

LEGISLATIVE BUDGET BOARD

Austin, Texas

FISCAL NOTE, 87TH LEGISLATIVE REGULAR SESSION

May 27, 2021

TO: Honorable Dan Patrick, Lieutenant Governor, Senate

FROM: Jerry McGinty, Director, Legislative Budget Board

IN RE: SB1232 by Taylor (Relating to the management and investment of the permanent school fund, including authorizing the creation of the Texas Permanent School Fund Corporation to manage and invest the fund and limiting the authority of the School Land Board to manage and invest the fund if the corporation is created.), **As Passed 2nd House**

Because of the uncertainty regarding future returns on investment and fund distributions, the fiscal implications of the bill cannot be determined at this time.

The bill would authorize the State Board of Education (SBOE) to incorporate the Permanent School Fund Corporation and delegate the SBOE's authority to manage the Permanent School Fund and the Charter District Bond Guarantee Reserve Fund. The corporation would be governed by nine members, including five members appointed by the SBOE, the Land Commissioner, one member appointed by the Land Commissioner, and two members appointed by the governor. The two members appointed by the governor would be appointed with the advice and consent of the Senate and would come from a list of six candidates, three of whom would be nominated by the SBOE and three of whom would be nominated by the School Land Board (SLB). The organization could employ a chief executive and the employees of the corporation would serve at the pleasure of the chief executive.

The bill would abolish the PSF Liquid Account. Funds from the account would be transferred to the PSF.

Under existing law, the Available School Fund (ASF) is a method of finance for the school finance system and for the Technology and Instructional Materials Allotment (TIMF). Section 5(g), Article VII, of the Texas Constitution authorizes the SBOE, the GLO, and any other with the responsibility for the management of PSF land or properties may distribute to the ASF up to \$600.0 million per year. The bill would require the corporation to establish an annual minimum distribution rate for such distributions from the PSF to the ASF. In setting this rate, the corporation would be required to consider the transfer rate applied to the PSF corpus for transfers to the ASF in the biennium, factors that relate to the current and future public school students in the state, and any other factors that the corporation determines relevant.

The bill would require the SLB to transfer all revenue derived from mineral or royalty interests, less any amounts specified by appropriation to be retained by the SLB, to the corporation for investment in the PSF.

The bill would establish various audit and reporting requirements for the corporation.

Fiscal Implications

Due to uncertainty regarding the nature of future returns and the effect of the bill on distributions from the PSF to the ASF, the TIMF, and the Permanent School Fund Corporation, the fiscal implications of the bill cannot be determined at this time. However, the Texas Education Agency (TEA) and the General Land Office (GLO) provided the following information on the potential impact of the bill.

According to TEA, the bill would result in a positive fiscal impact in terms of growth of the fund (more than 50 basis points, or 0.5%) and future fund distributions, and a negative fiscal impact in terms of administrative costs

to the state due to transition costs and replacement funding for TEA. TEA anticipates that the bill would allow the corporation to earn higher returns than the SBOE earns under existing law. TEA estimates that the net growth of the fund to be greater than under current law by approximately 60 basis points (0.6%). Such a rate of growth would yield additional fund value of close to \$1.1 billion by fiscal year 2026. The agency projects that distributions from the Available School Fund would also increase, by a cumulative amount of \$79 million by fiscal year 2026.

As a result of the creation of the corporation and the transfer of duties from the SBOE and GLO to the corporation, TEA projects a cost of \$37.0 million in fiscal year 2022 and \$35.7 in fiscal year 2023, to be paid from PSF fund No. 044. According to the agency, this would be \$1.85 million more than current law. TEA anticipates that the bill would also result in costs associated with increased administrative expenses. TEA provides support for certain administrative functions related to the PSF, and the PSF is used to support approximately \$8.0 million in various divisions, including human resources, information technology, finance, and other areas. This analysis assumes that any reduced funding provided by the PSF at TEA would be transferred to the new organization. However, according to the agency, the impact on the workload in the affected divisions at TEA would not be proportional to the reduction in funding, and the agency would require some of the lost funding to be restored in order to support agency operations. TEA estimates that the bill would result in a reduction of 5.0 FTEs and a savings of approximately \$1.1 million in costs in fiscal year 2022, after accounting for \$6.9 million in additional General Revenue funds that would be required to ensure no reduction in agency capacity. In addition, due to lost economies of scale related to comingling PSF operations at TEA, this analysis assumes that the new organization may require funding from the PSF in excess of current funding levels.

The GLO does not anticipate a fiscal impact as a result of the bill. According to the GLO, the transfer of funds from the PSF Liquid Account to the corporation could result in a significant increase in future investment earnings to the PSF.

The Texas Comptroller of Public Accounts was unable to estimate the fiscal impact of the legislation.

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, 701 Texas Education Agency

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