UTAH FOUNDATION
Research Report

Report Number 632 March/April 2000

Utah Public Education Financing and the State School Trust Fund

Highlights

- When Utah became a state, in 1896, it was given certain sections of public lands from the federal government. These lands were to be held in trust for the support of the public schools, the revenue from the sale or use of these trust lands going to a permanent investment fund whose interest goes to public education coffers. The trust fund, now known as the State School Trust Fund, has been getting substantial attention over the last several years.

- Four major reforms have substantially changed the Fund and allowed it to grow much more rapidly than in the past. First, a new agency created in 1994, now administers the state school trust lands with more attention being paid to raising revenue and helping the Fund grow. Second, all revenue from the sale and uses of the lands now is deposited into the Trust Fund. Previously much of this revenue went to the Uniform School Fund. Third, a portion of the Fund's balance is allowed to be invested more aggressively. Fourth, the Fund, by constitutional mandate, must now be protected from inflation before any distribution of the Fund can take place.

- These recent changes have had a very positive effect as the trust fund has grown substantially, from $42 million in 1990 to $300 million in 1999. Those involved in the changes which have allowed the Fund to grow so rapidly should be complimented. They include the legislature, governor, administrators and the treasurer.

- At the same time that the Fund has been growing impressively, money going to the schools from the Fund has been declining. This occurred because of the recent change that invested more of the Fund's balance in equities, reducing the interest earnings available for payout to the public schools. The Fund grows faster, with smaller payouts for a few years, especially as a percent of school expenditures.

- In FY 1999, the Fund was of sufficient size that the interest payment to the schools reached a 13-year high, though the payment still only represented 0.3 percent of state public school expenditures. Payments should now grow, albeit slowly, relative to school expenditures given the way the fund is currently being managed. Nevertheless, it is not likely that the fund will ever get to the size that it can be counted on to fund Utah's educational demands to any significant extent in percentage terms, unless the fund grows at very high annual average growth rates for a very extended period of time.

- The rapid growth of the Fund along with the simultaneous relatively small annual distributions to education has raised some concerns. Should the focus be to grow the fund as fast as possible in hopes of it providing a significant source of revenue to public education sometime in the future? Or should the focus be on providing more revenue to Utah's schools now and have the fund still grow, but more slowly?

- In order to illustrate how various levels of distributions could effect the Fund size and the contribution it can make to public education over time, Utah Foundation prepared three scenarios. Each Fund scenario uses a different annual growth pattern and four different levels of interest earnings payouts to the state's public schools.

- A close look at the scenarios indicate that the Fund could provide more funding to schools. However, higher levels of payouts can only occur at the expense of the fund's ability to grow. As the scenarios illustrate, smaller percentage payouts actually turn into larger ones over time as the Fund grows in size. It appears that the current practice of relatively modest payouts are appropriate and will benefit Utahns in the future.

UTAH FOUNDATION 10 West 100 South, Suite 323, Salt Lake City, Utah 84101-1544 (801) 364-1837

Utah Public Education Financing and the State School Trust Fund

Because of Utah's high birthrate, the state has, in percentage terms, the largest school-age population (ages 5-17) of any state in the nation. The flip-side of the coin is also true, Utah has the smallest percent of adults of working age (ages 18-64) of any state in the nation. These demographic facts make it very difficult to fund education at levels typical in other states. As a result, Utah has the largest class sizes and the lowest per pupil funding in the nation.

These indications of low support for education exist despite a significant effort from Utah taxpayers. Utah spends $92 of every $1,000 of personal income on education, well above the national average of $64 per $1,000 of personal income. Utah's state and local governments commit 41 percent of their total direct expenditures on education, while the national average is 34 percent.[1] Given these demographic and fiscal facts, Utah governors, legislators, and educators are always looking for other sources of revenue for education independent of general taxes.

When Utah became a state, in 1896, it was given certain sections of public lands from the federal government. These lands were to be held in trust for the support of the public schools, the revenue from the sale or use of these trust lands going to education coffers.

The trust fund, now known as the **State School Trust Fund**, has been getting substantial attention over the last several years. A new agency[2] created in 1994, now administers the state school trust lands, the revenue from the sale and from all uses of the lands now is deposited into the trust fund. This trust fund is a permanent endowment fund for the support of primarily the "common schools" (i.e. public education, K thru 12). As revenue from the trust lands flows into the trust fund, the principle or fund balance is invested with only the "interest" being used to support public education's ongoing annual expenditures. Additionally, since 1994, the state treasurer is authorized to invest a portion of the trust fund balance more aggressively than was previously allowed.

The changes made in 1994 have had a very positive effect as the trust fund has grown substantially. At the same time, the money going to the schools from the fund has been declining which has raised some concerns. Should the focus be to grow the fund as fast as possible in hopes of it providing a significant source of revenue to public education sometime in the future? Or should the focus be on providing more revenue to Utah's schools (which consistently spend less per pupil than other states) and have the fund still grow, but more slowly? The purpose of this report is to address these and other issues about the State School Trust Fund and the funding of public education.

Land Ownership in Utah

In order to understand the issues relating to the State School Trust Fund, a short discussion of land ownership in Utah might be helpful. The total area of Utah is about 85,000 square miles or 54.1 million acres. Of this total, 34.6 million acres or 63.9 percent is owned by the federal government. Utah ranks third in the nation, behind only Alaska and Nevada, in the percent of land that is federally owned.

Most of the federal ownership is divided among four agencies. The Bureau of Land Management (BLM) administers 22.7 million or 41.9 percent, the National Forest Service administers 8.0 million or 14.7 percent, the Department of Defense owns 1.8 million or 3.4 percent, and the National Park Service administers 2.1 million or 3.9 percent.[3] Approximately 11.7 million acres or 21.6 percent is privately held and 2.4 million acres or 4.4 percent consists of Indian reservations (see **Table 1 and Figure 1**).

The 5.5 million acres of land owned by the State can be divided into three categories: sovereign lands, agency lands, and school trust and institutional lands. Sovereign lands are the lands under the lakes and streams of the state. The biggest portion of sovereign lands in Utah is the land under the Great Salt Lake. Agency lands are land owned by a state agency like the Division of Wildlife Resources, Department of Transportation or State Parks. Institutional lands are the lands given by the federal government to the state to be held as a trust for the institutions for which the

[1] For a more detailed discussion of Utah's educational funding challenges see Utah Foundation *Research Report #628*, "Utah's Education Paradox", November 1999.

[2] The School and Institutional Trust Lands Administration is an independent agency of state government that manages the school trust lands and trust fund.

[3] Utah State Trust Lands GIS database.

Table 1

Land Ownership and Administration in Utah

(in thousands of acres)

	Acres	Acres	% of Total
Federal Total	**34,599**		**63.9%**
Buearu of Land Management		22,671	41.9%
National Forests		7,976	14.7%
National Parks, Monuments, & Recreation Areas		2,088	3.9%
Department of Defense		1,834	3.4%
Other		30	0.1%
State Total	**5,466**		**10.1%**
State Trust & Institutional Lands		3,505	6.5%
State Sovereign Lands		1,500	2.8%
State Parks, Recreation, Wildlife, Transportation, etc.		461	0.9%
American Indian	**2,389**		**4.4%**
Private*	**11,679**		**21.6%**
Total Acreage	**54,133**		**100.0%**

* May include some local government.

Source: Utah Trust Lands GIS database.

Figure 1

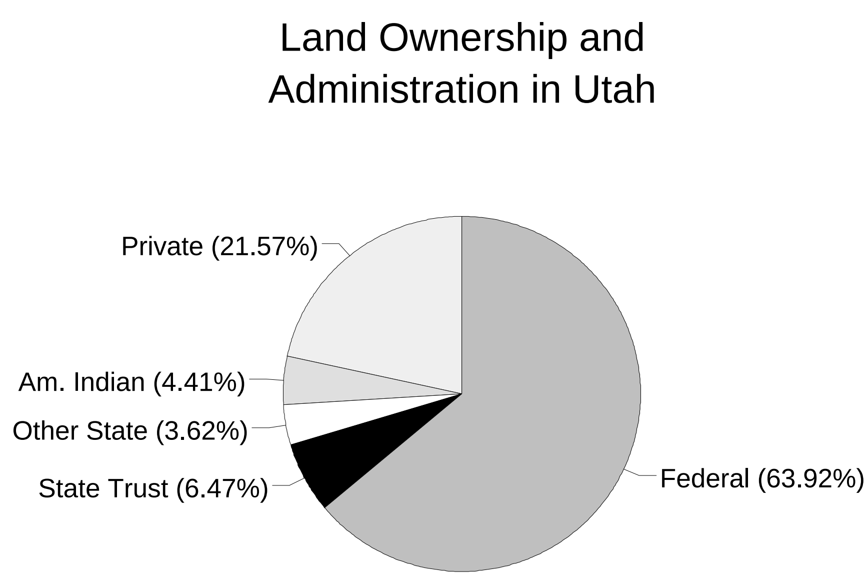


Table 2

Utah State Trust Land Holdings

Surface Acres By Beneficiary: End of FY 1999

	Original Trust Land Grant	Trust Land Sold Since Statehood	Current Trust Land Holding	
			Acres	% of Total
Public Schools	5,855,217	2,497,954	3,357,263	96.36%
Reservoir Fund	400,000	452,824	47,176	1.35%
Utah State University	200,000	171,807	28,193	0.81%
University of Utah	156,080	139,444	16,636	0.48%
School of Mines	100,000	92,451	7,549	0.22%
Miners Hospital	100,000	92,764	7,236	0.21%
Normal School	100,000	93,273	6,727	0.19%
School For Deaf	100,000	94,107	5,893	0.17%
Public Buildings	64,000	60,444	3,556	0.10%
Utah State Hospital	100,000	96,803	3,197	0.09%
School For Blind	100,000	99,360	640	0.02%
Youth Development Center	100,000	100,000	0	0.00%
Total	7,475,297	3,991,231	3,484,066	100.00%

Source: Utah School and Institutional Trust Lands Administration, Annual Report, FY

land was donated. The institutional lands are held in trust for certain state institutions: state universities, schools for deaf and blind students, and others.[4] The school trust lands are the lands given by the federal government to the state at statehood for the support of public education. **Table 2** categorizes all of the school and institutional trust lands managed by the state. The public school trust lands comprise 96.4 percent of the 3.5 million acres managed in trust by the state. It is these lands that this report is most concerned with.

[4] In addition to the school trust lands given to the state at statehood, the federal government also provided some trust lands to other specific beneficiaries such as: the state's public universities, schools for the deaf and blind and others. Institutional lands are held by Utah State University, the University of Utah, School of Mines, Miners Hospital, Normal School, School for the Deaf, Public Buildings, Utah State Hospital, School for the Blind, and the Youth Development Center. Though part of the state trust lands, and managed in a similar manner as those given for the support of the public schools they are not specifically discussed in this report because they make up only a small portion of the total state trust lands. Source: School and Institutional Trust Lands Administration, 5th Annual Report, (State of Utah, 1999), p.5.

State School Trust Lands

The trust lands are scattered throughout the state in almost a checkerboard fashion. These lands were offered to the state by Congress in the Utah Enabling Act which states: "That upon admission . . . into the Union sections two, sixteen, thirty-two, and thirty-six in every township . . . are hereby granted to said state for the support of common schools. Furthermore, the Enabling Act created a permanent school fund by stating: "That the proceeds of lands herein granted for educational purposes, . . . shall constitute a permanent school fund, the interest of which only shall be expended for the support of said schools . . . "[5]

Utah accepted these terms in Article XX of the Utah Constitution, "All lands of the State that have been, or may hereafter be granted to the State by Congress, . . . shall be held in trust for the people, to be disposed of as may be provided by law, for the respective purposes for which they have been or may be granted . . . "[6]

[5] Utah Enabling Act, Section 6, (28 Statutes at Large 107).

[6] Constitution of Utah, Section XX

From the beginning, the permanent school fund received revenue from several sources: 1) proceeds from all trust lands granted to the state, including land and timber sales, surface leases and mineral extraction; 2) proceeds from all property that may accrue by escheat[7] or forfeit to the state; 3) proceeds from all unclaimed shares and dividends of any corporation; and 4) five percent of the net proceeds from the use of federal public lands in Utah.

In 1938, Utahns approved an amendment to the Utah Constitution that altered the source of revenues going to the permanent school fund and created the *Uniform School Fund*.[8] **The permanent school fund was named the *State School Fund*** with the sources of revenue going to it reduced to proceeds of the sale of trust lands and the 5 percent net revenue from the use of federal public lands.

The newly created Uniform School Fund, was established to provide annual state funding in support of education in Utah. It received revenue from the interest of the State School Fund and sources heretofore going to the State School Fund namely: proceeds of all property that may accrue to the state by escheat or forfeiture, all unclaimed shares and dividends of corporations, and the proceeds from surface leases and mineral extraction, and all other revenue from trust lands property.

In the 1950s, the state began placing revenue from mineral royalties in the State School Fund with the intent of helping the fund grow more rapidly. These deposits were not in harmony with the changes to the Utah Constitution made in 1938, but they did help the trust fund grow faster. In the 1980s, the depositing of mineral revenues in the fund was challenged and in 1982, the Utah Supreme Court ruled that, "Mineral proceeds derived from the state school lands may be deposited in the Uniform School Fund and are not required to be deposited in the state school fund." [9]

As a result of this court decision, the state, withdrew $37.5 million from the State School Fund in 1983, during a year of extreme budgetary constraints, and used it to fund educational needs that year. That reduced the State School Trust Fund from $53.5 million to $16.2 million.

This decision has been severely criticized for reducing the fund balance so much. However, two important points need to be understood. First, serious budget problems existed in the state at this time. Revenues were insufficient to meet education budgets. Without the additional funds from the trust fund, deep cuts in public expenditures for the 1982-83 school year would have been necessary. The legislature also increased the corporate franchise tax that same year to provide more funds to educate Utah's rapidly growing student population. Second, the withdrawal of the funds was justified because the fund had been receiving mineral revenue in violation of the Utah Constitution as amended in 1938.

Constitutional Changes

In November 1986, Utahns approved a constitutional amendment which again restructured the sources of revenue for both the State School Fund and the Uniform School Fund.[10] Instead of the Uniform School Fund receiving revenue derived from the use of nonrenewable resources, the State School Fund now began receiving these revenues. The reasoning was that use of nonrenewable resources represented a permanent loss to the state and one time income which should be a part of the trust. The Uniform School Fund still received the interest from the State School Fund and revenue from the use of renewable resources (surface uses like grazing fees).

Eight years later, (1994) Utah voters again amended the state constitution affecting school trust lands. First, the amendment allowed the legislature to make appropriations from the State School Fund "to provide the funding necessary for the proper administration and management" of the trust lands, "consistent with the state's fiduciary responsibilities

[7] Property that has reverted to the state when no legal heirs or claimants exist.

[8] H.J.R. 5, (Passed in the 1937 legislative session, became law effective January 1, 1939). The Uniform School Fund is second only to the General Fund in size. This fund is statutorily dedicated to financing public education. Its main sources of revenue are the state individual income tax and corporate franchise tax.

[9] Utah Supreme Court (Jensen vs. Dinehart). Richard Jensen was the State Auditor and Bill Dinehart was the Director of the Division of Forestry and State Lands. Jensen (through the state Attorney General) sued Dinehart for not placing nonrenewable resource revenue in the Uniform School Fund.

[10] *House Joint Resolution 4*, 1984 Legislative session became law upon approval of voters in November 1986, and effective July 1, 1987.

towards the beneficiaries of the school land trust."[11] Second, it required that a portion of the interest earnings of the State School Fund be retained to protect the fund against inflation (thereby reducing the amount of interest going to the Uniform School Fund). Third, it placed all revenues received from sale or use of trust lands (including revenue from renewable and nonrenewable resources) into the State School Fund.[12]

In addition to the constitutional amendments of 1994, one other change affected the amount of the interest earned by the State School Fund which goes into the Uniform School Fund. First, the State Money Management Act was amended allowing the state treasurer to invest School Trust Funds in equities.[13] Previously trust funds were invested only in interest bearing securities. That portion of the State School Fund invested in equities has grown quite well from year to year. Increases in value of the equities are not considered to be interest by the state treasurer.

As more of the fund began being invested in equities, beginning in 1995, there was less annual interest return to the fund. Educators were told by the state treasurer that there would be a period of time that the fund would return less revenue to the Uniform School Fund than in the past due to this shift in investing. However, the treasurer promised that as fund balances grew more rapidly with a more aggressive investment portfolio, the fund would reach a point where its size would be such that the fund would return more interest to the Uniform School Fund (USF) than in the past.

The reason that the annual interest payment to the USF was projected to decline for a time by the state treasurer (and in fact did decline) is because interest was defined narrowly as the interest returns on fixed investments and dividends from equities. The increase in the value of the equities was excluded from the definition of interest and therefore the increased value of the equities was added to the trust fund balance.

As less of the trust was placed in fixed assets (which provided annual returns of 5-7 percent) and more in equities (with dividend returns of 1-2 percent), interest payments did decline, but the fund balance began to grow rapidly. In FY 1999, however, the interest return to the USF was $6.8 million, the largest return to the USF since 1987. As the fund continues to grow it will produce larger interest payments to the schools.

The end result of these several constitutional changes to trust lands administration is that now, virtually all revenue received from the school trust lands goes into the State School Fund. All revenues received from the sale of the lands and received from the uses of renewable or nonrenewable resources or from receipts from federal lands, go into the State School Fund.

The only revenue that the Uniform School Fund now receives from the trust lands is that portion of the narrow definition of interest left after protecting the total fund balance from inflation. The consequences of these changes have been twofold. First, the State School Fund balance has grown rapidly over the last decade from a 1990 fiscal year end balance of $42.1 million to a 1999 fiscal year end balance of $296.9 million. Second, the amount of interest payments going into the Uniform School Fund from the State School Fund has declined significantly, even with the increase in the interest payment in 1999.

Table 3 and **Figure 2** show both the Public School Trust Fund balances at the end of each fiscal year and the amount distributed to the Uniform School Fund (USF) in relation to total state education expenditures. The School Trust Fund balance as a percent of state public education expenditures has grown from single digits in the mid-1980s to more than 14% in 1999. As the trust fund has grown relative to education expenditures, distributions to the USF have declined from about 2 to 3 percent in the early to mid 1980s, to a low for the period of 0.13 percent in 1998. In 1999, interest payments to the USF did increase as a percent of education expenditures from the low of the previous year to 0.3 percent in 1999.

Future Disbursements

In 1999, the legislature made a significant change in the way these funds are distributed. Legislators passed House Bill 350 creating the School LAND Trust Program. Beginning July 1, 2000, the interest earnings distributed from the State School Fund, will go into this program portion of the USF, and will go directly to each school district and each

[11] *House Joint Resolution 15,* 1994 Legislative Session, approved by voters November, 1994.

[12] The constitutional amendment states, "A portion of the interest earnings of the State School Fund, in an amount equal to the total balance in the State School Fund at the close of each calendar year multiplied by the annual rate of inflation for the preceding year, as determined by the state treasurer, shall be retained in the State School Fund and added to the principal." Utah Constitution Article X, Section 5.

[13] No more than 65 percent of the total fund assets may be invested in stocks. Utah Code Annotated 51-7- 12.

Table 3

Utah State Public Schools Trust Fund Ending Balance and Funds Distributed to the Uniform School Fund*

Fiscal Years 1981 to 1999

Fiscal Year	Public Schools Trust Fund Ending Balance	Funds Distributed to the Uniform School Fund*		Size Relative to Total Public Ed. Expend.		Total Utah State** Public School Expenditures
		Amount	As % of Trust Balance	Trust Balance	Distributed to the USF*	
1981	$45,746,399	$14,743,000	32.23%	7.83%	2.52%	$583,950,000
1982	53,000,836	18,857,000	35.58%	8.31%	2.95%	638,158,000
1983	18,583,248	25,621,000	137.87%	2.59%	3.57%	718,340,000
1984	18,778,061	18,985,000	101.10%	2.54%	2.57%	737,842,000
1985	18,888,108	18,409,000	97.46%	2.28%	2.22%	828,889,000
1986	19,150,560	11,227,000	58.62%	2.09%	1.22%	918,002,000
1987	20,216,227	7,940,000	39.28%	2.15%	0.84%	941,513,000
1988	26,862,598	2,075,000	7.72%	2.66%	0.21%	1,009,305,000
1989	34,001,145	3,110,000	9.15%	3.25%	0.30%	1,046,498,000
1990	42,145,982	4,533,000	10.76%	3.77%	0.40%	1,119,296,000
1991	49,918,605	4,593,000	9.20%	4.05%	0.37%	1,232,522,000
1992	59,922,167	4,720,000	7.88%	4.59%	0.36%	1,305,009,000
1993	74,253,679	6,491,000	8.74%	5.27%	0.46%	1,408,122,000
1994	83,487,949	4,417,000	5.29%	5.53%	0.29%	1,510,499,000
1995	94,505,059	4,897,000	5.18%	5.83%	0.30%	1,621,457,000
1996	105,932,115	3,159,000	2.98%	6.18%	0.18%	1,715,238,000
1997	130,208,062	3,467,780	2.66%	6.96%	0.19%	1,871,250,000
1998	200,921,112	2,449,570	1.22%	10.38%	0.13%	1,935,534,000
1999	$296,868,604	$6,811,604	2.29%	14.50%	0.33%	$2,046,906,000

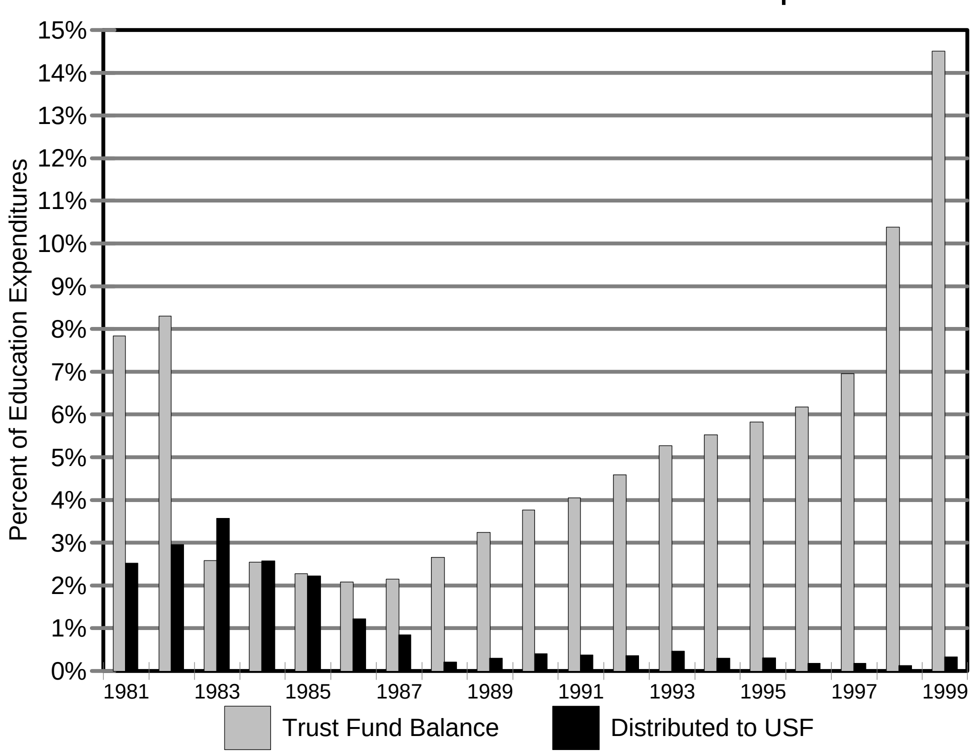
25.1% - Average annual growth in trust fund ending balance for 12 years (FY 1987 to FY 1999).

* Uniform School Fund (USF) is used to provide the annual operating revenue for Education in Utah.
** State Expenditures do not include funds raised and spent by local school districts.

Source: Utah State Division of Finance and Utah State Governor's Office of Planning and Budget.

Figure 2

Utah State Public Schools Trust Fund Ending Balance & Funds Distributed to the USF as a Percent of Total State Public Education Expenditures



USF - Uniform School Fund.
Source: Utah State Division of Finance and Utah Governor's Office of Planning and Budget.

qualifying school in the state. The law requires that the funds be distributed in two parts. "School districts shall receive 10 percent of the funds on an equal basis,"with the remaining 90 percent going to each qualifying school "on a per student basis."

In order to receive its allocation, each school must create a committee consisting of the principal, two teachers, and four parents, to identify the schools "most critical academic needs." This committee must then prepare a plan approved by the local school board that explains "how the school intends to spend its allocation of funds."[14] This is a significant change in school funding. Instead of the trust funds going into the Uniform School Fund and becoming part of the revenue that funds all school programs, the interest earnings now go directly to the schools to be used for academic purposes as determined by the school committees and approved by the local school board.

If the $6.8 million of trust fund interest deposited in the USF for FY 1999 had been distributed in this manner, each of Utah's 40 school districts would have received $17,029 from the 10 percent equal distribution[15]. If all the public schools in the state qualified for the remaining 90 percent of the funds, each school would receive about $12.85 per student.

Administration of Public Lands

Within months after Utah became a state, a board of land commissioners was established and given the responsibility for administering the public lands which came to the state under the Enabling Act and other grants. The board has been restructured a number of times over the years starting with, "three members of the commission of finance." Historically, the board consisted of the State Superintendent of Public Instruction and from five to seven other members appointed by the governor, representing geographic regions of the state.

The 1967 amendments required that one of the members be, "knowledgeable in matters pertaining to forestry and fire control." In 1988, the law was amended to increase the board membership to ten. The traditional regional representation was still required, but the new law also required, "at least one member . . . shall be actively engaged in grazing livestock on state lands." Another member must be, "knowledgeable in mining," one a "member of the petroleum industry," one member "well informed about wildlife conservation," and one member representing a "statewide conservation and wildlife organization." To carry out the board responsibilities, the Legislature created the Division of State Lands and then in 1988 consolidation changes, created the Division of Forestry, Fire and State Lands.

Many people, especially those concerned about public education, criticized the make-up of the board where each member essentially represented a special interest. They argued that these special interests could not effectively focus on the main purpose of the school and institutional trust lands as they perceived it -- that of raising revenue for the support of the state's public schools. After years of discussion about these concerns, the legislature made a sweeping change in the administration of the trust lands. In the 1994 legislative session, they created the School and Institutional Trust Lands Administration with the responsibility to, "manage all school and institutional trust lands and assets within the state."[16]

The law created a seven-member board appointed by the governor with the consent of the Senate. The law emphasized the board's status, as "an independent state agency and not a division of any other department." According to the new law, policies of the board shall:

1) reflect undivided loyalty to the beneficiaries consistent with fiduciary duties;
2) require the return of not less than fair market value for the use, sale, or exchange of school and institutional trust assets;
3) seek to optimize trust land revenues and increase the value of long-term interests, so that long-term benefits are not lost in an effort to maximize short-term gains;
4) maintain the integrity of the trust and prevent the misapplication of its lands and its revenues;
5) have regard for and seek General Fund appropriation compensation for the general public's use of natural and cultural resources . . . [17]

The board's policies are carried out by the director of the School and Institutional Trust Lands Administration.

These statutory changes to the way the school

[14] Utah Code Annotated, 53A-16-101.5.

[15] Daggett school district receives the same amount for 183 students (1998-99 enrollment figures) as Jordan District receives for 73,285 students.

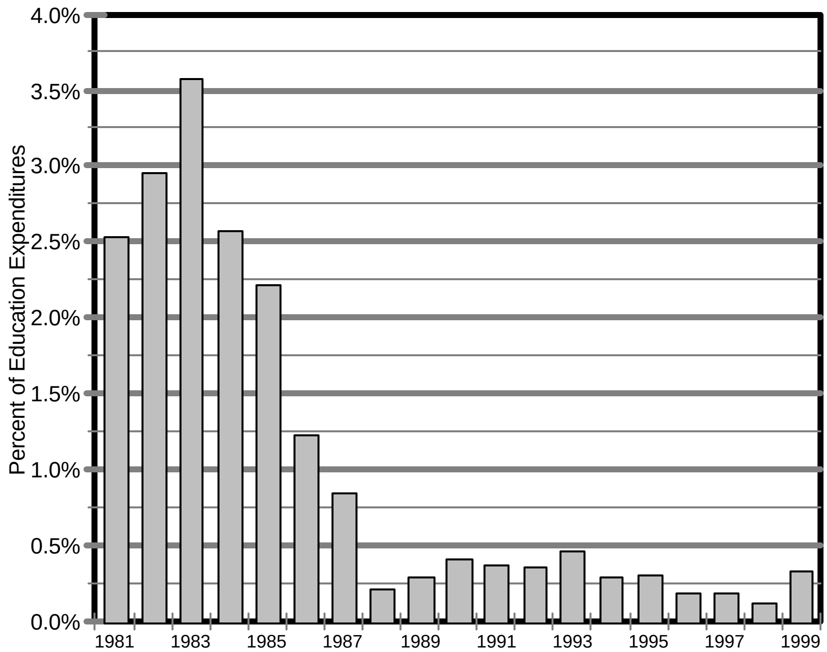
[16] Utah Code Annotated, 53C-1-101.

[17] Utah Code Annotated, 53C-1-204.

Figure 3

State School Trust Funds Distributed to the USF as a Percent of Utah State Public School Expenditures

Fiscal Years 1981 to 1999



Source: Utah State Division of Finance and Utah Governor's Office of Planning & Budget.

lands and institutional trust lands have been managed have been a factor in the significant increases in the trust fund balance. The Trust Lands Agency has been more professional and business-like in its real estate transactions with more money being made in land transactions.

Trust Lands and Funding Public Education

From statehood to the present, the revenue from trust lands has provided only minimal aid to public education budgets. As **Figure 3** shows, over the last two decades, the amount provided to education has never exceeded 4 percent of public education expenditures. Only once did appropriations from the fund exceed 3 percent of the budget. This occurred in 1983, when Governor Matheson and the Legislature used the fund to help education during a year of fiscal crisis as discussed earlier. From 1981 to 1999, State School Trust fund appropriations to public education have amounted to only 0.72 percent of public education expenditures.

In the last two years, the growth of the State School Fund has reached the point where distributed interest earnings are increasing as a percent of school expenditures. In FY1998, interest earnings amounted to 0.13 percent of state school expenditures, the lowest amount of the last 18 years. In FY 1999, distributed interest grew to 0.33 percent of the state education budget and provided $6.8 million, the most since 1987 (see **Table 3**).

Over the past five years the State Public Schools Fund balance has increased from $83.5 million at the beginning of FY 1995 to $296.9 million at the end of FY 1999. **Table 4** is a Balance Sheet, Statement of Income and Distributions for the State Public Schools Trust Fund. Of particular interest in **Table 4** is the large "land sales" income in FY 1999. Most of this amount (about $50 million) is from a one time unique land exchange, mineral exchange, and cash payment deal with the Federal Government.

The Purpose of the State School Fund

Those involved in the significant growth of the State School Fund - from the legislature and governor who changed the laws, to the public officials who have invested the funds and managed the lands more professionally - should be complimented for what has happened over the last decade. The fund has grown from $42 million to $300 million.[18]

[18] When the institutional lands are included in the fund the total balance at the end of FY 1999 stood at $328 million.

Table 4

Utah State Public Schools Trust Fund

Balance Sheet
As of June 30th

	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
Assets					
Cash	$2,974	$2,024,238	$3,615,027	$743,120	$989,108
Fixed Income Investment	87,693,159	94,743,509	118,411,509	56,906,509	93,249,756
Equity Investment				133,742,919	178,387,098
Cottonwood Receivable					9,678,037
Certificate of Sale Receivable	2,959,557	5,437,800	4,576,949	5,686,981	10,099,725
Enabling Act Land	3,586,172	3,463,371	3,341,381	3,578,386	3,227,830
Purchased Land at Cost	263,198	263,198	263,198	263,198	1,074,229
Donated Land					11
Water Rights					162,810
Total Assets	$94,505,059	$105,932,115	$130,208,062	$200,921,112	$296,868,604
Fund Balance					
Begining Fund Balance	83,487,949	94,505,059	105,932,115	130,208,062	200,921,112
Increase in Permanent Fund Balance	11,017,110	11,427,057	24,275,947	19,878,131	75,787,542
Increase in Market Value of Investments				50,834,919	20,159,950
Ending Fund Balance	$94,505,059	$105,932,115	$130,208,062	$200,921,112	$296,868,604
percent change in balance	13.2%	12.1%	22.9%	54.3%	47.8%

Statement of Income And Distributions

	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999
Income					
Land Sales*	$515,628	$3,059,918	$282,061	$6,408,042	**$57,436,791**
Investment Income	5,613,686	7,500,900	5,982,224	6,842,760	13,269,917
Mineral Income	11,768,543	9,759,388	22,782,685	12,855,441	12,637,010
Surface Income	1,595,855	1,690,222	1,247,907	1,578,625	2,035,480
Grazing Income			539,620	545,855	602,961
Development Income			48,171	175,885	294,915
Other Income	8,518	17,043	2,143	7,267	8,491
Total Income	$19,502,229	$22,027,471	$30,884,810	$28,413,875	$86,285,567
Expended for Operations	(3,473,554)	(4,876,141)	(6,611,093)	(7,929,314)	(7,102,644)
Net Income	$16,028,676	$17,151,330	$24,273,717	$20,484,561	$79,182,922
Distributions and Transfers					
Transfer to Permanent Fund	$11,017,110	$11,427,057	$24,275,947	$19,878,131	$75,787,542
Distributed to the Uniform School Fund	$4,897,000	$3,159,000	$3,467,780	$2,449,570	$6,811,604
as a percent of Investment Income	87.2%	42.1%	58.0%	35.8%	51.3%

* FY 1999 Land Sales includes a $50 million one time check from the Federal Government as part of the historic January 1999 land exchange.

Source: Utah State School and Institutional Trust Lands Administration, Annual Reports and Utah State Division of Finance.

However, it should be remembered that the purpose of the State School Fund is not to just grow but to provide a source of revenue for the support of the state's public schools. Though the fund has grown of sufficient size that in Fiscal Year 1999 it provided more money to the schools than at anytime since 1987, it is still providing less than one percent of the state education budget and less than it did in the early 1980s. With the better management of the lands under the School and Institutional Trust Lands Administration and the more aggressive portfolio managed by the state treasurer, the fund should continue to grow much faster than in the past.

This being the case, some have suggested that it is time to allow more of the annual growth of the fund to be used for the benefit of schools and taxpayers today rather than making growing the fund such a high priority. These critics argue that today's school children and taxpayers should be given equal consideration with future school children and taxpayers. That is not happening when the current focus is on growing the fund, according to them. One way of allowing more funds to go to schools today is to change the formula for distribution.

As already discussed, the Utah Constitution states that only the "interest" from the State School Fund can be appropriated annually to schools.[19] However, the definition of interest is not decided in the Constitution but among the people involved in the management of the fund. As previously mentioned, interest is defined as only the interest earnings from fixed investments and equity dividends. A broader definition of interest could allow the fund to still grow but provide additional revenue to the schools right now. A definition that allows this to happen would be to define interest as any increases in the fund balance from one fiscal year to another, excluding land sales, and other revenue from the use of the trust lands.

In other words, the increase in value of the equities in a given year would be defined as interest (or at least a portion of the increase in value) and be part of the interest payment to schools. Currently, the increase in the value of the equities is defined as principle. It is true that this has been an important part of the growth of the fund but it is also the reason that payments to schools have declined not only in actual terms but especially as a percent of education expenditures.

Growth and Distribution Scenarios

In order to better understand the impact of withdrawing and distributing money from the State School Trust Fund, Utah Foundation has prepared several scenarios to show what might be the possible effect given different rates of growth in the State School Trust Fund and different levels of payouts or distributions to the USF. All scenarios show what the relationship of a payout to the public schools will be as a percent of projected state public school expenditures for each fiscal year.

The percentage contribution to public education provided by annual trust fund payouts is more meaningful than the dollar amounts. Of course public education expenses grow significantly each year and it is the relative percentage contribution that tells us how much the trust fund payout can reduce the burden of public education support paid by taxpayers.

In all scenarios it is assumed that public school expenditures will grow at an annual average rate of 7.2 percent. This is the annual average rate of growth for public education over the last 18 years.[20]

Assumptions about the long term growth of the State School Trust Fund are difficult to make. Growth in the year-end balance for the past 12 years (FY 1987 to FY 1999)[21] has been **25.1 percent per year**. During this time the trust fund balance has increased from $20.2 million to $296.9 million.

This impressive growth is the result of the changes in the fund and how it is managed. First, all revenue from the use or sale of the lands or from extraction of the resources of the lands now goes into the Fund. Second, management was reformed with the stated goal to "administer the trust assets in a prudent and profitable manner for the exclusive benefit of the beneficiaries". Therefore the Trust Lands Administration seeks to professionally manage the

[19] The State of New Mexico which has a $6 billion trust fund, distributes 3 percent of the annual increase in its fund each year to the schools. This provides about $200 million to the schools. For Utah to provide a set percent each year to schools would probably require a constitutional amendment since the mandate to spend only the interest is a constitutional one.

[20] See Utah Foundation *Research Report No. 625*, "A Look At Utah State Government Growth," (June 1999). This report tracked state government growth from fiscal year 1981 to 1999. During this time Public education grew by the annual average rate of 7.22 percent.

[21] The first of two relatively recent constitutional changes to reform the State School Trust Fund took effect after 1987, beginning the current period of rapid growth in the fund balance.

school trust lands to generate the maximum revenue to the fund balance. Third, a portion of the Fund is being invested in equities and the equity markets did exceptionally well during the 1990s, growing at rates much faster than the long term average. Fourth, the fund balance is by law protected from the effects of inflation. Finally, the 1999 land exchange with the federal government included a one-time rather large payment of $50 million.

The big question is how long can such a growth rate be sustained? Now that the trust fund balance is about $300 million and growing, the annual land-based revenues (detailed in **Table 4**) such as land sales, mineral, surface, and grazing income will become smaller in percentage terms. The fund balance will likely exceed one billion dollars in 7 to 10 years. As the fund balance becomes this large, it will become increasingly difficult for the land-based annual income to contribute significant growth, in percentage terms, to the fund balance.

As the fund balance becomes large, investment income will provide by far the largest annual increase. Even with significant portions of the trust fund invested in equities, the increases in the investment interest, dividends, and valuation of equities are not likely to continue at the rates experienced in recent years. Therefore, the annual contribution to the size of the trust fund balance will be less in percentage terms as the fund grows into the future.[22]

Below is a discussion of three different possible growth patterns of the School Trust Fund. These **are not** predictions of how the trust will or should grow. They are provided to illustrate how long term sustained growth in the fund balance is impacted by various levels of annual payouts and to show how significant of a contribution to public school funding the School Trust Fund can be.

Each of the 3 scenarios runs for 50 years, from 2000 to 2050. To compute the annual change in the fund balance, a growth rate is applied to the previous years ending balance resulting in the balance prior to payout. Then a payout rate of either 2.5 percent, 4 percent, 5.5 percent or 7 percent is computed and subtracted to give the new year end balance.

Over the past four years the payout or distribution to the USF has average about 2.5 percent. The larger payout rates are provided in the various scenarios to illustrate how attempting to provide more support to current public education funding would affect the School Trust Fund in the long run.

In 1999, the total state public education expenditures were about $2 billion. These expenditures have grown on average 7.22 percent per year since 1981. The scenarios assume a continuing growth rate of 7.22 percent per year - reaching $71.6 billion in 2050.

13 Percent Annual Growth

The first State School Fund scenario uses an average annual growth rate of 13 percent, shown in **Table 5** and **Figure 4**. Table 5 provides the annual payouts and year-end balances for a 2.5 percent and 4 percent payout rate. Data for a 5.5 percent and a 7 percent payout rate are not shown in the table because of space limitations. The table does show the payouts for all four levels as a percent of total state education expenditures. These relative contributions to funding public education are then illustrated graphically in **Figure 4.**

With an interest payment of 2.5 percent (approximately what has happened recently), the payment grows from the 2000 level of 0.38 percent of public education expenditures to 0.75 percent by 2025. Not until 2035 does the payment reach 1.0 percent and by 2050 it reaches only 1.5 percent. If the payment to schools is increased to 4.0 percent of the Fund, the annual payment is immediately increased to 0.6 percent and the payout remains above that of the 2.5 percent scenario until 2031, when the payment from the 2.5 percent scenario becomes greater.

From 2031 to the end of the series the payment under the 4.0 percent withdrawal continues to lose ground to the 2.5 percent scenario. The other two lines represent even larger withdrawals from the fund: 5.5 percent and 7.0 percent. In each of these scenarios, public education receives more money annually at the first but by 2026 the first two scenarios (2.5 percent and 4.0 percent) start providing more funding and continue to do so for the rest of the time.

Given recent history of 25 percent growth per year why look at a 13 percent per year growth rate example? While in the near term 13 percent may seem low, over a 50 year time span, even 13 percent per year may be optimistic. Notice that by 2050 with a 2.5 percent payout the ending School Trust Fund Balance is $41.6 billion and growing from the previous year by $3.8 billion. Also note that when a larger payout of 4 percent is used the fund balance in 2050 would be $18.9 billion, less than half of the 2.5 percent payout balance.

[22] During the 1990s, the Dow Jones Industrial Average grew at an annual average rate of 17.3 percent. This is well above the growth rate of 8.8 percent from 1950 through 1999.

Table 5

Projected Payouts* to the USF as a Percent of Projected Total State Public Education Expenditures**

Assumed Annual Growth Rate in State School Trust Fund of 13 Percent.

	Utah State School Trust Fund Balances and Payouts (in millions of dollars)							Payout as a Percent ot Total State Public Education Expenditures			
Fiscal Year	Balance Prior to Payout	2.5% Payout	Year End Balance	Balance Prior to Payout	4% Payout	Year End Balance	Total State Public Ed. Expenditures (millions $)	2.5% Payout	4% Payout	5.5% Payout	7% Payout
1999			$297			$297	$2,047				
2000	$335	$8.4	$327	$335	$13.4	$322	2,195	0.38%	0.61%	0.84%	1.07%
2001	370	9.2	360	364	14.6	349	2,353	0.39%	0.62%	0.84%	1.05%
2002	407	10.2	397	395	15.8	379	2,523	0.40%	0.63%	0.83%	1.03%
2003	449	11.2	437	428	17.1	411	2,705	0.41%	0.63%	0.83%	1.01%
2004	494	12.4	482	465	18.6	446	2,901	0.43%	0.64%	0.83%	0.99%
2005	545	13.6	531	504	20.2	484	3,110	0.44%	0.65%	0.82%	0.97%
2006	600	15.0	585	547	21.9	525	3,334	0.45%	0.66%	0.82%	0.95%
2007	661	16.5	645	593	23.7	569	3,575	0.46%	0.66%	0.82%	0.93%
2008	728	18.2	710	643	25.7	618	3,833	0.47%	0.67%	0.81%	0.91%
2009	802	20.1	782	698	27.9	670	4,110	0.49%	0.68%	0.81%	0.89%
2010	884	22.1	862	757	30.3	727	4,407	0.50%	0.69%	0.81%	0.88%
2011	974	24.3	950	821	32.9	788	4,725	0.52%	0.70%	0.80%	0.86%
2012	1,073	26.8	1,046	891	35.6	855	5,066	0.53%	0.70%	0.80%	0.84%
2013	1,182	29.6	1,153	966	38.7	928	5,432	0.54%	0.71%	0.80%	0.82%
2014	1,303	32.6	1,270	1,048	41.9	1,006	5,824	0.56%	0.72%	0.79%	0.81%
2015	1,435	35.9	1,399	1,137	45.5	1,092	6,245	0.57%	0.73%	0.79%	0.79%
2016	1,581	39.5	1,542	1,234	49.4	1,184	6,696	0.59%	0.74%	0.79%	0.78%
2017	1,742	43.6	1,698	1,338	53.5	1,285	7,179	0.61%	0.75%	0.78%	0.76%
2018	1,919	48.0	1,871	1,452	58.1	1,394	7,697	0.62%	0.75%	0.78%	0.75%
2019	2,115	52.9	2,062	1,575	63.0	1,512	8,253	0.64%	0.76%	0.78%	0.73%
2020	2,330	58.2	2,271	1,709	68.3	1,640	8,849	0.66%	0.77%	0.78%	0.72%
2021	2,567	64.2	2,503	1,853	74.1	1,779	9,488	0.68%	0.78%	0.77%	0.70%
2022	2,828	70.7	2,757	2,011	80.4	1,930	10,173	0.69%	0.79%	0.77%	0.69%
2023	3,116	77.9	3,038	2,181	87.2	2,094	10,907	0.71%	0.80%	0.77%	0.67%
2024	3,433	85.8	3,347	2,366	94.6	2,271	11,695	0.73%	0.81%	0.76%	0.66%
2025	3,782	94.5	3,687	2,567	103	2,464	12,539	0.75%	0.82%	0.76%	0.65%
2026	4,167	104.2	4,063	2,784	111	2,673	13,444	0.77%	0.83%	0.76%	0.64%
2027	4,591	114.8	4,476	3,021	121	2,900	14,415	0.80%	0.84%	0.75%	0.62%
2028	5,058	126.4	4,931	3,277	131	3,146	15,456	0.82%	0.85%	0.75%	0.61%
2029	5,573	139.3	5,433	3,555	142	3,412	16,572	0.84%	0.86%	0.75%	0.60%
2030	6,140	153.5	5,986	3,856	154	3,702	17,768	0.86%	0.87%	0.74%	0.59%
2031	6,764	169.1	6,595	4,183	167	4,016	19,051	0.89%	0.88%	0.74%	0.57%
2032	7,452	186.3	7,266	4,538	182	4,356	20,427	0.91%	0.89%	0.74%	0.56%
2033	8,211	205.3	8,005	4,922	197	4,726	21,902	0.94%	0.90%	0.74%	0.55%
2034	9,046	226.2	8,820	5,340	214	5,126	23,483	0.96%	0.91%	0.73%	0.54%
2035	9,967	249.2	9,717	5,793	232	5,561	25,178	0.99%	0.92%	0.73%	0.53%
2036	10,981	274.5	10,706	6,284	251	6,033	26,996	1.02%	0.93%	0.73%	0.52%
2037	12,098	302.5	11,796	6,817	273	6,544	28,945	1.04%	0.94%	0.72%	0.51%
2038	13,329	333.2	12,996	7,395	296	7,099	31,035	1.07%	0.95%	0.72%	0.50%
2039	14,685	367.1	14,318	8,022	321	7,701	33,276	1.10%	0.96%	0.72%	0.49%
2040	16,179	404.5	15,775	8,702	348	8,354	35,678	1.13%	0.98%	0.71%	0.48%
2041	17,826	445.6	17,380	9,440	378	9,063	38,254	1.16%	0.99%	0.71%	0.47%
2042	19,640	491.0	19,149	10,241	410	9,831	41,016	1.20%	1.00%	0.71%	0.46%
2043	21,638	540.9	21,097	11,109	444	10,665	43,978	1.23%	1.01%	0.71%	0.45%
2044	23,840	596.0	23,244	12,051	482	11,569	47,153	1.26%	1.02%	0.70%	0.44%
2045	26,265	656.6	25,609	13,073	523	12,550	50,557	1.30%	1.03%	0.70%	0.43%
2046	28,938	723.4	28,214	14,182	567	13,614	54,208	1.33%	1.05%	0.70%	0.43%
2047	31,882	797.1	31,085	15,384	615	14,769	58,121	1.37%	1.06%	0.69%	0.42%
2048	35,126	878.2	34,248	16,689	668	16,021	62,318	1.41%	1.07%	0.69%	0.41%
2049	38,700	967.5	37,733	18,104	724	17,380	66,817	1.45%	1.08%	0.69%	0.40%
2050	$42,638	$1,066	$41,572	$19,639	$786	$18,854	$71,641	1.49%	1.10%	0.69%	0.39%

* Projected Payouts are computed by taking the prior year's ending balance, assuming a growth rate of 13%, calculating a payout amount using each of the 4 different payout rates (from 2.5% to 7%). Then dividing the payout amounts by the Total State Projected Public Education Expenditures for that fiscal year to get the payout as a percent of education expenditures. Payout data not shown for 5.5% and 7% levels.

USF - Uniform School Fund.

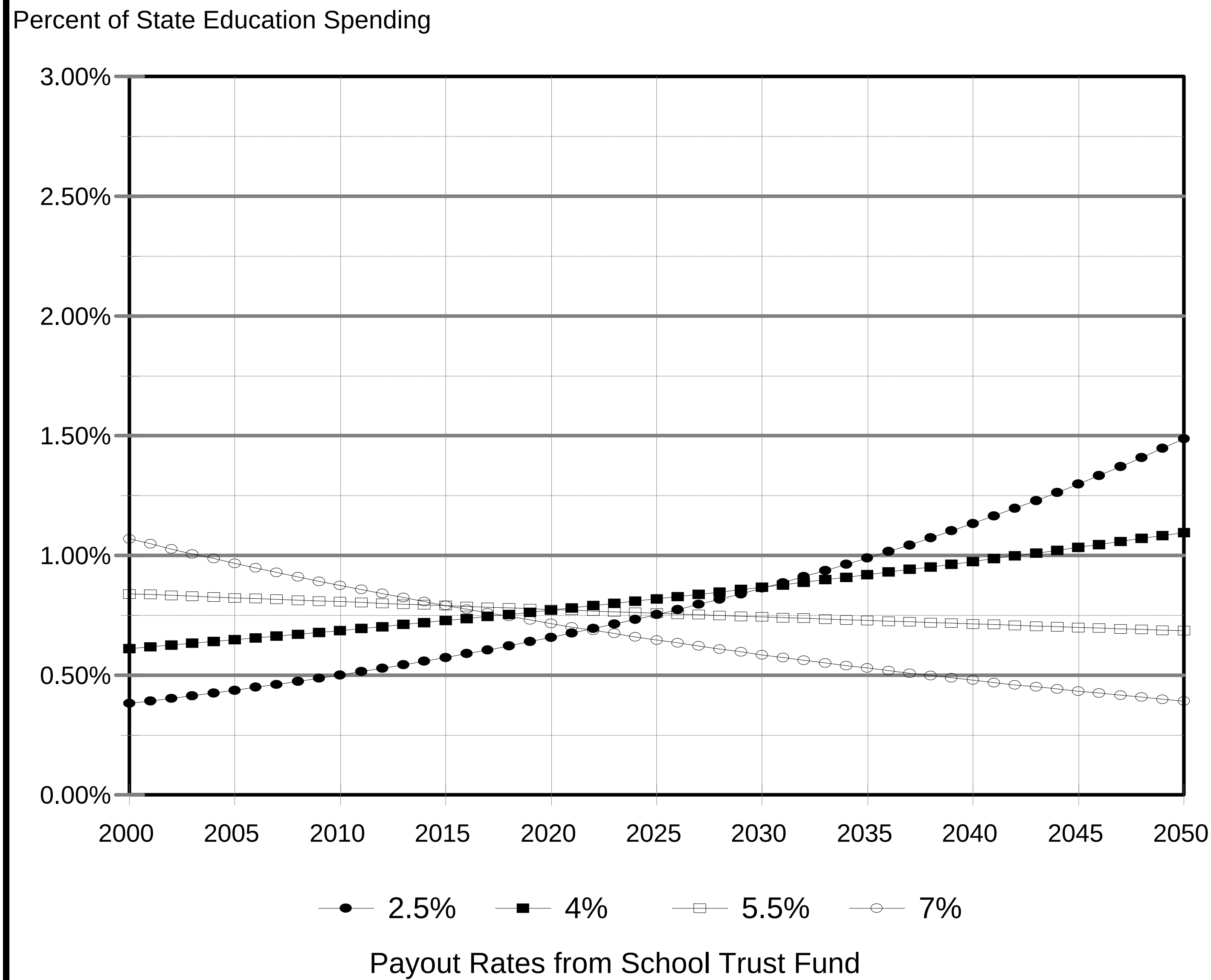
** State Education Expenditures are projected to grow at 7.22% annually.

Source: Utah Foundation.

Figure 4

Projected Payouts* to the USF as a Percent of Projected Total State Public Education Expenditures**

Assumed Annual Growth Rate in State School Trust Fund 13 Percent



* Projected Payouts are computed by taking the prior year's ending balance, assuming a growth rate of 13%, calculating a payout amount using each of the 4 different payout rates (from 2.5% to 7%) then dividing payout amounts by the Total State Projected Public Education Expenditures for that fiscal year.

USF - Uniform School Fund.

** State Education Expenditures are projected to grow at 7.22% annually.

Source: Utah Foundation.

15 Percent Annual Growth

Table 6 and Figure 5 show what would happen if the Fund was able to grow by an annual average rate of 15 percent. This very optimistic growth rate shows that three of the four payout scenarios to public education increase as a percent of public education expenditures. Only when the payout is at 7.0 percent does the payout, which starts out at a much higher level than the other three scenarios, eventually begins to decline as a percent of public education expenditures. With an annual payout of 2.5 percent, this payment grows from 0.39 percent to 3.6 percent by 2050. Even the 4.0 percent payout increases the payment from 0.6 percent to 2.7 percent of public education expenditures.

With a 2.5 percent payout the fund would grow to an ending balance of almost $102 billion by 2050, increasing by $11 billion from the year before. It would seem highly unlikely that the trust fund could grow at an average annual rate of 15 percent for such an extended period of time. When the Trust Fund becomes a multi-billion dollar fund in size it will become increasingly difficult to maintain high growth rates.

Declining Growth Rate Scenario

Table 7 and Figure 6 illustrate what would happen if the Fund grew using growth rates that decline over time. Starting at 17 percent, the growth rate declines by 0.2 percent per year until it reaches 13 percent in 2020. Then the growth rate declines by 0.1 percent per year until 2030 at 12 percent. Thereafter the growth rate is held constant at 12 percent. Because as the fund grows in size it becomes increasingly difficult to grow at the high rates of the earlier period, this scenario presents the impact of gradually declining growth rates.

Note that (with the 2.5 percent payout) the ending balance is $8.2 billion in 2030 when it reaches the 12 percent growth rate. By 2050 the ending balance would be almost $48 billion.

Table 7 and Figure 6 show both the payout scenarios of 2.5 percent and 4.0 percent growing every year in proportion to public education expenditures, while the other two scenarios show that over time the payment decreases relative to expenditures. By 2030 a 2.5 percent annual payout provides the greatest amount of revenue to public education.

After analyzing theses scenarios, it becomes clear that there is a strong case to be made for keeping the payout at the lower levels shown in the scenarios. The reason for this is that the up-front sacrifice is small in comparison to the bigger benefits in the future. To be specific, at the 13 percent growth scenario the difference between the payout at 2.5 percent and 7 percent is marginal, only 0.4 percent versus 1.1 percent. Or $8.4 million versus $23.5 million. In addition, the gap between the two scenarios shrinks every year until 2022 when they are virtually the same. After that point, the scenario that pays out 2.5 percent becomes greater than the 7.0 scenario and increases each year thereafter. Similar trends are observed in all three examples.

Such trends do not necessarily mean there should be no change to the current payout plan. If the state were to adjust its payouts to the 4.0 percent scenario the up-front advantage would be less than the 7.0 percent scenario but would last until 2031. After that point, the payout by the 2.5 percent scenario becomes greater.

The real issue in deciding the payout plan is the current need for education dollars versus that need in the future. Is it more important to have additional funding now or in the future? If the extra funding can be foregone now, especially since the increased amount is not great, in percentage terms, it appears that patience by the state will pay bigger dividends in the future due to the ability of the fund to grow through compound interest.

Of course, the single biggest factor determining the future of the Fund is the ability to grow. Due to changes in the way the fund is managed and the increased sources of revenue going into the Fund, growth appears promising in the near term. But past history does not necessarily predict the future. Utah Foundation does not believe that the impressive growth rates of the past decade are sustainable over a long period. That is why the scenarios presented here are at rates much lower than what has happened during the 1990s.

Nevertheless, under the structure, the fund should still grow well into the future and at rates faster than the growth of public education expenditures. As a result, the Fund should be able to increase its payout to public education in the future. How much more is dependent on the growth of the fund and the payout that is decided upon.

Table 6

Projected Payouts* to the USF as a Percent of Projected Total State Public Education Expenditures**

Assumed Annual Growth Rate in State School Trust Fund of 15 Percent.

	Utah State School Trust Fund Balances and Payouts (in millions of dollars)						Total State Public Ed. Expenditures (millions $)	Payout as a Percent ot Total State Public Education Expenditures			
Fiscal Year	Balance Prior to Payout	2.5% Payout	Year End Balance	Balance Prior to Payout	4% Payout	Year End Balance		2.5% Payout	4% Payout	5.5% Payout	7% Payout
1999			$297			$297	$2,047				
2000	$341	$8.5	$333	$341	$13.7	$328	2,195	0.39%	0.62%	0.86%	1.09%
2001	383	9.6	373	377	15.1	362	2,353	0.41%	0.64%	0.87%	1.09%
2002	429	10.7	418	416	16.6	399	2,523	0.43%	0.66%	0.88%	1.08%
2003	481	12.0	469	459	18.4	441	2,705	0.44%	0.68%	0.89%	1.08%
2004	540	13.5	526	507	20.3	487	2,901	0.47%	0.70%	0.90%	1.08%
2005	605	15.1	590	560	22.4	538	3,110	0.49%	0.72%	0.92%	1.08%
2006	678	17.0	661	618	24.7	593	3,334	0.51%	0.74%	0.93%	1.07%
2007	761	19.0	742	682	27.3	655	3,575	0.53%	0.76%	0.94%	1.07%
2008	853	21.3	832	753	30.1	723	3,833	0.56%	0.79%	0.95%	1.07%
2009	956	23.9	932	832	33.3	798	4,110	0.58%	0.81%	0.97%	1.06%
2010	1,072	26.8	1,045	918	36.7	882	4,407	0.61%	0.83%	0.98%	1.06%
2011	1,202	30.1	1,172	1,014	40.5	973	4,725	0.64%	0.86%	0.99%	1.06%
2012	1,348	33.7	1,314	1,119	44.8	1,074	5,066	0.67%	0.88%	1.01%	1.06%
2013	1,511	37.8	1,474	1,236	49.4	1,186	5,432	0.70%	0.91%	1.02%	1.05%
2014	1,695	42.4	1,652	1,364	54.6	1,309	5,824	0.73%	0.94%	1.03%	1.05%
2015	1,900	47.5	1,853	1,506	60.2	1,446	6,245	0.76%	0.96%	1.05%	1.05%
2016	2,131	53.3	2,077	1,663	66.5	1,596	6,696	0.80%	0.99%	1.06%	1.05%
2017	2,389	59.7	2,329	1,835	73.4	1,762	7,179	0.83%	1.02%	1.08%	1.04%
2018	2,679	67.0	2,612	2,026	81.1	1,945	7,697	0.87%	1.05%	1.09%	1.04%
2019	3,003	75.1	2,928	2,237	89.5	2,148	8,253	0.91%	1.08%	1.11%	1.04%
2020	3,368	84.2	3,283	2,470	98.8	2,371	8,849	0.95%	1.12%	1.12%	1.04%
2021	3,776	94.4	3,681	2,727	109.1	2,617	9,488	0.99%	1.15%	1.14%	1.03%
2022	4,234	105.8	4,128	3,010	120.4	2,890	10,173	1.04%	1.18%	1.15%	1.03%
2023	4,747	118.7	4,628	3,323	132.9	3,190	10,907	1.09%	1.22%	1.17%	1.03%
2024	5,323	133.1	5,190	3,669	146.8	3,522	11,695	1.14%	1.25%	1.18%	1.02%
2025	5,968	149.2	5,819	4,050	162.0	3,888	12,539	1.19%	1.29%	1.20%	1.02%
2026	6,692	167.3	6,524	4,472	178.9	4,293	13,444	1.24%	1.33%	1.21%	1.02%
2027	7,503	187.6	7,315	4,937	197.5	4,739	14,415	1.30%	1.37%	1.23%	1.02%
2028	8,413	210.3	8,202	5,450	218.0	5,232	15,456	1.36%	1.41%	1.25%	1.01%
2029	9,433	235.8	9,197	6,017	240.7	5,776	16,572	1.42%	1.45%	1.26%	1.01%
2030	10,576	264.4	10,312	6,643	265.7	6,377	17,768	1.49%	1.50%	1.28%	1.01%
2031	11,859	296.5	11,562	7,333	293.3	7,040	19,051	1.56%	1.54%	1.30%	1.01%
2032	13,297	332.4	12,964	8,096	323.8	7,772	20,427	1.63%	1.59%	1.32%	1.00%
2033	14,909	372.7	14,536	8,938	357.5	8,581	21,902	1.70%	1.63%	1.33%	1.00%
2034	16,717	417.9	16,299	9,868	394.7	9,473	23,483	1.78%	1.68%	1.35%	1.00%
2035	18,743	468.6	18,275	10,894	435.8	10,458	25,178	1.86%	1.73%	1.37%	1.00%
2036	21,016	525.4	20,491	12,027	481.1	11,546	26,996	1.95%	1.78%	1.39%	0.99%
2037	23,564	589.1	22,975	13,278	531.1	12,746	28,945	2.04%	1.83%	1.41%	0.99%
2038	26,421	660.5	25,761	14,658	586.3	14,072	31,035	2.13%	1.89%	1.43%	0.99%
2039	29,625	740.6	28,884	16,183	647.3	15,536	33,276	2.23%	1.95%	1.45%	0.99%
2040	33,217	830.4	32,387	17,866	714.6	17,151	35,678	2.33%	2.00%	1.47%	0.98%
2041	37,245	931.1	36,313	19,724	789.0	18,935	38,254	2.43%	2.06%	1.49%	0.98%
2042	41,760	1,044.0	40,716	21,775	871.0	20,904	41,016	2.55%	2.12%	1.51%	0.98%
2043	46,824	1,170.6	45,653	24,040	961.6	23,078	43,978	2.66%	2.19%	1.53%	0.98%
2044	52,501	1,312.5	51,189	26,540	1,061.6	25,478	47,153	2.78%	2.25%	1.55%	0.97%
2045	58,867	1,471.7	57,395	29,300	1,172.0	28,128	50,557	2.91%	2.32%	1.57%	0.97%
2046	66,005	1,650.1	64,355	32,347	1,293.9	31,054	54,208	3.04%	2.39%	1.59%	0.97%
2047	74,008	1,850.2	72,158	35,712	1,428.5	34,283	58,121	3.18%	2.46%	1.61%	0.97%
2048	82,981	2,074.5	80,907	39,426	1,577.0	37,849	62,318	3.33%	2.53%	1.63%	0.96%
2049	93,043	2,326.1	90,717	43,526	1,741.0	41,785	66,817	3.48%	2.61%	1.66%	0.96%
2050	$104,324	$2,608	$101,716	$48,052	$1,922	$46,130	$71,641	3.64%	2.68%	1.68%	0.96%

* Projected Payouts are computed by taking the prior year's ending balance, assuming a growth rate of 15%, calculating a payout amount using each of the 4 different payout rates (from 2.5% to 7%). Then dividing the payout amounts by the Total State Projected Public Education Expenditures for that fiscal year to get the payout as a percent of education expenditures. Payout data not shown for 5.5% and 7% levels.

USF - Uniform School Fund.

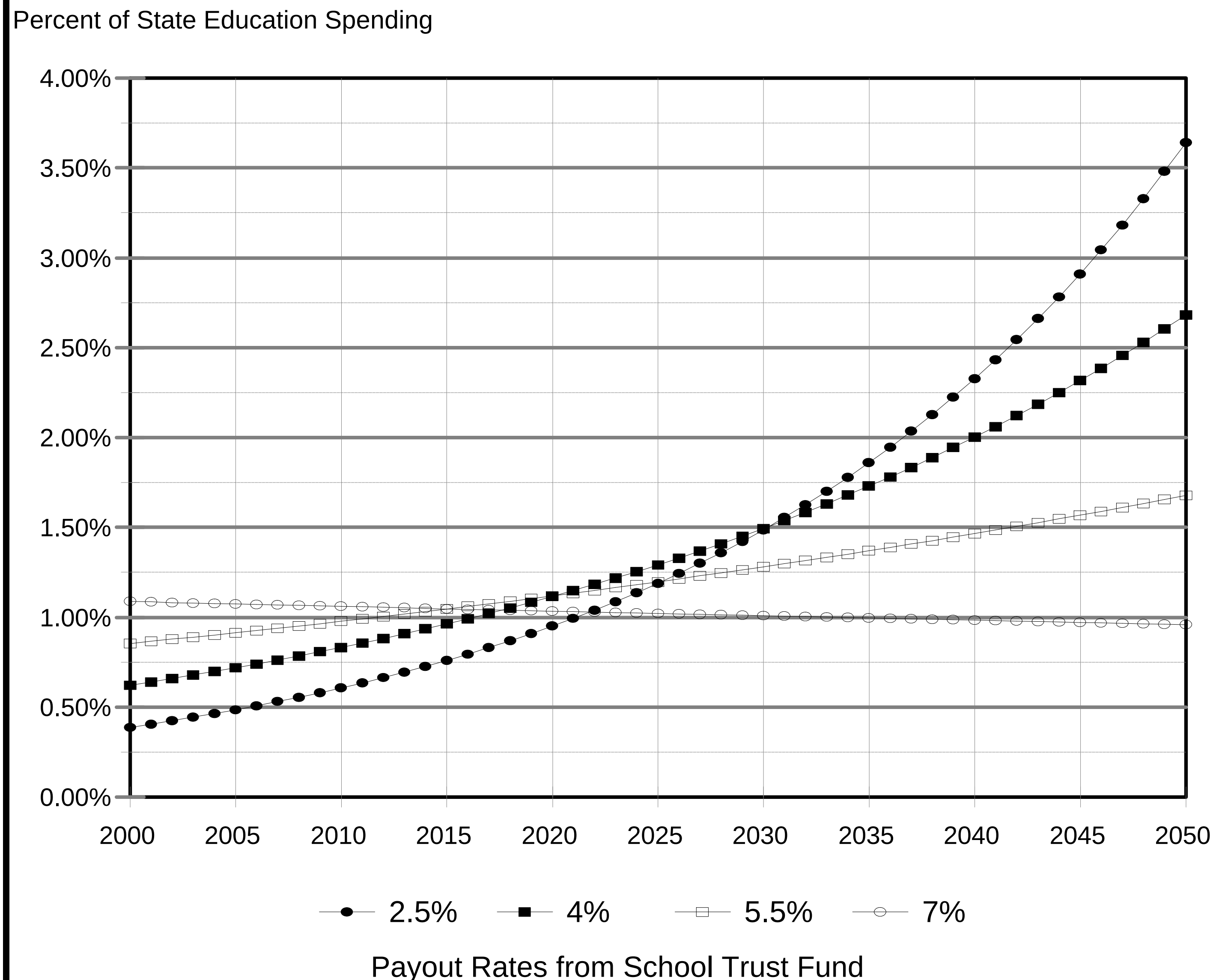
** State Education Expenditures are projected to grow at 7.22% annually.

Source: Utah Foundation.

Figure 5

Projected Payouts* to the USF as a Percent of Projected Total State Public Education Expenditures**

Assumed Annual Growth Rate in State School Trust Fund 15 Percent



* Projected Payouts are computed by taking the prior year's ending balance, assuming a growth rate of 15%, calculating a payout amount using each of the 4 different payout rates (from 2.5% to 7%) then dividing payout amounts by the Total State Projected Public Education Expenditures for that fiscal year.

USF - Uniform School Fund.

** State Education Expenditures are projected to grow at 7.22% annually.

Source: Utah Foundation.

Table 7

Projected Payouts* to the USF as a Percent of Projected Total State Public Education Expenditures**

Assumed Annual Growth Rate of the State School Trust Fund Declining Over Time.

		Utah State School Trust Fund Balances and Payouts (in millions of dollars)							Payout as a Percent ot Total State Public Education Expenditures			
Fiscal Year	Assumed Growth Rate	Balance Prior to Payout	2.5% Payout	Year End Balance	Balance Prior to Payout	4% Payout	Year End Balance	Total State Public Ed. Expenditures (millions $)	2.5% Payout	4% Payout	5.5% Payout	7% Payout
1999				$297			$297	$2,047				
2000	17.0%	$347	$8.7	$339	$347	$13.9	$333	2,195	0.40%	0.63%	0.87%	1.11%
2001	16.8%	396	9.89	386	389	15.58	374	2,353	0.42%	0.66%	0.90%	1.12%
2002	16.6%	450	11.24	438	436	17.44	419	2,523	0.45%	0.69%	0.92%	1.14%
2003	16.4%	510	12.76	498	487	19.49	468	2,705	0.47%	0.72%	0.94%	1.15%
2004	16.2%	578	14.45	564	543	21.74	522	2,901	0.50%	0.75%	0.97%	1.16%
2005	16.0%	654	16.35	638	605	24.21	581	3,110	0.53%	0.78%	0.99%	1.16%
2006	15.8%	738	18.46	720	673	26.91	646	3,334	0.55%	0.81%	1.01%	1.17%
2007	15.6%	832	20.80	811	747	29.86	717	3,575	0.58%	0.84%	1.03%	1.17%
2008	15.4%	936	23.41	913	827	33.08	794	3,833	0.61%	0.86%	1.05%	1.17%
2009	15.2%	1,052	26.29	1,025	915	36.59	878	4,110	0.64%	0.89%	1.06%	1.17%
2010	15.0%	1,179	29.48	1,150	1,010	40.39	969	4,407	0.67%	0.92%	1.08%	1.17%
2011	14.8%	1,320	33.00	1,287	1,113	44.52	1,068	4,725	0.70%	0.94%	1.09%	1.16%
2012	14.6%	1,475	36.87	1,438	1,224	48.97	1,175	5,066	0.73%	0.97%	1.10%	1.16%
2013	14.4%	1,645	41.12	1,604	1,345	53.79	1,291	5,432	0.76%	0.99%	1.11%	1.15%
2014	14.2%	1,832	45.79	1,786	1,474	58.97	1,415	5,824	0.79%	1.01%	1.12%	1.14%
2015	14.0%	2,036	50.89	1,985	1,613	64.53	1,549	6,245	0.81%	1.03%	1.12%	1.12%
2016	13.8%	2,259	56.47	2,202	1,763	70.50	1,692	6,696	0.84%	1.05%	1.13%	1.11%
2017	13.6%	2,502	62.55	2,439	1,922	76.89	1,845	7,179	0.87%	1.07%	1.13%	1.09%
2018	13.4%	2,766	69.15	2,697	2,093	83.70	2,009	7,697	0.90%	1.09%	1.13%	1.07%
2019	13.2%	3,053	76.32	2,977	2,274	90.96	2,183	8,253	0.92%	1.10%	1.12%	1.06%
2020	13.0%	3,364	84.09	3,280	2,467	98.67	2,368	8,849	0.95%	1.12%	1.12%	1.03%
2021	12.9%	3,703	92.56	3,610	2,674	106.95	2,567	9,488	0.98%	1.13%	1.11%	1.01%
2022	12.8%	4,072	101.80	3,970	2,895	115.81	2,779	10,173	1.00%	1.14%	1.11%	0.99%
2023	12.7%	4,475	111.86	4,363	3,132	125.30	3,007	10,907	1.03%	1.15%	1.10%	0.97%
2024	12.6%	4,912	122.81	4,790	3,386	135.44	3,251	11,695	1.05%	1.16%	1.09%	0.95%
2025	12.5%	5,388	134.71	5,254	3,657	146.28	3,511	12,539	1.07%	1.17%	1.08%	0.92%
2026	12.4%	5,905	147.62	5,757	3,946	157.84	3,788	13,444	1.10%	1.17%	1.07%	0.90%
2027	12.3%	6,465	161.64	6,304	4,254	170.16	4,084	14,415	1.12%	1.18%	1.06%	0.88%
2028	12.2%	7,073	176.82	6,896	4,582	183.28	4,399	15,456	1.14%	1.19%	1.05%	0.85%
2029	12.1%	7,731	193.26	7,537	4,931	197.24	4,734	16,572	1.17%	1.19%	1.04%	0.83%
2030	12.0%	8,442	211.04	8,231	5,302	212.08	5,090	17,768	1.19%	1.19%	1.02%	0.81%
2031	12.0%	9,218	230.46	8,988	5,701	228.02	5,473	19,051	1.21%	1.20%	1.01%	0.78%
2032	12.0%	10,066	251.66	9,815	6,129	245.17	5,884	20,427	1.23%	1.20%	1.00%	0.76%
2033	12.0%	10,993	274.81	10,718	6,590	263.61	6,327	21,902	1.25%	1.20%	0.98%	0.74%
2034	12.0%	12,004	300.10	11,704	7,086	283.43	6,802	23,483	1.28%	1.21%	0.97%	0.72%
2035	12.0%	13,108	327.71	12,781	7,619	304.75	7,314	25,178	1.30%	1.21%	0.96%	0.70%
2036	12.0%	14,314	357.86	13,956	8,192	327.66	7,864	26,996	1.33%	1.21%	0.95%	0.68%
2037	12.0%	15,631	390.78	15,240	8,808	352.30	8,455	28,945	1.35%	1.22%	0.93%	0.66%
2038	12.0%	17,069	426.73	16,642	9,470	378.80	9,091	31,035	1.37%	1.22%	0.92%	0.64%
2039	12.0%	18,640	465.99	18,174	10,182	407.28	9,775	33,276	1.40%	1.22%	0.91%	0.62%
2040	12.0%	20,354	508.86	19,846	10,948	437.91	10,510	35,678	1.43%	1.23%	0.90%	0.60%
2041	12.0%	22,227	555.68	21,671	11,771	470.84	11,300	38,254	1.45%	1.23%	0.89%	0.59%
2042	12.0%	24,272	606.80	23,665	12,656	506.25	12,150	41,016	1.48%	1.23%	0.88%	0.57%
2043	12.0%	26,505	662.62	25,842	13,608	544.32	13,064	43,978	1.51%	1.24%	0.86%	0.55%
2044	12.0%	28,943	723.58	28,220	14,631	585.25	14,046	47,153	1.53%	1.24%	0.85%	0.54%
2045	12.0%	31,606	790.15	30,816	15,731	629.26	15,102	50,557	1.56%	1.24%	0.84%	0.52%
2046	12.0%	34,514	862.85	33,651	16,914	676.58	16,238	54,208	1.59%	1.25%	0.83%	0.51%
2047	12.0%	37,689	942.23	36,747	18,186	727.46	17,459	58,121	1.62%	1.25%	0.82%	0.49%
2048	12.0%	41,157	1,028.92	40,128	19,554	782.16	18,772	62,318	1.65%	1.26%	0.81%	0.48%
2049	12.0%	44,943	1,123.58	43,819	21,025	840.98	20,184	66,817	1.68%	1.26%	0.80%	0.46%
2050	12.0%	$49,078	$1,227	$47,851	$22,606	$904	$21,701	$71,641	1.71%	1.26%	0.79%	0.45%

* Projected Payouts are computed by taking the prior year's ending balance, assuming a growth rate, calculating a payout amount using each of the 4 different payout rates (from 2.5% to 7%). Then dividing the payout amounts by the Total State Projected Public Education Expenditures for that fiscal year to get the payout as a percent of education expenditures. Payout data not shown for 5.5% and 7% levels.

USF - Uniform School Fund.

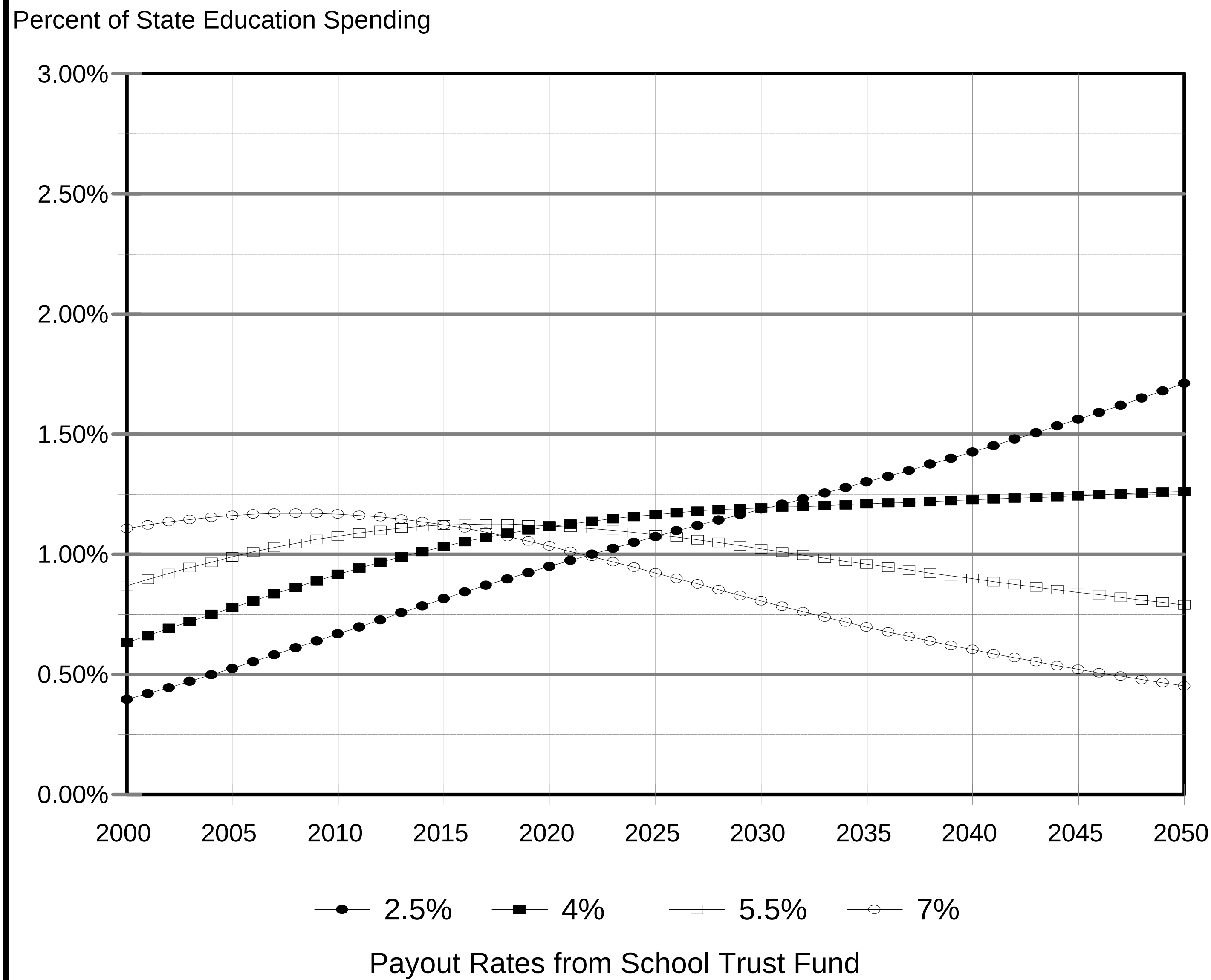
** State Education Expenditures are projected to grow at 7.22% annually.

Source: Utah Foundation.

Figure 6

Projected Payouts* to the USF as a Percent of Projected Total State Public Education Expenditures**

Assumed Annual Growth Rate in State School Trust Fund Declines from 17 to 12 Percent



* Projected Payouts are computed by taking the prior year's ending balance, applying a growth rate (**see Table 7**), calculating a payout amount using each of the 4 different payout rates (from 2.5% to 7%) then dividing payout amounts by the Total State Projected Public Education Expenditures for that fiscal year.

USF - Uniform School Fund.

** State Education Expenditures are projected to grow at 7.22% annually.

Source: Utah Foundation.

Conclusion

At statehood, Utah received 5.9 million acres of land from the federal government for support of the schools. These school trust lands provide a source of funding for public education. Two significant trends can be seen regarding the trust fund over the last two decades. First, the Trust Fund has grown impressively in the last decade. Second, the revenue going to the schools from the trust fund has declined. Both trends are the result of three things: the changes in the constitution that place all revenue from the lands into the trust fund, the more aggressive management of the investments in an era when equity's markets have grown at historic rates, and the more professional management of the lands by the School and Institutional Trust Lands Administration.

The fund is now of sufficient size that the interest payment to the schools is at a 13-year high, though the payment still only represents 0.3 percent of state public school expenditures. This trend of the payments growing relative to school expenditures should continue given the way the fund is currently being managed. Nevertheless, it is not likely that the fund will ever get to the size that it can be counted on to fund Utah's educational demands to any significant extent, unless the fund grows at very high annual average growth rates for a very extended period of time.

Given the impressive growth of the fund over the last decade and the broad acceptance of the need for additional public education funding, it is suggested by some that the State School Fund could be a more important part of school funding than it is currently. This can be done, but the more that is distributed now, the slower the fund will grow in the future. Based on the scenarios studied in this report, it appears that modest payouts now and into the future are a wise option that will benefit Utahns in the future.