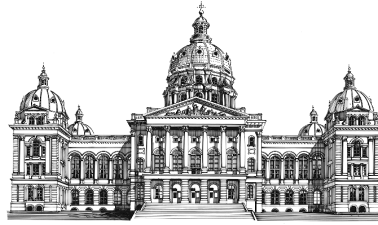

Iowa Legislative Fiscal Bureau

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State Capitol
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Permanent School Fund

ISSUE

The General Assembly must determine each year how to expend the interest earned on the Permanent School Fund. In HF 2477 (Education Appropriations Act) the Chairpersons and Ranking Members of the Education Appropriations Subcommittee, the Legislative Fiscal Bureau, and the Legislative Service Bureau are required to meet with representatives from the First In the Nation in Education Foundation (FINE) and the Belin/Blank International Gifted and Talented Center to determine future funding for the two organizations.

AFFECTED AGENCIES

First In the Nation in Education (FINE) Foundation

Belin/Blank International Center for Gifted Education and Talent Development

Department of Education

CODE AUTHORITY

Chapter 257B

BACKGROUND

The Permanent School Fund is a perpetual fund created by the Iowa Constitution. The Fund consists of the proceeds from the sale of all lands that have been granted by the United States to Iowa for the support of schools, the distribution of the proceeds of the 500,000 acres of land granted to the 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 Iowa. The funds are to remain in the perpetual fund and the interest must be appropriated to the support of common schools within Iowa. The Permanent School Fund had a balance of \$7,495,859 at the end of FY 1996.

Prior to FY 1996, the Department of Revenue and Finance allocated the interest earned on the Permanent School Fund as prescribed by the Code of Iowa and Session Law. Any interest remaining after all allocations were made became a part of the perpetual fund and were no longer available for appropriation. In SF 266 (Education Appropriations Act for FY 1996), the General Assembly created the Interest for Iowa Schools Account and required all

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interest earned on the Permanent School Fund to be deposited into the Account. This was done to keep all the interest earned on the Fund available for allocation or appropriation and to keep it separate from the Fund where it would no longer be available for distribution.

The interest earned on the Permanent School Fund has historically been appropriated to two entities:

- First In the Nation in Education (FINE) Foundation (hereafter referred to as FINE). The FINE Foundation was created in Section 257A.1, Code of Iowa, as an education foundation. The purpose of the Foundation is defined in the Code of Iowa and consists mainly of conducting and disseminating educational research.
- The Connie Belin & Jacqueline N. Blank International Center for Gifted Education and Talent Development (hereafter referred to as the Belin/Blank Center). The Center was created in Section 263.8A, Code of Iowa, as a part of the University of Iowa. The Center is to provide programs to assist classroom teachers to teach gifted and talented student in regular classrooms.

During FY 1996, the interest earned on the Permanent School Fund of \$418,416 was distributed as follows:

- \$270,515 to FINE. This was based on the total contributions to the FINE Foundation (both cash and in-kind) plus an amount equal to the total contributions to the Belin/Blank Center in excess of \$875,000. The balance of the FINE Foundation private endowment was \$2,709,687 at the end of FY 1996.
- \$48,346 to the Belin/Blank Center. This was based on one-half the total contributions to the Center's private endowment, not to exceed \$875,000. As of the last quarter of FY 1994, the Belin/Blank Center had maximized the amount of interest that could be drawn from the Fund. The balance of the Center's private endowment was \$xxxx at the end of FY 1996.
- \$99,555 was unclaimed and remained in the Interest for Iowa Schools Account.

CURRENT SITUATION

During the 1996 Legislative Session, two acts were passed that impacted the distribution of interest from the Interest for Iowa Schools Account. These were:

- House File 570 (Talented and Gifted Center Act)
- HF 2477 (Education Appropriations Act for FY 1997)

Changes made by these two acts include:

- FINE may no longer include the amount raised by the Belin/Blank Center in the amount matched in the Permanent School Fund.
- The amount the Belin/Blank Center could match of the Permanent School Fund was increased from \$875,000 (requiring total private contributions of \$1,750,000) to \$1,550,000 (requiring total private contributions of \$3,100,000).
- Interest remaining in the Interest for Iowa Schools Account after the above allocations is to be split 50% to FINE and 50% to the Belin/Blank Center.

- The Belin/Blank Center was required to fund the Governor's Summer Institute from the interest allocated from the Interest for Iowa Schools Account. The Center did not receive a \$70,000 allocation from the Educational Excellence appropriation for FY 1997 as it has in the past.

House File 570 further states that if the General Assembly appropriates funds to the Belin/Blank Center equal to the amounts currently matched in the Permanent School Fund, that the Center will cease to draw interest from the Interest for Iowa Schools Account.

ALTERNATIVES

The General Assembly may wish to consider the following alternatives:

- Codify all the changes made during the 1996 Legislative Session. Changes in HF 570 were affected the Belin/Blank Center were made to the Code of Iowa. The changes in HF 2477, allowing FINE to receive half of the remaining interest and requiring the Belin/Blank Center to fund the Governor's Summer Institute from the interest allocation were made in session law.
- Eliminate allocations of interest to FINE and the Belin/Blank Center and require them to rely on revenues to the private foundations. This could serve as an incentive for both entities to increase fund raising efforts.
- Make General Fund appropriations to FINE and the Belin/Blank Center and require them to participate in the legislative budget process. Other educational projects could then be funded with the interest from the Permanent School Fund.
- Eliminate the Permanent School Fund through Constitutional amendment, or loan all of the money in the Fund to K-12 schools for a specific purpose. This would eliminate the interest earnings, but would make use of the \$7.5 million currently available in the Fund.

BUDGET IMPACT

Total interest earned on the Permanent School Fund was \$418,416 during FY 1996. The interest earnings were distributed as follows:

- \$270,515 to FINE.
- \$48,346 to the Belin/Blank Center.
- \$99,555 was unclaimed and remained in the Interest for Iowa Schools Account.

If the Fund earns the same amount of interest during FY 1998 (approximately 5.6%) and the amount of each private endowment remains the same, the interest would be distributed as follows:

- \$245,000 to FINE.
- \$175,000 to the Belin/Blank Center

The Account would continue to carry a balance of \$99,555 which represents interest that was earned during FY 1996 but was not distributed.

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