

LEGISLATIVE BUDGET BOARD  
Austin, Texas

FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION

April 24, 2019

**TO:** Honorable Jim Murphy, Chair, House Committee on Pensions, Investments & Financial Services

**FROM:** John McGeady, Assistant Director     Sarah Keyton, Assistant Director  
Legislative Budget Board

**IN RE:** **HB4388** by Murphy (relating to the management of the permanent school fund by the School Land Board and the State Board of Education.), **Committee Report 1st House, Substituted**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB4388, Committee Report 1st House, Substituted: an impact of \$0 through the biennium ending August 31, 2021.

The bill would make no appropriation but could provide the legal basis for an appropriation of funds to implement the provisions of the bill.

General Revenue-Related Funds, Five-Year Impact:

Fiscal Year	Probable Net Positive/(Negative) Impact to General Revenue Related Funds
2020	\$0
2021	\$0
2022	\$1,620,406
2023	\$1,620,406
2024	\$5,837,420

All Funds, Five-Year Impact:

Fiscal Year	Probable Revenue Gain from Permanent School Fund 44	Probable Revenue Gain from Available School Fund 2
2020	\$46,297,322	\$0
2021	\$55,388,914	\$0
2022	\$65,097,185	\$1,620,406
2023	\$75,456,646	\$1,620,406
2024	\$86,503,610	\$5,837,420

## **Fiscal Analysis**

The bill would establish the Permanent School Fund Liquid Account as an account in the Permanent School Fund (PSF). Under the requirements of the bill, the School Land Board (SLB) would be required to meet once each quarter and release funds to the Permanent School Fund Liquid Account from the Real Estate Special Fund, except for funds that are either:

- a) Being used for their designated purpose under existing law; or
- b) Required for anticipated cash management needs within the 90-day period following the meeting.

The State Board of Education (SBOE) would be authorized to invest funds from the PSF Liquid Account. These funds could be invested only in liquid assets, as in the same manner that the PSF is managed by the SBOE. Proceeds from PSF Liquid Account investments would be deposited into the treasury to the credit of the SBOE for investment in the PSF. The bill would authorize SBOE to use funds from the PSF Liquid Account for administrative costs, including costs related to investment management or advisory services.

On January 1 of each even-numbered year, the sum the market value of real estate interests and certain other interests related to land, mineral and royalty interests in the Real Estate Special Fund could not exceed 15 percent of the total market value of the PSF on that date.

## **Quarterly reports**

Each quarter, the SBOE would be required to provide the SLB with a report on the portion of the PSF assets and funds for which the SBOE is responsible. The SLB would be required to provide the SBOE with a similar report at similar intervals.

In each of its quarterly reports, the SLB would be required to provide the SBOE with the SLB's estimated cash needs for the six-month period following the report to allow the SBOE to ensure that the SLB's case needs may be met. In order to ensure those needs are met, SBOE would be required to release funds from the PSF Liquid Account to the SLB to be deposited into the Real Estate Special Fund within five days of a request from the SLB.

The bill would take effect September 1, 2019.

## **Methodology**

Under the assumption that uncommitted SLB cash is sent to the PSF Liquid Account, the Texas Education Agency estimates that \$46.3 million in additional revenue would accrue to the PSF in fiscal year 2020, an amount that would be projected to grow to an additional \$85.5 million by fiscal year 2024.

TEA's estimate is based on an assumption that the PSF Liquid Account would earn a 4.96 percent average annual return, which would be above the 2.55 percent average annual return on assets that would be eligible for transfer to the PSF Liquid Account, an amount that is based on the State of Texas Treasury yield.

Increased contributions from the PSF to the Available School Fund would lag these amounts, due to the SBOE's use of 16 quarter average assets in calculating the distribution. For this reason, increased distributions to the ASF would not be expected until 2022, when distributions would

total an estimated \$1.6 million. This estimate assumes a 3.5 percent distribution rate from the PSF to the ASF.

**Local Government Impact**

No significant fiscal implication to units of local government is anticipated.

**Source Agencies:** 304 Comptroller of Public Accounts, 305 General Land Office and Veterans' Land Board, 701 Texas Education Agency

**LBB Staff:** WP, THo, CMa, AM