

January 16, 2015

Senator Tom Bakk
Majority Leader
232 Capitol
St. Paul, MN 55155

Senator David Hann
Minority Leader
147 State Office Building
St. Paul, MN 55155

Senator Charles Wiger, Chair
Education Committee
205 Capitol
St. Paul, MN 55155

Senator Sean Nienow
Education Committee
105 State Office Building
St. Paul, MN 55155

Representative Kurt Daudt
Speaker of the House
463 State Office Building
St. Paul, MN 55155

Representative Paul Thissen
Minority Leader
267 State Office Building
St. Paul, MN 55155

Representative Jenifer Loon, Chair
Education Finance Committee
449 State Office Building
St. Paul, MN 55155

Representative Mary Murphy
Education Finance Committee
343 State Office Building
St. Paul, MN 55155

Representative Sondra Erickson, Chair
Education Innovation Policy Committee
479 State Office Building
St. Paul, MN 55155

Representative Carlos Mariani
Education Innovation Policy Committee
203 State Office Building
St. Paul, MN 55155

RE: Permanent School Fund Annual Report

Dear Senators & Representatives:

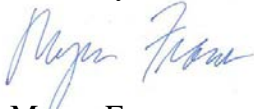
During the 2009 Session, language was adopted requiring Minnesota Management & Budget (MMB) to annually report to the Permanent School Fund Advisory Committee and the legislature on the “amount of the permanent school fund transfer and information about the investment of the permanent school fund provided by the State Board of Investment. The State Board of Investment shall provide information about how they maximized the long-term economic return of the permanent school fund.”

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Since the last Permanent School Fund report in January 2014, MMB transferred \$24,168,371.17 to the Department of Education for allocation to school districts.

The attached report provides an overview of the Permanent School Fund, reviews recent legislative changes, and provides recent transfer totals from the fund to the Minnesota Department of Education. The report also includes a link to the State Board of Investment's 2013 performance report on the Permanent School fund.

Sincerely,



Myron Frans
Commissioner

cc: Commissioner Thomas Landwehr, Dept. of Natural Resources
Commissioner Brenda Cassellius, Dept. of Education
Executive Director Mansco Perry, State Board of Investment
Assistant Commissioner Cindy Farrell, Minnesota Management & Budget
Legislative Reference Library
Legislative Staff



Permanent School Fund

Report to the Legislature

January 2015

*As required by
M.S. 16A.06*

ESTIMATED COSTS OF PREPARING THIS REPORT

This report provides information that Minnesota Management & Budget normally collects as part of its business functions. The cost reported below is the estimated cost of preparing the report.

Special funding was not appropriated for the costs of preparing this report.

In accordance with M.S. 3.197, the estimated cost incurred by Minnesota Management and Budget in preparing this report is \$200.

Permanent School Fund Overview

The Permanent School Fund is a trust fund created by the Minnesota Constitution (article XI, Section 8) and designated as a long-term source of revenue for public schools. The fund “consists of (a) the proceeds of lands granted by the United States for the use of schools within each township, (b) the proceeds derived from swamp lands granted to the state, (c) all cash and investments credited to the permanent school fund and to the swamp land fund, and (d) all cash and investments credited to the internal improvement land fund and the lands therein.” Proceeds from the school trust land are generated through land sales, mining royalties, timber sales, lake shore and other leases. The goal of the fund, as stated in M.S. 127A.31, is to “secure the maximum long-term economic return from the school trust lands consistent with fiduciary responsibilities imposed by the trust relationship established in the Minnesota Constitution, with sound natural resource conservation and management principles, and with other specific policy proved in state law”.

The Commissioner of Natural Resources, per M.S. 84.027, has authority and responsibility for the management of school trust lands, including the land and timber sales, royalties, and leases that fund the Permanent School Fund. While much of the initial land granted to the state has been sold, the Department of Natural Resources manages the remaining 2.5 million acres of school trust land and 1 million acres of school trust mineral rights. Administrative costs incurred by the department are deducted from the gross proceeds of land management activities (M.S. 16A.125 & M.S. 93.2236). The net proceeds are added to the principal, or corpus, of the Permanent School Fund monthly. The department reports biannually to the Permanent School Fund Advisory Committee (M.S. 127A.30) and the Legislature on the management of the land¹.

Table 1: School Trust Land by Original Grant Type

Type of Grant	Original Acres	Current Acres
School	2,900,000	957,818
Swamp	4,706,503	1,550,818
Internal Improvements	500,000	6,510
Total	8,106,503	2,515,146

Source: DNR Inventory, December 2014

The State Board of Investment, per M.S. 11A.16, has been assigned investment responsibilities over the Permanent School Fund. In accordance with the Minnesota Constitution, the principal of the Permanent School Fund cannot be spent and instead must remain “perpetual and inviolate.” The fund is invested to produce a growing level of spendable income within the constraints of maintaining adequate portfolio quality and liquidity. Prior to FY 1998, the fund had been invested entirely in fixed income securities which maximized current income but limited long term growth. In 1997 the State Board of Investment presented alternative

¹ See DNR Website for additional information on school trust land management: www.dnr.state.mn.us

investment scenarios to the legislature. The decision was made to reallocate the investment to 50% stock, 48% fixed income and 2% cash; this allocation remains today².

Every month the State Board of Investment transfers the net school trust land proceeds deposited by the Department of Natural Resources into the corpus of the Permanent School Fund. Twice a year, in March and September, the State Board of Investment certifies the interest and dividends earned from the fund, and informs Minnesota Management & Budget (MMB). This certification includes any interest earned by the net school trust land proceeds while awaiting transfer into the corpus for investment. MMB then transfers the certified earnings to the School Endowment Fund created under M.S. 127A.32. The Department of Education then allocates funds in the School Endowment Fund to school districts in two semi-annual payments under M.S. 127A.33, which requires apportionment based on “the number of pupils in average daily membership during the preceding year.”

The Commissioner of Management & Budget, per M.S. 11A.16, has overall management responsibilities for the fund. MMB works with the Department of Natural Resources to estimate administrative expenses charged back to the fund, oversees the monthly transfers of interest to the appropriation, and transfers the earnings to the Department of Education semiannually. In addition, M.S. 16A.06 requires Minnesota Management & Budget to “annually report to the Permanent School Fund Advisory Committee and the legislature the amount of the permanent school fund transfer and information about the investment of the permanent school fund provided by the State Board of Investment. The State Board of Investment shall provide information about how they maximized the long-term economic return of the permanent school fund.”

Recent Legislative Changes

Minnesota Statutes 11A.16 was amended under *Laws 2011, 1st special session, chapter 11, article 1, section 1* to clarify that the invested treasurer’s cash (ITC) interest earned on the Permanent School fund earnings is included in the investment income certified and paid to school districts. *Sections 8, 25, and 26* include charter schools in the definition of a “school district” in order to enable charter schools to qualify for Permanent School fund payments. The new law changes the distribution of permanent school fund revenue from resident ADM pupils to adjusted ADM pupils and excludes charter schools from the definition of school district for purposes of aid anticipation borrowing. The law became effective March 1, 2012. Additionally, *Laws 2011, 1st special session, chapter 2, article 1, section 4* appropriated \$200,000 in FY 2012 and \$200,000 in FY 2013 from the Permanent School Fund to the Department of Natural Resources for accelerating land exchanges, land sales, and commercial leasing of school trust lands in order to maximize the long-term economic return of the school trust lands.

Minnesota Statutes 127A.351 to 127A.353 was created under *Laws 2012, chapter 249, article 1, sections 8 – 11*. The purpose of the new statutes is to establish a school trust lands director

² See SBI Website for additional information on Permanent School Fund investments: www.sbi.state.mn.us

position to recommend management policies for Minnesota's school trust lands in accordance with the provisions of the Minnesota Constitution, article XI, section 8. The management of the school trust lands must take into consideration long-term interests of the funds so benefits are not lost in an effort to maximize short-term gains. Finally, Laws 2014, chapter 312, article 13, section 2 specified that the revenues to the Permanent School Fund will be reduced by the cost incurred by the Legislative Permanent School Fund Commission and the school trust lands director.

Certified Transfers

Since the last Permanent School Fund report in January 2014, the State Board of Investment calculated that the Permanent School Fund earned \$12,321,341.34 for the period 3/2014 through 8/2014 and \$11,847,029.83 for the period 9/2013 through 2/2014.

Time Period	Certified Earnings
3/2014 – 8/2014	\$12,321,341.34
9/2013 – 2/2014	\$11,847,029.83
3/2013 – 8/2013	\$11,894,044.86
9/2012 – 2/2013	\$12,739,386.85

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Attached:
State Board of Investment [Annual Report 2013](#): Permanent School Fund.