



Texas Permanent School Fund Distributions to the Available School Fund

November 2022

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 (School Land Board 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:
 - ❑ 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.

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 and maintain the value of assets per student after adjusting for inflation.

Spending Rate Structure

The Spending Rate is Determined by the Following Components:

Expected Total Return (+)

Rate of Inflation (CPI) (-)

Student Population Growth (-)

Administrative Expenses (-)

SLB Contributions (+)

Spending Rate (=)

SBOE Recent Action

June 2022 SBOE Meeting

- A rate range of 2.58% to 3.33% for the distribution to the Available School Fund (ASF) in fiscal years 2024-25 was adopted.
- The vote satisfied the requirements under Rider 39 of the Texas Education Agency appropriations in the General Appropriations Act for the 2024-25 biennium.

August 2022 School Land Board Meeting

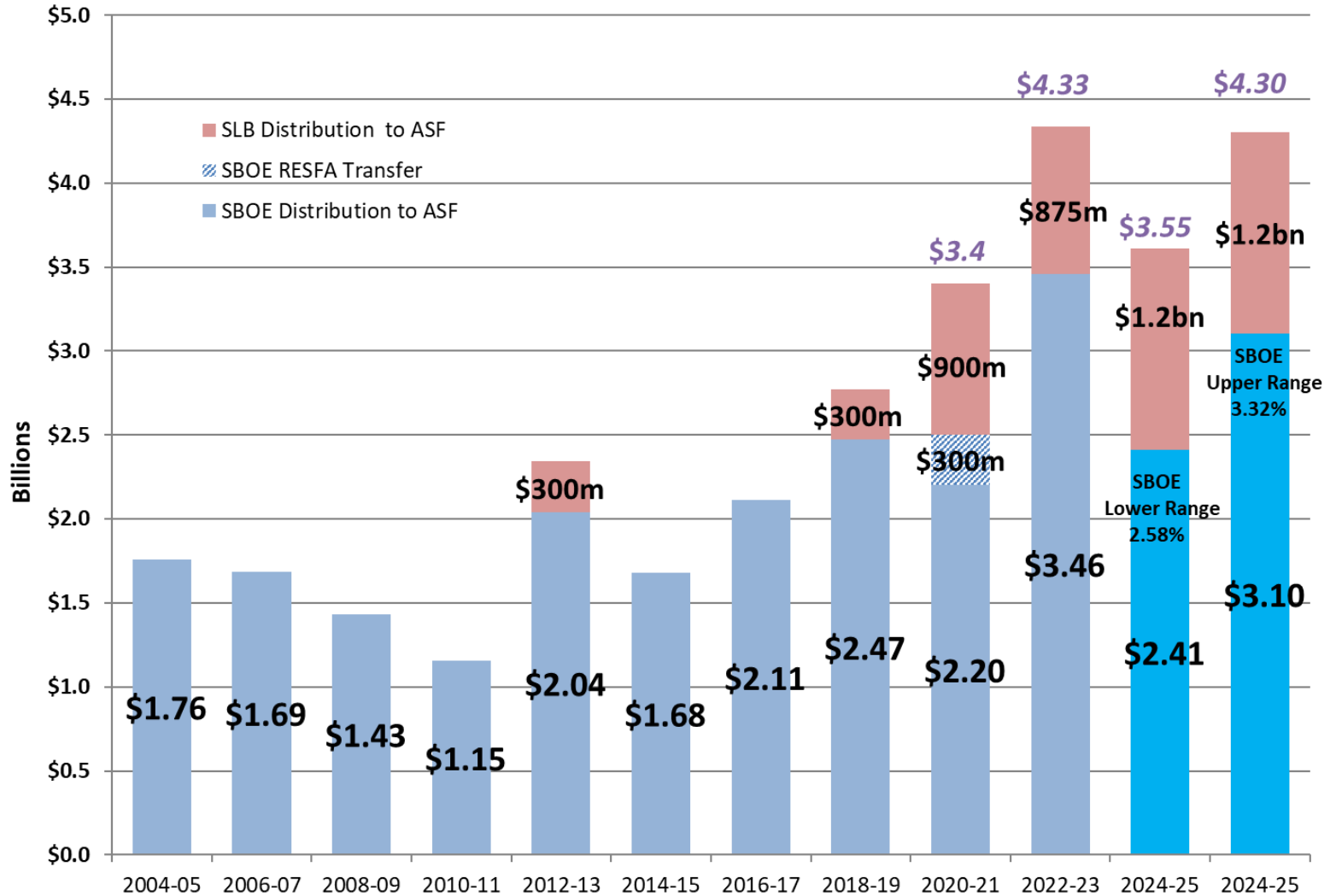
- SLB adopted total distribution to the ASF in FYs 2024-25 of \$1.2 billion (\$600mm annually).
- No transfers to the SBOE will be made in FYs 2024-25, which impacted the range of rates.

September 2022 SBOE Meeting

- A preliminary rate of 3.32% was adopted.

<i>Date</i>	<i>Range</i>	<i>Rate</i>	<i>Distribution (Projected)</i>
June	Low End	2.58%	\$1.217 billion
June	High End	3.33%	\$1.571 billion
September	Adopted – Updated	3.32%	\$1.551 billion

PSF Distributions – SBOE & SLB



* FY 2021 includes a \$300mm transfer from the SBOE to RESFA with subsequent distribution to ASF.

Potential Range of the Spending Rate Structures to Balance the Needs of Current and Future Students -- FY 2024-25

Expected Total Return ¹ (+)	6.32%	6.35%
Rate of Inflation (CPI) ² (-)	2.75%	2.70%
Student Population Growth ³ (-)	0.83%	0.25%
Administrative Expenses (-)	0.08%	0.08%
SLB Contribution (+)	0.00%	0.00%
Spending Range (=)	2.66%	3.32%
Real Growth Rate of Endowment	0.00%	
Annual Distribution for Spending Range	\$1.243 B	\$1.551 B

Spending applied to projected 16 quarter moving average ending November 30, 2022, (\$46,724,169,700) and assumes the current long-term target asset allocation.

1. Lower range is based on new asset allocation approved by the SBOE in June 2022. Upper range reflects total PSF Corporation assets.
2. Inflation estimates are 2.75% and 2.70% from PSF staff and NEPC, respectively.
3. Texas student enrollment compound annual growth rate over five years (0.25%) and ten years (0.83%) through 2021-22 academic year.

Effective Distribution Rates

SBOE Assets only

	State Board of Education	
	2.66% rate	3.32% rate
Annual Dollar Distribution	\$1,242,862,914	\$1,551,242,434
Sixteen Quarter Projection 11/30/2022	\$37,427,030,096	\$37,427,030,096
<i>Effective Rate</i>	<i>3.32%</i>	<i>4.14%</i>
Fiscal Year End Projection 8/31/2022	\$37,976,314,371	\$37,976,314,371
<i>Effective Rate</i>	<i>3.27%</i>	<i>4.08%</i>
<i>PSF/GLO Combined Rate</i>	<i>3.94%</i>	<i>4.60%</i>

Distribution Rate

- Based on analysis that balances the need of current and future students and thorough analysis of financial and economic data, PSF Staff recommends a distribution rate range of 2.66% to 3.32% for fiscal years 2024-2025.
- Projected distributions would range between \$1.243 billion and \$1.551 billion per year, or \$2.486 billion and \$3.102 billion for the biennium.