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THE 1932 STATUS
of
THE PUBLIC PERMANENT COMMON SCHOOL FUNDS
OF THE SEVERAL STATES

by

W. L. Gottenberg

Presented in partial fulfillment of the
requirement for the degree of
Master of Arts

State University of Montana

1933

Approved:



Chairman of Examining Committee



Chairman of Graduate Committee

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W. L. Gottenberg

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CHAPTER I

INTRODUCTION

Possibly no greater changes have occurred, since 1905, in any of the finances of education than those found in the various permanent school funds of the United States. The first important study carried on in this field was by F. H. Swift in his work, History of the Public Permanent Common School Funds in the United States, 1795-1905, Henry Holt and Co., N. Y., 1911. This study embraced all phases of the permanent school funds up to the date of 1905, giving history, origin, management, and losses of the funds in various states.

Since the time of that study there has been no really complete work in the field. M. N. Orfield in his work, Federal Land Grants to the States, Studies in the Social Sciences, University of Minnesota, No. 2, 1915, outlined the grants of land to the states by the Federal Government for the purpose of education. This work really gives the background to the beginnings of all the permanent school funds.

The more recent investigations have all been made by Swift alone or in collaboration with others. The first of such works, The Declining Importance of the State Funds in School Finance, School Review, Vol. 29, Sept., 1921,

pp. 534-546, in which very little emphasis is placed on the permanent school funds, was made by Swift alone. In this study he reviewed state aid in general, referring to permanent funds only in so far as they contributed to state aid.

The second important recent work, Studies in the Public School Finance, (The West), California and Colorado, Research Publications, University of Minnesota, Educational Series No. 1, 1922, was also carried out by Swift. The purpose of this study, the same as, Studies in Public School Finance, (The Middle West), by the same author together with F. K. Del Plaine and O. L. Troxel, was not to review permanent school funds, but rather to investigate the financial status of the few states under consideration in these two studies. References, however, were made to matters dealing with perpetual endowments for public schools.

The last recent study touching this field was a publication of the Bureau of Education entitled, State School Taxes and their Apportionment, by F. H. Swift and E. L. Zimmerman. This work is somewhat complete for the year 1926 and gives a fairly complete summary of each of the states, mentioning permanent school funds, their principals, and the amount of income.

However, none of these works since the time of Swift's study in 1905 has really taken up the matter of permanent

school funds with respect to the many changes which have taken place in the more recent years.

Problem

Therefore, this study will be concerned with a problem which is four-fold; it will attempt to show:

1. The facts on state control of investment and preservation of these funds.
2. The present methods of investment as contrasted to those methods employed in 1905.
3. The growth of principal and incomes of these funds.
4. The importance of the income of these funds to educational expenditures.

Limitations of Study

It is not the object of this study to offer any solution to the problem of how these funds should be handled. Consequently, it will concern itself with that problem only to point out the excellent methods of some of the states. Even in some of the most efficient, loopholes have already been found, so it would be futile to be dogmatic--conditions are so varied in different states.

Neither will it be humanly possible for any prediction to be made as to the future of these funds. Financial conditions change so in a few years, and such drastic effects result that no one knows what may happen. However, in the

chapter dealing with incomes of these funds, some mention will be made as to what has happened in the past, and judging by the past, what may be expected to occur to these funds in the future.

Sources of Data

Data for this study were obtained from three main sources:

1. School codes,¹ state statutes,² and letters³ from state officers in charge of these funds. This information was used in determining the legal restrictions placed on investments.
2. Questionnaires⁴ sent to all state departments of education; reports from the state departments of education;⁵ letters from state treasurers, comptrollers, and auditors;⁶ and reports of state treasurers, auditors, and land boards⁷ gave data on the present amount of the principals and the growth of the incomes.
3. The same questionnaire also secured information on the per cent of money derived from the incomes of

-
1. See Bibliographical Reference C.
 2. Ibid.
 3. See Bibliographical Reference B.
 4. See Appendix A.
 5. See Bibliographical Reference D.
 6. See Bibliographical Reference B.
 7. See Bibliographical Reference E.

the permanent school funds.

How Material Was Used

This study has lent itself very well to three main methods of attack:

1. Tabulating:

The information on the name of the fund, name of office or board in charge, and the state in which such fund is found is given in tabulated form. The present principals of the funds are tabulated. The growth of the funds by states is found in this form, as is also the following information: loss and debt to the funds and data on the per cent of school expenditures derived from these funds.

2. Comparing:

Because the work is a continuation of the study by Swift in 1905, it must, necessarily, involve a contrast between the conditions which existed then and those which exist now. Some of these conditions which are contrasted or compared are: present methods of investing and protecting these funds; methods of handling these funds, in regard to the debt situation and the efficiency of the system; and the comparison of the states in regard

to the amount of income derived.

3. Graphing:

The growth of the funds in the individual states, both pertaining to principals and incomes, is best explained by means of graphs because they show very readily the decrease in the principal, income, or the debt of the fund.

Summary

This introductory chapter has sought to describe the field of investigation and the related studies already completed, the purpose of the study, the limitations of the study, the sources of data, and the explanation of the methods of study employed.

CHAPTER II

CONTROL OF THE FUNDS IN THE VARIOUS STATES

Since the time of Swift's study in 1905, there have been many changes in the names of these funds, as there have also been many changes in the controlling bodies.

Data on the changes in the names of these funds are given in Table I, showing by states the name of the fund in 1905 and at the present time.

TABLE I
NAMES OF THE VARIOUS PERMANENT SCHOOL FUNDS
IN 1905 AND IN 1932 (a)

State	Name in 1905	Name in 1932
Ala.	16th Section Fund	16th Section Fund
Ariz.	Permanent School Fund	Permanent School Fund
Ark.	16th Section Fund	Permanent School Fund
Cal.	Perpetual School Fund	State School Fund
Colo.	Public School Fund	Public School Fund
Conn.	School Fund	School Fund
Del.	Public School Fund	Public School Fund
Fla.	State School Fund	State School Fund
Ga.	(no fund)	(no fund)
Ida.	Public School Fund	Public School Fund
Ill.	Township Fund and School Fund Proper	State School Fund
Ind.	Congressional Township Fund	Permanent School Fund
Iowa	Permanent School Fund	Permanent School Fund
Kan.	Permanent School Fund	Permanent School Fund
Ky.	Literary Fund	Common School Fund
La.	Perpetual Fund	Free School Fund
Mo.	Permanent School Fund	Permanent School Fund
Md.	Free School Fund	State Free School Fund

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Conn.	School Fund	School Fund
Del.	Public School Fund	Public School Fund
Fla.	State School Fund	State School Fund
Ga.	(no fund)	(no fund)
Ida.	Public School Fund	Public School Fund
Ill.	Township Fund and School Fund Proper	State School Fund
Ind.	Congressional Township Fund	Permanent School Fund
Iowa	Permanent School Fund	Permanent School Fund
Kan.	Permanent School Fund	Permanent School Fund
Ky.	Literary Fund	Common School Fund
La.	Perpetual Fund	Free School Fund
Me.	Permanent School Fund	Permanent School Fund
Md.	Free School Fund	State Free School Fund

Table I (Continued)

Mass.	Massachusetts School Fund	Massachusetts School Fund
Mich.	Primary School Fund	Primary School Interest Fund
Minn.	Permanent School Fund $\frac{1}{2}$ Swamp Land Fund	Permanent School Fund $\frac{1}{2}$ Swamp Land Fund
Miss.	Literary Fund 16th Section Fund	Literary Fund 16th Section Fund
Mo.	Public School Fund	Public School Fund
Mont.	Public School Fund	Public School Permanent Fund
Neb.	Permanent School Fund	Permanent School Fund
Nev.	State School Fund	State Permanent School Fund
N. H.	Literary Fund	Institute Fund
N. J.	Permanent School Fund	State School Fund
N. M.	Permanent Fund	Common School Permanent Fund
N. Y.	Common School Fund	Common School Fund
N. C.	State Literary Fund	State Literary Fund
N. D.	Permanent School Fund	State Permanent Common School Fund
Ohio	Irreducible Debt	Irreducible Debt or Common School Fund
Okla.	None	Common School Fund
Ore.	Common School Fund	Irreducible School Fund
Pa.	Common School Fund	State School Fund
R. I.	Permanent School Fund	Permanent School Fund
S. C.	Permanent School Fund	Permanent School Fund
S. D.	Permanent School Fund	Permanent School Fund
Tenn.	Permanent School Fund	Permanent School Fund
Texas	Permanent School Fund	Permanent School Fund
Utah	State School Fund	State School Fund
Vt.	School Fund	Permanent School Fund
Va.	Literary Fund	Literary Fund
Wash.	Common School Fund	Common School Fund
W. Va.	School Fund	Irreducible School Fund
Wis.	School Fund	Common School Fund
Wyo.	Common School Permanent Fund	Common School Permanent Fund

(a) Compiled from school codes and state session laws.

It will be noticed that nineteen of the states have changed the names of their funds.

In order to bring up to date the facts on the control

of these funds, Table II is included. It shows, for each state, how the fund is managed and under what body, board, or state official.

TABLE II
NAME OF THE STATE OFFICER OR BOARD
CONTROLLING THE VARIOUS FUNDS^(a)

State	Name of Controlling Body or Official
Alabama	State Treasurer
Arizona	(b)
Arkansas	Board of Education with the State Auditor
California	State Controller
Colorado	State Board of Land Commissioners
Connecticut	State Treasurer
Delaware	Auditor of Accounts
Florida	State Treasurer
Georgia	(no fund)
Idaho	State Treasurer
Illinois	State Treasurer
Indiana	General Assembly
Iowa	State Treasurer
Kansas	School Fund Commissioners State Superintendent of Schools Secretary of State Attorney General State Treasurer, Custodian
Kentucky	State Auditor
Louisiana	Auditor and State Treasurer
Maine	State Auditor
Maryland	(b)
Massachusetts	Commissioner of Education with the Governor
Michigan	Auditor General
Minnesota	State Board of Investment Governor Treasurer Attorney General One Commissioner appointed by the Regents of the University of Minnesota from among their members.
Mississippi	Each county has charge of the 16th Section Fund allotted to it.

Table II (Continued)

Missouri	State Auditor, State Treasurer, and the County Courts in which funds belong
Montana	State Board of Land Commissioners
Nebraska	Board of Educational Lands and Funds Governor State Treasurer Secretary of State Attorney General Commissioner of Public Lands
New Hampshire	Treasurer
New Jersey	Board of Trustees of Fund Governor Attorney General Secretary of State Comptroller General Treasurer
New Mexico	Treasurer
New York	Comptroller
North Carolina	State Board of Education and the State Treasurer
North Dakota	Commissioner of University and State Lands
Ohio	Auditor
Oklahoma	Commissioner of Land Office
Oregon	State Land Board
Rhode Island	Treasurer with the advice of the Governor
South Carolina	Treasurer
South Dakota	(b)
Tennessee	Comptroller of the Treasury
Texas	Comptroller
Utah	Treasurer
Vermont	Treasurer
Virginia	State Board of Education
Washington	Land Commissioner
West Virginia	Board of School Fund Governor Superintendent of Education Auditor Treasurer
Wisconsin	State Commissioners of Lands
Wyoming	Treasurer
(a) Compiled from school codes. (b) No data.	

The changes in direct control of this fund are very significant. In 1905 no appointed board existed in any of the states; today in the forty-seven states with perpetual funds,

nine have created special boards that care for investing them, and are governed in their actions by legal restrictions. Every one of these states in which such boards are found possesses a permanent school fund which is productive. In the case of Nevada, the State Board of Investments not only has charge of the State Permanent School Fund, but also all other public funds held in trust by the state. In all cases, except one, members of such boards are state officials. In the state of Minnesota the fourth member on the State Board of Investment, along with the state governor, treasurer, and attorney general, is a commissioner appointed by the Regents of the University of Minnesota from among themselves.

Summary

Chapter two advances this study by presenting the names of each of the funds in 1905, the names of each of the funds in 1932, and the name of the controlling state officer, body, or special board, nine in number, of which there were none in 1905.

CHAPTER III

RECENT LEGISLATIVE REGULATIONS REGARDING
INVESTMENT AND PRESERVATION OF THESE FUNDS

True, there have been many changes in other respects regarding these funds, but by far the greatest alteration has taken place pertaining to the steps which states have taken to safe-guard these trusts. This conversion, no doubt, was hastened by the great number of losses to these funds prior to 1905 and which are recorded by Swift.⁸

In order to see just what has happened in this respect, since 1905, Table III is presented, showing: A., those states which had no specific laws regarding investment in 1905; B., those states which had specific laws at that time; C., those states which in 1932 had specific laws; and D., those states which in 1932 did not have such laws. It is interesting to note that, in 1905, 17% of the states did have legal securities in which their funds could be invested; 83% had no such laws; while in 1932 the number having such laws had increased to 68.1% and the number of states still remaining without them had decreased from 83% to 31.9%. This in itself shows that there has been a great change but not so

8. Swift, F. H., A History of the Public Permanent Common School Funds in the United States, 1795-1905, Henry Holt and Co., N. Y., 1911, Chap. VI.

extensive as it should have been. Those states, however, remaining without laws today are the ones that do not have productive funds; theirs, as a rule, are merely state debts on the books of the state to which the state pays annual interest, and which, consequently, require no laws of investment.

TABLE III

COLUMN A, THOSE STATES WHICH IN 1905 DID NOT HAVE SPECIFIC LAWS ON INVESTMENTS; COLUMN B, THOSE STATES WHICH DID HAVE SUCH LAWS IN 1905; COLUMN C, THOSE STATES WHICH IN 1932 HAD SPECIFIC LAWS GOVERNING INVESTMENTS; AND, COLUMN D, THOSE STATES WHICH IN 1932 DID NOT HAVE SUCH LAWS^(a)

A	B	C	D
Ala.	Del.	Ark.	Ala.
Ark.	La.	Cal.	Ariz.
Cal.	N. Y.	Colo.	Fla.
Colo.	N. C.	Conn.	Ida.
Conn.	N. D.	Del.	Iowa
Fla.	Vt.	Ind.	Me.
Ida.	W. Va.	Kan.	Md.
Ind.	Wyo.	Ky.	Mass.
Iowa		La.	Mich.
Kan.		Minn.	Miss.
Ky.		Mo.	N. H.
Me.		Mont.	Ohio
Md.		Neb.	S. C.
Mass.		Nev.	S. D.
Mich.		N. J.	Tenn.
Minn.		N. M.	
Miss.		N. Y.	
Mo.		N. C.	
Mont.		N. D.	
Neb.		Okla.	

of over 20,000. Two states definitely specify what investments may not be classed as legal securities: Minnesota¹⁰ prohibits railroad bonds, and New Jersey¹¹ loans on farm land.

Another element found in some of the laws, which one would expect to find in more of them is the restriction regarding the per cent of indebtedness any corporate body may have and yet borrow more. This is found in only five of the state codes, listed as follows with the per cent of indebtedness permitted accompanying each state: California,¹² 15%; Kansas,¹³ 15%; Nevada,¹⁴ 10%; New Jersey,¹⁵ 15%; and Wisconsin,¹⁶ 5%. It would seem that this requirement would be essential in all the codes; however, some of the states have rather elastic clauses in their laws. All security purchases, for example, in Colorado,¹⁷ must be made with the approval of the attorney general. This would make it possible for these states with such requirements to demand such

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- 10. Session Laws of Minnesota, 1931, Chap. 346, Sec. 1.
 - 11. New Jersey School Laws, 1911, p. 5.
 - 12. School Code of the State of California, 1931, Art. IX, Sec. 4.
 - 13. Laws Relating to the Common Schools of Kansas, 1913, Chap. XXV, Sec. 522.
 - 14. Revised Laws of Nevada, Vol. III, 1920, pp. 3146-7, Sec. 1-8.
 - 15. New Jersey School Laws, 1911, p. 5.
 - 16. Laws of Wisconsin Relating to the Common Schools, 1928, Chap. 25, Sections 25.01; 25.02; and 25.11.
 - 17. Compiled Laws of Colorado, 1921, Sec. 8298.

restrictions as California, Kansas, and other states have.

Most of the states include bonds of the state, county, cities, and school districts in their lists of legal investments. Many of the states give preference to investments in school district bonds.

One security which some of the states invest their funds in is farm loans. New Jersey specifically prohibits investing in such security, stating, "Said board shall not invest any part of the principal or interest of said fund in bonds secured by mortgages on farm land...."¹⁸ Those states in which farm loans constitute a legal investment are: Colorado,¹⁹ which, however, has five regulations governing such loans; Nevada, which has no such regulations; North Dakota, which has no regulations listed, and which security in 1930 constituted the largest part of the fund invested; Oklahoma, which mentions farm loan mortgages as first in its list of preferred securities, but states, "....that in no case shall more than fifty per centum of the reasonable valuation of the lands without improvements be loaned on any tract....";²⁰ Oregon, which has no stipulations; and Wyoming, which has no other agreement than that the loans be on "....first mortgages on farm lands...."²¹

18. See page 27.

19. See page 21.

20. Oklahoma School Laws, 1931, Art. XXIX, Sec. 379.

21. Wyoming School Laws, 1927, Art. VII, Sec. 6.

It is peculiar that these states would accept farm mortgages as security in view of the fact that so many of them have incurred loss by them. They are not, on the whole, considered a very stable and reliable investment. The Secretary of the Land Office of Oklahoma has this to say in regard to their farm loans:

"We have about \$32,000,000.00 loaned on real estate mortgages, also bearing 5% interest and 10% after maturity....

Under the present depression and farming industry, we have an unusually large amount of delinquencies. Farmers are not able to pay their matured loans, and in many cases their interest, but the loans of this Department as a whole are in better condition than the loans of private companies who have loaned on the same class of security."²²

The State of Montana during the period of 1918-1925 discovered that a grave mistake had been made in investing in farm mortgages. The permanent school fund of Montana in 1932 had \$4,273,807.84 invested in such security; the amount paid off that year was \$9,592.74; in the previous year the amount invested was \$4,270,942.18; and the amount paid in during the same time amounted to \$41,812.64.²³

The Commissioner of State Land and Investments in Montana has this to say concerning farm loans as security:

-
22. Extract from letter from A. L. Beckett, Sec. Commissioner of Land Office, July 9, 1932.
 23. Report of the Commissioner of State Lands and Investments, 1930-32, Montana, pp. 13-19.

"Up to and including the fiscal year ending June 30, 1925, the amount invested in farm loans continued to increase. Since that time not a single farm loan has been made, and every reasonable effort has been made to reduce the amount invested, but the reduction has been very slow....

It must be admitted that these investments do not constitute a satisfactory investment for the Public School Funds of the State. The great amount of delinquent interest above referred to is one of the serious objections. During the fiscal year ending June 30, 1928, the interest collections were highly satisfactory, amounting to \$244,809.59; during the last fiscal year they dropped to \$172,155.48; and it is likely that they will drop even lower. Investments from the Public School Funds should be such that the interest is regularly paid, and the principal is secure."²⁴

If farm loans were considered as a good type of security for investment, there would be more states listing them as such. Without a doubt, within the next few years, those states which are now accepting farm mortgages on loans will discover that they have poor security and will make changes in their laws prohibiting such loans. In the meantime, we shall probably witness the addition of another chapter to the loss of funds in these state trusts.

The last part of this chapter is devoted to brief summaries of the laws of those states which today govern their investments. The funds may be invested in the securities indicated:

24. Report of the Commissioner of State Lands and Investments, 1928-30, Montana, p. 27.

ARKANSAS²⁵

I Investments Permitted:

1. Bonds of the United States.
2. Bonds of Arkansas since 1874.
3. Bonds of any political subdivision of the state which is authorized to borrow money and issue bonds for the same, and which has never defaulted in the payment of principal or interest on its bonds.

This is very different from the statement found in Swift in 1905 which said, "...it shall be faithfully appropriated for maintaining a system of free schools in this state and for no other purpose whatever."²⁶ This last quoted statement is an excellent example of the type of law governing the preservation of these funds prior to 1905. None of them had any teeth, and most of them allowed many excellent opportunities for misappropriation.

CALIFORNIA²⁷

I Investments Permitted:

1. Bonds of the State of California.
2. Bonds of the United States.

25. School Laws of Arkansas, 1931, Sec. 9.

26. Swift, 1905, op. cit., p. 220.

27. School Code of the State of California, 1931, Art. IX, Sec. 4.

3. Bonds of counties, cities, towns, and school districts within the state.
4. Permanent Road District Bonds.
5. Irrigation District Bonds.

II Provisions:

"No bond may be purchased if debt or liabilities are more than 15% of its assessed valuation."²⁸

This is one state prohibiting loans being made to subdivisions of the state whose bonded indebtedness exceeds a specified per cent.

CONNECTICUT²⁹

I Investments Permitted:

1. Deposits in any bank or trust company incorporated under the laws of the state.
2. Stock of any bank within the state.
3. Bonds or securities of any town, city or borough within the state.
4. Bonds, loans, or securities of the state or of the United States.

The condition of the School Fund of Connecticut in 1931 showed it to be invested in the following manner:

28. School Code of the State of California, loc. cit.

29. Connecticut Laws Relating to Education, 1931, Chap. XXII, Sec. 304.

First mortgages	\$2,005,204.70 ³⁰
Bank Stock	97,962.61
In Treasury	<u>4,462.33</u>
	\$2,107,629.64

COLORADO³¹

I Investments Permitted:

1. Interest-bearing warrants of the state.
2. State bonds.
3. Loans on unincumbered farm lands.
4. School district bonds.
5. Bonds of cities, towns or counties in the state.

II Provisions:

1. Any investment purchase must be approved by the attorney general.
2. Purchase price of any security must not exceed par.

III Specific Farm Loan Provisions:³²

1. Loans will be made only to people who actually live on their land which is worth at least ten dollars per acre.
2. All loans are limited to \$5000.00 for at least

30. Report of the Condition of the School Fund, Reprint from Report of the State Treasurer, Connecticut, 1931.

31. Compiled Laws of Colorado, 1921, Sec. 8298.

32. Compiled Laws of Colorado, 1921, Sec. 8299.

one year, and not more than five.

3. They must be evidenced by notes bearing interest at six per cent payable annually and after date of maturity the interest becomes eight per centum per annum.
4. The notes must be secured by deed of trust on property amounting to three times the value of the loan.
5. Insurance must be carried on the deeded property.

As far as a farm loan law is concerned, this is probably the best of any of the states which accept farm mortgages as security on a loan, because: loans are made only to people who actually live on the land upon which the loan is made, the loans are limited in amount and are secured by three times their value.

DELAWARE³³

I Investments Permitted:

1. Bank Stock of:
 - a. Bank of Delaware.
 - b. Pennsylvania Bank.
 - c. Bank of North America.
 - d. United States Bank.

33. School Laws of Delaware, 1929, Art. VI, Sec. 47.

INDIANA³⁴

"The General Assembly shall invest in some safe and profitable manner such portion of the Common School Fund as has not heretofore been intrusted to the several counties...."

KANSAS³⁵

I Investments Permitted:

1. Bonds of the United States.
2. Bonds of the State of Kansas.³⁶
3. Bonds of any municipality in Kansas.
4. School district bonds.
5. Bonds of boards of education.
6. Warrants issued by the auditor of the state.

II Provisions:

1. No purchase price of any security must be more than par or the market price at the time of purchasing.
2. Validity of all purchases must be approved by the attorney general.
3. No bond must be purchased which together with other bonded indebtedness of the borrower would exceed fifteen per cent of the assured valuation.

34. Indiana School Laws, 1929, Sec. 124.

35. Laws Relating to the Common Schools of Kansas, 1913, Chap. XXV, Sec. 522.

36. See Appendix C.

KENTUCKY³⁷

I Investments Permitted:

1. Stocks in the Bank of Kentucky.
2. "Other good interest bearing stocks or bonds which shall be subject to sale and reinvestment."³⁸

MINNESOTA³⁹

I Investments Permitted:

1. Bonds of the United States.
2. Bonds of the state.
3. Bonds of school districts, cities, counties, towns, and villages.

II Provisions:

1. Interest must not be less than four per cent.
2. There must be no investments in railroad bonds.
3. School district loans must be given preference.
4. The State Board of Investments may fix the interest rate at higher but not lower than four per cent.

Investments on July 1, 1930, were:⁴⁰

37. Kentucky Common School Laws, 1930, Chap. I, Sec. 184.

38. Ibid., Sec. 185.

39. Session Laws of Minnesota, 1931, Chap. 346, Sec. 1.

40. Report on the General School Finances, Treasurer, Minn., July 1, 1930.

Loans to subdivisions of the State, (schools, villages, townships, counties, and cities)	\$27,836,791.46
Investments in Bonds of other states, United States, or cer- tificates of indebtedness	<u>24,850,258.83</u>
	\$52,687,050.29

MISSOURI⁴¹

I Investments Permitted:

1. Bonds of the United States.
2. Bonds of the state.
3. First mortgages on real estate.

II Provisions:

1. Loans on mortgages must not be for less than four nor more than eight per centum per annum.
2. Property must be double the value of the loan and secured by a bond backed by personal security.
3. All costs relative to making the loan shall paid by the borrower.

MONTANA⁴²

I Investments Permitted:

1. Bonds of school districts within the State of Montana.

41. Revised School Laws, Missouri, 1931, Art. XI, Sec. 9.

42. Supplement to the School Laws of the State of Montana of 1931, 1933, Chap. 139, Sec. 98.

2. Bonds of the several counties and cities in the State of Montana.
3. Bonds of the State of Montana or of the United States.
4. Capitol building bonds of the State of Montana.
5. Bonds issued by the federal land banks.
6. Interest-bearing warrants on the General Fund of the State.
7. Interest-bearing warrants on the Poor Fund, Road Fund, or Bridge Fund of the several counties of the State of Montana.

NEBRASKA⁴³

I Investments Permitted:

1. United States or state securities.
2. Registered county bonds of the state.
3. Registered school district bonds of the state.
4. Other securities authorized by the legislature.

NEVADA⁴⁴

I Investments Permitted:

1. United State Securities.
2. Bonds of the state.

43. Nebraska School Laws, 1926, Art. VIII, Sec. 9.

44. Revised Laws of Nevada, Vol. III, 1920, pp. 3146-7, Sec. 1-8.

3. Bonds of other states.
4. Bonds of counties in Nevada.
5. Mortgages on agricultural lands.

II Provisions:

1. Interest on agricultural loans must be for less than six per centum per annum, and the land must be free from incumbrances and worth three times the value of the loan.
2. Loans may not be made on county bonds in counties having bonded indebtedness of more than ten per cent of the assessed valuation.
3. The amount of county bonds purchased must not be over four per cent of the assessed valuation of the county.
4. Application for agricultural loans must be in writing.
5. The land must be appraised.
6. Borrower must offer a note backed by a mortgage payable in ten years.
7. The borrower must pay all the expenses involved in making the loan.

NEW JERSEY⁴⁵

I Investments Permitted:

45. New Jersey School Laws, 1911, p. 5.

1. Bonds of school districts within the state.
2. United States bonds.
3. State bonds.
4. Bonds of counties, cities, corporate towns, townships, or boroughs within the state.

II Provisions:

1. Loans shall not be made on securities backed by mortgages on lands.
2. No loan shall be made to any county, city, corporate town, township, or borough whose total indebtedness exceeds in the aggregate fifteen per cent of the total assessable valuation of all taxable property.

NEW MEXICO⁴⁶

I Investments Permitted:

1. Bonds of the state or territory of New Mexico.
2. Bonds of counties, cities, towns, boards of education of school districts of the state.
3. Interest bearing state highway debentures.

NEW YORK⁴⁷

I Investments Permitted:

-
46. New Mexico School Code, 1931, Chap. V., Sec. 50.
 47. State Finance Law of New York, 1932, Art. V, Secs. 80 and 81.

1. Stocks and bonds of the United States.
2. Stocks and bonds of the State of New York.
3. Judgments or awards of the court of claims of the state.
4. Stocks and bonds of any county, town, city, village, or school district of the state authorized by the law to be issued.

II Provisions:

1. "And be it further enacted, That it shall and may be lawful for the comptroller from time to time; to loan all the monies which may come into the treasury by virtue of this Act, for literary purposes, on security to be given to the comptroller, in the name of the people of this state, by mortgages on improved lands within the state, then in the actual possession of the borrower, and of the double the sum to be borrowed exclusive of any building thereon, which paid monies are to be loaned at the rate of six per centum per annum."⁴⁸

NORTH CAROLINA⁴⁹

I Investments Permitted:

1. Four per cent bonds of the state.
2. Other safe interest-bearing bonds.

48. Swift, op. cit., 1905, Chap. XL, p. 353.

49. Public School Law in North Carolina, Art. 2, Sec. 5399, 1929.

OKLAHOMA⁵⁰

I Investments Permitted:

1. First mortgages on good improved lands within the state.⁵¹
2. Oklahoma state bonds.
3. Bonds of counties within the state.
4. Bonds of school districts within the state.
5. United States bonds.

II Provisions:

1. Loans on farm lands shall not be more than fifty per centum of the reasonable valuation of lands without improvements.
2. Preference for investments shall be given to those in the order in which they are listed.

OREGON⁵²

I Investments Permitted:

1. Bonds of school districts within the state.

II Provisions:

1. Interest shall not be more than six per cent nor less than five payable semiannually or annually.

50. School Laws of Oklahoma, 1931, Art. XXIX, Sec. 379.

51. See page 17.

52. Oregon School Laws, 1931, Chap. XLV, Sec. 60.

2. Bonds must be purchased at market price or at a price which seems to the board to be to the best interest of the state.

3. Interest rate on bonds may be reduced, but not until the old interest has been paid.

Investments on June 1, 1932, were:⁵³

"Cash	\$	60.52
Mortgage Loans		5,143,644.03
Bonds at par		1,608,120.50
Premium on bonds		42,915.66
Accrued interest		291.28
Discount on bonds		157.89
Foreclosed property		648,900.40
Deficiency judgments		15,190.57
Contracts of sale		222,580.22
Certificates--Land		16,225.03
Certificates--Timber		107,000.00
Certificates--Escheats		4,300.00
Holding advances		117,062.20
Real estate		0.00
Royalties receivable		<u>662.51</u>
Total Irreducible	\$	\$7,926,795.03

PENNSYLVANIA⁵⁴

I Investments Permitted:

1. Bonds of the United States.
2. Bonds of the state.
3. Pennsylvania school district or municipal bonds.

53. Extract from letter from G. G. Brown, Clerk of the State Land Board, Oregon, July 5, 1932.

54. School Laws of Pennsylvania, 1931, Art. XXVII, Sec. 2703.

II Provisions:

1. Only those municipal and school district bonds may be invested in which banks of the state are by law permitted to invest in.
2. All investments are with the approval of the auditor general.

RHODE ISLAND⁵⁵

I Investments Permitted:

1. Bonds or notes of the United States.
2. Bonds of any town or city within the state.

II Provisions:

1. No investment may be made without the advice of the General Treasurer and the Governor.

TEXAS⁵⁶

I Investments Permitted:

1. Bonds of the United States.
2. Bonds of the state.
3. Bonds of the counties within the state.
4. "....or, in such other securities and under such restrictions as may be prescribed by law...."⁵⁷

55. Rhode Island Laws Relating to Education, 1923, Chap. 41, Sec. 4.
 56. Public School Laws of Texas, 1931, Chap. I, Art. VII, Sec. 5.
 57. Ibid.

II Provisions:

1. The Legislature does not have the power to grant any relief to any borrower.
2. The Comptroller must invest the funds, under the direction of the State Board of Education.

UTAH⁵⁸

The law of Utah in regard to investments is so unique, that it is given in its entirety.

"Any public officer having public funds in his custody may deposit the same, or any part thereof, with any bank incorporated under the national banking act and doing business in this state, or with any bank or trust company incorporated under the laws of and engaged in business in this state; provided, that he requires such depository to pay interest on all funds so deposited at a rate of not less than two per centum per annum, and that he take from such depository collateral security or a bond furnished by a surety company qualified to do business in this state. No collateral security shall be accepted except bonds or other obligations of the United States, bonds of the several states of the United States, bonds or other obligations of the state of Utah, and bonds of the several counties, cities, and school districts of this state. No security shall be accepted where there has been a default within three years in the payment of principal or interest of any obligation issued by the same maker. No deposit shall be made upon the security of bonds or securities so taken in excess of the following amounts: (a) 100% of the penalty of the corporate surety bond or bonds, and/or 100% of the market value, not exceeding par, of the obligations of the United States or of the State of Utah, and/or (b) 90% of the market value, not exceeding part of any of the other above mentioned securities offered and so accepted. Such

58. School Laws of the State of Utah, 1931, Chap. 46, Sec. 4500.

officer may in his discretion accept delivery of any such securities in and permit the retention by any bank or trust company in the State of Utah, other than the depository, having capital and surplus of not less than \$250,000.00, such deliveries to be evidenced by a trust company under the terms of which the said security shall be subject to the sole order and direction of such officer. The cost of any official bonds to be furnished by any public treasurer shall be paid out of the funds in their respective treasuries; provided, that the interest received under the provision of this title by the State Treasurer shall be placed in the General Fund. No such public officer shall in depositing funds in his custody give preference to any bank or trust company, but shall so far as practicable distribute such funds between banks and trust companies qualifying under this section, in proportion to the paid up capital stock and surplus of such qualifying banks and trust companies; provided, that this shall not be construed to require any such officers to deposit funds in his custody in any bank outside the county in which his office is located. Where such public officer, in accordance with the terms and provisions of this section, has deposited and kept on deposit any public funds in his custody in a depository in strict compliance with the provisions of this section, he shall be liable personally or upon his official bond for any public moneys that may be lost by reason of the failure or insolvency of such depository except in so far as his violation of any trust devolving upon him as such officer or any of the provisions of this section shall contribute to such loss."

No other law of those states having laws regarding the investment of the permanent school funds, has such stipulations as are found in this one. It appears that it is practically free from flaw. It is, however, one of the very recent laws, and in a few years it will be possible to see the results of its functioning. At the present time it is the most outstanding.

VERMONT⁵⁹

I Investments Permitted:

1. United States Bonds.
2. Bonds of the state.
3. Bonds of cities and school districts within the United States.

II Provisions:

1. Those school districts and town bonds must be from districts and towns in the United States having a population of twenty thousand or more.
2. The total indebtedness of these towns and school districts must not exceed five times the amount of the grand list.

This is one of the states in which the same condition existed in 1905 and for that reason is in a class by itself. Very few of the states, according to Table III, had specific laws and for that reason this is a fine example of those that did exist in 1905. This law, however, compared to that of the state of Utah (page 33) is very simple.

VIRGINIA⁶⁰

I Investments Permitted:

1. Virginia state bonds.

59. General Laws of the State of Vermont Relating to the Department of Education with Amendments, to 1929, Sec.1350.
60. Virginia School Laws and Regulations, 1930, Sec.633.

2. Bonds of the United States.
3. Bonds of railroad companies secured by first mortgages.
4. Bonds of counties or school districts within the state.

II Provisions:

1. Money will be loaned to those railroad companies only whose market value of their bonds during the six months preceding the investment has not been less than ninety cents on the dollar.

WASHINGTON⁶¹

I Investments Permitted:

1. National, state, county, municipal, or school district bonds.
2. Warrants of indebtedness on the State, General Fund.

II Provisions:

1. These bonds must bear at least three and three-fourths per cent interest.
2. Not more than the market value must be paid for them.

61. Code of Public Instruction, Washington, 1917, Sec. 645.

3. Investments in warrants of indebtedness to the State General Fund can be made only when there are no other legal securities to be purchased.

WEST VIRGINIA⁶²

This state is unique in that the regulations as outlined below were found in its constitution at the time of adoption. For such an early law it is very efficient, showing that the early people of the state really desired to safe-guard this fund.

I Investments Permitted:

1. Interest-bearing securities of the United States or the state of West Virginia.
2. Other solvent interest-bearing securities.

II Provisions:

1. These "other solvent interest-bearing securities" may be purchased only when the first type of securities are no longer available, and then the investment must be approved by the Board of the School Fund which is made up of: the governor, the superintendent of free schools, the auditor, and the treasurer.

62. School Laws of West Virginia, 1915, Art. XII, Sec. 4.

WISCONSIN⁶³

I Investments Permitted:

1. County bonds.
2. Bonds of the United States.
3. Bonds of the state of Wisconsin.
4. Bonds of cities, towns, counties, villages, and school districts within the state.

II Provisions:

1. Loans to school districts are given first consideration.
2. Municipal loans must not exceed twenty years, are payable in installments, and shall not exceed five per centum of the average assessed valuation of the property therein for the three years next preceding the application for such loan.
3. Loans to school district must not exceed fifteen years; the total indebtedness must not exceed five per centum of the assessed valuation of which not less than two-thirds shall be on real estate; no loan shall be more than \$50,000.00; the principal must be paid in equal installments.

63. Laws of Wisconsin Relating to the Common Schools, 1928, Chap. 25, Sections 25.01; 25.02; and 25.11.

4. All loans must yield at least four per centum interest payable annually; school district loans must not be charged more than four per cent.
5. No loan shall be made which will not yield four per cent per annum of the amount invested.
6. Loans may be extended by agreement between the borrower and the commissioners; provided, there has been no default in the payment of any of the interest.

WYOMING⁶⁴

This is another example of a state law which existed in 1905 and which was rather efficient for that time.

I Investments Permitted:

1. Bonds issued by school districts.
2. County bonds of the state.
3. State securities of the state or of the United States.
4. First mortgages on farm lands.
5. Other securities as may be authorized by law.

64. School Laws, Wyoming, 1927, Art. VII, Sec. 8.

Summary

This chapter, first, has pointed out the changes which have taken place in the laws regarding investment of state permanent school funds from 1905-1932. Second, it has, in the 68.1% of the state laws of today on investments, segregated the following common characteristics of the several laws: (a) investment in United States bonds, (b) restriction of investments within the state, (c) the per cent of bonded indebtedness any corporate body may have and yet borrow, and (d) purchase of school district securities. Third, it has listed those states with farm loan mortgages and emphasized the instability of such securities by pointing out examples of states which have discovered this fact. Fourth, it has listed those states and briefed their laws which in 1932 regulated these permanent school fund investments.

CHAPTER IV
PRESENT PRINCIPALS
OF THE SEVERAL FUNDS

Not all the permanent school funds are productive. Many states have appropriated them in the past, and today they constitute state debts upon which the commonwealths must pay interest, generally by means of levying a tax on the people. That such a condition exists is lamentable, but it is very gratifying to find some of the states at the present time attempting to restore these funds.

Swift⁶⁵ in 1931 listed the following states as having such unproductive funds, enumerating also the per cent of debt found in each fund: Alabama 100%, Arkansas 98%, California 18%, Delaware 18%, Illinois 100%, Kentucky 100%, Louisiana 96%, Maine 100%, Michigan 100%, Mississippi 100%, Nevada 15%, New Hampshire 100%, Ohio 100%, Tennessee 100%, Vermont 32%, and Wisconsin 32%. A thorough history of how these funds fell into this condition is found in Swift's work of 1905.⁶⁶ However, since 1931, when Swift made his last investigation of the state debts to these funds, there

65. Swift, F. H., Federal and State Policies in Public School Finance in the United States, Ginn and Co., 1931, p. 63.

66. Swift, op. cit., 1905, Chap. VI.

have been two distinct alterations made.

This first change is in the state of Wisconsin, where an endeavor is being made to restore the fund, and it is being accomplished by a method which could well be copied by other states which find themselves in the same condition. The following excerpt from a letter by the Director of the State Budget Bureau of Wisconsin explains the condition existing there today,

"On June 30, 1919, the total amount of the Certificates of Indebtedness owing the common school, normal school, university and agricultural school funds totaled \$2,847,591.77. This total has been reduced year by year since then and now stands at \$1,183,700.00 of which \$1,163,600.00 is owing the common school fund and \$20,000.00 to the normal school fund. Certificates of indebtedness are being retired annually by payments from the general fund. The payment made June 1, 1932 was \$80,000.00."⁶⁷

The state of Wisconsin had intended to make an annual repayment from the General Fund to the Common School Fund of \$100,000.00, but in the year 1932 it was impossible, owing to the prevalent depressive conditions. Nevertheless, Wisconsin presents an excellent example of a state that is trying to rectify the mistakes of the past.

One other state which has succeeded in doing even better is Maine. It will be noticed that Swift⁶⁸ listed Maine's

67. Extract from letter from Director of State Budget Bureau, Wisconsin, July 28, 1932.

68. Swift, 1931, loc. cit.

permanent school fund as being in debt 100%. In regard to the condition of this fund, the State Auditor of Maine had the following to say in 1932,

"Many years ago the State and many of its cities and towns had fallen into the habit of expending their trust funds and then raising by general taxation the annual interest on same. The Permanent School Fund, begun in 1828, was no exception to this rule. Upon recommendation of our present Governor, Wm. Tudor Gardiner, legislation looking to restoring the various trust funds of the State was enacted in 1929....

As long as the State owed the fund the entire or practically the entire amount, the legal stipulation that the State should pay six per cent. interest on the permanent school fund presented no complications; but now that the fund has just been restored and these securities are earning varying rates of interest, the question has arisen as to what the interest should be. Either the law will be changed to authorize the fund to benefit to the extent only of the interest earned, or the State must assume and raise the difference. In this particular year it is doing the latter."⁶⁹

These two states, Wisconsin and Maine, present examples of what those other states⁷⁰ that are in debt to their funds should do. Of course, during the last three or four years, it would have been very difficult to restore them when it was difficult enough to operate state governments at even the minimum necessary expense. However, if those other states would only realize that they are unnecessarily burdening their taxpayers by levying to pay the interest on these debts, it would seem that from the standpoint of business efficiency,

69. Extract from letter from Elbert D. Hayford, State Auditor, Maine, July 8, 1932.

70. See Appendix B.

they would legislate for the restoration of these lost funds. And in many cases these state certificates of indebtedness represent a good deal of money which, if put to sound, stable investments, as described for some of the states in Chapter III, would accumulate far more income each year than they are now doing and would not add that much more tax burden to an already over-loaded people.

In order to see what has happened to the principals of these various funds in the last twenty-seven years, Table IV is presented showing (a) the amount of the principal for each state in 1905, and (b) the amount in the last year in which data were available.

TABLE IV
SHOWING THE AMOUNT OF PRINCIPAL OF
THE PERMANENT SCHOOL FUNDS OF THE SEVERAL STATES
IN 1905 AND THE AMOUNT AT THE MOST RECENT DATE

State	Amount in 1905 ^(a)	Amount in	Year ^(b)
Ala.	\$ 2,831,000.00	\$ 2,304,748.17	1932
Ariz.	(c)	(d)	
Ark.	1,128,000.00	2,000,000.00	1932
Cal.	5,263,000.00	10,349,733.51	1932
Colo.	1,408,000.00	9,587,927.00	1932
Conn.	2,022,000.00	2,107,629.64	1932
Del.	983,000.00	7,187,537.92	1931
Fla.	1,083,000.00	4,557,100.00	1932
Ga.	(c)	(c)	
Ida.	1,241,000.00	10,000,000.00	1932
Ill.	7,033,000.00	45,000,000.00	1932
Ind.	10,641,000.00	16,957,264.00	1932
Iowa	4,757,000.00	4,767,000.00	1932
Kan.	7,531,000.00	10,000,000.00	1932

Table IV (Continued)

State	Amount in 1905	Amount in	Year
Ky.	2,418,000.00	2,317,627.11	1932
La.	1,759,000.00	1,152,200.00	1913
Me.	442,000.00	569,250.52	1932
Md.	458,000.00	(d)	
Mass.	4,880,000.00	5,000,000.00 (e)	1932
Mich.	5,201,000.00	5,500,000.00 (f)	1932
Minn.	15,978,000.00	74,739,042.77	1932
Miss.	(d)	(d)	
Mo.	11,566,000.00	3,159,000.00	1932
Mont.	871,000.00	19,790,084.10	1932
Neb.	8,238,000.00	11,064,940.67	1932
Nev.	1,651,000.00	3,056,153.21	1932
N. H.	59,000.00	(d)	
N. J.	4,523,000.00	12,271,076.89	1931
N. M.	19,000.00	2,036,442.43	1932
N. Y.	8,971,000.00	4,749,666.45	1932
N. C.	300,000.00	1,400,000.00	1932
N. D.	8,263,000.00	18,819,949.99	1932
Ohio	4,902,000.00	3,543,119.12	1932
Okla.	5,000,000.00	41,589,600.00	1932
Ore.	4,599,000.00	7,926,795.00	1932
Pa.	(d)	1,346,117.00	1932
R. I.	257,000.00	330,000.00	1932
S. C.	46,000.00	66,757.95	1926
S. D.	4,807,000.00	17,182,351.58	1932
Tenn.	2,512,000.00	2,512,500.00	1932
Texas	52,660,000.00	11,397,545.15 (g)	1932
Utah	291,000.00	5,643,206.61	1932
Vt.	1,120,000.00	1,375,604.88	1931
Va.	1,881,000.00	6,224,609.00	1932
Wash.	1,477,000.00	24,250,000.00	1932
W. Va.	1,000,000.00 (h)	999,500.00	1926
Wis.	3,609,000.00	9,950,000.00	1932
Wyo.	173,000.00	18,096,856.00	1932

(a) Swift, 1905, *op. cit.*, Table IV, pp. 13-14.

(b) Data from questionnaire sent to all state departments of education.

(c) No fund.

(d) No data.

(e) Limited by law to \$5,000,000.00.

(f) Estimate.

(g) Total of the County Permanent School Funds; not State Fund.

(h) In 1902 the principal was limited by law to \$1,000,000.00.

Based on the figures of the principals for 1905 and 1931 or 1932, it is found that the gain in the amount during the period of twenty-seven years has been about 54%.⁷¹ This has been a very substantial gain considering that many of the funds have been thought of in the past, and still are, as being unproductive funds. Because they are unproductive, there are some students in the field who would not consider them in their computations. This would, however, be erroneous, for, should other states, following the example of Maine and Wisconsin, decide to restore these funds, they would have to do so on the basis of the figures found in their books which would be the same substantially as these totals employed to determine this 54% gain in twenty-seven years.

Far more interesting than the total growth of all these funds is a study of some of the exemplary states. It is impossible to investigate the growth of every state's fund (and in many it would show very little change) because of insufficient data. There are, however, some states in which accounts have been kept very well, and the figures are available for practically all of the years since the beginning.

Of those states for which we can make a study, the western or later states to enter the Union present a more

71. Compiled from data in Table IV.

interesting and spectacular growth. This is due to the fact that these states were, in the majority of cases, granted more lands by the federal government for educational purposes than were the earlier states to enter the Union. Not only that, but these newer states, with a few exceptions, had observed the mistakes made by the older states and thus profited by them in placing certain restrictions on the sale of these lands and the management of the proceeds therefrom.

Of these western states, Montana lends itself exceedingly well to inquiry. Not only because of the rapid growth is it profitable to study the fund, but also because it shows very well the disastrous effects of loans made on farm lands secured by mortgages.

Table V shows the growth of the Public School Permanent Fund of Montana from 1892 to 1932, omitting some years because of lack of data. However, the rapid growth of this fund is well demonstrated. Table VI lists the amount of the same school fund invested in farm loan mortgages from 1918 to 1932. Figure 1 graphically displays this growth. It also shows what has actually happened in regard to the farm loan investments in 1925 when such policy was discontinued. Although there has been strenuous effort on the part of those in charge to reduce this amount in farm loans, the graph shows clearly that there has been no sharp reduction in the amount invested.

TABLE V
THE GROWTH OF THE PERMANENT COMMON
SCHOOL FUND IN MONTANA FROM 1892-1932

Year	Amount (b)
1892	\$ 75,638.20
1893	117,455.02
1902	618,776.95
1904	925,551.43
1914	9,490,982.02
1917	13,341,853.94
1918	15,133,705.19
1919	17,518,965.90
1920	17,907,662.39
1921	17,956,765.71
1922	18,063,758.05
1926 (a)	17,147,745.20
1927	17,707,211.14
1928	18,010,741.83
1929	19,799,406.08
1930	20,223,852.99
1931	19,990,804.50
1932	19,091,644.99

(a) Figures for the years 1923-1925 were not available.
(b) Data from Commissioner of State Lands and Investments, Montana.

TABLE VI
STATISTICS ON THE AMOUNT OF THE
PERMANENT COMMON SCHOOL FUND OF MONTANA IN
FARM LOAN MORTGAGES FROM 1918-1932 (a)

Year	Amount
1918	\$2,157,603.51
1919	3,237,243.30
1920	4,226,380.46
1921	4,453,196.57
1922	4,566,874.48

Table VI (Continued)

Year	Amount
1923	(b)
1924	4,551,655.03
1925	4,595,261.19
1926	4,549,039.77
1927	4,529,084.23
1928	4,433,894.77
1929	4,342,179.76
1930	4,301,561.94
1931	4,270,942.18
1932	4,273,807.84

(a) Data from the Reports of the Commissioner of State Lands and Investments, Montana.

(b) No data.

From the graph it will be seen that there has been a distinct decline in the amount of the principal for the years 1930, 1931, and 1932. This is one of the best examples of the effects of the recent depression on these funds. I. M. Brandjord, State Commissioner of Lands and Investments in Montana, referring to the effect of the depression on his department states,

"Inevitably these conditions (caused by the depression) have had an unfavorable effect on the business of this department as on practically all other kinds of business; the income has slumped badly as the following figures will show:

Gross Income	For Year Ending
\$1,588,916.71	June 30, 1929
1,536,964.63	June 30, 1930
1,314,364.67	June 30, 1931
1,020,005.16	June 30, 1932

The decrease has been heaviest in the payment of interest on land purchase contracts and mortgages; payments of rentals on leases have kept up far better, and interest on bonds and warrants taken together show only a slight decrease.

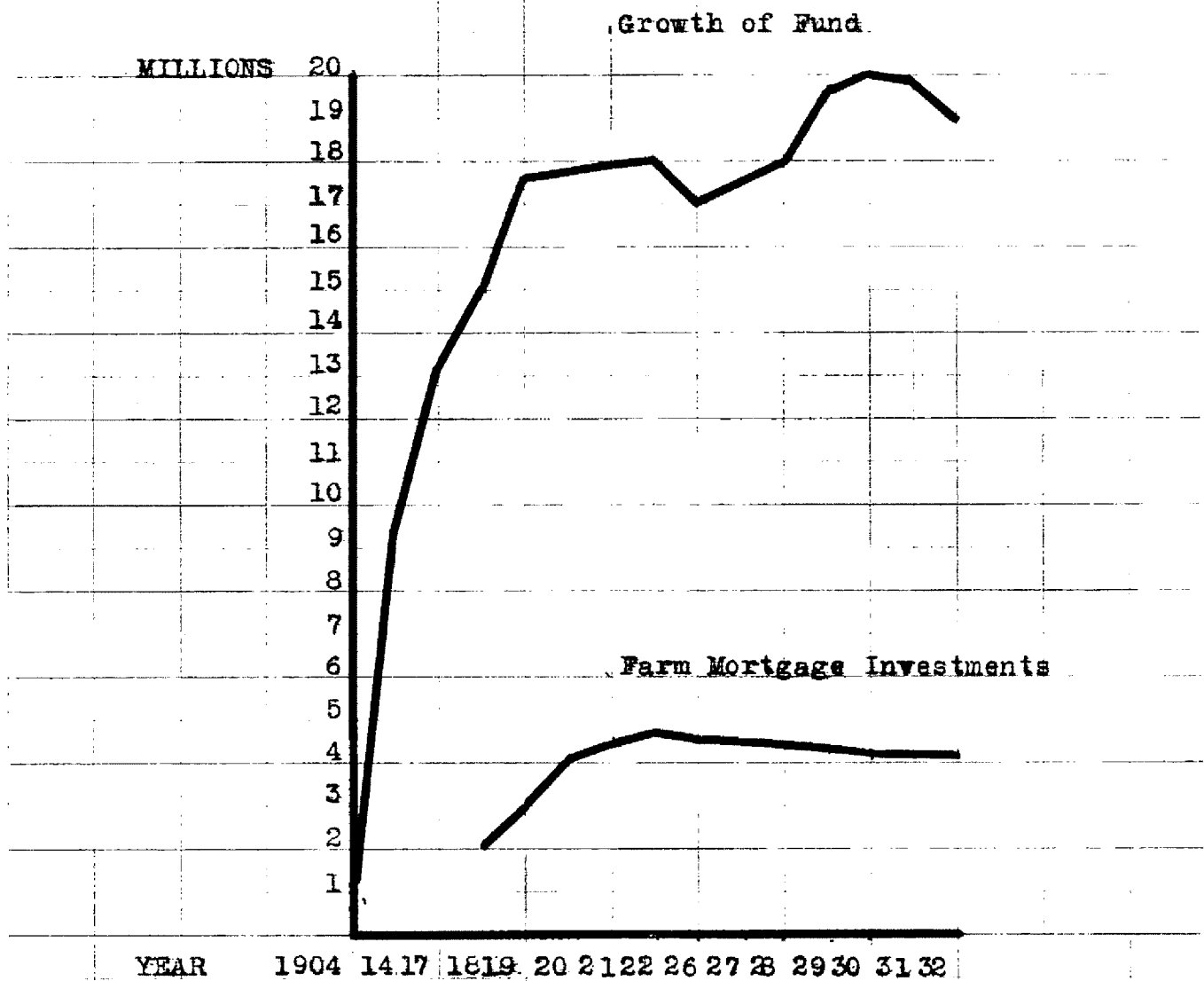


FIG. 1--GROWTH OF THE PERMANENT COMMON SCHOOL FUND OF MONTANA 1904-1932 AS COMPARED TO ITS INVESTMENTS IN FARM LOAN MORTGAGES 1918-1932.

On account of conditions that have prevailed, this department has found it necessary and proper to exercise a great deal of leniency with lessees, purchasers of State lands and other customers of the State--a leniency carried so far that under ordinary economic conditions it would have been deserving of the severest censure. The letter of the law and the terms of the contracts have been tempered with mercy. It is believed that by operating this department in this spirit, we have been able to serve the struggling people throughout the state in a fuller measure."⁷²

Somewhat the same sentiment is expressed by the State Land Commissioner of Oklahoma.⁷³ It is quite too soon following the depression to realize what its effect has been on the several school funds, but if we are to judge at all by the graph of the growth of Montana's fund through the depression, we shall have a fair picture of what has occurred and this must serve until sufficient time has elapsed to bring forth the facts on what has really happened in this respect during the last three years. In all correspondence with state officials regarding their permanent school funds, there were only two instances--Montana and Oklahoma--of any mention being made of the effect of the depression.

Much in contrast to the Permanent Common School Fund of Montana is the School Fund of Connecticut. It is an excellent example of one of the older states, which, although it has not increased its principal at any time much over two million

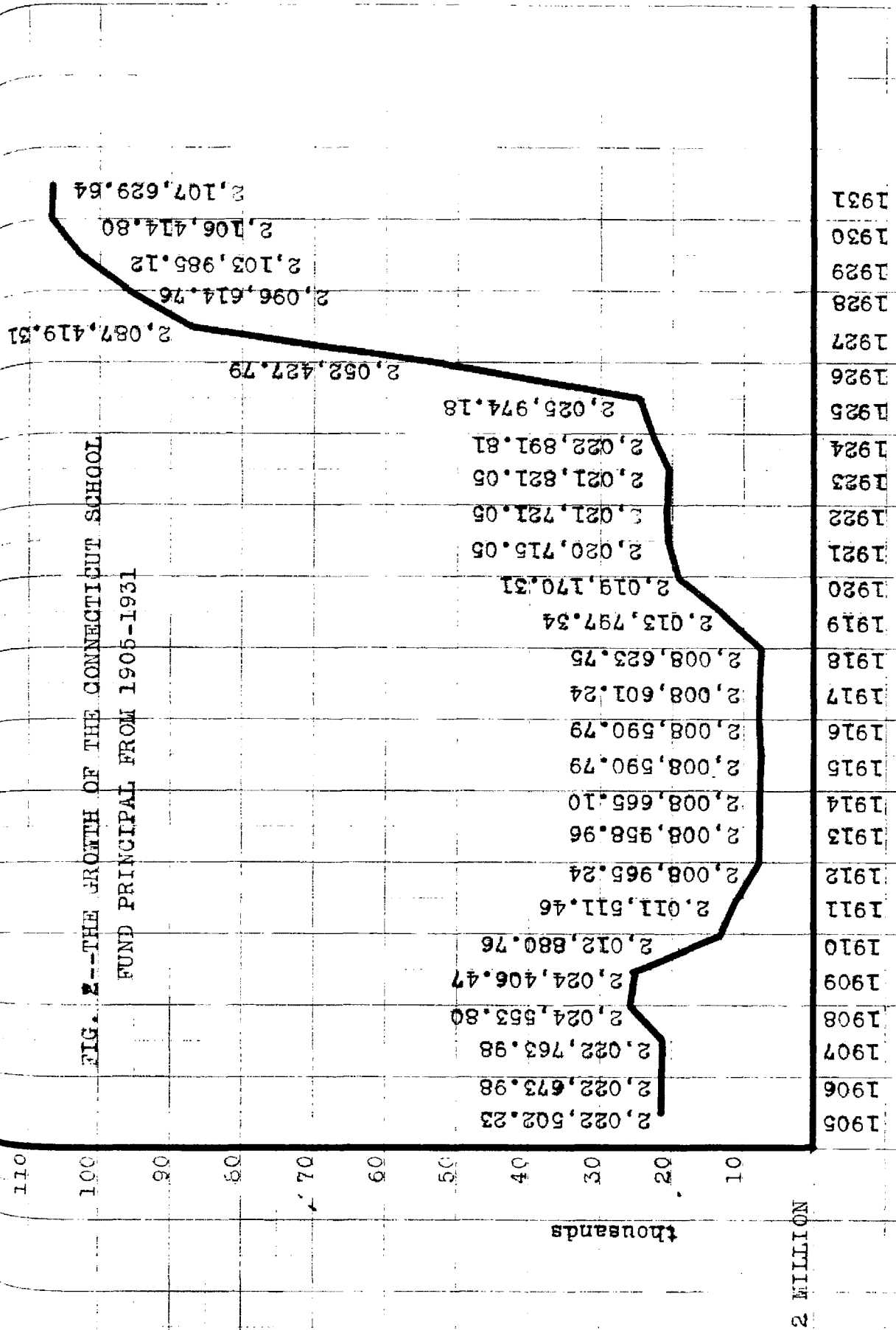
72. Report of the Commissioner of State Lands and Investments, 1930-32, Helena, Montana, pp. 6-7.

73. See page 17.

dollars, has, nevertheless, kept it intact through efficient management. When the graph (Fig. 2) of the growth of Connecticut's School Fund is contrasted with that of Montana's--and it must be remembered that that of Connecticut is listed in thousands and not millions of dollars as is Montana's--then one can readily see the vast difference. In the first place, Connecticut does not have a large fund. This is one difference between the older and younger states as a general rule. In the second place, the graph of Connecticut does not present instances of growth by the step of millions--hers is in thousands and parts of thousands. This is easily explained by the fact that the older states had less land granted to them than did the western and later states to enter the Union. The older states which have productive funds, have them invested in more or less stable securities which yield about the same income from year to year, and none add to the principal from the annual income. They do not have unsold lands which would be adding to the principals as do the western states. For example, in 1932 Montana's Permanent Common School Fund amounted to \$19,091,644.99 exclusive of the value of the unsold lands which totaled \$42,410,664.30 thus making the total valuation of this fund that year \$61,502,309.29. It is this one fact largely which distinguishes the older from the newer states.

As other states become older and more of their lands have

FIG. 2--THE GROWTH OF THE CONNECTICUT SCHOOL FUND PRINCIPAL FROM 1905-1931



been sold and the proceeds added to the principal of the permanent funds available for investment, it is fair to assume that growth will become more even.

Another interesting and more or less exemplary permanent school fund is the productive Common School Fund of Wisconsin.⁷⁴ It is worthy of special note for two reasons: first, it is one of the funds which is being gradually converted into a productive fund; and, second, it shows a perfect gradual growth so typical of the middle-aged states which have cared well for their funds.

From a principal of \$3,609,000.00 in 1905 this fund of Wisconsin has passed through some losses, acquired a debt, but, nevertheless, has arrived at a productive sum of over ten million dollars in 1932. Table VII shows the growth of this fund by years from 1920 to 1932. Figures on previous years except 1905 were not available. The increase of this fund through the three years of the depression would not show that any effect had been felt.

74. See page 44.

TABLE VII
 TOTAL AMOUNT OF THE COMMON SCHOOL
 PRODUCTIVE FUND, JUNE 30, 1920 TO JUNE 30, 1932
 INCLUSIVE ^(a)

Year	Amount
June 30, 1920	\$ 2,995,720.68
1921	5,179,864.61
1922	5,601,483.19
1923	6,264,495.69
1924	6,808,092.51
1925	7,321,872.75
1926	7,916,368.45
1927	8,357,000.82
1928	8,867,754.78
1929	9,320,543.33
1930	9,700,231.27
1931	9,920,680.22
June 30, 1932	10,097,680.43

(a) From a letter received from J. B. Borden,
 Director of the State Budget Bureau, Madison,
 Wisconsin, July 28, 1932.

All other states which have funds that have been well managed, show approximately the same growth. Taken all together, these funds show a splendid growth which has progressed rather rapidly from 1905 to 1932. Figure 3 presents a diagram of the increase as based on three different years: 1905,⁷⁵ 1926,⁷⁶ and 1932.⁷⁷

After having seen the enormous growth that has taken place, one would be led to believe that the idea of the

⁷⁵. Swift, *op. cit.*, 1905, pp. 13-14.

⁷⁶. State School Taxes and School Funds and Their Apportionment, Bureau of Education Bulletin, 1928, No. 29.

⁷⁷. Based on questionnaire returns; see Appendix A.

MILLIONS

329

300

250

200

112

100

1905

1926

1932

FIG. 3--TOTAL GROWTH OF PERMANENT SCHOOL FUNDS
IN REPRESENTATIVE STATES FOR YEARS 1905, 1926,
AND 1932
(States Excluded: Ariz., Ga., Md., Miss., and N. H.)

founders of these funds were coming true; namely, that the income from these would constitute the major source of income for the operation of the public schools. The opposite of this condition is the actual situation, as will be pointed out in the next chapter.

Summary

Of the fifteen states which in 1905 had from 15% to 100% of their funds unproductive, two of these have altered this situation. The method by which Maine and Wisconsin restored these funds was pointed out and emphasized as examples for the other thirteen states to imitate. It has been shown that those permanent common school funds on which there was available data, taken as a whole have made a 54% increase in their principals from 1905 to 1932.

Because of insufficient data on the growth of the permanent funds in all the states, those which illustrated certain conditions were used as examples. The State of Montana illustrated one of the newer states with a very rapidly increasing fund as contrasted to Connecticut, one of the older states which long ago reached a more or less static point in its growth. As a third type of state--one which shows about average and consistent growth--that of Wisconsin was used.

The entire chapter has demonstrated that there have been several changes both in the status of productivity and in the growth of these funds.

CHAPTER V

PRESENT INCOMES OF THE FUNDS

Although a record of the growth of the principals of these permanent common school funds is a measure of their worth, the growth of the incomes is far more important. To show such growth is the purpose of Table VIII, listing the sums of these incomes by the states for the years of 1905 and 1926 to 1931. This table is incomplete because in many of the states data were not available. The general trend of the increase can, however, be easily discerned.

TABLE VIII

INCREASE IN AMOUNT OF INCOME OF THE PERMANENT COMMON FUNDS OF THE SEVERAL STATES FOR 1905 AND FOR 1926-32.

State	Amount (a) in 1905	Amount (b) in 1926	Amount (b) in 1927
Ala.	\$156,494.00	\$139,348.30	\$143,480.00
Ariz.	5,800.00	(c)	(c)
Ark.	32,855.00	65,725.00	65,725.00
Cal.	250,570.00	(c)	500,591.00
Colo.	220,896.00	800,670.00	590,241.87
Conn.	109,579.00	90,692.00	101,308.00
Del.	54,303.00	(c)	(c)
Fla.	33,632.00	162,165.75	232,830.35
Ga.	212,052.00 (d)	(e)	(e)
Ida.	67,615.00 (f)	609,682.86	648,652.62
Ill.	849,762.00	1,318,685.00	1,228,155.00
Ind.	638,373.00	799,020.47	865,973.42
Iowa	214,255.00	217,004.00	218,923.00
Kan.	421,649.00	500,000.00	500,000.00
Ky.	145,139.00	150,000.00	150,000.00
La.	81,412.00	(g)	(g)
Me.	26,565.00	32,851.67	32,851.67

Table VIII (Continued)

State	Amount in 1905	Amount in 1926	Amount in 1927
Md.	50,980.00	(c)	(c)
Mass.	210,881.00	210,744.37	215,638.15
Mich.	408,119.00	(h)	(h)
Minn.	1,192,687.00	3,556,798.00	3,674,355.00
Miss.	187,746.00	(c)	(c)
Mo.	639,833.00	187,040.00	187,040.00
Mont.	199,407.00	983,752.00	1,172,136.00
Neb.	652,916.00	1,027,883.00	976,341.11
Nev.	135,486.00	138,621.21	127,277.51
N. H.	2,373.00	(i)	(i)
N. J.	200,000.00	500,000.00	500,000.00
N. M.	39,046.00	(c)	(c)
N. Y.	335,524.00	40,806,140.00	53,244,182.00
N. C.	(c)	(j)	(j)
N. D.	337,353.00	1,240,266.00	1,070,191.00
Ohio	322,186.00	212,587.12	212,587.12
Okla.	301,027.00	(g)	1,482,933.20
Ore.	272,353.00	385,638.50	400,739.04
Pa.	(e)	(g)	10,400.00
R. I.	9,131.00	(k)	(k)
S. C.	2,252.00	(g)	(g)
S. D.	300,619.00	1,641,277.03	1,725,747.55
Tenn.	137,125.00	150,750.00	150,750.00
Texas	1,774,343.00	860,482.19	877,571.10
Utah	348,756.00	292,606.92	367,857.90
Vt.	52,813.00	(g)	(g)
Va.	56,431.00	188,618.36	200,318.49
Wash.	293,312.00	309,745.09	1,355,253.58
W. Va.	51,000.00	54,304.43	67,221.65
Wis.	210,419.00	289,671.36	289,456.53
Wyo.	180,889.00	799,528.07	899,828.54

State	Amount in 1928	Amount in 1929	Amount in 1930
Ala.	143,507.59	143,510.59	144,090.00
Ariz.	(c)	(c)	(c)
Ark.	65,725.00	80,691.98	32,774.60
Cal.	508,843.46	450,784.89	495,253.23
Colo.	664,121.30	668,322.69	638,151.24
Conn.	97,500.00	105,979.00	(c)
Del.	(c)	(c)	(c)
Fla.	272,577.55	238,608.51	226,338.19
Ga.	(e)	(e)	(e)
Ida.	611,825.20	592,251.76	616,401.06
Ill.	1,221,301.00	1,212,287.00	1,223,166.00

Table VIII (Continued)

State	Amount in 1928	Amount in 1929	Amount in 1930
Ind.	880,741.27	936,646.97	935,850.31
Iowa	215,648.00	215,885.90	216,967.00
Kan.	500,000.00	500,000.00	500,000.00
Ky.	150,000.00	150,000.00	150,000.00
La.	(g)	(g)	114,757.00
Me.	33,718.43	33,803.00	33,904.70
Md.	(c)	(c)	(c)
Mass.	213,428.18	62,191.78	223,875.33
Mich.	(h)	(h)	(h)
Minn.	3,586,290.00	3,584,315.00	3,948,021.00
Miss.	(g)	62,191.78	(g)
Mo.	187,040.00	187,040.00	187,040.00
Mont.	1,172,090.55	1,273,858.52	1,355,624.00
Neb.	927,694.08	1,069,769.50	1,018,131.00
Nev.	129,753.81	138,479.18	128,029.69
N. H.	(i)	(i)	(i)
N. J.	500,000.00	500,000.00	500,000.00
N. M.	(c)	(c)	(c)
N. Y.	69,244,968.55	76,221,177.54	86,113,274.26
N. C.	(j)	(j)	(j)
N. D.	1,080,910.64	1,069,953.28	1,056,512.71
Ohio	212,587.12	212,587.12	212,587.12
Okla.	1,531,689.67	1,664,659.32	(c)
Ore.	406,160.57	408,479.46	411,607.38
Pa.	30,630.00	40,797.00	55,691.00
R. I.	(k)	(k)	(k)
S. C.	(g)	(g)	(g)
S. D.	1,668,028.65	1,746,233.62	1,752,780.15
Tenn.	150,750.00	150,750.00	150,750.00
Texas.	693,393.31	795,372.66	796,781.86
Utah	322,136.64	404,137.07	298,913.04
Vt.	(c)	(c)	(c)
Va.	178,530.15	182,965.74	188,863.39
Wash.	1,339,698.23	1,452,588.98	1,452,588.98
W. Va.	40,610.11	53,094.77	55,913.96
Wis.	286,518.87	289,161.84	439,526.00
Wyo.	963,783.27	994,886.89	1,050,799.08
	Amount in 1931		
Ala.	144,110.36		
Ariz.	(c)		
Ark.	75,718.60		
Calif.	(g)		
Colo.	688,917.90		

Table VIII (Continued)

State	Amount in 1931
Conn.	(g)
Del.	(c)
Fla.	207,529.98
Ga.	(e)
Ida.	681,441.40
Ill.	1,256,042.00
Ind.	981,610.85
Iowa	216,149.00
Kan.	500,000.00
Ky.	141,148.00
La.	115,822.00
Me.	34,009.48
Md.	(c)
Mass.	216,469.64
Mich.	(h)
Miss.	(g)
Mo.	187,040.00
Mont.	1,806,655.37
Neb.	1,045,335.89
Nev.	66,483.76
N. H.	(i)
N. J.	600,000.00
N. M.	(c)
N. Y.	96,928,711.36
N. C.	(j)
N. D.	916,405.92
Ohio	212,587.12
Okla.	(c)
Ore.	(c)
Pa.	47,981.00
R. I.	(k)
S. C.	(g)
S. D.	(c)
Tenn.	(c)
Texas	(c)
Utah	303,421.32
Vt.	(g)
Va.	250,387.65
Wash.	1,340,965.40
W. Va.	53,802.96
Wis.	456,997.50
Wyo.	(g)

(a) Swift, 1905, *op. cit.*, Table VII, pp. 22-23.

(b) Based on questionnaire. See Appendix A.

Table VIII (Continued)

(c)	No data.
(d)	1901
(e)	No fund
(f)	1902
(g)	Partial data only.
(h)	No definite permanent fund.
(i)	Institute fund only.
(j)	School Building fund only.
(k)	Income used for research and survey work.

According to Table VIII, the outstanding examples of states with more or less static incomes are: Arkansas, Kansas, Kentucky, Missouri, New Jersey, Ohio, and Tennessee. Of these states, it will be remembered that the following have all or very nearly all of their funds unproductive: Arkansas, Kentucky, Ohio, and Tennessee. This, then accounts for the case of Kentucky, for example, recorded as having an income of \$150,000.00 each year. This is just the interest paid on a state debt.

It will be noticed that there is very little variation in the income of the two states of Massachusetts and West Virginia. However, this is explained by the fact that the principal of the Massachusetts School Fund by law is limited to \$5,000,000.00 and the Irreducible School Fund of West Virginia in the same manner cannot exceed \$1,000,000.00.

Minnesota, Montana, North Dakota, Oklahoma, South Dakota, and Washington are the finest examples of rapidly increasing incomes, the reason for which has already been given in Chapter IV.

Such then is the growth of these incomes within recent years, and, except for one or two instances, little effect of the depression is visible.

If one desires to know the value of these funds to the present system of education, neither a table nor graph of growth of the principals or the incomes is very satisfactory. It offers no basis for comparison. A more correct evaluation of them would be based on their contributions to educational revenue.

There are two such methods of evaluation. The first depends on the amount of income apportioned per capita from year to year in a given state from its fund. Most land board offices and state treasury departments employ this method to show what the progress of the fund has been. As a rule, they are not concerned with the total school revenue inasmuch as it does not affect their departments. The latter method depends on the per cent of aid the income of a fund renders to the total school revenue in a given state over a period of years. This last is by far the more common, because it not only measures the progress of the income of the permanent fund, but also shows the comparative relation of this income to other sources of school revenue.

To appraise the worth of these funds to education, it has been necessary to go back to 1905 and use this as the basis of comparison with the present. Table IX gives the per

cent in each state that its particular fund contributed to total school revenue for the years 1905,⁷⁸ 1924,⁷⁹ and 1926-31.⁸⁰

TABLE IX
PER CENT OF TOTAL SCHOOL REVENUE IN ALL THE
STATES DERIVED FROM PERMANENT SCHOOL FUNDS
1905, 1924, AND 1926-31

State	1905	1924	1926	1927	1928	1929	1930	1931
Ala.	9.8	(k)	1.1	1.0	.9	.84	.82	.83
Ariz.	(a)	3.6	(a)	(a)	(a)	(a)	(a)	(a)
Ark.	1.6	(i)	.5	.5	.5	.54	.22	.63
Calif.	6.0	(d)	(d)	(d)	(d)	(d)	(d)	(d)
Celo.	4.9	3.6	2.97	2.4	2.6	2.66	2.4	2.4
Conn.	3.2	.9	.37	.4	.36	.38	(d)	(d)
Del.	10.9	1.6	(a)	(a)	(a)	(a)	(a)	(a)
Fla.	2.28	1.2	.52	.61	1.6	1.27	1.51	1.43
Ga.	(b)	(b)	(b)	(b)	(b)	(b)	(b)	(b)
Ida.	10.2	7.7	6.06	6.24	5.53	5.07	5.29	5.97
Ill.	3.7	(i)	1.28	1.10	1.09	1.07	.99	.92
Ind.	5.3	.7	1.15	1.18	1.12	1.22	1.3	1.33
Iowa	2.0	.6	.36	.38	.39	.38	.38	.37
Kan.	9.3	1.2	1.39	1.39	1.39	1.39	1.39	1.39
Ky.	5.8	(i)	.68	.63	.57	.55	.56	.49
La.	3.7	.9	(c)	(c)	(c)	.36	.34	.9
Me.	1.0	(i)	.31	.31	.31	.30	.29	.29
Md.	1.5	.1	(a)	(a)	(a)	(a)	(a)	(a)
Mass.	1.2	.5	.35	.34	.32	.31	.32	.30
Mich.	4.5	(i)	(g)	(g)	(g)	(g)	(g)	(g)
Minn.	10.0	3.5	6.45	6.63	6.75	6.66	7.23	7.14
Miss.	(a)	(i)	(d)	(d)	(d)	.45	(c)	(c)
Mo.	7.9	2.9	.35	.34	.36	.36	.34	.32
Mont.	3.6	7.8	7.84	8.3	(d)	8.94	(d)	(d)
Neb.	11.9	5.0	4.58	4.32	4.46	4.57	4.26	4.28
Nev.	49.19	8.6	7.75	7.33	6.81	7.23	6.32	3.11
N. H.	.17	(i)	(e)	(e)	(e)	(e)	(e)	(e)

78. Swift, 1905, op. cit., Table IV, pp. 13-14.

79. Swift, 1931, op. cit., Table XXX, p. 123.

80. Computed from questionnaire; see Appendix A.

Table IX (Continued)

State	1905	1924	1926	1927	1928	1929	1930	1931
N. J.	2.05	.7	.76	.7	.65	.62	.57	.65
N. M.	7.4	12.1	(a)	(a)	(a)	(a)	(a)	(a)
N. Y.	.7	.3	.16	.18	.21	.21	.22	.26
N. C.	(a)	.2	(f)	(f)	(f)	(f)	(f)	(f)
N. D.	12.6	11.9	7.58	6.78	7.04	6.75	6.57	6.49
Ohio	1.59	(i)	.22	.22	.21	.21	.20	.19
Okla.	(a)	7.3	(c)	5.37	5.37	5.62	(d)	(d)
Ore.	13.5	3.0	1.92	1.92	1.25	1.83	1.71	(d)
Pa.	(a)	.2	(c)	.005	.015	.014	.017	.02
R. I.	.4	(h)	(h)	(h)	(h)	(h)	(h)	(h)
S. C.	.16	.2	(c)	(c)	(c)	(c)	(c)	(c)
S. D.	11.9	10.1	8.9	9.64	9.12	9.12	(d)	10.1
Tenn.	4.4	(i)	.61	.58	.54	.54	.56	(d)
Texas	27.69	8.5	1.58	1.61	1.29	1.04	1.09	(d)
Utah	21.2	3.1	2.76	3.32	2.89	3.4	2.42	2.4
Vt.	4.0	1.8	(c)	(d)	(d)	(d)	.95	(c)
Va.	2.3	.9	.72	.78	.69	.68	.7	(c)
Wash.	8.0	3.7	4.3	4.34	4.15	5.05	4.36	3.99
W. Va.	1.8	.3	.213	.264	.16	.2	.21	.2
Wis.	2.6	.3	.39	.58	.53	.53	.73	.38
Wyo.	49.3	12.6	(c)	(c)	(c)	12.89	(c)	(c)

(a) No information.

(b) No fund.

(c) Partial data only.

(d) Data not yet available.

(e) No fund except as used for institutes.

(f) School building loan fund only.

(g) No definite permanent fund.

(h) Income used for research and survey work.

(i) Funds at that time were state debts and were not considered in computations.

There is little doubt, after examining the foregoing table, that these funds have declined relatively in the amount contributed to the educational expenses of the states. One need only point out a few examples such as North Dakota, whose permanent School Fund in 1905 contributed 12.6% of the total education cost in the state, but which in 1931 contributed 6.49%, or just about half in a period of twenty-seven years;

Nebraska from the fund in 1905 received 11.9% of their revenue, in 1931 4.28%; Utah, whose State School Fund supplied 21.2% of the money spent by the schools in 1905, but 2.4% in 1931; and many others. By far the most outstanding state in this respect is Nevada, supplying 49.19% in 1905 and only 3.11% in 1931.

This point can best be illustrated by Figure 4, which shows the curve for all states combined during 1890-1931. Figures for 1890-1924 were taken from Swift;⁸¹ the remainder of the table was based on data received on the questionnaire. This shows that in 1890 the permanent school funds contributed about five and one-half per cent to total school revenue, but in 1931 only 2.2%. There has been a gradual reduction in the amount. This naturally leads one to ask about the relative importance of these funds to education.

One must be very careful in drawing conclusions from the foregoing facts. It would be erroneous to say that the permanent school fund incomes are decreasing, nor would it be correct to assert that these funds are gradually becoming negligible. When the incomes of school funds are evaluated according to the per cent of revenue they provide, it must be remembered that school costs and school enrollments have increased tremendously during this same period of years.

81. Swift, 1931, op. cit., Table 31, p. 124.

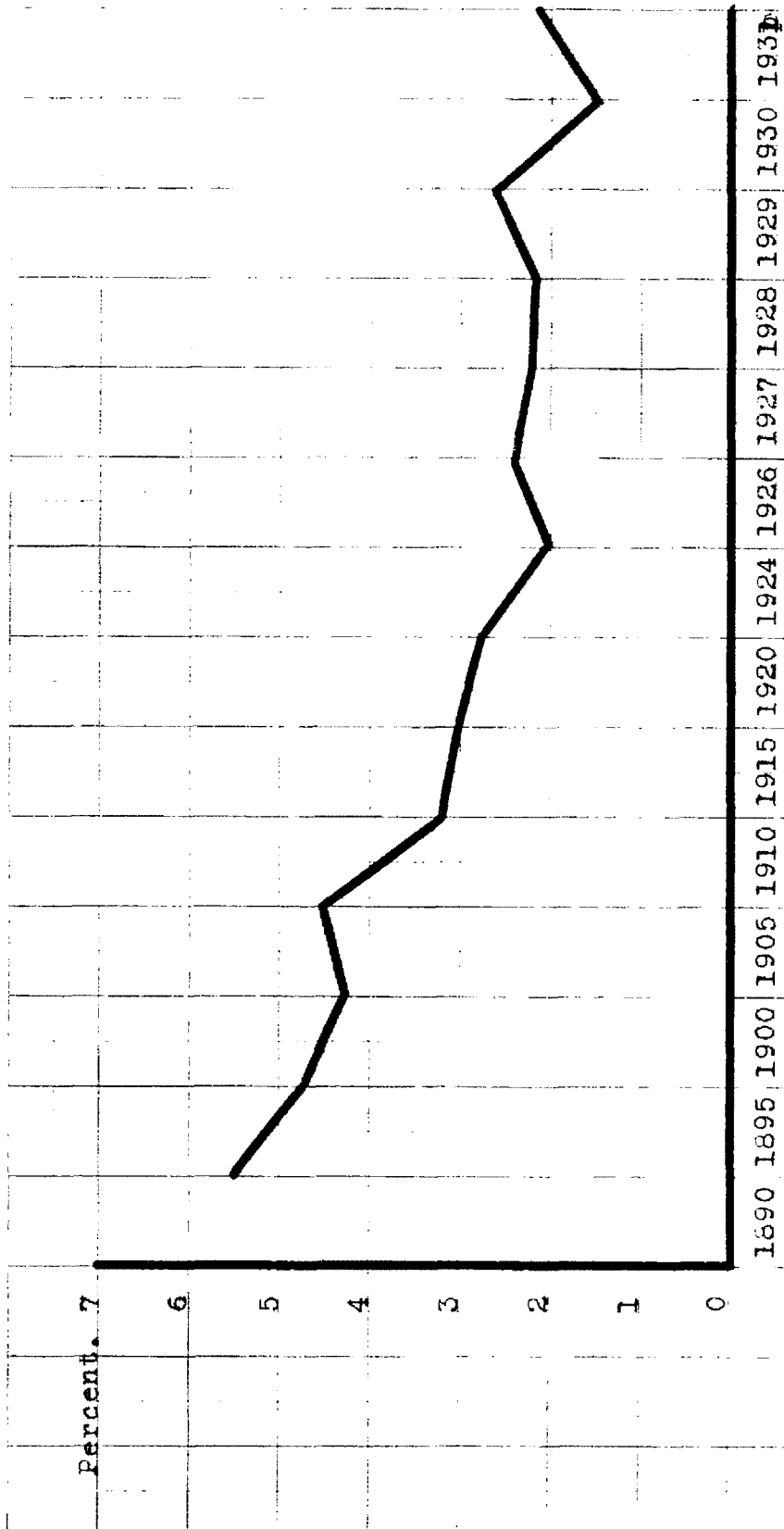


FIG. 4--PERCENTAGE OF TOTAL PUBLIC-SCHOOL EXPENDITURES PROVIDED BY PERMANENT FUNDS 1890-1931

For this reason, the per cent method of evaluation might be confusing. The fact to be recognized regarding these funds is that the incomes have been on the increase ever since 1905, but not at the same rate of increase as school costs and enrollments.

A few comparative facts will conclusively prove this point: average daily attendance in both graded and high schools increased over 88% from 1900-1930; enrollments in both grades and high schools during the same years increased 100%; in the state of Wyoming enrollments in high schools from 1913 to 1930 increased 314%;⁸² high school enrollment in the state of Montana 1919-1930 increased approximately 75%;⁸³ the number of teachers in high schools in Montana for the same period rose 37%;⁸⁴ the cost of maintaining these same high schools those years increased about 44%.⁸⁵ Table X illustrates the same situation in the state of Louisiana. These are sufficient examples to prove that the incomes are not decreasing but are just not keeping pace with other items.

82. See Appendix D.

83. See Appendix E.

84. See Appendix F.

85. Ibid.

TABLE X

TOTAL AMOUNT OF SUPPORT FOR PUBLIC EDUCATION FROM
STATE SOURCES FROM 1911-1931; THE NUMBER OF PUPILS
REGISTERED AND THE AMOUNT PER PUPIL AT EACH YEAR
LOUISIANA^(a)

Year	Per Pupil Enrolled	Total Amount
1910-11	\$ 3.24	\$1,002,435
1915-16	3.51	1,061,187
1920-21	10.51	3,851,884
1921-22	11.25	4,408,775
1922-23	10.02	5,844,744
1923-24	9.67	3,770,584
1924-25	9.00	5,722,964
1925-26	9.75	3,942,046
1926-27	12.04	4,929,797
1927-28	12.23	5,215,160
1928-29	11.90	5,300,315
1929-30	11.32	5,150,078
1930-31	12.18	5,862,122

(a) Eighty-second Annual Report for the Session of
1930-31, State Department of Education, Louisiana,
Bulletin No. 220, pp. 84-85.

One more illustration, Figure 5, showing the trend of both state (including income from permanent school fund) and local contributions to educational revenue in the state of Arkansas from 1890 to 1921, demonstrates conclusively, as an example for the entire problem, what has really happened regarding the income of these permanent school funds in school expenditures.

One of the best examples of evaluating the income of these funds on the per capita basis is found in the state of

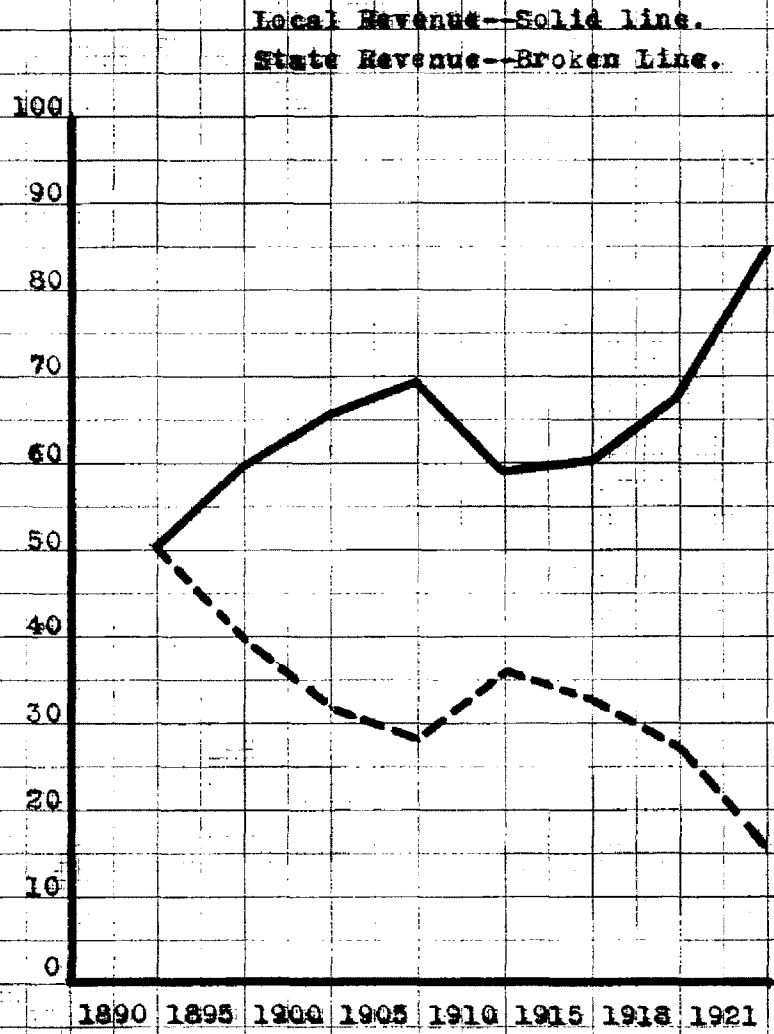


FIG. 5--COMPARISON OF PERCENT OF ARKANSAS PUBLIC SCHOOL REVENUES DERIVED FROM STATE (including income of Permanent School Fund) AND LOCAL TAXES 1890-1921

Montana. Table XI shows how the income from the Public Permanent Common School Fund of this state has grown both as to the total amount of the income and the evaluation on the per capita basis. No other instance in the United States was found where the per capita apportionment had steadily increased from year to year. All states with productive funds showed increases year by year in the income, but the increase was not sufficient to equal that steady increase of school enrollment. For this reason, the example of Montana is unique.

If Figure 1, page 50, is compared to Table XI or Figure 6, it will easily be seen that the income from this fund in Montana has followed the same trend as the growth of the principal. From the depression year 1930 to 1932 there is a considerable decrease in income. The same explanation suffices here as for the decrease in principal.⁸⁶

TABLE XI
ANNUAL APPORTIONMENT OF THE INCOME FROM THE PUBLIC
SCHOOL PERMANENT FUNDS AND AMOUNT PER CAPITA
IN MONTANA, 1897-1932 (a)

Year	Amount Apportioned	Per Capita
1897	\$ 17,731.56	\$.42
1898	28,450.98	.62

86. See page 50.

Table XI (Continued)

Year	Amount Apportioned	Per Capita
1899	\$ 41,561.52	\$.84
1900	80,428.50	1.50
1901	105,842.20	1.85
1902	138,905.00	2.25
1903	168,019.80	2.60
1904	169,786.65	2.55
1905	185,566.75	2.85
1906	205,560.60	2.90
1907	217,494.00	3.00
1908	227,071.90	3.10
1909	250,580.00	3.25
1910	305,793.75	3.75
1911	266,415.00	3.00
1912	345,404.50	3.50
1913	419,096.00	4.00
1914	513,144.00	4.50
1915	632,685.00	5.00
1916	713,291.25	5.25
1917	810,991.50	5.50
1918	877,536.00	5.50
1919	890,673.50	5.50
1920	959,756.00	6.00
1921	984,418.20	6.10
1922	785,082.90	4.90
1923	956,794.40	5.84
1924	892,563.54	5.67
1925	818,214.63	5.184
1926	1,189,966.04	7.51
1927	1,296,922.04	8.5966
1928	1,172,090.55	7.76509
1929	1,275,858.52	8.0753264
1930	1,355,824.92	8.4280915
1931	1,086,652.87	6.75629448
1932	834,759.02	5.17286638

(2) Report of the Commissioner of State Lands and Investments, for the two Fiscal Years Ending 1932, State of Montana, p. 62.

Another per capita rating is found in the State of Wyoming for the years 1922-30. Statistics for comparing this state to Montana are found in Table XII and show a very great similarity.

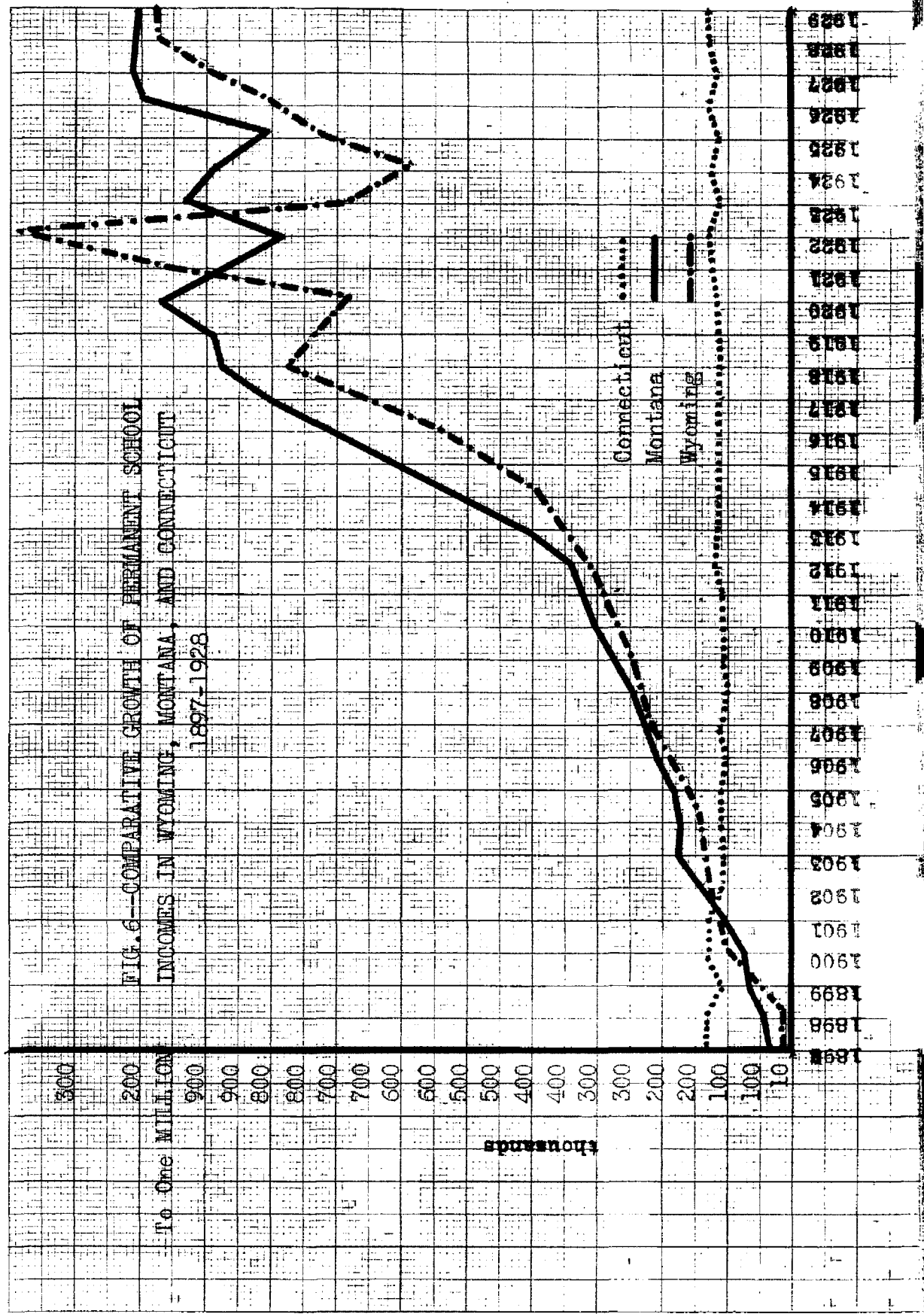


TABLE XII
GROWTH OF INCOME OF PERMANENT COMMON SCHOOL FUND
IN WYOMING AND PER CAPITA APPORTIONMENT, 1922-30 (a)

Year	Total	Per Capita
1922	\$1,425,197.51	\$ 5.07
1923	621,813.56	5.74
1924	597,976.25	5.64
1925	720,214.19	5.71
1926	799,225.07	6.29
1927	899,625.54	7.17
1928	963,725.27	7.65
1929	994,666.89	7.65
1930	1,050,799.08	7.85

(a) Biennial Report of the State Department of Education, Wyoming, 1928-1930, p. 136.

Using Connecticut as an example and typical state of the older permanent funds and Montana and Wyoming as types of the newer, western funds, it is found (Fig. 6) that these older states have had a more or less static growth while the newer states have experienced a very rapid increase. The same explanation can be given for this as for the growth in the principal--the newer states have had more lands to be sold and thus add to their funds.

The general conclusion to be drawn from the material so far given is that although all of the productive funds have been on the increase since 1905, that increase hasn't been proportionately as great as the increase in school costs and enrollment and as a consequence, these permanent funds

today are contributing a negligible portion of the total school revenues.

What can we expect from these funds in the future is the next logical question. A reference to Fig. 5 is evidence that the income from state sources in Arkansas has been relatively declining and our figures have demonstrated that such is the case in all the states. In discussing this same question, Swift states,

"....it would be folly to hope to depend on state permanent school funds for the great increases in school revenues which must be provided if the state is to even out the existing inequalities. There are at least two additional reasons why it would be unwarrantable to hope to solve our school financial difficulties through the building up of public endowments vast enough to meet the increasing financial needs of the school: first, the natural resources from which such funds might be derived, especially state lands, have been largely disposed of or exhausted; second, in a period such as the present when the schools are threatened with financial shortage, neither legislatures nor the public will be inclined to devote large additional revenues to the principal of permanent funds bearing a low rate of interest. On the contrary, the tendency will be to devote to current school funds any large additional revenues available for schools."⁸⁷

If what Swift says is true, and it sounds very logical, and if school expenditures continue to increase, our permanent school funds will continue to become more and more negligible unless action is taken by all the states similar to that of Montana in 1925--that of adding a certain per cent out of the annual income to the principal of the fund itself. In this way, as figures for both Montana

87. Swift, F. H., op. cit., 1931, Chap. VIII, pp. 124-5.

and Wyoming show, the fund gradually becomes larger with a proportionately larger income.

It is not the purpose of this paper to foretell the future of these funds. The suggestion that these funds should be handled in a better manner might be very well offered. Of course, they have not accomplished what their founders thought they would; namely, pay the expenses of a school system. They possibly would have done so had not our system of education so far exceeded any bounds of imagination which our ancestors had in establishing them.

SUMMARY

Rated on the basis of per cent of aid they render to education, these funds have become almost negligible. States which had as high as 40% from their permanent funds in 1906, today receive only 10%. This however does not mean, that the actual funds themselves have decreased; it means that certain items in schools have increased more rapidly than the incomes of these funds.

Their future would be very difficult to predict, but if handled correctly they should yield relatively the same amount of school revenue in spite of the rising education costs.

CHAPTER VI

CONCLUSIONS

There are many questions to which answers are not found in this study. It is incomplete in many respects and this is due in part to a condition existing today which also existed in 1905 as shown in a statement by Swift at that time:

"It is difficult to ascertain the true condition of the permanent funds of many states. In some it would appear that officers immediately related to these funds are ignorant, not only of their history, but also of their present condition. The data given in both state and federal reports are sometimes incorrect, frequently misleading."⁸⁸

Peculiarly enough, it is not difficult to obtain data on funds in states which managed well--possibly they are proud of them and the others the reverse.

Difficulty in obtaining data will always exist in those states that are ashamed of their records. That, in part, then, explains why many points have gone unanswered in this study.

This inquiry has, however, revealed a number of situations which have changed since Swift's study of 1905.

1. In the first place, both the names of the funds and

⁸⁸ Swift, F. H., op. cit., 1905, p. 5.

the persons controlling them have been altered considerably. Where funds in many instances in 1905 were in charge of one person, today we find them under the management of a "board of investments", a "state fund board", or the "commissioners of the permanent school fund", especially created by law and operating under specific regulations as regards investments. It was pointed out that where no such board had been created that in many instances two and sometimes three state officers were placed in charge instead of one man. This method is never satisfactory because state officials already have enough work and cannot give their attention to these funds.

2. In the second place, the pertinent fact that states have legislated regarding investment of these funds, was emphasized and illustrated. Where only eight of the states in 1905 had any regulation of any kind (and only two of these had really efficient laws) in 1938 it was found that 31 of the states had efficient rules. These states with such laws, however, were the ones with more or less productive funds.

By classifying the types of investments, according to these changes and additions in state laws, it was found that certain types were more or less common to all the laws. First among these were United States bonds or securities. The second most frequently listed were bonds

of the subdivisions within the state. With the exception of one state (Vermont), all specified that such bonds must be within the state. Mortgages on farm lands as an investment were investigated showing that six states allowed such investment of which four had detailed regulations and two none. One state (New Jersey) specified that loans on farm lands shall not be made. A number of the states listed school district loans as being preferred over other types. One state, Minnesota, ruled against railroad bonds as an investment.

3. In the third place, results of the study showed how the principals of the funds in all states, on which data were available, had increased approximately 54% in 1932 over the 1905 figures. Regarding the totally or partially unproductive principals reported in 1905, it was discovered that two states, Wisconsin and Maine, have taken steps to restore these principals. The conditions in these two states were investigated and methods of restoration were studied and suggested as possible ways for those other states to take the same restorative action. Because of lack of data, the comparative growth of principals in all states was impossible. But states which were exemplary of certain sections, were employed as such and contrasted. The conclusion drawn from a contrast of the growth of the funds in Montana, Wisconsin and

Connecticut was: the younger a state and its fund are, the more erratic is the growth of the fund; the older a state becomes, the more static becomes the increase in the principal. This is caused by the fact that older states have very little by which to increase their funds, whereas the newer states to begin with had more school lands, and in many cases much of it is still remaining to them.

4. In the fourth place, considered from the standpoint of value to school expenditures, it was found that, the incomes of these funds today are contributing a smaller per cent proportionately to total school expenditures, although they are larger than in 1905. A study of the increased enrollments and school costs, even in the last ten years, showed these items to be the cause of the relatively lower per cents contributed by these funds because such increases had far exceeded any increases in growth of permanent school funds.
5. In the fifth place, this study has verified nearly all of Swift's⁸⁹ twenty-five conclusions in 1905. He found the losses were due to the following defects in the handling of the funds:

89. Swift, F. H., 1905, op. cit., Table XIX, pp. 157-8.

- *1. Lands sold for less than real value.
- * 2. Unpaid for lands reverted to township.
- 3. Bonds improperly recorded or not recorded.
- 4. Sold by towns and no records of proceeds.
- * 5. Bad loans.
- * 6. Unpaid notes.
- * 7. Unpaid interest on bonds or notes.
- * 8. Mismanagement.
- * 9. Dishonest management.
- 10. Absconding of school fund officers or debtors.
- 11. Theft or embezzlement.
- 12. Losses by fire.
- *13. Insufficient legislation.
- 14. Moneys due principal not added.
- *15. Moneys due principal diverted.
- 16. Fund borrowed by the state.
- 17. Fund used for state expense.
- *18. Fund used to pay state debt.
- 19. Fund misappropriated by the state.
- *20. Used for other purposes.
- *21. Exchanged for state securities--indebtedness later repudiated.
- *22. Fraudulent bonds.
- 23. Failure of state banks.
- 24. Depreciation of securities.
- 25. Civil War.⁹⁰

This study has verified all these starred above, and if the investigation had been prolonged it might have verified many more.

Besides verifying these causes, the investigation showed that certain of these causes of loss have been partially removed by legislation. For example, in those states with investment laws, it is impossible for the state to borrow these funds in the same sense as it was done previously. States today, however, are accomplishing

90. See Appendix E.

almost the same thing by exchanging their securities for these funds. An example of this situation is found in Montana where in 1935 out of its funding bonds were exchanged those of latest maturity dates for funds in the State Permanent Common School Fund. This, of course, is not the same manner in which funds were formerly diverted, but, nevertheless, it is still very closely related to earlier cases of misappropriation and mismanagement.

There are, as has been shown, any number of cases where unpaid for lands have reverted to the state, where notes have remained unpaid along with the interest, and where securities have depreciated thus causing losses to the funds.

In those cases where the law does not specify that school district bonds should be given preference in investments, it might technically be said that the states are still permitting diversion of these funds from their rightful use when they allow them to be employed for other purposes than education.

Although the situation has improved considerably since 1905, the fact that there are still 17 states lacking specific laws on investment of these funds shows that there is yet insufficient legislation. And, this investigation has proved that even in the 31 states with such

laws some of them are very inadequate as exemplified by the states of West Virginia and Wyoming. These two states list the types of securities in which their funds may be invested and at the bottom of the list each provides that these funds may also be invested in "...other solvent interest-bearing securities."⁹¹ Such an example is a clear case of legislative inadequacy.

Altogether the types of losses today are more frequently within the law--the methods are more subtle. It is unlikely that the time will ever come when any public trust fund will always remain in a perfectly sound condition, for there are few examples today of state permanent school funds which have not, even in the later years, sustained some sort of loss. All of these facts show that it is dangerous to allow these funds to remain in the control of the state legislatures.

Experience has proven that probably the best ways of safe-guarding these funds would include the following:

1. Placing the control of these funds in the hands of a non-partisan, non-political board, no members of which should be ex-officio. The state board of education, when freed from politics, should have control of this fund, because they are primarily

91. See page 38.

interested in schools.

2. Imposing a heavy penalty on the individual board members if they permit any part of the fund in their charge to be diverted.
3. Placing the members of this board under heavy bonds to guarantee faithful performance of their duties.
4. Auditing the books of this board by some independent concern from outside of the state and giving full publicity to the findings of this audit.
5. Applying Cubberley's recommendation. He strongly urges that every state constitution be so amended that it will permanently remove the control of these funds from the caprice of state legislatures. He recommends the following as a suitable constitutional provision:

"The management and investment of the state school fund shall be in the hands of the state board of education, and the general assembly shall have no power to appropriate, borrow, loan, or invest the principal or the income of such fund, under any pretense whatever; nor shall the state board of education ever invest any of the principal of the fund in any bonds of this state, nor shall any of the principal of the fund be invested in bonds of any of the subdivisions of this State, except where such bonds meet the savings-bank and trust-fund requirements of the State, and where adequate provision for their redemption has been made. This fund shall forever remain inviolate and

irreducible, and any losses which may occur in its management must be replaced from the income by the state board of education."⁹²

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7. Twenty-ninth Biennial Report of the Superintendent of Public Instruction, Oregon, 1931.
8. Biennial Report of the State Education Department, Wyoming, 1928-1930.

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REPORTS OF STATE TREASURERS AND LAND BOARDS

1. Report of the Condition of the School Fund, Reprint from the State Treasurer's Report, Connecticut.
2. Statement of Semi-Annual Apportionment of Interest of the Permanent School Fund, Treasurer, Iowa.
3. Report of the Treasurer and Receiver General for the Year Ending Nov. 30, 1951, Massachusetts.
4. General Report on State Finances, Minnesota, July 1, 1950.
5. Reports of the Commissioner of State Lands and Investments, Montana, 1928-1950 and 1951-1952.
6. Treasurer's Report, Nebraska, June, 1932.
7. Report of the State Treasurer, Year Ending June 30, 1932, Nevada.
8. Annual Report of the Department of Audit and Control, Fiscal Year Ended June 30, 1951, New York, 1952.
9. Nineteenth Biennial Report of the Commissioner of University and School Lands, North Dakota, 1950.
10. Biennial Report of the State Treasurer, for Years 1928-1950, Tennessee.
11. Report of the State Treasurer for the Year Ending June 30, 1951, Virginia.
12. State School Statistics Since Statehood, Washington Education Association, 1932.
13. Biennial Report of the Commissioner of Public Lands, Year Ending June 30, 1950, Wisconsin.

523 East Front St.
Missoula, Montana

State Department of Education:

At your earliest convenience, I should like to have the information called for in the blanks of the following table which concern your _____ Fund. The information is for the purpose of determining the value trend of such funds in all the states toward public education. This material will be incorporated into my Master's thesis.

	Total amount spent in (both state and local) your state for elementary and secondary education.	Total amount apportioned by your state (state aid only) for elementary and secondary schools.	Amount of the state apportionment derived from your _____ Fund
1926			
1927			
1928			
1929			
1930			
1931			

What is the present principal of this Fund? _____

Would you care for a composite table of the results of the individual tables from the various state departments? _____

Yours very truly,

W. L. Gottenberg

APPENDIX B
LETTER RECEIVED FROM STATE TREASURER
ALABAMA

STATE TREASURER OF ALABAMA
The State Capitol
Montgomery

July 6, 1932

Mr. W. L. Gottenberg
525 East Front St.
Missoula, Montana

Dear Sir:

....Alabama has a considerable deficit and there many outstanding warrants for school purposes, highway purposes and other obligations of the state, but the State has not repudiated any of these warrants or appropriations.

It is believed that the Governor will call the Legislature within a few months to provide funds for the payment of the entire outstanding indebtedness.

With kindest regards, I am

Very truly yours,

S. H. BLAN (signed)

S. H. BLAN, State
Treasurer

APPENDIX C

STATE OF KANSAS
Treasurer's Office
Topeka

July 8, 1932

Mr. W. L. Gattasberg
523 East Front St.
Missoula, Montana

Dear Sir:

The amount of bonds on hand in our State Permanent School Fund at the close of June 30, 1932 is \$10,520,371.82---\$132,750 of this amount is fraudulent. Amount of cash on hand \$141,533.20.

There is no state indebtedness except bonus bonds which amounts to \$22,000,000.00 as of July 1st, 1932.

Very truly yours,

(signed)
T. B. Boyd-
State Treasurer

APPENDIX D

HIGH SCHOOL ENROLLMENT, 1913-1930

WYOMING^(a)

Year	Recognized H.S.	H.S. Enrollment
1913-1914	---	2,697
1915-1916	---	3,063
1917-1918	---	3,376
1919-1920	23	4,476
1921-1922	39	5,763
1923-1924	74	8,313
1925-1926	112	9,664
1927-1928	154	10,644
1929-1930	141	11,164

(a) Biennial Report of the State Department of Education, Wyoming, 1928-1930.

APPENDIX E
 STATES WHICH HAVE SUSTAINED LOSSES
 TO THEIR PERMANENT SCHOOL FUNDS BY
 THE CAUSES LISTED

2. Unpaid for lands reverted to the state:
 Mont., Okla., N.Y., N.D., Ore.
3. Bad Loans:
 Mont., N. D., Ore., Okla., Wyo.
6. Unpaid notes:
 Mont., N.D., Okla.
7. Unpaid interest on bonds or notes:
 Most all states can be included in this category.
8. Mismanagement:
 This has occurred in some forms in nearly all the states
 but not so noticeably as before 1905.
9. Dishonest management:
 Colo.
13. Insufficient legislation:
 Ala., Ariz., Fla., Ida., Ind., Iowa, Ky., Mo., Md.,
 Mass., Mich., Miss., Mo., Neb., N. H., N. C., Ohio,
 S. C., S. D., Tenn., W. Va., Wyo.
15. Moneys due principal diverted:
 Ill.
18. Funds used to pay state debts:
 Ark.

20. Used for other purposes:

Ala.

21. Exchanged for state securities:

Colo., Ind., La., Mich., S. C., Tenn., Vt., Ala.,

Ill., Ky., Miss., Neb., Ohio, Del., Nev., Ark.

22. Fraudulent bonds:

N. Y., Kan., N. M.

APPENDIX F

ACCREDITED HIGH SCHOOLS AND ENROLLMENT
MONTANA, 1919-30^(a)

Year	High Schools	Enrollment
1919-20	103	14,517
1920-21	116	16,435
1921-22	128	19,175
1922-23	134	20,583
1923-24	143	19,762
1924-25	154	20,463
1925-26	155	20,941
1926-27	155	21,349
1927-28	160	22,232
1928-29	168	23,270
1929-30	177	24,787

(a) Twenty-first Biennial Report of the Superintendent of Public Instruction, Montana, 1930, p. 45.

APPENDIX G

COST OF MAINTAINING HIGH SCHOOLS
MONTANA, 1919-1930^(a)

Year	No. of Teachers	Cost
1919-20	910	\$1,956,374.36
1921-22	1,107	2,517,209.28
1923-24	1,053	2,265,690.39
1925-26	1,089	2,367,377.23
1927-28	1,159	2,685,193.48
1928-29	1,272	2,758,546.25
1929-30	1,247	2,335,323.40

(a) Twenty-first Biennial Report of the State Superintendent of Public Instruction, Montana, 1930, p. 47.