

Texas Permanent School Fund Distributions to the Available School Fund

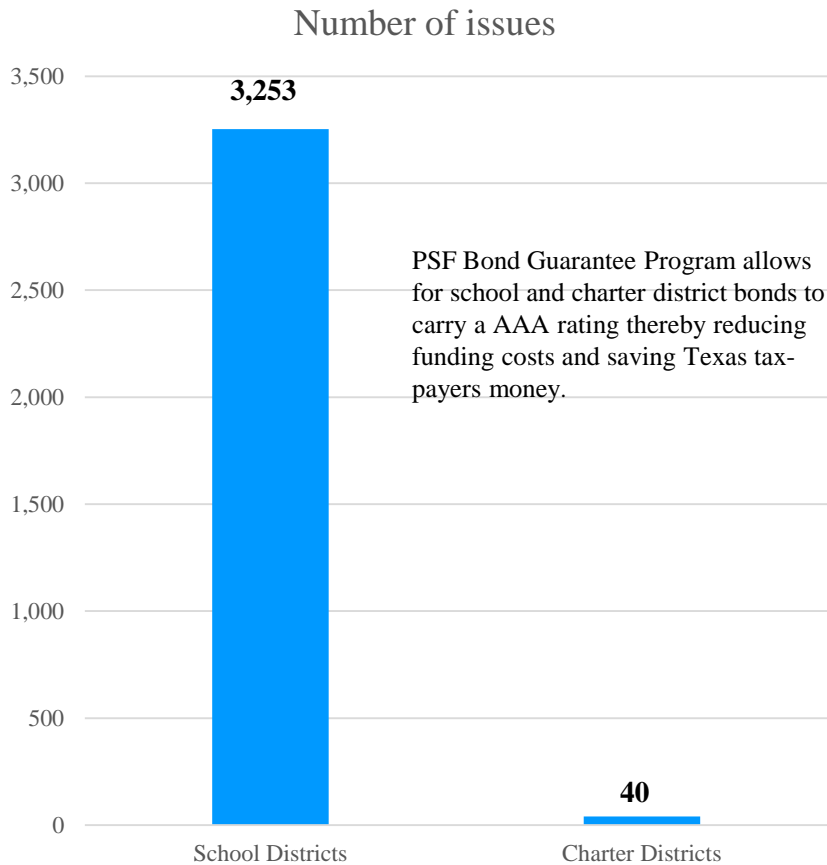
May 3, 2018

History of the PSF

- ❑ **1836**, Republic of Texas Congress established and endowed primary to university level education system. State granted land to each county for school support.
- ❑ **1845**, State Constitution established free schools and the legislature stipulated it set apart not less than 1/10 of annual revenue be derived from taxation.
- ❑ **1854**, a portion of the \$10 million proceeds from Compromise of 1850 was reserved to start an educational fund. Special School Fund established and was the predecessor of the Permanent School Fund.
- ❑ **1861**, Special School Fund resources were nearly exhausted due to the use of funds for other purposes such as building prisons and purchasing weapons.
- ❑ **1876**, Texas Constitution established the Permanent School Fund and direction of investment of proceeds from sales of land to the newly established State Board of Education.
- ❑ **1949**, State Legislature established current public school administration system, including the State Board of Education and a Commissioner of Education.
- ❑ **1960**, rulings confirming Texas' seaward boundary positively impacted PSF due to increases in proceeds from sales and mineral related rental of these included lands.
- ❑ **1983**, Constitutional amendment provides for guarantee of school district bonds by PSF.
- ❑ **1988**, Constitutional amendment authorizes PSF to invest in accordance with "person of ordinary prudence" rule, further diversifying the PSF investment portfolio.
- ❑ **2003**, Constitutional amendment provides for distribution to the Available School Fund based on total return.

Bond Guarantee Program

August 31, 2017



State Board of Education Rules

Texas Administrative Code

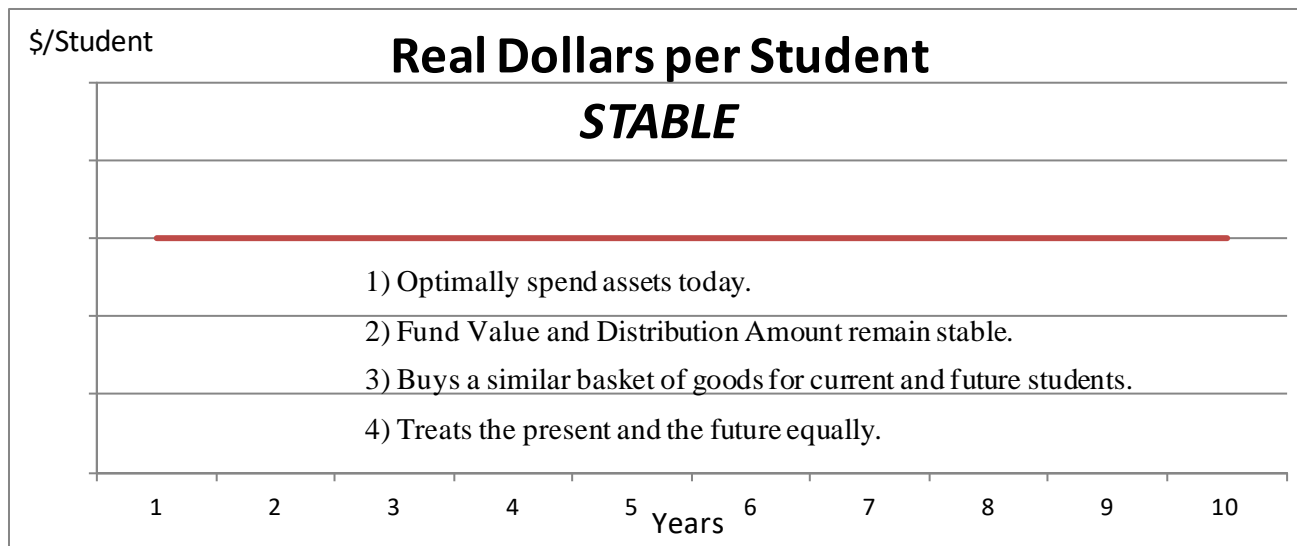
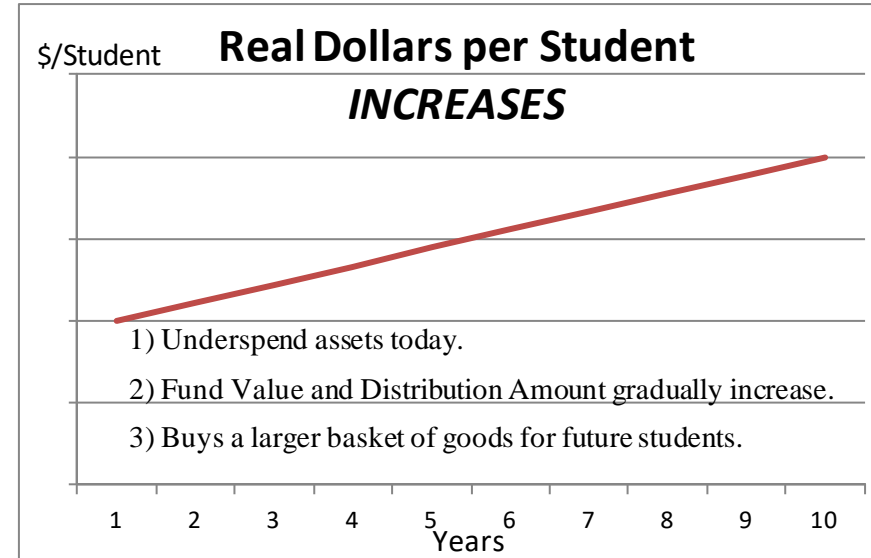
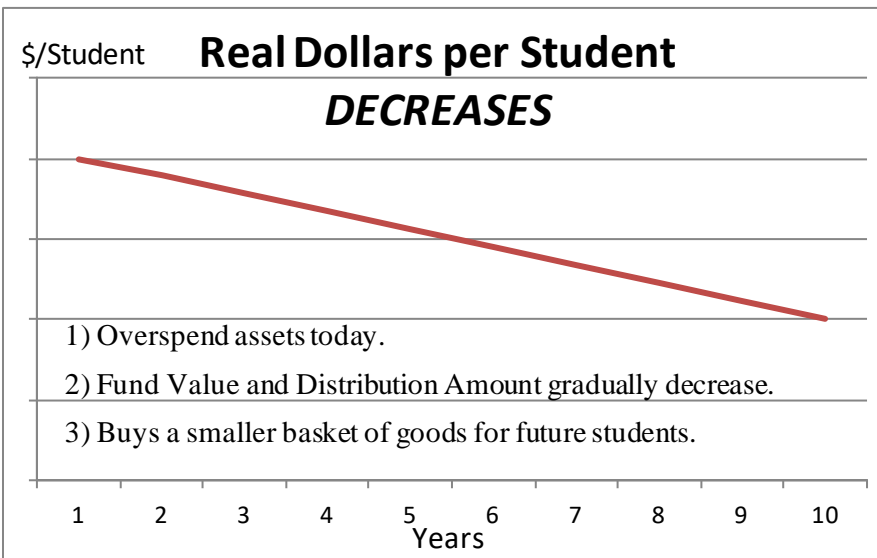
Title 19, Part 2, Chapter 33, Subchapter A, Rule 33.10

*Statement of Investment Objectives, Policies, and Guidelines
of the Texas Permanent School Fund*

§33.10. Purposes of Texas Permanent School Fund Assets and the Statement of Investment Policy.

The SBOE shall strive to manage the PSF consistently with respect to the following: generating income for the benefit of the public free schools of Texas, the real growth of the corpus of the PSF, protecting capital, and balancing the needs of present and future generations of Texas school children. The PSF will strive to maintain intergenerational equity by attempting to pay out a constant distribution per student after adjusting for inflation.

Hypothetical Endowment Spending Options



Spending Rate Structure

The Spending Rate is Determined by the Following Components:

Expected Total Return (+)

Rate of Inflation (CPI) (-)

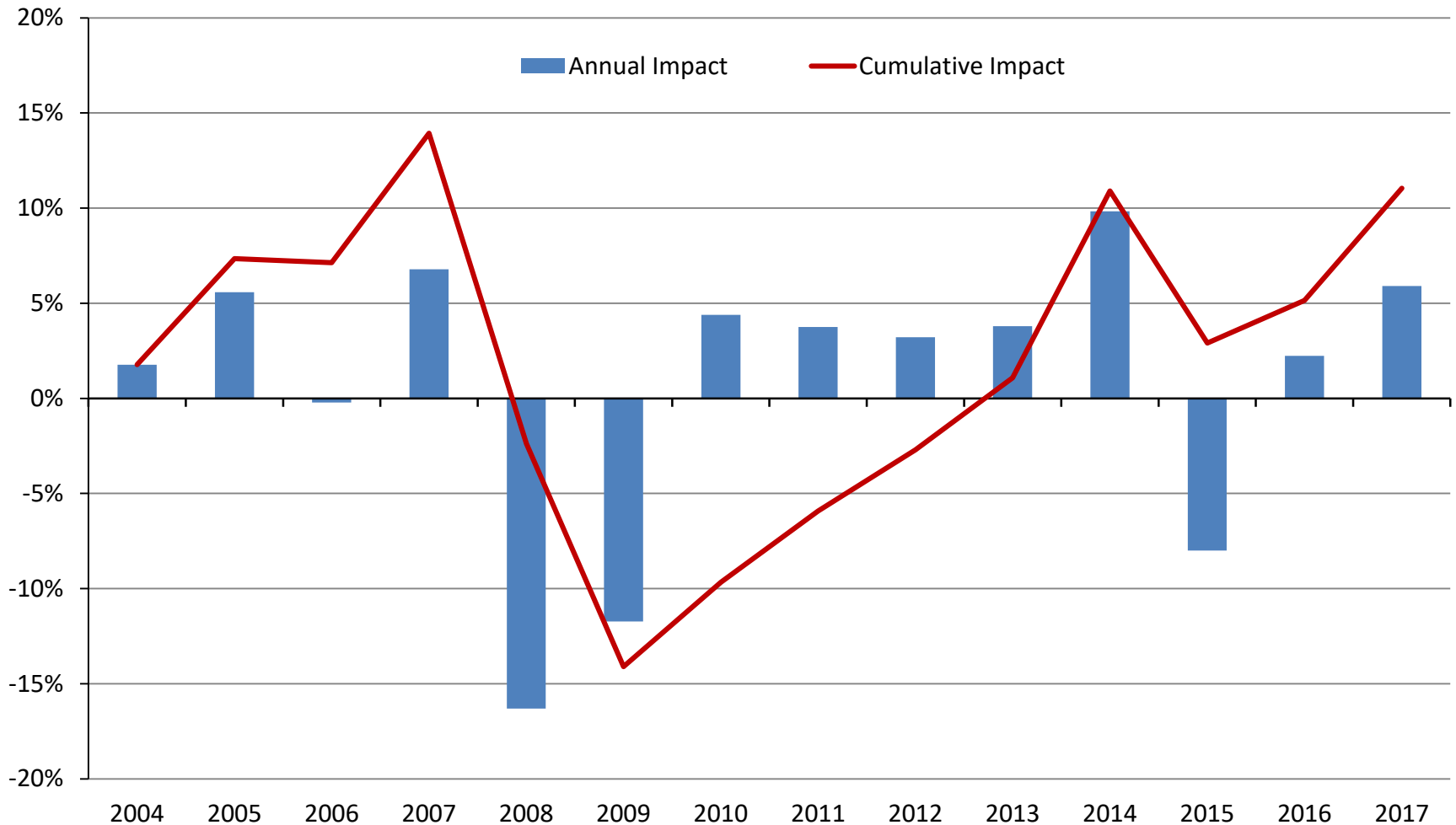
Student Population Growth (-)

Administrative Expenses (-)

GLO Contributions (+)

Spending Impact on Intergenerational Equity

(Fiscal Years)



Article VII, Section 5, Texas Constitution

- ❑ The Distribution Asset-base:
 - ❑ Investment assets managed by the State Board of Education.
 - ❑ Discretionary real asset investments and cash in the state treasury derived from property belonging to the fund (General Land Office assets).
 - ❑ The base is calculated by combining these assets and averaging them for the previous sixteen state fiscal quarters prior to the regular session of the legislature convening.

- ❑ Limits on the Distribution:
 - ❑ In each year, the distribution limit is six percent of the average market value of the assets listed above.
 - ❑ The cumulative distributions from the most recent ten years may not exceed the total return on the PSF investment assets over the same ten year period.

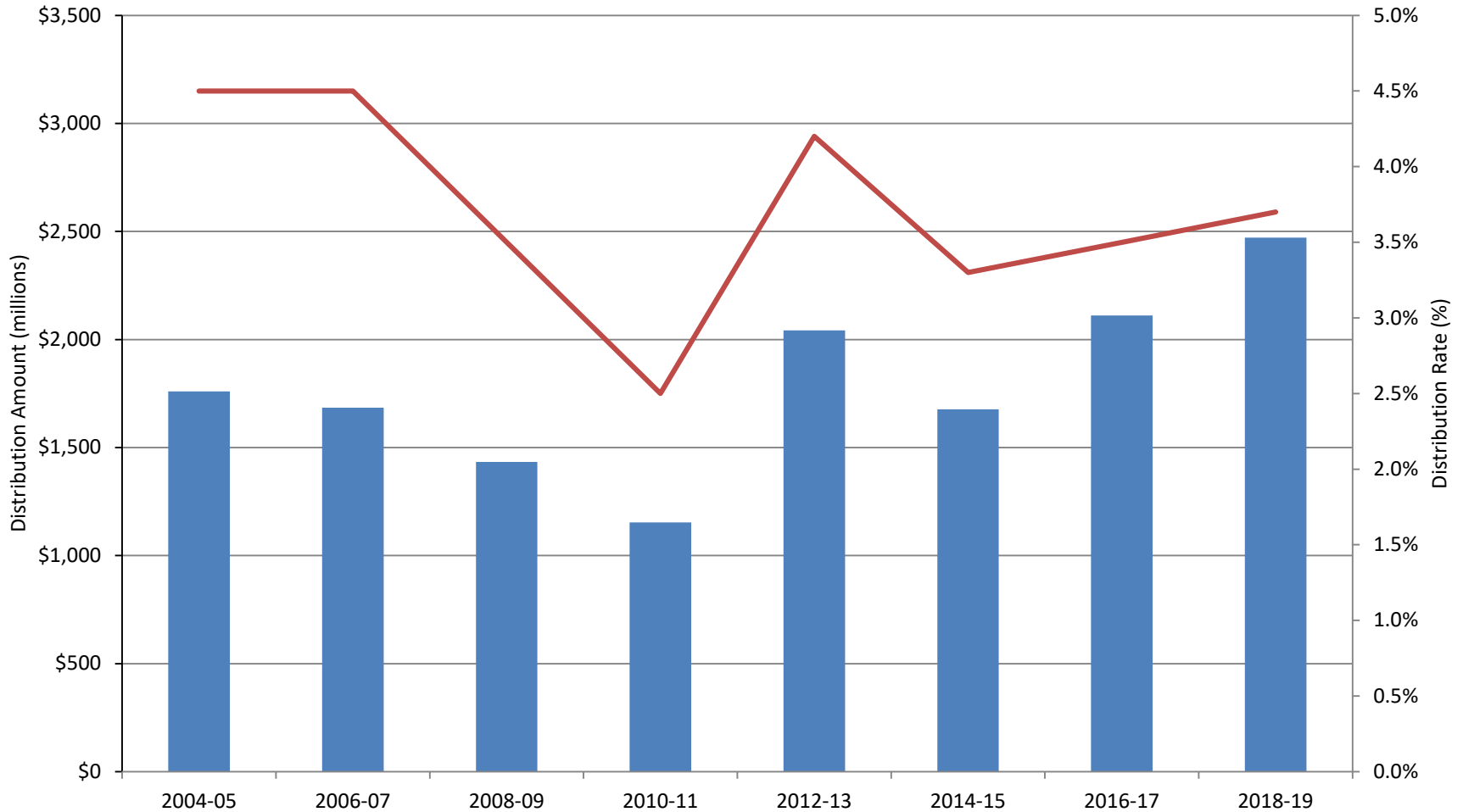
- ❑ Adoption of the Distribution rate:
 - ❑ Requires a vote of two-thirds of the total membership of the State Board of Education taken before the regular session of the legislature convenes.
 - ❑ In the absence of a vote by the SBOE, the legislature may set the rate.

PSF Distribution History

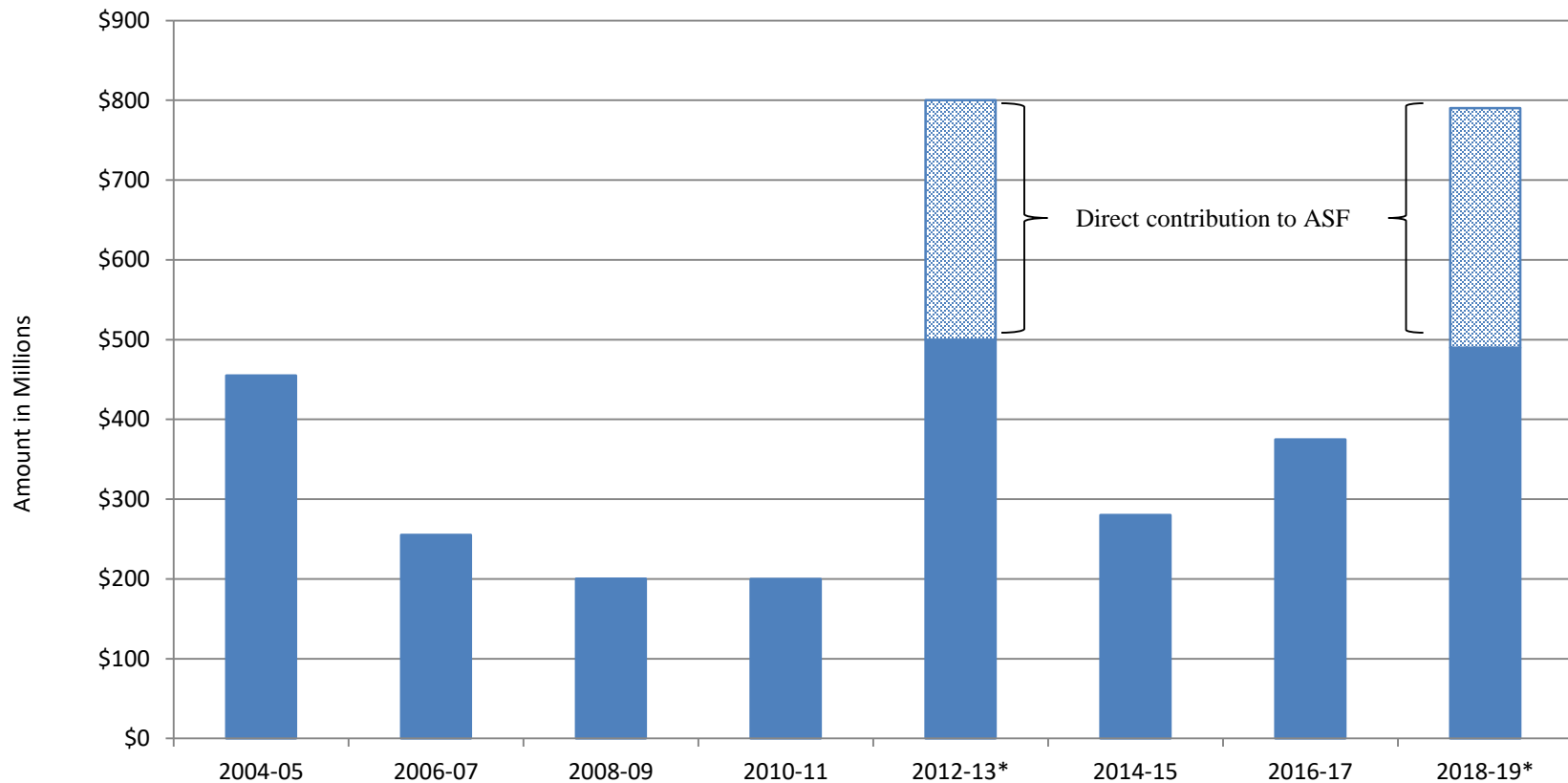
Biennium	Biennial Distribution	Spending Rate	Notes
2004-05	\$1,759,963,932	4.5	The 4.5% spending rate was set by passage of Proposition 9 in 2003 (HJR 68, 78th R.S.).
2006-07	\$1,685,015,658	4.5	The 4.5% rate was set at a special meeting of the SBOE on 1/4/05. An initial 4.0% rate was set by the SBOE on 11/5/04. (The rate was increased to 4.5% as the GLO pledged to distribute \$165 million immediately and a three-year minimum commitment of \$78 million per year.)
2008-09	\$1,433,068,307	3.5	The 3.5% rate was set by the SBOE on 9/15/06.
2010-11	\$1,153,509,024	2.5	The 2.5% rate was set by the SBOE on 11/21/08 during the global financial crisis after the bankruptcy of Lehman Brothers. In FY 2010, the biennial distribution of \$1,153M would have violated the ten-year test, so it was limited to \$60.7M. In FY 2011, a catch-up payment was made.
2012-13	\$2,041,773,884	4.2	The 4.2% rate was set by the SBOE on 11/19/10 contingent on the transfer of an additional \$300 million from the School Land Board (SLB) to the SBOE-managed PSF investment assets. Without the \$300 million transfer from the SLB, the rate would have been 3.5%. Also, the asset base was increased to include some SLB assets with the adoption of HJR 109.
2014-15	\$1,677,344,680	3.3	The 3.3% rate was set by the SBOE on 11/16/12.
2016-17	\$2,111,621,706	3.5	The 3.5% rate was set by the SBOE on 11/21/14.
2018-19	\$2,471,243,368*	3.7	The 3.7% rate was set by the SBOE on 11/18/16.

* 2018-19 biennial distribution is projected and the SBOE must affirm the payment for each fiscal year to ensure that it meets the ten-year test.

PSF Distribution History

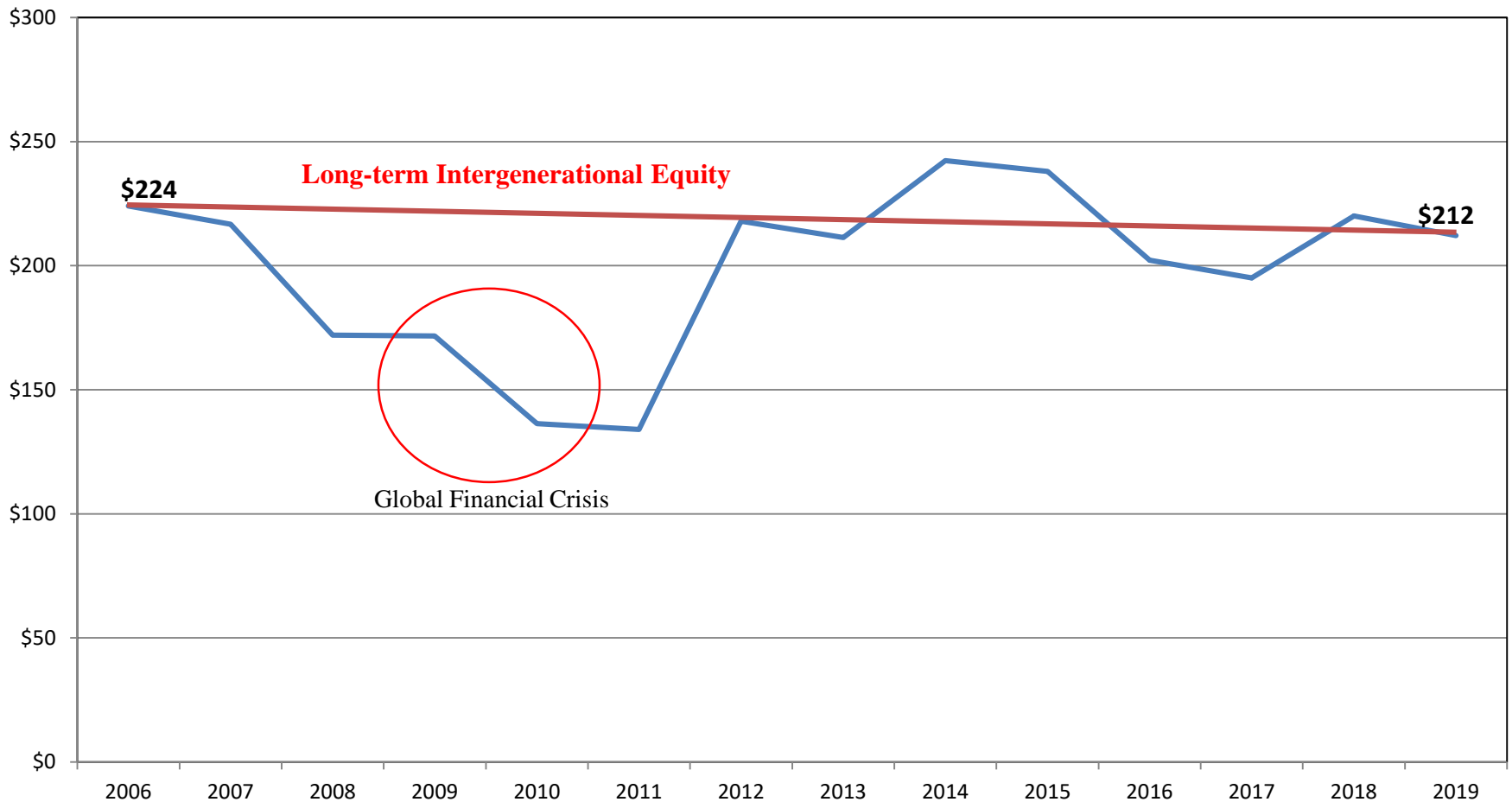


GLO Contributions to the PSF(SBOE) and Direct GLO Contributions to the ASF



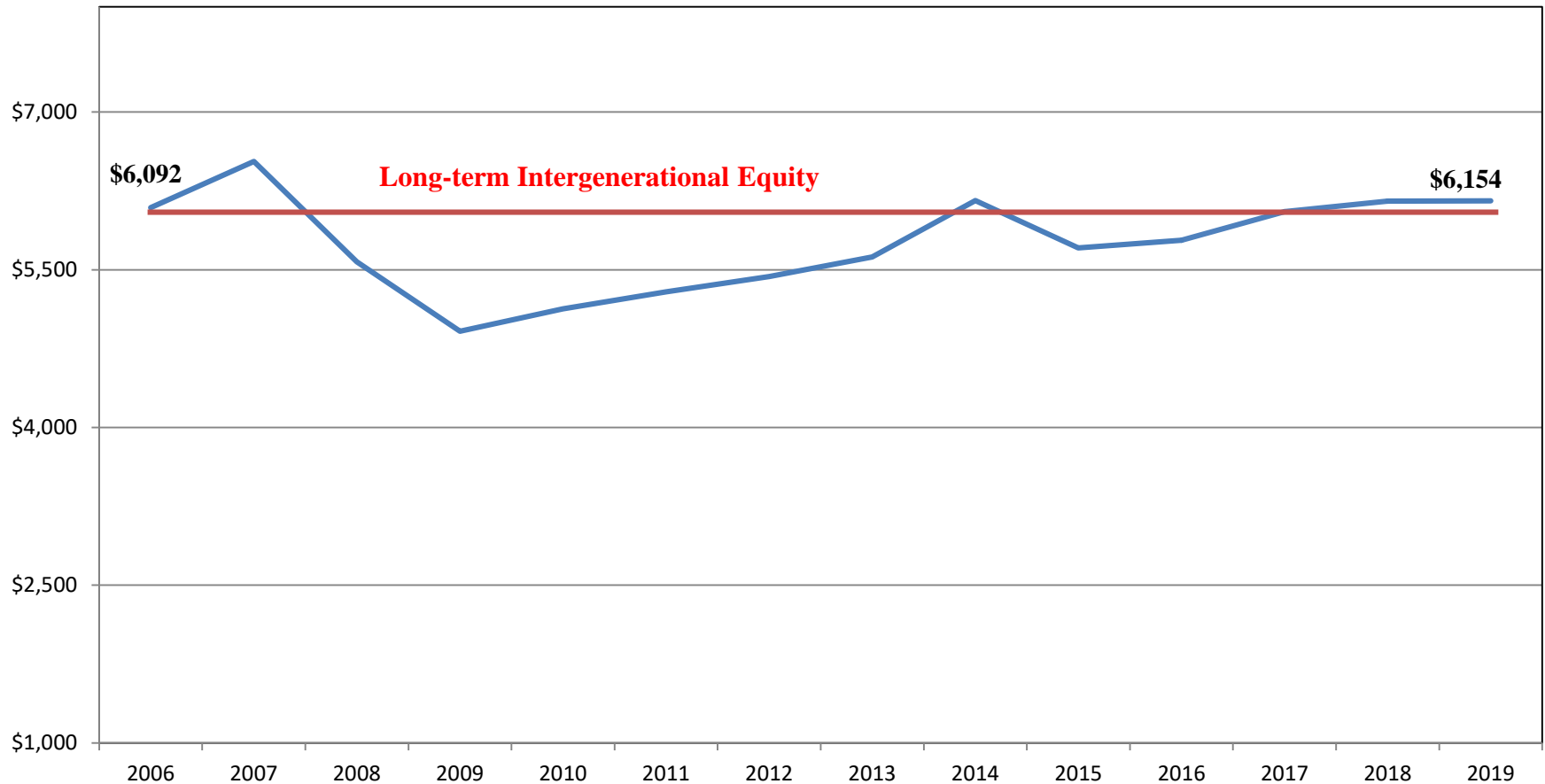
*Includes \$300 million contribution directly to the Available School Fund in FY 2013 and projected in FY 2019.

Real Distributions per Student



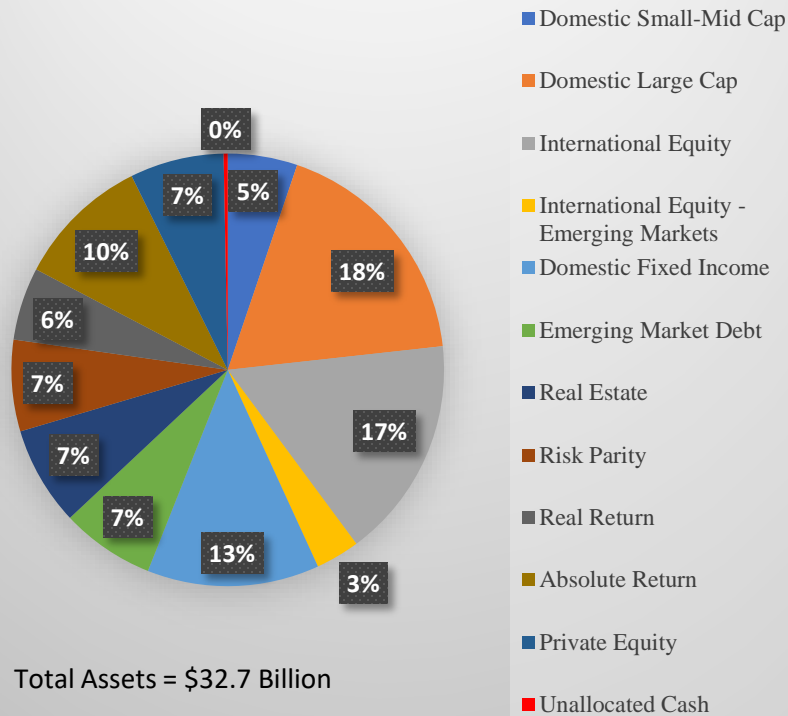
*Amounts shown in 2017 Dollars. Amount for Fiscal Year 2019 assumes the ten-year test is not triggered.

Real Assets per Student



Asset Allocation PSF/GLO

**PSF(SBOE) Fair Value
as of August 31, 2017**



**PSF(GLO) Fair Value
as of August 31, 2017**

