

**Report of the State Board of Education  
Committee on School Finance/Permanent School Fund  
November 9, 2017**

The State Board of Education Committee on School Finance/Permanent School Fund met at 9:10 a.m. on Thursday, November 9, 2017, in Room #1-104 of the William B. Travis Building, 1701 N. Congress Avenue, Austin, Texas. Members of the committee were present, as follows:

Present: David Bradley, chair; Tom Maynard, vice chair; Lawrence A. Allen, Jr.; Patricia Hardy; Ken Mercer

**Public Testimony**

This item provides an opportunity for the public to present testimony at the time the related item comes up for committee discussion or action. The procedures for registering and taking public testimony at State Board of Education committee meetings and general board meetings are provided at [http://tea.texas.gov/About\\_TEA/Leadership/State\\_Board\\_of\\_Education/SBOE\\_Meetings/SBOE\\_Operating\\_Rules\\_Amended\\_1-31-17/](http://tea.texas.gov/About_TEA/Leadership/State_Board_of_Education/SBOE_Meetings/SBOE_Operating_Rules_Amended_1-31-17/) or in the information section (yellow pages) of the agenda.

The Committee on School Finance/Permanent School Fund received no presentations of public testimony.

**CONSENT ITEM**

- 1. Approval of Costs to Administer the 2017-2018 State-Developed Assessments to Private School Students**  
(Board agenda page III-1)  
[Consent agenda item #3]

Julie Guthrie, director of Special Assessment Projects, presented this item. Ms. Guthrie explained that this item applies to private schools using state-developed assessments to evaluate their students. She explained that the cost per assessment was determined by dividing the overall cost by the number of students that participated. Ms. Guthrie answered questions from Mr. Bradley and Ms. Hardy regarding administering state-developed assessments to private school students.

**MOTION AND VOTE:** *It was moved by Mr. Maynard, seconded by Mr. Allen, and carried unanimously to recommend that the State Board of Education approve the recommended per-student costs for administering the state assessments to private school students in 2017-2018.*

## ACTION ITEMS

### **2. Proposed Amendment to 19 TAC Chapter 109, Budgeting, Accounting, and Auditing, Subchapter D, Uniform Bank Bid or Request for Proposal and Depository Contract, §109.52, Uniform Depository Bank Contract and Surety Bond Forms**

#### **(First Reading and Filing Authorization)**

(Board agenda page III-7)

[Official agenda item #10]

David Marx, director of Financial Compliance, presented this item. Mr. Marx explained that SB 754, 85<sup>th</sup> Texas Legislature, Regular Session, 2017, amended the TEC, §45.205(b), to allow the school district depository contract to be extended a total of three two-year terms. In addition, the bill allows the depository contract to be modified for each two-year extension if both the school district and the district's depository bank mutually agree to the terms. The proposed amendment would update the depository contract adopted in rule to reflect changes made by Senate Bill (SB) 754, 85<sup>th</sup> Texas Legislature, Regular Session, 2017. Mr. Marx answered questions from Mr. Bradley regarding the item.

**MOTION AND VOTE:** *It was moved by Mr. Maynard, seconded by Mr. Allen, and carried unanimously to recommend that the State Board of Education approve for first reading and filing authorization the proposed amendment to 19 TAC Chapter 109, Budgeting, Accounting, and Auditing, Subchapter D, Uniform Bank Bid or Request for Proposal and Depository Contract, §109.52, Uniform Depository Bank Contract and Surety Bond Forms.*

### **3. Proposed Amendment to 19 TAC Chapter 129, Student Attendance, Subchapter B, Student Attendance Accounting, §129.21, Requirements for Student Attendance Accounting for State Funding Purposes**

#### **(First Reading and Filing Authorization)**

(Board agenda page III-17)

[Official agenda item #11]

David Marx, director of Financial Compliance, presented this item. Mr. Marx explained that SB 1152, 85<sup>th</sup> Texas Legislature, Regular Session, 2017, amended the TEC, §25.087, to allow a student who is pursuing enlistment in the military or the Texas National Guard to be counted as present for funding purposes for up to four days as long as the district verifies the student's activities related to the pursuit of the enlistment. The proposed amendment would update the rule to reflect changes made by Senate Bill (SB) 1152, 85<sup>th</sup> Texas Legislature, Regular Session, 2017. This item would add an additional citation to §129.21(j)(3) to allow for approved absences related to military enlistment as required by SB 1152.

**MOTION AND VOTE:** *It was moved by Mr. Maynard, seconded by Mr. Allen, and carried unanimously to recommend that the State Board of Education approve for first reading and filing authorization the proposed amendment to 19 TAC Chapter 129, Student Attendance, Subchapter B, Student Attendance Accounting, §129.21, Requirements for Student Attendance Accounting for State Funding Purposes.*

## DISCUSSION ITEMS

- 4. Review of 19 TAC Chapter 105, Foundation School Program, Subchapter A, Definitions, and Subchapter B, Use of State Funds**  
(Board agenda page III-61)

Leo Lopez, chief school finance officer, presented this item. Mr. Lopez provided a summary on the status of the 19 TAC Chapter 105, Foundation School Program, Subchapter A, Definitions, and Subchapter B, Use of State Funds. Mr. Lopez explained that the review of 19 TAC Chapter 105, subchapters A and B, will be presented to the SBOE for adoption at the January/February 2018 meeting. Mr. Lopez also explained that no amendments to the rules in 19 TAC Chapter 105, Subchapters A and B, are anticipated. Mr. Lopez answered questions from Mr. Maynard regarding the item.

- 5. Review of Permanent School Fund Securities Transactions and the Investment Portfolio**  
(Board agenda page III-69)

Catherine Civileto, 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 August 1, 2017 through September 30, 2017 unless otherwise noted. Ms. Civileto's report included reporting on the current fair market value of the Fund, the asset allocation mix as of September 30, 2017, PSF transactions occurring in the reporting period, revenues and expenditures for the fiscal period September 1, 2016 through August 31, 2017 and the fiscal period beginning September 1 through September 30, 2017, the historical activity on the securities lending program through the fiscal period ended August 31, 2017, as well as the month of September 2017, the status of transfers from the General Land Office as per the resolution they agreed to for the current fiscal year, 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, 2017 through September 30, 2017, fixed income rating changes for the fiscal period September 1, 2016 through August 31, 2017 and the fiscal period beginning September 1 through September 30, 2017, and short-term cash investments.

## CONSENT ITEMS

- 6. Ratification of the Purchases and Sales of the Investment Portfolio of the Permanent School Fund for the Months of August and September 2017**  
(Board agenda page III-25)  
[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 to ratify the purchases and sales for the months of August and September 2017, in the amount of \$1,149,709,901 and \$756,540,415 respectively (Attachment A).*

## 7. Decision on Real Estate Investments

(Board agenda page III-27)

[Consent agenda item #(5)]

The PSF real estate consultant, Courtland Partners, was represented by Steve Novick, Principal/Chief Operating Officer and Tom Hester, Senior Vice President, joined by John Grubenman, director of private markets for PSF, and Ali Houshmand, portfolio manager for PSF. Mr. Novick and Mr. Grubenman provided a brief introduction of three real estate investment recommendations.

Mr. Hester introduced a real estate investment recommendation, Pennybacker IV, L.P. offered by Pennybacker IV GP, L.L.C. Mr. Hester, Mr. Grubenman, and Mr. Houshmand described the due diligence process conducted by both Courtland and PSF staff, provided a brief overview including its objectives and strategy, and outlined the merits and considerations.

**MOTION AND VOTE:** *The committee recommended to the State Board of Education approval to execute agreement(s) with Pennybacker IV GP, L.L.C., necessary to make an investment commitment of up to \$75 million in Pennybacker IV, L.P., subject to continued due diligence and negotiation of fund terms, and authorization for contract execution by the Commissioner of Education.*

Mr. Hester introduced a real estate investment recommendation, Berkshire Multifamily Debt Fund II, L.P. offered by Berkshire Multifamily Debt Fund II GP, L.L.C. Mr. Hester, Mr. Grubenman, and Mr. Houshmand described the due diligence process conducted by both Courtland and PSF staff, provided a brief overview including its objectives and strategy, and outlined the merits and considerations.

**MOTION AND VOTE:** *The committee recommended to the State Board of Education approval to execute agreement(s) with Berkshire Multifamily Debt Fund II GP, L.L.C., necessary to make an investment commitment of up to \$75 million in Berkshire Multifamily Debt Fund II, L.P., subject to continued due diligence and negotiation of fund terms, and authorization for contract execution by the Commissioner of Education.*

Mr. Hester introduced a real estate investment recommendation, Ares European Real Estate Fund V, SCSp, a Euro-denominated fund offered by Ares European Real Estate Advisors V, L.P. Mr. Hester, Mr. Grubenman, and Mr. Houshmand described the due diligence process conducted by both Courtland and PSF staff, provided a brief overview including its objectives and strategy, and outlined the merits and considerations.

**MOTION AND VOTE:** *The committee recommended to the State Board of Education approval to execute agreement(s) with Ares Management, necessary to make an investment commitment of up to €75 million in Ares European Real Estate Fund V, SCSp, a Euro-denominated fund, subject to continued due diligence and negotiation of fund terms, and authorization for contract execution by the Commissioner of Education.*

**8. Proposed Amendments to 19 TAC Chapter 33, Statement of Investment Objectives, Policies, and Guidelines of the Texas Permanent School Fund, Subchapter A, State Board of Education Rules, §33.65, Bond Guarantee Program for School Districts, and §33.67, Bond Guarantee Program for Charter Schools**

**(First Reading and Filing Authorization)**

(Board agenda page III-29)

[Consent agenda item #(6)]

Carlos Veintemillas, deputy chief investment officer and director of fixed income presented the item. Mr. Veintemillas stated that the proposed amendments related to the implementation and phase-in of Senate Bill (SB) 1480.

**MOTION AND VOTE:** *By unanimous consent, the committee approved for first reading and filing authorization proposed amendments to 19 TAC Chapter 33, Statement of Investment Objectives, Policies, and Guidelines of the Texas Permanent School Fund, Subchapter A, State Board of Education Rules, §33.65, Bond Guarantee Program for School Districts, and §33.67, Bond Guarantee Program for Charter Schools.*

**9. Management of Charter District Bond Guarantee Reserve Fund**

(Board agenda page III-55)

[Consent agenda item #(7)]

Mr. Veintemillas presented the item. Mr. Veintemillas gave an overview of the Charter School District Bond Guarantee Reserve Fund and an update on the management of those assets.

**MOTION AND VOTE:** *By unanimous consent, pursuant to Senate Bill 1480, 85th Legislature, Regular Session, the State Board of Education directs the Texas Education Agency to invest and manage the charter district bond guarantee reserve fund in the same manner that the Permanent School Fund is invested and managed under Texas Administrative Code, Title 19, Chapter 33, and in accordance with the Investment Procedures Manual and the investment standard described by Section 404.024(j), Government Code.*

**DISCUSSION ITEM**

**10. Discussion of 19 TAC Chapter 33, Statement of Investment Objectives, Policies, and Guidelines of the Texas Permanent School Fund, Subchapter A, State Board of Education Rules, §33.5, Code of Ethics**

(Board agenda page III-71)

Mr. Bradley called on Holland Timmins, executive administrator and chief investment officer to present the item. Mr. Timmins stated that the agenda item was for discussion only and provided the committee an opportunity to discuss possible amendments to the rule related to relationships with investment counterparties. Mr. Maynard assumed the chair and directed Mr. Timmins to bring back the item at the next meeting for first reading and filing authorization.

## **CONSENT ITEMS**

### **11. Review of SB 253 and HB 89 of the 85<sup>th</sup> Legislative Session**

(Board agenda page III-57)  
[Consent agenda item #(8)]

Mr. Timmins discussed staffs review of SB 253 and HB 89 of the 85<sup>th</sup> legislative session as it relates to state contracts with and investments in certain companies in specific countries. Jim Griffin, partner with Jackson Walker and Board Fiduciary Counsel, provided an update on the status on SB 253 and HB 89.

**MOTION AND VOTE:** *No action was taken on this item.*

### **12. Presentation on the Commodities Asset Class for the Permanent School Fund**

(Board agenda page III-59)  
[Consent agenda item #(9)]

Mr. Maynard called on Mr. Veintemillas to address the item. Mr. Veintemillas and Rhett Humphries, partner with NEPC, provided a status update on the process of evaluating the possibility of internally managing a portion of the fund's commodities allocation. The evaluation is almost complete, and a recommendation will be brought to the committee at the next meeting.

**MOTION AND VOTE:** *No action was taken on this item.*

## **DISCUSSION ITEMS**

### **13. Presentation on the Risk Parity Asset Class for the Permanent School Fund**

(Board agenda page III-91)

Mr. Timmins called on Rhett Humphreys, Partner NEPC, to give a presentation on the externally managed risk parity asset class. The presentation provided an overview of the strategy, benchmarking, managers and outlook. Mr. Bradley called on Carlos Castro, global risk control strategies, to give a presentation on the risk parity asset class. The presentation covered the strategy, implementation, allocation, and performance of the asset class.

### **14. Discussion on Permanent School Fund Benchmarks**

(Board agenda page III-93)

Mr. Bradley called on Kara Belew, Deputy Commissioner of Finance. Ms. Belew provided an overview of the Permanent School Fund Performance Incentive Pay Plan. Rhett Humphreys, Partner NEPC provided information regarding NEPC's various methodologies for benchmark construction. Mr. Bradley introduced Tom Heiner of BNY Mellon Global and Risk Solutions. Mr. Heiner explained BNY Mellon's role as the performance measurement consultant in the PSF benchmarks.

**15. Report of the Permanent School Fund Executive Administrator and Chief Investment Officer**  
(Board agenda page III-95)

Mr. Timmins did not have an update for the committee.

The meeting of the Committee on School Finance/Permanent School Fund adjourned at 1:05 p.m.