

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

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

**April 29, 2019**

**TO:** Honorable Larry Taylor, Chair, Senate Committee on Education

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

**IN RE:** **SB1659** by Watson (Relating to the management of the permanent school fund by the School Land Board and the State Board of Education and a study regarding distributions from the permanent school fund to the available school fund.), **Committee Report 1st House, Substituted**

**Due to uncertainty regarding the nature of future returns, the fiscal implications of the bill cannot be determined at this time.**

The bill would amend various reporting requirements on the part of the School Land Board (SLB). The bill would also require that all revenue received from mineral or royalty interests derived from assets of the portion of the Permanent School Fund (PSF) managed by the SLB be transferred each month to the State Board of Education (SBOE) for investment in the PSF.

**Transfers from the Real Estate Special Fund to the ASF and PSF**

The bill would require the SLB to release funds from the Real Estate Special Fund to the Available School Fund (ASF) and the PSF, based on formulas specified in the bill.

**Permanent School Fund Liquid Account**

The bill would establish the Permanent School Fund Liquid Account as an account in the PSF. Under the requirements of the bill, the 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 SBOE would be authorized to invest funds from the PSF Liquid Account. These funds could be invested only in liquid assets or markets, and the account would be managed 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 appropriations to the SBOE from the PSF Liquid Account for administrative costs, including costs related to investment management or advisory services.

## **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.

## **Other provisions**

The bill would require the Texas Education Agency to conduct a study regarding distributions from the PSF to the ASF and submit the report to the Governor, the SBOE, the Legislative Budget Board, the Lieutenant Governor, the Speaker of the House, and each relevant legislative standing committee by June 1, 2020.

The bill would take effect September 1, 2019.

## **Fiscal Implications**

The fiscal impact of requiring a monthly transfer of revenue from mineral and royalty interests to the SBOE is expected to have fiscal implications. However, the nature of that impact is unknown.

Under the assumption that uncommitted SLB cash is sent to the PSF Liquid Account, TEA 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.

TEA estimates that 4.0 FTEs would be required to implement the bill, including two investment analysts, one financial analyst, and one accountant. Costs associated with these employees, including salary, benefits, and other costs are estimated to be \$487,213 in fiscal year 2020 and \$471,213 in subsequent fiscal years. This analysis assumes that Permanent School Fund funds would be used to pay for these costs.

### **Local Government Impact**

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

**Source Agencies:** 305 General Land Office and Veterans' Land Board, 701 Texas Education Agency

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