

THE PERMANENT SCHOOL FUND AND THE AVAILABLE SCHOOL FUND

AN ISSUE BRIEF FROM LEGISLATIVE BUDGET BOARD STAFF

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OBJECTIVE

The Permanent School Fund is managed to be a permanent, perpetual source of funding of public education, through regular transfers to the Available School Fund.

KEY FACTS

- ◆ The Available School Fund comprises transfers from the Permanent School Fund and the state's motor fuel tax revenue.
- ◆ The State Board of Education manages the Permanent School Fund portfolio of securities and the General Land Office manages the Permanent School Fund Lands.
- ◆ The Available School Fund is a method of finance for instructional materials and the Foundation School Program.

BUDGETARY IMPACT

In the 2012–13 biennium, \$2.8 billion was appropriated from the Available School Fund to be used for the purchase of instructional materials and a per capita distribution to school districts.

In the 2012–13 biennium, for the purpose of managing the Permanent School Fund and its lands, the Texas Education Agency is estimating expenditures of \$42.1 million, and the General Land Office was appropriated \$26.9 million.

STATUTORY REFERENCES

Texas Constitution, Article VII, Section 2

PERMANENT SCHOOL FUND

A unique aspect of public school funding in Texas is the provision of state funds from the Permanent School Fund (PSF), an endowment fund established by the Texas Constitution that consists of fixed income and equity holdings, state lands, mineral rights, and royalty earnings. The PSF is managed to be a permanent, perpetual source of funding of public education for present and future generations of Texans. Additionally, since 1983 the fund has provided for the guarantee of school district bonds, allowing districts to earn high bond ratings, which translates into lower interest rates and substantial cost savings to taxpayers.

The PSF is managed by the State Board of Education (SBOE) and the General Land Office (GLO). The SBOE manages a portfolio of securities within the PSF. As of August 31, 2012, the portfolio managed by the SBOE had a value of approximately \$25.5 billion and included assets of international and domestic equities (54.6 percent), domestic fixed income (22.2 percent), and cash and other investments (23.2 percent). The SBOE-managed portion of the PSF has realized returns of 13.6 percent in fiscal year 2011, 7.5 percent in fiscal year 2010, and -8.5 percent in fiscal year 2009.

GLO manages the PSF lands and generates revenue through the sale and lease of land; grazing, agricultural, commercial and right-of-way uses; and oil and gas revenues. As of June 30th, 2011, the GLO held over 719 million acres of surface lands. The portion of revenue that the GLO maintains for purchasing additional land and making investments resides in the Real Estate Special Fund Account (RESFA), an escrow account. Gross revenue from school lands totaled \$555.8 million in fiscal year 2011 and investment income from PSF land totaled \$353.8 million.

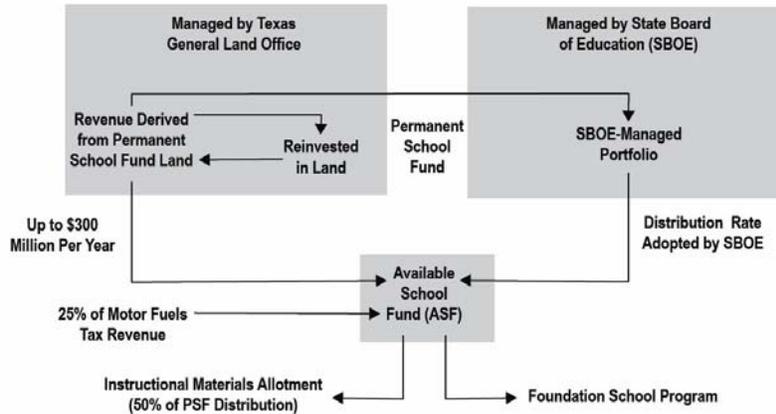
A limited amount of PSF funding is used as a method of financing the portion of the TEA and GLO administration budgets dedicated to managing and overseeing the PSF. For the 2012–13 biennium, the total TEA administrative appropriation from the PSF is \$42.1 million, and GLO was appropriated \$26.9 million for its role in the administration of the PSF.

The revenue generated by GLO may be:

- reinvested in additional real estate;
- transferred to the portion of the PSF overseen by the State Board of Education; or
- transferred directly to the Available School Fund (ASF) in an amount not to exceed \$300 million per year.

The School Land Board (SLB), made up of the State Land Commissioner and two individuals appointed by the Governor, may set aside any portion of the proceeds from land sales or mineral leases and royalties, and proceeds can be used to purchase real estate, including mineral and royalty interest, and to invest in real estate funds. The remaining amount of revenue is transferred to the SBOE for investment purposes. Fig. 1 shows the flow of funds from the PSF to the ASF.

FIG. 1: FUNDING FLOW OF PERMANENT SCHOOL FUND AND AVAILABLE SCHOOL FUND



SOURCE: Legislative Budget Board.

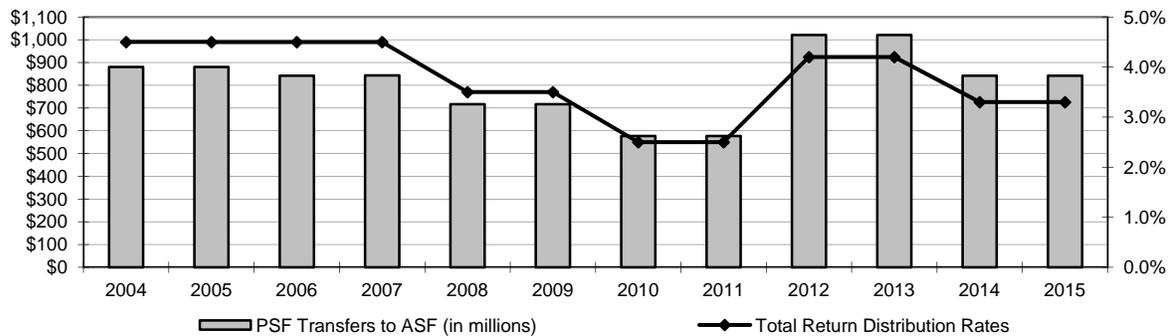
AVAILABLE SCHOOL FUND (GENERAL REVENUE FUNDS)

The SBOE makes distributions from the PSF to the ASF on an annual basis. The distribution rate that is credited to the ASF must be approved by 2/3 of the board and may not exceed 6 percent of the average market value of the portfolio in the 16 previous fiscal quarters or the total return of the portfolio during the 10 preceding fiscal years. The average market value of the portfolio in this calculation excludes real property belonging to the PSF, but does include discretionary real assets investments and cash managed by GLO derived from property belonging to the PSF. The actual distribution adopted by the SBOE is set with consideration of a policy of intergenerational equity, whereby the distribution rate cannot jeopardize the probability that the PSF will be able to support the public education of future generations of Texas students at a comparable level. In the recent past, the SBOE has adopted rates ranging from 4.5 percent for the 2004–05 and 2006–07 biennia to a low of 2.5 percent for the 2010–11 biennium, reflecting market conditions. For the 2012–13 biennium, the adopted rate of 4.2 percent is projected to yield about \$943.2 million per fiscal year. Because only interest can be spent out of the PSF, the corpus of the PSF remains intact and continues to benefit the public schools of Texas in perpetuity.

The ASF is a constitutionally dedicated fund for the support of the public education system. It is funded from the previously mentioned distributions from returns on investment of the PSF as approved by the SBOE and from revenue derived from the lands of the PSF as directed by GLO (up to \$300 million per year). In addition to these revenue sources, the ASF is statutorily dedicated 25 percent of the state’s motor fuels tax revenue. Appropriations from the ASF for the 2012–13 biennium include \$1,545.4 million in anticipated revenues from the state motor fuels tax allocated to support the Instructional Materials Allotment and the FSP (see Fig. 1).

The Texas Education Code requires that 50 percent of the amount transferred from the PSF to the ASF (or another amount approved by the Legislature) be transferred to the Instructional Materials Fund to fund instructional materials for school districts and the remaining portion of the ASF to be used as a per capita distribution to school districts. The per capita apportionment serves as a method of financing the Foundation School Program.

FIG. 2: ANNUAL TRANSFERS FROM THE PSF TO THE ASF, 2004–2015 (ESTIMATED)



NOTE: Fiscal year 2013 to 2015 amounts are estimated.
 SOURCE: Legislative Budget Board.

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