

**Report of the State Board of Education
Committee on School Finance/Permanent School Fund
July 1, 2020**

The State Board of Education Committee on School Finance/Permanent School Fund conducted a virtual meeting at 9:06 a.m. on Wednesday, July 1, 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.

DISCUSSION ITEM

1. Per Capita Apportionment Rate for the 2019-2020 School Year

(Board agenda page III-1)

Amy Copeland, director, state funding, explained that the preliminary 2019–2020 per capita apportionment rate of \$259.207 was set in September 2019. Based on actual funds available for expenditure, the final per capita appointment rate for 2019–2020 is \$319.713.

ACTION ITEM

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

(Second Reading and Final Adoption)

(Board agenda page III-3)

[Official agenda item #7]

David Marx, director, financial compliance, explained that the proposed amendment reflects changes made by House Bill (HB) 1520, 86th Texas Legislature, 2019, that eliminated the requirement for out-of-state certified public accountancy (CPA) firms to be licensed in Texas. He also stated that no public comments were received.

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 for second reading and final adoption 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; and*

Make an affirmative finding that immediate adoption of 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, is necessary and shall have an effective date of August 31, 2020.

DISCUSSION ITEM

3. Review of Permanent School Fund Securities Transactions and the Investment Portfolio (Board agenda page III-9)

Catherine Civiletto, 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 of March and April 2020 unless otherwise noted. Ms. Civiletto's report included the current fair market value of the Fund; the asset allocation mix as of April 30, 2020; PSF transactions occurring in the reporting period; revenues and expenditures for the fiscal year period of September 1, 2019 to April 30, 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 April 30, 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, 2020 through April 30, 2020; fixed income rating changes for the fiscal period September 1, 2019 through April 30, 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 March and April 2020

(Board agenda page
III-10) [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 March and April 2020 in the amounts of \$1,639,971,304 and \$1,435,989,619 respectively (Attachment A).*

DISCUSSION ITEM

5. Report by the State Auditor's Office on the Audit of the Permanent School Fund's Financial Statements and Certification of the Bond Guarantee Program for the Fiscal Year Ending August 31, 2019

(Board agenda Page III-11)

Holland Timmins, executive administrator and chief investment officer introduced Michael Clayton, audit manager, and Bill Hunter, managing senior auditor from the State Auditor's Office (SAO), for presentation of the annual audit of the Permanent School Fund for the year ending August 31, 2019, and for presentation of results of the Certification of the Permanent School Fund's Bond Guarantee Program for fiscal year 2019.

Mr. Hunter stated that the SAO issued an unqualified opinion on the financial statements audited for the period. He stated that the SAO conducted a review of internal controls and identified no reportable weakness at the Texas Education Agency.

Mr. Hunter then presented the results of the Certification of the Permanent School Fund's Bond Guarantee Program for the fiscal period. He stated that the amount of bonds guaranteed during FY 2019 was within all regulatory limits established by the Texas Education Code (Section 45.053(a) and (d), and §45.0531(a) and (b)), the Internal Revenue Service (Notice 2010-5 dated December 16,2009), and the State Board of Education, and that the Fund had sufficient reserves to meet the State Board of Education's reserve requirements for the same period.

CONSENT ITEMS

6. Adoption of an Annual Report on the Status of the Bond Guarantee Program

(Board agenda page III-12)

[Consent agenda item #(5)]

Mr. Timmins presented the annual report of the Bond Guarantee Program as required by the Texas Education Code and requested that the committee adopt the report as presented.

MOTION AND VOTE: *By unanimous consent, the committee recommended that the State Board of Education adopt the annual report on the status of the Bond Guarantee Program as of August 31, 2019.*

7. Review of the Bond Guarantee Program Charter Capacity

(Board agenda page III-13)

[Consent agenda item #(6)]

Mr. Timmins provided a brief overview of the Bond Guarantee Program Charter Capacity and reviewed the schedule for increasing the bond guarantee program capacity for charter district bonds by 20%. He indicated that if the board took no action, the charter capacity would automatically increase.

No action was taken on this item.

8. Approval of the Selection of a Legal Counsel for the Bond Guarantee Program as outlined in RFQ 701-20-006 for the Texas Permanent School Fund and Authorization for Contract Execution by the Commissioner of Education

(Board agenda page III-14)

[Consent agenda item #(7)]

Ms. Civileto explained the request for qualifications (RFQ) process to the committee and presented the single respondent law firm, DLA Piper, LLP, that is qualified to assist the board with the Bond Guarantee Program capacity matter, in addition to offering support for other global tax matters for the Fund.

MOTION AND VOTE: *By unanimous consent, the committee recommended that the State Board of Education approve DLA Piper LLP for the Bond Guarantee Program Capacity and Tax Counsel scope of legal services and authorization for contract execution by the Commissioner of Education.*

DISCUSSION ITEM

9. First Quarter 2020 Permanent School Fund Performance Report

(Board agenda page III-15)

Mr. Mike Maher, Vice President of BNY Mellon Global and Risk Solutions, presented the first quarter 2020 Permanent School Fund performance report. Mr. Maher began with an overview of the U.S and foreign capital markets. He then reviewed the performance of the Fund for the first quarter of 2020. He stated that the PSF returned -11.06% net of fees for the first quarter, underperforming the target benchmark by 54 basis points. Mr. Maher attributed most of the underperformance to fixed income and real estate.

Mr. Maher reviewed the first quarter 2020 performance of the Permanent School Fund by asset class, stating that the total domestic large cap equity composite outperformed its benchmark for the quarter by 23 basis points. Mr. Maher added that the Small/Midcap Equity portfolio outperformed its benchmark by 41 basis points. He added that international equities returned -23.26% for the quarter, outperforming its benchmark by 13 basis points for the period. The fixed income portfolio returned 0.32% for quarter, underperforming its benchmark by 283 basis points. Mr. Maher stated that the Absolute Return composite returned -7.07% for the quarter, outperforming its benchmark, the HFRI Fund of Funds Composite Index, by 31 basis points. Mr. Maher added that the Real Estate composite returned 1.87% for the quarter, underperforming its benchmark by 36 basis points. Mr. Maher added that Total Risk Parity Strategies returned -12.08% in the first quarter 2020, underperforming its benchmark by 126 basis points. He further stated that the Real Return Asset class returned -11.29% for the quarter, outperforming its benchmark by eight basis points. He added that Emerging Market Debt returned -16.70% for the quarter, underperforming its benchmark by 149 basis points. Mr. Maher stated that private equity returned 3.46% for the quarter, underperforming its benchmark by 100 basis points. Finally, he stated that the total emerging market equity composite returned -24.00% for the first quarter 2020, lagging its benchmark by 40 basis points.

CONSENT ITEMS

10. Review and Adoption of the Long-Term Strategic Asset Allocation Plan of the Permanent School Fund of the State Board of Education and the Permanent School Fund Liquid Account

(Board agenda page III-16)

[Consent agenda item #(2)]

No discussion occurred, and no action was taken on this item.

11. Review of the Report on Permanent School Fund Percentage Distribution Rates Under Consideration for Fiscal Years 2022 and 2023

(Board agenda page III-17)

[Consent agenda item #(3)]

No discussion occurred, and no action was taken on this item.

DISCUSSION ITEM

12. Report of the Permanent School Fund Executive Administrator and Chief Investment Officer

(Board agenda page III-18)

Mr. Timmins provided the committee an update on PSF staff continuing to successfully work virtually.

The meeting of the Committee on School Finance/Permanent School Fund adjourned at 11:03 a.m.

**TEXAS PERMANENT SCHOOL FUND
SUMMARY OF TRANSACTIONS FOR
APPROVAL
(Including External Manager's
Trades) For March 1, 2020 through
April 30, 2020**

<u>Purchases/Capital Calls:</u>		
Long Term Fixed Income		\$ 393,144,435
Public Market Equities		758,876,409
Alternative Investments		<u>487,950,460</u>
TOTAL		<u>\$ 1,639,971,304</u>
 <u>Sales/Distributions:</u>		
Long Term Fixed Income		\$ 863,358,760
Public Market Equities		174,033,717
Alternative Investments		<u>398,597,142</u>
TOTAL		<u>\$ 1,435,989,619</u>

General Land Office Contributions:

FY 2019 Cumulative April 2019	FY 2020 Cumulative April 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 April 2019 for fiscal year 2019 versus \$5,000,000 through April 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 March 2020 and April 2020 Permanent School Fund portfolio purchases of \$1,639,971,304 and sales of \$1,435,989,619.