



Date: October 27, 2023

To:

Senator Mary Kunesch, LPSFC Vice Chair	Representative Jerry Newton, LPSFC Chair
Senator Zach Duckworth, LPSFC	Representative Ben Bakeberg, LPSFC
Senator Justin Eichorn, LPSFC	Representative Kaela Berg, LPSFC
Senator Robert Farnsworth, LPSFC	Representative Mary Frances Clardy, LPSFC
Senator Grant Hauschild, LPSFC	Representative Josh Heintzeman, LPSFC
Senator John Hoffman, LPSFC	Representative Spencer Igo, LPSFC
Senator Kari Dziedzic, Majority Leader	Representative Melissa Hortman, Speaker
Senator Mark Johnson, Minority Leader	Representative Lisa Demuth, Minority Leader

From: Erin Campbell, Commissioner *EC*

Subject: Permanent School Fund Annual Report; Reporting Periods September 2022 – August 2023 and September 2021 – August 2022

Minnesota Statutes, section 16A.06 directs the Commissioner of Management and Budget (MMB) to annually report to the Legislative Permanent School Fund Commission (LPSFC) 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.”

Please note that we are submitting reports for both 2021-22 and 2022-23 simultaneously. Due to the delayed receipt of certain data and the fact that the new membership of the LPSFC was not established until July 2023, MMB did not submit the 2021-22 report in a timely manner. In the future, we intend to submit this report on an annual basis at this time of year.

For the time period of September 2022 to August 2023, MMB transferred \$45,951,801.90 to the Minnesota Department of Education for apportionment to school districts.

For the time period of September 2021 to August 2022, MMB transferred \$36,926,087.05 to the Minnesota Department of Education for apportionment to school districts.

The attached reports provide 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. Also provided are the relevant pages of the State Board of Investment’s 2022 Annual Report.

CC:

- Senator Jason Rarick, Ranking Minority Member, Senate Education Finance Committee
- Representative Cheryl Youakim, Chair, House Education Finance Committee
- Representative Ron Kresha, Republican Lead, House Education Finance Committee
- Commissioner Sarah Strommen, Department of Natural Resources
- Commissioner Willie Jett, Department of Education
- Executive Director Jill Schurtz, State Board of Investment
- Assistant Commissioner Paul Moore, Minnesota Management and Budget
- Legislative Reference Library
- Legislative Staff



Permanent School Fund

Report to the Legislative Permanent School Fund Commission and the legislature
as required by M.S. 16A.06

Reporting Period: September 2021 – August 2022

Minnesota Management and Budget
Budget Division
400 Centennial Office Building
658 Cedar St.
St. Paul, MN 55155
651-201-8000
info.mmb@state.mn.us
mn.gov/mmb

In accordance with M.S. 3.197, this report cost less than \$1,000 to prepare.

Upon request, this material will be made available in an alternative format such as large print, Braille, or audio recording.

Published in October 2023

Contents

Certified Earnings Transferred1

Investment of the Permanent School Fund1

Permanent School Fund Overview2

Recent Legislative Changes3

Certified Earnings Transferred

The State Board of Investment calculated that the Permanent School Fund earned \$17,543,597.18 of investment income for the period of September 2021 through February 2022, and \$19,382,489.87 for the period of March 2022 through August 2022. These funds were transferred to the School Endowment Fund pursuant to M.S. 11A.16 and were distributed to school districts. Table 1 shows certified earnings by time period since March 2018.

Table 1: Permanent School Fund Certified Earnings by Time Period

Time Period	Certified Earnings
March 2022 – August 2022	\$19,382,489.87
September 2021 – February 2022	\$17,543,597.18
March 2021 – August 2021	\$17,783,343.62
September 2020 – February 2021	\$18,204,251.13
March 2020 – August 2020	\$18,473,803.12
September 2019 – February 2020	\$19,900,511.58
March 2019 – August 2019	\$19,189,135.43
September 2018 – February 2019	\$18,792,752.32
March 2018 – August 2018	\$17,202,885.02

Investment of the Permanent School Fund

The State Board of Investment, per M.S. 11A.16, is assigned investment responsibilities for the Permanent School Fund. Information about the investment of the corpus of the fund is included in [the most recent State Board of Investment Annual Report](#). Relevant information can be found on pages 143-144 of the 2022 Annual Report, which are also included as an attachment to this report. The State Board of Investment also releases [quarterly reports](#) that contain information on the investment performance of the fund.

Additional background information about the Permanent School Fund is provided below.

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.” Lands that benefit the Permanent School Fund are known as “school trust lands”. Proceeds from school trust lands are generated through mining royalties, timber sales, land sales, and various 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 provided 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 and M.S. 93.2236). The net proceeds are added to the principal, or corpus, of the Permanent School Fund monthly. The Department of Natural Resources [reports biennially](#) to the Legislative Permanent School Fund Commission and the legislature on the management of the land (M.S. 84.027, Subd. 18). See DNR’s website for [more information on school trust land management](#).

Table 2: School Trust Land by Original Grant Type

Type of Grant	Original Acres	Current Acres
School	2,900,000	966,175
Swamp	4,706,503	1,540,069
Internal Improvement	500,000	6,510
Total	8,106,503	2,512,754

Source: DNR, [Minnesota’s School Trust Lands: Biennial Report for Fiscal Years 2020-2021](#)

In accordance with the Minnesota Constitution, the principal of the Permanent School Fund cannot be spent and instead must remain “perpetual and inviolate forever.” The fund is invested to produce a growing level of spendable income within the constraints of maintaining adequate portfolio quality and liquidity. Prior to fiscal year 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 investment scenarios to the legislature. The decision was made to reallocate the investment target to 50% stock, 48% fixed income, and 2% cash; this allocation remains today.

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 and Budget (MMB). MMB then transfers the certified earnings to the School Endowment Fund created under M.S. 127A.32. Per M.S. 127A.33, the Department of Education then apportions the funds to school districts based on “each district’s adjusted average daily membership during the preceding year.”

The Commissioner of Management and 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 monthly interest allocations, and transfers the earnings to the Department of Education semiannually. In addition, per M.S. 16A.06, the State Board of Investment provides information about how they have maximized the long-term economic return of the permanent school fund.

Recent Legislative Changes

2022 Legislative Session: There were no changes to statutes governing the Permanent School Fund.

2021 Legislative Sessions:

- Laws 2021, 1st Special Session, article 1, chapter 6, section 19 amended M.S. 84.027 to clarify that the Commissioner of Natural Resources shall submit a biennial rather than biannual report to the legislature on the management of school trust lands.
- Laws 2021, 1st Special Session, article 1, chapter 6, section 102 amended M.S. 127A.153, subdivision 4 to include “advanc[ing] strategies on school trust lands to capitalize on ecosystem services markets” to the list of goals to be included in the ten-year strategic plan and 25-year framework prepared by the school trust lands director.

Prior legislative changes can be viewed in [previous iterations of this report](#), which are available on the website of the Minnesota Legislative Reference Library.

Non-Retirement Account
Permanent School Fund

Permanent School
Fund

Overview

The Permanent School Fund is a trust fund created by the Minnesota Constitution and is designated as a long-term source of revenue for public schools. Proceeds from land sales, mining royalties, timber sales, lake shore and other leases are invested in the Fund. Income generated by the Fund’s assets is appropriated directly to school districts.

As of June 30, 2022 the market value of the Fund was \$1.7 billion.

Investment Objective

The SBI invests the Permanent School Fund to produce a growing level of spendable income for school districts within the constraints of maintaining adequate portfolio quality and liquidity.

Investment Constraints

The Fund’s investment objectives are influenced by the legal provisions under which its investments must be managed. These provisions require that the Fund’s principal remain inviolate. Any net realized capital gains from stock or bond investments must be added to the principal. Moreover, if the Fund realizes net capital losses, these losses must be offset against interest and dividend income before such income can be distributed. Finally, all interest and dividend income must be distributed in the year in which it is earned.

Asset Allocation

In order to produce a growing level of spendable income, the Fund has exposure to equities.

The current long-term asset allocation targets for the Fund are:

Domestic Equity	50%
Domestic Bonds	48%
Cash	2%

Prior to fiscal year 1998, the Permanent School Fund had been invested entirely in fixed income securities for more than a decade. While this asset allocation maximized current income, it limited the long-term growth of the Fund and caused the income stream to lose value in inflation adjusted terms, over time.

To solve both issues, a proposal to introduce equities to the Fund’s asset mix was presented during fiscal year 1997. Since this modification would reduce short-term income and have

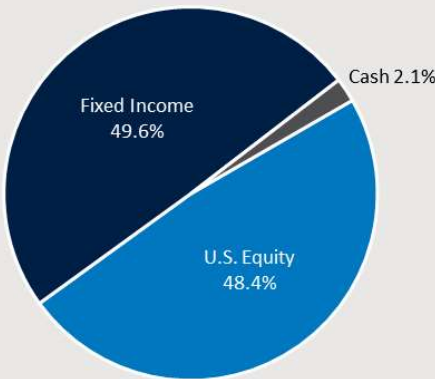
budgetary implications for the state, the consent of the executive and legislative branches was necessary. It was favorably received by the Minnesota Legislature and incorporated into the K-12 education finance bill. As a result, the Fund allocation was shifted in July 1997.

Figure 77 presents the actual asset mix of the Permanent School Fund at the end of fiscal year 2022.

Investment Management

Assets of the Permanent School Fund are invested in the Non-Retirement Equity, Bond and Money Market Funds. Fund summaries are provided on pages 139-141.

Figure 77. Permanent School Fund Asset Mix as of June 30, 2022



Non-Retirement Account Permanent School Fund

Investment Performance

During the fiscal year, the *equity* segment of the Permanent School Fund matched its benchmark, the S&P 500.

The *bond* segment underperformed its benchmark, the Bloomberg U.S. Aggregate, by 0.8 percentage points during the current fiscal year.

The *cash* segment outperformed its benchmark, the iMoneyNet All Taxable Fund, by 0.1 percentage point during the fiscal year.

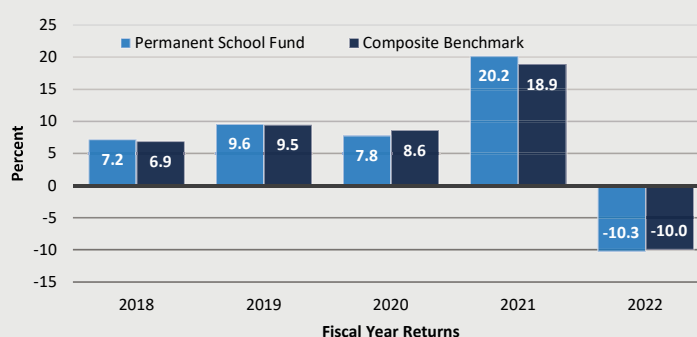
Overall, the Permanent School Fund provided a return of -10.3% for fiscal year 2022, underperforming its composite index by 0.3 percentage points. Results for longer time-periods show the Fund outperforming its composite index over the ten- and twenty-year time periods ending June 30, 2022.

Historical performance results for the total Fund and each of the asset class segments are provided in Figure 78A and Figure 78B.

Spendable income generated by the portfolio over the last five fiscal years is shown below:

Fiscal Year	Millions
2018	\$33
2019	\$36
2020	\$39
2021	\$36
2022	\$36

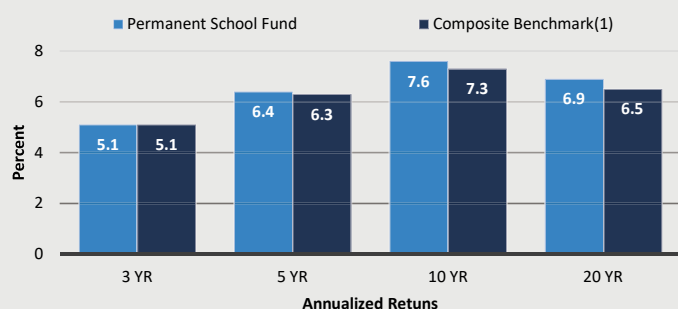
Figure 78A. Permanent School Fund Fiscal Year Performance For Periods Ending June 30



	Fiscal Year End Return (%)				
	2018	2019	2020	2021	2022
Permanent School Fund Total	7.2	9.6	7.8	20.2	-10.3
Composite Benchmark ¹	6.9	9.5	8.6	18.9	-10.0
U.S. Equity Segment	14.3	10.4	7.5	40.8	-10.6
S&P 500	14.4	10.4	7.5	40.8	-10.6
Bond Segment	-0.3	8.4	8.2	1.2	-11.1
Bloomberg Agg	-0.4	7.9	8.7	-0.3	-10.3
Cash Segment	1.4	2.4	1.5	0.1	0.2
iMoney Net All Taxable Fund	1.0	1.9	1.1	0.0	0.1

¹ Represents the aggregate returns of the target allocation: S&P 500 50%, Bloomberg U.S. Aggregate 48%, and iMoney Net All Taxable Money Fund Avg 2%.

Figure 78B. Permanent School Fund Annualized Performance For Periods Ending June 30, 2022



	Annualized Returns (%) as of June 30, 2022			
	3 Yr.	5 Yr.	10 Yr.	20 Yr.
Permanent School Fund Total	5.1	6.4	7.6	6.9
Composite Benchmark ¹	5.1	6.3	7.3	6.5
U.S. Equity Segment	10.6	11.3	12.9	9.1
S&P 500	10.6	11.3	12.9	9.1
Bond Segment	-0.9	1.0	2.0	4.1
Bloomberg Agg	-0.9	0.9	1.5	3.6
Cash Segment	0.6	1.1	0.7	1.4
Custom Benchmark ²	0.4	0.4	0.8	1.1

¹ Represents the aggregate returns of the target allocation: S&P 500 50%, Bloomberg U.S. Aggregate 48%, and iMoney Net All Taxable Money Fund Avg 2%.

² Custom Benchmark is the iMoneyNet All Taxable Money Fund Average since 1/1/2004; prior to that was the ICE BofA 3 Month Treasury Index.