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By:  Taylor S.B. No. 1232

A BILL TO BE ENTITLED

AN ACT

relating to the management and investment of the permanent school fund, including the duties of the School Land Board and the creation of the Permanent School Fund Investment Management Organization.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1.  Section 43.001(c), Education Code, is amended to read as follows:

(c)  In this chapter:

(1)  "Organization" means the Permanent School Fund Investment Management Organization.

(2)  "Scholastic [~~The term "scholastic~~] population" [~~in Subsection (b) or any other law governing the apportionment, distribution, and transfer of the available school fund~~] means all students of school age enrolled in average daily attendance the preceding school year in the public elementary and high school grades of school districts within or under the jurisdiction of a county of this state for purposes of any law governing the apportionment, distribution, and transfer of the available school fund.

SECTION 2.  Chapter 43, Education Code, is amended by adding Section 43.0021 to read as follows:

Sec. 43.0021.  PERMANENT SCHOOL FUND INVESTMENT MANAGEMENT ORGANIZATION. (a) The Permanent School Fund Investment Management Organization is established to perform duties as required by this chapter, including management of the permanent school fund. The organization is composed of seven members appointed as follows:

(1)  three members appointed by the chair of the State Board of Education;

(2)  one member appointed by the commissioner of the General Land Office; and

(3)  three members appointed by the governor from a list of individuals nominated jointly by the State Board of Education and the General Land Office who have substantial background and expertise in investments and asset management.

(b)  At least one member appointed under Subsection (a)(3) must have substantial background and expertise in investment asset allocation.

(c)  Members of the organization serve staggered six-year terms, with the terms of two or three members expiring on January 1 of each odd-numbered year.

(c-1)  Notwithstanding Subsection (c), the initial members appointed to the organization shall determine by lot which two of the seven initial members will serve terms that expire January 1, 2023, which two of the seven initial members will serve terms that expire January 1, 2025, and which three of the seven initial members will serve terms that expire January 1, 2027. This subsection expires September 1, 2027.

(d)  The organization may employ an executive director, a chief investment officer, and other employees necessary to fulfill the organization's duties under this chapter.

(e)  In addition to the transfer made under Section 43.002, the organization may distribute from the permanent school fund to the available school fund an amount of money determined in accordance with a formula established by organization rule. In developing the formula for the distribution, the organization shall consider the historical trailing averages for:

(1)  the total market value of the permanent school fund;

(2)  growth in student enrollment; and

(3)  inflation.

SECTION 3.  Sections 43.003, 43.0031, 43.0032, 43.0033, 43.0034, 43.004, 43.005, 43.0051, and 43.007, Education Code, are amended to read as follows:

Sec. 43.003.  INVESTMENT OF PERMANENT SCHOOL FUND. In compliance with this section, the organization [~~State Board of Education~~] may invest the permanent school fund in the types of securities, which must be carefully examined by the organization [~~State Board of Education~~] and be found to be safe and proper investments for the fund as specified below:

(1)  securities, bonds, or other obligations issued, insured, or guaranteed in any manner by the United States Government or any of its agencies and in bonds issued by this state;

(2)  obligations and pledges of The University of Texas;

(3)  corporate bonds, debentures, or obligations of United States corporations of at least "A" rating;

(4)  obligations of United States corporations that mature in less than one year and are of the highest rating available at the time of investment;

(5)  bonds issued, assumed, or guaranteed by the Inter-American Development Bank, the International Bank of Reconstruction and Development (the World Bank), the African Development Bank, the Asian Development Bank, and the International Finance Corporation;

(6)  bonds of counties, school districts, municipalities, road precincts, drainage, irrigation, navigation, and levee districts in this state, subject to the following requirements:

(A)  the securities, before purchase, must have been diligently investigated by the attorney general both as to form and as to legal compliance with applicable laws;

(B)  the attorney general's certificate of validity procured by the party offering the bonds, obligations, or pledges must accompany the securities when they are submitted for registration to the comptroller, who must preserve the certificates;

(C)  the public securities, if purchased, and when certified and registered as specified under Paragraph (B), are incontestable unless issued fraudulently or in violation of a constitutional limitation, and the certificates of the attorney general are prima facie evidence of the validity of the bonds and bond coupons; and

(D)  after the issuing political subdivision has received the proceeds from the sales of the securities, the issuing agency is estopped to deny their validity, and the securities are valid and binding obligations;

(7)  preferred stocks and common stocks that the organization [~~State Board of Education~~] considers proper investments for the permanent school fund, subject to the following requirements:

(A)  in making all of those investments, the organization [~~State Board of Education~~] shall exercise the judgment and care under the circumstances then prevailing that persons of ordinary prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital;

(B)  the company issuing the stock must be incorporated in the United States, and the stocks must have paid dividends for five consecutive years or longer immediately before the date of purchase and the stocks, except for bank stocks and insurance stocks, must be listed on an exchange registered with the Securities and Exchange Commission or its successors; and

(C)  not more than one percent of the permanent school fund may be invested in stock issued by one corporation and not more than five percent of the voting stock of any one corporation will be owned; and

(8)  notwithstanding any other law or provision of this code, first lien real estate mortgage securities insured by the Federal Housing Administration under the National Housing Act of the United States, or in any other first lien real estate mortgage securities guaranteed in whole or in part by the United States.

Sec. 43.0031.  PERMANENT SCHOOL FUND ETHICS POLICY. (a) In addition to any other requirements provided by law, the organization [~~State Board of Education~~] shall adopt and enforce an ethics policy that provides standards of conduct relating to the management and investment of the permanent school fund. The ethics policy must include provisions that address the following issues as they apply to the management and investment of the permanent school fund and to persons responsible for managing and investing the fund:

(1)  general ethical standards;

(2)  conflicts of interest;

(3)  prohibited transactions and interests;

(4)  the acceptance of gifts and entertainment;

(5)  compliance with applicable professional standards;

(6)  ethics training; and

(7)  compliance with and enforcement of the ethics policy.

(b)  The ethics policy must include provisions applicable to:

(1)  members of the organization [~~State Board of Education~~];

(2)  the commissioner;

(3)  employees of the agency; and

(4)  any person who provides services to the organization [~~board~~] relating to the management or investment of the permanent school fund.

(c)  Not later than the 45th day before the date on which the organization [~~board~~] intends to adopt a proposed ethics policy or an amendment to or revision of an adopted ethics policy, the organization [~~board~~] shall submit a copy of the proposed policy, amendment, or revision to the Texas Ethics Commission and the state auditor for review and comments. The organization [~~board~~] shall consider any comments from the commission or state auditor before adopting the proposed policy.

(d)  The provisions of the ethics policy that apply to a person who provides services to the organization [~~board~~] relating to the management or investment of the permanent school fund must be based on the Code of Ethics and the Standards of Professional Conduct prescribed by the Association for Investment Management and Research or other ethics standards adopted by another appropriate professionally recognized entity.

(e)  The organization [~~board~~] shall ensure that applicable provisions of the ethics policy are included in any contract under which a person provides services to the organization [~~board~~] relating to the management and investment of the permanent school fund.

Sec. 43.0032.  CONFLICTS OF INTEREST. (a) A member of the organization [~~State Board of Education~~], the commissioner, an employee of the agency, or a person who provides services to the organization [~~board~~] that relate to the management or investment of the permanent school fund who has a business, commercial, or other relationship that could reasonably be expected to diminish the person's independence of judgment in the performance of the person's responsibilities relating to the management or investment of the fund shall disclose the relationship in writing to the organization [~~board~~].

(b)  The organization [~~board~~] or the organization's [~~board's~~] designee shall, in the ethics policy adopted under Section 43.0031, define the kinds of relationships that may create a possible conflict of interest.

(c)  A person who files a statement under Subsection (a) disclosing a possible conflict of interest may not give advice or make decisions about a matter affected by the possible conflict of interest unless the organization [~~board~~], after consultation with the general counsel of the agency, expressly waives this prohibition. The organization [~~board~~] may delegate the authority to waive the prohibition established by this subsection.

Sec. 43.0033.  REPORTS OF EXPENDITURES. A consultant, advisor, broker, or other person providing services to the organization [~~State Board of Education~~] relating to the management and investment of the permanent school fund shall file with the organization [~~board~~] regularly, as determined by the organization [~~board~~], a report that describes in detail any expenditure of more than $50 made by the person on behalf of:

(1)  a member of the organization [~~board~~];

(2)  the commissioner; or

(3)  an employee of the agency [~~or of a nonprofit corporation created under Section 43.006~~].

Sec. 43.0034.  FORMS; PUBLIC INFORMATION. (a) The organization [~~board~~] shall prescribe forms for:

(1)  statements of possible conflicts of interest and waivers of possible conflicts of interest under Section 43.0032; and

(2)  reports of expenditures under Section 43.0033.

(b)  A statement, waiver, or report described by Subsection (a) is public information.

(c)  The organization [~~board~~] shall designate an employee of the agency to act as custodian of statements, waivers, and reports described by Subsection (a) for purposes of public disclosure.

Sec. 43.004.  WRITTEN INVESTMENT OBJECTIVES; PERFORMANCE EVALUATION. (a) The organization [~~State Board of Education~~] shall develop written investment objectives concerning the investment of the permanent school fund. The objectives may address desired rates of return, risks involved, investment time frames, and any other relevant considerations.

(b)  The organization [~~board~~] shall employ a well-recognized performance measurement service to evaluate and analyze the investment results of the permanent school fund. The service shall compare investment results with the written investment objectives developed by the organization [~~board~~], and shall also compare the investment of the permanent school fund with the investment of other public and private funds.

Sec. 43.005.  EXTERNAL INVESTMENT MANAGERS. (a) The organization [~~State Board of Education~~] may contract with private professional investment managers to assist the organization [~~board~~] in making investments of the permanent school fund. A contract under this subsection must be approved by the organization [~~board or otherwise entered into in accordance with board rules relating to contracting authority~~].

(b)  The organization [~~State Board of Education by rule~~] may delegate a power or duty relating to the investment of the permanent school fund to a committee, officer, employee, or other agent of the organization [~~board~~].

Sec. 43.0051.  TRANSFERS TO REAL ESTATE SPECIAL FUND ACCOUNT OF THE PERMANENT SCHOOL FUND. The organization [~~State Board of Education~~] may transfer funds from the portion of the permanent school fund managed by the organization [~~State Board of Education~~] to the real estate special fund account of the permanent school fund if the organization [~~State Board of Education~~] determines, using the standard of care set forth in Subsection (f), Section 5, Article VII, Texas Constitution, that such transfer is in the best interest of the permanent school fund.

Sec. 43.007.  PURCHASE AND SALE OR EXCHANGE OF SECURITIES. (a) The organization [~~State Board of Education~~] may authorize the purchase of all of the types of securities in which it is authorized by law to invest the permanent school fund in either registered or negotiable form. The organization [~~board~~] may authorize the reissue of those securities held at any time for the account of the permanent school fund in either registered or negotiable form. The organization [~~State Board of Education~~] may authorize the sale of any of the securities held for the account of the permanent school fund and reinvest the proceeds of sale for the fund and may authorize the exchange of any of the securities held for the account of the permanent school fund.

(b)  In making purchases, sales, exchanges, and reissues, the organization [~~State Board of Education~~] shall exercise the judgment and care under the circumstances then prevailing that persons of ordinary prudence, discretion, and intelligence exercise in the management of their own affairs not in regard to speculation but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of their capital.

(c)  When any securities are sold, reissued, or exchanged as provided by Subsection (a), the custodian of the securities shall deliver the securities sold, reissued, or exchanged in accordance with the directions of the organization [~~State Board of Education~~].

SECTION 4.  Sections 43.009(a), (b), and (c), Education Code, are amended to read as follows:

(a)  The organization [~~State Board of Education~~] may authorize the governing body of any political subdivision in this state to pay off and discharge, at any interest paying date whether the bonds are matured or not, all or any part of any outstanding bond indebtedness owned by the permanent school fund.

(b)  The governing body of a political subdivision desiring to pay off and discharge any bonded indebtedness owned by the fund shall apply in writing to the organization [~~State Board of Education~~], not later than the 30th day before any interest paying date on the bonds, describing the bonds or part of the bonds it desires to pay off and discharge. The application must be accompanied by an affidavit stating that only tax money collected from a tax levy made for the specific purpose of providing a sinking fund and paying interest on the particular bonds to be redeemed will be spent in redeeming, taking up, or paying off the bonds.

(c)  The organization [~~State Board of Education~~], on receiving the application and affidavit, shall take action on them in the manner it considers best and shall notify the applicant whether the application is refused or granted in whole or in part.

SECTION 5.  Sections 43.010(a), (c), and (d), Education Code, are amended to read as follows:

(a)  If interest or principal has not been paid for two years or more on any bonds issued by any school district and held by the permanent school fund, the organization [~~State Board of Education~~] may:

(1)  compel the district to levy a tax sufficient to meet the interest and principal payments then or later due; or

(2)  if the district furnishes to the organization [~~State Board of Education~~] satisfactory proof that the district's taxing ability is insufficient, require the district to:

(A)  exhaust all legal remedies in collecting delinquent taxes; and

(B)  levy a tax at the maximum lawful rate on the bona fide valuation of taxable property located in the district.

(c)  As long as any school district is delinquent in its payments of principal or interest on any of its bonds owned by the permanent school fund, the organization [~~State Board of Education~~] may specify the method of crediting payments to the state made by the district as to principal and interest.

(d)  The comptroller may not issue any warrant from the foundation school fund to or for the benefit of any district that has been for as long as two years in default in the payment of principal or interest on any security owned by the permanent school fund until the organization [~~State Board of Education~~] certifies that the district has satisfactorily complied with the appropriate provisions of this section, in which event the comptroller shall resume making payments to or for the benefit of the district, including the making of pretermitted payments.

SECTION 6.  Sections 43.011(a), (b), (c), (d), and (e), Education Code, are amended to read as follows:

(a)  In compliance with this section, the organization [~~State Board of Education~~] may revise, readjust, modify, refinance, or refund defaulted bonds issued by any school district in this state and owned by either the permanent school fund or the available school fund.

(b)  Application must be made to the organization [~~State Board of Education~~] by the district that issued the bonds and must show that:

(1)  delinquent interest totals at least 50 percent of the principal amount of the bonds; and

(2)  taxable valuation has decreased to such an extent that a full application of the proceeds of the voted authorized tax authorized to be levied on the $100 taxable property valuation will not meet interest and principal annually maturing on the bonds.

(c)  The organization [~~State Board of Education~~] may effect a refunding of the debt due and to become due only if the organization [~~board~~] finds that:

(1)  the district is unable to pay the sums already matured and the sums contracted to be paid as they mature by paying annually to the organization [~~State Board of Education~~] the full proceeds of a 50-cent tax levy on the $100 of all taxable valuation of property in the district;

(2)  the taxable valuation of property in the district has decreased at least 75 percent since the bonds were issued and that the decrease was not caused by the district or any of its officials;

(3)  the district for a period of at least five years before applying to the organization [~~State Board of Education~~] for refunding has levied a tax of 50 cents on the $100 of taxable valuation of property in the district, and that despite such levies, the aggregate amount due the organization [~~State Board of Education~~] exceeds the aggregate amount due at the beginning of the period;

(4)  the district has not authorized and sold additional bonds during the five-year period immediately preceding the application; and

(5)  the district has in good faith endeavored to pay its debt in accordance with the contract evidenced by the bonds held for the account of the permanent school fund or the available school fund.

(d)  If the conditions specified by Subsection (c) are found to exist, the district is, for purposes of this section, insolvent, and the organization [~~State Board of Education~~] may exchange the bonds, interest coupons, and other evidences of indebtedness for new refunding bonds of the district issued in compliance with the following:

(1)  the principal amount of the refunding bonds may not be less than the total amount of the bonds, matured interest coupons, accrued interest, and interest on delinquent interest then actually due to the permanent school fund or the available school fund; and

(2)  the rate of interest to be borne by the refunding bonds may be lower than that borne by the bonds to be refunded if in consideration of the interest reduction the district agrees to levy a tax each year for a period of 40 years at a rate sufficient to produce annually a sum equal to 90 percent of the amount that can be calculated by the levy of a tax at the rate of 50 cents on the $100 of taxable valuation of property as determined by the latest approved tax roll of the district, and in determining the rate of interest to be borne by the refunding bonds, the organization [~~State Board of Education~~] shall be governed by the following:

(A)  the organization [~~State Board of Education~~] may require the rate to be a percent per annum as in its judgment will represent the maximum rate that can be paid by the district and still permit an orderly and certain retirement of the refunding bonds within 40 years from their date;

(B)  the interest rate of refunding bonds to be received in exchange for bonds owned by the permanent school fund may not be less than the minimum rate at which bonds may then be purchased as investments for the permanent school fund; and

(C)  the rate of interest of refunding bonds to be received in exchange for bonds owned by the available school fund may be set by the organization [~~State Board of Education~~] at any rate the organization [~~board~~] considers feasible, and the refunding bonds may, at the discretion of the organization [~~State Board of Education~~], be made non-interest bearing to a date fixed by the organization [~~board~~].

(e)  The organization [~~State Board of Education~~] may not make a revision, readjustment, modification, refinancing, or refunding that will release or extinguish any debt or obligation then due and payable to the permanent school fund or to the available school fund.

SECTION 7.  Section 43.012, Education Code, is amended to read as follows:

Sec. 43.012.  REFUNDING OTHER DEFAULTED OBLIGATIONS. (a) Defaulted obligations, other than bonds of school districts as provided by Section 43.011, due the available school fund may be refinanced or refunded with the approval of the organization [~~State Board of Education~~] in compliance with this section.

(b)  In this section, "defaulted obligations" includes delinquent interest whether represented by coupons or not, interest on delinquent interest, and any other form of obligation due the available school fund.

(c)  The obligor must apply to the organization [~~State Board of Education~~] and show:

(1)  that the obligations due the available school fund have been in default in whole or in part for a continuous period of at least 15 years; and

(2)  that the obligor is not in default in the payment of the principal of any bonds owned by the permanent school fund.

(d)  If the organization [~~State Board of Education~~] finds that the requirements provided by Subsection (c) have been met, it may approve a refinancing or the issuance of refunding bonds on the conditions:

(1)  that the refunding bonds must mature serially in not exceeding 40 years from the date of issuance;

(2)  that the principal amount of the refunding bonds may be not less than the total amount of the obligations then in default and due the available school fund; and

(3)  that the refunding bonds must bear interest at a rate or rates determined by the organization [~~State Board of Education~~] to be for the best interest of the available school fund.

(e)  The organization [~~State Board of Education~~] may accept refunding bonds in lieu of either matured or unmatured bonds held for the benefit of the permanent school fund if the rate of interest on the new refunding bonds is at least the same rate as that of the bonds being refunded.

(f)  Refunding bonds issued with the approval or pursuant to a refunding agreement with the organization [~~State Board of Education~~] in compliance with either this section or Section 43.011 shall, on the order of the organization [~~State Board of Education~~], be exchanged by the comptroller for the defaulted obligations they have been issued to refund.

SECTION 8.  Section 43.014(a), Education Code, is amended to read as follows:

(a)  On or before July 1 of each year, the comptroller shall estimate the amount of the available school fund receivable from every source during the following school year and report the estimate to the organization [~~State Board of Education~~].

SECTION 9.  Sections 43.015(b), (e), and (f), Education Code, are amended to read as follows:

(b)  The comptroller shall provide the organization [~~State Board of Education~~] with the reports specified by Subsection (a) and with additional reports concerning those funds requested by the organization [~~State Board of Education~~].

(e)  On order of the organization [~~State Board of Education~~], the comptroller shall exchange or accept refunding bonds in lieu of:

(1)  either matured or unmatured bonds held for the benefit of the permanent school fund, which are being refunded under this chapter;

(2)  defaulted obligations held for the benefit of the available school fund if the refunding bonds are issued in compliance with Section 43.012;

(3)  defaulted obligations of any school district of this state held for the benefit of the permanent school fund or the available school fund if the refunding bonds are issued in compliance with Section 43.011; or

(4)  refunding bonds of any school district of this state for school bonds not matured held by the comptroller for the permanent school fund if the new refunding bonds are issued by the school district in compliance with this code.

(f)  The comptroller shall be the custodian of all securities enumerated in Section 43.003(6) and of other securities as designated by the organization [~~State Board of Education~~] in which the school funds of the state are invested. The comptroller shall keep those securities in the comptroller's custody until paid off, discharged, delivered as required by the organization [~~State Board of Education~~], or otherwise disposed of by the proper authorities of the state, and on the proper installment of any interest or dividend, shall see that the proper credit is given, and the coupons on bonds, when paid, shall be separated from the bonds and cancelled by the comptroller.

SECTION 10.  Sections 43.017, 43.018, and 43.019, Education Code, are amended to read as follows:

Sec. 43.017.  USE OF COMMERCIAL BANKS AS AGENTS FOR COLLECTION OF INCOME FROM PERMANENT SCHOOL FUND INVESTMENTS. (a) The organization [~~State Board of Education~~] may contract with one or more commercial banks to receive payments of dividends and interest on securities in which the state permanent school funds are invested and transmit that money with identification of its source to the comptroller for the account of the available school fund by the fastest available means.

(b)  In choosing each commercial bank with which to contract as authorized by Subsection (a), the organization [~~State Board of Education~~] shall assure itself of:

(1)  the financial stability of the bank;

(2)  the location of the bank with respect to its proximity to the banks on which checks are drawn in payment of dividends and interest on securities of the permanent school fund;

(3)  the experience and reliability of the bank in acting as agent for others in the similar collection and expeditious remittance of money; and

(4)  the reasonableness of the bank's charges for the services, both in amount of the charges and in relation to the increased investment earnings of the available school fund that will result from speedier receipt by the comptroller of the money.

Sec. 43.018.  PARTICIPATION IN FULLY SECURED SECURITIES LOAN PROGRAMS. (a) The organization [~~State Board of Education~~] may contract with a commercial bank to serve both as a custodian of securities in which the state permanent school funds are invested and to lend those securities, under the conditions prescribed by Subsection (b), to securities brokers and dealers on short-term loan.

(b)  The organization [~~State Board of Education~~] may contract with a commercial bank pursuant to this section only if:

(1)  the bank is located in a city having a major stock exchange;

(2)  the bank is experienced in the operation of a fully secured securities loan program;

(3)  the bank has adequate capital in the prudent judgment of the organization [~~State Board of Education~~] to assure the safety of the securities entrusted to it as a custodian;

(4)  the bank will require of any securities broker or dealer to which it lends securities owned by the state permanent school fund that the broker or dealer deliver to it cash collateral for the loan of securities, and that the cash collateral will at all times be not less than 100 percent of the market value of the securities lent;

(5)  the bank executes an indemnification agreement, satisfactory in form and content to the organization [~~State Board of Education~~], fully indemnifying the permanent and available school funds against loss resulting from the bank's service as custodian of securities of the permanent school fund and its operation of a securities loan program using securities of the permanent school fund;

(6)  the bank will speedily collect and remit on the day of collection by the fastest available means to the comptroller any dividends and interest collectible by it on securities held by it as custodian, together with identification as to the source of the dividends or interest; and

(7)  the bank is the bank agreeing to pay to the available school fund the largest sum or highest percentage of the income derived by the bank from use of the securities of the permanent school fund in the operation of a securities loan program.

Sec. 43.019.  ACCOUNTING TREATMENT OF CERTAIN EXCHANGES. The organization [~~State Board of Education~~] may account for the exchange of permanent school fund securities in a closely related sale and purchase transaction in a manner in which the gain or loss on the sale is deferred as an adjustment to the book value of the security purchased, if:

(1)  the security sold and the security purchased have a fixed maturity value;

(2)  the organization [~~board~~] is authorized by law to invest the permanent school fund in the security purchased;

(3)  the sale is made in clear contemplation of reinvesting substantially all of the proceeds;

(4)  substantially all of the proceeds are reinvested;

(5)  the transaction is completed within a reasonable time after the sale, not to exceed 30 business days; and

(6)  the transaction results in an improvement in effective income yield, taking into consideration the deferral of any gain or loss on the sale.

SECTION 11.  Section 51.011, Natural Resources Code, is amended by amending Subsections (a) and (a-1) and adding Subsection (a-3) to read as follows:

(a)  Any land or[~~,~~] mineral or royalty interest[~~, real estate investment, or other interest, including revenue received from those sources,~~] that is set apart to the permanent school fund under the constitution and laws of this state together with the mineral estate in riverbeds, channels, and the tidelands, including islands, shall be controlled, sold, and leased by [~~subject to the sole and exclusive management and control of~~] the school land board and the commissioner under the provisions of this chapter and other applicable law.

(a-1)  The board may acquire, sell, lease, trade, improve, maintain, protect, or otherwise manage, control, or use land or[~~,~~] mineral and royalty interests[~~, real estate investments, or other interests, including revenue received from those sources,~~] that are set apart to the permanent school fund in any manner, at such prices, and under such terms and conditions as the board finds to be in the best interest of the fund.

(a-3)  All revenue received from mineral or royalty interests described by Subsection (a), including bonus payments, surface lease revenues, royalties, and any other type of revenue received from those interests, shall be transferred each month to the Permanent School Fund Investment Management Organization for investment in the permanent school fund.

SECTION 12.  Section 51.017, Natural Resources Code, is amended to read as follows:

Sec. 51.017.  FURNISHING DATA TO PERMANENT SCHOOL FUND INVESTMENT MANAGEMENT ORGANIZATION OR COMMISSIONER OF EDUCATION [~~BOARD OF EDUCATION~~]. On request, the commissioner shall furnish to the Permanent School Fund Investment Management Organization or the commissioner of education [~~State Board of Education~~] all available data.

SECTION 13.  Section 51.401(a), Natural Resources Code, is amended to read as follows:

(a)  The board may designate funds received from the sale of real property or [~~any land,~~] mineral or royalty interests [~~interest, real estate investment, or other interest, including revenue received from those sources, that is~~] set apart to the permanent school fund under the constitution and laws of this state together with the mineral estate in riverbeds, channels, and the tidelands, including islands, for deposit in the real estate special fund account of the permanent school fund in the State Treasury to be used by the board as provided by Section 51.402 [~~this subchapter~~].

SECTION 14.  Section 51.402(a), Natural Resources Code, is amended to read as follows:

(a)  The [~~Except as provided by Subsection (c), the~~] board may use funds designated under Section 51.401 for any of the following purposes:

(1)  to add to a tract of public school land to form a tract of sufficient size to be manageable;

(2)  to add contiguous land to public school land;

(3)  to acquire, as public school land, interests in real property for biological, commercial, geological, cultural, or recreational purposes;

(4)  to acquire mineral and royalty interests for the use and benefit of the permanent school fund;

(5)  to protect, maintain, or enhance the value of public school land;

(6)  to acquire interests in real estate;

(7)  to pay reasonable fees for professional services related to a permanent school fund investment; or

(8)  to acquire, sell, lease, trade, improve, maintain, protect, or use land or[~~,~~] mineral and royalty interests[~~, or real estate investments, an investment or interest in public infrastructure, or other interests~~], at such prices and under such terms and conditions the board determines to be in the best interest of the permanent school fund.

SECTION 15.  Section 51.412(c), Natural Resources Code, is amended to read as follows:

(c)  The report must include the following information:

(1)  the total amount of the funds designated by Section 51.401 for deposit in the real estate special fund account of the permanent school fund that the board intends to invest in a manner authorized under Section 51.402;

(2)  the rate of return the board expects to attain on the investment;

(3)  the amount of the funds the board expects to distribute to the available school fund or the Permanent School Fund Investment Management Organization [~~State Board of Education~~] for investment in the permanent school fund under Section 51.413 after making the investments;

(4)  the distribution of the board's investments by county;

(5)  the effect of the board's investments on the level of employment, personal income, and capital investment in the state;

(6)  the amounts of all fees or other compensation paid by the board to investment managers, consultants, or advisors appointed or organizations contracted with under Section 51.4021; and

(7)  any other information the board considers necessary to include in the report.

SECTION 16.  Section 51.413, Natural Resources Code, is amended to read as follows:

Sec. 51.413.  TRANSFERS FROM THE REAL ESTATE SPECIAL FUND ACCOUNT TO THE AVAILABLE SCHOOL FUND AND THE PERMANENT SCHOOL FUND. (a) The board may, by a resolution adopted at a regular meeting, release from the real estate special fund account funds previously designated under Section 51.401 or managed, used, or encumbered under Section 51.402 or Section 51.4021 to be deposited in the State Treasury to the credit of:

(1)  the available school fund; or

(2)  the Permanent School Fund Investment Management Organization [~~State Board of Education~~] for investment in the permanent school fund.

(b)  The board shall adopt rules to establish the procedure that will be used by the board to determine the date a transfer will be made and the amount of the funds that will be transferred to the available school fund or to the Permanent School Fund Investment Management Organization [~~State Board of Education~~] for investment in the permanent school fund from the real estate special fund account as provided by Subsection (a).

SECTION 17.  Section 51.4131, Natural Resources Code, is amended to read as follows:

Sec. 51.4131.  REPORT ON ANTICIPATED TRANSFER OF FUNDS. Not later than September 1 of each even-numbered year, the board shall submit to the legislature, comptroller, Permanent School Fund Investment Management Organization [~~State Board of Education~~], and Legislative Budget Board a report that, specifically and in detail, states the date a transfer will be made and the amount of the funds the board will transfer during the subsequent state fiscal biennium from the real estate special fund account of the permanent school fund established under Section 51.401 to the available school fund or the Permanent School Fund Investment Management Organization [~~State Board of Education~~] for investment in the permanent school fund.

SECTION 18.  The following provisions are repealed:

(1)  Section 7.102(c)(31), Education Code;

(2)  Sections 43.0052 and 43.006, Education Code;

(3)  Sections 32.0161 and 32.068, Natural Resources Code;

(4)  Section 51.402(c), Natural Resources Code, as amended by Chapters 493 (H.B. 4388) and 524 (S.B. 608), Acts of the 86th Legislature, Regular Session, 2019; and

(5)  Section 51.414, Natural Resources Code.

SECTION 19.  As soon as practicable after the effective date of this Act, the appointing authorities shall make the initial appointments to the Permanent School Fund Investment Management Organization in accordance with Section 43.0021, Education Code, as added by this Act.

SECTION 20.  As soon as practicable after the appointment of the members of the Permanent School Fund Investment Management Organization, the State Board of Education and the School Land Board shall provide for the transfer of powers, duties, functions, programs, and activities under this Act. The transfer must be completed by August 1, 2022.

SECTION 21.  On September 1, 2021, the permanent school fund liquid account is abolished and the unencumbered balance of that account is transferred to the permanent school fund.

SECTION 22.  This Act takes effect September 1, 2021.