

FEDERAL LANDS AND THE PERMANENT SCHOOL FUND

[NO IMPRINT, 1933?]

BY

H. KINCAID

[1933?]

Ariz.
9379.12.
K51

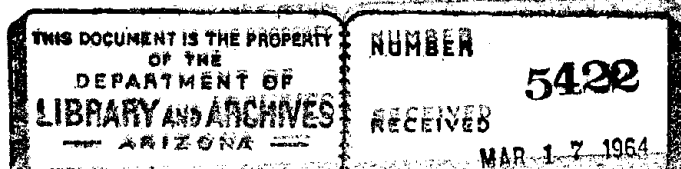
FEDERAL LANDS AND THE PERMANENT SCHOOL FUND
H. Kincaid

Arizona has shared in the "endowment magnificent" along with the other land grant states, through the policy of the Federal Government, in the granting of certain sections of land in each township for the support of the common schools, a policy which originated with the Ordinance of 1785, and not with the Ordinance of 1787, as many suppose. The Ordinance of 1785 set aside section 16 in every township for the public schools. The Enabling Act of April 30, 1802, setting up the terms and conditions for the admission of Ohio into the Union, set aside section 16 for the "use of the schools," in that State. Ohio was the first of the land grant states to share in this type of grant.

The Federal Land Grants for the support of the common schools has fallen into three groups, namely:

- Group 1: States receiving Section 16 in each township. Twelve States are in this group, namely: Alabama, Arkansas, Florida, Illinois, Indiana, Iowa, Louisiana, Michigan, Mississippi, Missouri, Ohio, and Wisconsin.
- Group 2: States receiving sections Nos. 16 and 36. Fourteen States are in this group, namely: California, Colorado, Idaho, Kansas, Minnesota, Montana, Nebraska, Nevada, North Dakota, Oklahoma, Oregon, South Dakota, Washington, and Wyoming.
- Group 3: States receiving Sections Nos. 2, 32, 16, and 36. Three States are in this group, namely: Arizona, New Mexico, and Utah.

Under these grants, 29 states have received a total of 77, 510,737 acres, for the support of the common schools. New Mexico leads with a grant of 8,711,324 acres, with Arizona next, with a grant of 8,103,680 acres.



STATE DEPT. OF EDUC.
Phoenix, Arizona
Distributed By

These 8,103,680 acres were classified by the State Land Commission in the first report dated December 1, 1914, and covering the period June 6th, 1912 to December 1, 1914, as follows:

	<u>ACRES</u>
Unsurveyed lands	3,134,555.20
In National Forests	1,397,357.59
In Indian and Other Reservations	1,823,024.12
Otherwise appropriated or settled upon	168,707.62
School lands "in place,"	<u>1,580,035.47</u>
T o t a l	8,103,680.00

The 1,580,035.47 acres "in place" were further classified as follows:

Grazing lands only	1,128,461.62
Waste lands	5,098.75
Grazing and Agricultural	344,980.97
Agricultural	<u>101,494.13</u>
T o t a l	1,580,035.47

The Commission at the same time estimated the valuation of the 1,580,035.47 acres of school land "in place" at \$4.00 per acre, exclusive of improvements, or a total valuation of \$6,266,505.79. The Commission further stated in the same report: "No accurate data can be afforded as to the classification or value of the unsurveyed, unreserved lands, which when surveyed, will be school lands. As a general proposition, however, it would seem safe and conservative to estimate that the unreserved and unsurveyed school lands, together with such as may be selected as indemnity, will average almost if not quite as high in value, when available, as the land now in place." If this estimate is correct, then we have a potential common school fund in Arizona of \$32,414,720.00, which amount would not be far from the estimate made by Dr. Elwood P. Cubberley of Stanford, when he estimated: "The value of the Arizona lands looking ahead forty or fifty years at from thirty to forty millions of dollars." If such a fund is possible for Arizona, and the principal could be invested to yield an average of 5%, it would give an annual income for the use of the public schools of \$1,620,736.00, which certainly would be of material benefit to the taxpayers of Arizona.

The Constitution of Arizona recognizes the principle that all lands granted to the State shall be held in trust and disposed of only in the manner provided by the Enabling Act of June 20, 1910. The State is held to be a trustee of the lands granted by the Federal Government, according to a decision of the Arizona Supreme Court in 1919.

A further and more complete classification of the "lands in place" follows:

<u>AGRICULTURAL</u>	<u>ACRES</u>
Dry Farm	74,245.53
Dry Farm and Flood Water	6,683.64
Dry Farm and Pumping	28,392.42
Dry Farm, Flood Water and Pumping	6,964.56
Dry Farm, Woodland and Grazing	320.00
Pumping only	112,566.81
Cultivation by irrigation	20,564.96
Susceptible of irrigation by storage or diversion	53,595.70
Woodland and Grazing	142,869.48
Grazing only	1,128,461.61
Gravel	272.00
Waste	5,098.75
T o t a l	1,580,035.46

Recapitulation

Total acreage susceptible of some form of agricultural development	303,333.62
Other classes, not susceptible of agricultural development.	1,276,701.84
T o t a l	1,580,035.46

In addition to the "lands in place" available to the State of Arizona, lands have been acquired by the selection of lieu lands, as provided in paragraph 24 of the Enabling Act as follows:

"Where sections two, sixteen, thirty-two and thirty-six, or any part thereof, are mineral, or have been sold, reserved, or otherwise appropriated or reserved by or under the authority of any act of Congress, or are wanting or fractional in quantity, or where settlement thereon with a view to pre-emption or homestead, or improvement thereof with a view to desert-land entry has been made the survey thereof in the field, the provisions of sections 2275 and 2276 of the Revised Statutes, and Acts amendatory thereof or supplementary thereto, are hereby made applicable thereto and to the selection of lands in lieu thereof to the same extent as if sections two and thirty-two, as well as sections

sixteen and thirty-six, were mentioned therein."

The general policy of the State Land Department is outlined in the Report of the State Land Commissioner of the State of Arizona for the period July 1, 1915 to December 31, 1915, which states that:

"The important work of land selections has been prosecuted vigorously. It has been the invariable policy to select under the different institutional grants lands of such character and value as will permit of ready lease or sale. Selections are based upon the initiative of the Department and, also, upon applications to select submitted by individuals."

During the periods January 1, 1917 to June 30, 1917, July 1, 1917 to December 31, 1917, and January 1, 1918 to June 30, 1918, 406,895.38 acres, 505,380.15 acres, and 554,328.56 acres were respectively selected, making a total of 1,467,404.09 acres selected from January 1, 1917 to June 30, 1918, which indicates that the lieu selections were "prosecuted vigorously." Of course, the large areas of unsurveyed lands in the State of Arizona, and the rights of "squatters" on lands were factors which delayed selections. Reports of the State Land Department show that a total of 2,377,023.41 acres had been selected to June 30, 1931. The selection of lieu lands is still in progress. However, only 40 acres were selected during the fiscal year ending June 30, 1930, and 520.49 acres for the fiscal year ending June 30, 1931. However, during the fiscal year ending June 30, 1932, a total of 311,818.13 acres were selected, making a total of selections to that date of 2,688,841.54.

The last report of the State Land Commissioner, Mr. Howard J. Smith, discloses that the total acreage in sections 2, 16, 32, and 36 in Arizona is 8,239,419.53, representing an increase over the original acreage of 8,103,680.00 of 135,739.53 acres, which is no doubt by far the more accurate figure.

This report further discloses:

ACRES

Total title to State	5,110,426.64
Total available for Base	3,954,370.81
Total unsurveyed (exclusive of reserved lands)	<u>1,174,622.08</u>
T o t a l	8,239,419.53

Quoting from Mr. Smith's Report above referred to:

"Now, The Federal Government was undoubtedly sincere in their desire to fulfill the terms of our Enabling Act and the various land grants therein. Nevertheless, twenty years after statehood we find 1,174,000 acres of school sections among the unsurveyed, unreserved public domain, with a steadily diminishing possibility of eventual acquirement by the State and an extremely remote probability that any worth-while lands shall finally succeed to the state. With the thought in mind that Federal authorities are, or should be, interested in our problems and with the further presumption that the State is entitled to the original acreage granted it, or other lands in lieu thereof, we propose the introduction of a bill in the next Congress seeking the right of protraction of these unsurveyed areas, together with the privilege by the State making indemnity selections."

We feel that the present State Land Commissioner, Mr. Howard J. Smith is to be commended and supported for his vigorous State Land Policy, which, if continued, will eventually work to the great benefit of the school lands, and will have solved the problem from the angle of the State Land Department.

However, after we get the lands as granted, after the lands are leased or sold, and the money received for them, another problem presents itself which is of transcendent importance, and that problem is the safe investment of the funds, in order to preserve for posterity a substantial principal, the income from which shall be for the use of the common schools of the state. The Permanent Common School Fund of Arizona derives its principal, which constitutes, according to the Enabling Act and the Constitution of Arizona, "A permanent inviolable fund, the interest of which, only shall be expended for the support of the common schools," from five different sources, viz: sales of state lands, 5% of the proceeds of the sales of U. S. Lands, sales of products of the lands, sales of improvements, and escheated estates.

The total amounts which have been remitted to the State Treasurer from June 30, 1913 to June 30, 1932, from each of these several sources are:

Sales of State Lands	\$2,284,690.19
5% of Proceeds of Sales of U. S. Lands	30,916.60
Sales of Products from the Lands	1,793.23
Sales of Improvements	4,391.52
Escheated Estates	8,560.40
Total	<u>\$2,330,351.94</u>

The Biennial Report of the State Supt. of Public Instruction for the Biennium July 1, 1930 to June 30, 1932, shows the amount in this fund as follows; based on the records of the State Treasurer:

State Treasurer's Balance	\$ 276,515.41
Out on Farm Loans	732,063.46
Purchase of Bonds	893,500.00
	<u>\$1,902,078.87</u>

The \$1,902,078.87, claimed to be in the Fund, deducted from \$2,330,351.94, remitted to the State Treasurer, which ought to be in the Fund, gives a discrepancy of \$428,273.07. The Permanent School Fund of Arizona should be carrying in its Capital Account a Total of \$2,330,351.94 instead of \$1,902,078.87 as of June 30, 1932.

The experience of the State of Arizona in the farm loan business has conformed quite closely to the experience of other States, which have engaged in the farm loan business with permanent funds. The first farm loans were made in Arizona during the Fiscal year ending June 30, 1917, when a total of \$85,141.00 was loaned. The following amounts have been loaned:

Fiscal Year Ending : Amount Loaned

June 30, 1917	\$ 85,141.00
June 30, 1918	363,335.00
June 30, 1919	180,420.00
June 30, 1920	567,646.00
June 30, 1921	172,029.66 which was the last loan of any

appreciable amount. A total of \$1,369,539.76 was loaned to June 30, 1932 of which \$638,537.73 has been repaid, leaving a balance of \$731,002.03, which substantially agrees with the State Treasurer's

above referred to. There has been paid \$258,329.39 in

interest, and the average rate of income for the entire period 1917 to 1932 inclusive has been 2.2%, the last two years, 1931 and 1932 the yield has been about .9% or less than 1 per cent.

A report of Lee and Garrett, Certified Public Accounts, summarizes the Farm Loan situation as of June 30, 1931:

Balance of Principal	\$742,200.82
101 Loans Active	\$184,897.24
80 Loans delinquent	246,839.11
81 Loans foreclosed or in Process .	264,909.19
6 Loans sold to outsiders for de- linquent taxes	11,357.83
Legislative Act of 1927 for benefit of Apache Co. Loans	34,197.45
Total	<u>\$742,200.82</u>
Delinquent interest	243,282.56

Lee and Garrett, commenting on the Farm Loan situation in this report, state: "The Legislature had not provided for an appropriation for the purpose of keeping records or looking after the Farm Loans in any way until Mr. Callaghan's term as State Treasurer, when a secretary's salary was appropriated out of the General Fund.

"It is a big job to get the Farm Loans straightened out, the Permanent School Fund alone having 268 loans.

"The Legislature should be requested to make further appropriations and provide for records to be kept in control, covering the separate funds as well as furnishing information on delinquent loans, both as to principal and interest. "

Quoting from the Annual Report of the late J. C. Callaghan, State Treasurer, for the fiscal year ending June 30, 1928; "The Eighth State Legislature created the position of Farm Loan Secretary and provided appropriations for salary and travel expenses. The position, being attached to the Department of State Treasurer, becoming effective July 1, 1927. The results have justified, in my opinion, the action of the Legislature.

The Secretary has succeeded, in several instances, in effecting a transfer of the obligation from the old to a new mortgagor, resulting thus in rehabilitation of the loan. In various other ways the position has justified itself. The policy of the Farm Loan Board since the year 1922 has been one of liquidation. And whether this policy is continued or not the availability of a Field Man will be, in my opinion, a constant necessity. The volume of Farm loan work is not, however, sufficient to consume all of the secretary's time, and the occupant of the position should be, for that reason, a man skilled in general office work. The situation with regard to existing State Farm Loans, a summary of which will be found elsewhere in this report, is, on the whole, decidedly discouraging. These loans were made from Permanent Federal Funds, which must inevitably be eventually reimbursed in full, and such losses as shall occur, which will, in all probability total some hundreds of thousands of dollars, and may exceed a half million dollars, must come out of the pockets of the taxpayers. The State's adventure into the banking business is destined to prove, at best, to have been a very costly experiment."

The following table shows the investment of the Permanent School Fund in Bonds, as shown by the records in the State Treasurer's office (Arizona):

<u>Description</u>	<u>Interest Rate (%)</u>	<u>Par Value</u>
Town of Williams - Gen. Obligation Bonds	6	\$ 8,000.00
Gila County - School Dist. #1, Bonds	5 $\frac{1}{2}$	20,000.00
Cochise County - Marcus Consolidated School District #21, Bonds	6	16,000.00
Maricopa County - Highway Improvement Bonds	6	20,000.00
Santa Cruz County - Highway Improvement Bonds	5	20,000.00
Florence Union H.S. Dist. #1, Bonds	5	9,000.00
Coconino County - Road Improvement Bonds	5 $\frac{1}{2}$	5,000.00
Yavapai County - School Dist. #11, Bonds	5	5,000.00
Flagstaff Waterworks Improvement Bonds	5 $\frac{1}{2}$	5,000.00
Miami Street Improvement Gen. Obl. Bonds	6	10,000.00
City of Globe, Sewer Bonds	6	125,000.00
Pima County - Sunnyside Sch. Dist. #12, Bonds	5 $\frac{1}{4}$	22,500.00
✓ Pima County - School Dist. #10, Bonds	5	20,000.00
✓ Maricopa County - Sch. Dist. #68, Bonds	5	30,000.00
Maricopa County - Sch. Dist. #5, Bonds	5 $\frac{1}{4}$	25,000.00
Maricopa County - Sch. Dist. #14, Bonds	5 $\frac{1}{4}$	75,000.00
Nogales Water Works Improvement Bonds	5 $\frac{1}{2}$	13,000.00
Maricopa County - Sch. Dist. #38, Bonds	4 $\frac{1}{2}$	10,000.00
Maricopa County - Sch. Dist. #45, Bonds	5	35,000.00
Maricopa County - Sch. Dist. #8, Bonds	5	10,000.00
Maricopa County Highway Bonds	5 $\frac{1}{2}$	10,000.00
City of Phoenix - Additional Water Works	6	5,000.00
Maricopa County - Sch. Dist. #57, Bonds	6	10,000.00
Maricopa County - Highway Improvement Bonds	5 $\frac{1}{2}$	16,000.00
Maricopa County - Sch. Dist. #10, Bonds	5 $\frac{1}{2}$	5,000.00
Maricopa County - Peoria H.S. Dist. Bonds	6	10,000.00
Maricopa County - Highway Bonds	5 $\frac{1}{2}$	10,000.00
City of Phoenix - Water Works Bonds	6	25,000.00
City of Phoenix - Water Works Bonds	4 $\frac{1}{2}$	50,000.00
City of Phoenix - Sewer Bonds	4 $\frac{1}{2}$	5,000.00
City of Phoenix - Water Works Bonds	5	5,000.00
Gila County Refunding Bonds	5 $\frac{1}{2}$	100,000.00
Town of Miami - Sewer Bonds	6	25,000.00
City of Prescott - Water Works Bonds		150,000.00
GRAND TOTAL (As of October 24, 1933)		\$ 909,500.00

May not Arizona, the baby State, having the experience of other States for guidance in these matters, clear her record of the past twenty years and set up machinery for the scientific and careful conservation of her permanent funds for the benefit and use of the children of the State? Let not Arizona be classed with those States of which Professor Swift so forcefully writes; in his Federal and State Policies in Public School Finance in the United States:

"An incomplete record shows that in thirty-two of the states funds totaling many millions of dollars have been lost, diverted, or squandered. In sixteen states school endowments exist entirely or in part only as unproductive state debts, and in nine states the funds annually reported as permanent endowments are mere fictions, having no existence whatever except on paper."

We believe that the rehabilitation and proper conservation of the Permanent School Fund of Arizona depend upon the initiation and carrying out of the following recommendations:

1. That the Legislature should issue certificates of indebtedness, maturing over a period of years, to cover the present deficits in the Fund, such amount to be based upon a careful audit of the State Treasurer's books and the State Land Office.
2. Provision for a closer co-ordination with regard to these funds between the State Land Office and the State Treasurer's Office.
3. Provision for an annual audit of the State Treasurer's Office and the State Land Department, and the setting up of a complete book record covering these funds.
4. The creation of the office and appropriation for a Permanent Secretary of the various funds, whose duties shall be to work and cooperate with the State Land Department and the State Treasurer's Office in all matters pertaining to the permanent funds, and particularly to follow up all loans and investments of whatsoever nature, and be able to show all transactions in the moneys belonging to said funds and to give at any time the exact status of any of the permanent funds. Ample travel allowance should be made for this Secretary.
5. A study of the best types of investments should be made, with a close limitation placed on the investments by Legislative Act.
6. Large bank balances should not be carried in moneys belonging to the Fund, but the moneys should be kept invested in sound securities.
7. The Legislature should support these funds by adequate appropriations. Surely, when millions are at stake, this is worth while, and will eventually inure to the benefit of the taxpayers and to the children of Arizona.