

Review of the Texas Permanent School Fund Distribution

October 18, 2006



PSF Distribution History

- Through Fiscal Year 2003, All Dividend and Interest Income Were Distributed to the Available School Fund (ASF).
- After Fiscal Year 2003, the PSF Distribution to the ASF Was Changed from Income Based to Total Return Based. Article 7 Section 5 of the Texas Constitution Was Amended to Read:

Article 7 Section 5 of the Texas Constitution

a) The permanent school fund consists of all land appropriated for public schools by this constitution or the other laws of this state, other properties belonging to the permanent school fund, and all revenue derived from the land or other properties. The available school fund consists of the distributions made to it from the total return on all investment assets of the permanent school fund, the taxes authorized by this constitution or general law to be part of the available school fund, and appropriations made to the available school fund by the legislature. The total amount distributed from the permanent school fund to the available school fund:

(1) in each year of a state fiscal biennium **must be an amount that is not more than six percent of the average of the market value** of the permanent school fund, excluding real property belonging to the fund that is managed, sold, or acquired under Section 4 of this article, **on the last day of each of the 16 state fiscal quarters preceding the regular session of the legislature** that begins before that state fiscal biennium, in accordance with the rate adopted by:

(A) **a vote of two-thirds of the total membership of the State Board of Education**, taken before the regular session of the legislature convenes; or

Article 7 Continued

(B) the legislature by general law or appropriation, if the State Board of Education does not adopt a rate as provided by Paragraph (A) of this subdivision; and

(2) over the 10-year period consisting of the current state fiscal year and the nine preceding state fiscal years may not exceed the total return on all investment assets of the permanent school fund over the same 10-year period.

(b) The expenses of managing permanent school fund land and investments shall be paid by appropriation from the permanent school fund.

PSF Distribution History

- In FY 2004 and FY 2005 the Constitutional Amendment Set the Spending Rate at 4.5% of the trailing 16-Quarter Market Value of the PSF. Distributions during these years totaled \$879.98 Million Per Year.
- In FY 2006 and 2007 the State Board of Education Set the Rate at 4.5% of the Trailing 16-Quarter Market Value of the PSF. Distributions during these years totaled \$841.88 Million Per Year.
- In September 14, 2006 the State Board of Education Set the Spending Rate for FY 2008 and FY 2009 at 3.5% of the Trailing 16-Quarter Market Value of the PSF. From That Distribution Rate, the State Board of Education Designated 1.25% for Textbook Funding as Stated in Article VII, Section 3(b) of the Texas Constitution.
- Distributions during these years are estimated to be \$712.17 Million Per Year or \$1,424 Million for the Biennium. This Represents a Decline of \$259 Million from the 2006-2007 Biennium.

PSF Distribution History

- The Constitutional Amendment Increased the Amounts Distributed to the ASF.
 - Preliminary PSF Investment Income in FY 2006 Totaled \$608 Million. This Amount Would Have Been Distributed Under the Income Based Policy.
 - PSF Distributed \$841 Million to the ASF in FY 2006 Which was \$233 Million Higher Than Income.

PSF Distribution to the Available School Fund

