

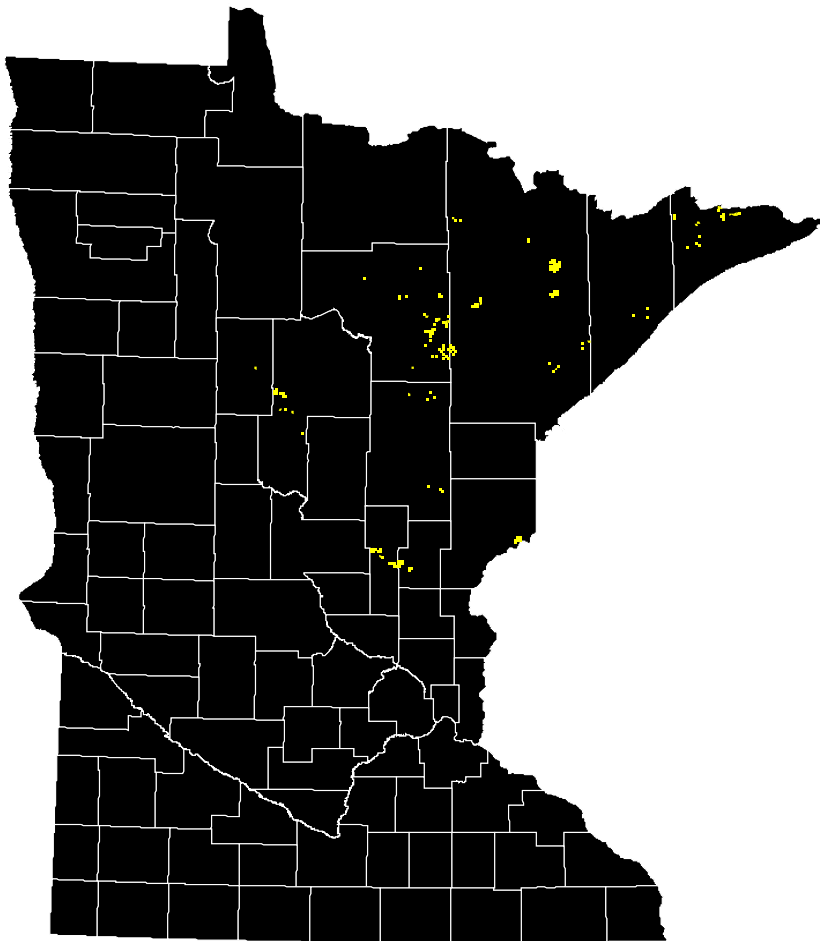
MINNESOTA'S PERMANENT UNIVERSITY LAND AND FUND

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 February 2017, there are 25,840 total acres of permanent university fund lands, with an additional 22,028 acres of mineral rights.

Figure 1.
Location of Permanent University Fund lands

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. Fiscal Year 2016 saw a dramatic decrease in revenue that was primarily due to the temporary shutdown of the Keewatin Taconite facility.

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.

The DNR's management of the permanent university fund lands in Fiscal Year 2016 resulted in \$874,643 in revenue to the PUF. An additional \$323,064 was deposited into the PUF to correct the FY2015 revenue transfer from the minerals management account. Table 1 details the Fiscal Year 2016 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 has been split among three accounts of the PUF:

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

As of January 1, 2013, a fourth account has been added, the "Endowed Mesabi Range Account."

Starting from July 1, 1992, revenue from the mining of permanent university fund lands was split equally between the Endowed Mineral Research Account and the Endowed Scholarship Account. Starting January 1, 2013, revenue from the mining of permanent university fund lands was split 25% to the Endowed Mesabi Range Account, 25% to the Endowed Mineral Research Account, and 50% to the Endowed Scholarship Account. Revenue to the Endowed Mineral Research Account reached \$50 million with the FY2012 revenue distribution, so the revenue is now split 25% to the Endowed Mesabi Range Account and 75% to the Endowed Scholarship Account. When the revenue to the Endowed Mesabi Range Account reaches \$25 million, all the revenue from the mining of permanent university fund lands will be distributed to the Endowed Scholarship Account.

See Table 2 for revenue distributions to the Endowed Chair Account. Table 3 details revenue distributions to the Endowed Mineral Research Account and Endowed Scholarship Account from Fiscal Years 1992 through 2016, and revenue distributions to the Endowed Mesabi Range Account starting in Fiscal Year 2013.

As of June 30, 2016 the market value of the PUF was \$543 million, up from \$540 million as of June 30, 2015. A portion of the PUF is allocated to the university departments when chairs are created, so only a portion of the total value of the PUF is accounted for in the above-described four accounts.

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 2016 revenue will result in \$9,889 being deposited into the Endowed Chair Account of the PUF. The market value of the Endowed Chair Account was \$6.638 million as of June 30, 2016. In 2016, \$282,361 in income was distributed from the 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.

No revenue will be distributed to the account from FY2013 as the total revenue to the account has reached \$50 million. The market value of the Endowed Mineral Research Account as of June 30, 2016 was \$65.971 million.

Income was first distributed to NRRI in Fiscal Year 1994. The endowment income transferred to operational accounts in support of mining research in 2016 was \$2.701 million up from \$2.56 million in 2015.

The Endowed Mesabi Range Account

The “Endowed Mesabi Range Account.” endows costs of operating a mining, metallurgical, or related engineering degree program offered through the University of Minnesota at the Mesabi Range Community and Technical College and for scholarships for students to attend the program.

Fiscal Year 2016 revenue and the FY2015 correction will result in \$296,955 being deposited into the Endowed Mesabi Range Account of the PUF. The market value of the Endowed Mesabi Range Account as of June 30, 2016 is \$11.258 million.

Income distributed in 2016 totaled \$423,251.

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. About 1,500 of the University of Minnesota’s undergraduates who are Minnesota residents receive an Iron Range Scholarship each year.

Fiscal Year 2016 revenue and the FY2015 correction will result in \$890,864 being deposited into the Endowed Scholarship Account of the PUF. The market value of the Endowed Scholarship Account as of June 30, 2016 was \$93.277 million.

There was \$3.704 million in scholarships distributed to students for 2016-2017. Table 4 details the distribution of the income among the University of Minnesota campuses from 1994 to the present.

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 are 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, the Permanent University Fund and the taxing districts of tax forfeited lands in proportion to the revenue contributed to the minerals management account by these land types. For Fiscal Year 2016 with the FY2015 correction, the Permanent University Fund will receive \$644,716 transfer from the minerals management account.

Revenue and Income Data

Table 1: FY 2016 Proceeds to be transferred to the PUF

Mineral lease revenue to DNR's Permanent University Account	\$543,102
Transfer from minerals management account – FY2016 Revenue	\$321,652
Transfer from minerals management account –FY2015 correction	\$323,964
Forest, Suspense Account, Land Sale, and real estate lease revenue to DNR's Permanent University Account	\$9,889
TOTAL transferred to Permanent University Fund	\$1,197,707

Table 2. FY 1996-2016 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
2011	\$111,338.10
2012	\$146,164.72
2013	\$70,478
2014	\$74,572
2015	\$94,235
2016	\$9,889

* 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 1992-2016 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	Endowed Mesabi Range 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		\$1,346,459.24
2000	\$416,364.08	\$416,364.08		\$832,728.16
2001	\$1,020,555.16	\$1,020,555.16		\$2,041,110.32
2002 **	\$930,779.53	\$930,779.53		\$1,861,559.06
2003	\$2,759,933.17	\$2,759,933.17		\$5,519,866.34
2004	\$2,342,521.57	\$2,342,521.57		\$4,685,043.14
2005	\$3,774,828.09	\$3,774,828.09		\$7,549,656.18
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		\$8,989,273.66
2009****	\$3,962,402.33	\$3,962,402.33		\$7,924,804.66
2010****	\$914,090.50	\$914,090.50		\$1,828,181.00
2011****	\$5,654,510.93	\$5,654,510.93		\$11,309,021.86
2012****	\$3,076,261.19	\$6,152,522.38	\$3,076,261.19	\$12,305,044.76
2013****	0	\$8,496,863.25	\$2,832,287.75	\$11,329,151.00
2014****	0	\$11,447,583.00	\$3,815,861.00	\$15,263,444.00
2015****	0	\$4,299,702.00	\$1,433,234.00	\$5,732,936.00
2016****	0	\$890,863.50	\$296,954.50	\$1,187,818.00
TOTAL	\$50,164,911.38	\$78,376,184.32	\$11,454,598.44	\$139,995,694.14

* 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.

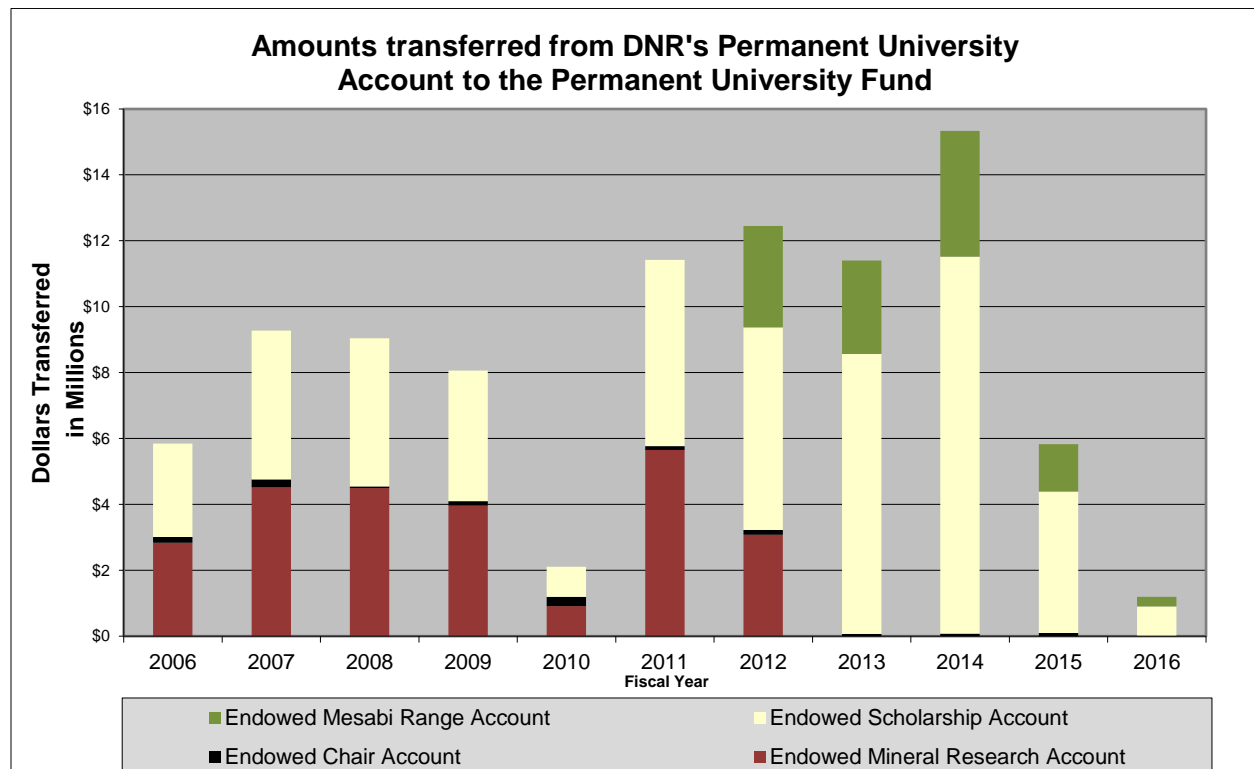
**** The 2007 data does not include the \$1,593,561 transferred to the minerals management account, but does include the \$1,059,644 transferred from the minerals management account. The 2008 data does not include the \$1,876,064 transferred to the minerals management account, but does include the \$1,485,017 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. The 2011 data does not include the \$2,503,345 transferred to the minerals management account, but does include the \$1,285,875 transferred from the minerals management account. The 2012 data does not include the \$2,494,469 transferred to the minerals management account, but does include the \$2,303,931 transferred from the minerals management account. The 2013 data does not include the \$2,408,773 transferred to the minerals management account but does include the \$1,675,139 transferred from the minerals management account.

The 2014 data does not include the \$3,074,198 transferred to the minerals management account but does include the \$2,958,563 transferred from the minerals management account. The 2015 data does not include the \$1,186,652 transferred to the minerals management account but does include the \$982,414 transferred from the minerals management account. The 2016 data does not include the \$134,401 transferred to the minerals management account but does include the \$321,652 transferred from the minerals management account and the FY2015 correction that transferred \$323,064 from the minerals management account.

Table 4. 1994-2016 Distribution of Endowed Scholarship Account Income

Year	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	\$1,250,197.59
2002	\$895,541.15	\$308,186.23	\$75,045.35	\$34,020.56	\$1,312,793.29
2003	\$824,531.76	\$284,183.28	\$69,044.53	\$31,020.01	\$1,208,779.58
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	\$1,810,545.00
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
2011	\$1,562,866.30	\$608,763.89	\$98,900.87	\$56,548.02	\$2,327,079.08
2012	\$1,552,494.79	\$604,724.00	\$98,244.53	\$56,172.75	\$2,311,636.07
2013	\$1,596,936.99	\$618,953.17	\$106,260.24	\$76,097.80	\$2,398,248.20
2014	\$1,712,725.54	\$670,001.11	\$121,482.12	\$101,079.13	\$2,605,287.89
2015	\$2,166,866.49	\$688,706.08	\$115,989.90	\$104,121.19	\$3,075,683.66
2016	\$2,679,805.59	\$779,666.64	\$125,251.34	\$119,072.50	\$3,703,796.07
TOTALS	\$23,990,871.91	\$8,485,789.74	\$1,681,839.07	\$986,844.29	\$35,145,345.00

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



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 Account: Minnesota Statutes § 93.2236

State Mineral Lease Revenue Distribution: Minnesota Statutes § 93.22

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