

**Permanent School Fund Corporation  
Summary of Budget Recommendations - House**

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Robert Borden, Chief Executive Officer; Chief Investment Officer

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<b>Method of Financing</b>	<b>2024-25 Base</b>	<b>2026-27 Recommended</b>	<b>Biennial Change (\$)</b>	<b>Biennial Change (%)</b>
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	\$115,609,681	\$102,666,272	(\$12,943,409)	(11.2%)
<b>All Funds</b>	<b>\$115,609,681</b>	<b>\$102,666,272</b>	<b>(\$12,943,409)</b>	<b>(11.2%)</b>

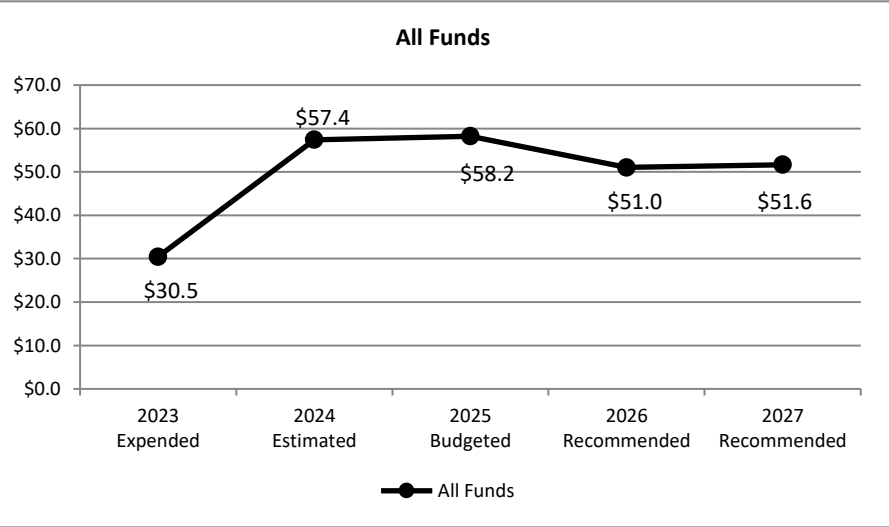
	<b>FY 2025 Budgeted</b>	<b>FY 2027 Recommended</b>	<b>Biennial Change</b>	<b>Percent Change</b>
FTEs	91.0	91.0	0.0	0.0%

**Agency Budget and Policy Issues and/or Highlights**

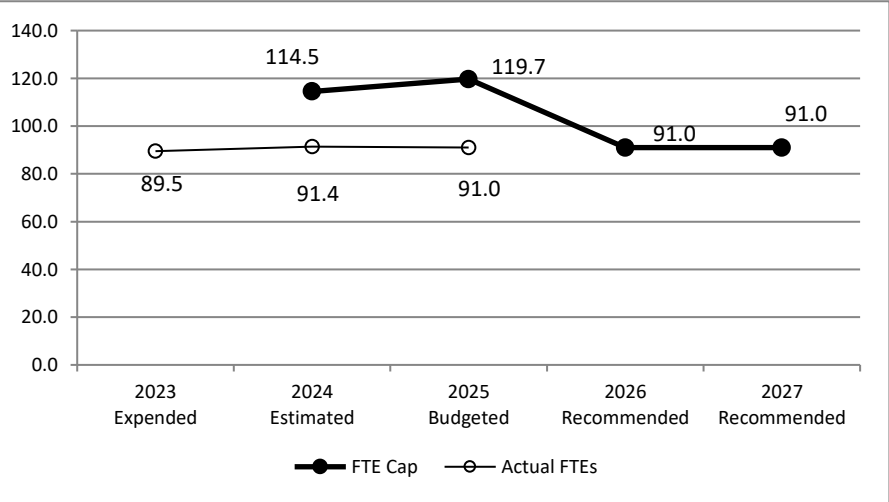
Recommendations maintain base funding and FTE levels with adjustments to remove onetime costs and reflect increased rent costs for 2026–27.

The bill pattern for this agency (2026-27 Recommended) represents an estimated 0.2% of the agency's estimated total available funds for the 2026-27 biennium.

**Historical Funding Levels (Millions)**



**Historical Full-Time-Equivalent Employees (FTEs)**



**Permanent School Fund Corporation**  
**Summary of Funding Changes and Recommendations - House**

Funding Changes and Recommendations for the 2026-27 Biennium compared to the 2024-25 Base Spending Level (in millions)		General Revenue	GR-Dedicated	Federal Funds	Other Funds	All Funds	Strategy in Appendix A
<b><i>SIGNIFICANT Funding Changes and Recommendations (each issue is explained in Section 3 and additional details are provided in Appendix A):</i></b>							
A)	Removal of onetime funding for facility finish-out (see Selected Fiscal and Policy Issue #4)	\$0.0	\$0.0	\$0.0	(\$13.3)	(\$13.3)	A.1.1
B)	Removal of onetime IT costs and base IT requests intended to be funded in the supplemental bill (see Selected Fiscal and Policy Issue #4)	\$0.0	\$0.0	\$0.0	(\$2.8)	(\$2.8)	A.1.1
C)	Increased rent costs for Innovation Tower relocation (see Selected Fiscal and Policy Issue #4)	\$0.0	\$0.0	\$0.0	\$3.2	\$3.2	A.1.1
<b>TOTAL SIGNIFICANT &amp; OTHER Funding Changes and Recommendations (in millions)</b>		<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>(\$12.9)</b>	<b>(\$12.9)</b>	As Listed
<i>SIGNIFICANT &amp; OTHER Funding Increases</i>		\$0.0	\$0.0	\$0.0	\$3.2	\$3.2	As Listed
<i>SIGNIFICANT &amp; OTHER Funding Decreases</i>		\$0.0	\$0.0	\$0.0	(\$16.1)	(\$16.1)	As Listed

**Permanent School Fund Corporation  
Selected Fiscal and Policy Issues – House**

- Agency Fiduciary Authority.** The Texas Permanent School Fund Corporation (TPSFC) was established following the enactment of SB 1232, Eighty-seventh Legislature, Regular Session, 2021. The creation of the TPSFC unified governance and management of the Permanent School Fund (PSF), which is dedicated by the Texas Constitution for the support of public schools.

Pursuant to the Texas Constitution, Article 7, Section 5, PSF administration costs are subject to legislative appropriation and paid from the Fund. The table below provides an overview of the statutory authority and exemptions of the TPSFC. The Corporation has broad exemptions from state compensation restrictions, to the extent the TPSFC Board of Directors determines an exemption is necessary for fulfilling the Board’s fiduciary duties, and from contracting and purchasing limitations.

<b>TPSFC Statutory Authority and Exemptions</b>		
<b>Category</b>	<b>Citation</b>	<b>Description</b>
<i>General Authority</i>	Education Code, Section 43.006	The State Board of Education delegates its constitutional investment authority to the TPSFC (Texas Constitution, Article VII, Section 5).
	General Appropriations Act, TPSFC Riders 6 & 7	Appropriated amounts may be exceeded with a Board fiduciary finding statement, with the exception of amounts to increase FTEs above Article IX levels or to lease office space from entities not appropriated funds in the GAA.
<i>Staff Compensation</i>	Education Code, Section 43.055	CEO is responsible for hiring employees and developing a compensation system as necessary to retain qualified staff.
	Education Code, Section 43.059	Exemption from state classification and compensation structure (Government Code, Chapter 654)
	Education Code, Section 43.059	Exemption from restrictions to promotions, reclassifications, and other salary adjustments (Government Code, Chapter 659, Subchapter K)
<i>Contracting and Procurement</i>	Education Code, Section 43.059	Exemption from all state laws regulating or limiting purchasing by state agencies (Government Code, Title 10, Subtitle D and Government Code, Chapter 2254).
	Education Code, Section 43.062	Exclusive authority over information technology (Government Code, Chapters 2054 & 2055).
	Education Code, Section 43.059	Authority to contract with a state agency or another entity for facilities and necessary supports. The corporation may, but is not required to, request allocation of space under Subchapter C, Chapter 2165, Government Code.

	Education Code, Section 43.059	Exemption from contract management standards and oversight (Government Code, Chapters 2261 & 2262).
Other Exemptions	Education Code, Section 43.059	Exemption from travel expense regulations (Government Code, Chapter 660).
	Education Code, Section 43.059	Exemption from franchise tax (Tax Code, Chapter 171).
	Education Code, Section 43.059	Exemption from any filing costs or other fees imposed by the state on a corporation.

2. **Performance Incentive Compensation.** Recommendations maintain base funding levels in the 2026–27 biennium, including \$27.1 million for incentive compensation.

Texas Education Code allows TPSFC to pay performance incentive compensation to retain qualified staff. Under current TPSFC Board policy, staff earn incentive compensation for meeting investment benchmarks and additional requirements. The maximum potential award may not exceed a percentage of the base salary determined by the Board, which currently varies by position from 15.0 percent to 400.0 percent. According to the State Auditor’s report *Incentive Compensation at the Permanent School Fund Corporation, Teacher Retirement System, and Employees Retirement System*, August 2024, in Plan Year 2023 the TPSFC awarded a total of \$7.5 million in incentive compensation to 89 employees out of approximately 89.5 filled positions in fiscal year 2023.

TPSFC staff project that plan year 2025 incentive compensation will total \$11.4 million and plan year 2026 will total \$13.3 million. Plan year awards are paid out over two years and do not align with fiscal years. The timing of plan payments and fiscal years, combined with some delays to plan year 2024 payments due to delayed Board approval, mean that the upcoming biennium includes payments for plan years 2024–2027. TPSFC estimates that incentive compensation for fiscal years 2026 and 2027 would total \$27.1 million.

In fiscal year 2025, TPSFC developed a new two-tiered system of awards, with a target award based on a threshold of 50 basis points above benchmarks and a maximum potential award for exceptional fund performance with a threshold of 150 basis points. Agency staff indicate that to reach target awards, there must be \$275 million of excess fund returns generated, and that there must be \$825 million of excess fund returns to achieve maximum awards.

3. **Agency Reorganization.** Recommendations maintain current fiscal year 2025 staffing levels of 91.0 FTEs and do not include 24.0 additional FTEs requested by the agency.

As of December 1, 2023, the TPSFC Board named a new combined chief executive officer (CEO) and chief investment officer (CIO) to lead the agency. The CEO/CIO evaluated agency operations and implemented a new strategic asset allocation plan projected to yield an additional 45 basis points and increase distributions from the PSF to the Available School Fund by \$250 million annually in the next biennium. The CEO/CIO also aligned all operations with the updated strategic plan, strengthened internal controls, and made the decision to outsource two divisions of the agency. As of November 2024, TPSFC had 82 FTEs with 9 additional positions in the hiring process.

Agency LAR requests included projected growth up to 119.7 FTEs, with a combination of operational and investment staff expansion. Staff indicated that expanded staffing was needed for a higher volume of research and analysis, more complex portfolio monitoring, for resource intensive co-investments and strategic partnerships, and for increased legal and compliance staff.

- SB1232 Operational Update.** Recommendations include \$5.4 million in Other Funds from the PSF for office lease payments at the Innovation Tower, an increase of \$3.2 million over base levels.

SB1232 required a plan to transition PSF investment and operation functions from TEA and GLO to the TPSFC. The plan involved four main sections: legal creation of the Corporation, initial Board and Corporation activities, transfer of assets and operations, and establishing administrative functions. The Corporation has now completed the transition plan, with the exception of final relocation to a long-term facility.

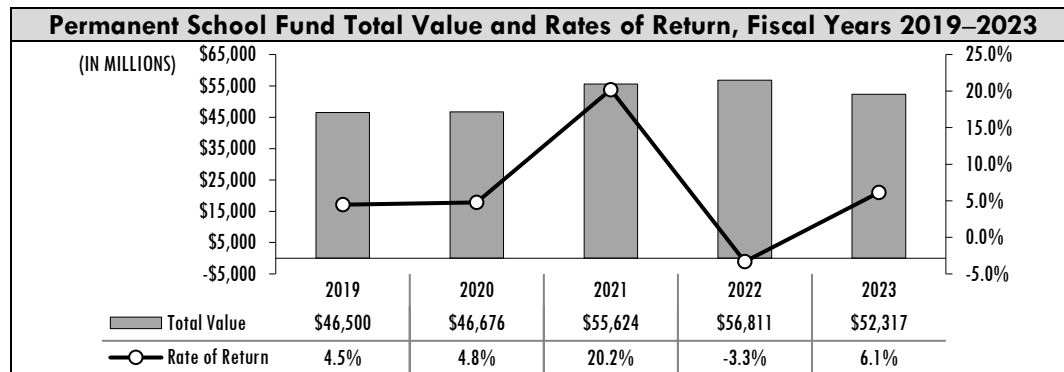
Recommendations reflect removal of \$13.3 million in PSF funding for onetime facility finish-out costs and a decrease of \$2.8 million in IT capital project funding during the 2024–25 biennium, including network infrastructure projects and IT separation costs related to the transition to being a stand-alone agency.

In September 2023 the Board selected as the agency’s long-term facility the Innovation Tower at 1300 Red River Street in Austin, with the UT System as the lessor. A ten-year lease for space in the Innovation Tower was executed in January 2024 for 53,254 rentable square feet located on the 6<sup>th</sup> and 7<sup>th</sup> floors. As of January 2025, TPSFC are in the process of relocating from the Moody building to the Innovation Tower. Agency staff indicate that they will vacate Moody prior to April 30, 2025, as required by rider 7 in the 2024–25 General Appropriations Act.

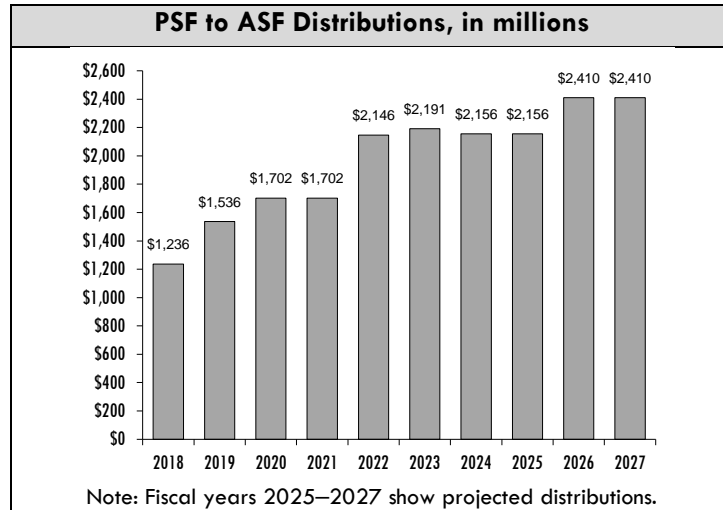
- Bond Guarantee Program and Permanent School Fund Corpus.** The Bond Guarantee Program (BGP) provides participating local school districts and charter schools a AAA credit rating on locally issued debt, lowering interest rate payments.

In fiscal year 2023, the BGP began to reach its capacity limits. From November 2022 to January 2023 TEA turned down \$8.4 billion in applications from public schools. Effective March 2023, the State Board of Education (SBOE) lowered the program capacity reserve from 5.0 percent to 0.25 percent, freeing up approximately \$6.0 billion in capacity. In May 2023, the IRS published a notice removing the 2009 date limitation for the value of the PSF assets, which increased the IRS limit to \$219.6 billion. These actions eliminated concerns about capacity limits for the BGP in the current and upcoming biennia.

As of August 2024, the market value of PSF assets totaled \$56.9 billion, and Corporation staff indicate that the rate of return for fiscal year 2024 is 10.1 percent. At the end of fiscal year 2023, the market value of PSF assets totaled \$52.3 billion and the annual return on investment for fiscal year 2023 was 6.1 percent. The figure below shows total fund value and time-weighted rates of return (net of fees) of the PSF for fiscal years 2019 to 2023.



6. **ASF Transfers.** The 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, the TPSFC is 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 Instructional Materials and Technology Allotment. For each year of the 2024–25 biennium, the PSF will have distributed \$2.2 billion to the ASF. For the 2026–27 biennium, recommendations for TEA assume the SBOE-set preliminary PSF distribution rate of 3.45 percent, or \$1.81 billion, and \$600.0 million in discretionary transfers from TPSFC each fiscal year. The figure below shows historic and projected distributions from the PSF to ASF.



**Permanent School Fund Corporation  
Rider Highlights - House**

**Modification of Existing Riders**

1. **Performance Measure Targets.** Recommendations include modification of performance measure target for investment expenses as basis points of net assets to match recommended funding level.
3. **Incentive Compensation.** Recommendations include modification of Rider 3 to include a reporting requirement on incentive compensation payouts.
6. **Limitation on Funds Appropriated to the Texas Permanent School Fund Corporation (TPSFC).** Recommendations include deletion of section (c), regarding relocation from prior leased facility, as the limitation was onetime in nature.

**New Rider**

7. **Permanent School Fund Distribution Rate.** Recommendations include relocation of the PSF distribution rate reporting rider from the Texas Education Agency bill pattern to the TPSFC bill pattern, as the Corporation currently completes the report.

**Permanent School Fund Corporation  
Items Not Included in Recommendations - House**

		2026-27 Biennial Total			Information Technology Involved?	Contracting Involved?	Estimated Continued Cost 2028-29
		GR & GR-D	All Funds	FTEs			
A)	Optimize asset allocation: Staffing for investment and support teams	\$0	\$14,499,469	24.0	Yes	Yes	\$17,919,620
B)	IT projects for cloud services, laptop replacement, cybersecurity, and modernization	\$0	\$2,470,000	0.0	Yes	Yes	\$2,010,000
<b>TOTAL Items Not Included in Recommendations</b>		<b>\$0</b>	<b>\$16,969,469</b>	<b>24.0</b>			<b>\$19,929,620</b>



**Permanent School Fund Corporation  
Appendices - House**

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\* Appendix is not included - no significant information to report

**Permanent School Fund Corporation  
Funding Changes and Recommendations by Strategy - House -- ALL FUNDS**

Strategy/Goal	2024-25 Base	2026-27 Recommended	Biennial Change	% Change	Comments
AGENCY OPERATIONS A.1.1	\$115,609,681	\$102,666,272	(\$12,943,409)	(11.2%)	Recommendations reflect removal of \$13.3 million in onetime funding for facility finish out and \$0.3 million for the removal of onetime network separation costs. Recommendations include \$3.2 million for increased rent costs. \$2.5 million in IT costs for the 2026–27 biennium are intended to be funded through supplemental legislation.
<b>Total, Goal A, MANAGE PERMANENT SCHOOL FUND</b>	<b>\$115,609,681</b>	<b>\$102,666,272</b>	<b>(\$12,943,409)</b>	<b>(11.2%)</b>	
<b>Grand Total, All Strategies</b>	<b>\$115,609,681</b>	<b>\$102,666,272</b>	<b>(\$12,943,409)</b>	<b>(11.2%)</b>	

**Permanent School Fund Corporation  
FTE Highlights - House**

Full-Time-Equivalent Positions	Expended 2023	Estimated 2024	Budgeted 2025	Recommended 2026	Recommended 2027
Cap	NA	114.5	119.7	91.0	91.0
Actual/Budgeted	89.5	91.4	91.0	NA	NA

Schedule of Exempt Positions (Cap)					
Chief Executive Officer		\$400,000	\$400,000	\$400,000	\$400,000

Notes:

- a) The Chief Executive Officer also serves as Chief Investment Officer (CIO). The agency indicates no plans of filling the CIO position, so recommendations include deletion of the related exempt position.
- b) The agency did not have its own bill pattern or FTE cap in fiscal year 2023.