"A cultivated mind is the guardian genius of democracy, and while guided and controlled by virtue, is the noblest attribute to man. It is the only dictator that free men acknowledge, and the only security that free men desire." — Mirabeau B. Lamar 1838

This visionary statement was the forerunner of a great state endowment known as the Permanent University Fund, established by the people of Texas in their constitution of 1876. The constitution granted the fund over one million acres in Texas land. This great landmass was increased by the state Legislature in 1883 by an additional one million acres of West Texas land. The lands of this second grant had been previously given to the railroads, but because they were considered too worthless to survey, the railroads returned them to the state. Ironically, these “worthless lands” turned out to have some of the richest oil and mineral deposits on earth.

By the late 1800’s, the industrial revolution was in full gear and oil was the fuel that powered it. Texas, however, was a latecomer to the oil boom. It wasn’t until the discovery of oil on Spindletop Hill in 1901 that it was conclusively proved that Texas contained vast quantities of oil that could be successfully harvested. This discovery marked the birth of the modern oil industry in Texas. Drilling rigs quickly became a common sight along the Texas Gulf coast, and thousands of individuals from across the nation began rushing to Texas to join the oil boom.

It was also in 1901 that the Legislature authorized The University of Texas to "sell, lease, and otherwise control" the mineral interests in the PUF lands. However, it took more than two decades before a significant oil find was made on university lands. The Santa Rita No. 1, so christened by Catholic nuns after the patron saint of the impossible, erupted on May 28, 1923. The money began rolling in.
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The essential guide for the PUF is to continue to balance the needs and interests of present beneficiaries with those of beneficiaries of the future. The Texas Constitution states: “The amount of any distributions to the available university fund shall be determined by the Board of Regents of The University of Texas System in a manner intended to provide the available university fund with a stable and predictable stream of annual distributions to maintain over time the purchasing power of permanent university fund investments and annual distributions to the available university fund.”

Looking forward, when future generations study the PUF’s history, time again will tell the story of the PUF’s enduring support for academic excellence at the University of Texas and Texas A&M University institutions.
Many legislative and legal events throughout the 20th century transformed the PUF to what it is today.

- 1926 - The Texas Supreme Court ruled that proceeds from the sale of oil from the PUF lands should be considered sale of part of the “corpus of the estate” and could not be regarded as income.
- 1928 - The Texas Attorney General issued an opinion stating that the UT Board could issue bonds against the annual income from the PUF.
- 1931 - Legislation was passed which provided that the income from the PUF be divided two-thirds to The University of Texas and one-third to Texas A&M University.
- 1947 - Due to rapidly increasing enrollments, a constitutional amendment was passed authorizing a significant-sized bond issue. The proceeds would be used to fund not only The University of Texas and Texas A&M University, but also The University of Texas Medical Branch at Galveston.
- 1956 - Constitutional amendment allowed the PUF to invest in corporate stocks and bonds and the UT Board was allowed to issue PUF bonds in an amount not to exceed 20% of the PUF cost value (exclusive of real estate).
- 1978 - The Texas Attorney General issued an opinion that interest accruing from the PUF must be used to retire outstanding debt obligations and to finance permanent improvements.

During the mid-1970’s to mid-1980’s mineral royalties surged and were the source of growth to the PUF’s investment income, much of which was obtained through fixed income investments earning double-digit interest rates during periods of high inflation.

- 1984 - Constitutional amendment enlarged the overall bonding capacity of the University of Texas and Texas A&M University Systems to 30% of the PUF’s cost (book) value. Existing University of Texas and Texas A&M University System institutions were eligible to benefit from PUF bond proceeds. This nearly doubled the number of beneficiaries receiving PUF support.
- 1986 - Constitutional amendment authorized the UT Board to invest according to the “prudent person” investment standard thereby creating greater flexibility in the choice of investments.
- 1996 - Legislation was passed allowing the UT Board to enter into a contract with a newly formed entity, The University of Texas Investment Management Company (UTIMCO). UTIMCO, the first external investment management corporation formed by a public university system, with its own dedicated Board appointed by the UT Board, assumed investment management responsibilities for the PUF.

PUF distributions to the AUF essentially remained flat during the 1990’s and it became apparent that maintaining the purchasing power of PUF distributions could only occur by tying the distributions to the market value of PUF investments.

- 1999 - Constitutional amendments provided that distributions from the PUF would be based on the total return of all investment assets, including net gains on investments. This amendment directed the Board of Regents to establish a distribution policy that provided stable, inflation adjusted annual distributions to the AUF and preserved the real value of the PUF Investments over the long term.

With the amendment of the Texas Constitution through Proposition 17 in 1999, distributions from PUF investments to the AUF increased by 12.8%, 6.6%, and 6.7% for the fiscal years ending August 31, 2000, 2001, and 2002, respectively.

The PUF’s mission has been clarified and reaffirmed by legislative action throughout the last 125 years. The PUF has changed from a mineral-based fund to an investment-based fund and today serves more than 160,000 students at 18 institutions and six agencies of The University of Texas System and The Texas A&M University System.
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Following the mid-1980’s, a decline in interest rates and mineral royalties indicated that future growth in annual PUF distributions to the Available University Fund (AUF) needed to be generated through total return (interest, dividends, and capital gains) on investments.

- **1988** - Constitutional amendment authorized the UT Board to invest according to the “prudent person” investment standard thereby creating greater flexibility in the choice of investments.
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The Permanent University Fund Today

PUF Lands
PUF Lands consist of 2.1 million acres in 24 counties primarily in West Texas and are managed by the UT System under the direction of the Board of Regents. The lands produce two streams of income: one from oil, gas, and mineral interests, and the other from surface interests such as grazing.

PUF Investments
The PUF Investments consist of a diversified portfolio of broadly defined equity, fixed income and absolute return investments and are managed by The University of Texas Investment Management Company (UTIMCO).

PUF Beneficiaries
The PUF has grown over the last 125 years to support 18 component institutions and six agencies of The University of Texas System and The Texas A&M University System.

PUF Distributions to the AUF

- PUF distributions to the Available University Fund (AUF) are from the total return on PUF investments, including income return as well as capital gains (realized and unrealized) and the net income attributable to the surface of the PUF lands (refer to flow chart on back cover).

- The Texas Constitution directed the UT Board to establish a distribution policy that provides stable, inflation-adjusted distributions to the AUF and preserves the real value of the PUF investments over the long term. To achieve this, the annual distribution was established at 4.5% of the prior 12 quarters’ average net asset value of the PUF Investments, as determined each February 28 for the following fiscal year. (The annual distribution percentage has been increased to 4.75% effective for the fiscal year beginning September 1, 2002.) PUF distributions to the AUF are subject to the following overriding conditions:
  1. A minimum amount equal to the amount needed to pay debt service on PUF bonds;
  2. No increase from the preceding year (except as necessary to pay debt service on PUF bonds) unless the purchasing power of PUF Investments for any rolling 10-year period has been preserved;
  3. A maximum amount equal to seven percent of the average net fair market value of PUF Investments in any fiscal year, except as necessary to pay debt service on PUF bonds.

The average annual distribution rate for the 493 College and University Endowments as reported by the National Association of College and University Business Offices (NACUBO) study for June 30, 2000, was 4.9%. According to the study, institutions with smaller endowments tend to report a slightly higher distribution rate on average than larger endowments. Endowments with greater than $1.0 billion in assets reported an average rate of 4.1%.

Available University Fund (AUF)
The Available University Fund (AUF) is the recipient of PUF distributions and is allocated for the benefit of eligible institutions of The University of Texas and The Texas A&M University Systems, two-thirds and one-third, respectively.

Each System’s portion of the AUF is expended to fund two major programs as follows:

- Debt service on PUF bonds issued to fund capital.
  The constitution authorizes the UT Board and the Texas A&M University Board to issue bonds (PUF bonds) payable from their respective interests in the AUF. PUF bonds are issued to finance construction and renovation projects, major library acquisitions, and educational and research equipment at the 18 eligible campuses and six agencies of the two university systems. The UT and Texas A&M University System boards may issue bonds secured by each system’s interest in the AUF in amounts not to exceed 20% and 10%, respectively, of the book value of PUF assets at the time of issuance.

- After the payment of debt service on PUF bonds, each system may spend their residual portion of the AUF on academic excellence programs. These programs may include expenditures for scholarships and fellowships, student services, organized research, institutional support, library books, and many other items.
  In combination, these activities enhance the universities’ competitive posture as they seek to attract the best scholars in fulfilling their roles as world-class academic and research universities. Distributions for academic excellence programs take second priority to debt service on PUF bonds and are limited to support of UT Austin, Texas A&M University, and Prairie View A&M University.

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