

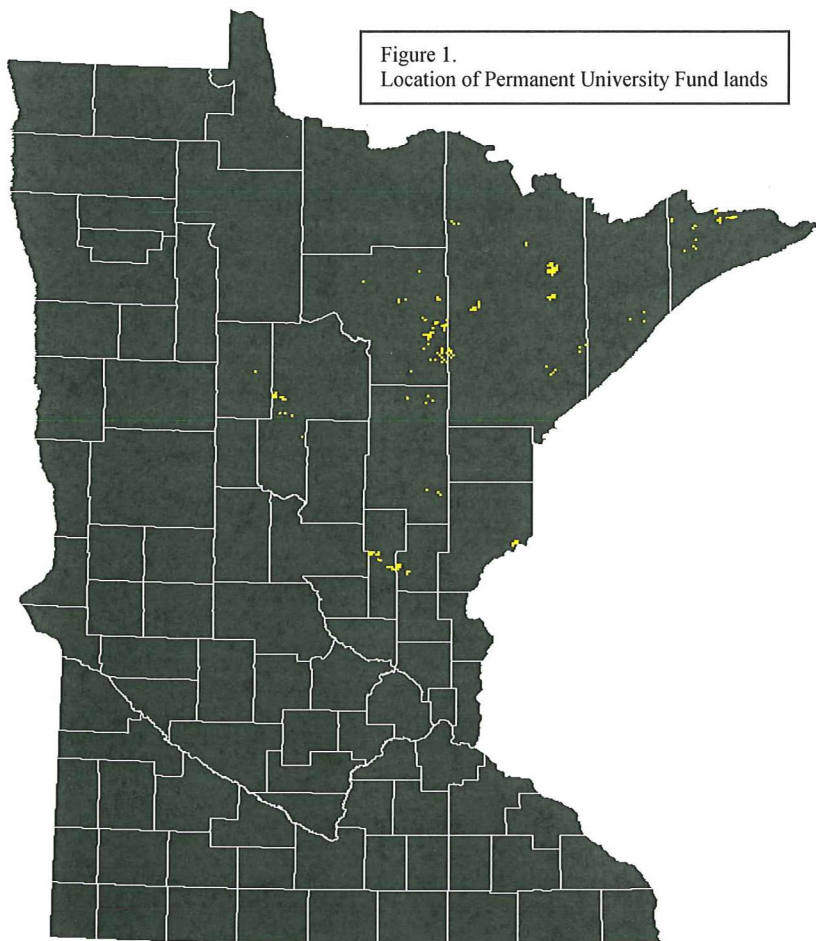
MINNESOTA'S PERMANENT UNIVERSITY LAND AND FUND

Origin of the Lands

In 1851, the Legislative Assembly of the Territory of Minnesota established the University of Minnesota at the Falls of St. Anthony. At the request of the territorial legislature, the United States Congress reserved from sale 72 sections of land for the support of a university.

By the Enabling Act of February 26, 1857, the United States Congress authorized the Territory of Minnesota to form a constitution and state government. The Enabling Act provided for grants of land to the state, including the grant of 72 sections of land for use and support of a state university.

In 1870, the United States Congress affirmed that the 1857 grant of land was separate from and in addition to the 1851 grant of lands. Thus, 144 sections of land were conveyed from the federal government to the State of Minnesota for the use and support of a state university.



The lands granted by the United States are owned by the State of Minnesota and managed by the Minnesota Department of Natural Resources. To distinguish them from the lands owned and managed by the University of Minnesota, the federal grant lands are often referred to as the “permanent university fund lands.”

Many of the lands originally granted have been sold. As of January 2011, there are 25,891 total acres of permanent university fund lands, with an additional 21,322 acres of mineral rights.

A significant portion of the permanent university fund lands contain valuable deposits of iron ore and taconite. The lands were first leased for natural iron ore exploration and mining in 1891, with the first substantial revenue from royalties occurring in 1917. In past years, permanent university fund were mined for taconite by LTV Steel Mining Company and National Steel Pellet Company. In recent years, substantial reserves of taconite have been mined by United States Steel Corporation at the Keewatin Taconite operation.

The Permanent University Fund

The 1851 Charter for the University of Minnesota created a perpetual fund that is known as the "Permanent University Fund" (PUF). Revenue from the permanent university fund lands is deposited into the PUF.

The investment management of the PUF is under the jurisdiction of the Board of Regents of the University of Minnesota. (Restrictions on investment of the PUF are provided in Minnesota Constitution, Article XI, Section 9 and Minnesota Statutes, section 137.022.)

All income from the PUF is appropriated annually to the Board of Regents. The income must be used to enhance the mission of the university and the appropriation must not be used to reduce other appropriations made to the university.

As of June 30, 2010 the market value of the PUF was \$355 million. The DNR's management of the permanent university fund lands in Fiscal Year 2010 resulted in \$2.104 million in revenue to the PUF. Table 1 details the Fiscal Year 2010 receipts to the PUF.

In the early years, income from the investment of the revenue in the PUF was used to reduce debt incurred in establishing the university. In more recent years, the income was used for professorial chairs. Starting with Fiscal Year 1993, the revenue from management of the permanent university fund lands is split among the three accounts of the PUF:

- the Endowed Chair Account,
- the Endowed Mineral Research Account, and
- the Endowed Scholarship Account.

The Endowed Chair Account

The income from the Endowed Chair Account is used to provide endowment support for professorial chairs in academic disciplines.

The following revenues are deposited to the Endowed Chair Account:

- Payments for the value of land sold, including installment payments and interest charges;
- Payments for standing timber on lands sold; and
- Net proceeds from the DNR Forest Suspense Account – University.

The DNR Forest Suspense Account – University receives revenue from the following activities:

- Timber sales, including interest and penalty
- Road easements
- Utility licenses
- Real estate leases.

The DNR's Division of Forestry certifies the costs incurred for the protection, improvement, administration, and management of the permanent university fund lands. The costs that are certified are transferred to the state's general fund, and the remainder is transferred to the Endowed Chair Account.

Fiscal Year 2010 revenue will result in \$275,409 being deposited into the Endowed Chair Account of the PUF. The market value of the Endowed Chair Account was \$8.3 million as of June 30, 2010. See Table 2 for revenue distributions to the Endowed Chair Account.

The Endowed Mineral Research Account

The income from the Endowed Mineral Research Account is allocated to the Duluth and Coleraine facilities of the Natural Resources Research Institute (NRRI) for mineral and mineral-related research.

Starting from July 1, 1992, revenue from the mining of permanent university fund lands has been split equally between the Endowed Mineral Research Account and the Endowed Scholarship Account. When revenue to the Endowed Mineral Research Account reaches \$50,000,000, the revenue from the mining of permanent university fund lands will be distributed to the Endowed Scholarship Account.

Income was first distributed to NRRI in Fiscal Year 1994. Fiscal Year 2010 revenue will result in \$0.914 million being deposited into the Endowed Mineral Research Account of the PUF.

Table 3 details revenue distributions to the Endowed Mineral Research Account and Endowed Scholarship Account from Fiscal Years 1992 through 2010, with distributions to each account totaling \$41.43 million.

The market value of the Endowed Mineral Research Account as of June 30, 2010 was \$40.5 million. The endowment income transferred to operational accounts in support of mining research in Fiscal Year 2010 was \$2.28 million up from \$2.09 million in 2009.

The Endowed Scholarship Account

The income from the Endowed Scholarship Account is distributed each year through the Iron Range Scholarship Program. The scholarships are distributed for scholastic achievement to students who are Minnesota residents attending the University of Minnesota at any of its four campuses. While the scholarships were initially for freshman, the program has now expanded to be up to a four year scholarship. The amount of money for each campus is prorated based on the number of Minnesota resident students enrolled at each campus.

The Endowed Scholarship Account, which started receiving revenue from mining of permanent university fund lands in Fiscal Year 1993, has resulted in the University of Minnesota's largest endowed scholarship program. The first scholarships were awarded in Fiscal Year 1994. Now over 20 percent of the University of Minnesota's new freshmen who are Minnesota residents receive an Iron Range Scholarship. Table 4 details the distribution of the income among the University of Minnesota campuses from Fiscal Year 1994 to the present.

The market value of the Endowed Scholarship Account as of June 30, 2010 was \$41.0 million. This account is higher than the Endowed Mineral Research Account because the legislature allowed some of the revenue for the research account to be spent in 1992 under a loan, with the loan subsequently repaid. There were 1,092 scholarships granted for 2009-2010, for a total of \$2.308 million distributed to students.

Mineral Management Costs

Prior to Fiscal Year 1997, all the revenue from state mining leases covering permanent university fund lands has been deposited into the PUF. The state's general fund has in effect borne the costs for mineral management of the permanent university fund lands by funding the work performed by the staff of the Minnesota Department of Natural Resources. This practice for minerals management is different than for forestry and real estate management, where certain costs are certified against revenue, with net proceeds from the Forest Suspense Account distributed to the PUF.

The first exception as to mineral management costs occurred in 1995, when the Minnesota Legislature created the university lands and minerals suspense account. For Fiscal Years 1996 and 1997, all revenue from mineral leases on permanent university fund lands was transferred into the suspense account. Money was to be then transferred annually to the PUF, except for amounts appropriated to cover the reasonable costs of the DNR to manage the minerals in the permanent university fund lands. In 1996, the Minnesota Legislature repealed the university lands and minerals suspense account effective June 30, 1997. There was a one-time appropriation from the suspense account, in Fiscal 1997 of \$250,000 to cover management costs.

The second exception as to mineral management costs occurred when the 2001 Minnesota Legislature enacted a law that provided, starting in Fiscal Year 2002, for a five year period, an administration and management fee to be certified against revenue from state taconite leases covering both the school and university lands. Twenty percent of the annual payments received under the state taconite leases covering school and university fund lands were transferred to the general fund, with the remaining payments distributed to the permanent school fund and the permanent university fund accordingly. The 2001 legislation also provided that an amount of money equal to the money transferred to the general fund was appropriated to the Commissioner of Natural Resources and the Board of Regents for grants to the taconite mining companies to improve taconite pellet production, value-added production of taconite, and cost-savings production improvements at Minnesota's taconite plants. The 20% administrative and management fee stayed in effect for one year. In 2003, the Minnesota Legislature repealed the law creating the management fee.

The current practice as to mineral management costs started in Fiscal Year 2006. The 2005 Minnesota Legislature enacted a law that created a minerals management account. Twenty

percent of the payments made under all state mineral leases is credited to the minerals management account as costs for the administration and management of the state mineral resources by the commissioner of natural resources. Money in the minerals management account is appropriated by the legislature to the commissioner of natural resources for mineral resource management and projects to enhance future mineral income and promote new mineral resource opportunities.

The minerals management account was designed to create a \$3 million principal that could be drawn upon in the event that future income generation drops. The \$3 million level was reached in Fiscal Year 2007. At the end of each fiscal year the amount exceeding \$3 million will be distributed to the Permanent School Fund and Permanent University Fund in proportion to the revenue contributed to the minerals management account by these two land types. For Fiscal Year 2010, the Permanent University Fund will receive \$9,417 transfer from the minerals management account.

Revenue and Income Data

Table 1: FY 2010 Proceeds to be transferred to the PUF

Mineral lease revenue to DNR's Permanent University Account	\$1,818,783.00
Transfer from minerals management account	\$9,417.00
Forest, Suspense Account, Land Sale, and real estate lease revenue to DNR's Permanent University Account	\$275,409.00
TOTAL transferred to Permanent University Fund	\$2,103,610.00

Table 2. FY 1996-2010 Revenue Distributions to the Endowed Chair Account

(Note: Revenue earned in a FY is transferred to the PUF in the following FY)

FY	Endowed Chair Account
1996	\$70,826.64
1997 *	\$17,553.73
1998	\$63,554.49
1999	\$62,286.28
2000	\$157,670.10
2001	\$61,038.50
2002	\$68,639.23
2003	\$80,347.47
2004	\$232,669.40
2005	\$197,691.72
2006	\$173,595.66
2007	\$243,833.39
2008	\$51,879.29
2009	\$133,935.87
2010	\$275,409.62

* Forest Suspense Account receipts for FY97 (in the amount of \$13,722.00) show up in the total amount transferred for FY98, rather than FY97.

Table 3. FY 1992-2010 Mineral Lease Revenue Distribution by Account

(Note: Revenue earned in a FY is transferred to the PUF in the following FY)

FY	Endowed Mineral Research Account	Endowed Scholarship Account	Total
1992	\$1,485,903.50	\$1,485,903.50	\$2,971,807.00
1993	\$2,003,975.50	\$2,003,975.50	\$4,007,951.00
1994	\$1,931,548.50	\$1,931,548.50	\$3,863,097.00
1995	\$2,636,377.00	\$2,636,377.00	\$5,272,754.00
1996	\$2,712,847.14	\$2,712,847.14	\$5,425,694.28
1997 *	\$1,217,628.85	\$1,217,628.85	\$2,435,257.70
1998	\$806,960.06	\$806,960.06	\$1,613,920.12
1999	\$673,229.62	\$673,229.62	\$1,346,459.23
2000	\$416,364.08	\$416,364.08	\$832,728.15
2001	\$1,020,555.16	\$1,020,555.16	\$2,041,110.31
2002 **	\$930,779.53	\$930,779.53	\$1,861,559.06
2003	\$2,759,933.17	\$2,759,933.17	\$5,519,866.33
2004	\$2,342,521.57	\$2,342,521.57	\$4,685,043.14
2005	\$3,774,828.09	\$3,774,828.09	\$7,549,656.17
2006***	\$2,835,833.00	\$2,835,833.00	\$5,671,666.00
2007****	\$4,513,724.83	\$4,513,724.83	\$9,027,449.66
2008****	\$4,494,636.83	\$4,494,636.83	\$8,989,273.67
2009****	\$3,962,402.33	\$3,962,402.33	\$7,924,804.67
2010****	914,090.50	914,090.50	1,828,181.00
TOTAL	\$41,434,139.20	\$41,434,139.20	\$82,868,278.40

* The 1997 data does not include the \$250,000 one-time appropriation from the university lands and minerals suspense account.

** The 2002 data does not include a \$459,525.91 administration and management fee under Minnesota Statutes, §93.223, subd. 2.

*** The 2006 data does not include the \$1,417,795 transferred to the minerals management account.

**** The 2007 data does not include the \$1,593,561 transferred to the minerals management account, but does include the \$1,059,644 transferred from the minerals management account. The 2008 data does not include the \$1,876,064 transferred to the minerals management account, but does include the \$1,485,017 transferred from the minerals management account. The 2009 data does not include the \$1,684,862 transferred to the minerals management account, but does include the \$638,827 transferred from the minerals management account.

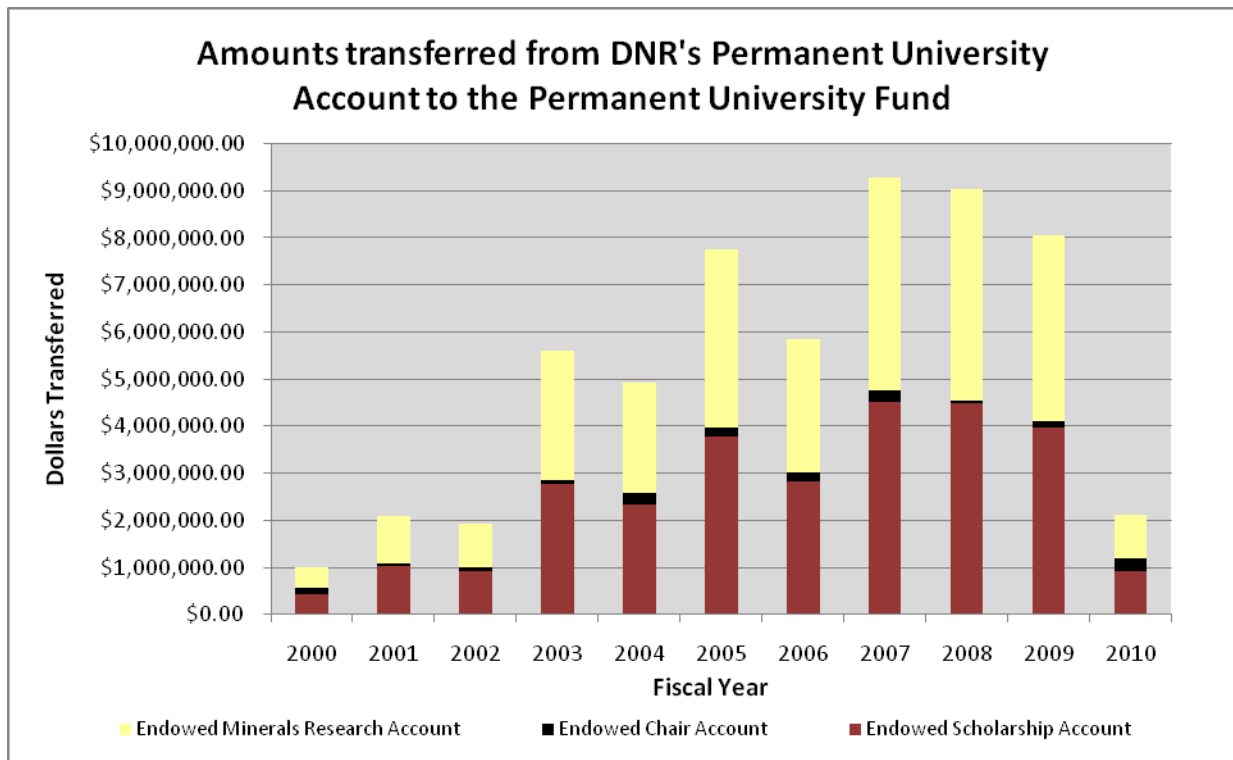
***** The 2010 data does not include the \$451,195 transferred to the minerals management account, but does include the \$9,417 transferred from the minerals management account.

Table 4. FY 1994-2010 Distribution of Endowed Scholarship Account Income*

FY**	UM - Twin Cities	UM – Duluth	UM – Morris	UM – Crookston	TOTAL
1994	\$58,635.00	\$19,517.00	\$4,922.00	\$1,782.00	\$84,856.00
1995	\$116,080.00	\$38,637.00	\$9,743.00	\$3,528.00	\$167,988.00
1996	\$232,573.00	\$79,341.00	\$21,112.00	\$7,491.00	\$340,517.00
1997	\$323,094.00	\$111,072.00	\$29,820.00	\$11,173.00	\$475,159.00
1998	\$458,013.00	\$158,751.00	\$41,883.00	\$16,888.00	\$675,535.00
1999	\$572,418.00	\$198,404.00	\$51,501.00	\$21,951.00	\$844,274.00
2000	\$715,901.00	\$247,050.00	\$60,879.00	\$27,333.00	\$1,051,163.00
2001	\$853,500.28	\$293,515.94	\$71,125.02	\$32,056.35	\$1,250,197.60
2002	\$895,541.15	\$308,186.23	\$75,045.35	\$34,020.56	\$1,312,793.28
2003	\$824,531.76	\$284,183.28	\$69,044.53	\$31,020.01	\$1,208,779.57
2004	\$789,287.74	\$272,099.19	\$66,024.07	\$30,010.94	\$1,157,421.94
2005	\$832,139.00	\$286,734.00	\$69,548.00	\$31,724.00	\$1,220,145.00
2006	\$886,643.51	\$305,515.01	\$74,103.64	\$33,801.67	\$1,300,063.83
2007	\$951,555.92	\$327,882.11	\$79,528.88	\$36,276.35	\$1,395,243.26
2008	\$1,234,792.00	\$425,478.00	\$103,201.00	\$47,074.00	\$1,810,546.00
2009	\$1,424,235.00	\$554,765.00	\$90,128.00	\$51,532.00	\$2,120,660.00
2010	\$1,550,235.85	\$603,844.09	\$98,101.58	\$56,091.02	\$2,308,272.54
TOTALS	\$12,719,176.21	\$4,514,974.85	\$1,015,710.07	\$473,752.90	\$18,723,615.02

* FY 1993 revenues totaling \$18,832 were returned to the principal.

** Amounts provided for FYs 1994 – 2000, 2008, and 2009 were rounded. Amounts for FYs 2001- 2007 and 2010 are not subject to rounding.



Citations

Creation of Permanent University Fund: Laws of 1851 of the Legislative Assembly of the Territory of Minnesota, Chapter 3, Section 2; Minnesota Constitution, Article XIII, Section 3

Investment of the PUF: Minnesota Constitution, Article XI, Section 9

Investment, income, and accounts of PUF: Minnesota Statutes, §137.022

Forest Suspense Account – University: Minnesota Statutes, §16A.125, subd. 5

Minerals Management Costs

- ▶ Laws of MN 1995, Ch. 220, §5, subd. 2 (biennial appropriation to the minerals division)
- ▶ Laws of MN 1995, Ch. 220, §26 (enacting university lands and minerals suspense account, to be codified as Minn. Stat., §16A.125, subd. 6a)
- ▶ Laws of MN 1995, Ch. 220, §26, (also repealed by amendment Minn. Stat., §16A.125, subd. 6 - the state lands and minerals suspense account that was created in 1955 to allow management costs to be applied against mineral lease revenues from trust fund lands, this statute was found to be unconstitutional by the Attorney General's office in 1955)
- ▶ Laws of MN 1996, Ch. 395, §§17 (a) and 19 (repealed Minnesota Statutes, §16A.125, subd. 6(a), the university lands and minerals suspense account)
- ▶ Laws of MN 1996, Ch. 407, §3 (reduction in appropriation from university lands and minerals suspense account and replacement by general fund appropriation for minerals management)
- ▶ Laws of 2001, First Special Session, Chapter 6, Art. 1, §1 (enacting Minnesota Statutes, §93.22, subd. 2 (disposition of payments))
- ▶ Laws of 2001, First Special Session, Chapter 6, Art. 1, §2 (enacting Minnesota Statutes, §93.223 (mineral lease suspense accounts))
- ▶ Laws of 2001, First Special Session, Chapter 6, Art. 1, §3 (enacting Minnesota Statutes, §93.2235 (taconite mining grants), as amended by Laws of 2002, Chapter 220, Art. 8, §11
- ▶ Laws of 2003, First Special Session, Chapter 9, Article 5, §27 (repeals Minnesota Statutes, §§93.22, subd. 2, and 93.223, subd. 1)
- ▶ Laws of MN 2005, First Special Session, Chapter 1, Article 2, section 3, subdivision 2 (appropriating money from the minerals management account to the commissioner of natural resources), section 77 (creating the minerals management account and enacting Minnesota Statutes, sec. 93.2236), and section 154 (providing for disposition of 20 percent of revenue from state mineral leases for fiscal years 2006 and 2007 into the minerals management account)
- ▶ Laws of MN 2006, Chapter 282, Article 8, Section 7 (amends Minnesota Statutes, Sec. 137.022, subd. 4, increasing cap of mineral research fund from \$25,000,000 to \$50,000,000)
- ▶ Laws of MN 2007, Chapter 57, Article 1, Section 4, subd. 2 (appropriating money from the minerals management account to the commissioner of natural resources), Section 78 (amending Minnesota Statutes, section 93.22, subd. 2, concerning distribution of revenue from state mineral leases)

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