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**From:** State Treasurer Jeff DeWit

**Sent:** Tuesday, July 14, 2015 12:23:16 PM

**To:** All 90 Members of the Arizona Senate and House

**Subject:** Treasurer position on State Land Endowment proposal

Dear Members of the Senate and House,

The Treasurer's office has received a number of requests from Legislators asking for my position on the executive proposal in regards to the Permanent Land Endowment Trust Fund. I have met with as many of you as I can to discuss the downsides of the current plan, and to discuss alternatives. While I support the Governor's intent of putting more money into Arizona schools, as a Trustee of the Trust Fund and as Chairman of the Board of Trustees of the State Board of Investment, I respectfully oppose this proposal.

The 1998 Arizona Constitutional and Enabling Act changes that allowed the Trust Fund to invest in stocks also protected it from inflation and required the Trustees to follow the prudent investor rule. The 2012 Arizona Constitutional change that allowed for a steady and predictable distribution from the Fund was consistent with the 1998 changes. The Governor's proposal, which calls for a 10% distribution for five years from the Trust Fund, followed by a 5% distribution for five additional years, is inconsistent with the 1998 and 2012 changes to the Congressional Enabling Act and the Arizona Constitution. It violates the prudent investor rule, does not protect the Trust Fund from inflation, and will dip into the corpus (principal) of the Fund. The proposed future estimates provided by the Governor's Office are also highly optimistic as they assume no negative stock market returns or corrections during the next 10 years.

Please note there is some misinformation about the proposal, which is understandable given that we have not been provided language on it yet. To be clear, the Governor's proposal is not to increase distributions to 10% of Earnings. The proposal is to distribute 10% of the total Net Asset Value, which includes the principal (aka "Corpus") of the Trust Fund for 5 years. Despite claims of underperforming for our schools, the Trust Fund is distributing the most money it ever has to schools starting this month, based on action taken during my first Board of Investment meeting as Chairman in January.

The objective of the Trust Fund is intergenerational equity in perpetuity. A 10% payout is not to be found in any other Trust, Endowment or Foundation. No state in the country has a defined benefit retirement plan with an income expectation of 10%. This proposal could face years of litigation with questionable outcomes. This further delays funding to our schools and subjects Arizona to another costly and public court battle. This proposal also does nothing to alleviate the current lawsuit from the schools or the Legislature's appropriation responsibilities to fund education. While the plan may pay out \$2 Billion more during the 10 year period to K-12 schools (assuming the stock market continues going up for the next ten years), it would provide nearly \$8 Billion less to schools over the following forty years, and reduce payments to schools by a total of \$87 Billion by Arizona's 200th Birthday. As already pointed out in the recent JLBC report, this proposal reduces the value of the Trust Fund by \$3.7 Billion once its 10-year time frame expires. The economic loss grows from there, diminishing the value of the Trust Fund by \$175 Billion by 2112. To quote Albert Einstein, "Compound interest is the eighth wonder of the world. He who understands it, earns it... he who doesn't... pays it."

This proposal also creates a \$987 million fiscal cliff in 2022 for beneficiaries by dropping distributions from 10% to 5% during the same year that the Proposition 301 sales tax of 0.6% that benefits schools, the universities and community colleges expires. I have attached a PDF with two charts to this email that illustrate this funding cliff in fiscal year 2022 and how the proposal impacts the value of the Trust Fund and future distributions.

This is not "new money" for our schools. We are but the current custodians of an over 100-year old Trust Fund that has been entrusted in our care for all of Arizona's children, not just the children of the next five or ten years. While this may help those who are set to graduate in the next five years, those in elementary school or younger will see a \$1 Billion drop off in funding before they even reach high school.

The best legal and Constitutional answer for maximizing the returns of the Trust Fund is selling more Trust land. We should focus our energy on the \$70 Billion or more in underproductive land assets which can accomplish the same goal with even better and permanent results. A possible first step is to commission an inventory of sellable lands and a five

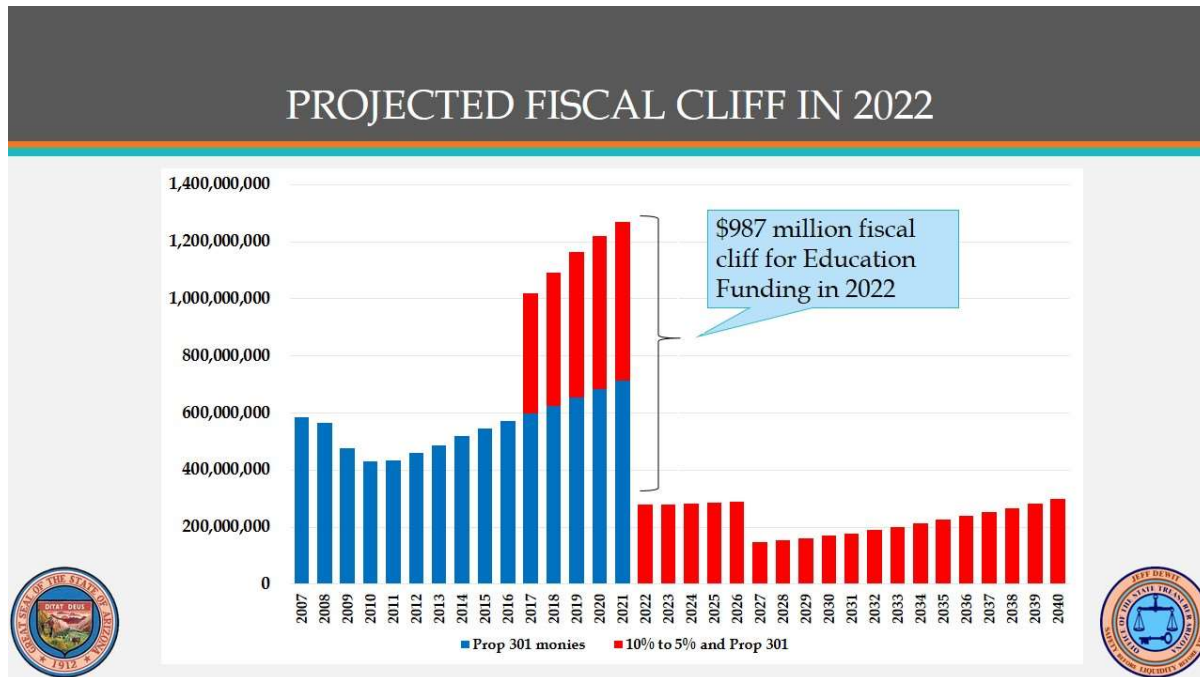
year plan to maximize the amount we are putting into the Trust. On top of increasing income to our schools, this creates jobs and puts more land on the tax rolls which further helps fund schools. This Trust Fund is the one thing in Arizona Government that looks past today's needs and protects our children, and our children's children. The money in the more than 100-year old Trust is Arizona's to manage, not to give. I have spoken with former State Treasurers Dean Martin and Carol Springer and they also oppose this proposal. I have attempted to work with the Governor's office on alternatives that are financially and legally sound and provide more money to our schools, but those efforts have been unsuccessful. I ask each of you that we jointly seek an alternative method to increase the funding of our schools.

If you have any questions on the Permanent Land Endowment Trust Fund please contact my office.

Sincerely,  
 Treasurer Jeff DeWit  
**Jeff DeWit**  
**Arizona State Treasurer**  
**PH# 602.542.7800**

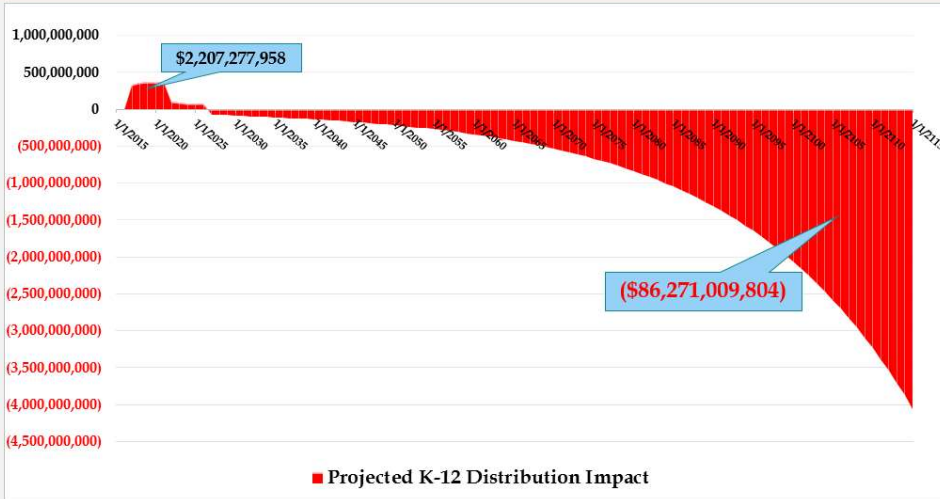


Email Attachments: (Please click on the following images to view a larger version)



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# K-12 Future Distribution Impact Proposed Distribution Policy vs Current Policy



(/wp-content/trustfundletter/Slide2.JPG)

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