

Permanent School Fund Task Force Report

January 2026

Task Force Report

1

Background

2

Work of the Task Force

3

Recommendation

4

Conclusion

Background: Task Force Establishment and Members

Created May 2024

Membership Required to have outstanding professional experience in at least one of the following areas:

- (1) institutional asset management;
- (2) investment finance;
- (3) trust administration;
- (4) investment fund accounting;
- (5) investment banking; or
- (6) the practice of law in the areas of capital markets, securities funds, trusts, foundations, or endowments.

The Task Force membership comprises:

- **The commissioner of education or the commissioner's designee:** Daley Lehmann
- **An employee or other member appointed by the State Board of Investment:** Andrew Krech
- **Four members appointed by the governor:**
 - Denise Dittrich
 - Tracey Fiereck
 - Tracy Lhotka
 - Aaron Vande Linde
- **Three members appointed by vote of the Legislative Permanent School Fund Commission:**
 - Terese Spano-Madden
 - Paul Peltier
 - Julie Sandstede

Background: Legislative Charge

- Laws of Minnesota 2024, Chapter 115, Article 10, section 4
- **Examine the historical returns on the permanent school fund endowment and evaluate and recommend potential changes to the distribution of earnings**
 - *Duties. The task force must examine the historical returns on the permanent school fund endowment and evaluate and recommend potential changes to the distribution of earnings. The task force may examine school trust endowment policies in other states. The task force recommendations may include proposed changes to state statutes and Minnesota's constitutional provisions governing the school trust fund endowment.*
 - Term: The term of the task force expired upon submission of the task force's report to the legislature on January 15, 2026.

Background: September 2024 - January 2026



Work of the Task Force: Guiding Principles

- **Maintain the Permanent School Fund as a perpetual financial resource** — distributions must not unduly draw down the Fund's balance or impair its ability to serve as a lasting source of educational funding.
- **Establish a distribution policy that balances the needs of current and future beneficiaries** — allow the Fund to grow in a way that preserves its purchasing power for future generations while providing consistent support to current beneficiaries.
- **Ensure consistent annual distributions** — seek to minimize significant year-to-year variability in distributions to support planning and stability for school districts.
- **Allow for adaptability in investment management** — provide the State Board of Investment (SBI) with the flexibility to manage the Fund according to best practices, maximizing long-term value without taking undue risk.

Work of the Task Force: Scope

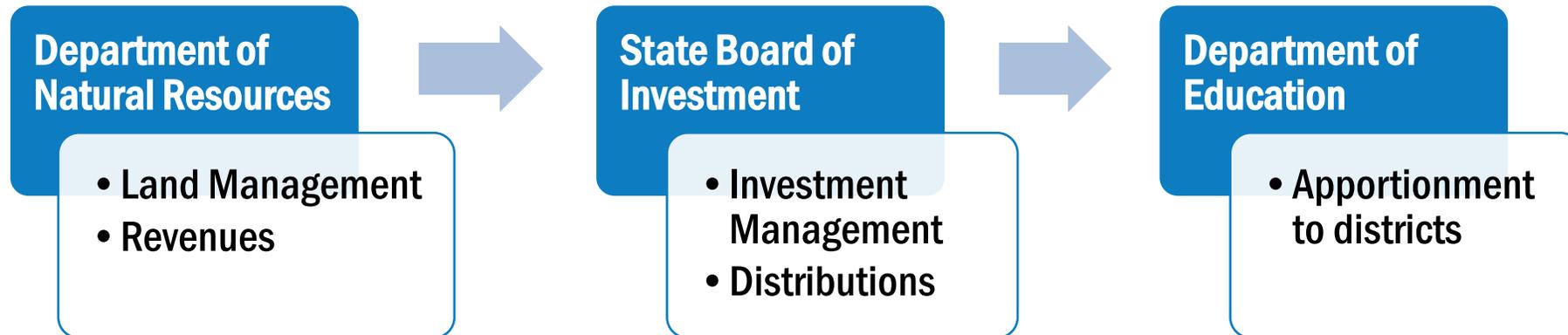
Pursuant to its statutory mandate, the Task Force reviewed the Fund's current legal framework and investment & distribution practices.

In the course of its work, the Task Force identified several issues as out of the scope of its legislative mandate, including the following:

- **Management of School Trust Lands;**
- **Review or analysis of apportionment of distributions from the Fund. Apportionment is addressed in Minn. Stat. sec. 127A.33;**
- **Defining what is and is not a school district;**
- **Any restrictions on the use of funds distributed from the Fund; and**
- **The Fund's investment policy and asset allocation.**

Work of the Task Force: Background & Agency Roles

- In 1858, the Minnesota Constitution established the Fund to create a permanent, self-sustaining source of education funding
- Minnesota law specifies how the Fund should be managed and the formula by which the amount available for distributions is calculated.
- Three State agencies are involved in the ongoing operations of the Fund:



Work of the Task Force: Current Legal Framework

Current Minnesota law imposes restrictions on the amounts distributable from the Fund and requirements related to offsetting investment losses.

*[...] Within limitations prescribed by law, the fund shall be invested to secure the maximum return consistent with the maintenance of the perpetuity of the fund. The principal of the permanent school fund shall be perpetual and inviolate forever. This does not prevent the sale of investments at less than the cost to the fund; however, **all losses not offset by gains shall be repaid to the fund from the interest and dividends earned thereafter. The net interest and dividends arising from the fund shall be distributed to the different school districts of the state in a manner prescribed by law.***

Minn. Const. Art. 11, Sec. 8 (emphasis added)

Work of the Task Force: Current Legal Framework

The current constitutional framework imposes two major constraints on Fund distributions:

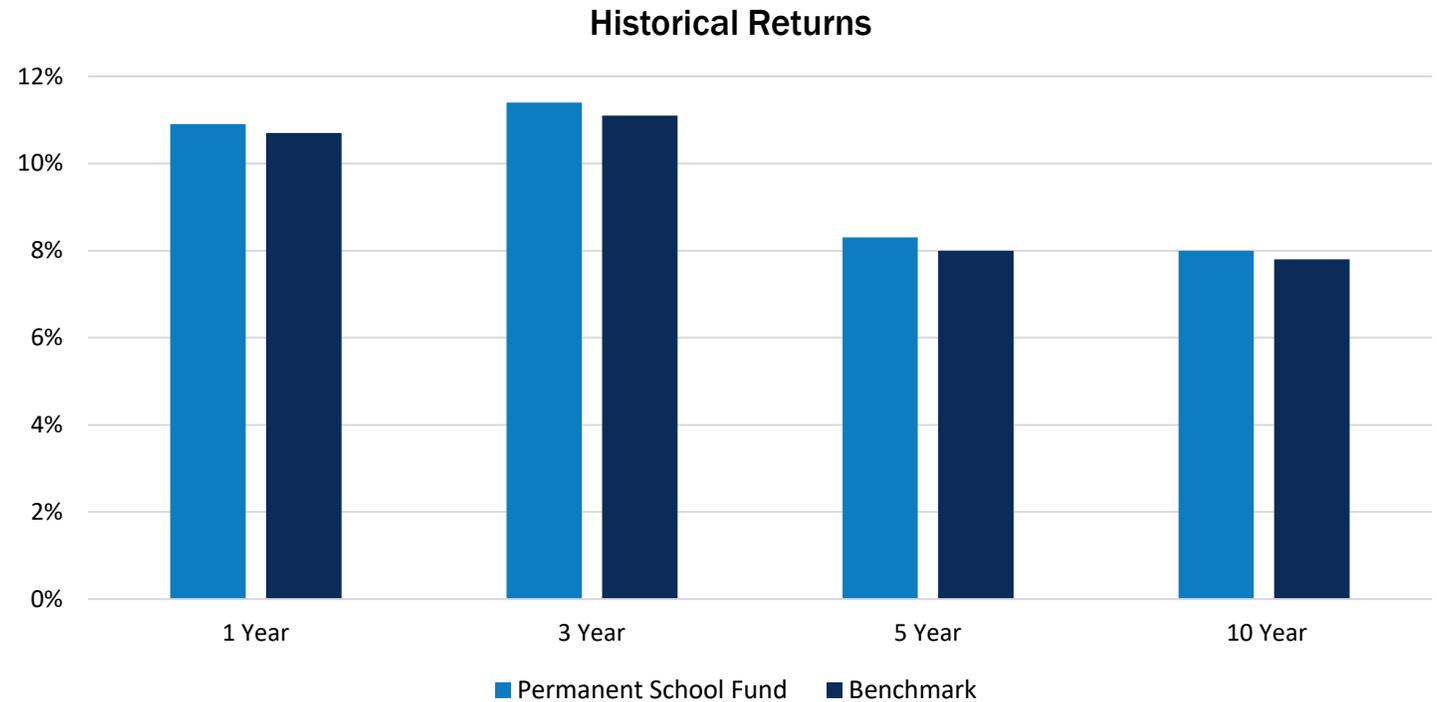
1. Distributions are limited to net interest and dividend income, excluding capital gains from asset appreciation.
2. Capital gains and, if necessary, interest and dividend income, must first be used to offset losses, reducing or eliminating distributions in loss-recovery years.

The Task Force concluded that the current framework:

- Unduly restricts Fund distributions.
- Creates an imbalance between the interests of current and future beneficiaries.
- Results in inconsistent yearly distribution amounts.
- It is difficult to adapt to changing circumstances or current best practices.

Work of the Task Force: Examination of Historical Returns

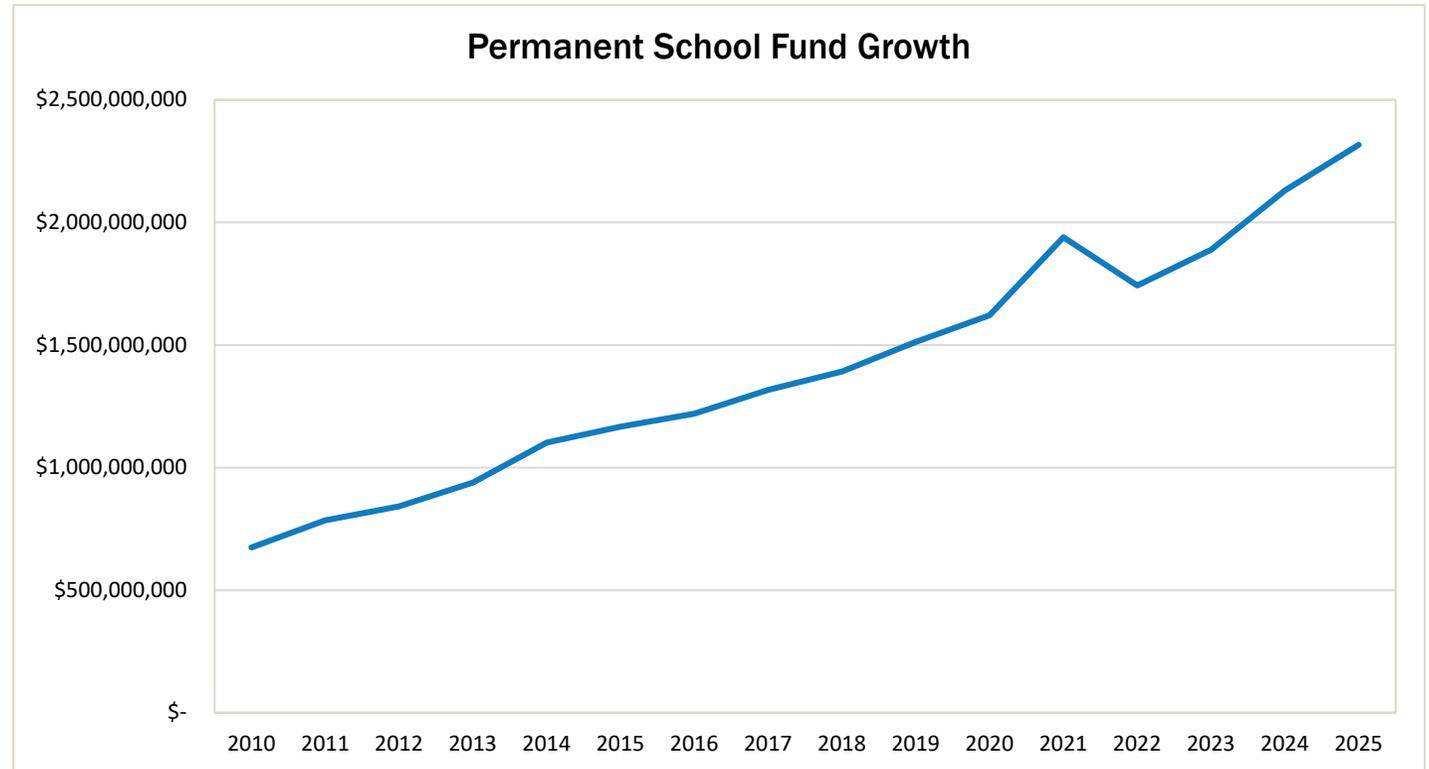
- Strong performance over time
- Average annual investment returns of 8% over the past decade
- The Fund is invested in a diversified portfolio of common stocks, bonds, and cash



The Fund's Benchmark is a blend of the S&P 500 index (50%), the Bloomberg U.S. Aggregate Bond Index (48%), and the iMoneyNet Money Fund Average (2%) Returns are presented as of 9/30/25 and net of investment management fees.

Work of the Task Force: Growth of the Fund

- Strong investment returns and revenues from land management have doubled the Fund's value over the last 10 years and more than tripled over the last 15 years.
- \$675 million (2010) - \$2.3 billion (2025).
- Because the Constitution limits distributions to interest and dividends, distributions have averaged only 2.5% of the fund's value during that period.



Work of the Task Force: Research & Analysis

The Task Force examined the distribution policies from three different groups of trust endowments:

1. Endowments of higher education institutions;
 2. Educational trust funds in other states; and
 3. Other trust funds in Minnesota.
- **Research provided by Meketa Investment Group**, one of the SBI's general investment consultants, used a broad sample size of policies to identify best practices.
 - **The Task Force evaluated the suitability of different distribution policies for the Fund.**
The Task Force worked with SBI staff to create models based on historical data and forward-looking market expectations. This analysis was built on prior work by Aon Investments, another general investment consultant to SBI.

Work of the Task Force: Evaluation of Distribution Policies

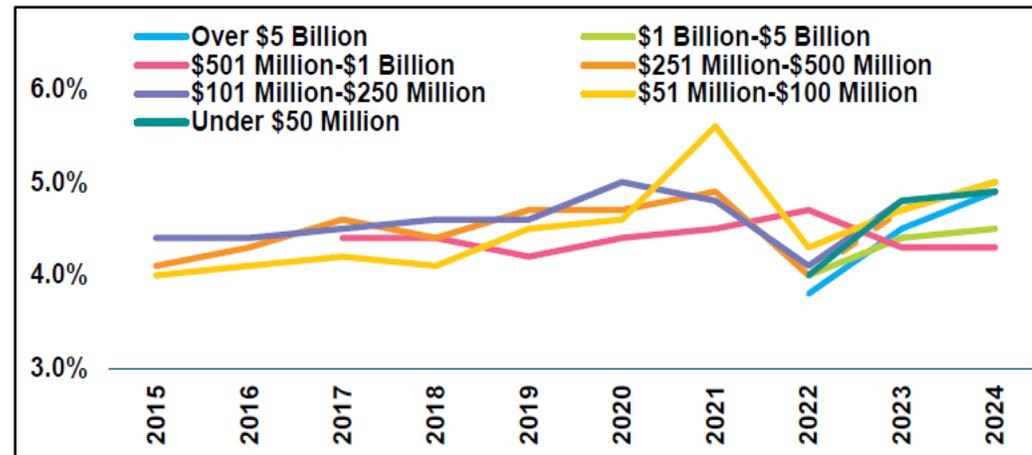
Based on a much larger sample size of institutions other than state trust funds, the Task Force identified many variations in distribution methods.

- Almost all distribution methods are based on a calculation related to market value, with the most common being a rolling-average policy.
- This distribution policy applies a fixed percentage to the average market value of a fund over multiple years.

Distribution Policy Type	Example
Simple	Spend 5% of prior year's ending market value.
Rolling Average	Spend 5% of prior three years' average ending market value.
Inflation Based	Base 5% in year one; increase annually by inflation
Inflation Based with Caps	Inflation-based, limited to 3%–7% of value.
Hybrid: 50/50	50% of spending based on "Rolling Average," 50% based on "Inflation Based with Caps."
Hybrid: 30/70	30% of spending based on "Rolling Average," 70% based on "Inflation Based with Caps."

Work of the Task Force: Evaluation of Distribution Policies

- Consultant research indicated that most endowments distribute **4% – 5%** of their average value annually.
- This range is considered sustainable, balancing current funding needs with long-term preservation of purchasing power.



- After reviewing a range of options for calculating annual distributions to Minnesota school districts, the Task Force concluded that distributing 4.5% of the average market value of the Fund over the previous three years aligns with common practices among educational trust funds and endowments, and is consistent with the Fund’s objectives.

Work of the Task Force: Examination of State Trust Policies

Distribution policies of similar school funds in other states:

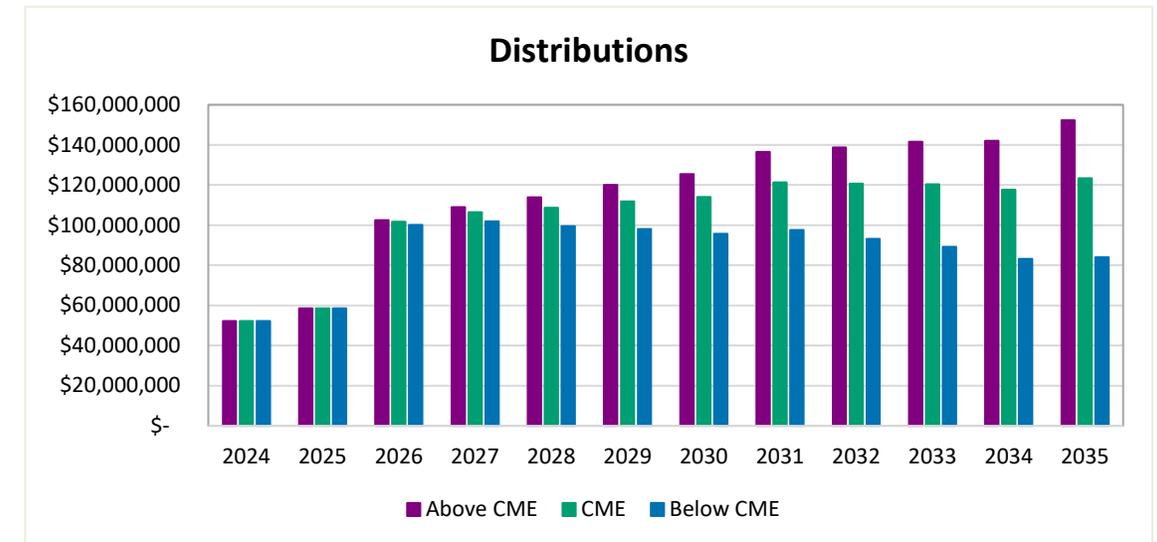
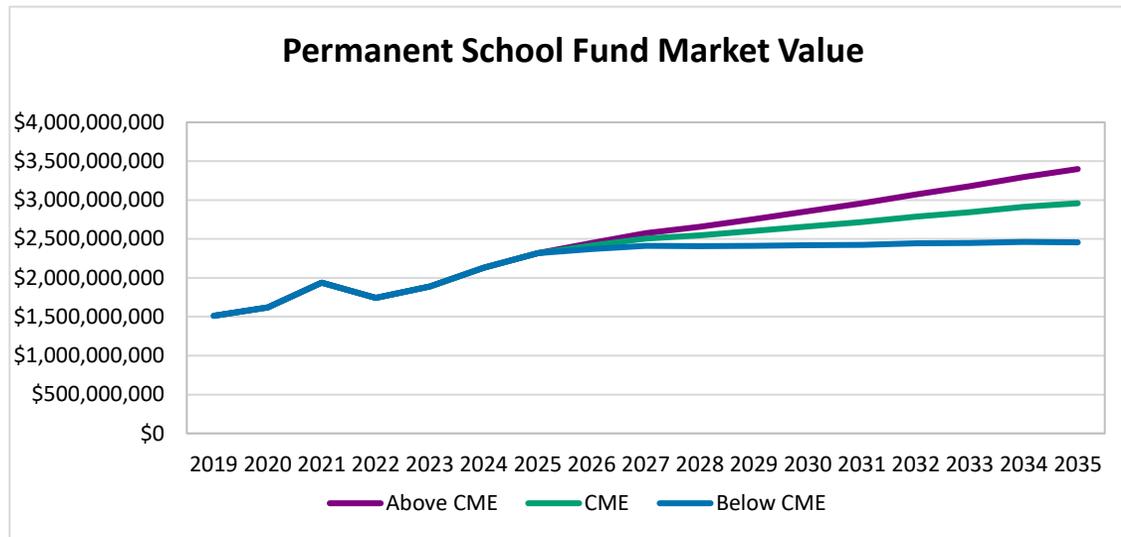
- Most base annual distributions on a rolling average calculation to moderate the impact of market volatility, rather than limiting distributions to interest and dividend income
- Minnesota is unusual in having restrictions on distributions specified in the state constitution

Other state trusts in Minnesota:

- Distributions from these funds do not have restrictions on the distribution policy specified in the Constitution.
- They also commonly determine distributions based on a percentage of the fund's market value.

Work of the Task Force: Evaluation of Potential Changes

- SBI staff used historical returns, asset allocations, revenues, and forward-looking distribution assumptions to develop multiple Fund-specific models:
 - Portfolio invested 50% in the S&P 500 (equities) and 50% in the US Barclays Aggregate Index (bonds).
 - 10-year return expectations guided by SBI's 2025 asset allocation study.
 - Scenarios modeled higher returns, negative returns, highly volatile conditions, and more.



Work of the Task Force: Evaluation of Potential Changes

- The distribution rate represents a trade-off between current payouts and long-term Fund growth.
- A distribution rate of 4.5% can be expected to nearly double near-term distributions while also achieving long-term growth of the Fund
- Fund value declines only when the distribution rate exceeds the combined value of investment returns and land management revenues.
- Using a 3-year rolling average reduces the year-to-year volatility of distributions while remaining responsive to prolonged market downturns.
- The 4.5% distribution rate and the three-year rolling average period align with industry best practices and achieve an effective balance between providing stable distributions and preserving the purchasing power of the Fund for future generations.

Recommendation

- **Based on its research and analysis, the Task Force recommends amending the Minnesota Constitution and statutes to manage the Fund in accordance with the Task Force's guiding principles.**
- **The Task Force recommends that the Constitution should state the enduring principles and objectives of the Fund, while the specific operating details of distribution policy, governance, and investment management should be established in statute.**
- **The Task Force recommends adopting a 4.5% distribution rate, calculated using a 3-year rolling average of Fund value.**

Recommendation: Constitution – Status Quo

Sec. 8. Permanent school fund; source; investment; board of investment.

[...]Within limitations prescribed by law, the fund shall be invested to secure the maximum return consistent with the maintenance of the perpetuity of the fund. The principal of the permanent school fund shall be perpetual and inviolate forever. This does not prevent the sale of investments at less than the cost to the fund; however, all losses not offset by gains shall be repaid to the fund from the interest and dividends earned thereafter. The net interest and dividends arising from the fund shall be distributed to the different school districts of the state in a manner prescribed by law.

Recommendation: Constitution – Proposed Revision

[...] Within limitations prescribed by law, the fund shall be invested and managed as a perpetual financial resource for the sole purpose of supporting the different school districts of the state. Management of the fund shall be designed to provide annual distributions while preserving the purchasing power of the fund over time, and balancing the needs of current and future beneficiaries. The distribution policy shall be specified in statute and consistent with the aforementioned principles. Distributions from the fund shall be apportioned

~~Within limitations prescribed by law, the fund shall be invested to secure the maximum return consistent with the maintenance of the perpetuity of the fund. The principal of the permanent school fund shall be perpetual and inviolate forever. This does not prevent the sale of investments at less than the cost to the fund; however, all losses not offset by gains shall be repaid to the fund from the interest and dividends earned thereafter. The net interest and dividends arising from the fund shall be distributed to the different school districts of the state in a manner prescribed by law.~~

The proposed revision of the Constitution accomplishes two main goals:

- Removing the limitation on distributions to solely income and interest
- Allowing the legislature to determine the appropriate distribution formula in statute

Recommendation: Statute 11A.16 Subd 5 – Status Quo

11A.16 PERMANENT SCHOOL FUND.

Subd. 5. Calculation of Distributable Earnings.

As of the end of each fiscal year, the state board shall calculate the distributable earnings for the permanent school fund. The earnings of the fund shall equal the amount of interest on debt securities, dividends on equity securities, and interest earned on certified monthly earnings prior to the transfer to the Department of Education. Gains and losses arising from the sale of securities shall be apportioned as follows:

(a) If the sale of securities results in a net gain during a fiscal year, the gain shall be apportioned in equal installments over the next ten fiscal years to offset net losses in those years. If any portion of an installment is not needed to recover subsequent losses identified in paragraph (b) it shall be added to the principal of the fund.

(b) If the sale of securities results in a net loss during a fiscal year, the net loss shall be recovered first from the gains in paragraph (a) apportioned to that fiscal year. If these gains are insufficient, any remaining net loss shall be recovered from interest and dividend income in equal installments over the following ten fiscal years.

Recommendation: Statute 11A.16 Subd 5 – Proposed Language

11A.16 PERMANENT SCHOOL FUND.

Subd. 5. Calculation of Distributable Earnings.

- (a) As of the end of each fiscal year, the state board shall calculate the distributable earnings of the permanent school fund. The amount of distributable earnings shall equal 4.5% of the average net asset value of the permanent school fund as of the end of the preceding 3 fiscal years.**
- (b) After the end of the fiscal year, the Director shall report the total distributable earnings to the Legislative Permanent School Fund Commission established in section 127A.30 and the Commissioner of the Department of Education.**

Conclusion

Issue:

- The Fund has grown significantly due to a combination of investment returns and land management revenues.
- Outdated constitutional and statutory restrictions have limited its ability to balance the needs of current and future beneficiaries.

Recommendation:

- A modern, market-value-based distribution model would better align the Fund with best practices used by peer states and educational endowments.
- A 4.5% distribution rate based on a three-year rolling average can provide more stable and predictable funding for current beneficiaries while preserving the Fund's long-term purchasing power for future generations.
- The nine members of the Permanent School Fund Task Force, after over a year's worth of research, analysis and careful consideration, unanimously endorse the recommendations contained in this report.