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June 9, 2008

MEMORANDUM

TO: Legislative Education Study Committee

FR: Kathleen Forrer *K.F.*

RE: STAFF REPORT: LAND GRANT PERMANENT FUND

During the 2008 legislative session, two joint resolutions were introduced that, had they passed, would have allowed the voters to determine if additional funds from the Land Grant Permanent Fund should be distributed to the public schools: House Joint Resolution 8 would have temporarily increased the annual distributions to all fund beneficiaries from FY 09 through FY 19; and Senate Joint Resolution 18 would have distributed an additional \$500.0 million among all fund beneficiaries in FY 09. Discussions regarding these two resolutions centered on the impact of the respective distribution method on the current size and future growth of the fund. The 2008 Interim Workplan of the Legislative Education Study Committee (LESC) includes a report on the Land Grant Permanent Fund.

Background:

In its *2007 Annual Report*, the New Mexico State Investment Council (SIC) provides the following history of the Land Grant Permanent Fund (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. (p. 2)

Prior to 1997, U.S. 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 that increased the annual distribution from the permanent fund 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. In addition to the permanent increase to 5.0 percent, the amendment also provided 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. In FY 17, the distribution reverts to 5.0 percent.

Table 1 illustrates the percentage ownership of the fund for all 20 beneficiaries based on FY 07 ownership (each acre of trust land is designated to a specific beneficiary as is the revenue generated from that acre):

TABLE 1
FY 07 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 | 1.64% | NM Miners' Colfax Medical Center | 1.09% |
| UNM Saline Lands | 0.01% | Las Vegas Medical Center (NM State Hospital) | 0.24% |
| NM State University | 0.45% | 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 | 2.07% |
| Northern NM College | 0.02% | Charitable, Penal, and Reform Institutions ¹ | 0.89% |
| Eastern NM University | 0.09% | Water Reservoirs | 1.09% |
| NM Institute of Mining and Technology | 0.19% | Rio Grande Improvements | 0.30% |
| NM Military Institute | 3.49% | Public Buildings | 1.18% |

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 projected total distributions to all beneficiaries of the fund, including the public schools, and to the public schools alone. In making these estimates, the SIC noted that they “do not account for the extremely volatile changes currently being experienced in the equities marketplace, or the possibility of a year (or more) of negative returns and accompanying effects of such a downturn on the 5-year Fund average upon which distributions are based.”

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 | \$9,741.8 | FY 10 | 5.8% | \$565.0 | \$469.5 |
| 2009 | \$10,470.2 | FY 11 | 5.8% | \$607.3 | \$504.6 |
| 2010 | \$11,206.2 | FY 12 | 5.8% | \$650.0 | \$540.0 |
| 2011 | \$11,821.3 | FY 13 | 5.5% | \$650.2 | \$540.2 |
| 2012 | \$12,389.8 | FY 14 | 5.5% | \$681.4 | \$566.2 |
| 2013 | \$12,971.0 | FY 15 | 5.5% | \$713.4 | \$592.8 |
| 2014 | \$13,569.0 | FY 16 | 5.5% | \$746.3 | \$620.1 |
| 2015 | \$14,187.3 | FY 17 | 5.0% | \$709.4 | \$589.4 |
| 2016 | \$14,836.5 | FY 18 | 5.0% | \$741.8 | \$616.4 |
| 2017 | \$15,523.8 | FY 19 | 5.0% | \$776.2 | \$644.9 |
| 2018 | \$16,248.8 | FY 20 | 5.0% | \$812.4 | \$675.1 |
| 2019 | \$17,013.9 | FY 21 | 5.0% | \$850.7 | \$706.8 |
| 2020 | \$17,821.4 | FY 22 | 5.0% | \$891.1 | \$740.4 |
| 2021 | \$18,666.5 | FY 23 | 5.0% | \$933.3 | \$775.5 |
| 2022 | \$19,543.5 | FY 24 | 5.0% | \$977.2 | \$811.9 |
| 2023 | \$20,453.2 | FY 25 | 5.0% | \$1,022.7 | \$849.7 |
| 2024 | \$21,396.4 | FY 26 | 5.0% | \$1,069.8 | \$888.9 |
| 2025 | \$22,374.0 | FY 27 | 5.0% | \$1,118.7 | \$929.5 |
| 2026 | \$23,387.1 | FY 28 | 5.0% | \$1,169.4 | \$971.6 |
| 2027 | \$24,436.9 | FY 29 | 5.0% | \$1,221.8 | \$1,015.2 |
| 2028 | \$25,524.8 | FY 30 | 5.0% | \$1,276.2 | \$1,060.4 |
| 2029 | \$26,652.0 | FY 31 | 5.0% | \$1,332.6 | \$1,107.3 |
| 2030 | \$27,820.0 | FY 32 | 5.0% | \$1,391.0 | \$1,155.8 |

Note: The above table is based on data provided by the SIC. Market values are actual through calendar year 2007 and projected thereafter.

Presenter:

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