

**Report of the State Board of Education
Committee on School Finance/Permanent School Fund
November 19, 2020**

The State Board of Education Committee on School Finance/Permanent School Fund met at 9:02 a.m. on Thursday, November 19, 2020, in the State Board of Education Room, Room #1-104 of the William B. Travis Building, 1701 N. Congress Avenue, Austin, Texas. 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.

The Committee on School Finance/Permanent School Fund considered items in the following order: Item number 1, 2, 3, 9, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13

ACTION ITEM

1. Approval of Costs to Administer the 2020-2021 State-Developed Assessments to Private School Students

(Board agenda page III-I)
[Consent agenda item #(3)]

Julie Cole, director of policy and publications, student assessment division, explained that this item applies to private schools using state-developed assessments to evaluate their students. She explained that the cost per assessment was determined by dividing the overall cost by the number of students who participated in the assessment.

MOTION AND VOTE: *It was moved by Mr. Allen, seconded by Ms. Hardy, and carried unanimously to recommend that the State Board of Education approve the recommended per-student costs for administering the state assessments to private school students in 2020–2021.*

DISCUSSION ITEMS

2. Discussion of Proposed Amendment to 19 TAC Chapter 109, Budgeting, Accounting, and Auditing, Subchapter C, Adoptions By Reference, §109.41, Financial Accountability System Resource Guide

(Board agenda page III-7)

David Marx, senior director, financial compliance, explained that proposed amendment would update the Financial Accountability System Resource Guide (FASRG). Mr. Marx also explained how the FASRG is used and that is being updated to reflect the latest governmental accounting guidance and legislative changes. Additionally, he summarized some of the changes being made to the FASRG.

3. **Rule Review of 19 TAC Chapter 30, Administration, Subchapter B, State Board of Education: Purchasing and Contracts**
(Board agenda page III-12)

Dean Howard, assistant director, contracts and purchasing division, explained that this item presents the review of an administrative rule that addresses the historically underutilized business (HUB) program and procedures relating to protest for purchasing issues and dispute resolution

4. **Review of Permanent School Fund Securities Transactions and the Investment Portfolio**
(Board agenda page III-16)

Catherine Civileto, deputy executive administrator, provided a summary of the status of the Permanent School Fund (PSF) portfolio. Reports presented to the committee were for the reporting period July through September 2020 unless otherwise noted. Ms. Civileto's report included reporting on the current fair market value of the Fund, the asset allocation mix as of September 30, 2020, PSF transactions occurring in the reporting period, revenues and expenditures for the fiscal period September 1, 2019 through August 31, 2020, revenues and expenditures for September 2020, the first month of fiscal year 2021, the activity in the securities lending program for the fiscal period September 1, 2019 through August 31, 2020, the activity in the securities lending program for September 2020, the first month of fiscal year 2021, the status of transfers from the General Land Office as of September 30, 2020, per approved resolutions, 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, 2020 through September 30, 2020, fixed income rating changes for the fiscal period September 1, 2019 through August 31, 2020, fixed income ratings for September 2020, the first month of fiscal year 2021, and short-term cash investments.

ACTION ITEMS

5. **Ratification of the Purchases and Sales of the Investment Portfolio of the Permanent School Fund for the Months of July, August, and September 2020**
(Board agenda page III-17)
[Consent agenda item #(4)]

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 July, August and September 2020, in the amount of \$3,050,234,143 and \$3,358,086,350, respectively (Attachment A).*

6. **Approval of an Extension of the Standard Contract with NEPC, LLC and Authorization for Contract Execution by the Commissioner of Education**
(Board agenda Page III-18)
[Consent agenda item #(5)]

Holland Timmins, executive administrator and chief investment officer, stated the purpose of the item was for the committee and board to extend the standard contract with NEPC, LLC and authorize contract execution by the commissioner of education.

MOTION AND VOTE: *By unanimous consent, the committee recommended that the State Board of Education approve renewal the standard contract with NEPC, LLC beginning September 1, 2021 and ending August 31, 2024, and authorize contract execution by the Commissioner of Education.*

7. **Approval of an Extension of the Standard Contract with Blackrock Investment Management, LLC, and Authorization for Contract Execution by the Commissioner of Education**
(Board agenda page III-19)
[Consent agenda item #(6)]

Mr. Timmins stated the purpose of the item was for the committee and board to extend the standard contract with Blackrock Investment Management, LLC and authorize a contract execution by the commissioner of education.

MOTION AND VOTE: *By unanimous consent, the committee recommended that the State Board of Education approve renewal of the standard contract with Blackrock Investment Management , LLC beginning September 1, 2021 and ending August 31, 2025, and authorize contract execution by the Commissioner of Education.*

8. **Proposed Amendments to the Investment Procedures Manual**
(Board agenda page III-20)
[Consent agenda item #(7)]

Carlos Veintemillas, deputy chief investment officer and director of fixed income, provided an overview of the amendments to the investment procedures manual which reflected the changes to the strategic asset allocation for the PSF and the PSF Liquid Account adopted in July 2020.

Rhett Humphreys, partner, NEPC, reviewed the amendments and recommended approval by the board.

MOTION AND VOTE: *By unanimous consent, the committee recommended that the State Board of Education approve the amendments to the Investment Procedures Manual as presented by staff.*

9. Proposed Amendments to 19 TAC Chapter 33, Statement of Investment Objectives, Policies, and Guideline of the Texas Permanent School Fund, Subchapter A, State Board of Education Rules

(First Reading and Filing Authorization)

(Board agenda page III-21)

[Consent agenda item #(8)]

Mr. Veintemillas provided an overview of the proposed amendments and noted the changes would amend the asset allocation of the PSF, update transactions and restrictions that apply to the PSF, include the liquid account in the securities lending program, and update the cross references and a section title.

Rhett Humphreys, partner, NEPC discussed the evaluation of the proposed amendments and noted NEPC agreed with staff's proposed language.

MOTION AND VOTE: *By unanimous consent, the committee recommended that the State Board of Education approve for first reading and filing authorization proposed amendments to 19 TAC Chapter 33, Statement of Investment Objectives, Policies, and Guidelines of the Texas Permanent School Fund, Subchapter A, State Board of Education Rules.*

10. Authorization to Issue a Request for Qualifications for Fiduciary, Investment Contracting, Real Estate, Tax and Disclosure Counsel for the Permanent School Fund

(Board agenda page III-27)

[Consent agenda item #(9)]

Mr. Timmins gave a brief presentation to the committee regarding the Request for Qualifications (RFQ). He explained the Attorney General's Office oversight of outside counsel contracts, reviewed the timeline of the RFQ process, and noted the scoring criteria for selecting counsel firms.

MOTION AND VOTE: *By unanimous consent, the committee recommended that the State Board of Education approve issuance of a Request for Qualification for Fiduciary, Investment Contracting, Real Estate, Tax and Disclosure Counsel for the Permanent School Fund.*

11. Authorization to Issue a Request for Proposals for High Yield Bonds Discretionary Investment Managers for the Permanent School Fund

(Board agenda page III-28)

[Consent agenda item #(10)]

Mr. Timmins presented the Request for Proposals (RFP) for the High Yield Bonds Discretionary Investment Management to the committee. Mr. Timmins addressed the selection criteria and the timeline in the RFP. A three percent allocation to this sector has been approved as part of the overall asset allocation plan.

MOTION AND VOTE: *By unanimous consent, the committee recommended that the State Board of Education approve issuance of a Request for Proposals for U.S. High Yield Fixed Income Discretionary Investment Managers for the Permanent School Fund.*

12. Report on the Permanent School Fund Liquid Account

(Board agenda page III-29)

[Consent agenda item #(11)]

Ms. Civileto provided a summary on the status of the PSF Liquid Account. Reports presented to the committee were for the reporting period July through September 2020 unless otherwise noted. Ms. Civileto's report included reporting on the current fair market value of the Liquid Account, the asset allocation mix as of September 30, 2020, transfer activity between the GLO and the Liquid Account, cumulative Income and Realized Gains transferred to the SBOE from the Liquid Account as of September 30, 2020, transactions occurring in the reporting period, and ratification of the cumulative Purchases and Sales of the Liquid Account since its inception, September 1, 2019 through September 30, 2020.

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 of the Permanent School Fund Liquid Account for the period September 1, 2019 through September 2020, in the amounts of \$3,561,837,642 and \$671,509,016, respectively (Attachment B).*

DISCUSSION ITEM

13. Report on the Permanent School Fund Liquid Account

(Board agenda page III-30)

Mr. Timmins reminded the committee that they were now in the blackout period for applicants for both the RFQ and RFP. He was pleased to report the PSF annual report received the GFOA certificate of achievement for excellence in financial reporting. Mr. Timmins also updated the committee on the Emerging Manager RFP and the PSF intern program.

The meeting of the Committee on School Finance/Permanent School Fund adjourned at 10:38 a.m.