

Oklahoma 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.



Map: Sonoran Institute

Due to sale activities for given trust lands, maps may not reflect the most current holdings of a given state trust land agency.

There are approximately 745,000 surface acres and 1.1 million mineral acres of trust land in Oklahoma.¹ Surface acres include land that is managed for agriculture, grazing, commercial leases, and rights-of-way.² The mineral acres contain deposits of oil, gas and coal.³

How are trust lands in Oklahoma managed?



Photo: Pat Sheldon

Oklahoma's trust lands are managed by the Oklahoma Commissioners of the Land Office (OCLO), whose members include the top four statewide elected officials and one appointed official: the Governor, Lieutenant Governor, the State Auditor and Inspector, the President of the Board of Agriculture (appointed by the Governor), and the Superintendent of Public Instruction.⁴ The Governor, as President of the OCLO, is responsible for appointing a Secretary to administer the OCLO. The OCLO Secretary is responsible for hiring required staff for OCLO with the exception of attorneys and appraisers, who are selected by the Commissioners themselves.⁵ The OCLO is also responsible for the management and investment of trust land revenues.

The mission of the Oklahoma Commissioners of the Land Office states that the OCLO is to "grow the permanent Trust and to generate maximum earnings for distribution to trust beneficiaries."⁶ This mission is aligned with the statutory requirements laid out by the Oklahoma Statutes, which charge the OCLO with preserving and increasing the value of the trust for maximum return.⁷

Who are the beneficiaries of trust lands in Oklahoma?

Revenues generated from Oklahoma’s trust lands are deposited into nine separate trust funds that provide revenues for nine beneficiary groups. All of Oklahoma’s trust lands provide revenue to either education or building funds. A specific acreage of trust lands was granted to each beneficiary, and the revenue generated from those lands is deposited into the corresponding beneficiary’s fund.

Oklahoma Trust Land Beneficiary Funds and Acreage Dedicated to Each⁸

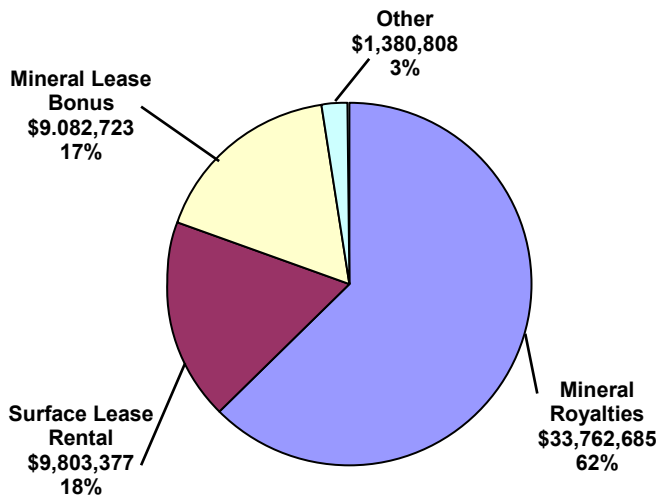
Fund	Beneficiary	Surface Acres in Fund	% Acres
Common Schools (K-12)	Public Schools	367,320	49.3%
Educational Institution	State 4 year colleges	82,489	11.1%
University Fund	Oklahoma University	63,604	8.5%
Agricultural and Mechanical College	Oklahoma State University	76,686	10.3%
University Preparatory Fund	Northern Oklahoma College	21,481	2.9%
Langston Fund	Langston University	18,995	2.6%
Normal School	Normal Schools (teachers’ colleges)	74,630	10.0%
Public Buildings	Public Buildings	36,261	4.9%
Greer	Greer Public Buildings	3,239	0.4%
	Total Acres	744,705	100.0%

Public schools are the designee of nearly 50% of the trust land in Oklahoma and thus receive roughly half the revenue generated by trust land in the state.⁹



Photo: Randy Schreiner

How are revenues generated from trust lands?



Revenue Streams from Oklahoma Trust Lands for All Beneficiaries Combined, FY 2004¹¹

Oklahoma's trust beneficiaries receive most of their annual support from the investment of the Permanent Funds derived from their lands, and not from the lands themselves; however, the lands continue to build their Permanent Funds. Oklahoma's trust land managers generate revenue from the trust lands primarily through resource extraction (oil and gas royalties and bonus revenues) and surface leases. Surface lease rental includes rentals, easements and surface damage revenue derived from mineral extraction disturbances. OCLO does not often engage in outright sale of trust lands. The three largest sources of revenues from trust lands in FY2004 were from mineral royalties, surface rentals, and mineral lease bonuses.¹⁰

Over the last five years, the largest source of income for the public schools has come from mineral revenues, including oil and gas royalties.¹²

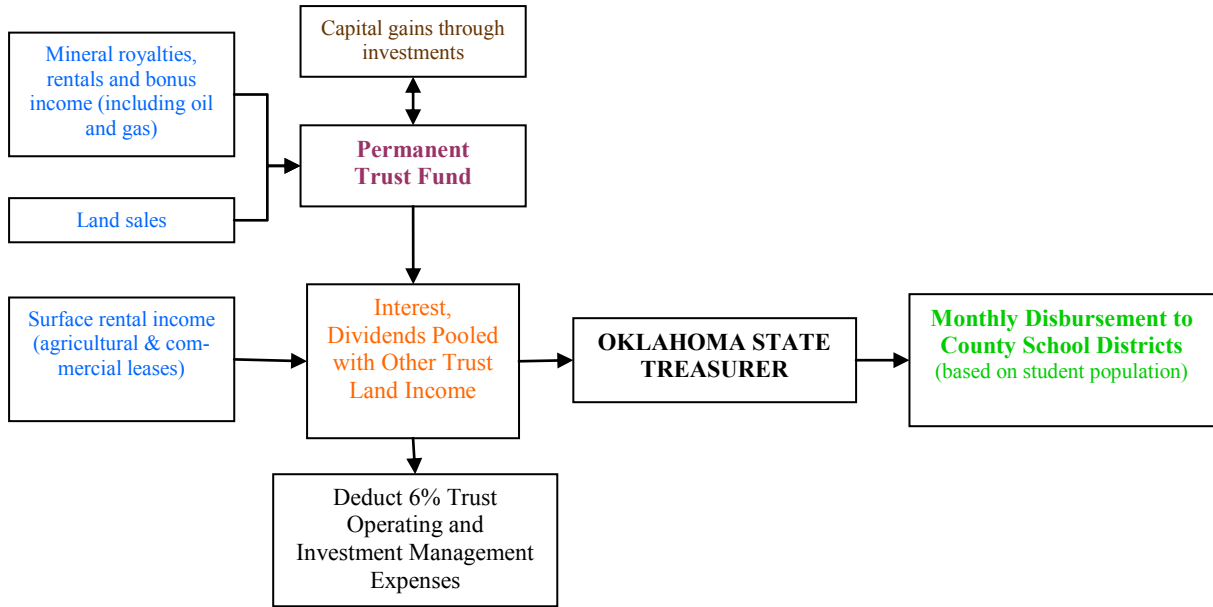
How does the revenue get to the beneficiaries?

Revenues generated from trust land uses are deposited into the given beneficiary's Permanent Fund. The Permanent Fund receives revenues from non-renewable sources, such as land sales and mineral royalties and bonuses as well as investment income from capital gains. Revenues from renewable sources, such as surface rentals for grazing or agricultural purposes, are combined with investment income from the Permanent Fund and made available for distribution to the beneficiaries after 6% of the earnings are deducted to cover the agency's operating expenses.¹³ In FY2004, Oklahoma trust lands generated \$202 million for the beneficiaries, of which over \$135 million was deposited into the Permanent Funds and \$64 million was distributed.¹⁴

The OCLO is responsible for the investment of the Permanent Funds for the beneficiaries, and appoints a three-member committee responsible for developing an annual investment plan to provide maximum benefit to the current and future beneficiaries. This committee is required to invest "with care, skill, prudence and diligence under the circumstances then prevailing to a prudent person acting in a like enterprise of a like character and like aim would use," however, it is a lower standard than that of the prudent investor rule.¹⁵ Only dividends and interest income from the Permanent Funds is available for distribution to the beneficiaries, while the corpus of the Fund and capital gains remain untouched. There are numerous statutory restrictions on their investments.

The Oklahoma Permanent Funds had a market value in excess of \$1.1 billion in FY 2004.¹⁶ Investment income totaled \$148 million that year, but capital gains were retained in the funds.¹⁷ The total amount of trust land revenues distributed to the public schools in FY2004 was over \$46 million, and was derived from the combined investment income from the Permanent Fund and surface rental income.¹⁸ After OCLO operating expenses have been deducted, these revenues are directed to the Oklahoma State Treasurer who then aggregates them with general fund appropriations for the beneficiaries and distributes the total to school districts by county on a monthly basis according to student population.

Public School Trust Funding Flow Chart¹⁹



Public schools in Oklahoma receive funding from a combination of federal, state and local funds. State funding provides 51.7% of total education funding, and of the state’s portion, trust land revenues make up 2.1% of that amount.

FY 2003 Public School Funding Flowchart²⁰ Local and Intermediate Funds

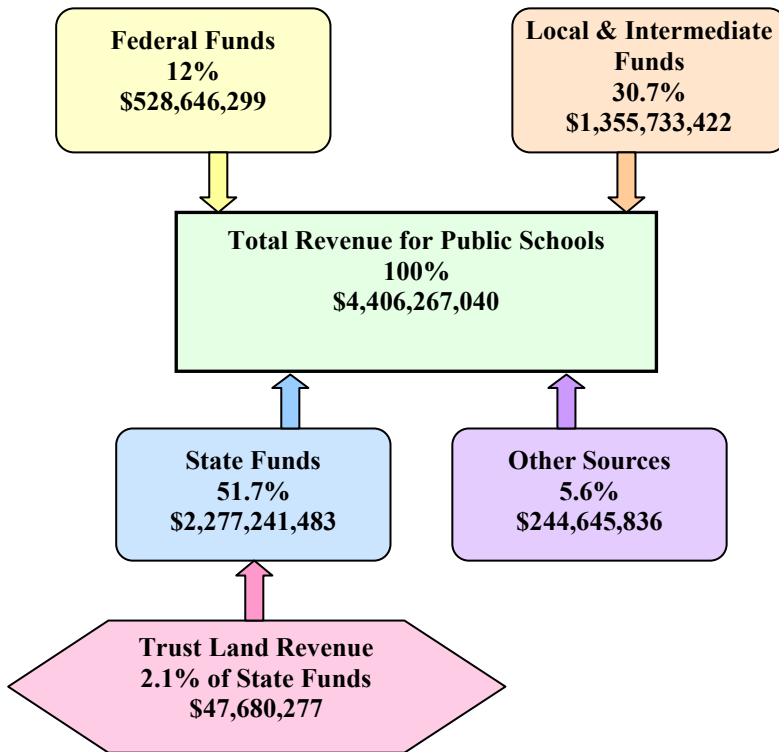




Photo: Oklahoma Commissioners of the Land Office

Trust land revenues in Oklahoma are applied to the beneficiaries overall legislative appropriation before the state contributes general fund revenues. The higher the trust land revenue, the lower the general fund appropriation must be to maintain the public school system at the status quo level. The legislature is then able to direct general fund appropriations to other government sponsored programs or decrease taxes. In Oklahoma, where trust revenues are considered the first component of base budgets for education and not dedicated to a specific purpose, an additional \$163,515,632 trust distribution for all trusts went to support education funding along with the \$47,680,227 distributed to public schools in FY2004.²¹

Sources:

- ¹ Oklahoma Commissioners of the Land Office, FY2004 Annual Report.
- ² Ibid.
- ³ Ibid.
- ⁴ Oklahoma Statutes § 64-1.
- ⁵ Oklahoma Statutes § 64-2-3.
- ⁶ Oklahoma Commissioners of the Land Office, FY2004 Annual Report.
- ⁷ Oklahoma Statutes § 64-1.1.
- ⁸ Oklahoma Commissioners of the Land Office, FY2004 Annual Report.
- ⁹ Ibid.
- ¹⁰ Ibid.
- ¹¹ Ibid.
- ¹² Oklahoma Commissioners of the Land Office Annual Reports for FY1995-2004 as provided by Tom McCreary, Director of Accounting, Oklahoma Commissioners of the Land Office.
- ¹³ Oklahoma Constitution Article XI § 3, and Oklahoma Statutes § 64-15.
- ¹⁴ Oklahoma Commissioners of the Land Office Annual Reports for FY1995-2004 as provided by Tom McCreary, Director of Accounting, Oklahoma Commissioners of the Land Office.
- ¹⁵ Oklahoma Constitution Article XI § 6.
- ¹⁶ Oklahoma Commissioners of the Land Office Annual Reports for FY1995-2004 as provided by Tom McCreary, Director of Accounting, Oklahoma Commissioners of the Land Office.
- ¹⁷ Ibid.
- ¹⁸ Ibid.
- ¹⁹ Generated using information from Oklahoma Constitution Article XI and Oklahoma Statutes Titles § 64 and 70.
- ²⁰ FY 2003 data from National Center for Education Statistics (NCES) with the exception of the Trust Land Revenue data which came from Tom McCreary, Director of Accounting for the Oklahoma Commissioners of the Land Office. “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.
- ²¹ Oklahoma Commissioners of the Land Office Annual Reports for FY 1995-2004.

This report was prepared by the Sonoran Institute/Lincoln Institute of Land Policy Joint Venture and Children’s Land Alliance Supporting Schools (CLASS). Thanks to Wendine Thompson-Dawson for her research and writing efforts.

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