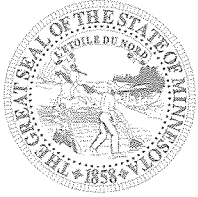


MINNESOTA
STATE
BOARD OF
INVESTMENT



Board Members:

Governor
Tim Pawlenty

State Auditor
Patricia Anderson

Secretary of State
Mary Kiffmeyer

Attorney General
Mike Hatch

Executive Director:

Howard J. Bicker

60 Empire Drive
Suite 355
St. Paul, MN 55103
(651) 296-3328
FAX (651) 296-9572
E-mail:
minn.sbi@state.mn.us
www.sbi.state.mn.us

An Equal Opportunity
Employer

DATE: November 14, 2005

TO: Susan Thornton, LCMR

FROM: Jim Heidelberg, State Board of Investment

SUBJECT: Projections of Assets in the Environmental Trust Fund

Enclosed are a new projection of the growth of assets and available withdrawals from the Environmental Trust Fund (through 2025) and a copy of a September 1998 projection the SBI provided the LCMR (shown through 2035).

The new projection differs from the seven year old projection you currently have. In the 1998 document, the ETF is projected to grow to \$2,068,355, 044 by the end of 2025. In the new projection, the ETF is projected to grow to \$1,262,324,921 by the end of 2025. The differences in asset totals and withdrawal amounts in the two projections arise from the following:

- **The starting point for the 2005 projection is lower than the amount projected for FY2006 in the 1998 projection.** Beginning total market value for the Fund for FY2006 in the 2005 projection is \$377,512,976, which is the actual Fund balance as of June 30, 2005. Beginning total market value for the Fund for FY2006 in the 1998 projection is a projected \$525,724,190. During fiscal years 1999 through 2005, the fund did not grow at the rate projected in the 1998 projection.
- **Rates of return assumptions are lower in the 2005 projection.** In 1998, the SBI used an annual rate of return of 11.0% for stocks and 8.0% return for bonds. In the 2005 projection, the SBI used the return assumptions of 9.25% for stocks and 6.5% for bonds, which are the return assumptions the SBI used in its 2003 asset allocation study for pension fund assets. The ETF is projected to grow at a slower rate in the 2005 projection than in the 1998 projection.

For these reasons, withdrawal amounts in future years are also projected to be lower in the 2005 projection.

Note that the estimate of the amount of contributions placed in the Fund each year through 2025 is assumed to be the same \$24 million as used in the 1998 projection. This amount is confirmed by information about lottery proceeds provided to the SBI by the LCMR.

70%Stocks/30%Bonds
 5.5% Spending Rule
 Withdrawal is at FY beginning
 Contribution is at FY end

ENVIRONMENTAL TRUST FUND
Projections of Annual Growth
(Contributions Through 2025)

11/14/2005

Fiscal Year	Stock Beginning Mkt Value	Rate of Return	Withdrawal	Stock Ending Mkt Value	Bond Beginning Mkt Value	Rate of Return	Withdrawal	Bond Ending Mkt Value	5.5% Total Withdrawal	Contributions Stocks&Bonds	Total Mkt Value
2006	264,025,356	0.0925	13,212,954	274,012,549	113,487,620	0.065	5,662,695	114,833,546	18,875,649	24,000,000	377,512,976
2007	288,992,266	0.0925	13,212,954	301,288,898	123,853,828	0.065	5,662,695	125,873,557	18,875,649	24,000,000	412,846,095
2008	315,813,719	0.0925	17,369,755	326,050,031	135,348,737	0.065	7,444,181	136,218,352	24,813,935	24,000,000	486,268,384
2009	340,387,869	0.0925	17,369,755	352,897,289	145,880,515	0.065	7,444,181	147,434,696	24,813,935	24,000,000	524,331,986
2010	367,032,390	0.0925	20,186,781	378,928,827	157,299,596	0.065	8,651,478	158,310,246	28,838,259	24,000,000	561,239,073
2011	392,867,351	0.0925	20,186,781	407,153,522	168,371,722	0.065	8,651,478	170,102,060	28,838,259	24,000,000	601,255,582
2012	420,878,908	0.0925	23,148,340	434,520,645	180,376,675	0.065	9,920,717	181,535,595	33,069,057	24,000,000	640,056,240
2013	448,039,368	0.0925	23,148,340	464,193,448	192,016,872	0.065	9,920,717	193,932,405	33,069,057	24,000,000	682,125,853
2014	477,488,097	0.0925	26,261,845	492,964,680	204,637,756	0.065	11,255,077	205,952,554	37,516,922	24,000,000	722,917,234
2015	506,042,064	0.0925	26,261,845	524,159,888	216,875,170	0.065	11,255,077	218,985,400	37,516,922	24,000,000	767,145,288
2016	537,001,702	0.0925	29,535,094	554,407,269	230,143,586	0.065	12,657,897	231,622,259	42,192,991	24,000,000	810,029,528
2017	567,020,670	0.0925	29,535,094	587,202,992	243,008,859	0.065	12,657,897	245,323,774	42,192,991	24,000,000	856,526,766
2018	599,568,736	0.0925	32,976,280	619,002,258	256,958,030	0.065	14,132,692	258,608,985	47,108,972	24,000,000	901,611,243
2019	631,127,870	0.0925	32,976,280	653,480,611	270,483,373	0.065	14,132,692	273,013,475	47,108,972	24,000,000	950,494,087
2020	665,345,861	0.0925	36,594,022	686,911,384	285,148,226	0.065	15,683,152	286,980,303	52,277,175	24,000,000	997,891,687
2021	698,524,181	0.0925	36,594,022	723,158,698	299,367,506	0.065	15,683,152	302,123,837	52,277,175	24,000,000	1,049,282,535
2022	734,497,774	0.0925	40,397,378	758,304,684	314,784,760	0.065	17,313,162	316,807,253	57,710,539	24,000,000	1,099,111,936
2023	769,378,355	0.0925	40,397,378	796,411,718	329,733,581	0.065	17,313,162	332,727,746	57,710,539	24,000,000	1,153,139,464
2024	807,197,625	0.0925	44,395,869	833,360,918	345,941,839	0.065	19,026,801	348,164,516	63,422,671	24,000,000	1,205,525,434
2025	843,867,804	0.0925	44,395,869	873,423,088	361,657,630	0.065	19,026,801	364,901,833	63,422,671	24,000,000	1,262,324,921

**ENVIRONMENTAL TRUST FUND
PROJECTIONS OF ANNUAL GROWTH
(Contributions Continue Through 2025)**

70% Stocks/30% Bonds
5.5% Spending Rule
Withdrawal is at FYBeg
Contribution is at FYE

Fiscal Year	Stock		Rate of Return	Withdrawal	Stock		Stock Income	Bond		Rate of Return	Withdrawal	Bond		Bond Income	5.50% Total Withdrawal	Contributions Stocks&Bonds	Total	
	Beginning Mkt Value	Ending Mkt Value			Beginning Mkt Value	Ending Mkt Value		Beginning Mkt Value	Ending Mkt Value			Total Mkt Value	Total Income					
1999	118,231,471	131,236,933	11.00%		131,236,933	3,937,108		118,231,471	8.00%	8.00%	3,901,639	127,689,989	8,938,299	13,005,462	24,000,000	236,462,942	270,051,514	
2000	189,036,060	199,724,783	11.00%	9,103,823	199,724,783		3,937,108	81,015,454	8.00%	8.00%	3,901,639	83,282,921		13,005,462	24,000,000	307,007,704	307,007,704	
2001	214,905,393	228,439,742	11.00%	9,103,823	228,439,742		3,901,639	92,102,311	8.00%	8.00%	3,901,639	95,256,728		13,005,462	24,000,000	347,696,468	347,696,468	
2002	243,387,528	257,040,182	11.00%	11,819,797	257,040,182		3,901,639	104,308,941	8.00%	8.00%	5,065,627	107,182,778		16,885,424	24,000,000	388,222,960	388,222,960	
2003	271,756,072	288,529,266	11.00%	11,819,797	288,529,266		5,065,627	116,466,888	8.00%	8.00%	5,065,627	120,313,362		16,885,424	24,000,000	432,842,620	432,842,620	
2004	302,989,839	319,728,014	11.00%	14,946,584	319,728,014		5,065,627	129,852,788	8.00%	8.00%	6,405,679	133,322,878		21,352,263	24,000,000	477,050,892	477,050,892	
2005	333,935,624	354,077,835	11.00%	14,946,584	354,077,835		6,405,679	143,115,268	8.00%	8.00%	6,405,679	147,646,356		21,352,263	24,000,000	525,724,190	525,724,190	
2006	368,006,933	388,100,926	11.00%	18,366,459	388,100,926		6,405,679	157,717,257	8.00%	8.00%	7,871,340	161,833,591		26,237,799	24,000,000	573,934,517	573,934,517	
2007	401,754,162	425,560,350	11.00%	18,366,459	425,560,350		7,871,340	172,180,355	8.00%	8.00%	7,871,340	177,453,737		26,237,799	24,000,000	627,014,086	627,014,086	
2008	438,909,860	462,662,854	11.00%	22,096,479	462,662,854		7,871,340	188,104,226	8.00%	8.00%	9,469,920	192,925,051		31,566,398	24,000,000	679,587,904	679,587,904	
2009	475,711,533	503,512,710	11.00%	22,096,479	503,512,710		9,469,920	203,876,371	8.00%	8.00%	9,469,920	209,958,968		31,566,398	24,000,000	737,471,678	737,471,678	
2010	516,230,175	543,973,305	11.00%	26,164,134	543,973,305		9,469,920	221,241,503	8.00%	8.00%	11,213,200	226,830,567		37,377,335	24,000,000	794,803,872	794,803,872	
2011	556,362,710	588,520,420	11.00%	26,164,134	588,520,420		11,213,200	238,441,162	8.00%	8.00%	11,213,200	245,406,198		37,377,335	24,000,000	857,926,618	857,926,618	
2012	600,548,632	632,643,038	11.00%	30,599,949	632,643,038		11,213,200	257,377,985	8.00%	8.00%	13,114,264	263,804,819		43,714,213	24,000,000	920,447,858	920,447,858	
2013	644,313,500	681,222,042	11.00%	30,599,949	681,222,042		13,114,264	276,134,357	8.00%	8.00%	13,114,264	284,061,701		43,714,213	24,000,000	989,283,743	989,283,743	
2014	692,498,620	729,338,129	11.00%	35,437,243	729,338,129		13,114,264	296,785,123	8.00%	8.00%	15,187,390	304,125,552		50,624,632	24,000,000	1,057,463,681	1,057,463,681	
2015	740,224,576	782,313,941	11.00%	35,437,243	782,313,941		15,187,390	317,239,104	8.00%	8.00%	15,187,390	326,215,852		50,624,632	24,000,000	1,132,529,792	1,132,529,792	
2016	792,770,855	834,784,938	11.00%	40,712,352	834,784,938		15,187,390	339,758,938	8.00%	8.00%	17,448,151	348,095,650		58,160,502	24,000,000	1,206,880,588	1,206,880,588	
2017	844,816,412	892,555,507	11.00%	40,712,352	892,555,507		17,448,151	362,064,176	8.00%	8.00%	17,448,151	372,185,308		58,160,502	24,000,000	1,288,740,814	1,288,740,814	
2018	902,118,570	949,775,571	11.00%	46,464,903	949,775,571		17,448,151	386,622,244	8.00%	8.00%	19,913,530	396,045,412		66,378,432	24,000,000	1,369,820,983	1,369,820,983	
2019	958,874,688	1,012,774,862	11.00%	46,464,903	1,012,774,862		19,913,530	410,946,295	8.00%	8.00%	19,913,530	422,315,386		66,378,432	24,000,000	1,459,090,248	1,459,090,248	
2020	1,021,363,174	1,075,173,823	11.00%	52,738,108	1,075,173,823		19,913,530	437,727,074	8.00%	8.00%	22,602,046	448,335,030		75,340,154	24,000,000	1,547,508,853	1,547,508,853	
2021	1,083,256,197	1,143,875,079	11.00%	52,738,108	1,143,875,079		22,602,046	464,252,656	8.00%	8.00%	22,602,046	476,982,659		75,340,154	24,000,000	1,644,857,738	1,644,857,738	
2022	1,151,400,417	1,211,921,672	11.00%	59,579,091	1,211,921,672		22,602,046	493,457,321	8.00%	8.00%	25,533,896	505,357,299		85,112,987	24,000,000	1,741,278,971	1,741,278,971	
2023	1,218,895,280	1,286,840,969	11.00%	59,579,091	1,286,840,969		25,533,896	522,383,691	8.00%	8.00%	25,533,896	536,597,779		85,112,987	24,000,000	1,847,438,748	1,847,438,748	
2024	1,293,207,124	1,361,046,351	11.00%	67,039,240	1,361,046,351		25,533,896	554,231,624	8.00%	8.00%	28,731,103	567,540,563		95,770,343	24,000,000	1,952,586,914	1,952,586,914	
2025	1,366,810,840	1,442,746,475	11.00%	67,039,240	1,442,746,475		28,731,103	585,776,074	8.00%	8.00%	28,731,103	601,608,569		95,770,343	24,000,000	2,068,355,044	2,068,355,044	
2026	1,447,848,531	1,523,668,067	11.00%	75,174,596	1,523,668,067		28,731,103	620,506,513	8.00%	8.00%	32,217,684	635,351,935		107,392,280	0	2,159,020,003	2,159,020,003	
2027	1,511,314,002	1,594,114,740	11.00%	75,174,596	1,594,114,740		32,217,684	647,706,001	8.00%	8.00%	32,217,684	664,727,382		107,392,280	0	2,258,842,123	2,258,842,123	
2028	1,581,189,486	1,662,854,609	11.00%	83,122,270	1,662,854,609		32,217,684	677,652,637	8.00%	8.00%	35,623,830	683,391,111		118,746,100	0	2,356,245,721	2,356,245,721	
2029	1,649,372,004	1,738,537,205	11.00%	83,122,270	1,738,537,205		35,623,830	706,873,716	8.00%	8.00%	35,623,830	724,949,877		118,746,100	0	2,463,487,082	2,463,487,082	
2030	1,724,440,958	1,813,435,302	11.00%	90,715,460	1,813,435,302		35,623,830	739,046,125	8.00%	8.00%	38,878,054	756,181,516		129,593,515	0	2,569,616,818	2,569,616,818	
2031	1,798,731,773	1,895,898,107	11.00%	90,715,460	1,895,898,107		38,878,054	770,885,045	8.00%	8.00%	38,878,054	790,567,550		129,593,515	0	2,686,465,657	2,686,465,657	
2032	1,860,525,960	1,977,571,241	11.00%	98,930,247	1,977,571,241		38,878,054	805,939,697	8.00%	8.00%	42,398,677	824,624,301		141,328,925	0	2,802,195,542	2,802,195,542	
2033	1,961,536,879	2,067,493,361	11.00%	98,930,247	2,067,493,361		42,398,677	840,658,663	8.00%	8.00%	42,398,677	862,120,784		141,328,925	0	2,929,614,145	2,929,614,145	
2034	2,050,729,902	2,156,558,364	11.00%	107,884,528	2,156,558,364		42,398,677	878,884,244	8.00%	8.00%	46,236,226	899,259,858		154,120,755	0	3,055,818,223	3,055,818,223	
2035	2,139,072,756	2,254,618,933	11.00%	107,884,528	2,254,618,933		46,236,226	916,745,467	8.00%	8.00%	46,236,226	940,149,980		154,120,755	0	3,194,768,912	3,194,768,912	