

**LEGISLATIVE BUDGET BOARD**  
**Austin, Texas**

**FISCAL NOTE, 86TH LEGISLATIVE REGULAR SESSION**

**April 17, 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.), **As Introduced**

**Estimated Two-year Net Impact to General Revenue Related Funds** for HB4388, As Introduced: 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 Savings/(Cost) from <i>Permanent School Fund</i> 44	Probable Savings/(Cost) from <i>Available School Fund</i> 2	Probable Savings/(Cost) from <i>Real Estate Special Fund</i>
2020	\$46,297,322	\$0	\$0
2021	\$55,388,914	\$0	\$0
2022	\$65,097,185	\$1,620,406	(\$5,219,531)
2023	\$75,456,646	\$1,620,406	(\$5,219,531)
2024	\$86,503,610	\$5,837,420	(\$5,219,531)

**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 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 or markets, as authorized by law for the investment of the PSF. 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 appropriations to the SBOE 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 of funds in the Real Estate Special Fund not being used for their designated purpose under existing law, holdings in the PSF Liquid Account, and the market value of real estate investments made under 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 ten days of a request from the SLB.

### **Deadline for the transfer of funds**

The bill would establish a deadline for the SLB to make any transfers from the Real Estate Special Fund to the Available School Fund or the SBOE for investment in the PSF that are described in the report that the SLB submits in each even-numbered year. That deadline would be September 1 of the next even-numbered year.

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.

The General Land Office projects a loss of \$10.4 million from the Real Estate Special Fund in each biennium, beginning in fiscal year 2022. This projected loss is based on the fact that Real Estate Special Fund releases are currently paid in quarterly amounts spread out across the biennium, rather than a full payment on September 1 every other year, resulting in some lost interest income over the biennium. The agency estimated this impact by applying a 2.55 percent interest rate to the share of funds remaining in Real Estate Special Fund if releases are timed on a quarterly basis over a two year period, assuming a release of \$655 million in each biennium (which is the most recently adopted amount). This loss would vary based on changes in the amount of a release or based on changes in interest rates.

### **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, CMa, AM, THo