

Subject Increasing Annual Distributions from the Permanent School Fund to School Districts

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Overview

The permanent school fund (PSF) of Minnesota consists of the proceeds of the lands granted to the state by the federal government and cash and investments credited to the fund. The net proceeds from the land management activities (minerals activities, timber sales, lease revenue, etc.) annually are added to the principal of the fund. A substantial majority of the revenue entering the fund is from mineral activities.

The state holds the land and accumulated revenues from the land in trust for the benefit of public schools in Minnesota. The State Board of Investment is responsible for investing the principal of the fund, subject to direction from the constitution and the legislature. Under the current constitutional provision, the interest and dividends arising from the fund are required by the constitution to be distributed to the state's school districts according to a method described in statute.

H.F. 3900 proposes a constitutional amendment to allow an amount greater than the annual interest and dividends to be paid from the fund to the school districts and charter schools in Minnesota. The constitutionally required distribution from the PSF endowment is paying out roughly 2.5 percent of the endowment's net asset value each year to the state's school districts, and, by statute, the distribution is paid on a uniform per pupil basis to all school districts and charter schools. H.F. 3900 proposes to allow a larger annual payment to school districts and charter schools, statutorily setting the distribution amount at 4.5 percent of the three-year average value of the fund.

Article 1: Constitutional Amendment

Article 11, section 8, of the Minnesota Constitution governs the proceeds from the state's permanent school fund, including the revenue sources flowing into the fund, the management

of the fund, and distributions from the fund. The constitution was amended in the early 1980s to allow a more comprehensive range of investments, which has yielded a much greater growth in the value of the fund over time, but has lowered the percentage of the annual distributions since only interest and dividends, and no capital gains, earned by the fund may be distributed under the current constitutional provision.

Section Description – Article 1: Constitutional Amendment

- 1 Constitutional amendment proposed.**
Proposes an amendment to the Minnesota Constitution to modify the distribution of the proceeds of the permanent school fund endowment. Requires the funds to be managed as a perpetual financial resource for the sole purpose of supporting the different school districts of the state. Modifies the annual amount that may be distributed from the fund from the dividends and interest earned by the fund during the previous year to a percentage established by law. Requires the fund to be managed to maintain the preservation of the purchasing power of the fund and balance the needs of current and future beneficiaries.

- 2 Submission to voters. [Actual ballot language]**
States the language that must appear on the ballot. Note that a constitutional question on the ballot must receive a majority of all votes cast in the election, not just more “yes” votes than “no” votes on the question.

Article 2: Statutory Changes

Article 2 modifies the statutory distribution of the annual earnings of the fund. Under current law, the constitution requires that only the interest and dividends earned each year are distributed to Minnesota’s school districts. The proposed changes allow the legislature to establish the distribution from the fund, consistent with the proposed new language in the constitution. The distribution rate set in statute is proposed at 4.5 percent of the three-year average net asset value of the permanent school fund.

Section Description – Article 2: Statutory Changes

- 1 Calculation of distributable earnings.**
Changes the annual distributions to school districts from the fund from the sum of the annual interest and dividends earnings for the previous year to 4.5 percent of the average net asset value of the fund over the past three years (the current law distributions have ranged between 2 percent and 2.5 percent per year for the last decade).

Section Description – Article 2: Statutory Changes

- 2 Disposition of distributable earnings.**
Changes the language for the disposition of the money from the fund from the income earnings to the distributable earnings of the permanent school fund (corresponds to the change in section 1).
- 3 Effective date.**
Makes article 2, sections 1 and 2 effective January 1, 2027, if the constitutional amendment is adopted by the voters at the November 2026 general election. A constitutional amendment needs to pass by a majority of those voting in the general election, not the majority of those voting yes on the question.



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