

**SUBJECT:** Prohibiting the deposit of certain revenue in the real estate special fund

**COMMITTEE:** Appropriations — favorable, without amendment

**VOTE:** 24 ayes — Pitts, Sylvester Turner, Ashby, Bell, G. Bonnen, Carter, Crownover, Darby, Giddings, Gonzales, Hughes, S. King, Longoria, Márquez, McClendon, Muñoz, Orr, Otto, Patrick, Perry, Price, Raney, Ratliff, Zerwas

0 nays

3 absent — S. Davis, Dukes, Howard

**WITNESSES:** For — (*Registered, but did not testify:* Daniel Gonzalez and Chelsey Thomas, Texas Association of Realtors)

Against — Jerry Patterson, General Land Office

On — (*Registered, but did not testify:* Larry Laine, General Land Office)

**BACKGROUND:** Natural Resources Code, sec. 51.401 allows the School Land Board to designate funds received from any royalty or mineral interest, real estate investment, or other interests, including revenues received from those sources, to be deposited in the real estate fund account of the Permanent School Fund (PSF) for the acquisition of public school land.

**DIGEST:** HB 3574 would prohibit the School Land Board from designating the proceeds of a royalty or mineral interest for deposit in the real estate special fund account of the PSF.

This bill would take effect September 1, 2013.

**SUPPORTERS SAY:** HB 3574 would retain PSF mineral-related revenues for limited purposes by no longer allowing proceeds from mineral leases and royalties to be deposited in the real estate special fund account for the acquisition of public school land. The money instead would be left within the corpus of the PSF for use by the State Board of Education. Since 2001, the real estate special fund account has grown to more than \$3.2 billion, and assets in real estate and real property have been successfully diversified and

expanded. Since those assets are of such size and diversity now, the constant infusion of the PSF's mineral revenues is no longer needed to continue to grow the fund. It is appropriate now for PSF administrators to refocus their efforts on providing revenue for the operation of the state's public schools.

The School Land Board is limited to investing in real estate proper, while the State Board of Education can and does invest in almost anything, including more than \$600 million in real estate. Since both parts of the PSF are now invested in real estate, it makes little sense to continue to allow the large mineral-related revenue stream of the fund to be used solely at the discretion of the School Land Board. That money should be made available for other purposes that could yield a greater investment return by investing in a broader range of assets.

By law, the assets managed by the School Land Board must stay below 15 percent of the corpus of the PSF. Once the 15-percent cap is reached, the School Land Board would be unable to retain current revenues and likely would have to liquidate assets to keep from exceeding the cap. Limiting funds to be deposited into the real estate special fund account could help delay this eventuality.

**OPPONENTS  
SAY:**

HB 3574 would make revenues that currently are deposited to the real estate special fund account portion of the PSF unavailable for investment use by the School Land Board. In fiscal 2013 alone, an estimated \$414.3 million in revenue would stay within the corpus of the PSF for use by the State Board of Education rather than being made available to the School Land Board for real estate investments purposes.

HB 3574 likely would result in opportunity costs from foregone investment returns, which ordinarily would have materialized through revenues from mineral and royalty interests managed in the real estate special fund account portfolio, being no longer be available to the real estate special fund account. The only income that could be earned on the funds no longer available for investment by the State Land Board would be depository interest. The loss associated with potentially foregone investment income would be significant.

HB 3575 might not effectively achieve the objective of providing revenue for the operation of the state's public schools. Once the assets managed by the School Land Board reach 15 percent of the corpus of the PSF, all

revenue that contributes to the fund would shift to the corpus of the PSF for use by the State Board of Education. Limiting the revenue that could be deposited into the real estate special fund account would delay reaching the cap and the eventual shift of revenue for use by the State Board of Education.