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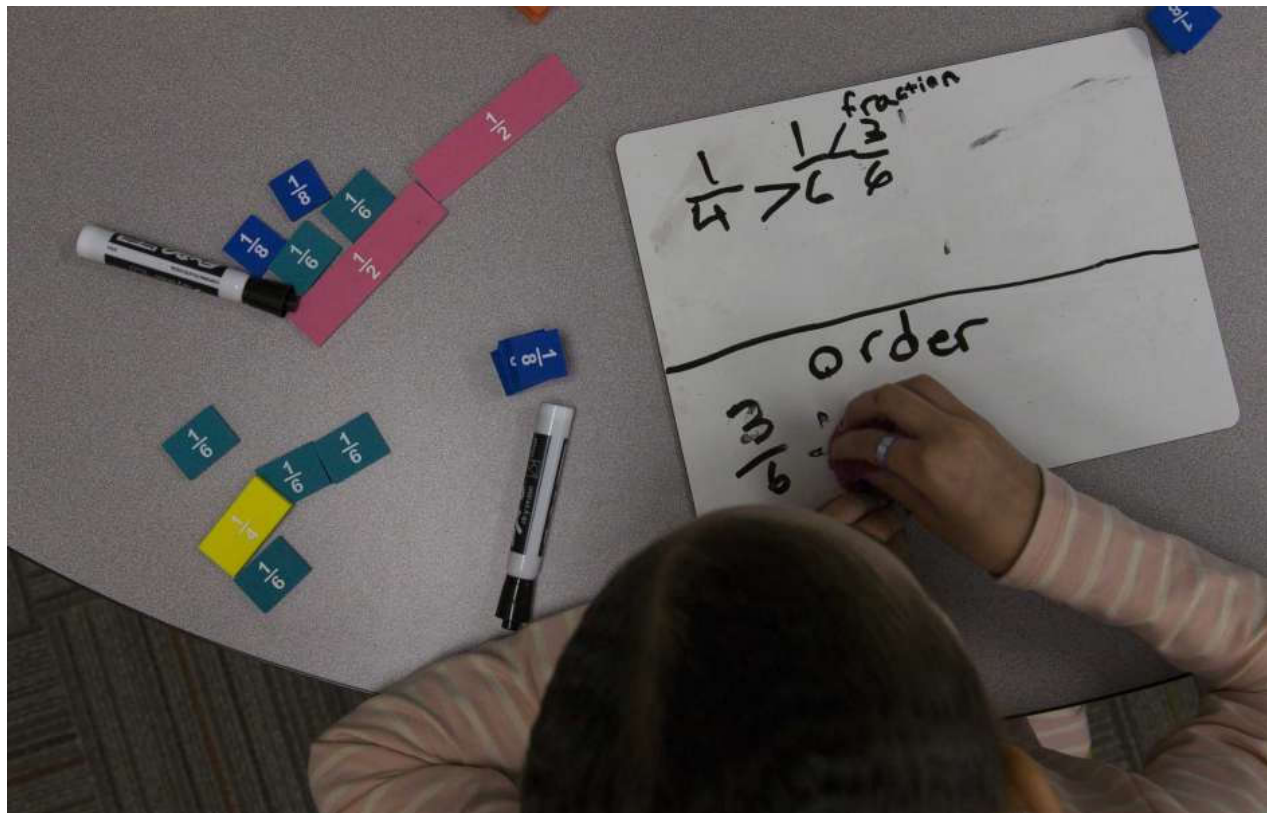
Efforts to fix broken Permanent School Fund move forward in Texas Senate

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Efforts to fix broken Permanent School Fund move forward in Texas Senate

Jeremy Blackman | May 9, 2019



Third-graders in Kelly Weyand's classroom at James C. Neill Elementary work on math activities during class time at their school in Richmond, TX, Monday, Feb. 18, 2019 in Richmond. The new school in Fort Bend Independent School District opened in the fall of 2017.

Photo: Mark Mulligan, Houston Chronicle / Staff photographer

Two bills that would begin overhauling Texas's massive public school endowment have moved a step closer to becoming law, with further reforms possible on the horizon.

The bipartisan legislation, led by Sen. Kirk Watson, D-Austin, addresses concerns raised by the Sunset Advisory Commission and a yearlong Chronicle investigation, which found widespread mismanagement of the Permanent School Fund and dwindling payments to schools.

Both bills heavily target the School Land Board, which oversees nearly a quarter of the \$44 billion endowment and has been criticized for investing billions of dollars with companies run by friends, business associates and campaign donors. One bill would expand the board in an effort to reduce conflicts, while the other would require it to disclose fees to outside consultants and relinquish part of its portfolio to the State Board of Education, which manages the rest of the fund's investments.

Watson had originally sought to strip the land board's investment authority entirely, but agreed to less restrictive changes after talks with the governor's office, he told lawmakers last week. Some of those changes would end in fiscal year 2021, however, with the intent that more lasting reforms are enacted next legislative session.

"After much back and forth, we've arrived at a bill that, for now, it addresses the symptoms of the problem while we work through the bigger fundamental issues over the interim," Watson said.

Watson's bills are based on recommendations he and the Sunset Commission made last fall after examining the land board. In recent weeks, though, a growing chorus of state senators has come forward to blast both boards over the Chronicle's series, which detailed skyrocketing consultant fees, billions in untapped revenue and shrinking annual disbursements to schools.

BROKEN TRUST: Texas's huge school endowment pays out less and less for schoolchildren

More than two months after the Chronicle's first story was published, the land board still hasn't disclosed to the newspaper the full amount of fees it pays to outside fund managers.

The lack of disclosure shows an "egregious omission in the state's oversight of the board," Sen. Joan Huffman, R-Houston, said Friday on the Senate floor.

\$720M more for schools?

The Chronicle reported that schools in Texas have received less annually from the endowment over the past decade, adjusted for inflation, even as the size of the fund has grown. And it found that the fund has failed to match the performance of peer endowments, missing out on as much as \$12 billion in revenue.

The Board of Education used to control all of the fund's investments, but in 2001 lawmakers divvied up the pool, allowing the land board to retain and invest revenue from the state's oil and gas royalties. That set up a power struggle that continues today. The boards never meet together, nor do they coordinate their asset allocations.

Watson's legislation would begin bridging that divide. It calls for an annual joint meeting and gives the Board of Education a say in nominating members to the land board. The land board members would still ultimately be appointed by the governor and the attorney general.

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A separate bill by Rep. Jim Murphy, R-Houston, would require each board to send quarterly reports to the other. It passed out of the House on Tuesday.

Significantly, Watson's bills also call for an examination before the next legislative session of how much more money the fund should be sending to schools each year. Right now, the fund is disbursing about 2.8 percent, or \$1.24 billion. If it paid out 5 percent of a four-year average market value, as many endowments try to do, Texas schools would have received \$720 million more in 2018.

That kind of money would help cover the cost of a significant increase in funding for public schools, which has become a focal point for legislators this session. The Senate on Monday moved to send more than \$6 billion more to schools over the coming biennium.

"We need the endowment to be protected, but we also need to make sure we have access to adequate resources now," Watson said.

Legislation put forth in the House by Rep. Dan Huberty, R-Houston, would additionally boost the amount of money the land board can send directly to schools through the endowment's Available School Fund. It passed the House last week.

George P. Bush defends land board

Sen. Paul Bettencourt, R-Houston, told colleagues that maximizing

payments is the only way to restore the fund to its original purpose, “which was to try to get additional revenue into the school system to educate school children.”

Watson’s bills still have to pass the House and head to the governor before session ends May 27. The House Land and Resource Management Committee, led by Republican Tom Craddick, hinted Tuesday that it’s working on a substitute to the bill expanding the size of the land board.

Land Commissioner George P. Bush, who chairs the land board, has opposed reducing the board’s investment portfolio. He defended its performance at a hearing last month, noting statutory restrictions on the types of assets it can invest in.

A spokeswoman for Bush did not respond to a request for comment.

The bills would not be the only blow to Bush and the General Land Office. Legislators have separately moved to kill the State Power Program, through which the land office sells electricity to school districts and other public entities at a tax-free rate, then sends the revenue earned to the Permanent School Fund.

The program, created two decades ago to help ease the state into a deregulated market, has been attacked over the years for netting marginal profits and boxing out new private competitors. The land office, which has been neutral on efforts to end the program, made about \$5 million from it in 2017, according to data the office submitted last year to lawmakers.

A bill to eliminate the program from Rep. Chris Paddie, R-Marshall, sailed through both chambers and was sent to the governor on Monday. Though

it would phase out the land office's role, school districts would still be allowed to purchase electricity tax free from energy providers.

"I am pleased to see the Texas Legislature return to a free market approach to electric utilities while ensuring that the tax credit for Texas Schools is preserved," Bush said in a statement.

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