

The New Mexico Land Grant Permanent Fund (LGPF)

One individual's attempt to understand

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With thanks to Merilee Dannemann
for Summary remarks

Performance: 18-year-average (1999-2016)

- Investment returns and Ending Value can go down as well as up
- Return on Investment (ROI) about 6.13% per year (down from 2014, 8.36%)
- Renewables Contribute about 4.25% per year (up from 2014, 3.96%)
- Combined ROI + Contribution about 10.38% per year (down from 2014, 12.32%)
- Withdrawals have been about 4.98% per year (down from 2014, 5.09%)
- Net total growth – withdrawals = about 5.4% per year (down from 2014, 7.2%)

Functional overview:

- State Land Office administers 9 million surface acres and 13 million sub-surface acres for beneficiaries of lands entrusted to the state
- State Investment Council (SIC) manages a Land Grant Permanent Fund (LGPF) created to support 21 New Mexico public education and selected other beneficiary institutions (see beneficiaries table on page 7)
- Public Education K-12 receives about 84% of the Monthly Withdrawals; 20 other beneficiaries receive about 9%
- Changes to use of Trust funds require a New Mexico Constitutional amendment
- Changes may also require consent of U.S. Congress

Summary

The State of New Mexico owns “trust lands” – 9 million surface acres and 13 million sub-surface acres – for the purpose of producing income that supports certain “beneficiaries” specified in the state constitution; Public Schools receive the greatest share. This system was established well before New Mexico became a state in 1912, and its continuance was required by Congress for New Mexico to be accepted as a state.

Trust lands are managed by the state *Commissioner of Public Lands*, an independent official elected on a statewide basis. The Commissioner’s job is to use the lands to earn renewable, on-going income for the state while also considering environmental impacts and recreational access to the land. Sources of this income include oil well leasing, leasing for agriculture and other uses.

Income from the state trust lands is deposited into the Land Grant Permanent Fund (LGPF) to be invested in the stock market and other financial instruments. These investments are overseen by a body called the *State Investment Council* (SIC), whose members include the Governor, the State Treasurer, the Commissioner of Public Lands and several others.

At the beginning of 2016, the fund was valued at around \$14.8 billion. The maximum amount of money to be withdrawn from the fund at any time is a percentage of the Fund rather than a dollar amount. This is stated in State Constitution, Section XII on education. In the state fiscal year (FY) 2015-16, the amount withdrawn from the LGPF was about \$656 million. Of that amount about \$603 million (92%) went to education; about \$551 million (84%) went to Public Education (K-12). The total state education budget for FY 2015-16 was \$2.78 billion.

To change any detail regarding the beneficiaries of the fund, and/or the percentage distributed to any beneficiary, requires an amendment to the state constitution approved by a majority of New Mexico voters. If approved by the voters it may also have to be approved by the U.S. Congress.

SIC manages another permanent fund called the Severance Tax Permanent Fund (STPF), which is derived from *non-renewable* income such as taxes paid by companies extracting oil, gas and minerals from the ground. This paper does NOT discuss the Severance Tax fund.

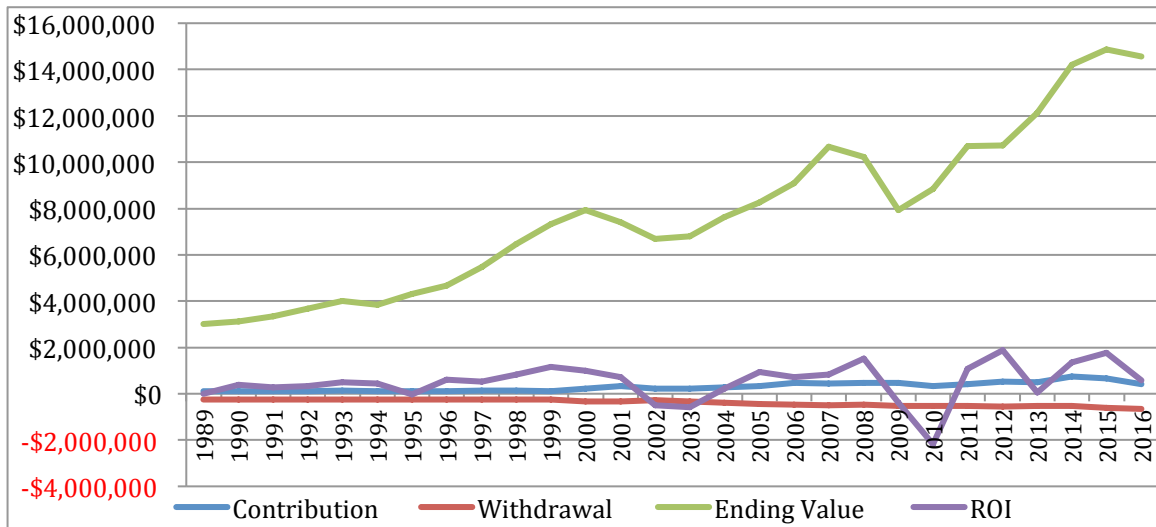
Performance

There have recently been many confusing and contentious number-vs-dollar-vs-percentage presentations and discussions about current and possible uses of the New Mexico LGPF (sometimes called the Public School Permanent Fund or the Rainy Day Fund) to support early childhood education.

This is one individual's attempt to explain to himself the LGPF and its performance, purpose and history.

All data has been taken (or derived) from the *New Mexico State Investment Council - Land Grant Total Fund Composite - Schedule of Investable Assets - As of June 30, 2016* (see Total Fund table at end). Much appreciation is due Charles Wollmann, Director of SIC Communications and Legislative Affairs for graciously providing me with the tabular data and numerous explanations.

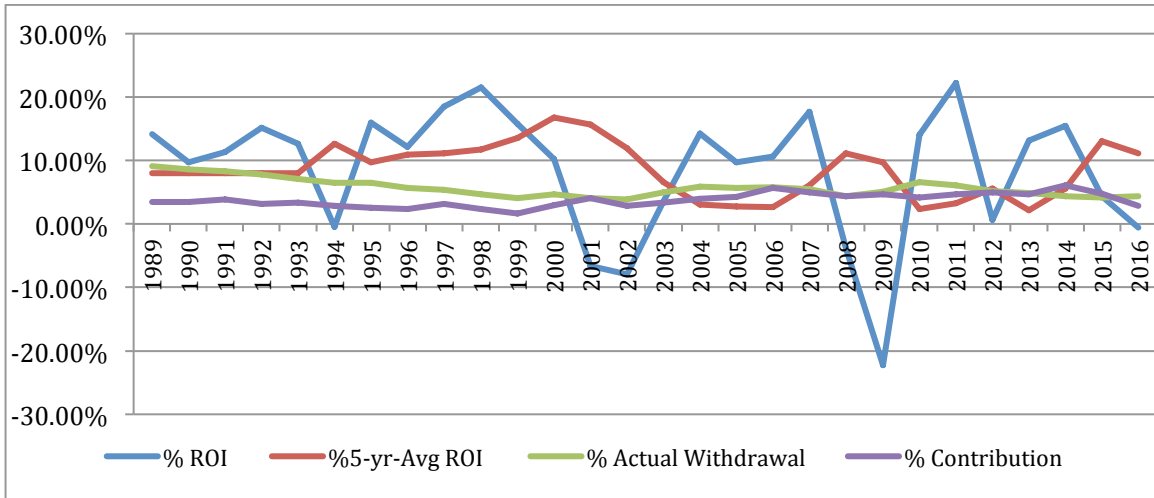
Chart 1 - Land Grant Permanent Fund Performance 1989 – 2016 (\$ 000)



Observations

- **Contribution** - *inflows from state land leases and royalties* – trending down in 2016.
- **ROI** - *inflows from returns on investments and market growth* - volatility from the 1999-2003 dotcom boom-bust and the 2008-2009 banking market meltdown within a 20-year bull market run – trending down in 2016.
- **Withdrawal** (*also called Distributions*) - Withdrawals from the fund to 21 constitutionally established beneficiaries (see Beneficiaries table on page 7); approximately 84% goes to public schools K-12.
- **Ending Value** - *the net result of Contributions + ROI - Withdrawals.*
- For FY 17, withdrawals were set at 5.5% of a 5-year-rolling-average of the Fund’s annual ending market values (see ‘2003 Amendment’ in the Brief History of the LGPF below).
- In FY 17 this reverts to 5.0%.
- For FY 16, the 5-year-rolling-average 2012-2016 Ending Value was \$12.5 billion, which was \$2 billion less than the 2016 Actual Ending Value of \$14.5 billion.

**Chart 2 - an attempt to depict the *relationships* between % ROI,
% 5-year-average-ROI, % Actual Withdrawal,
and % Contribution**



Observations

- **% ROI** - 1999 dotcom bust and 2007 meltdown within a 20-year bull market run caused increased volatility – currently trending down to flat.
- **% 5-year-rolling-Avg-ROI** of year-end Fund market value - beginning in 2003 this minimizes peaks and valleys and stabilizes budgeting processes.
- **% Actual Withdrawal** - relatively stable between 4% and 6% of the actual year-end market values for the 18 year period 1999-2016.
- In 2016, **Actual Withdrawal (4.41%)** was greater than **Contribution (3%)**.
- **Arithmetic average ROI** between 1999 and 2016 has been about 7.19%.
- **5-year-rolling-Average ROI** for those same 18 years was about 6.13% and is currently slightly downward trending.
- Going forward – 6.13% **5-year-rolling-average-ROI** minus the lower range of 4.41% **Actual Withdrawal** should add 1.72% per year to Fund Ending Value which will compound for growth.
- At this rate, with flat **Contribution** and flat investment **ROI**, the Fund would increase in alignment with expected inflation.

A brief history of the New Mexico Land Grant Permanent Fund

- **1848** – In **The Treaty of Guadalupe Hidalgo**, US acquires ownership of California and a large area comprising New Mexico, Arizona, Nevada, parts of Texas, Utah and parts of Colorado and Wyoming.
- Two years later, in the **New Mexico Organic Act of 1850**, U.S. Congress denies statehood but creates the New Mexico Territory and reserves the sale proceeds of two land sections of every township to support public schools.
- **1899 Ferguson Act** acknowledges the preexisting New Mexico’s Commissioner of Public Lands, establishes a Land Grant Permanent Fund (LGPF) and doubles the number of land sections supporting public schools to four sections per township.
 - Reference: <https://www.lincolinst.edu/subcenters/managing-state-trust-lands/publications/trustlands-nm.pdf>
 - “The Land Commissioner is charged with generating and optimizing revenue from state trust lands to support public education and other beneficiary institutions, while simultaneously striving to protect, conserve, and maintain the lands so they may be used by future generations. The State Land Office generates revenues by leasing lands for grazing, agriculture, commercial use, renewable energy, oil and gas drilling, mining and other surface and subsurface activities.”
- **US Congress 1910 Enabling Act** creates the states of New Mexico and Arizona
 - “An act to enable the people of New Mexico to form a constitution and state government and be admitted into the union on an equal footing with the original states.”
 - Specifies that LGPF support “common schools”, i.e., compulsory and universal primary and secondary education grades 1 through 12.
 - A total of 21 New Mexico public institutions are named as beneficiaries to receive specific land grant portions (see beneficiaries table on page 7).
 - Act Sections 6 through 9 require that any change in the use of the trust must be consented to by US Congress.
- **1912** - New Mexico formally granted statehood.

- **1957-1958 Amendments** – A State Investment Council (SIC) is created; management of LGPF is transferred from New Mexico legislature to SIC; a permanent trust with fiduciary responsibilities is formally created.

1996 amendments to Sections 7, 9, and 10 of the Enabling Act and to the New Mexico Constitution specifies future distributions shall be made as provided in the Constitution of the State of New Mexico Article XII Education – Section 7 Investment of Permanent School Fund [Note: Article XII *has been amended 19 times*]

- Reference: http://class-wp.digitaltrike.com/wp-content/uploads/2012/10/NEW_MEXICO_CONSTITUTION.pdf [New Mexico Constitution, education-related portions]
- The amendment explicitly intends to, “protect the permanent trust funds of the State of New Mexico from erosion.”
- Section is 8 not amended: “The school, colleges, and universities provided for in this act shall forever remain under the exclusive control of the said state, and no part of the proceeds arising from the sale or disposal of any lands granted herein for educational purposes shall be used for support of any sectarian or denominational school, college or university.”
- **2003 amendment** changes to Constitution Article XII, Section 7:
 - Establishes a *5-year-rolling-average of the year-end-market-values of the Fund* (Article XII, Section 7, Sub-Section F). One can see the need for this in the volatility of **%ROI** in Chart #2: Relationships.
 - Sets distribution to 5.0% of the 5-year-rolling-average balance of the fund. This distribution rate is intended to allow the fund to grow at least in line with inflation.
 - FY 05 to FY 12 provided an additional 0.8% annual distribution (for a total distribution of 5.8%) - and – FY 13 to FY 16 an additional 0.5% annual distribution (for a total distribution of 5.5%) to be used for educational reform as provided by law (Article XII, Section 7, Sub-Section G).
 - Creates a three-level licensing system with minimum annual teacher salaries.

Land Grant Permanent Fund Beneficiaries

Institutions

LGPF Ownership as of 12/31/13

Public (Common) Schools	83.95%
NM Military Institute	3.29%
NM School for the Deaf	1.99%
NM School for Blind & Visually Impaired	1.99%
NM State Penitentiary	1.98%
University of New Mexico	1.45%
Public Buildings	1.10%
Water Reservoir	1.08%
DHI Miners Hospital	0.95%
Penal Reform	0.86%
NM State University	0.46%
NM State Hospital	0.25%
Improvement of the Rio Grande	0.24%
NM Institute of Mining & Technology	0.20%
Eastern NM University	0.08%
UNM Saline Lands	0.04%
Western NM University	0.03%
NM Highlands University	0.03%
Northern NM Community College	0.02%
NM Boys School (CYFD)	0.01%
Carrie Tingley Hospital	0.00%

Land Grant Permanent Fund										
Fiscal Year	Begin Value	Contribution	Withdrawal	Gain/Loss	Ending Value	% ROI	ROI	%5-yr-Avg	% Actual	% Contribution
1989	\$2,786,201	\$95,909	-\$252,270	\$372,361	\$3,002,201	14.18%	\$ 381,483	8.00%	9.05%	3%
1990	\$3,002,201	\$104,922	-\$258,961	\$278,498	\$3,126,660	9.73%	\$ 281,905	8.00%	8.63%	3%
1991	\$3,126,658	\$121,159	-\$259,366	\$354,364	\$3,342,815	11.34%	\$ 340,824	8.00%	8.30%	4%
1992	\$3,342,815	\$104,381	-\$261,965	\$498,843	\$3,684,074	15.12%	\$ 489,651	8.00%	7.84%	3%
1993	\$3,684,074	\$122,950	-\$261,546	\$455,701	\$4,001,179	12.59%	\$ 448,346	8.00%	7.10%	3%
1994	\$4,001,179	\$115,598	-\$257,924	-\$9,996	\$3,848,857	-0.48%	-\$ 18,651	12.59%	6.45%	3%
1995	\$3,848,857	\$97,299	-\$248,102	\$625,176	\$4,323,230	15.97%	\$ 599,124	9.66%	6.45%	3%
1996	\$4,323,230	\$100,171	-\$246,027	\$495,049	\$4,672,423	12.15%	\$ 513,102	10.91%	5.69%	2%
1997	\$4,672,423	\$147,767	-\$251,228	\$895,751	\$5,464,713	18.49%	\$ 836,609	11.07%	5.38%	3%
1998	\$5,464,713	\$129,980	-\$255,415	\$1,115,799	\$6,455,077	21.53%	\$ 1,148,568	11.74%	4.67%	2%
1999	\$6,455,078	\$104,747	-\$262,420	\$1,014,822	\$7,312,227	15.80%	\$ 1,003,352	13.53%	4.07%	2%
2000	\$7,312,227	\$217,905	-\$344,316	\$745,209	\$7,931,025	10.20%	\$ 723,621	16.79%	4.71%	3%
2001	\$7,931,025	\$325,947	-\$322,153	-\$516,236	\$7,418,583	-6.60%	-\$ 501,935	15.63%	4.06%	4%
2002	\$7,418,583	\$213,348	-\$283,142	-\$652,613	\$6,696,176	-7.90%	-\$ 569,214	11.88%	3.82%	3%
2003	\$6,696,176	\$222,985	-\$332,748	\$221,267	\$6,807,680	3.60%	\$ 233,035	6.61%	4.97%	3%
2004	\$6,807,644	\$269,743	-\$400,746	\$959,800	\$7,636,441	14.20%	\$ 928,382	3.02%	5.89%	4%
2005	\$7,636,441	\$324,689	-\$432,499	\$722,473	\$8,251,104	9.70%	\$ 709,240	2.70%	5.66%	4%
2006	\$8,251,104	\$465,306	-\$477,675	\$860,293	\$9,099,028	10.60%	\$ 825,295	2.60%	5.79%	6%
2007	\$9,099,028	\$449,303	-\$499,512	\$1,624,377	\$10,673,196	17.68%	\$ 1,529,271	6.04%	5.49%	5%
2008	\$10,637,196	\$460,648	-\$462,235	-\$401,154	\$10,234,455	-3.80%	-\$ 386,709	11.16%	4.35%	4%
2009	\$10,270,455	\$480,526	-\$521,521	-\$2,300,960	\$7,928,500	-22.28%	-\$ 2,181,196	9.68%	5.08%	5%
2010	\$7,928,500	\$330,275	-\$525,513	\$1,113,148	\$8,846,410	14.03%	\$ 1,066,031	2.38%	6.63%	4%
2011	\$8,846,410	\$411,496	-\$535,903	\$1,966,659	\$10,688,662	22.19%	\$ 1,871,707	3.25%	6.06%	5%
2012	\$10,688,653	\$529,038	-\$553,418	\$62,765	\$10,727,038	0.62%	\$ 62,990	5.56%	5.18%	5%
2013	\$10,727,037	\$505,817	-\$526,847	\$1,423,220	\$12,129,227	13.11%	\$ 1,340,002	2.15%	4.91%	5%
2014	\$12,129,227	\$742,073	-\$535,157	\$1,858,740	\$14,194,883	15.46%	\$ 1,760,454	5.53%	4.41%	6%
2015	\$14,194,883	\$669,520	-\$595,994	\$613,762	\$14,882,171	4.32%	\$ 584,813	13.08%	4.20%	5%
2016	\$14,882,171	\$419,744	-\$655,785	-\$90,000	\$14,556,130	-0.60%	-\$ 87,462	11.14%	4.41%	3%