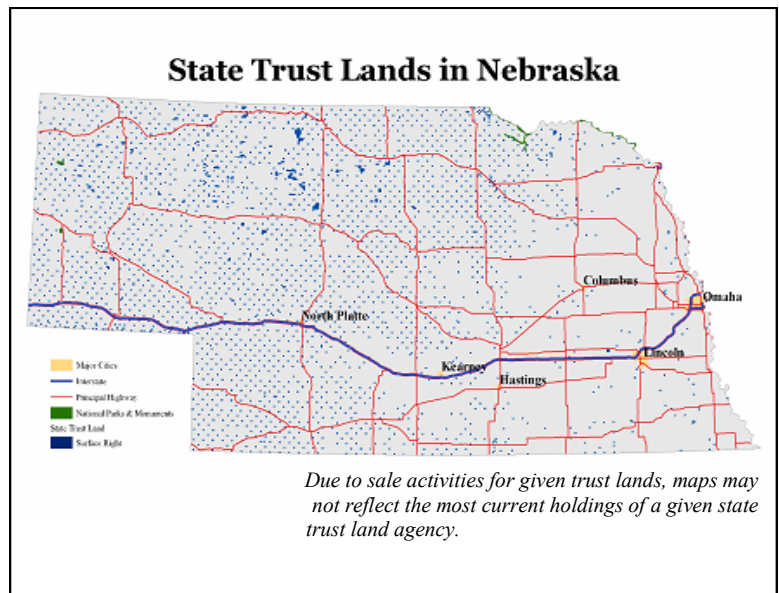


Nebraska Trust Lands & Education Funding

As new states entered the union, Congress made land grants to those states to provide support for a variety of public institutions, principally public schools. These lands were accepted through ratification of state constitutions that contained provisions guiding the state's management of these lands. Unlike public lands, state trust lands are held in trust by the state for designated beneficiaries. As trustees, state land managers have a fiduciary duty to manage the lands for the benefit of the beneficiaries of the trust grant. They lease and sell these lands for a diverse range of uses to meet that responsibility – generating revenue for the designated beneficiaries, today and for future generations.

There are approximately 1.4 million surface acres and 2.9 million mineral acres of educational trust land in Nebraska.¹

Educational trust lands in Nebraska comprise mainly grasslands, croplands and mineral lands.



How are trust lands in Nebraska managed?



Photo: Visitnebraska.org

Nebraska's trust lands are managed by the Nebraska Board of Educational Lands and Funds (NBELF). The Board is comprised of five members, four from Nebraska's congressional districts as established in 1961 and one at large member. Board members are appointed by the Governor and approved by the Nebraska State Senate.² This Board is responsible for the selection of a Deputy Director, who is the NBELF Chief Operating Officer and is responsible for administering Nebraska's educational trust lands under the NBELF's oversight and approval.³ The NBELF is "required to manage and conduct all School Trust operations and activities with mandatory fiduciary duty."⁴

The NBELF is responsible for the management, lease and sale of trust lands, the receipt of revenues from state trust land activities, and the subsequent transfer of these funds to the State Treasurer. According to NBELF's stated goals, the "Board and its staff are firmly committed to maximizing the income and preserving the assets of the School Trust for the benefit of Nebraska and its citizens. In pursuit of these goals, every effort is made to manage and conduct the Board's business operations on the profit motive patterned as closely as possible on business operations conducted by the most efficient enterprises in the private sector."⁵

Who are the beneficiaries of trust lands in Nebraska?

Revenues generated from Nebraska’s educational trust lands are deposited into four trust funds that provide revenue for public schools, the University of Nebraska, University of Nebraska Agricultural College, and the state colleges. A specific acreage of trust lands was granted to each beneficiary, and the revenue generated from those lands is deposited into the corresponding fund.

Nebraska Educational Trust Land Beneficiary Funds and Acreage Dedicated to Each⁶

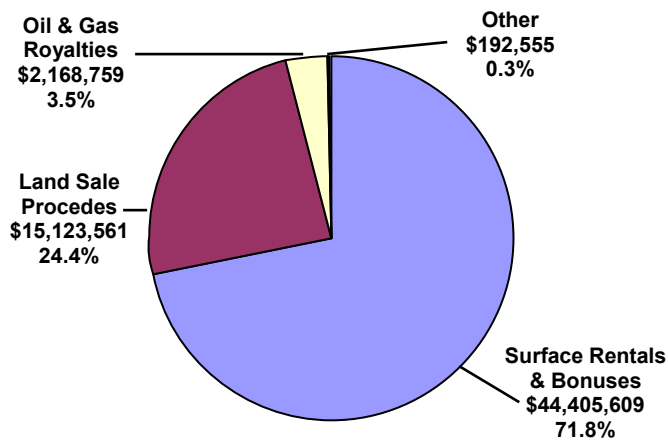
Fund	Beneficiary	Surface Acres in Fund	% Acres
Common Schools (K-12) (including saline lands)	Public Schools	1,340,183	99.3%
University	University of Nebraska	6,173	0.4%
University Agricultural College	University of Nebraska Agricultural College	3,814	0.3%
State College (Normal)	Nebraska State Colleges	75	0.0%
	Total	1,350,245	100.0%

Public schools are the designee of over 99% of the educational trust land in Nebraska and receive the majority of the revenue generated by trust land in the state.⁷



Photo: Visitnebraska.org

How are revenues generated from educational trust lands?



Revenue Streams from Nebraska Educational Trust Lands for All Beneficiaries Combined, Biennium 2006⁹

Nebraska's trust land managers generate revenue from these lands through a combination of agricultural leases and rentals, mineral leases, oil and gas royalties, land and timber sales, and other leases and rentals. The three largest sources of revenues from trust lands in Biennium 2006,⁸ were from surface rentals and bonuses, land sale proceeds, and oil, gas and mineral royalties.

Over the last five years, the largest source of income for the public schools has come from surface rentals and bonuses through agricultural leasing.¹⁰ The Board voluntarily pays the real estate taxes for their lessees, who repay the board, rather than making in-lieu-of-tax payments.

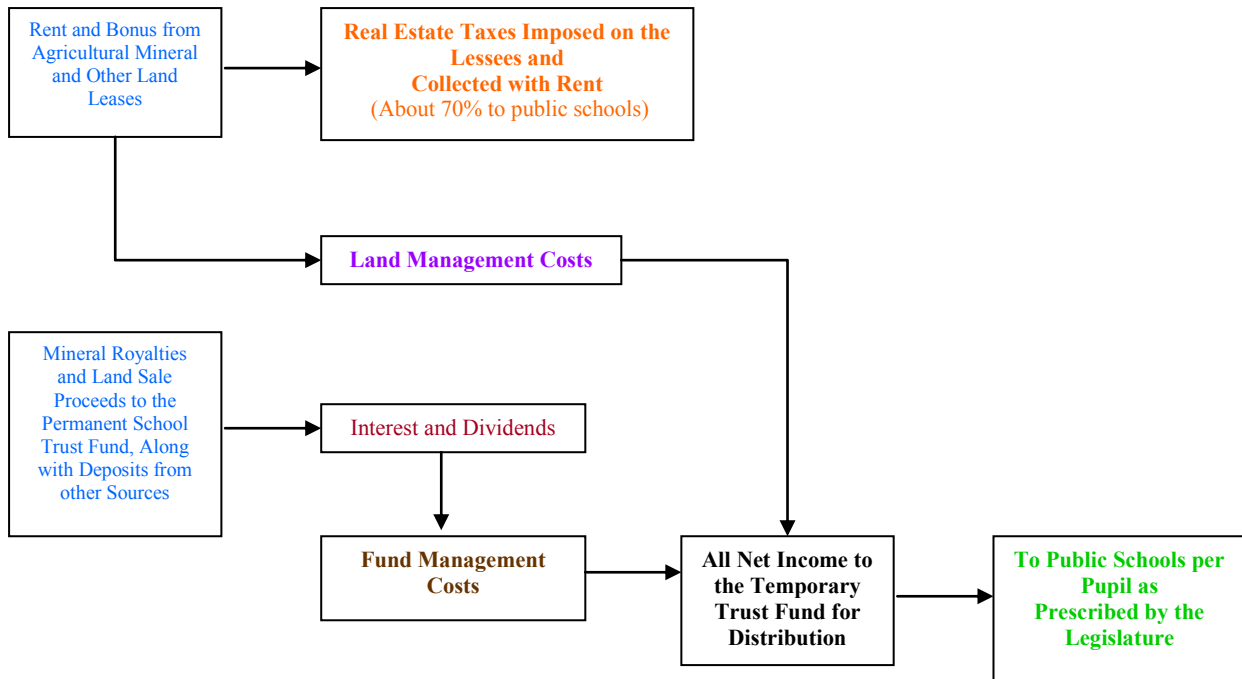
How does the revenue get to the beneficiaries?

Revenues generated from the public schools' educational trust lands are deposited into the Permanent School Trust Fund or into the Temporary School Trust Fund. The Permanent School Trust Fund receives revenues from non-renewable, or long-term renewable sources, such as land sales, mineral royalties, and timber. Revenues from renewable sources, such as lease rentals, bonuses, and interest on all leases, are transferred to the State Treasurer, where no more than 20% is deducted by legislative appropriation for land management costs and directed back to NBELF to fund day-to-day operations.¹¹ The land office typically uses about 10% to fund its operations.¹² The remaining renewable resource revenues are combined with interest and dividends from the Permanent School Trust Fund and deposited into the Temporary School Trust Fund.¹³ In Biennium 2006, Nebraska educational trust lands generated \$36.3 million for the Permanent School Trust Fund.¹⁴ In Nebraska, oil and gas severance taxes, federal mineral deposits, unclaimed property, escheats, and certain other licenses and fees also contribute to the principal of the Public School Permanent Trust Fund.

Permanent Funds are managed and invested according to the prudent person rule by the State Investment Officer under the direction of the Nebraska Investment Council.¹⁵ The Nebraska Investment Council is funded out of the earnings of the state funds it manages, where each fund contributes its relative share of the investment.¹⁶ The balance of interest and dividends are distributed to the beneficiaries, while capital gains are held in the Permanent Funds.¹⁷ All net income to the Temporary School Trust Fund, including the interest and dividends from the Permanent School Trust Fund, is made available for legislative appropriation and distribution to the schools on a per pupil basis as prescribed by the legislature.¹⁸ The market value of all permanent funds at the end of Biennium 2006 was \$400.5 million, of which \$397 million was the Permanent School Trust Fund. The market value of the land and fund for schools for biennium 2006 was \$914.5 million.¹⁹

The Nebraska State Legislature appropriates the Temporary School Trust Fund in two phases to county treasurers. In the first phase, the school districts containing non-taxable public land are reimbursed for the foregone property tax revenue. In the second phase, the remaining balance goes to all county treasurers for distribution to each school district on a per pupil basis.²⁰ The total distribution to schools in Biennium 2006 was \$59 million.²¹

Public School Trust Funding Flow Chart²²



Public schools in Nebraska receive funding from a combination of federal, state and local funds. State funding provides 32.5% of total education funding, and of the state’s portion, trust land revenues make up 3.3% of that amount.

FY 2003 Public School Funding Source Diagram²³ Local and Intermediate Funds

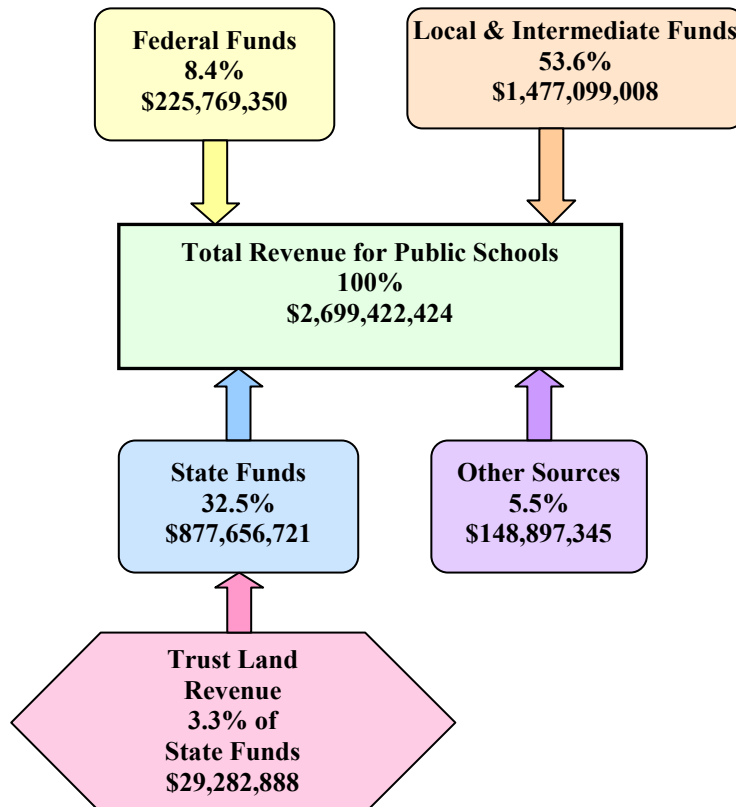




Photo: Matthew Trump

Educational trust lands revenues generally play a consistent role in the overall funding of public schools in Nebraska, but have been making a declining contribution relative to the general fund contribution. However, since total revenues from trust lands have been increasing over time, this indicates that general fund contributions to education have increased faster than that of trust land contributions. Deputy Director Gildersleeve says that the NBELF works hard to ensure that the beneficiaries receive the same rate as comparably rented or sold land that is held privately.²⁴

Sources:

- ¹Nebraska Board of Educational Lands and Funds, 65th Biennial Report, 2004-2006, and personal communication with L. Jay Gildersleeve, General Counsel and Deputy Director for the Board of Educational Lands and Funds (2007).
- ²Nebraska Constitution, Article VII § 6.
- ³Revised Statutes of Nebraska § 72-201 (5).
- ⁴Nebraska Board of Educational Lands and Funds web page, <http://www.belf.state.ne.us/index.htm>.
- ⁵Nebraska Board of Educational Lands and Funds web page, <http://www.belf.state.ne.us/history.htm>.
- ⁶Nebraska Board of Educational Lands and Funds, 65th Biennial Report, 2004-2006.
- ⁷Ibid.
- ⁸Cindy Kehling, Executive Assistant, Nebraska Board of Educational Lands and Funds, Personal Communication, 2006.
- ⁹Ibid.
- ¹⁰Nebraska Board of Educational Lands and Funds, 65th Biennial Report, 2004-2006 and Nebraska Board of Educational Lands and Funds website <http://www.belf.state.ne.us/history.htm>.
- ¹¹Revised Statutes of Nebraska § 72-232-07.
- ¹²Cindy Kehling, Executive Assistant, Nebraska Board of Educational Lands and Funds, Personal Communication, 2006.
- ¹³Revised Statutes of Nebraska § 79-1035.02.
- ¹⁴Cindy Kehling, Executive Assistant, Nebraska Board of Educational Lands and Funds, Personal Communication, 2006.
- ¹⁵Revised Statutes of Nebraska § 72-232.02.
- ¹⁶Revised Statutes of Nebraska § 72-1249.02.
- ¹⁷Revised Statutes of Nebraska § 79-103.5.01.
- ¹⁸Cindy Kehling, Executive Assistant, Nebraska Board of Educational Lands and Funds, Personal Communication, 2006.
- ¹⁹Based on information contained in the Nebraska Board of Education Lands and Funds 65th Biennial Report, 2004-2006 and Cindy Kehling, Executive Assistant, NBELF.
- ²⁰Revised Statutes of Nebraska § 79-1035 through § 79-1037.
- ²¹Based on information contained in the Nebraska Board of Education Lands and Funds 65th Biennial Report, 2004-2006 and Cindy Kehling, Executive Assistant, NBELF.
- ²²Ibid.
- ²³FY 2003 data from National Center for Education Statistics (NCES) with the exception of the Trust Land Revenue data, which comes from the Nebraska Board of Educational Lands and Funds 64th Biennial Report, page 11. "Other Sources" is defined as "Revenue from bond principal and premiums, sale of school property, or compensation from loss of fixed assets." NCES Database, Glossary, <http://nces.ed.gov/ccd/bat/Glossary.Asp?letter=O>.
- ²⁴L. Jay Gildersleeve, General Counsel and Deputy Director for the Board of Educational Lands and Funds (2004).

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