MANAGEMENT AND BUDGET

Permanent School Fund

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

Reporting Period: September 2025 – August 2026

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Certified Earnings Transferred

The State Board of Investment calculated that the Permanent School Fund earned $30,823,960.03 of investment income for the period of September 2025 through February 2026, and $33,018,299.31 for the period of March 2026 through August 2026. 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 2021.

Table 1: Permanent School Fund Certified Earnings by Time Period

Time Period	Certified Earnings
March 2026 – August 2026	**$33,815,034.08**
September 2025 – February 2026	**$33,018,299.31**
March 2025 – August 2025	$30,823,960.03
September 2024 – February 2025	$29,433,956.64
March 2024 – August 2024	$28,492,933.85
September 2023 – February 2024	$26,487,401.16
March 2023 – August 2023	$24,456,559.29
September 2022 – February 2023	$21,495,242.61
March 2022 – August 2022	$19,382,489.87
September 2021 – February 2022	$17,543,597.18
March 2021 – August 2021	$17,783,343.62

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 165-166 of the 2025 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 (DNR) manages the remaining 2.5 million acres of school trust land and 1 million additional 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). However, this report has not been generated since the FY2020-21 biennial report. 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 target 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

2026 Legislative Session:

- Laws 2026, chapter 114, section 1 proposes an amendment to the Minnesota Constitution, article XI, section 8; modifying the investment, management, and distribution policy for the permanent school fund; amending Minnesota Statutes 2024, sections 11A.16, subdivisions 5, 6; 127A.32.
- Laws 2026, chapter 114, section 3 amends Minnesota Statutes 2024, 11A.16, subdivision 5 that will amend the distributable amount to 4.5 percent of the average net asset value of the permanent school fund of the end of the preceding three fiscal years.
- Laws 2026, chapter 114, section 4 amends Minnesota Statutes 2024, 11A.16, subdivision 6 to include direction to the commissioner of management and budget to transfer the distributable amount as calculated in Minnesota Statutes 2024, section 11A.16 subdivision 5.
- Laws 2026, chapter 114, section 5 amends Minnesota Statutes 2024, 127A.32 to update language to match the distributable amounts verbiage.
- Laws 2026, chapter 114, section 6 includes an effective date of July 1, 2027 for these changes to the Minnesota Constitution and Minnesota Statutes for aid payable in fiscal year 2028.

2024 Legislative Session:

- Laws 2024, chapter 116, article 3, section 3 amended M.S. 16A.125, subdivision 5 related to the timing of when DNR must supply forestry cost certification information to MMB from "after presentation to the

Legislative Permanent School Fund Commission" to "after presentation to the Legislative Permanent School Fund Commission or by June 30 each year, whichever is sooner".

- Laws 2024, chapter 116, article 3, section 52 requires the school trust lands director to conduct a study of the recreational use of school trust lands in the state. The study must be used to determine the amount of money to be allocated to the permanent school fund for fees paid to the state for outdoor recreation purposes.
- Laws 2024, chapter 115, article 10, section 4 establishes a task force to examine distribution of earnings from the permanent school fund endowment. The task force must examine the historical returns of the permanent school fund endowment and evaluate and recommend potential changes to the distribution of earnings. The task force must report its recommendations to the legislature by January 15, 2026.

2023 Legislative Session:

- Laws 2023, chapter 62, article 2, sections 38 and 133 amended M.S. 15A.0815 pertaining to the salary of various agency heads, including the school trust lands director; rather than being capped based on statutory requirements, the director's salary will now be determined by the Compensation Council.
- Laws 2023, chapter 55, article 1, sections 27 and 28 amended M.S. 127A.353 to strike obsolete language regarding the first appointment of a school trust lands director and to clarify duties of the school trust lands director. Among other things, the changes require the director to act in a fiduciary capacity and to serve as a temporary trustee of school trust lands in certain cases. Additionally, the language removed a cap on the number of persons the director may employ and required the director to submit an annual budget and management plan to the Legislative Permanent School Fund Commission.

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