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August 17, 2009

MEMORANDUM

TO: Legislative Education Study Committee

FR: Peter van Moorsel

RE: STAFF REPORT: LAND GRANT PERMANENT FUND

The 2009 Interim Workplan of the Legislative Education Study Committee (LESC) includes a report on the Land Grant Permanent Fund (LGPF). This report provides a brief summary of the investment performance of the LGPF, the fund's history, and the annual distribution from the LGPF to the fund's beneficiaries.

In its *Investment Performance Report*¹ for the first calendar quarter of 2009, the New Mexico State Investment Council (SIC) reports that:

- for the one-year period ending March 31, 2009, the LGPF experienced a net investment loss² of approximately \$2.4 billion, or approximately -23.8 percent;
- despite the negative returns noted above, the LGPF outperformed its policy index³ by 4.4 percent;
- during this time, contributions to the LGPF totaled \$561.1 million for the year, while distributions totaled \$508.6 million;
- for the first quarter of 2009, the LGPF returned -1.0 percent; and

¹ Data in this report are accurate as of March 31, 2009.

² According to SIC, net investment gains (losses) include income, fees, and capital appreciation.

³ According to SIC, the policy index is calculated by comparing the long-term target allocation of each asset type with a benchmark portfolio.

- over the past five years, the LGPF returned 0.7 percent per annum, or approximately \$221.6 million, outperforming its policy index by 1.8 percent. The longer-term investment gains, though positive, are negatively impacted by the significant investment losses in the past year.

In its *2007 Annual Report*, the SIC provides the following history of the LGPF:

The United States transferred 13.4 million acres of Federal land to the Territory of New Mexico in anticipation of a grant of statehood. The *Fergusson Act of 1898* and the *Enabling Act of 1910* were the primary Federal legislative vehicles for the public land transfers. The Acts stipulate that such lands are to be held in trust for the benefit of the public schools and 19 other specifically identified state institutions. The Commissioner of Public Lands and the State Land Office are the trustees for the original 13.4 million acres of mineral resources and the remaining 8.75 million acres of surface land. The Commissioner of Public Lands leases the trust lands for mineral exploration and grazing rights and, under certain conditions, may also sell or exchange trust properties. A substantial portion of royalties and income from the sales of land are transferred to the LGPF and are then invested by the State Investment Office.

Prior to 1997, US congressional approval was required for any change to the way in which distributions were made from the LGPF. However, in 1997, Congress approved amendments to the federal *Enabling Act of 1910*, one of which specified that future distributions “shall be made as provided in Article 12, Section 7 of the Constitution of the State of New Mexico. The last changes to Article 12, Section 7 occurred in 2003, when voters approved a constitutional amendment to:

- increase the annual distribution from the LGPF to the fund’s beneficiaries (including public schools) from 4.7 percent to 5.0 percent of the average of the year-end market values of the fund for the immediately preceding five years;
- provide an additional 0.8 percent annual distribution from FY 05 to FY 12 (for a total distribution of 5.8 percent) and an additional 0.5 percent annual distribution from FY 13 to FY 16 (for a total distribution of 5.5 percent) to be used for education reform as provided by law;
- provide that the above additional distributions shall not be made in any fiscal year if the average of the year-end market values of the fund for the immediately preceding five calendar years is less than \$5.8 billion;
- authorize the Legislature, by a three-fifths’ vote of the members of each house, to suspend any of the above additional distributions; and
- revert the distribution to 5.0 percent in FY 17.

Table 1 illustrates the percentage ownership of the fund for all 20 beneficiaries based on FY 08 ownership (each acre of trust land is designated to a specific beneficiary, as is the revenue generated from that acre):

TABLE 1

**FY 08 PER-BENEFICIARY SHARE OF THE TOTAL ANNUAL DISTRIBUTION
FROM THE LAND GRANT PERMANENT FUND**

Beneficiary	Percent	Beneficiary	Percent
Common (Public) Schools	83.09%	NM Boys School	0.01%
University of New Mexico	1.63%	NM Miners' Colfax Medical Center	1.07%
UNM S dline Lands	0.01%	Las Vegas Medical Center (NM State Hospital)	0.24%
NM State University	0.49%	NM State Penitentiary	2.00%
Western NM University	0.03%	NM School for the Deaf	2.07%
NM Highlands University	0.03%	NM School for the Blind and Visually Impaired	2.06%
Northern NM College	0.02%	Charitable, Penal, and Reform Institutions ¹	0.92%
Eastern NM University	0.09%	Water Reservoirs	1.15%
NM Institute of Mining and Technology	0.20%	Rio Grande Improvements	0.29%
NM Military Institute	3.43%	Public Buildings	1.17%

¹ Carrie Tingley Children's Hospital, Las Vegas Medical Center, Los Lunas Medical Center, NM Miners' Colfax Medical Center, NM State Penitentiary, NM Boys School, and the Youth Diagnostic and Development Center share equally in this distribution.

SOURCES: SIC and the State Land Office

Table 2 illustrates the SIC's estimates of projected total distributions to all beneficiaries of the fund, including the public schools, and to the public schools alone.

An LESC staff report presented to the committee in June 2008 included a similar table, which projected more growth in the market value of the fund and, subsequently, the distributions to the public schools. The investment losses in the last year, however, have resulted in a decrease in the projected growth in the both the LGPF and the distributions to the public schools.

TABLE 2

**LAND GRANT PERMANENT FUND
ESTIMATED TOTAL DISTRIBUTIONS AND DISTRIBUTIONS
TO PUBLIC SCHOOLS FOR FY 08 - FY 32
(In millions)**

Calendar Year Ending 12/31	Market Value 5-Year Rolling Average	For Fiscal Year	Distribution Percent of Market Value Avg.	Distributions to All Beneficiaries	Distributions to Public Schools 83.09%
2006	\$8,103.4	FY 08	5.8%	\$470.0	\$390.5
2007	\$8,991.7	FY 09	5.8%	\$521.5	\$433.3
2008	\$9,060.6	FY 10	5.8%	\$525.5	\$436.6
2009	\$9,055.9	FY 11	5.8%	\$525.2	\$436.4
2010	\$9,010.8	FY 12	5.8%	\$522.6	\$434.2
2011	\$8,801.7	FY 13	5.5%	\$484.1	\$402.2
2012	\$8,507.9	FY 14	5.5%	\$467.9	\$388.8
2013	\$8,875.1	FY 15	5.5%	\$488.1	\$405.6
2014	\$9,281.5	FY 16	5.5%	\$510.5	\$424.2
2015	\$9,726.4	FY 17	5.0%	\$486.3	\$404.1
2016	\$10,213.0	FY 18	5.0%	\$510.6	\$424.3
2017	\$10,740.4	FY 19	5.0%	\$537.0	\$446.2
2018	\$11,301.5	FY 20	5.0%	\$565.1	\$469.5
2019	\$11,894.0	FY 21	5.0%	\$594.7	\$494.1
2020	\$12,519.0	FY 22	5.0%	\$625.9	\$520.1
2021	\$13,172.8	FY 23	5.0%	\$658.6	\$547.3
2022	\$13,851.5	FY 24	5.0%	\$692.6	\$575.5
2023	\$14,555.5	FY 25	5.0%	\$727.8	\$604.7
2024	\$15,285.4	FY 26	5.0%	\$764.3	\$635.0
2025	\$16,041.9	FY 27	5.0%	\$802.1	\$666.5
2026	\$16,825.9	FY 28	5.0%	\$841.3	\$699.0
2027	\$17,638.3	FY 29	5.0%	\$881.9	\$732.8
2028	\$18,480.1	FY 30	5.0%	\$924.0	\$767.8
2029	\$19,352.4	FY 31	5.0%	\$967.6	\$804.0
2030	\$20,256.2	FY 32	5.0%	\$1,012.8	\$841.5

Note: The above table is based on data provided by the SIC. Market values are actual through calendar year 2008 and projected thereafter.

Presenter

The Honorable Patrick H. Lyons, Commissioner of Public Lands, will provide an overview of the Land Grant Permanent Fund, including royalties and contributions to the fund.