



TEXAS GENERAL LAND OFFICE
GEORGE P. BUSH, COMMISSIONER

September 19, 2018

The Honorable Donna Bahorich
Chair, Texas State Board of Education
1701 North Congress Avenue
Austin, TX 78701

Dear Chairwoman Bahorich:

I am in receipt of the State Board of Education (SBOE) September 14, 2018 letter to myself, Mr. Scott Rohrman and Mr. Gilbert Burciago (sic) regarding the recent School Land Board (SLB) decision to release \$600 million to the Available School Fund (ASF). Before addressing the specific items mentioned in the letter, I would like to address several statements from your meeting on September 12, 2018.

First, Mr. Maynard spoke of the history of the Permanent School Fund (PSF) and questioned why the investment management structure has changed over the past two decades. These changes occurred because the Texas Legislature and the voters of Texas have repeatedly entrusted the School Land Board to use its transactional experience and expertise in energy, real estate, and infrastructure to generate attractive investment returns for the benefit of the PSF and to exercise its discretion in determining whether to release money directly to the ASF. I'm proud to say that their trust has been well-rewarded, with SLB investment returns consistently outpacing other funds.

The attached chart shows the one-year and five-year investment returns by both the SLB and SBOE. Also attached is an excerpt from the February 2017 Legislative Budget Board Summary Report of Texas Investment Funds which shows SLB returns to be significantly higher than other funds in the state.

Second, Mr. Bradley commented that the SLB could send the SBOE "four billion today if they wish." This is an assertion which has been repeated by Mr. Bradley on several occasions which is patently false. Most of the money to which he refers has been legally committed to specific real assets investment managers for investment by the SLB and is subject to being called in whole at any time by those investment managers. Until this committed capital is called by the SLB's investment managers, it is invested in the agency pool at the State Treasury, as required by law. The assertion that it is "available" is grossly inaccurate.

Lastly, Mr. Bradley stated that the amount the SLB determined to be available for release was based upon a formula that you would "never get a copy of or understand or they'll ever disclose." I would like to point out that this information was shared with your Chief Investment Officer more than two weeks

prior to your September 12 meeting (please see attached email). So, while in Mr. Bradley's case it is certainly possible he doesn't understand the formula, the assertion that it will never be disclosed is, once again, false.

In fact, the methodology used to make the calculation mirrors the constitutional provision which allows the SBOE to release not more than six percent of the average market value of the fund for the trailing 16 state fiscal quarters. I would highlight that while the SLB unanimously voted to voluntarily release almost the full six percent, and the University of Texas Board of Regents recently announced the release of a similar percentage of its market value to the Texas public university system, the SBOE inexplicably approved a **reduction** of its payout to the ASF down to 2.75%, less than one-half of the percentages adopted by SLB and UT.

Your letter further states that the decision by the SLB reduces funding to the ASF by \$190 million while completely ignoring your own reduction of \$450 million. It appears your board is demanding additional funding from the SLB, while making no commitment for additional funding from the PSF / SBOE. This request is no less than a demand for the SBOE to be bailed out by the SLB. Your letter also states that the SLB's contribution to the ASF does not benefit instructional materials. Again, this could be easily rectified by your board allocating more resources to the ASF.

Most notably, your letter calls for the "restoration of funding...to the PSF/SBOE." Under no circumstance will I reconsider my decision to release \$600 million directly to the ASF. I stand firmly by my vote. However, if the SBOE will consider increasing their spending rate, I will consider additional releases from the SLB.

I consider generating revenue for the Permanent School Fund, and the management of that revenue for the schoolchildren of Texas, to be among the most critical and important functions of the office I hold. I am proud of the record of this agency and this board, not just during my administration, but for the long preceding litany of years of exceptional performance. I remain steadfast in my personal commitment to see as much money as possible go directly to our classrooms.

I'm happy to meet with you to discuss this further, and I hope you will join me in this effort.

Regards,

A handwritten signature in black ink, appearing to read "G.P. Bush". The signature is stylized with a large initial "G" and a distinct "P" and "B".

George P. Bush
Texas Land Commissioner