

Kirsten Stewart:

Welcome to Connect Canyon, a podcast sponsored by Utah's newest and fifth-largest school district. Learning is about making connections and here at Canyons School District, we invite you to connect and learn with us. I'm your host, Kirsten Stewart. Today, we'll be having a conversation about an important source of funding for Utah's public schools known as the Permanent State School Fund. Now, that's a jargony name that may not mean much to some of our listeners, but this fund is unique. It's unique in how it's sourced or kept flush with revenue. It's unique in how the money is managed. It's unique for how the money is allocated, and it plays a vital role in fueling school improvement. And to understand its origins and purpose we're going straight to the source. The custodian of the school fund, Utah's State Treasurer, David Damschen. Thanks for joining us, Dave.

David Damschen:

It's great to be with you. Thanks for the invitation.

Kirsten Stewart:

Since we may have some students listening today, let's start by having you explain your role as State Treasurer, David. How would you describe your role as a member of Utah's Executive Branch? What are some of your key responsibilities?

David Damschen:

Certainly, yeah. So, the State Treasurer is one of five constitutional officers of the state: The Governor, Lieutenant Governor, Attorney General, Auditor, and Treasurer. We are all independently statewide elected, and we work together along with legislators and others, leaders in the education community, to solve problems for Utahns. My office is quite unique in that I'm basically the state's elected Chief Financial Officer. We issue bonds when the state decides it's time to build a new prison like we're building, or expanding highways in the state. We borrow money, we need to issue bonds. And so, I lead the process of issuing those bonds to fund critical public infrastructure.

David Damschen:

We establish all the state's banking contracts and administer those contracts with financial institutions around the country. We run an \$18 billion local government investment pool. That's \$18 billion of money from state agencies: your school district, your city, your county, every other city and county virtually around the state, higher education institutions. Basically any and every public entity in the state has at least one account, if not many, in that \$18 billion investment pool that we manage.

David Damschen:

I also have a second state agency called Unclaimed Property where we go out and serve as custodians of lost money. We work to find the rightful owners of that lost money and get it back to them. This last year we reunited over \$40 million with Utahns. It was an all-time record. And I also serve on 19 boards and commissions of the state by law including agencies like the Utah Retirement Systems, the Utah Housing Corporation, the Permanent Community Impact Board and many, many others. It's a great job. I never get bored. Lots of variety in what I do.

Kirsten Stewart:

One of the funds for which you're a custodian is the Permanent State School Fund. Talk to us about that fund and its origins. Where does the money come from and what is it used for?

David Damschen:

So, when we came into being as a state, that was done by an act of the United States Congress in 1894 in what's called the Enabling Act, the Utah's Enabling Act. As part of that Enabling Act, Congress granted more than 7 million acres of Utah land into 12 trusts. And by far and away, the largest of all of those trusts is the trust for what was then called the common schools. It's really basically Utah's public education system. And that was one-ninth of lands within Utah, about 6 million acres, were granted into the Public Schools Trust. And other trusts were established to support higher education institutions, the School for the Deaf and Blind, a miners hospital, reservoirs. There's kind of a miscellaneous mishmash of trusts. But again, the largest trust by far is for the public schools.

David Damschen:

The legislature created an agency called SITLA in 1994 to maximize the professional management of those lands, to develop them. Much of that land is used for mining, extraction of oil and gas. Some of it is developed and sold and built on. Sometimes, some of those lands are not particularly valuable, and sometimes they're swapped with the federal government for more valuable lands. So SITLA administers those kinds of processes. And every year SITLA monetizes those assets whether it's from mining and oil and gas or land sale or etc. and SITLA brings in 10s of millions of dollars from those practices, managing those land assets. And that money goes into an investment portfolio that's administered by another agency called the School and Institutional Trust Fund Office, and I chair the board that oversees that office. It's about a two and a half billion dollar investment portfolio. And the money that we distribute to the schools each year comes out of that fund.

David Damschen:

Very, very early on when the trust was first created, the proceeds from the trust were very strictly interpreted to be interest only. And then over time, it was recognized that it would be appropriate with a longtime horizon to invest in stocks and other types of investments beyond bonds. And of course, they generate dividend income. And so dividend income was determined at one point to be, in essence, synonymous with interest income. And then we amended the state constitution in 2016 with constitutional amendment B, to define the revenues or the proceeds from this fund that could be used to in essence include, along with dividends and interest, capital gains and assets.

David Damschen:

So, that allows us to be a little bit more flexible. And it provides us with more stability of those distributions. Back when the global financial crisis happened, and interest rates plummeted on bonds at the same time that dividend yield from dividend paying stocks plummeted, we saw a huge decline in distributions from this fund. And so, the passage of constitutional amendment B along with some companion legislation has allowed us to iron out some of those sharp kinks in the dollar flows over time. We use a smoothing calculation when we calculate those distributions so that they don't just jump up and down with changes in the financial markets. So that there's more continuity and more stability in those distributions over time for schools in Utah.

Kirsten Stewart:

David, you recently announced that the Permanent State School Fund will make the largest ever distribution to Utah schools this coming year. Schools are slated to receive a record of \$92.4 million from the Permanent State School Fund in July 2021. And that's a 4.5% increase from this year's distribution and a 12% increase from last year's distribution. Now, in talking to some of my administrator colleagues, they were surprised by that increase. What's behind the growth?

David Damschen:

Yeah, well, you do have that ongoing flow of funds from SITLA, and that smoothing calculation allows us, if people are looking at recent activity in the markets, they might think, gosh, we probably lost a lot of value. Well, most long horizon investment portfolios lost significant value in March or April, but you might also know that there's been a pretty sharp rebound in the value of financial assets since then. That really doesn't weigh into this distribution much because we have a three year look back when we do this rolling average calculation. So there's been pretty consistent growth in the portfolio.

David Damschen:

The biggest changes that have occurred with those investments since we created the School and Institutional Trust Fund Office is we've sort of re-engineered the investment portfolio to be much better diversified. Previously, it was heavily weighted towards publicly traded stocks or equities, global equities. And there was very little in the way of what are called private assets, which are relatively illiquid, but they also bring greater diversification. They have lower correlations with other types of publicly traded assets. And so, the best way I describe it is it's kind of like an insurance policy. You're creating more stability in how those assets fluctuate over time when you invest in a broader set of asset classes that don't all act the same way at the same time based on how they're acted upon by economic dynamics, if that makes sense.

Kirsten Stewart:

Sure, this is something we should all be doing, right? As we look to retire have as diversified an investment portfolio as possible.

David Damschen:

That's exactly right. You know, when you have a long time horizon, it's important that you expose your assets, your money to what are called risk assets, stocks and real estate and things that will appreciate in value over time, but that will also have or present to you some volatility over the short term. I was talking to a friend recently. He had looked at a recent 401(k) statement and he was bemoaning the fact or commiserating with a coworker that there was a 15% decline on his 401(k) balance over a short period and I said, "You know better than that." When you're investing for your retirement, which is for most of us, you know, 10, 20, 30 years away, you don't sweat the small stuff and worry about fluctuations month to month and year to year. Over the long span of time, those assets grow, and they grow more strongly in the stock market where you take a little bit more risk, and you receive a little bit more in return in exchange for that risk.

Kirsten Stewart:

Talk to me about the role of the Land Trust Advocacy and Protection Office. That's a fairly new entity, correct?

David Damschen:

It is, yeah, they were just created a couple of years ago. Schoolchildren in Utah of today and the future, they are the beneficiaries of the school trust. And all that we do is solely for their benefit, and that's who we work for. That's called a fiduciary obligation, and that's how we all work. So these beneficiaries, the schoolchildren of today, and the future, they're not necessarily in the room with us when we're making decisions. But we want someone that represents their interests to be in the room with us when we're making critical decisions, so that someone's kind of watching out for them.

David Damschen:

Now, we're watching out for them as trustees, but there's another layer of oversight and protection as well as advocacy. And advocacy is really just making sure that there's a voice on behalf of the beneficiaries of our schoolchildren with legislators, policymakers in the state. When they're considering passing laws that might impact this trust, that the interests of these schoolchildren who are not at the table, don't have a voice, that someone's there to represent them. And that's the role of the Land Trust Protection Advocacy Office. That beneficiary's representative role was served previously by a Children's Trust section under the State Board of Education. And so, there's been for many, many years a beneficiary's representative working on behalf of schoolchildren in Utah. The creation of this office was just a shift in terms of who is responsible for that oversight, and who they're overseen by and who's ultimately responsible for the work that they do on behalf of the beneficiaries.

Kirsten Stewart:

Now, this money, as you described, is for Utah's schoolchildren. Maybe explain next how the money gets to the end of the row or how it's distributed to schools, and the process schools use to determine how the money will be spent.

David Damschen:

Yeah, so, I like to say that this is some of the most high impact money in our school system. The money is distributed directly to each school in Utah, each so called regular public school and charter school. And each school has a community council, comprised of the principal, teachers, and parents who sit down together and establish the school's most critical academic needs and decide what they're going to do with this money. The money can't be used for teacher salaries generally, although there are teachers' aides that might be involved.

David Damschen:

My wife was working with gifted and talented students in a pullout program. These were for students that qualified for the Davis School District's Gifted and Talented Program, but they didn't want to go to one of the anchor schools where that program was administered. But their parents and their teachers wanted them to be exposed to greater than extra challenges. And my wife worked as a teacher's aide and work with those gifted and talented students, and she was paid from school trust monies that was administered under that school's community council. So I think that's really important. That gives the teachers and the parents at the school level a lot of discretion to decide where those resources are most needed, and I think it's very powerful that way.

Kirsten Stewart:

Well, I know school principals value this funding because it provides them with flexibility to meet local school needs and implement locally grown classroom innovations and improvements. Having more money this year will translate to more Chromebooks for schools that need them or more instructional

aides to help struggling readers. But you also have a responsibility to safeguard these funds for the long term. How do you strike that balance?

David Damschen:

When we went and saw constitutional amendment B passed, it wasn't about opening up the coffers, and, you know, pushing the money out the door. Of course, we have to be careful to ensure that schoolchildren of 100 years from now benefit roughly equally to school children of today. One of the important things we did is we actually put a cap on those distributions so that we don't get carried away and take too much out of the trust now. So it's a delicate balancing act to manage those funds so that we can smooth out some of that volatility over the short term. So we can see substantial growth enough to beat inflation over the long term.

David Damschen:

And to again, try to strike that intergenerational equity, which is a lot of syllables. (laughs). But it's really important that we're managing it in that way because we're serving schoolchildren that are not yet born, along with the school children that are out there benefiting this year. And that's a really important part of what we do, and I love hearing that. And we want to see that growth continue, but we want to be prudent in not cutting loose with so much of that money that we deplete the fund over time. And I say that because we had neighboring states, Arizona is one, that has become so desperate for funding. They've gotten carried away, and they're pulling imprudent levels of funding from their trust fund. And we don't want to be in that position. That's not how we roll in Utah, and I think we're doing a good job of striking that balance.

Kirsten Stewart:

Well, it's also worth noting that these trust lands aren't necessarily a renewable resource, right?

David Damschen:

That's another great point. This type of trust in other states works a little bit differently. Take Idaho, they have a lot of timber land that is entirely renewable. But so much of our revenues come from oil and gas. And we all know that oil and gas and coal are on the decline and ultimately they should be and will continue to decline. And so, when you think about what's coming into the trust from the lands, yeah, here in Utah, we don't have a lot of renewable timber resources. There are some exciting opportunities in solar energy installations and so forth. And I think we'll see more and more of that coming along on some of these trust lands.

David Damschen:

I just have to really commend the School and Institutional Trust Lands Administration, SITLA. They're controversial. Sometimes they have to do things that local Utahns don't like. That local governments don't like. But frankly, their job is to optimize the value of these land assets for the beneficiaries. And people get confused sometimes, these are not public lands, per se. They are trust lands. And in the case of the schools trust, these are lands that are owned ultimately by the schoolchildren. And so, it is SITLA's job to optimize the value of those lands on behalf of its beneficiaries. That doesn't always make people happy in terms of what they're doing with that economic imperative.

Kirsten Stewart:

What kind of growth have you seen in annual distributions over the years? Do you have some figures you can share to help our listeners put that in perspective?

David Damschen:

So, the Land Trust Program was created in 1999, I believe. And in the first year of the program, the average per pupil amount that we sent out was \$10. And that has increased now to \$133 per student. And from the inception of the School Land Trust Program until now, that program has distributed in total \$704.4 million to Utah schools.

Kirsten Stewart:

Wow, that's a big number, and I think speaks to how well these funds are managed. Thank you again, David, for joining us. It has truly been a pleasure talking with you today. I know you're very busy and have other obligations to attend to. But quickly, is there anything you would like to say to the parents and teachers who serve on the school community councils that determine how these precious dollars are spent?

David Damschen:

I would just say thanks to those that serve, are willing to serve on the school community councils and the charter school trust councils. Such an important role. And, of course, those academic needs are so unique and different at each school, and that's what makes it so powerful. And we have to have that voice, from the teachers and the parents because there's no one more important in this entire public school system than the student and the families and the teachers that are working for their best interests and their education.

David Damschen:

It's one of the most important jobs in our society. And I'm more appreciative by the day, especially in this crisis that we're in with the pandemic. So appreciative of what teachers are doing. They have one of the toughest jobs. They're not adequately paid. I don't know if we can ever feel that we're paying them as much as we should. And I'm appreciative that so many of them do it out of a love for what they do, out of a passion for education, and for preparing our next generation to be successful in their endeavors. I would just say thanks to everyone that's involved in the administration of these precious resources. It's critically important.

Kirsten Stewart:

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