



Certification of the Permanent School Fund's Bond Guarantee Program for Fiscal Year 2020

February 4, 2021

Members of the Legislative Audit Committee:

The State Auditor's Office certifies that, for the fiscal year ended August 31, 2020, the amount of school district and charter district bonds guaranteed by the Permanent School Fund's (Fund) Bond Guarantee Program (Program) was within the limits applicable to the Program. In addition, the Fund had sufficient capacity to meet the State Board of Education's (Board) requirement to hold no less than 5 percent of the total guarantee capacity in reserve for the same time period.

As of August 31, 2020, the total principal of the 3,360 outstanding bond issues guaranteed by the Program was \$90.3 billion, which included \$87.8 billion for public school districts and \$2.5 billion for charter districts. (See attachment for additional information on the Program's fiscal year 2020 activity.)

The guarantee saves public school districts and charter districts money by enhancing their bonds to the highest possible rating. Without the Program's guarantee, public school districts and charter districts would need to (1) purchase private bond insurance or (2) pay higher interest rates on the bonds they sell.

The Program's ability to guarantee bonds is limited to the lesser of two values: the U.S. Internal Revenue Service-set limit (Internal Revenue Service Limit) or the Board-set limit (State Capacity Limit). State statute also limits the available bond guarantee capacity for charter districts. Specifically, those limits for fiscal year 2020 were:

- Internal Revenue Service limit - \$117.3 billion¹
- State capacity limit - \$128 billion²
- Charter district allocation limit - \$4.6 billion³

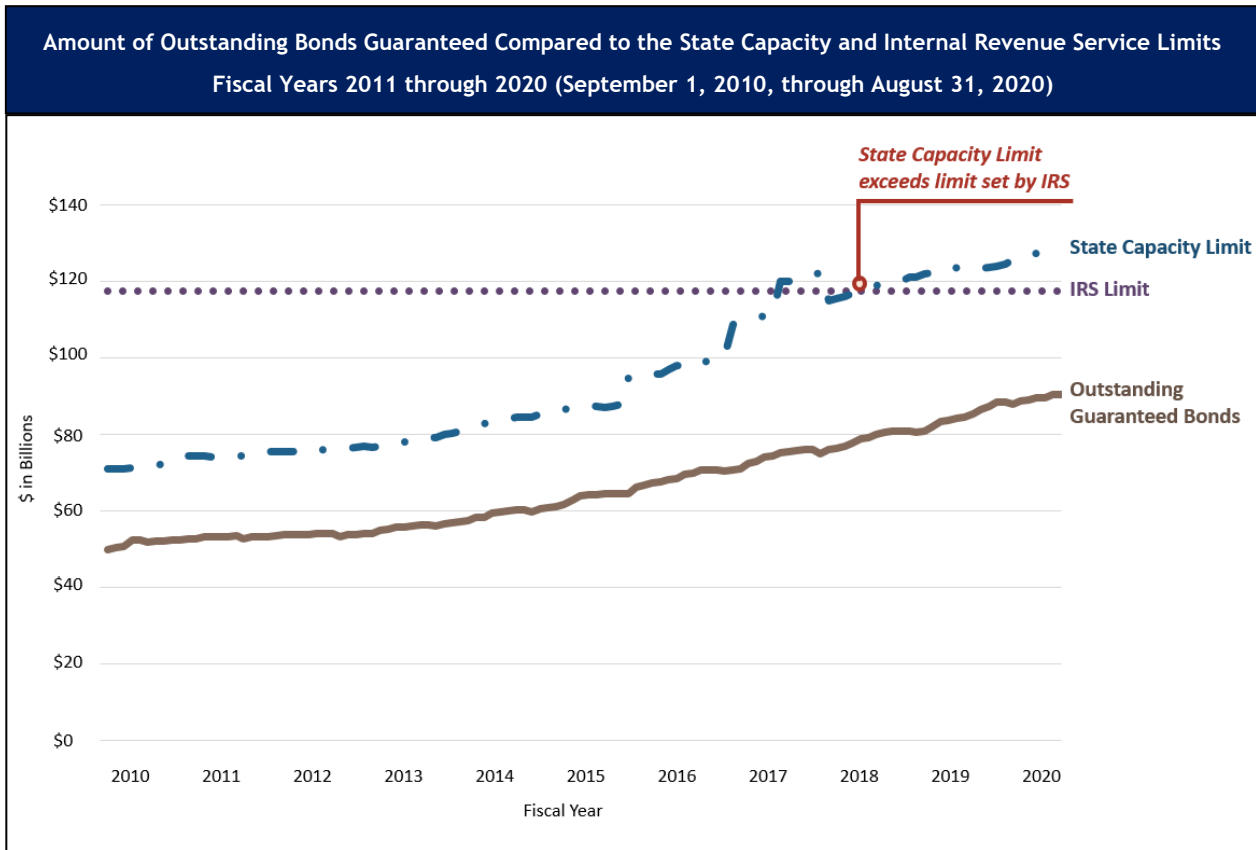
Figure 1 on the next page shows the amounts of outstanding bonds guaranteed, the calculated State Capacity Limit, and the Internal Revenue Service Limit from August 31, 2010, through August 31, 2020.

¹ Title 26, Code of Federal Regulations, Section 1.148-11(d)(1)(i)(F), established a bond guarantee capacity limit of no more than 500 percent of the total cost of the assets held by the Fund as of December 16, 2009.

² Title 19, Texas Administrative Code, Section 33.65(e), set a limit on the Program's bond guarantee capacity of 3.5 times the cost value of the Fund, as permitted by Texas Education Code, Section 45.053(d).

³ Texas Education Code, Section 45.0532(a), limited the available bond capacity for charter districts. That limit, as further described in Title 19, Texas Administrative Code, Section 33.67(d)(1), is based on the percentage of the number of students enrolled in open-enrollment charter districts compared with the total number of students enrolled in all Texas public schools, as determined by the commissioner of education. For fiscal year 2020, that percentage was 6.15 percent.

Figure 1

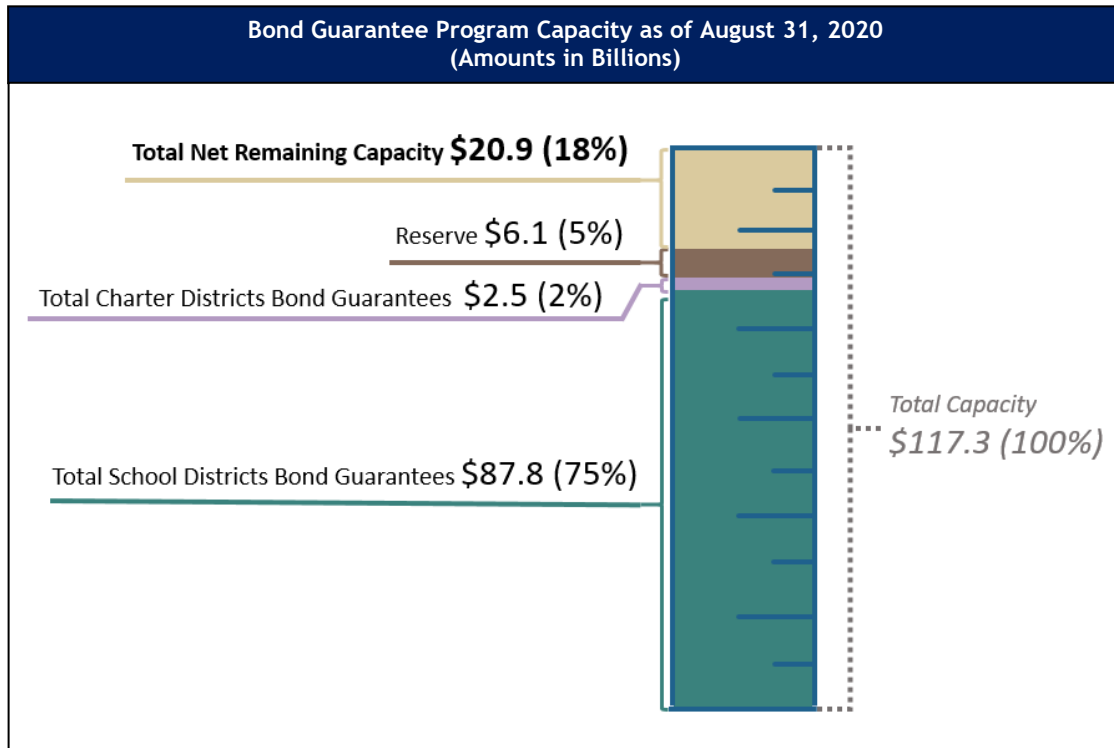


Sources: Texas Permanent School Fund *Comprehensive Annual Financial Report for the Fiscal Year Ending August 31, 2020*, and Program data from the Texas Education Agency.

Capacity is subject to a statutory reserve set by the Board at no less than 5.0 percent of the fund's total capacity. An additional reserve of 5.0 percent of the allocation available to guarantee charter district bonds is included as part of the program reserve.

As Figure 2 on the next page shows, as of August 31, 2020, the Program could guarantee an additional \$20.9 billion in bonds.

Figure 2



Source: Based on Program data from the Texas Education Agency.

Tables 1 and 2 in the attachment to this letter provide a summary of fiscal year 2020 activity for the Program and show the changes in the number and dollar amount of outstanding bonds guaranteed by the Program.

We appreciate the Texas Education Agency’s cooperation during this audit, particularly the cooperation of the staff of the Permanent School Fund. If you have any questions, please contact Michael Clayton, Audit Manager, or me at (512) 936-9500.

Sincerely,

Lisa R. Collier, CPA, CFE, CIDA
First Assistant State Auditor

Attachment

cc: The Honorable Greg Abbott, Governor
Members of the State Board of Education
Dr. Keven Ellis, Chair
Ms. Georgina C. Pérez, Secretary
Mr. Lawrence A. Allen, Jr.
Dr. Rebecca Bell-Metereau
Mr. Ruben Cortez, Jr.
Ms. Aicha Davis
Ms. Patricia Hardy
Mr. Will Hickman
Dr. Jay Johnson
Ms. Pam Little
Mr. Tom Maynard
Ms. Sue Melton-Malone
Ms. Marisa B. Perez-Diaz
Dr. Matt Robinson
Dr. Audrey Young
Texas Education Agency
Mr. Mike Morath, Commissioner of Education
Mr. Holland Timmins, Executive Administrator
and Chief Investment Officer, Permanent
School Fund

Objective, Scope, and Methodology

The objective of this audit was to determine whether the total amount of school district and charter school bonds that the Permanent School Fund's (Fund) Bond Guarantee Program (Program) guarantees is within the limits established by state statute.

The scope of this audit covered the Fund's valuation and all bonds guaranteed by the Fund at the end of fiscal year 2020.

Audit work included reviewing the State Board of Education's bond guarantee limit and reserve calculations for accuracy and determining the Fund's total cost value as of the end of fiscal year 2020.

Auditors also assessed the design and operation of applicable internal controls. That assessment included observing key controls relevant to the Program.

Audit fieldwork was conducted from September 2020 through December 2020. We conducted this audit in conjunction with the financial opinion audit of the Permanent School Fund and in accordance with generally accepted governmental auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The following members of the State Auditor's staff performed the audit:

- Jules Hunter, CPA, CIA (Project Manager)
- Ben Keyfitz, CPA, CFE (Assistant Project Manager)
- Mohammad Ali Bawany, CISA
- Dennis Ray Bushnell, CPA (Quality Control Reviewer)
- Michael Owen Clayton, CPA, CISA, CFE, CIDA (Audit Manager)



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Attachment

Summary of Bond Guarantee Activity for Fiscal Year 2020

Tables 1 and 2 summarize fiscal year 2020 activity for the Permanent School Fund's Bond Guarantee Program (Program) and show the changes in the number and dollar amount of outstanding bonds guaranteed by the Program.

Table 1

Number of Guaranteed Bonds Outstanding Fiscal Year Activity			
Category	School Districts	Charter Districts	Total Number of Issues
Balance on September 1, 2019	3,297	49	3,346
Issues guaranteed	330	16	346
Issues matured	(243)	(1)	(244)
Issues refunded and adjustments made	(88)	0	(88)
Number of Issues on August 31, 2020	3,296	64	3,360

Source: Supplementary information in the Permanent School Fund's *Comprehensive Annual Financial Report for the Fiscal Year Ending August 31, 2020*.

Table 2

Dollar Amount of Guaranteed Bonds Outstanding Fiscal Year Activity			
Category	School Districts	Charter Districts	Total Amount of Issues
Balance on September 1, 2019	\$ 82,537,755,203	\$ 1,860,145,000	\$84,397,900,203
Issues guaranteed	15,150,604,373	709,425,000	\$15,860,029,373
Issues matured	(3,448,289,850)	(33,368,000)	(3,481,657,850)
Issues refunded and adjustments made	(6,439,591,481)	0	(6,439,591,481)
Balance on August 31, 2020	\$87,800,478,245	\$2,536,202,000	\$90,336,680,245

Source: Supplementary information in the Permanent School Fund's *Comprehensive Annual Financial Report for the Fiscal Year Ending August 31, 2020*.