

- SUBJECT:** Investing certain Permanent School Fund cash assets
- COMMITTEE:** Pensions, Investments and Financial Services — committee substitute recommended
- VOTE:** 9 ayes — Murphy, Vo, Capriglione, Flynn, Gutierrez, Lambert, Leach, Longoria, Wu
- 0 nays
- 2 absent — Gervin-Hawkins, Stephenson
- WITNESSES:** For — (*Registered, but did not testify:* Dick Lavine, Center for Public Policy Priorities; Will Francis, National Association of Social Workers-Texas Chapter; Dax Gonzalez, Texas Association of School Boards; Connor Cook, Texas Charter Schools Association; Daniel Gonzalez and Julia Parenteau, Texas Realtors)
- Against — None
- On — Rusty Martin, General Land Office; Holland Timmins, Texas Education Agency; (*Registered, but did not testify:* Jeff Gordon, General Land Office; Mike Meyer, Texas Education Agency)
- BACKGROUND:** The Texas Constitution of 1876 established the Permanent School Fund (PSF) and transferred half of the public lands owned by the state to the PSF as an endowment to provide a perpetual source of funding for public education. The State Board of Education manages financial assets for the PSF and the School Land Board (SLB), an independent entity of the General Land Office, oversees the management, sale, and leasing of more than 13 million acres of PSF land.
- The portion of revenue the SLB maintains for purchasing additional real estate and making investments resides in the Real Estate Special Fund Account, a cash account in the state treasury. Some have called for these cash reserves to be invested as a way to generate higher returns for the

PSF, allowing for increased revenue for Texas schools.

DIGEST:

CSHB 4388 would create a new liquid account for the investment of certain Permanent School Fund (PSF) assets and would require mutual quarterly reporting by the entities that share management of the PSF.

Liquid account. The bill would create the Permanent School Fund Liquid Account as an account in the state treasury to be used by the School Land Board (SLB) and the State Board of Education (SBOE).

Each quarter, the SLB would be required to hold a meeting and adopt a resolution to release from the Real Estate Special Fund Account those funds that were not being used for a purpose listed in Natural Resources Code sec. 51.402(a) and that were not required for the SLB's anticipated cash needs for the 90-day period following the meeting date. Those funds would be deposited to the credit of the Permanent School Fund Liquid Account in the state treasury.

The bill would authorize the SBOE to invest the funds in liquid assets in the same manner that it manages the PSF. Investment income and realized capital gains derived from funds in the liquid account would have to be deposited in the state treasury to the credit of the SBOE for investment in the PSF.

The SBOE could use the liquid account funds to pay for administrative costs associated with implementing the bill, including costs for contracting with professional investment management, investment advisory services, or custodial services.

At the request of the SLB, the SBOE would have to release within five business days from the liquid account fund an amount to be deposited to the credit of the Real Estate Special Fund Account in the state treasury.

SLB investments. The bill would limit the market value of certain SLB land, mineral and royalty interests and real estate investments to a sum that could not exceed 15 percent of the total PSF market value on January

1 of each even-numbered year.

Quarterly reporting. The bill would require quarterly reports by both the SBOE and the SLB to the other entity on the portion of the PSF assets and funds for which each was responsible. The reports would have to include:

- target and actual asset allocations, by asset type, based on fair market value or net asset value;
- investment performance by asset type; and
- benchmarks and benchmark performances.

The SLB would be required to provide to the SBOE in each quarterly report its anticipated cash needs for the six-month period following the date of the report to allow the SBOE to ensure that the SLB's cash needs could be met.

The bill would take effect September 1, 2019.