Common School Fund Distribution to Department of Education

When Measured and Calculated?  
At calendar year-end, December 31st

What is Calculated?  
The annual distribution amount to be paid for the next fiscal year

How is it Paid?  
The annual distribution is split into two parts; 1/2 paid in December the following year; and the remaining 1/2 in June of the year following the first payment

What is the Calculation Methodology?  
A percentage of the 3-year rolling average of the year-end net market value of the CSF portfolio

What is a 3-year Rolling Average?  
The mathematical average of the year-end market value of the CSF portfolio for the most recent 3 years

Example:

<table>
<thead>
<tr>
<th>Measurement Date</th>
<th>Market Value of CSF Portfolio</th>
<th>3-year Rolling Average</th>
<th>Distribution Rate Percentage</th>
<th>Annual Distribution Amount</th>
<th>Payment Schedule</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 December 31, 2016</td>
<td>$1.4 billion</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 December 31, 2017</td>
<td>$1.6 billion</td>
<td>$1.6 billion</td>
<td>3.50%</td>
<td>$56 million</td>
<td>$28 million paid December 2019 $28 million paid June 2020</td>
</tr>
<tr>
<td>3 December 31, 2018</td>
<td>$1.8 billion</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Calculations

\[
\frac{(1b + 2b + 3b)}{3} \quad \text{and} \quad \frac{(c) \times (d)}{2}
\]

Historic Distribution Policies

Since 2009, the policy has been that the distribution rate would be 4% unless the 3-year rolling average increased 11% or more than the previous measurement date.

If the 3-year rolling average increased 11% or greater, then the distribution rate would be 5% percent.

In June 2018, the State Land Board approved the maximum distribution rate to be 3.5%; thus, this rate will be used in the calculation at the December 31, 2018 market value of the CSF portfolio for distribution in Fiscal Year 2020.

Note: "extra" distributions ranging from $6 - $14 million per year were approved by the State Land Board in Fiscal Years 2014 through 2017 above the calculation per policy

Prepared by: Lee Hullinger 10.12.2018