

**Report of the State Board of Education
Committee on School Finance/Permanent School Fund
April 16, 2020**

The State Board of Education Committee on School Finance/Permanent School Fund conducted a virtual meeting at 3:46 p.m. on Thursday, April 16, 2020. Attendance was noted as follows:

Present: Tom Maynard, chair; Lawrence A. Allen, Jr., vice chair; Donna Bahorich; Patricia Hardy; Ken Mercer

Public Testimony

The Committee on School Finance/Permanent School Fund received no presentations of public testimony.

ACTION ITEMS

- 1. Proposed Repeal of 19 TAC Chapter 105, Foundation School Program, Subchapter B, Use of State Funds (Second Reading and Final Adoption)**
(Board agenda page III-1)
[Official agenda item #10]

David Marx, director, financial compliance, explained that the proposed repeals would implement House Bill (HB) 3, 86th Texas Legislature, 2019, which removed the State Board of Education's rulemaking authority related to maximum allowable indirect costs and the basic allotment for the Foundation School Program.

MOTION AND VOTE: *It was moved by Mr. Allen, seconded by Mrs. Bahorich, and carried unanimously to recommend that the State Board of Education approve for second reading and final adoption the proposed repeal of 19 Texas Administrative Code (TAC) Chapter 105, Foundation School Program, Subchapter B, Use of State Funds; and*

Make an affirmative finding that immediate adoption of the proposed repeal of 19 TAC Chapter 105, Foundation School Program, Subchapter B, Use of State Funds, is necessary and shall have an effective date of 20 days after filing as adopted with the Texas Register.

- 2. Proposed Amendment to 19 TAC Chapter 109, Budgeting, Accounting, and Auditing, Subchapter B, Texas Education Agency Audit Functions, §109.23, School District Independent Audits and Agreed-Upon Procedures (First Reading and Filing Authorization)**
(Board agenda page III-5)
[Official agenda item #11]

Mr. Marx presented this item for first reading and filing authorization. Mr. Marx explained that the proposed amendment would reflect changes made by HB 1520, 86th Texas Legislature, 2019, which eliminated the requirement for out-of-state certified public accountancy (CPA) firms to be licensed in Texas. Mr. Maynard commented on the item.

MOTION AND VOTE: *It was moved by Mr. Allen and carried unanimously to recommend that the State Board of Education approve for first reading and filing authorization the proposed amendment to 19 TAC Chapter 109, Budgeting, Accounting, and Auditing, Subchapter B, Texas Education Agency Audit Functions, §109.23, School District Independent Audits and Agreed-Upon Procedures.*

DISCUSSION ITEM

3. Review of Permanent School Fund Securities Transactions and the Investment Portfolio
(Board agenda page III-10)

Catherine Civileto, deputy executive administrator, provided a summary on the status of the Permanent School Fund portfolio. Reports presented to the committee were for the reporting period December 2019 and January and February 2020 unless otherwise noted. Ms. Civileto's report included the current fair market value of the Fund; the asset allocation mix as of February 29, 2020; PSF transactions occurring in the reporting period; revenues and expenditures for the fiscal year period of September 1, 2019 to February 29, 2020; the activity in the securities lending program for the fiscal period beginning September 1, 2019 through August 31, 2020; the status of transfers from the General Land Office as of February 29, 2020, as per approved resolutions; the current status of the Bond Guarantee Program and the available capacity in the program; broker commissions on both the internal and external equity portfolios for the period beginning January 1, 2019 through December 31, 2019 and for the period January 1, 2020 through February 29, 2020; fixed income rating changes for the fiscal period September 1, 2019 through February 29, 2020; and short-term cash investments.

CONSENT ITEM

4. Ratification of the Purchases and Sales of the Investment Portfolio of the Permanent School Fund for the Months of December 2019, January and February 2020
(Board agenda page III-11)
[Consent agenda item #(1)]

MOTION AND VOTE: *Based on the information provided by staff and the recommendation of the executive administrator and chief investment officer and the commissioner of education, the committee recommended by unanimous consent that the State Board of Education ratify the purchases and sales for the months of December 2019 and January and February 2020, in the amount of \$1,167,603,588 and \$1,322,360,449 respectively (Attachment A).*

DISCUSSION ITEM

5. Report of the Permanent School Fund Executive Administrator and Chief Investment Officer
(Board agenda page III-12)

Holland Timmins, executive administrator and chief investment officer, provided the committee an update on both the current global financial market and the PSF portfolio. Keith Stronkowsky, senior consultant, and Rhett Humphreys, partner with NEPC also updated the committee on current financial markets as well as the PSF's portfolio.

Mr. Timmins gave a brief overview of the status of the PSF Liquid Account.

The meeting of the Committee on School Finance/Permanent School Fund adjourned at 4:47 p.m.

**TEXAS PERMANENT SCHOOL FUND
SUMMARY OF TRANSACTIONS FOR APPROVAL
(Including External Manager's Trades)
For December 1, 2019 through February 29, 2020**

Purchases/Capital Calls:

| | | |
|-------------------------|----|---------------|
| Long Term Fixed Income | \$ | 360,405,911 |
| Public Market Equities | | 219,125,208 |
| Alternative Investments | | 588,072,469 |
| | | 588,072,469 |
| TOTAL | \$ | 1,167,603,588 |

Sales/Distributions:

| | | |
|-------------------------|----|---------------|
| Long Term Fixed Income | \$ | 353,588,859 |
| Public Market Equities | | 362,103,516 |
| Alternative Investments | | 606,668,074 |
| | | 606,668,074 |
| TOTAL | \$ | 1,322,360,449 |

General Land Office Contributions:

| FY 2019 Cumulative February 2019 | FY 2020 Cumulative February 2020 |
|--|--|
| \$127,500,000 | \$5,000,000 |

Based on the above information provided by staff including a report that deposits to the Permanent School Fund from the General Land Office were \$127,500,000 through February 2019 for fiscal year 2019 versus \$5,000,000 through February 2020 for fiscal year 2020, and the recommendation of the Executive Administrator and Chief Investment Officer and the Commissioner of Education; it is moved by unanimous consent that the Committee on School Finance/Permanent School Fund ratify for the months of December 2019, January 2020 and February 2020 Permanent School Fund portfolio purchases of \$1,167,603,588 and sales of \$1,322,360,449.