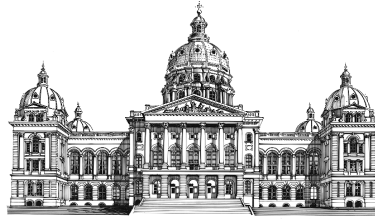


Iowa Legislative Fiscal Bureau



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July 1, 1993

Permanent School Fund

ISSUE

Update of the Permanent School Fund and the Permanent School Fund loan to the Historical Society.

AFFECTED AGENCIES

Department of Education - First In the Nation in Education (FINE)
Department of Cultural Affairs

CODE AUTHORITY

Article IX, 2nd, Section 3, Constitution of Iowa
Sections 263.8A, 257A, 257B, and 303.18, Code of Iowa
Chapter 1246, Section 20, 1992 Iowa Acts
Senate File 233, Education Appropriations Bill, Sections 14 and 29, 1993 Legislative Session

BACKGROUND

Iowa Constitution

- The Iowa Constitution created a perpetual fund (the Permanent School Fund) which consists of the proceeds from the sale of all lands that have been granted by the United States to this State for the support of schools, the distribution of the proceeds of the 500,000 acres of land granted to the new states in 1841, all estates of deceased persons who have died without leaving a will or heir, and any percent that may be granted by Congress on the sale of lands in this State. The funds are to remain in a perpetual fund. The interest must be appropriated to the support of common schools throughout the State.

Permanent School Fund

- Section 257B.1, Code of Iowa, states that the Permanent School Fund, shall consist of:
 - 5.0% of the net proceeds from the sale of public lands of the State.

- The proceeds of the sale of the 500,000 acres of land granted the State.
- The proceeds of all intestate estates escheated to the State.
- The proceeds of the sales of the 16th section in each township.
- The portion of the interest of the Permanent School Fund that has not been transferred to other uses.
- All other moneys by law credited to the Permanent School Fund.

- The Permanent School Fund has a balance of \$4,883,281 as of June 10, 1993. The balance does not include the amount due from the Historical Society.
- The Permanent School Fund had interest earnings of approximately \$344,000 in FY 1992. The approximate distribution of the interest includes:
 - \$172,000 to the FINE.
 - \$51,000 to the Connie Belin National Center for Gifted Education.
 - \$121,000 was credited as payment of principal and interest on the loan to the Historical Society as required by Chapter 1246, Section 20, 1992 Iowa Acts and repeated in SF 233.

Loan to the Historical Society

- The Permanent School Fund has a loan outstanding of \$2,292,352 as of June 30, 1992 that is required to be repaid by the Historical Society.
- The Historical Society loan balance is due in FY 1997.
- The loan's interest rate is determined by the Treasurer's Office using the appropriate pooled investment moneys interest rates. The interest rate for FY 1992 was 7.1%.
- Section 303.18, Code of Iowa, allowed the Historical Society to borrow up to \$3,050,000 in FY 1988 from the Permanent School Fund for equipment, planning, and construction of educational exhibits in the State Historical Museum.
- As of June 30, 1992, the Historical Society owed \$2,292,352 to the Permanent School Fund. The original balance was \$2,495,224. The interest cost to date is \$755,352. The Historical Society has repaid \$958,224. The payback includes:
 - \$30,153 from the museum donation boxes.
 - \$10,121 from Montauk admissions.
 - \$149,000 from General Fund appropriations.
 - \$768,950 from interest from the Permanent School Fund not transferred to FINE or the National Center.

CURRENT SITUATION

- The Historical Society was required to solicit voluntary contributions at the Historical Building and collect entrance fees at the Montauk Governor's Mansion to make payments on the loan. Annual payments were required not to be less than the amount of interest on

the Permanent School Fund that is transferred to FINE or 75.0% of the gross receipts, whichever is greater.

- Senate File 233 eliminated the requirement that fees be collected at the Montauk Governor's Mansion and eliminated the minimum annual payment.
- Chapter 1246, Section 20, 1992 Iowa Acts and SF 233 require the interest earned on the Permanent School Fund not transferred to FINE or the National Center be used to pay principal and interest for the Historical Society.

ALTERNATIVES

The General Assembly may wish to consider the following options:

- Continue with current situation. The Code of Iowa will have to be amended to extend the loan by FY 1997. The current annual payback by the Historical Society will not pay off the debt. The interest earned on the Permanent School Fund for the Historical Society and revenue from the museum donation boxes is not enough to pay the interest on the loan. An appropriation will have to occur in the future to meet Constitutional requirements.
- Amend the Constitution to allow the loan to be forgiven.
- Change the distribution of the interest from the Permanent School Fund.

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