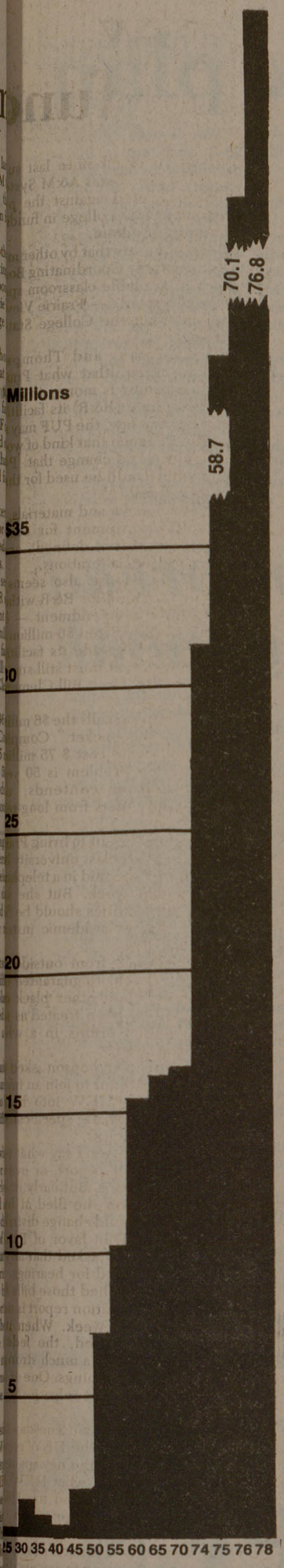
# PUF just keeps on growing




This graph shows royalties received by the Permanent University Fund (PUF) from oil, gas and sulphur leases. The years indicate the fiscal year that ended in that year. Also notice that the most recent bars on the graph break; that is, they jump a few million.

Data from the 1978 annual investment report on the PUF

By LIZ NEWLIN
Battalion Staff

The Permanent University Fund invested its first million in 1949-50, and since then its growth has been steadily upward.

The first billion-dollar investment year ended last Sept. 1, with a total of $1,043,320,989.93, according to the annual investment report.

The PUF is earning more than 6.75 percent yearly, says W.L. Lobb, who is executive director of the Office of Investments, Land and Trusts for the UT System, the manager of the fund. He says the investment philosophy is basically conservative.

"It's probably as conservative as a university will be," he explains, "because of a large amount of U.S. government bonds in the portfolio." At least 23 percent of the fund must be put in U.S. bonds to guarantee the construction bonds that are issued by the Systems against the PUF. Most university funds have this kind of protective regulation, Lobb says.

One advantage of the guarantee is that the bonds then earn the highest rating given — the triple-A.

The fund trades security for high yield, says Dr. Clinton Phillips, acting dean of the College of Business Administration here.

"It's pretty good (return) for a safe fund, and it is safe," he says.

Lately the percentage in government bonds has been inching upward in anticipation of a bill now in the Legislature that would allow the Systems to issue bonds against a full 30 percent of the fund, instead of the current 20 percent. Texas A&M's share of the bonds would increase from 6 to 10 percent of the value of the fund.

This is the third time the change has been considered, Lobb says. "It's been talked about for years." Only now, however, the PUF is close to being able to cover the additional bonds with government securities.

Regardless of any possible change, the majority of the fund will still be invested in non-government securities.

Lobb says that because of current stock market conditions, more money than usual is in short-term securities. These stocks and bonds are now earning about 10 percent interest, much higher than their return of three years ago, 5 percent.

"There's been a weakening in (long-term) bond and stock prices," Lobb says.

About 36 percent of the fund is in common stocks, and the balance is in government and corporate bonds.

All investment of the fund is handled in Lobb's office. An investment advisory committee — made up of leading financial people in the state, mostly bankers and insurance men — makes recommendations. So does Duff and Phelps Inc., an investment firm in Chicago.

But the final decision rests with Lobb and his staff. It is delegated to them by the regents of the UT System, who by law are charged with management of the fund.

Freeman, Texas A&M's chief executive officer, attends quarterly meetings of the committee, but little more.

Apparently the office has been doing pretty well. The rate of return is the highest ever, and most of the incomes that build the fund — oil, gas and water royalties — are expected to grow significantly. Right now, Lobb says, the rate of return is between 6.95 and 7 percent. Last year the return was about 6.5 percent. Returns didn't reach about 5 percent until 1972-73. It hit a low in 1949-50 at 2.51 percent and has risen steadily since then.

The method of investment — all in-house — is virtually the same Harvard is using now, according to Esquire magazine. Yale, on the other hand, farms out its endowment to several investment firms and has not performed as well lately.

Lobb's predictions for the future are also optimistic. In the PUF bond statement, his office predicts that the total invested will rise from $1.04 billion in fiscal year '78 to $1.4 billion in five years. For 1988, the predicted total is $1.7 billion.

And Lobb says his projections are always conservative.

"We always try to be on the conservative side rather than the liberal side," he concedes. The office is revising projections — upward — for this year's bond statement now.

Further, one of the main plugs in his formula is another conservative estimate — the projected royalties from oil and natural gas leases. The University does not produce any of its own oil. Leases are granted to the highest bidder, who pays the PUF royalties from his production.

James B. Zimmerman, manager of University Lands, oil, gas and mineral interests, says his estimate of royalties is low. From his office in Midland, Zimmerman says, "I feel like we'll really do better than that (the projected royalties).

"I didn't want to tell the investment people that we'd make $80 million and then not quite have it."

And the royalties may be even higher if oil price controls are removed, as President Jimmy Carter would like.

"When they take off the controls it'll help the state universities," the geologist says. In oil royalties, the PUF will gain $20-25 million per year, he says.

He said the estimates didn't anticipate the decontrol of oil prices.

Since 1973-74, the royalties from oil and gas have been tied to the market price — thanks to a lawsuit and an attorney general's opinion. Before that, Lobb explains, the royalty was negotiated when the mineral rights were first leased.

"That made a big difference in the income," Lobb recalls. Indeed, from fiscal year '73 to FY '74, royalties jumped from $18.9 million to $31.5 million (see chart). Also about that time the Arabs embargoed oil, pushing prices — and PUF royalties — even higher.

One other boon, Lobb says, was the discovery of deep natural gas in 1968-69 that started producing in the '70s. If the gas and few sulphur wells centered in Ward County were producing at 100 percent of capacity, the royalties would be about $6,500 a day.

Currently they are producing at about 60 percent because of a glut of natural gas on the market, Zimmerman says. The oil wells have been producing at 100 percent since the early '70s.

Some 1,700 separate leases on the lands have about 5,300 producing wells, the geologist reports.

University lands in Andrews County produce the most oil. Those in Ward and Windler counties produce the most natural gas. The geologist also lists Crockett, Regan, Upton and Pecos counties as big producers. Only two of the 19 counties included in University lands do not have producing wells — and they're near El Paso, 200 miles from oil country.

Water, is also found in most of the counties. And Zimmerman says revenues from water contracts should also be increasing soon. Some of the first contract for water were negotiated in the 1960s, with a cost-of-living clause. In 1964, for example, just over $120,000 was collected for water royalties and rentals. Ten years later, the contracts were renegotiated, and that figure leaped to about $296,000.

Cities have first claim on drinkable water discovered, and Andrews and Peyote get all their water from wells on University lands; Odessa, Midland and Crane get partial supplies from the wells.

Another session of contract renegotiation approaches. Zimmerman predicts that will more than double the royalties, which would put them in the neighborhood of $600,000 a year. All this money goes into the PUF, to be invested for further profits.

One income does not go into the PUF to be split between Texas A&M and UT.

That's the money collected from grazing leases on the 2.1 million acres, which goes to UT alone. In 1978 the income was about $1.52 million. Billy Carr, manager of the lands "from the ground up," says much of the land has been held by the same families for generations.

He plans to institute "flexible grazing leases" within five years.

Another clause would be written into the 10-year contracts that the 133 ranches hold to use the land. Charges for the land would be figured according to the cattle market and the number of cattle the land can support. Now lessees are charged a flat rate ranging from 28 cents per acre to $1.251 per acre. The flexible leases, Carr says, would let the rentals keep up with inflation.

They would also triple the income from the grazing leases, he predicts, to $4.5 million a year.

Now, about $300,000 a year from the rent money is used to pay for experiments on the land — conducted by the Soil Conservation Service and the Texas A&M Agricultural Experiment Station.

Carr estimates about 80 percent of the programs are with the TAES. So even then the Texas A&M System gets part of the action.