

**Report of the State Board of Education
Committee on School Finance/Permanent School Fund
February 2, 2017**

The State Board of Education Committee on School Finance/Permanent School Fund met at 9:05.a.m. on Thursday, February 2, 2017, in Room #1-104 of the William B. Travis Building, 1701 N. Congress Avenue, Austin, Texas. All members of the committee were present, as follows:

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

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_4-17-15/ or in the information section (yellow pages) of the agenda.

The Committee on School Finance/Permanent School Fund heard public testimony on agenda item #13. Information regarding the individuals who presented public testimony is included in the discussion of that item.

ACTION ITEM

**1. Election of Chair
(No agenda exhibit)**

State Board of Education (SBOE) operating rules call for each committee to elect a chair from among its members. This item provides an opportunity for each of the SBOE standing committees to elect a chair at this meeting if the SBOE retains the existing committee structure. The chair may then appoint a vice chair. If the board changes the committee structure, the committee may elect a member to preside over this first meeting only. Statutory authority for this action is the Texas Education Code, §7.107.

NOMINATION: *Mr. Allen nominated Ms. Hardy for chair of the Committee on School Finance/Permanent School Fund.*

NOMINATION: *Mr. Mercer nominated Mr. Bradley for chair of the Committee on School Finance/Permanent School Fund.*

VOTE: *A vote was taken on the nomination of Ms. Hardy for chair of the Committee on School Finance/Permanent School Fund. The nomination failed, with two members voting Aye and three members voting No.*

VOTE: *A vote was taken on the nomination of Mr. Bradley for chair of the Committee on School Finance/Permanent School Fund. The nomination carried, with three members voting Aye and two members voting No.*

Mr. Bradley appointed Mr. Maynard as vice chair.

DISCUSSION ITEM

- 2. Review of 19 TAC Chapter 109, Budgeting, Accounting, and Auditing**
(Board agenda page III-71)

David Marx, director of financial compliance, presented this item. Mr. Marx explained that this item is a four-year rule review of rules that provide requirements for school districts relating to budgeting, accounting, financial reporting, and auditing. Mr. Marx also explained that the proposed amendments in item #3 represent the only changes to these rules.

ACTION ITEM

- 3. Proposed Amendment to 19 TAC Chapter 109, Budgeting, Accounting, and Auditing, Subchapter D, Uniform Bank Bid or Request for Proposal and Depository Contract, §109.51, Uniform Depository Bank Bid or Proposal Form**
(First Reading and Filing Authorization)
(Board agenda page III-1)
[Official agenda item #10]

Mr. Marx presented this item. Mr. Marx explained that the proposed amendment would update the bank bid and proposal forms and that this amendment would provide flexibility for school districts and banks and generate competition. Mr. Marx said he has received positive feedback from school districts and education service centers on the amendment.

MOTION AND VOTE: *It was moved by Mr. Mercer, seconded by Mr. Allen, and carried unanimously to recommend that the State Board of Education approve for first reading and filing authorization proposed amendment to 19 TAC Chapter 109, Budgeting, Accounting, and Auditing, Subchapter D, Uniform Bank Bid or Request for Proposal and Depository Contract, §109.51, Uniform Depository Bank Bid or Proposal Form and the placement of this item on the consent agenda for the State Board of Education meeting of February 3, 2017.*

CONSENT ITEM

- 4. Adoption of Review of 19 TAC Chapter 30, Administration, Subchapter B, State Board of Education: Purchasing and Contracts**
(Adoption of Review)
(Board agenda page III-41)
[Consent agenda item #(2)]

Norma Barrera, director of purchasing and contracts, presented this item. Ms. Barrera explained that this item relates to the protest procedure for purchasing issues and dispute resolution. Ms. Barrera answered questions from Mr. Bradley.

MOTION AND VOTE: *It was moved by Mr. Mercer and carried unanimously to recommend that the State Board of Education adopt the review of 19 TAC Chapter 30, Administration, Subchapter B, State Board of Education: Purchasing and Contracts.*

DISCUSSION ITEM

5. Review of Permanent School Fund Securities Transactions and the Investment Portfolio (Board agenda page III-127)

David Trice, director of finance, provided a summary on the status of the Permanent School Fund portfolio. Reports presented to the committee were for the reporting period October 1, 2016 through November 30, 2016, unless otherwise noted. Mr. Trice's report included reporting on the current fair market value of the Fund, the asset allocation mix as of November 30, 2016, PSF transactions occurring in the reporting period, revenues and expenditures for the fiscal period September 1, 2016 through November 30, 2016, the activity on the securities lending program for the fiscal period September 1, 2016 through November 30, 2016, 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, internal fixed income credit rating changes for the fiscal period September 1, 2016 through November 30, 2016, broker commissions on both the internal and external equity portfolios for the period beginning January 1, 2016 through November 30, 2016, and short-term cash investments.

CONSENT ITEM

6. Ratification of the Purchases and Sales of the Investment Portfolio of the Permanent School Fund for the Months of October and November 2016 (Board agenda page III-49) [Consent agenda item #(3)]

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 October and November 2016, in the amount of \$1,029,898,020 and \$861,105,703 respectively (Attachment A).*

DISCUSSION ITEM

7. Annual Reporting Requirement of the Internally Managed Permanent School Fund Investment Portfolio (Board agenda page III-129)

Holland Timmins, executive administrator and chief investment officer, provided the required attestation regarding the compliance with 19 TAC Chapter 33 of the internally managed investment portfolio in the matters of permissible and restricted investments, trading and brokerage policy, and proxy voting policy.

CONSENT ITEMS

8. Decision on Real Estate Investments

(Board agenda page III-51)
[Consent agenda item #(4)]

The PSF real estate consultant, Courtland Partners, was represented by Steve Novick, principal and chief operating officer, and Tom Hester, senior vice president, and joined by John Grubenman, director of private markets for PSF. Mr. Timmins informed the committee that staff had one item to present.

Mr. Novick provided an update on Courtland Partners. He then introduced a real estate investment recommendation, Exeter Industrial Value Fund IV, L.P., offered by Exeter Property Group IV, L.P., as General Partner. Mr. Hester 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: *By unanimous consent, the committee recommended to the State Board of Education approval to execute agreement(s) with Exeter Property Group IV, L.P. as General Partner, necessary to make an investment commitment of up to \$75 million in Exeter Industrial Value Fund IV, L.P., subject to continued due diligence and negotiation of fund terms, and authorization for contract execution by the Commissioner of Education.*

9. Authorization to Issue a Request for Qualifications for Fiduciary, Investment Contracting, Real Estate, Tax and Disclosure Counsel for the Permanent School Fund

(Board agenda page III-53)
[Consent agenda item #(5)]

Mr. Timmins presented the key points relevant to the issuance of the Request for Qualifications for Fiduciary, Investment Contracting, Real Estate, Tax and Disclosure Counsel for the Permanent School Fund.

MOTION AND VOTE: *By unanimous consent, the committee recommended to the State Board of Education approval to issue the Request for Qualifications for Fiduciary, Investment Contracting, Real Estate, Tax and Disclosure Counsel for the Permanent School Fund.*

10. Approval of the Selection of a Firm to Provide Global Custody and Securities Lending Services for the Permanent School Fund and Authorization for Contract Execution by the Commissioner of Education

(Board agenda page III-55)
[Consent agenda item #(6)]

Mr. Timmins presented a brief update related to the Global Custody and Securities Lending Services for the Permanent School Fund.

The PSF general consultant, NEPC was represented by Rhett Humphries, partner and Rosann Morello, consultant. They presented information on the custody search and custody services.

The following two finalist firms gave presentations:

BNY Mellon:

Brian Shea, Vice Chairman of BNY Mellon and CEO of Investment Services
Catherine Wargo, Relationship Executive
Karolyn Ferris, Relationship Executive Manager in Corporate, Government Not-for-Profit
Tom Heiner, Senior Consultant, Global Risk Solutions
Mike McDermott, Manager, Client Services

Northern Trust:

Kim Miller, Senior Vice President and Chief Executive
Peter Ceherecwich, President of Corporate and Institutional Services (C&IS)
Mike Vardas, Executive Vice President

MOTION AND VOTE: *By unanimous consent, the committee recommended to the State Board of Education approval of BNY Mellon to provide Global Custody and Securities Lending Services for the Permanent School Fund and Authorization for Contract Execution by the Commissioner of Education.*

DISCUSSION ITEMS

11. Review of the Private Equity Asset Class

(Board agenda page III-131)

The PSF general consultant, NEPC, was represented by Eric Harnish, principal & senior research consultant. The PSF private equity consultant, Neuberger Berman, was represented by Brien Smith, managing director. Mr. Grubenman joined them.

Mr. Harnish provided an introduction to private equity as an asset class and reviewed typical structures, characteristics, and strategies within private equity. He described a summary of the PSF private equity program since 2010.

Mr. Smith and Mr. Grubenman provided a brief introduction to private equity, an update on the market environment and an overview of the performance and progress of the PSF private equity program.

12. Report of the Permanent School Fund Executive Administrator and Chief Investment Officer

(Board agenda page III-133)

Mr. Timmins provided a brief update on PSF related legislation.

ACTION ITEM

13. Proposed Amendment 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

(Second Reading and Final Adoption)

(Board agenda page III-57)

[Official agenda item #11]

NAME: Bill Gumbert and Mike Jolly

AFFILIATION: Private Individuals

Leo Lopez, chief school finance officer, presented this item. Holland Timmons, executive administrator and chief investment officer of the Texas Permanent School Fund, explained that the three major rating agencies are comfortable with the proposed increase of the multiplier used to calculate the capacity of the Permanent School Fund. Mr. Lopez brought attention to language in the amendment providing that capacity would not exceed the IRS limit.

MOTION AND VOTE: *It was moved by Mr. Maynard, seconded by Mr. Mercer, and carried unanimously to recommend that the State Board of Education, by an affirmative vote of two-thirds of the members of the board, approve for second reading and final adoption, the proposed amendment 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.*

The meeting of the Committee on School Finance/Permanent School Fund adjourned at 12:35 p.m.