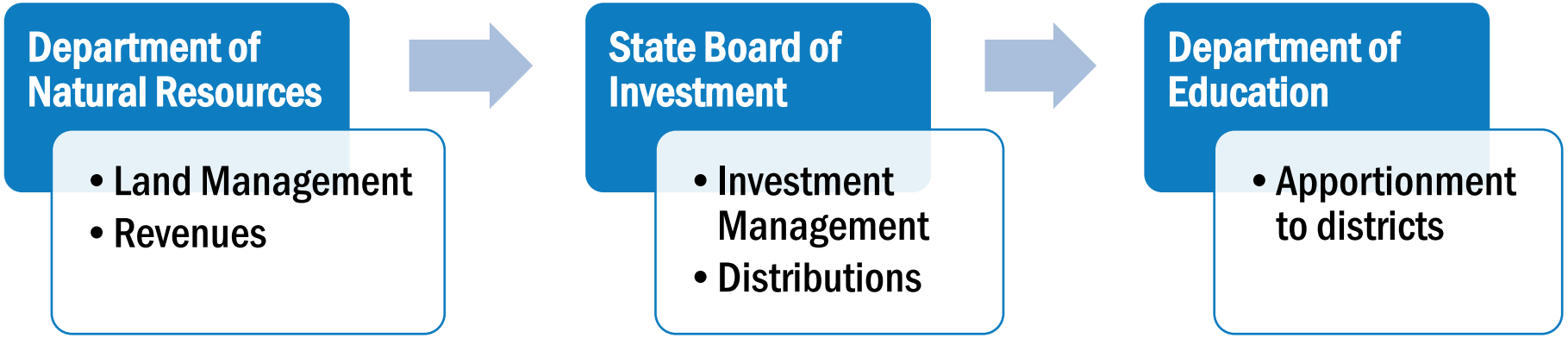
Permanent School Fund Task Force Report

March 2026

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:



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.

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: Current Legal Framework

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

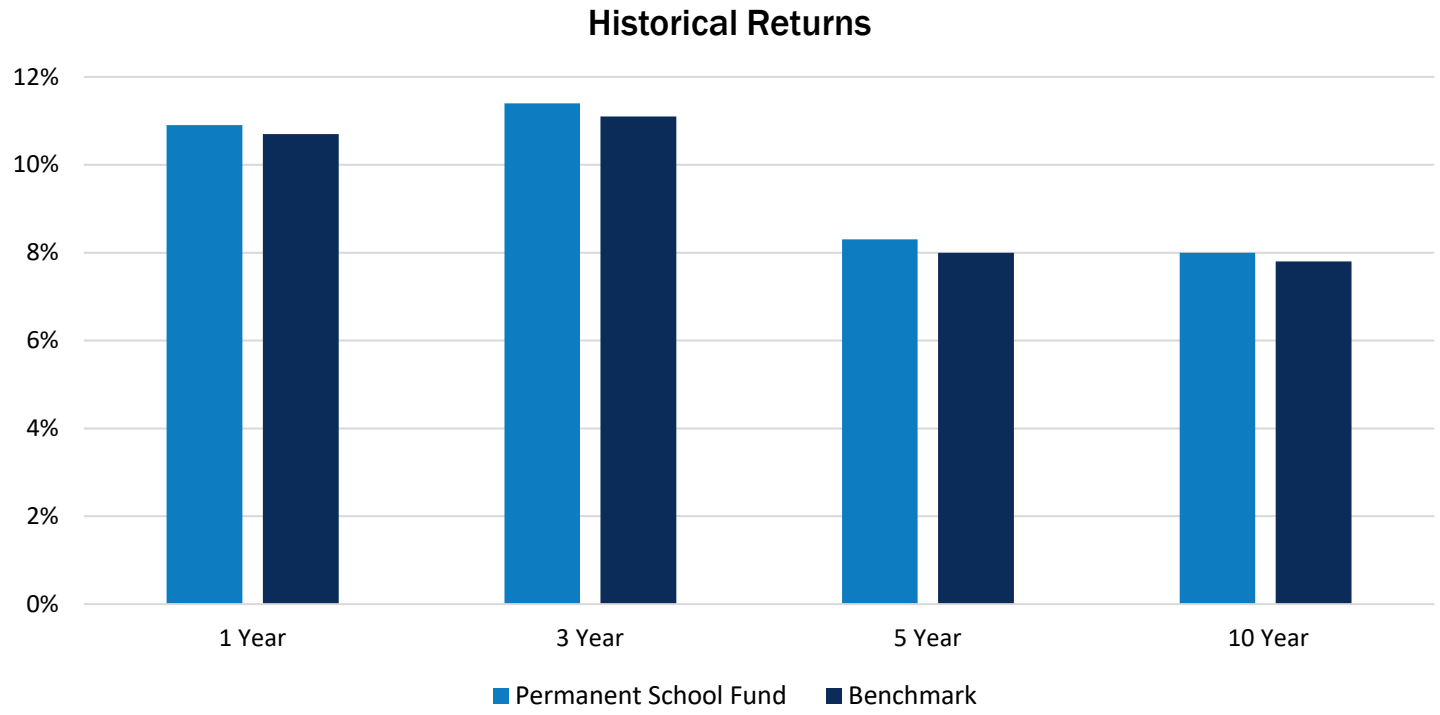
1. Distributions are limited to net interest and dividend income, excluding capital gains from asset appreciation.
2. Capital gains and, if necessary, interest and dividend income, must first be used to offset losses, reducing or eliminating distributions in loss-recovery years.

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

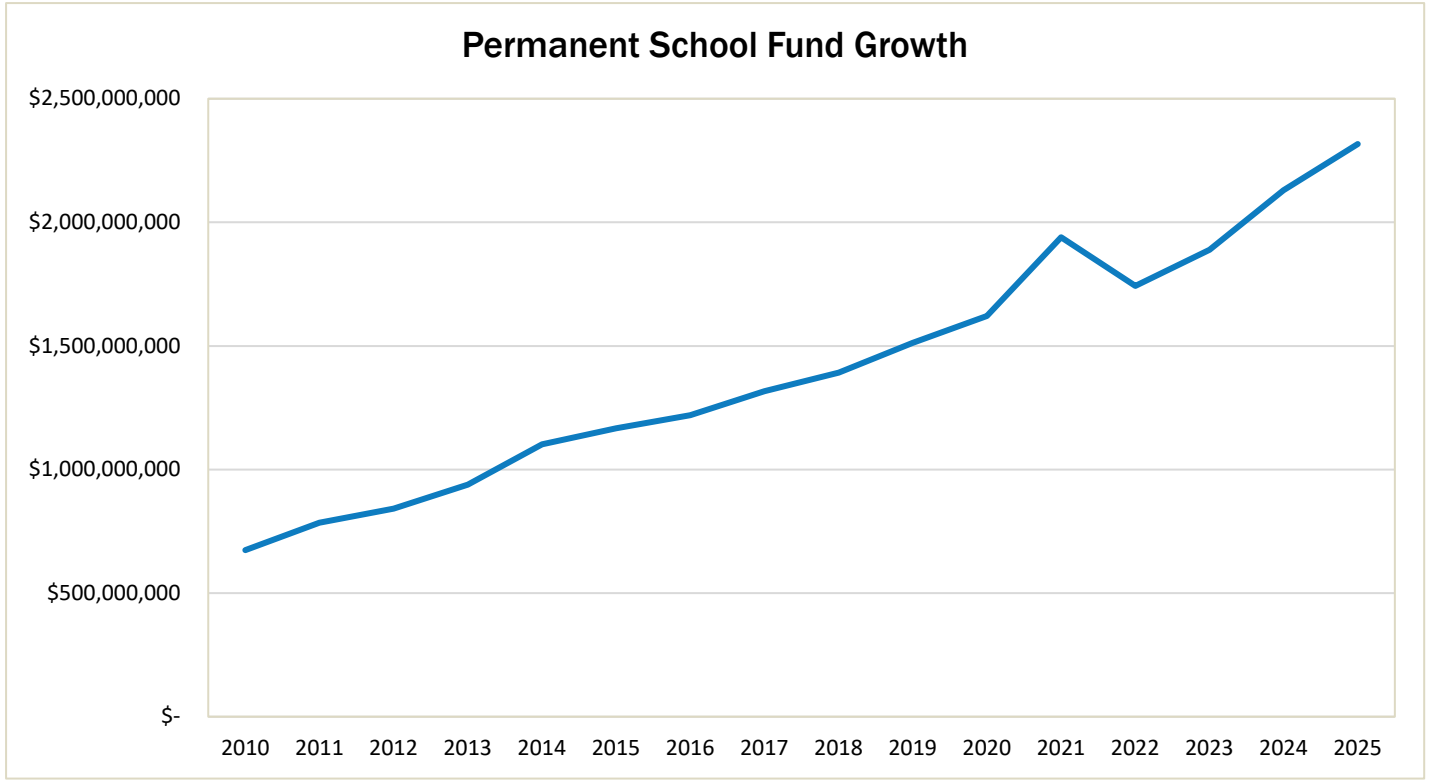
- Strong performance over time
- Average annual investment returns of 8% over the past decade
- The Fund is invested in a diversified portfolio of common stocks, bonds, and cash



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.



Recommendation

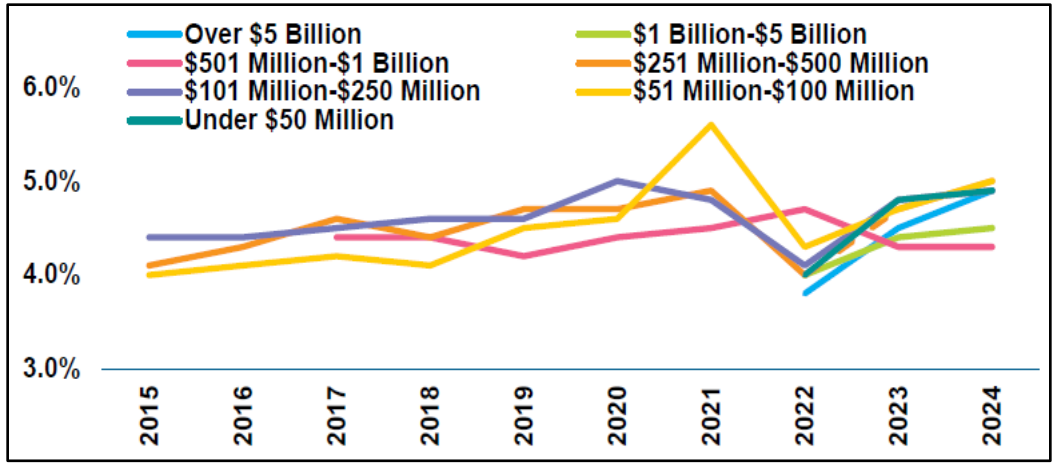
- Based on its research and analysis, the Task Force recommends amending the Minnesota Constitution and statutes to manage the Fund in accordance with the Task Force's guiding principles.

- 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.

Work of the Task Force: Evaluation of Distribution Policies

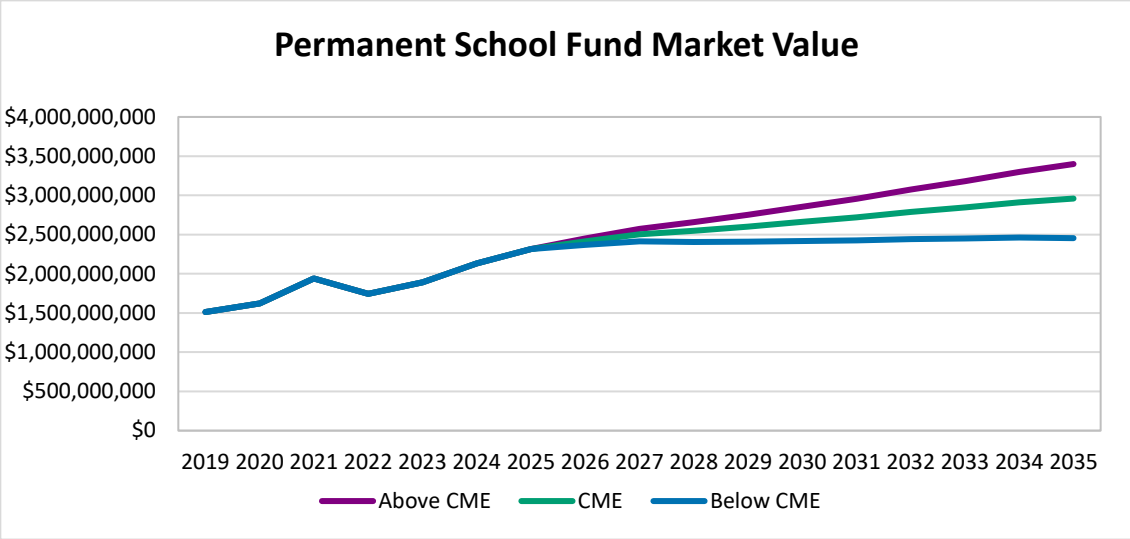
- Consultant research indicated that most endowments distribute **4% – 5%** of their average value annually.
- This range is considered sustainable, balancing current funding needs with long-term preservation of purchasing power.

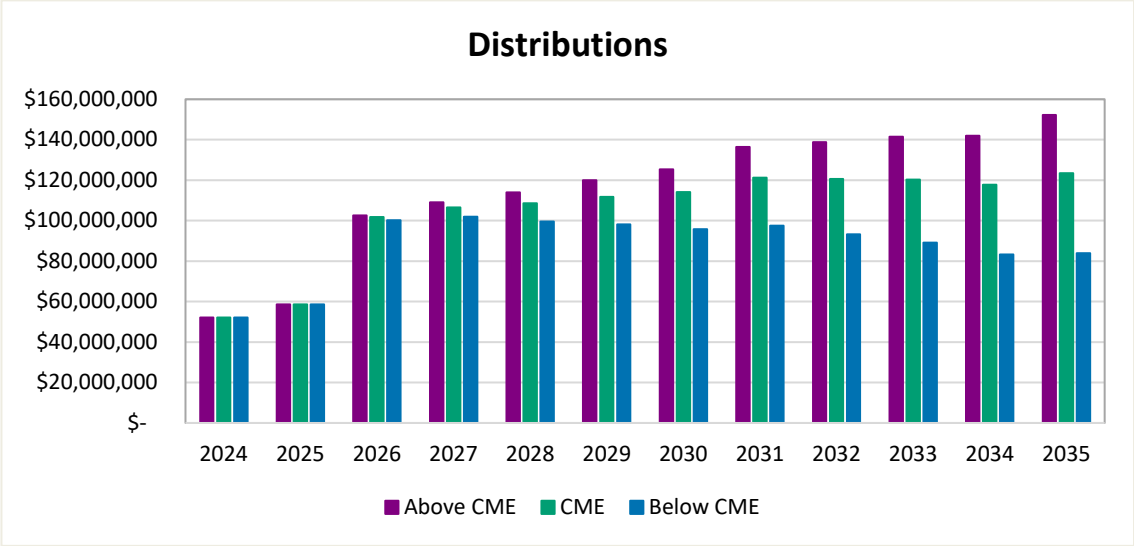


- After reviewing a range of options for calculating annual distributions to Minnesota school districts, the Task Force concluded that distributing 4.5% of the average market value of the Fund over the previous three years aligns with common practices among educational trust funds and endowments, and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

Work of the Task Force: 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.

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.

Our Mission is our North Star

The primary mission of the SBI is to provide investment returns to support the retirement security of over 850,000 Minnesota public employees and their families.

We are entrusted with this mission on behalf of PERA, MSRS, and TRA, whose plan members contribute a meaningful portion of their salaries in return for their retirement security.

We are fiduciaries and stewards of capital. Plan benefits and policy decisions are the sole responsibility of PERA, MSRS, and TRA, which are separate and independent organizations.