

**PSF Corporation
Summary of Budget Recommendations - House**

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B. Holland Timmins, Chief Executive Officer

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| Method of Financing | 2022-23 Base | 2024-25 Recommended | Biennial Change (\$) | Biennial Change (%) |
|-------------------------------|---------------------|------------------------|-------------------------|------------------------|
| General Revenue Funds | \$0 | \$0 | \$0 | 0.0% |
| GR Dedicated Funds | \$0 | \$0 | \$0 | 0.0% |
| <i>Total GR-Related Funds</i> | <i>\$0</i> | <i>\$0</i> | <i>\$0</i> | <i>0.0%</i> |
| Federal Funds | \$0 | \$0 | \$0 | 0.0% |
| Other | \$45,477,575 | \$98,473,194 | \$52,995,619 | 116.5% |
| All Funds | \$45,477,575 | \$98,473,194 | \$52,995,619 | 116.5% |

| | FY 2023 Budgeted | FY 2025 Recommended | Biennial Change | Percent Change |
|------|---------------------|------------------------|--------------------|-------------------|
| FTEs | 95.7 | 119.7 | 24.0 | 25.1% |

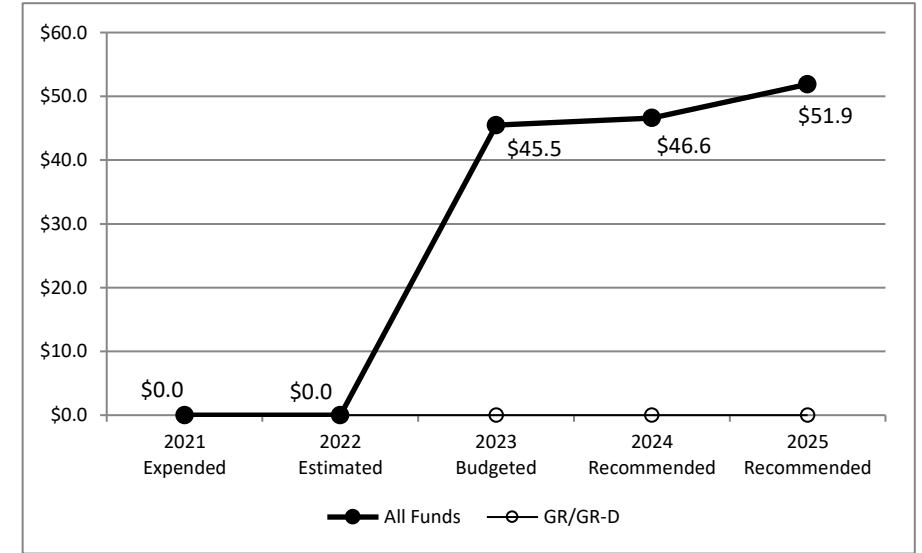
Agency Budget and Policy Issues and/or Highlights

The Permanent School Fund Corporation (PSFC) was created following the enactment of SB 1232, Eighty-seventh Legislature, Regular Session, establishing unified governance and management of the state's endowment fund for public schools. Agency functions and staff were transferred from the Texas Education Agency and General Land Office in fiscal year 2023.

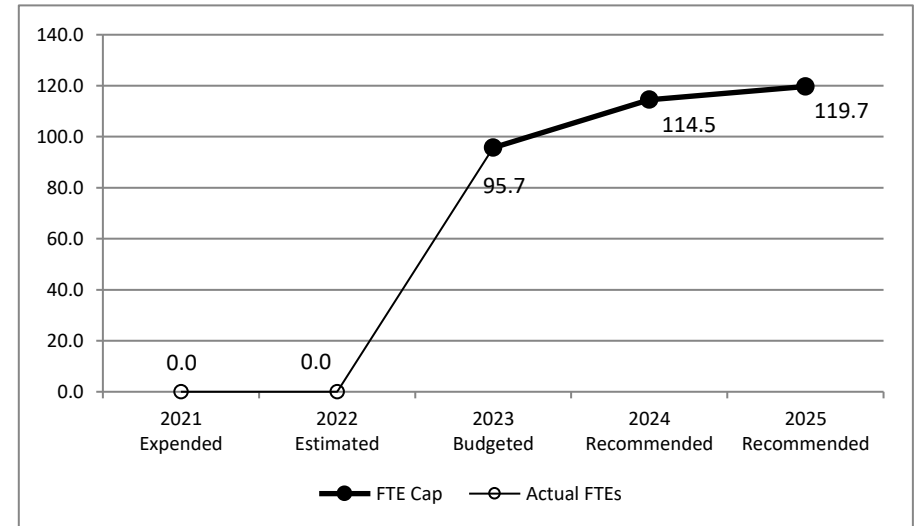
The agency is 100.0 percent funded by the Permanent School Fund, an Other Fund. The \$53.0 million biennial increase is primarily related to biennializing fiscal year 2023 operating costs and continued ramp up of agency operations during the 2024-25 biennium.

The bill pattern for this agency (2024-25 Recommended) represents an estimated 0.2% of the agency's estimated total available funds for the 2024-25 biennium.

Historical Funding Levels (Millions)



Historical Full-Time-Equivalent Employees (FTEs)



PSF Corporation
Summary of Funding Changes and Recommendations - House

| Funding Changes and Recommendations for the 2024-25 Biennium compared to the 2022-23 Base Spending Level (in millions) | General Revenue | GR-Dedicated | Federal Funds | Other Funds | All Funds | Strategy in Appendix A |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------------|---------------|---------------|---------------|------------------------|
| <i>SIGNIFICANT Funding Changes and Recommendations (each issue is explained in Section 3 and additional details are provided in Appendix A):</i> | | | | | | |
| A) Increase to reflect full biennial cost of fiscal year 2023 funding level and continued ramp-up of agency operations in the 2024-25 biennium. | \$0.0 | \$0.0 | \$0.0 | \$45.6 | \$45.6 | A.1.1 |
| B) Increase for performance incentive compensation. | \$0.0 | \$0.0 | \$0.0 | \$7.7 | \$7.7 | A.1.1 |
| <i>OTHER Funding Changes and Recommendations (these issues are not addressed in Section 3 but details are provided in Appendix A):</i> | | | | | | |
| C) Decrease in onetime capital expenditures for furniture, equipment, and certain build-out expenses in fiscal year 2023. | \$0.0 | \$0.0 | \$0.0 | (\$3.3) | (\$3.3) | A.1.1 |
| D) Increase to reflect general state employee salary increase. | \$0.0 | \$0.0 | \$0.0 | \$3.0 | \$3.0 | B.1.1 |
| TOTAL SIGNIFICANT & OTHER Funding Changes and Recommendations (in millions) | \$0.0 | \$0.0 | \$0.0 | \$53.0 | \$53.0 | As Listed |
| <i>SIGNIFICANT & OTHER Funding Increases</i> | \$0.0 | \$0.0 | \$0.0 | \$56.3 | \$56.3 | As Listed |
| <i>SIGNIFICANT & OTHER Funding Decreases</i> | \$0.0 | \$0.0 | \$0.0 | (\$3.3) | (\$3.3) | As Listed |

NOTE: Totals may not sum due to rounding.

PSF Corporation
Selected Fiscal and Policy Issues - House

1. **SB 1232 Implementation and 2024-25 Recommendations.** The Permanent School Fund Corporation (PSFC) was established following the enactment of SB 1232, 87th Legislature, Regular Session, 2021. The creation of the PSFC unified governance and management of the Permanent School Fund (PSF), which is dedicated by the Texas Constitution for the support of public schools. Recommendations include estimated biennial funding of \$45.6 million in Other Funds from the PSF to biennialize fiscal year 2023 base funding for the agency and continue ramp-up of agency operations to implement the *Senate Bill 1232 Preliminary Transition Plan* approved under General Appropriations Act (2022-23 Biennium) Article IX, Section 18.53, Contingency for Senate Bill 1232. Additionally, recommendations transfer a relevant rider and performance measures from the Texas Education Agency (TEA) bill pattern to the PSFC bill pattern.

Prior to SB 1232, PSF assets were managed by both TEA and the School Land Board of the General Land Office (GLO). SB 1232 transferred most of these functions from TEA and GLO to PSFC, except for certain GLO activities, including management of mineral and royalty interests. On October 15, 2021, the transition plan was approved by the LBB. Since its incorporation in December 2021, PSFC staff have been working to create the Corporation's operational structure and functions. On January 1, 2023, PSFC began the transfers of assets, staff, and operational funding from both the TEA and GLO. The deployment of stand-alone investment, information technology, and supporting administrative environments will continue through fiscal year 2023. During the 2024-25 biennium, PSFC plans to continue hiring additional staff, implement a laptop lease purchase program, install network infrastructure, and implement administrative functions, including a requested increase of 24.0 FTEs from fiscal year 2023 to 2025. Recommendations include the requested additional ramp-up funding and FTEs to implement the Transition Plan. Pursuant to Texas Constitution, Article 7, Section 5, PSF administration costs are subject to legislative appropriation and paid from the Fund.

2. **Fund Corpus and Distributions.** As of August 31, 2021, the PSF balance was \$55.6 billion, representing an increase of \$8.9 billion or 19.2 percent from the previous year. Total operating expenditures, net of rebates and fees were \$148.5 million, or 9.11 basis points of net assets for the same year. This represents 56.9 percent of the performance measure target of 16.00 basis points for fiscal year 2021.

The State Board of Education (SBOE) is authorized by Article 7 of the Texas Constitution to distribute up to 6.0 percent per year to the Available School Fund (ASF). Additionally, both the SBOE and GLO are each authorized to make discretionary transfers of \$600.0 million per year from the PSF to ASF. Transferred funds are appropriated to TEA for the ASF per-capita distribution (a component of the Foundation School Program) and for the Technology and Instructional Materials Allotment. Since 1969, the fund has distributed about \$37.3 billion from the PSF to the ASF. In fiscal year 2023 the SBOE distributed \$1.7 billion from the PSF to the ASF through a 4.2 percent distribution of the PSF Corpus. GLO transferred an additional \$460.0 million from the PSF to ASF. For the 2024-25 biennium, recommendations for TEA assume a PSF distribution of 3.3 percent or \$1.6 billion per fiscal year and \$600.0 million in discretionary transfers from GLO each fiscal year.

3. **Facilities Request.** In spring of 2020, the PSF Division of TEA was offered space in the under construction George H. W. Bush building for its 65.0 FTEs. At that time, the PSF Division was housed in leased, privately-owned office space at the Moody Bank Building (MBB).

The enactment of SB 1232 by the Eighty-Seventh Legislature, Regular Session, 2021, established the PSFC as an independent agency with its own administrative support staff, estimated by the agency to total approximately 120.0-125.0 FTEs once fully established. The legislation also included new Texas Education Code Section 43.064, granting the PSFC Board the authority to lease facility space from non-state entities.

PSFC states that from June 2020 to September 2021, PSF staff had ongoing conversations with the Texas Facilities Commission (TFC) regarding space and floorplan requirements. To accommodate the additional administrative FTEs for the newly established agency, PSFC indicates that TFC identified additional, non-contiguous space available within the Bush building on several different floors.

Additionally, in the fall of 2021, PSFC was notified its current MBB lease would end by August 31, 2022. In February 2022 the agency negotiated a one-year extension, with a move-out date of August 31, 2023.

In late October 2021, TFC required final decisions to begin building out the space. In response, TEA declined the space in the Bush building on the PSFC's behalf. PSFC determined it could not make an affirmative decision since members of the PSF Board of Directors had yet to be appointed and due to unresolves issues related to floorplan and lease costs, which the agency stated would prevent attracting and retaining staff and inhibit productivity.

After declining space in the Bush building, PSFC began reviewing alternative office locations in or near the Austin central business district (CBD). The agency considered 14 potential properties and on June 16, 2022, the Board selected the property at 600 West 5th Street in Austin and PSFC subsequently executed a ten-year lease with two five-year extension options. Recommendations do not include increases of \$4.4 million in Other Funds for lease payments or \$1.2 million in Other Funds for facilities build out costs for the 600 West 5th Street facility. TFC indicates it would be able to accommodate the PSFC in the newly constructed Bush building located at 1801 Congress if a decision was made prior to summer 2023.

Recommendations do not include \$5.6 million in Other Funds from the PSF for office lease payments and facilities build out costs.

4. **Performance Incentive Pay and Compensation.** Recommendations include \$7.7 million in Other Funds from the PSF in the 2024-25 biennium for Performance Incentive Pay. Recommendations also include new Rider 3, Performance Incentive Compensation, transferred from TEA's bill pattern, which authorizes PSFC to make performance incentive payments to PSFC staff.

According to the State Auditor's report *Incentive Compensation at the Permanent School Fund, General Land Office, Teacher Retirement System, and Employees Retirement System*, August 2022, in Plan Year 2021 the PSF Division at TEA awarded a total of \$4.6 million in incentive compensation to 61 employees and the GLO awarded \$0.3 million to 4 employees.

5. **Bond Guarantee Program.** The Bond Guarantee Program (BGP) provides participating local school districts and charter schools a AAA credit rating on locally issued debt, lowering interest rate payments. The amount of bonds guaranteed through the BGP has reached the \$117.3 billion federal capacity limit set by the United States Department of the Treasury and the Internal Revenue Service (IRS) in December 2009. This resulted in the closure of the BGP to new applications in December 2022. The agency estimates districts without AAA credit ratings will face an increase of between 0.5 percent and 1.0 percent in interest rates as a result of the closure of the program.

PSFC has been working with TEA and outside counsel to pursue both federal statutory and state administrative solutions. Steps taken include supporting legislation introduced by U.S. Representatives Arrington and Doggett to permanently remove the IRS limitation and securing support of the Texas congressional delegation to request the Treasury prioritize amending IRS rules on the BGP limit. On February 3, 2023, the State Board of Education voted to decrease the program reserve from 5.0 percent to 0.25 percent of the BGP total capacity via rule change. Requests from November applicants that were not able to be guaranteed due to a lack of capacity total approximately \$6.8 billion. Additional capacity, which is estimated to be between \$7 billion to \$9 billion, is anticipated to alleviate program capacity concerns in the short term and is expected to be available to February applicants.

**PSF Corporation
Rider Highlights - House**

New Riders

2. **Capital Budget.** Recommended to reflect capital budget request.
3. **Permanent School Fund Annual Report.** Recommended rider transfers a part of TEA's existing Rider 20, Permanent School Fund. Rider directs PSFC to include administrative cost information in the PSF's annual report.
4. **Incentive Compensation.** Recommended rider transfers a part of TEA's existing Rider 20, Permanent School Fund. Rider allows CEO to establish an incentive compensation plan for the PSFC.
5. **Unexpended Balances.** Recommended rider transfers a part of TEA's existing Rider 20, Permanent School Fund. Rider allows PSFC to carry forward unexpended funds into the following fiscal year.

PSF Corporation
Items Not Included in Recommendations - House

| | | 2024-25 Biennial Total | | | Information Technology Involved? | Contracting Involved? | Estimated Continued Cost 2026-27 |
|-------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|--------------------|------------|----------------------------------------|--------------------------|----------------------------------------|
| | | GR & GR-D | All Funds | FTEs | | | |
| Agency Exceptional Items Not Included (in agency priority order) | | | | | | | |
| 1) | Funding for lease payments in fiscal years 2024 and 2025. | \$0 | \$4,416,808 | 0.0 | No | No | \$6,238,248 |
| 2) | Funding for facilities build out costs in fiscal year 2024. | \$0 | \$1,174,745 | 0.0 | No | No | \$0 |
| Agency Rider Requests Not Included | | | | | | | |
| A) | Appropriation: Texas PSF Fiduciary Finding. Rider would allow and establish rules for PSFC to appropriate additional funds from the Permanent School Fund and increase FTEs in an amount identified in the PSFC's fiduciary finding. | \$0 | \$0 | 0.0 | No | No | \$0 |
| TOTAL Items Not Included in Recommendations | | \$0 | \$5,591,553 | 0.0 | | | \$6,238,248 |

**PSF Corporation
Appendices - House**

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* Appendix is not included - no significant information to report

PSF Corporation
Funding Changes and Recommendations by Strategy - House -- ALL FUNDS

| Strategy/Goal | 2022-23 Base | 2024-25 Recommended | Biennial Change | % Change | Comments |
|----------------------------------------------------|---------------------|------------------------|---------------------|---------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| AGENCY OPERATIONS A.1.1 | \$45,477,575 | \$95,510,075 | \$50,032,500 | 110.0% | Biennial cost changes reflect increases of \$45.6 million to biennialize fiscal year 2023 costs and continue ramp up of agency operations and \$7.7 million for performance incentive compensation. Increases are partially offset by decrease of \$3.3 million related to onetime capital expenditures in fiscal year 2023 for furniture, equipment, and facility costs. |
| Total, Goal A, MANAGE PERMANENT SCHOOL FUND | \$45,477,575 | \$95,510,075 | \$50,032,500 | 110.0% | |
| SALARY ADJUSTMENTS B.1.1 | \$0 | \$2,963,119 | \$2,963,119 | 100.0% | Recommendations provide for general state employee salary increase. |
| Total, Goal B, SALARY ADJUSTMENTS | \$0 | \$2,963,119 | \$2,963,119 | 100.0% | |
| Grand Total, All Strategies | \$45,477,575 | \$98,473,194 | \$52,995,619 | 116.5% | |

**PSF Corporation
FTE Highlights - House**

| Full-Time-Equivalent Positions | Expended 2021 | Estimated 2022 | Budgeted 2023 | Recommended 2024 | Recommended 2025 |
|--------------------------------|------------------|-------------------|------------------|---------------------|---------------------|
| Cap | NA | NA | NA | 114.5 | 119.7 |
| Actual/Budgeted | | | 95.7 | 114.5 | 119.7 |

| Schedule of Exempt Positions (Cap) | | | | | |
|------------------------------------|----|----|-----------|-----------|-----------|
| Chief Executive Officer | NA | NA | \$400,388 | \$400,388 | \$400,388 |
| Chief Investment Officer | NA | NA | \$288,344 | \$288,344 | \$288,344 |

Notes:

a) Position classification provisions including exempt positions contained in Government Code, Chapter 654, do not apply to the PSFC due to language in the agency's enabling legislation, SB 1232. While the Chief Investment Officer of the Permanent School Fund was an exempt position under the Texas Education Agency in 2023, the estimates above for fiscal years 2024-25 are provided for informational purposes.

b) In Fiscal Year 2023, the PSFC will undergo a comprehensive compensation study. Results of the study will change the 2024 and 2025 salary of the Chief Investment Officer from amounts shown above. The actual 2024 and 2025 salary of the Chief Executive Officer will be set by the PSF Board of Directors.