



OFFICE OF THE
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ARIZONA'S ENDOWMENT DISTRIBUTION FORMULA SIMPLIFIED

K-12 Education to Receive \$8.4 Million More in FY 2013

PHOENIX – With the passage of Proposition 118, the Permanent Funds Amendment, Arizona voters have amended the formula used to distribute earnings to the 14 beneficiaries of the \$3.67 billion Permanent Land Endowment Trust Fund managed by the Arizona State Treasurer's Office. With K-12 education being the largest beneficiary, receiving more than 90 percent of all proceeds, the new formula will result in an \$8.4 million additional distribution to Arizona's public schools.

Earlier this year the Treasurer's Office and Board of Investment conducted the first-ever asset allocation study for the Endowment. The analysis concluded that distribution formula being used was flawed and proposed that it be simplified to ensure more consistent and reliable funding for its beneficiaries. The new formula was presented as House Concurrent Resolution (HCR) 2056, sponsored by State Representative Steve Court, and was passed unanimously by the Arizona Senate with a vote of 28-0, and by the Arizona House of Representatives with a vote of 45-15.

"Fixing this formula is good news for our public schools and for taxpayers," said State Treasurer Doug Ducey. "After we discovered that the old formula would cause continued budgetary uncertainty, we received broad bipartisan support in the Legislature and from both the business and education communities to make sure Prop 118 was passed by the voters."

The original distribution formula for the State Land Trust Permanent Endowment Fund was added to the Arizona Constitution in 1998 at the same time the fund was given permission to invest in the stock market. This formula was determined by the five year average total rate of return, adjusted for inflation by subtracting the five year average GDP price deflator, then multiplied by the five year average market value of the fund. By adopting a flat distribution of 2.5 percent each year based on the previous five years of market value of the Endowment, the fund will avoid years where there is zero dollars in distributions, as was the case in 2010.

The new formula will be employed for fiscal years 2013 through 2021. The distribution will revert to the original formula again July 1, 2021, barring any further action by a future Treasurer or Legislature. It is the hope of Treasurer Ducey and the Board of Investment that future asset allocation studies be performed to continue to evaluate the performance of the distribution formula, as well as the overall health of the trust's investments.

"I believe good government has sunset provisions," added Ducey. "Too many times taxpayers are stuck dealing with the unintended consequences of good intentions. If this formula performs like we expect it to, voters will have no problem reinstating it again in the future."

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