

SUBJECT: Designating land sale and mineral lease funds to buy school fund land

COMMITTEE: Land and Resource Management — favorable, without amendment

VOTE: 8 ayes — Walker, Crabb, F. Brown, Geren, Howard, Mowery, Truitt, B. Turner

0 nays

1 absent — Krusee

WITNESSES: For — David Dewhurst, General Land Commissioner

Against — None

BACKGROUND: In 1973, the Legislature authorized the General Land Office (GLO) and School Land Board (SLB) to trade state-owned school land or mineral interest in that land for other land of equal or greater value. In November 1985, voters amended the Texas Constitution to authorize proceeds from Permanent School Fund (PSF) land to be used to acquire other land for the PSF. Also in 1985, the 69th Legislature consolidated management of state-owned lands under the SLB and created GLO's Asset Management Division. The division's task is to inventory and evaluate real property assets owned by the state to determine if assets are underused and, if so, to recommend an alternative use or sale of the property.

In 1995, the 74th Legislature adopted SB 1262 by Montford, granting the division additional authority to conduct real estate transactions approved by the Legislature or the governor. SB 1262 also gave GLO the right of first option to buy state agency land identified as unused or underused.

Natural Resources Code, sec. 51.401 authorizes a GLO special fund account for the proceeds from sale of PSF land that can be used to buy other land for the PSF. Any revenue in the account must be used within two years of its deposit or the funds will be deposited in the PSF.

DIGEST: HB 3558 would allow the SLB to use funds it generates from sale and management of PSF real property and proceeds of mineral leases and royalties from PSF mineral interests to buy additional real property for the PSF. All revenue would have to be deposited in the special fund account under Natural Resources Code, sec. 51.401, and the funds would have to be used within two years or transferred to the PSF.

HB 3558 also would allow proceeds from the special fund account to be used to acquire mineral and royalty interests for the PSF.

The bill would take effect September 1, 2001.

SUPPORTERS SAY: HB 3558 would allow the special fund account to accumulate enough funds to acquire more valuable property for the PSF. Most real property remaining in the PSF inventory consists of scattered tracts and raw range land in the Trans-Pecos region. These assets have been identified for sale because they have little income potential. Sales of these low-value assets could be supplemented with other revenue that could be used to buy higher-valued state agency properties or other land.

The two-year limit on holding proceeds in the special fund would remain in force. Funds would have to be used within a reasonable time or be deposited in the PSF. Because the limit also corresponds with the biennial legislative session, the Legislature would have the opportunity to review the fund during the budget process.

Granting the PSF additional resources to buy more valuable land would boost PSF revenue, and, in turn, provide more money for local school districts. The Texas Constitution authorizes the PSF to invest in real property as directed by the Legislature. Property acquired by the PSF must be purchased at no more than fair market value. Therefore, the net effect on the overall fund would be neutral as new land was purchased. However, the increased revenue from newly acquired land would be deposited to the Available School Fund and those proceeds distributed to local school districts.

The SLB has been prudent in its management of the PSF. HB 3558 would grant the board the flexibility it needs to replace low-value land with property that could produce more income for the PSF.

OPPONENTS SAY: Diversion of property sales and mineral interest proceeds temporarily could reduce the liquidity of cash assets available to the PSF, particularly if proceeds were kept to the two-year limit. This potentially could reduce funding available to the ASF and local school districts if rental revenues did not offset the reduction in available cash assets.

NOTES: The companion bill, SB 1687 by Ellis, has been referred to the Senate Education Committee.