

PERMANENT SCHOOL FUNDS  
CREATED FROM THE PROCEEDS OF SCHOOL TRUST GRANTS  
FY 2005

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Permanent school funds, derived from school trust lands, have \$38 billion dollars invested to support public schools. There is little awareness of the existence of these lands or funds by educators or the public. Few understand that 134 million acres were once granted by Congress and states for schools. Some permanent funds are well invested and productive, some are not. Some are growing, others are not. The proceeds from these funds make a significant difference in the education of children in some states, others do not. In some states the funds exceed a billion dollars; other states are building their permanent school fund and are close to a billion. Sadly, in some states, the funds are languishing with little attention or long- term strategies for building the funds and their impact.

No serious research into these funds, their investment, and their impact has occurred since Dr. Fletcher Harper Swift of Columbia University published his seminal work<sup>1</sup> on the permanent school funds from 1795 to 1905. This brief paper does not attempt to replicate his exhaustive study; however, it does attempt to give an updated snapshot of where eighteen of the state funds are a century later.

Originally 134 million acres of land were granted by Congress to support schools. At one time every state in the nation had either school trust lands or school funds or both. Today, school lands exist in only 24 states. In this study nineteen states<sup>2</sup> were surveyed, and State Treasurers and State Investment Officers were gracious in providing responses in most of those states. Those states were selected because they were the states most likely to still have permanent school funds based on their active participation in the Western States Land Commissioners Association (WSLCA) and in the Children's Land Alliance Supporting Schools (CLASS). The WSLCA is an organization of the trustees who manage the 45 million acres of remaining school trust lands. They represent the trustees of the land portion of the school trust assets. CLASS is an organization of education leaders from State Boards of Education, State Offices of Education, State Parent Teacher Associations, state affiliates of the National Education Association, School Boards Associations, Principals Associations, Superintendents Associations, and other interested educational organizations within those states.

### Origins of the School Lands and Permanent Funds

Embedded throughout the history of the United States, yet understood by few, is the concept of land grants for the support of education. Early founding documents of the nation, as well as the founding compact for each state known as the statehood or enabling act, dealt extensively with these land grants for education. On May 20, 1785, the Continental Congress adopted an

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<sup>1</sup> Swift, Dr. Fletcher Harper, A History of Public Permanent Common School Funds in the United States, 1795-1905, Henry Hold and company, 1911.

<sup>2</sup> Alaska, Arizona, California, Colorado, Idaho, Mississippi, Montana, Nebraska, Nevada, New Mexico, North Dakota, Oklahoma, Oregon, South Dakota, Texas, Utah, Washington, Wisconsin, and Wyoming. Only Wisconsin did not respond with data to the questionnaire.

ordinance that provided for the survey and sale of the unsettled lands stretching from the Atlantic to the Pacific Ocean. The territory was to be divided into townships, each six miles on a side. Each township was to be subdivided into 36 one-mile square lots, which are called sections today. Lot 16 was reserved “of each township, for the maintenance of public schools within the said township.”<sup>3</sup> The Northwest Ordinance or General Land Ordinance of 1787 provides that “schools and the means of education shall forever be encouraged...” and provides for the governance of a territory, laying out the steps for statehood. It is the 1785 Act and the contracts for the sale of this western land that set aside Lot 16 for schools.

The original thirteen colonies had no federal lands for Congress to grant, so the states themselves granted certain state lands for education or set up a permanent school fund and created a revenue stream to build the fund. Most of the original colonies did both. Ohio and Alabama were the first states to be expressly granted Section 16 across the state for the support of education in 1803. Every state, except Maine and Texas, admitted from 1803 through 1848 received Section 16 for education. Texas, which entered the union as an independent republic, had no federal lands within its borders so there were no federal lands to grant to the schools. On July 26, 1839, Texas reserved 13,284 acres<sup>4</sup> within each county for education. Then in 1840, Texas increased the school land reservation to 17,712 acres.<sup>5</sup> Beginning with California in 1850, Congress granted two sections<sup>6</sup> per township for education. States receiving two sections include: California, Colorado, Idaho, Kansas, Minnesota, Montana, Nebraska, Nevada, North Dakota, Oklahoma, Oregon, South Dakota, Washington, Wyoming, and Nevada. Beginning in 1894, Utah, Arizona and New Mexico received four sections<sup>7</sup> because their arid lands might be less able to support schools. In all, over 134 million acres were set aside for the support of schools. Every state in the nation had either lands or permanent funds or both.

Those states receiving the grant from Congress received their grant in their statehood act. The lands, however, were not a magnanimous gift. There were strings attached. In order to receive the granted school lands, the state had to agree not to tax federal lands within its border. Those untaxed federal lands within a state remain a significant tax burden and a drain on education budgets today. Untaxed federal and state lands comprise 96% of Alaska, 88% of Nevada, and about half or more of seven other states.<sup>8</sup>

The statehood or enabling act, which granted school lands and may specify that the proceeds from the lands be used to create a permanent school fund, is the federal part of the bilateral compact with each state. The state’s part of the solemn bilateral compact was the original state constitution. The United States’ District Court has held:

The state school land grants were not unilateral gifts made by the United States Congress. Rather, they were in the nature of a bilateral compact entered into between two sovereigns. In return for receiving the federal lands Utah disclaimed all interest in the remainder of the public domain, agreed to forever hold federal lands immune from taxation, and agreed to hold the granted lands, or the proceeds therefrom, in trust as a common school fund. Thus, the land

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<sup>3</sup> Laws of United States of America, 1789-1815, Vol. I, Chapter 32, pages 563-569.

<sup>4</sup> Three Spanish leagues.

<sup>5</sup> Four Spanish leagues.

<sup>6</sup> Sections 16 and 36

<sup>7</sup> Sections 2, 16, 32, and 36

<sup>8</sup> AZ, CA, ID, NM, OR, UT, and WY.

grants involved here were in the nature of a contract, with a bargained-for consideration exchanged between the two governments.<sup>9</sup>

The school lands are either leased or sold to generate revenue. The surface of school trust lands was leased for grazing or farming during the early settlement of most states. Today lands are leased for every economic activity that occurs on private lands—convenience stores, oil and gas production, habitat protection, coal mining, commercial developments, malls, industrial parks, home sites, timber harvesting, etc.

#### Name of the Fund in Each State

The name of the permanent school fund varies slightly by state and usually includes some combination of the words trust, common, school, public and fund. It is important to utilize the correct title to assure clear communication. The chart below shows the official title of the fund in each state:

AK	Public School Trust Fund	NM	Land Grant Permanent Fund
AZ	Permanent Common School Fund	NV	Permanent School Fund
CA	School Land Bank Fund	OK	Common School Permanent Fund
CO	Public School Fund (official) Public School Permanent Fund	OR	Common School Fund
ID	Public School Endowment Fund	SD	Permanent Trust Fund
MT	Trust and Legacy Fund	TX	Permanent School Fund
MS	Education Improvement Trust Fund	UT	State School Fund
ND	Common School Trust Fund	WA	Permanent Common School Fund
NE	Permanent School Trust Fund	WY	Common School Permanent Land Fund

#### Investor of Fund

Just as the name of the fund varies by state, so does the investing authority. In eight states<sup>10</sup> the investments are made by an investment board or council. Six states<sup>11</sup> authorize the State Treasurer or Commissioner of Revenue to invest the funds. Three<sup>12</sup> states use the same board that manages the lands to manage the funds. Only Texas has the beneficiary<sup>13</sup> invest the funds. Perhaps it is no surprise that Texas is also the state that generated the greatest return on their investments in FY 2005—14.18% total return!

The eight states that have investment policy set by an investment board generated returns in the range of 8.01% to 9.75% total return in FY 2005. Two states, North Dakota and Wyoming, have investment boards comprised solely of statewide elected officials. Their returns were in the middle of this group with total returns for FY 2005 of 8.58% and 8.66%. Half of these

<sup>9</sup> United States v. Cotter Corp, Nos. C 79-0307. United States District Court, D. Utah, C.D. (Oct. 1, 1979).

<sup>10</sup> ID, MT, NE, NM, OR, SD, WA, and WY.

<sup>11</sup> AK, AZ, CO, MS, NV, and UT.

<sup>12</sup> CA, ND, and OK.

<sup>13</sup> Texas State Board of Education

investment board states have a mix of state officials and others selected from the public at large or from financial communities. Those serving in an official capacity tend to be the governor, the state treasurer, the director of the public employees retirement system, the director of the state department of finance, and the land commissioner. The selected individuals vary-- from fire chiefs, engineers, professors, county attorneys, and foresters to bankers, portfolio managers, and investors. Those with an investment board containing a mix of state officials and others generated returns from 8.01% to 9.70%. The lowest total return from investment councils came from Washington State whose voting board consists of representatives of fire fighters, retired public employees, teachers, service employees, state senators and representatives, the retirement system, the department of labor, and the state treasurer. In addition to the voting members, Washington also has five non-voting financial representatives. This model appears to have been the least successful at investment with a total return for FY 2005 of 6.40%--the lowest annual total return of the eight investment boards.

Six of the states had the investments of the permanent school funds made by the state treasurer. Many of the state treasurers also have an advisory board that provides input and consultation on asset allocations and investment policy. Some of these advisory boards have highly qualified private investment experts serving, such as Utah. Their FY 2005 total return was the highest total return received by state treasurers--9.53% total return. Other states have advisory boards that are primarily composed of public sector people representing elected statewide offices or representing various state departments or interests such as fire fighters, retired state employees, etc. These funds generated the mid level returns for funds invested by state treasurers in FY 2005--6.45% to 7.42% total return. The lowest returns generated by state treasurers are all invested solely by the state treasurer with no input from an advisory board. The total returns on their permanent funds ranged between 2.3% and 5.3% for FY 2005.

### Value and Growth of Permanent School Funds

The permanent school funds in the eighteen states that responded to the questionnaire contained \$38.5 billion dollars at market value in FY 2005. The funds have seen significant growth since FY 2001. Four of the states did not provide any data on the market value in FY 2001 and in FY 2002. Fiscal year 2003 is the first year in which market value is available for all 18 responding states. In FY 2003, the funds had a market value of \$32 billion. Over the period from FY 2003 to FY 2005, there has been a 20% increase in the market value of the school funds in these 18 states. Obviously from FY 2003 to FY 2005 most states had significant gains in market value. The exceptions were Mississippi, Montana, and Washington that all saw significant decreases in the market value of their funds.

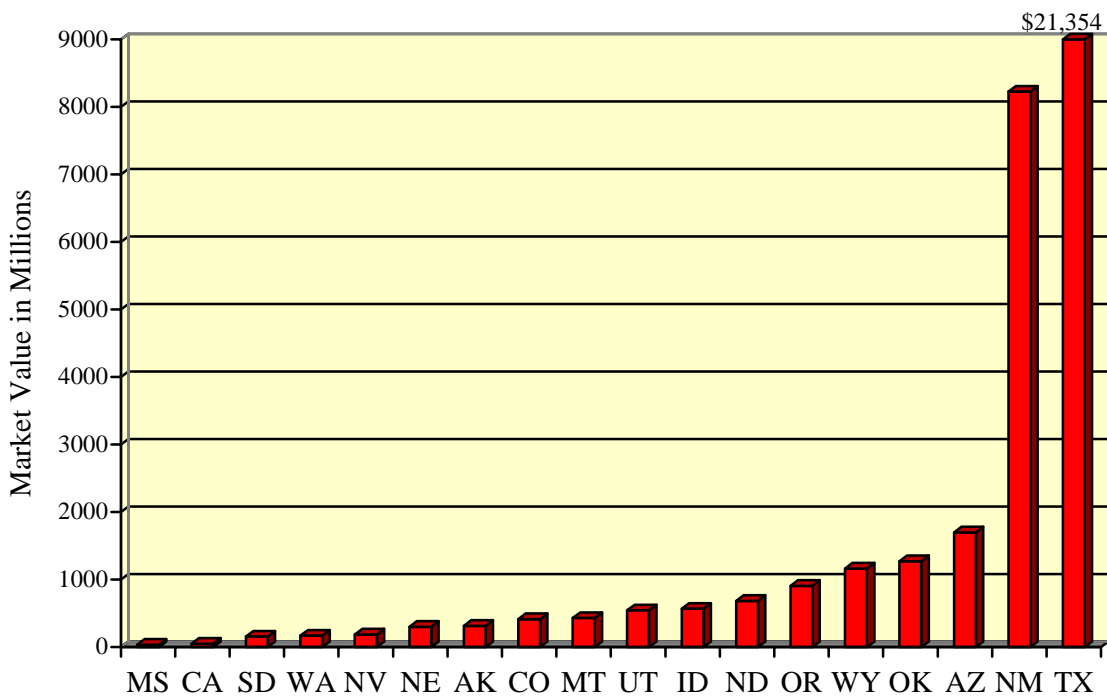
Though every state was to have entered the union on equal footing, there are great inequities in the value of the lands granted to each state for the support of schools. The most obvious inequity was the difference in the size of each state as a whole. Consequently, each state would have received differing amounts of school trust lands even if the Congress had stuck to the granting of only Section 16 for schools. Secondly, those states joining after 1850 got sections 16 and 36 compared to only section 16 for those joining earlier. Congress tried to correct the inequitable values for the arid states of Utah, Arizona, and New Mexico by granting four sections.<sup>14</sup> In doing

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<sup>14</sup> Sections 2, 16, 32, and 36.

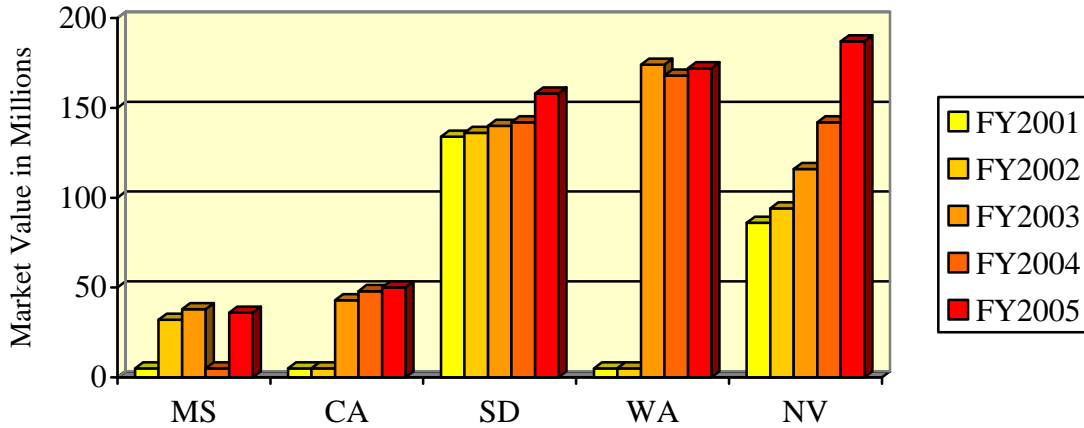
so, Congress failed to go back and grant two additional sections to Nevada that had joined previously and is considered more arid than any other state in the nation. Given Alaska's late union into the United States, their schools were seriously shortchanged and their issues are yet unresolved. Third, there are enormous inequities in terms of the mineral value contained in the various state grants. This inequity is, perhaps, the most significant determinant of the disparities between states in terms of the value of the permanent funds shown in the graph below. Finally, the degree to which the deposits in the permanent funds were guarded, protected, and prudently invested has resulted in some states having permanent funds shamefully less than what would be expected for the resources originally granted. The last factor is one that an attentive education community could correct.

Market Value of Permanent School Fund



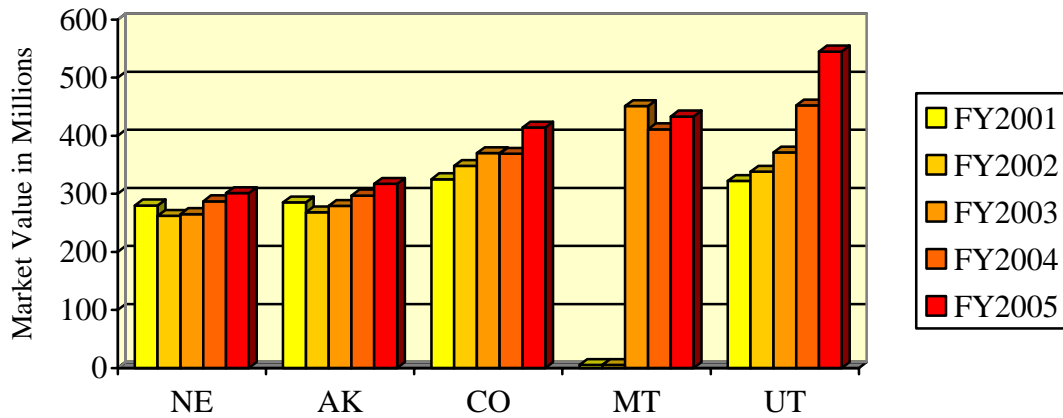
The market value of each state's permanent fund over the last five fiscal years is shown below. A space is held by a nominal value where the data was not provided. The states are grouped from smallest permanent fund to largest.

Permanent School Funds  
First Quartile States



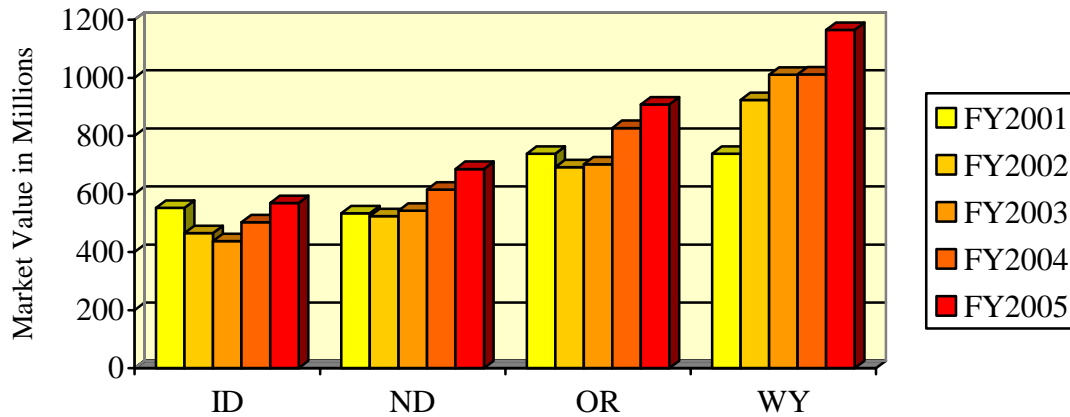
In the graphs above, it is evident that Nevada has made the most significant progress in building the market value of their permanent fund. Some growth is also evident in South Dakota and to a lesser degree California. Mississippi and Washington have actually lost market value. The reasons for these losses are unknown at this time and will have to be explored by further research.

Permanent School Funds  
Second Quartile States



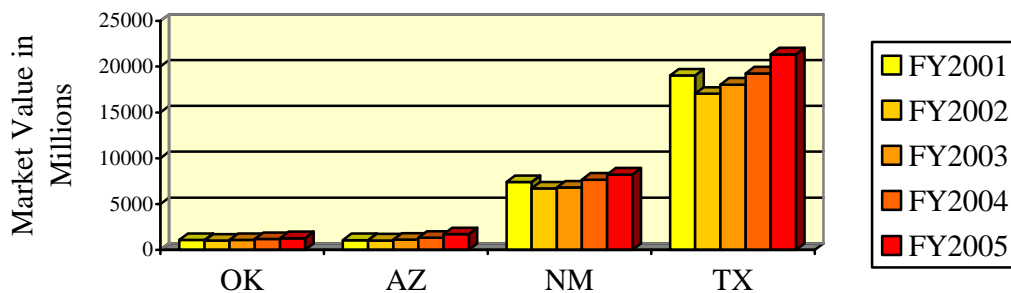
In the graph above, it is evident that Utah has made the most significant progress in building the market value of their permanent fund. Colorado and to a lesser degree Alaska and Nebraska have also increased their funds. Utah's permanent school fund increased 69%, Colorado 27%, Alaska 11%, and Nebraska 8%. Montana's fund actually decreased from FY 2003 to FY 2005 by 4%. Montana provided no data for fiscal years 2001 and 2002 which should always be a concern for beneficiaries. The decrease in the value of the Montana permanent fund is probably correlated in part to the coal transaction litigated by MonTrust.

Permanent School Funds  
Third Quartile States



The states in this group have all made significant progress in building the market value of their permanent school funds. Idaho's poor performance is partially attributable to their distributions in excess of 5% from their permanent fund. Those excessive distributions have been corrected now. There may be other factors also at play in Idaho's permanent fund but those factors will need further research. Some of the performance of Oregon's fund can be explained by the legislative raid on their permanent fund. Even without further research, it may be surmised that Wyoming's increases in FY2004 and FY 2005 will probably be highly correlated to oil and gas price increases along with increased exploration and production in those years. During the five fiscal years covered by this data, Idaho increased 3%, North Dakota 29%, Oregon 23%, and Wyoming 58%.

Permanent School Funds  
Top Quartile States

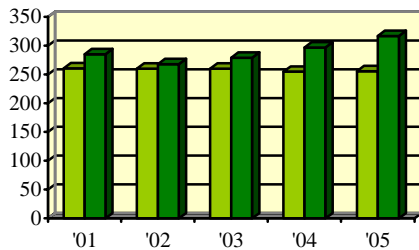


Each of the above states made considerable progress in building the market value of their permanent funds. Because of the size of the Texas permanent fund (FY2005 market value in excess of \$21 billion), the scale of the graph makes increases difficult to see. Arizona had a 59% increase, Oklahoma 17%, Texas 12%, and New Mexico 11%.

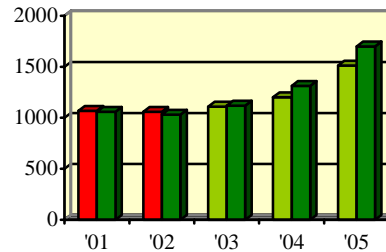
No cost data was provided by Mississippi, North Dakota, Nebraska, New Mexico and Oregon. Their responses to the questionnaire indicated that they did not track cost information, and one state indicated that “cost is irrelevant.” Without cost data to indicate what was paid for the stocks and bonds in their portfolio, it is impossible to ascertain if those states are making a profit or suffering a loss on their investments. However, without cost data it is also much more difficult for beneficiaries to review and understand their investment performance. Many state constitutions were required to have indemnification provisions at the time of statehood in which the state guaranteed the permanent school funds from loss or diversion. Without cost data, beneficiaries cannot enforce those indemnification provisions. However, trust law requires a full accounting to the beneficiary of the trust, thus cost data could be required of and received from the state as trustee.

Cost and market value over the last five fiscal years is displayed in the charts below. All data that was provided by the state investing authority is shown on each state’s graph. The cost data is the first column and the market value is the second column under each fiscal year. When a state is “upside down” it means the market value is less than what it paid to purchase the investments. In those cases, the cost columns are shown in red.

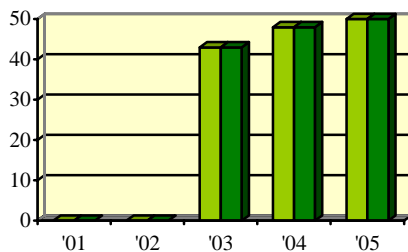
**ALASKA**



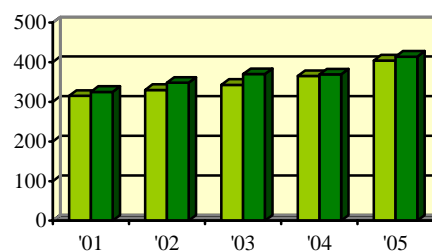
**ARIZONA**



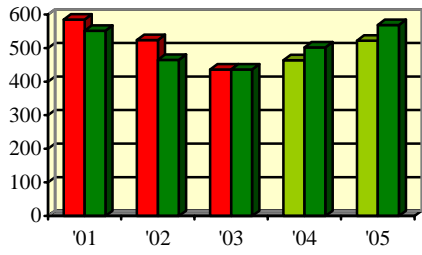
**CALIFORNIA**



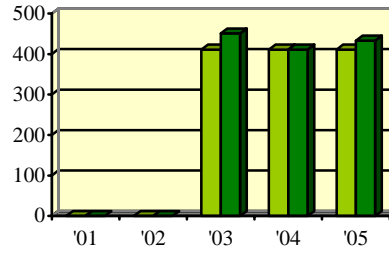
**COLORADO**



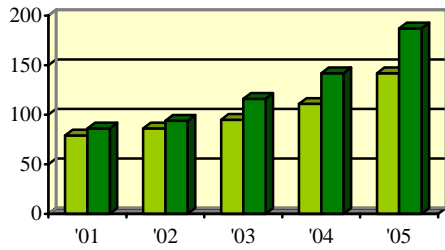
**IDAHO**



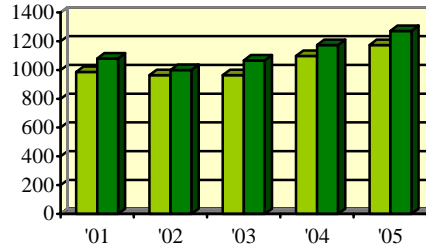
**MONTANA**



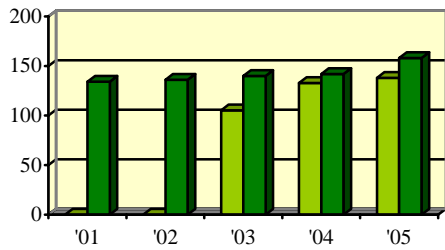
**NEVADA**



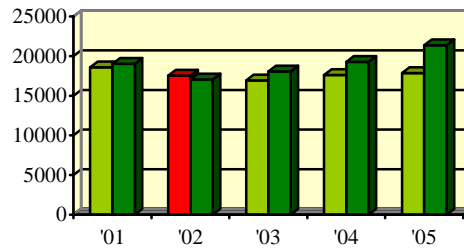
**OKLAHOMA**



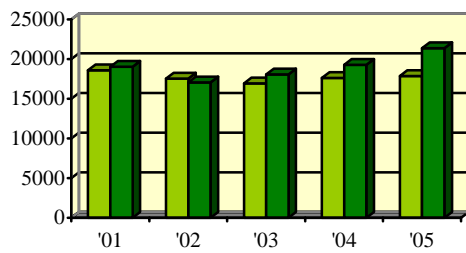
**SOUTH DAKOTA**



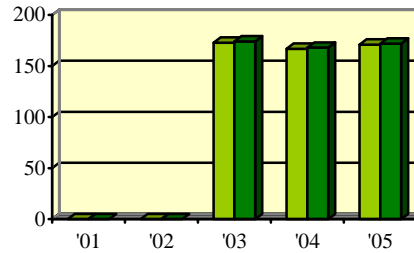
**TEXAS**



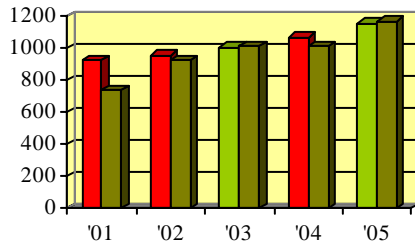
**TEXAS**



**WASHINGTON**



## WYOMING



At some point in the last five fiscal years, Arizona, Idaho, Texas, and Wyoming all had periods where they were upside down in their investments—where what they had paid for the stocks and bonds exceeded their market value. When permanent funds are invested in the equity and bond markets, loss on paper at the end of a fiscal year will happen. Experts advise that equity markets are still among the best investments for building value over time for all long-term endowment funds. Because the funds are permanent, paper losses should be monitored but if beneficiaries take a long-term investment perspective, the paper losses should correct themselves.

When market value is compared to cost at the end of FY 2005, Nevada made the greatest gains in percentage of the market value over the cost at 31%. Nevada was followed by Alaska at 24%, Texas at 20%, Utah at 16%, South Dakota at 14%, and Arizona at 12%<sup>15</sup>. Of course, because of the significantly larger endowment fund in Texas, Texas had the largest dollar gain of about \$3.5 billion. It is important for beneficiaries to realize that the market gains over cost are driven not only by investment decisions but also by the investment options available to the investing authorities.

### Asset Allocations

It is a commonly understood principle of investing that for a given level of risk the greatest determinant of return is the asset allocation. For the purposes of this study, states were surveyed to understand their asset allocation targets for each of five categories:

1. fixed income assets
2. domestic equity
3. international equity
4. private equity
5. other

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<sup>15</sup> Other states have market over cost in FY 2005 by the following percentages: Idaho 9%, Oklahoma 8%, Montana 5%, Colorado 2%, Washington and Wyoming 1%, and California 0%.

Below is a chart showing the states ranked in the order of their total return on investment followed by their asset allocation by the categories listed above.

TOTAL RETURN	STATE	FIXED INCOME	DOMESTIC EQUITY	INTERNATIONAL EQUITY	PRIVATE EQUITY	OTHER
14.18%	TX	25%	55%	20%	--	--
9.75%	ID	30%	56%	14%	--	--
9.70%	NM	10%-26%	37%-60%	0%-15%	3%-6%	5%-10% <sup>16</sup>
9.53%	UT	33%-43%	40%-50%	12%-22%	--	--
9.21%	OR	30%	50%	20%	--	--
9.00%	OK	56%	44%	--	--	--
8.80%	NE	45%-55%	27.625-37.625%	5.125-15.125%	--	--
8.66%	WY	50%	50%	--	--	--
8.58%	ND	48%	41%	10%	--	1%
8.21%	SD	50%	50%		--	--
8.01%	MT	100%	--	--	--	--
7.42%	AK	53.6%	42.9%	--	--	3.5%
6.45%	AZ	50%	50%	--	--	--
6.40%	WA	70-100%	0%-30%	--	--	--
5.30%	CO	100%	--	--	--	--
3.00%	NV	100%	--	--	--	--
2.78%	MS	100%	--	--	--	--
2.30%	CA	100%	--	--	--	--

About one-fourth of the states are currently invested solely in fixed income assets. They are California, Colorado, Mississippi, Montana, and Nevada. With the exception of Montana, these are the same states that reported the lowest total return on their investments for FY 2005—between 2.3% and 5.3%. These states are probably restricted from equity investments by their state statutes and/or their state constitution.

Texas, by far, generated the greatest total return. It is interesting to note, that Oregon's asset allocation was quite close to that of Texas, yet Texas generated about half again as much as Oregon. One difference may be the active managers that made the investments in Texas. A fund the size of Texas' at \$21 billion can buy much more sophisticated managers than Oregon's fund at \$1 billion.

### Risk and Return

Risk is another important factor in return. Most state treasurers and investing boards are risk averse, and rightly so. They are bound by trust law to protect the corpus of the trusts. Courts hold those bound by fiduciary duty to a standard of care that is above that of normal business care. This high standard of prudence makes states, as trustees, averse to any forms of investment that a court might not view as prudent. Since most state treasurers are statewide elected officials and

<sup>16</sup> Hedge Funds

many investing boards are comprised in whole or in part by statewide elected officials, it is to be expected that they would not wish to explain to voters how they had lost a substantial portion of the trust funds through unwise or risky investments. Likewise, since many state constitutions still have provisions requiring the state to indemnify these funds from loss or diversion, taxpayers would not be happy over having to repay substantial losses from risky investments. Conversely, some investing authorities may find it quite uncomfortable to explain why their performance was substantially below what a prudent person could expect to receive. There is voter and legal danger too in low returns or inattention to the investment of the funds as well. With careful study, it may be possible to increase the return on investments at the same level of risk.

### Benchmarks

Investing authorities often use benchmarks to chart their returns against. A benchmark is “a standard of excellence...against which similar things [investments] must be measured or judged.”<sup>17</sup> The investing authorities for the permanent school funds in various states use different benchmarks to track their investments by category. The benchmarks utilized by the eighteen states included in this report are as follows:

#### Fixed Income::

- Lehman Brothers Aggregate (AK, ID, MT, NE, NM, OR, TX, and UT)
- CitiGroup Index (AZ and SD)
- Lehman Brothers Government Bond (OK)
- Lehman Brothers US Universal Index (NE)
- Merrill Lynch Government Index (MS), Merrill Lynch Corporate Index (MS), and Merrill Lynch Hybrid BB-B constrained (NM)

#### Domestic Equity:

- Russell 1000 Growth (WY), 2000 (WY), 2500 (WY), 3000 (AK, ID, OK, OR,)
- S & P 400 (AZ, NM, WY), 500 (AZ, NM, TX, UT, WY), and 1000(TX)
- Wilshire 5000 (NE)

#### International Equity:

- MSCI EAFE (ID, ND, OR, UT)
- MSCI ACWI Ex-US Index (NE)
- MSCI All Country World (NM)
- FTSE, Emerging Markets (NM)
- MSCI World ex-US, Net Dividend (TX)

### Handling Capital Gains and Losses

Capital gains and losses are handled differently in the various states. Some states retain all capital gains as part of the principal in the permanent school fund, others distribute all capital gains, and still others distribute a portion. Alaska, Oklahoma, Utah, and Washington retain all realized capital gains as principal. They reinvest the capital gains, thus over time providing greater levels of funding for schools, all other things being equal.

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<sup>17</sup> Webster's Encyclopedic Unabridged Dictionary, Random House, New York @ 1996.

In Idaho, capital gains and losses are included in the earnings reserve fund which is the fund from which distributions are made to schools. This fund also includes certain revenue flows from the land as well as other interest and dividends from the principal of the school fund. The capital gains in Idaho are only transferred to the earnings reserve fund when the market value of the permanent fund exceeds the principal adjusted for inflation. If the fund is in a cumulative loss position for 10 consecutive years, then the legislature must start making up the loss from other state sources.

Wyoming also deposits all interest income and all capital gains into the Common School Income Fund for transfer to the School Foundation Account for expenditure by the schools. In Idaho and Wyoming, the capital gains then increase what schools would get or capital losses decrease the distribution to schools. Such policies may have the effect of increasing revenues to schools during good times and decreasing revenues during tough economic times.

North Dakota avoids the swings of the Idaho plan by amortizing the capital gains to income over a 10 year period. Such an amortization eliminates the large spikes during favorable market conditions and the deep valleys during bad times.

Those states that distribute a percentage of the rolling average value of the permanent fund mark the realized and unrealized capital gains and losses to market. They then distribute based on the market value of the fund averaged over the time period set by their statute. North Dakota has Constitutional Measure #1 on their ballots for November 2006 to decide whether or not they will allow the Land Board to use a total return approach to trust management and distributions.

#### Help Requested for Statutory Changes by States

Both New Mexico and Utah adopted statutory changes to get rid of the laundry list of acceptable investments for the permanent school fund during the 2006 legislative session. In both states, the statute was modified to adopt the prudent investor rule as the standard of care to be employed when investing the permanent school funds. Oklahoma tried but failed to amend the Oklahoma statute to allow the Commissioners of the Land Office to invest under the Uniform Prudent Investor Act. The bill also had other components and failed in the House.

Arizona commented that, “While not a statutory change, the Permanent Fund would have made larger distributions for the past two years had [they] been able to fund [their] approved small-cap portfolio. This would have been facilitated if it could have been funded through a cost-efficient, floating NAV mutual fund (which is a proposed statutory change this year.)” Arizona felt that the education community could have possibly been helpful.

California had a request for “authority to expend the [School Land Bank] fund on maintenance of improved properties.” They felt their education leaders could have been helpful. There was no explanation on how the expenditures would be repaid or how they would generate greater revenue for schools, but California beneficiaries may want to explore the concept further and determine if the proposal is in their best interest.

The Colorado Treasurer’s office was supportive of a bill prepared by the Legislature’s Interim Committee on School Finance to make major modifications to the manner in which the permanent school fund is invested and its money expended. The bill did not make it through the

2006 legislative session. It was a difficult bill to pass during a tight budget because of the fiscal note attached. The Treasurer's office commented on how helpful the education community of Colorado had been.

Idaho had no statutory changes proposed to generate more revenue, but they had three pieces of legislation to simplify administration and clarify responsibility. They believed "support from educational leaders would help ensure that these minor technical changes [were] enacted into law."

The Montana Board of Investments believes that having authority to invest in equities would increase the return on the Montana Trust and Legacy Fund. They indicated that the effort has been attempted and failed in public votes in the past.

North Dakota felt that educational groups such as the North Dakota School Boards Association, the North Dakota Education Association, and North Dakota Council of Education Leaders had been "very helpful in getting the legislature to pass a constitutional amendment in 2005 that will allow the Board to use the total return approach." This amendment will be before the voters of North Dakota in November 2006.

Eight states<sup>18</sup> had no suggested changes and thus felt they did not need any help from education leaders.

#### Use of the Interest and Dividends

The interest and dividends from the investment of the \$38 billion of permanent funds is dedicated to education in each state, but from that point the similarities cease. Most of the states put the interest and dividends into the education funding pot along with other dedicated and general fund revenues. The trust dollars lose their identity in these states as they flow out to schools with few if any educators even being aware of their contribution. Of the state dollars that flow to education, the school trust funds contribute anywhere from fourteen percent in New Mexico (\$392 million) to just over one percent in Colorado. If land commissioners, state treasurers or state investment boards, or educators push for more productive and profitable uses of the school land and of investments of the permanent funds, the dollars generated simply supplant other educational funding sources, generally resulting in no additional dollars to schools. Until legislators and educators solve the supplanting problem, the trust lands and funds cannot affect school children positively.

Some states have been able to direct these dollars to avoid the supplanting problem. In Wisconsin the interest and dividends go to provide the books for school libraries. In Washington, the proceeds from the Washington Permanent Common School Fund is dedicated to building schools. In Arizona, the proceeds from the lands and funds are capped at \$72 million for on-going education needs with the overage going to the Classroom Site Fund to pay teacher bonuses, provide professional development, provide aides, and other needs of the classrooms. In Utah the funds are directed proportionate to student population to each school to address each school's most pressing academic need. Parents, teachers, and the principal decide how to improve student performance in the chosen academic area and use the funds to pay for tutors,

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<sup>18</sup> AK, MS, NE, NV, OR, SD, TX, and WA.

teach English as a second language, purchase math and reading software, purchase books and microscopes and computers, and reduce classroom size. Remediation classes, college entrance test preparation classes, accelerated classes, and special educational opportunities are all purchased with these dollars. Because each district implements a different plan in Arizona and Utah, the trust dollars do not supplant other dollars and education of children is enhanced.

### Summary

The 45 million acres of school trust lands are an important but dwindling asset of schools in nineteen western states. These lands and the funds generated therefrom are held in trust by each state for the benefit of schools. A portion of the proceeds from these lands have been deposited in permanent school funds that now invest over \$38 billion dollars for schools. The names of the funds vary as do the investing authority. Returns from these investments vary substantially. Those funds that are more visibly watched and those funds that are invested by sophisticated, knowledgeable investment boards generated greater revenue for schools during the period of this study. Beneficiaries should be concerned if the book value (costs) of the investment of their permanent funds is not being closely followed and reported. It is important to know what return is generated from the permanent school fund. An increase of a few percentage points can make an enormous difference in the distributions to schools and in the growth of the fund. Well informed beneficiaries in a state can help these funds go to enhance education rather than to supplant other funding sources.