and reformatory institutions shall be deposited in the General Fund and 25 percent shall be deposited in the Omnibus account within the PLIF. Many of the lands dedicated to institutions such as the State Hospital, the State Training School, and the State Penitentiary, etc. provide a relatively modest amount of income, and the General

Fund has become the primary source of support for these institutions. As a result, income derived from lands dedicated to these institutions flows directly to the General Fund, recognizing the land income is a small portion of the total state support of these institutions.

Finally, W.S. 9-4-305(b) provides that an increasing portion of the investment income from all PLF accounts, with the exception of the Common School Account, is retained as revenue to the account within the PLF, rather than being distributed to the PLIF, or General Fund. The proportion of investment income retained by the accounts within the PLF is equal to the annual inflation as determined by the Department of Administration and Information multiplied by an increasing factor. That factor started at 5 percent in FY 2000 and is increasing by 5 percent for each successive year until the full amount, or 100 percent, of the annual inflation rate will be accounted for beginning in FY 2019.

#### **ACCOUNT STRUCTURE**

W.S. 9-4-310 establishes 12 accounts within the PLF and 5 accounts within the PLIF. The accounts, balances, and FY 2018 net revenue deposits are illustrated in Table 1.

Two considerations may be of interest. First, in accordance with W.S. 9-4-310(b) the Agricultural College Account, Common School Account, and University Account are permanent and may not be appropriated from by the Legislature. Second, not all permanent land fund accounts have an associated income account.

Figure 1, following Table 1, graphically illustrates the revenue flows and recipient accounts for the variety of revenues attributed to school trust lands, as it is the most complicated distribution.

**Table 1. Permanent Land Fund Accounts, Balances, Revenue, and Beneficiaries.**

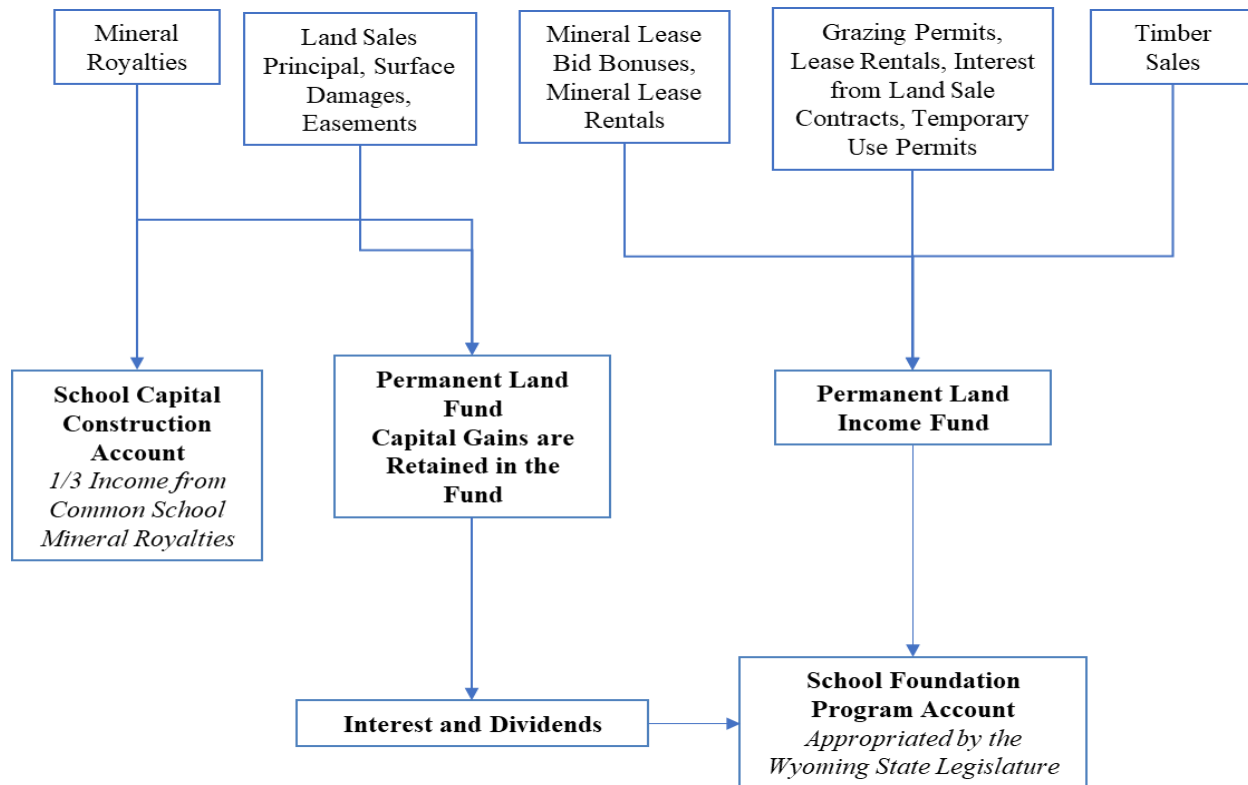
Fund/Account Name	June 30, 2018 Balance	FY 2018 Net Revenue*
Miner’s Hospital	\$66,062,981	\$2,735,487
Public Buildings	\$13,761,908	\$1,706,586
Fish Hatchery	\$5,630,399	\$126,588
Common School**	\$3,746,256,005	\$150,131,262
Deaf, Dumb & Blind	\$4,386,108	\$106,985
Carey Act	\$2,404,798	\$82,375
Omnibus	\$57,328,489	\$2,680,839
State Hospital	\$2,905,447	\$121,080
Poor Farm (Life Resource Center)	\$4,604,711	\$119,985
Penitentiary	\$16,523,141	\$1,121,271
Agricultural College	\$11,840,089	\$629,298
University	\$20,453,262	\$577,361
<b>TOTAL</b>	<b>\$3,952,157,338</b>	<b>\$160,139,116</b>

Source: 2018 Wyoming State Treasurer Annual Report.

**Notes:** \*FY 2018 revenues include both inflation proofing income diversion pursuant to W.S. 9-4-305(b) and any appropriations from the accounts, where applicable.

\*\*The Common School Account also has a separately accounted for account of \$5 million referred to as “Common School Account II”, or “Wyoming Education Trust Fund”. The balance includes this total. Investment earnings from the Wyoming Education Trust Fund are deposited to the “Innovative Education Trust Fund and are annually distributed to school districts as innovative program grants to fund programs providing innovation or in or improvement to public education through the creation of new, different and improved educational opportunities in elementary and secondary schools. There is no future revenue stream anticipated for this account.

**Figure 1. Revenue from State School Lands.**



## INVENTORY OF STATE LANDS

Attachment A provides a one-page summary of State Trust Lands inventory, by account, or designated beneficiary group. Attachment B provides a summary of the trust lands, by county, including sales since statehood, for all state trust lands as well as just the common school trust lands.

State lands dedicated to K-12 education and the Common School Account within the Permanent Land Fund (CSPLF) comprise 83.2% of the total state trust lands, 94.8% of the balance of the PLF, and 93.8% of the FY 2018 revenue attributable to the state trust lands.

## REVENUE GENERATION AND MANAGEMENT

The Board of Land Commissioners adopted the Management Objectives for State Trust Lands in August 2005. That policy has not been amended in the intervening 14 years and remains active today. A copy of the Management objectives is found as Attachment C.

Attachment D provides a summary of the state land revenue, by source for FY 2018. Recall that the revenue deposited to the various accounts within the PLF illustrated in Table 1 of this memo is net, including the inflation protection, where appropriate, as well as limited appropriations. The revenue in Attachment D does not include the inflation proofing or appropriations, thus is approximately \$4 million lower than the amount shown in Table 1 (\$160.1 million versus \$156.1 million in Attachment D.)

## ESTIMATED SEVERANCE TAXES ATTRIBUTABLE TO SCHOOL SECTIONS

The current distribution of severance taxes under Wyoming Statutes (W.S. 39-14-801) make no distinction as to the ownership of the minerals. The severance tax is distributed to either the Permanent Wyoming Mineral Trust Fund (PWMTF) or the Severance Tax Distribution Account for further distribution, without regard to ownership of the mineral being extracted. In fact, it is quite difficult to

estimate the severance tax collections across all minerals attributable to mineral ownership, e.g., federal, state, or private. See Attachment E for a representation of the current severance tax distribution.

Upon request, the Department of Revenue made a broad estimate of total severance taxes collected from state-owned minerals for FY 2017. For a number of reasons, several assumptions were required, and the total estimate for that year was just under \$50 million in total severance tax collections, of which perhaps 20 to 25 percent would be constitutionally required to be deposited into the PWMTF. The funds generated in any particular year could vary substantially, not only based upon price and production levels in concert with the traditional variability found within the Consensus Revenue Estimate Group's forecasts, but also where the production is located. It is possible, and in fact evident, that some extraction operations straddle private, federal and state lands. In any particular year, the production could be derived from any portion, or a combination of areas in the mine, for example. As a result, the annual amount of severance taxes from all the variation ranged up to 50 percent from the \$50 million base estimate up to \$75 million per year, depending upon the fiscal year in question.

## ACRONYMS USED

CSPLF: Common School Permanent Land Fund

PLF: Permanent Land Fund

PLIF: Permanent Land Income Fund

PWMTF: Permanent Wyoming Mineral Trust Fund

OSLI: Office of State Lands and Investments

SCCA: School Capital Construction Account

W.S.: Wyoming Statutes

## ATTACHMENT A

## Inventory of State Trust Lands – Fiscal Year 2018

Land Grant	Acreage Entitlement	Lands Received	Balance of Lands to be Selected to Satisfy Grant	Lands Sold (Contract or Patent)	Misc. Vacant or used by Institutions	Available for Lease
<b>Act of Congress Prior to Act of Admission: 1881, 1888</b>						
University Land	46,080.00	46,079.02	0.98	16,220.99	1.11	29,858.03
Fish Hatchery	5,640.00	5,336.26	303.74	2,655.46		2,680.80
<b>Act of Admission: 1890</b>						
Common School	3,545,182.98	3,544,058.60	1,124.38	491,903.58	648.29	3,052,155.02
Agricultural College	90,000.00	90,000.12	(0.12)	18,933.24		71,066.88
Deaf, Dumb & Blind Asylum	30,000.00	29,999.02	0.98	11,730.69	0.75	18,268.33
Poor Farm	10,000.00	10,727.90	(727.90)	522.88		10,205.02
Penitentiary	30,640.00	30,637.45	2.55	10,379.35		20,258.10
Public Buildings at the Capitol	107,000.00	106,994.44	5.56	30,671.32	123.16	76,323.12
Penal, Reform & Educational Institutions	30,000.00	29,939.93	60.07	14,671.17		15,268.76
Insane Asylum	30,000.00	29,990.06	9.94	1,813.68		28,176.38
Miner's Hospital	30,000.00	29,998.80	1.20	15,099.25		14,899.55
<b>State Charitable, Education, Penal &amp; Reform:</b>						
Soldiers & Sailors Home	30,000.00	30,047.79	(47.79)	7,123.90	0.73	22,923.89
State Law Library	15,000.00	14,967.09	32.91	3,284.38		11,682.71
State Library	15,000.00	14,992.72	7.28	5,191.38		9,801.34
Omnibus	200,000.00	199,979.84	20.16	61,523.37	1,558.19	138,456.47
<b>Subsequent Acts: 1957</b>						
Carey Act	24,007.44	24,007.44		5,195.82	1,196.15	18,811.62
<b>Donation from Petronomics: FY03</b>						
Common School	2,460.09	2,460.09				2,460.09
<b>Land Acquired through Acquisition (Common School):</b>						
Duncan Ranch: FY06	6,439.11	6,439.11				6,439.11
Moriah Ranch: FY12	12,947.00	12,947.00				12,947.00
Sodergreen: FY12	278.26	278.26				278.26
<b>TOTAL</b>	<b>4,260,674.88</b>	<b>4,259,880.94</b>	<b>793.94</b>	<b>696,920.46</b>	<b>3,528.38</b>	<b>3,562,960.48</b>

Source: Office of State Lands &amp; Investments, 2018 Business Plan &amp; Annual Report.

TRUST LAND SALES, EXCHANGES AND ACQUISITIONS

County	Total Trust Land Sales		Common School Trust Land Sales		Total Trust Land Exchanges				Common School Trust Land Exchanges			
	Statehood to 04/04/2019	7-01-1999 to 04/04/2019	Statehood to 04/04/2019	7-01-1999 to 04/04/2019	Statehood to 04/04/2019		7-01-1999 to 04/04/2019		Statehood to 04/04/2019		7-01-1999 to 04/04/2019	
	Acres Disposed	Acres Disposed	Acres Disposed	Acres Disposed	Acres Disposed	Acres Acquired	Acres Disposed	Acres Acquired	Acres Disposed	Acres Acquired	Acres Disposed	Acres Acquired
Albany	31,226.69	6,488.38	24,315.49	4,417.55	20,324.74	11,797.91	20,177.81	11,637.91	17,552.71	9,997.54	17,405.28	9,837.54
Big Horn	14,416.59	331.96	13,072.94	11.96								
Carbon	48,985.75	86.00	42,492.15	86.00	3,260.40	6,081.50	2,860.40	5,658.20	3,243.14	6,081.50	2,843.14	5,658.20
Campbell	33,849.52	2,971.38	28,303.92	2,971.38	760.00	3,632.27	120.00	120.00	760.00	3,632.27	120.00	120.00
Converse	46,255.10	640.00	25,587.36	640.00	840.64	567.45	840.64	567.45	640.00	320.00	640.00	320.00
Crook	26,659.17	680.00	24,702.51	680.00	760.00	780.00	760.00	780.00	760.00	780.00	760.00	780.00
Fremont	12,446.89	1,320.53	10,673.19	1,240.53	290.90	528.68	290.90	528.68	290.90	528.68	290.90	528.68
Goshen	24,419.41		19,821.20		160.00	320.00			160.00	320.00		
Hot Springs	11,306.56	80.00	8,874.80	80.00								
Johnson	21,081.31	735.97	16,562.24	642.64	4,362.82	9,230.04	2,480.79	7,650.23	3,760.79	6,742.23	2,360.79	5,203.96
Laramie	71,511.57	1,395.18	53,980.14	1,395.18	5,793.76	5,692.21	3,596.26	2,651.35	3,746.26	3,214.44	3,516.26	2,574.35
Lincoln	17,537.21	70.53	10,223.18	70.53	781.16	827.01	21.16	18.81	781.16	827.01	21.16	18.81
Natrona	20,786.37	1,446.22	16,818.14	1,446.22	1,946.42	1,448.03			1,813.22	1,381.33		
Niobrara	18,462.96	40.00	10,410.47	40.00								
Park	29,737.09	168.02	16,866.40	168.02	4.15	10.00			4.15	10.00		
Platte	39,902.26	1,400.16	26,492.06	1,560.16	440.00	480.00	440.00	480.00	440.00	480.00	440.00	480.00
Sublette	16,012.78		14,011.35		590.55	840.69			590.55	840.69		
Sheridan	102,511.27	1,292.31	47,666.48	1,204.59	3,540.90	163.00	2,280.00		1,660.90	80.00	1,600.00	
Sweetwater	9,548.21	79.68	7,582.92	39.54	3,200.00	11,201.12			3,200.00	1,526.12		
Teton	4,529.96	726.32	4,357.27	726.32	39.59	39.85			39.59	39.85		
Uinta	4,279.26		4,117.87		480.00	120.00	480.00	120.00	480.00	120.00	480.00	120.00
Washakie	16,175.82		13,640.49									
Weston	10,059.19	50.00	9,186.43	50.00	2,452.12	577.54			2,452.12	577.54		
<b>Grand Totals</b>	<b>631,700.94</b>	<b>20,002.64</b>	<b>449,759.00</b>	<b>17,470.62</b>	<b>50,028.15</b>	<b>54,337.30</b>	<b>34,347.96</b>	<b>30,212.63</b>	<b>42,375.49</b>	<b>37,499.20</b>	<b>30,477.53</b>	<b>25,521.54</b>
			<b>Summary of Common School Lands since July 1999</b>									
			Acres Disposed through Exchange	30,477.53	Acres Acquired through Exchange	25,521.54						
			Acres Sold	17,470.62	Petrotomics Donation	2,641.09						
			Land Sold to State Parks	1,523.59	Westland Acquisition	1,105.56						
			Land Sold to Game & Fish	15.30	Duncan Acquisition	6,439.11						
					Sodergreen Acquisition	278.26						
					Moriah Acquisition	12,947.27						
			<b>Total Acres Disp:</b>	<b>49,487.04</b>	<b>Total Acres Acquired:</b>	<b>48,932.83</b>						
					<b>Net Gain State Acreage:</b>	<b>-554.21</b>						

**Trust Land Management Objectives**

(Approved by the Board of Land Commissioners on August 11, 2005)

The Wyoming State Legislature has declared that trust land should remain a substantial component of the trust portfolio, managed under a total asset management policy, and with a focus on protecting the corpus for multiple generations. 1997 Wyo. Sess. Laws ch. 200, section 3(a)(i). Accordingly, all state trust land sale, acquisition, exchange and long-term lease proposals will be evaluated using the following objectives. The objectives are derived from applicable Wyoming Statutes (9-4-701(r) (acquisition), 36-1-111(exchange), 36-5-114(lease), 36-9-101(sale)). A proposal need not meet all objectives, but all objectives will be considered by the Board of Land Commissioners who have the sole discretion to determine how to best manage the state trust lands. The objectives are listed in order of decreasing priority (highest to lowest).

***Any proposed land transaction should:***

***1. Better meet the beneficiaries' short and/or long-term objectives:***

Revenue

Improve income generating potential

Alone or in combination with other state trust lands

Single or multiple uses

Investment

Improve returns

Improve portfolio diversification

Improve appreciation potential

Improve intrinsic natural resource values (i.e. habitat, water);

or

***2. Improve the manageability of the land asset:***

Consolidate ownership patterns

Leverage management resources of other agencies/entities

or

***3. Meet a specific school and/or community need:***

Improve stability

Provide growth opportunity

Improve access/recreational opportunity

## ATTACHMENT D

**State Land Revenue by Source  
Fiscal Year 2018**

	Permanent Land Funds	Permanent Land Income Funds	General Fund	School Capital Construction Fund	Total
<b>Oil &amp; Gas</b>	\$ 77,331,590	\$32,378,219	\$4,869,170	\$4,458,395	\$119,037,374
<b>Coal</b>	53,393,736	149,430	27,339	2,672,583	56,243,088
<b>Grazing Leases</b>		5,864,975	838,322		6,703,297
<b>Sodium &amp; Trona</b>	17,775,379	101,518		639,391	18,516,288
<b>Timber Sales</b>		94,051	3,483		97,534
<b>Real Estate Sales</b>	1,254,656	3,680			1,258,336
<b>Easements</b>	1,505,341	98,003	19,658		1,623,002
<b>Temporary Use Permits</b>		880,729	45,571		926,300
<b>Special Use Permits</b>		3,924,483	191,384		4,115,867
<b>Bentonite</b>	1,286,003	102,026	4,362	138,969	1,531,360
<b>Sand &amp; Gravel</b>	294,227	44,995	840	67,114	407,176
<b>Surface Damages</b>	3,089,128				3,089,128
<b>Uranium &amp; Misc. Mineral</b>	209,999	271,831	11,497	23,548	516,875
<b>Total Revenue</b>	<b>\$156,140,059</b>	<b>\$43,913,940</b>	<b>\$6,011,626</b>	<b>\$8,000,000</b>	<b>\$214,065,625</b>

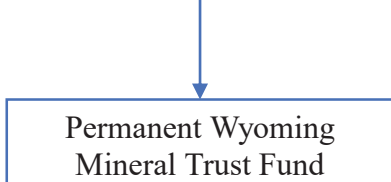
Source: Office of State Lands & Investments, 2018 Business Plan & Annual Report.



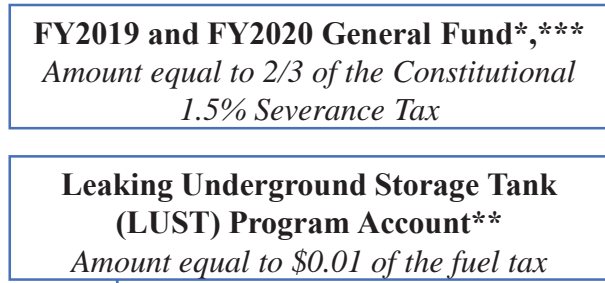
**Distribution for FY2019  
Severance Taxes  
W.S. 39-14-801**

Severance taxes are paid by extractive industries to the State of Wyoming for the privilege of removing, extracting, severing or producing any mineral pursuant to W.S. 39-14-101 through 711. Severance tax rates are between 2% to 7%. Collected funds are distributed pursuant to W.S. 39-14-801.

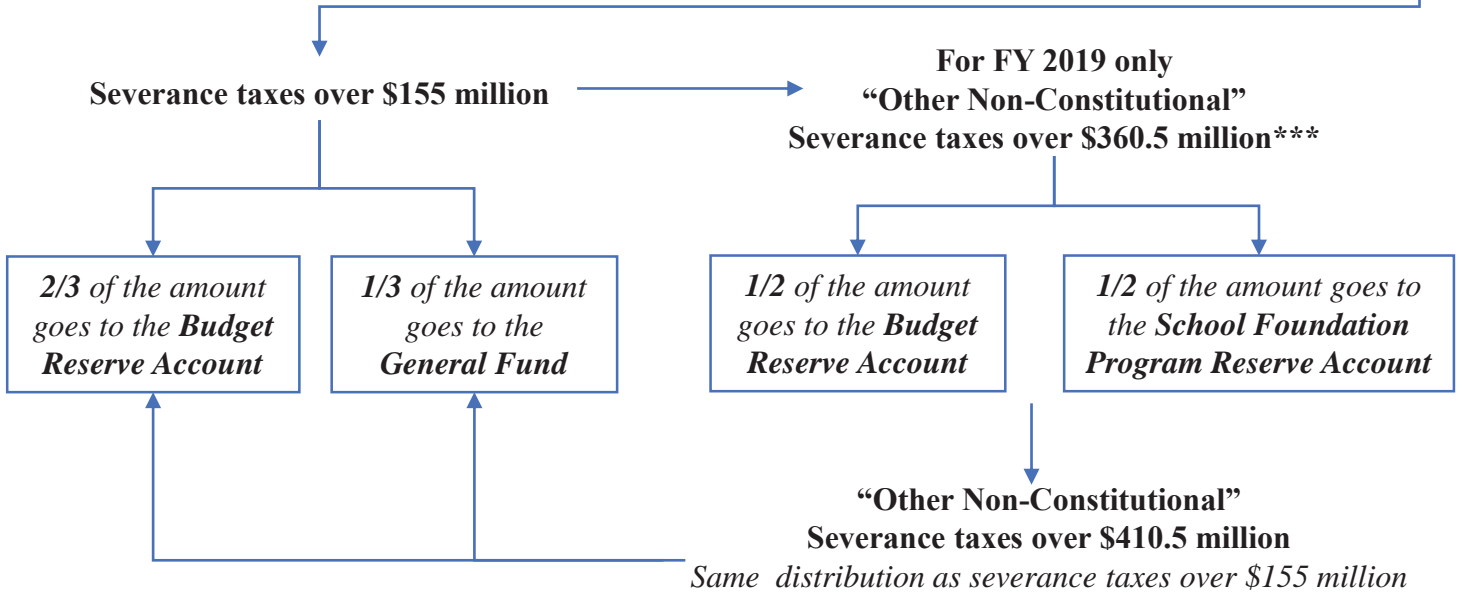
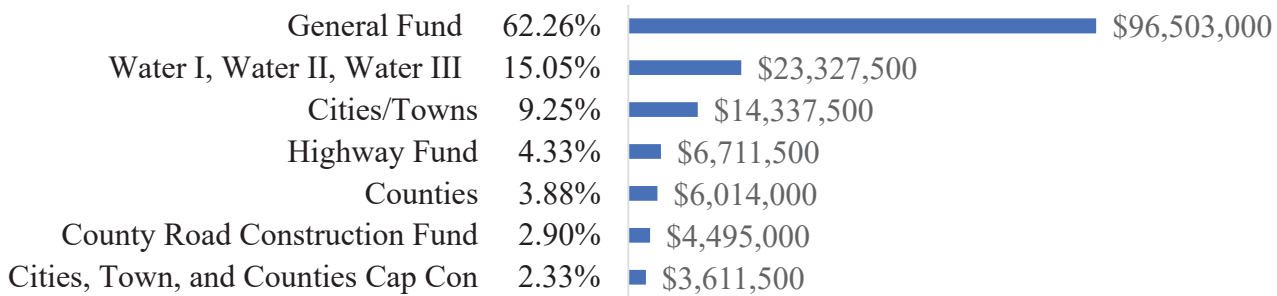
**Constitutional 1.5% Severance Tax**  
*Article 15, Section 19*



**All Other Non-Constitutional 1.5% Severance Tax**



Distribution of all "Other Non-Constitutional" severance tax up to \$155 million



**Notes:**

\*The "2/3 equivalent" of the Constitutional Severance Tax diversion references severance tax amounts received from surface and underground coal (39-14-104(a)(i) and (b)(i)) and from oil and gas (35-14-204(a)(i)).

\*\*This amount is "swapped" with a like amount of fuel tax, meaning the gas tax is directed to WYDOT and the severance tax is directed to the LUST account.

\*\*\* See 2018 Wyoming Session Laws, Chapter 134, Section 314.