

Texas Trust Lands & Education Funding

The history of the state of Texas is unlike that of any other state in the Union. Texas, having once been a part of Spain, then Mexico, was annexed into the United States in 1845. Since Texas retained title to all of its public lands, the federal government could not grant trust lands to the state to support state institutions as they did with other states joining the Union. However, the Texas State Constitution granted “one half of the [remaining] public domain of the State” and the mineral rights within riverbeds, channels and tidewater boundaries of Texas to support the state’s public schools.¹ In 1854, the Texas State Legislature created the Texas Permanent School Fund with an initial \$2 million appropriated from state general funds. The state’s counties also received grants of land to use for the support of local public schools, for which the land revenues are invested by the counties. Only the interest of this investment is distributed to the schools,² and the principal of the county permanent school funds can be used to reduce bond indebtedness.³



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 768,000 surface acres and 12.5 million mineral acres of Permanent School Fund land in Texas.⁴ Surface acres include land that is managed for agriculture, grazing, commercial and rights-of-way uses.⁵ The mineral acres contain deposits of oil, gas and coal.⁶ Permanent School Fund lands in Texas are mostly concentrated in scattered surface parcels and contiguous mineral acres through the western portion of the state near El Paso.

How are Permanent School Fund lands in Texas managed?



Photo: SXC

Permanent School Fund lands in Texas are managed by the elected State Land Commissioner who is responsible for the administration of the Texas General Land Office (Land Office), the executive agency for Texas Permanent School Fund lands.⁷ The Land Office is responsible for managing all Permanent School Fund land, including sales, trades, leases and improvements, as well as administration of contracts, mineral royalty rates, and other transactions.⁸ The Land Board consists of the Land Commissioner, who serves as chair, and two other appointees – one appointed by the Governor and one by the Attorney General. The School Land Board is required to report to the Texas Governor and State Legislature regarding certain land transactions and annual financial information.⁹ Aside from managing the Permanent School Fund land, the Land Office serves as the registry for all land titles emanated from the government in the state; manages the Save Texas History, the Adopt-A-Beach, and the Texas Veterans’ Land and Housing Programs; is responsible for oil spill prevention and response,

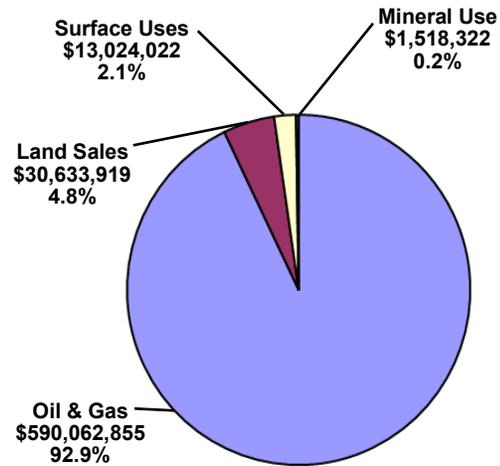
coastal resources, and energy resources; inventories and sells underutilized non-trust state lands; and provides other duties outlined in state law.¹⁰

The Land Office is intended to be a self-sustaining agency, and at this time is funded through general revenue dedicated funds, federal funds and through a portion of the Permanent School Fund. The Veterans Land Board and Housing Program is a self-sustaining program funded through bonds and fees.¹¹ The mission of the Land Office is to serve “the schoolchildren, veterans, and all people of Texas by preserving their history, protecting their environment, expanding economic opportunity, and maximizing state revenue through innovative administration and prudent stewardship of state lands and resources.”¹²

Who are the beneficiaries of Permanent School Fund lands in Texas?

The Texas Constitution created three land trusts and named three beneficiaries of trust lands – public schools, state Eleemosynary Institutions, and the University of Texas system. The Texas General Land Office manages the State Permanent School Fund lands for the public schools, while the other beneficiaries manage their own trusts.

How are revenues generated from Permanent School Fund lands?



Revenue Streams from Texas Permanent School Fund Lands, FY 2006¹⁵

Texas's Permanent School Fund lands generate revenue primarily through oil and gas revenues, although land sales and surface uses also contribute toward overall revenue generation. The three largest sources of revenues from Permanent School Fund lands in FY 2006 were from oil and gas, land sales, and surface uses.¹³

Beginning in FY 2005, the Land Office has authority to invest designated funds in real estate investments. The designated funds are proceeds received from the sale of Permanent School Fund lands and revenue from the mineral leases and royalties received from Permanent School Fund mineral interests. These investments are managed by professional fund management firms on behalf of the Permanent School Fund.¹⁴

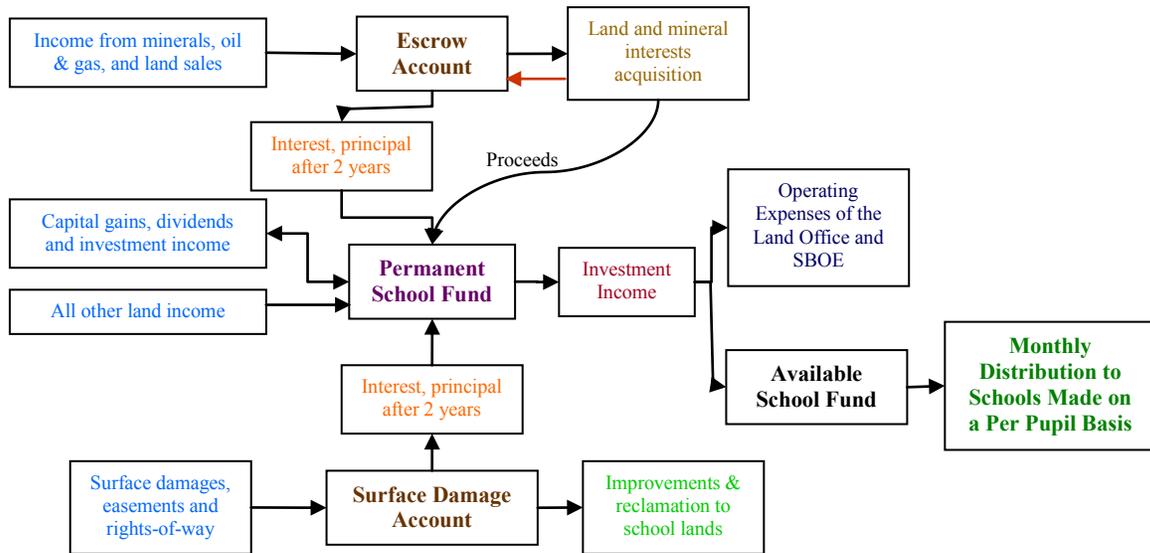
Oil and gas revenues are by far the largest source of total revenue generated by Permanent School Fund lands.¹⁶

How does the revenue get to the beneficiaries?

Land and mineral revenues generated from Permanent School Fund lands are paid to the Commissioner and collected by the Land Office Receiver. All Permanent School Fund land revenues are deposited into the Permanent School Fund with two exceptions. As of 2001, the Land Office may set aside any portion of the proceeds from land sales or mineral leases and royalties into a special fund account called the Escrow Account. This interest bearing account is used to purchase real estate including mineral and royalty interests and to invest in real estate funds. The Board may hire professionals to manage the purchased property, subject to the prudent investment standard.¹⁷ If purchases are not made within two years, the land revenue deposited in the Escrow Account reverts to the Permanent School Fund where it is constitutionally protected.¹⁸ Secondly, surface damage revenue collected from Permanent School Fund land lessees, as well as money received for grants of easements and rights-of-way, is also deposited into a special fund account called the Surface Damage Account.¹⁹ The revenues in the Surface Damage Account may be used for reclamation, improvements or restoration of Permanent School Fund lands. If the principal of the Surface Damage Account is not used within two years, the funds also revert to the Permanent School Fund.²⁰

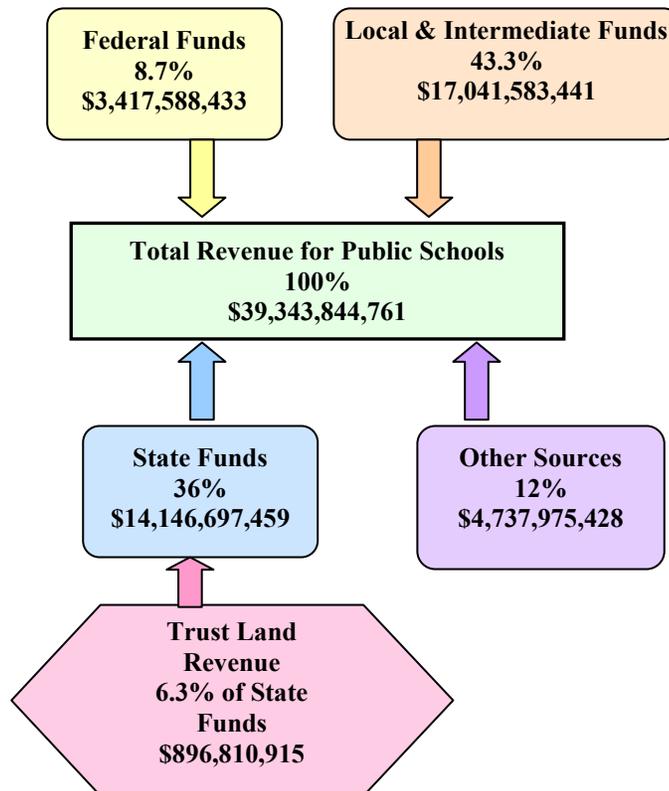
The Permanent School Fund totaled \$23.9 billion as of FY 2006.²¹ It is managed and invested by the State Board of Education (SBOE), which is authorized to invest the Permanent School Fund acting as would "persons of ordinary prudence, discretion, and intelligence" with due consideration to the relative rates of return and risk associated with the various investment options.²² The Permanent School Fund may be used to guarantee public school construction bonds, but no more than \$750 million of the Fund may be used for that purpose.²³ Beginning in FY 2005, the distribution to the schools from the Permanent School Fund investment revenues is determined by the State Board of Education.²⁴ These revenues are deposited into the Available School Fund along with taxes dedicated to education and other appropriations as deemed necessary by the Texas State Legislature. The Available School Fund is then distributed to the counties according to the county average daily school attendance.²⁵

Public School Trust Funding Chart²⁶



Public schools in Texas receive funding from a combination of federal, state and local funds. State funding provides 36% of total education funding, and of the state's portion, Permanent School Fund land revenues made up 6.3% of that amount in FY 2003.

FY 2003 Public School Funding Source Diagram²⁷ Local and Intermediate Funds



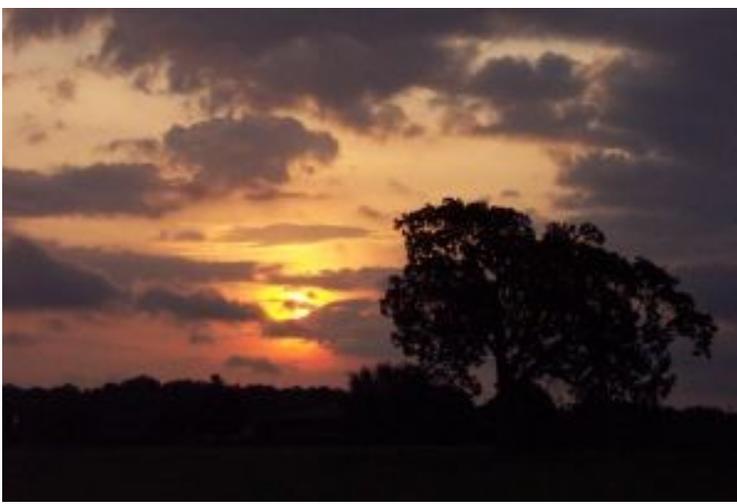


Photo: SXC

Trust land revenues to the public school beneficiaries in Texas are distributed along with all other revenue provided to the public school system, and as such, the various sources of the revenue are indistinguishable to the school districts from any other source of public school revenues. Revenues to the school district on county school trust lands are carefully monitored by the Texas State Teachers Association and other education groups.

Sources:

- ¹ Texas Constitution Article 7 § 2 and Texas Natural Resources Code § 11.041.
- ² Texas Constitution Article VII § 6.
- ³ Texas Constitution Article VII § 6b.
- ⁴ Texas General Land Office (2006 AFR).
- ⁵ Ibid.
- ⁶ Ibid.
- ⁷ Texas Natural Resources Code §§51.012 and 32.011.
- ⁸ Texas Natural Resources Code §§ 32, 51 and 52.
- ⁹ Texas Natural Resources Code § 32.258 and 51.011.
- ¹⁰ Texas Natural Resources Code §§ 31.0655, 31.067, 31.0672, 31.155, Ch. 33, Ch. 40, Ch. 52, Ch. 53, Ch. 61, Ch. 63, Ch. 161, Ch. 162, Ch. 163, Ch. 164.
- ¹¹ Texas Constitution Article XIV § 1 and General Appropriations Act, 79th Legislature, Regular Session.
- ¹² Texas General Land Office website, <http://www.glo.state.tx.us/about/mission.html>.
- ¹³ Sandra K. Dodd, Senior Budget Analyst, Texas General Land Office, personal communication (2006).
- ¹⁴ Texas Natural Resources Code § 51.401.
- ¹⁵ Sandra K. Dodd, Senior Budget Analyst, Texas General Land Office, personal communication (2006).
- ¹⁶ Texas General Land Office, personal communication (2006).
- ¹⁷ Ibid.
- ¹⁸ Texas Constitution Article VII § 4 and T.N.R.C. § 51.401.
- ¹⁹ Texas Natural Resources Code § 52.297 and 53.155.
- ²⁰ Texas Natural Resources Code § 51.291, 52.297, and 53.155.
- ²¹ Sandra K. Dodd, Senior Budget Analyst, Texas General Land Office, personal communication (2006).
- ²² Texas Constitution Article VII § 5.
- ²³ Ibid.
- ²⁴ Ibid.
- ²⁵ Ibid.
- ²⁶ Texas General Land Office (2006).
- ²⁷ FY 2003 data from National Center for Education Statistics (NCES) with the exception of the Trust Distribution data, which was provided by the Texas Education Agency (TEA Annual Reports 2003). “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>.

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