

## NEW MEXICO’S LAND GRANT PERMANENT FUND: A PRIMER

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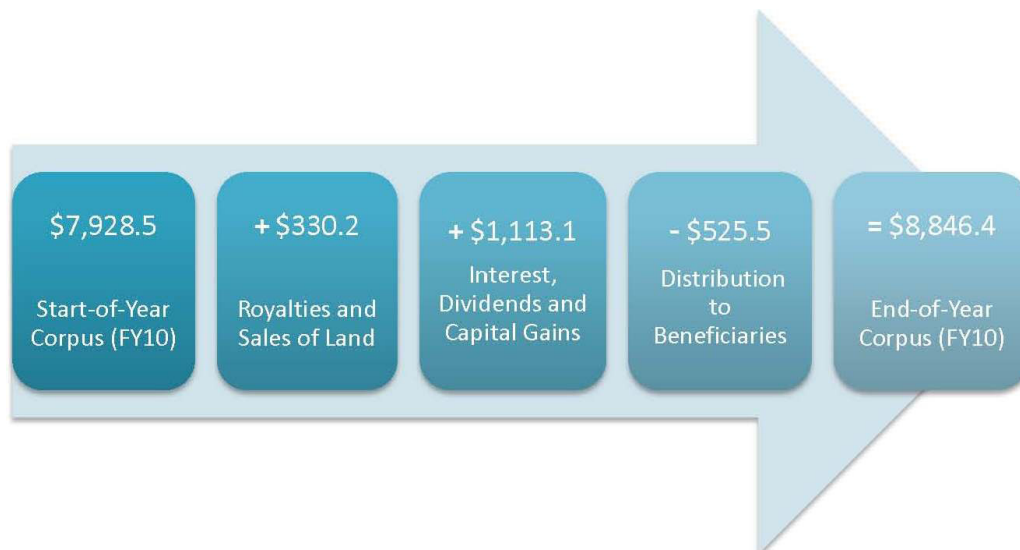
The Land Grant Permanent Fund (LGPF) was established by the federal government before New Mexico became a state to help pay for public education. More than 13 million acres of land and mineral resources were transferred to the people of New Mexico to be held in trust for beneficiaries, who were determined by Congress. These beneficiaries—public schools, universities, hospitals, and correctional institutions—are the actual owners of the trust fund. The land acreage was divided up among the beneficiaries and the annual share of money each receives is based on how much revenue their acreage raised. (So the discovery of new minerals or the depletion of existing minerals can change a beneficiary’s share.) New Mexico’s public schools have the largest acreage and also have

the largest ownership interest in the fund (currently about 83 percent). The New Mexico state constitution governs what percentage of the total fund is distributed each year.<sup>1</sup>

### HOW IT WORKS: MONEY IN

The LGPF continues to be maintained mostly by mineral production royalties (mining activities) from non-renewable resources (oil, natural gas), as well as the sale of state lands. Revenues from renewable resources—including the leasing of public lands for wind, biomass, and solar energy production—are credited to the Land Maintenance Fund, which also helps support public education.

### Land Grant Permanent Fund Income Flow



The LGPF has two sources of income: commercial use of public lands (mostly royalties and sales; called “new contributions”)—and the income earned on the investment of the corpus of the fund (interest, dividends and capital gains; called “return on investment”). The New Mexico State Land Office (SLO) is responsible under

state statute for collecting funds from state-owned lands.<sup>2</sup> The amount of new contributions to the fund are tied to some extent to global energy prices, but average about 5 percent of the fund total. Still, the amount has risen fairly consistently over the last decade. The exceptions have been 2002 and 2010, when contributions were lower than they had been in the preceding years.

State statute also governs the State Investment Council (SIC), which is charged with investing the monies in the LGPF.<sup>3</sup> The bulk of the SIC's investments are in stocks and bonds, with the rest (less than a quarter) going to alternative instruments such as hedge funds. Most years the return on investment is positive, but investments lost money in 2001-02 and 2008-09. Still, the long-term rate of return on LGPF investments is 6.5 percent, according to the SIC.

Over time, the value of the trust fund has increased because the fund grows by about 11 percent a year—with 5 percent from new contributions and an average 6.5 percent return on investment—and less than 6 percent is withdrawn.

Table I (at left) covers LGPF activity from fiscal years 2000 through 2010. It shows the beginning market value of the LGPF each year, new contributions from the SLO, the distribution of funds to the beneficiaries,

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the annual return on investment, and the ending market value of the LGPF. The total return on the LGPF was positive during the 2000-2010 period with the exception of four years—2000-01 and 2008-09, all of which were recession years.

**Table I: Land Grant Permanent Fund Statement of Changes in Investment Assets (fiscal years 1989-2010)**  
(in millions)

Fiscal Year	Beginning Market Value	New Contributions from SLO	Annual Return on Investment	Less Beneficiary Distributions	Ending Market Value
2000	\$7,312.2	\$217.9	\$745.2	\$344.3	\$7,931.0
2001	\$7,931.0	\$325.9	-\$516.2	\$322.1	\$7,418.5
2002	\$7,418.5	\$213.3	-\$652.6	\$283.1	\$6,696.1
2003	\$6,696.1	\$222.9	\$221.2	\$332.7	\$6,807.6
2004	\$6,807.6	\$269.7	\$959.8	\$400.7	\$7,636.4
2005	\$7,636.4	\$324.6	\$722.4	\$432.4	\$8,251.1
2006	\$8,251.1	\$465.3	\$860.2	\$477.6	\$9,099.0
2007	\$9,099.0	\$449.3	\$1,624.3	\$499.5	\$10,673.1
2008	\$10,673.1	\$460.6	-\$401.1	\$462.2	\$10,270.4
2009	\$10,270.4	\$480.5	-\$2,300.9	\$521.5	\$7,928.5
2010	\$7,928.5	\$330.2	\$1,113.1	\$525.5	\$8,846.4
Totals		\$4,746.1	\$8,504.4	\$7,155.6	

Source: New Mexico State Investment Council

As with most investments, the LGPF did not fare well early in the current recession. The Department of Finance's most recent report<sup>4</sup> shows that the value of the LGPF had fallen by almost \$2.8 billion—about a quarter—between the end of fiscal year 2007 (FY07) and the end of FY09. Many investments suffered much greater losses during the Great Recession.

## DISTRIBUTIONS

Currently, 5.8 percent of the LGPF's principal is distributed to beneficiaries every year, but the original annual distribution from the LGPF was 5 percent. Voters amended the state constitution in 2003 to

increase the distribution to 5.8 percent for fiscal years 2005 through 2012, then to 5.5 percent from 2013 to 2016, and back to 5 percent thereafter. Despite the increase in distribution, the fund continued to grow until the stock market crash in late 2007.

Whatever the distribution rate, the overall amount that is distributed varies from year to year because the value of the corpus varies from year to year. To

determine the distribution amount, an average is taken of the principal's market value over the most recent five years. Taking a five-year average helps keep the fund stable.

In FY10 the LGPF provided more than \$596 million to its beneficiaries, with the lion's share (about 83 percent) going to public schools. Table II (at left) shows the total amounts distributed from the LGPF and the percentage each beneficiary received for fiscal years 2003 through 2010 combined.

**Table II: Land Grant Permanent Fund Beneficiaries (fiscal years 2003-2010)**  
(in thousands)

Beneficiary	Distribution Amount	Distribution Percentage
Public Schools	\$3,236,333.3	82.8%
University of New Mexico	\$67,743.3	1.7%
NM State University	\$20,358.5	0.5%
Western NM University	\$1,958.5	0.1%
Eastern NM University	\$5,275.5	0.1%
NM Highlands	\$2,017.2	0.1%
Northern NM College	\$1,534.6	0.0%
NM Institute of Mining and Technology	\$11,230.8	0.3%
NM Military Institute	\$135,904.2	3.5%
NM School for the Deaf	\$75,610.1	1.9%
NM School for the Blind	\$75,538.3	1.9%
Carrie Tingley Children's Hospital	\$46.4	0.0%
Miner's Colfax Medical Center	\$40,844.6	1.0%
Las Vegas Medical Center	\$11,429.7	0.3%
Penitentiary of NM	\$74,072.8	1.9%
NM Boy's School (CYFD)	\$463.9	0.0%
Charitable, Penal and Reform	\$37,755.6	1.0%
Public Buildings	\$47,077.5	1.2%
Water Reservoir	\$48,549.5	1.2%
Rio Grande Improvements	\$14,042.1	0.4%
UNM Saline Lands	\$917.9	0.0%
<b>Totals</b>	<b>\$3,908,704.3</b>	<b>100.0%</b>

## CONCLUSION

The state's Land Grant Permanent Fund is a stable, dedicated source of funding for public education and several other important programs and services. The fund grows steadily every year except when investments lose money, which is to be expected during recessions. Still, the average annual growth rate of the fund is higher than the long-term rate of return on investments because the fund also receives monetary returns from the public lands. Therefore, a higher percentage of the fund could be distributed to beneficiaries every year without diminishing the value of the fund's principal.

## ENDNOTES

- 1 Article 12, Section 7
- 2 Section 19-1-1 through 19-1-24 NMSA 1978
- 3 Section 6-8-7 NMSA 1978
- 4 Overview of New Mexico Finances FY09 Budget, NM Department of Finance

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Source: 2009 State Land Office Annual Report  
Calculation of percentages by New Mexico Voices for Children