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Report of the State Board of Education
Committee on School Finance/Permanent School Fund
July 14, 2009

The State Board of Education Committee on School Finance/Permanent School Fund met at 1:07 p.m. on Tuesday, July 14, 2009, in Room #2-195 and at 4 p.m. in Room 1-104 of the William B. Travis Building, 1701 N. Congress Avenue, Austin, Texas. The following members of the committee were present:

Presiding: David Bradley, chair; Rick Agosto, vice chair; Gail Lowe

Absent: Cynthia Dunbar, Rene Nuñez

Non-Committee Members Present: Pat Hardy, Mavis B. Knight

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://www.tea.state.tx.us/index4.aspx?id=3958** or in the information section (yellow pages) of the agenda.

The Committee on School Finance/Permanent School Fund heard public testimony on agenda item #3. Information regarding the individuals who presented public testimony is included in the discussion of that item.

The committee considered Permanent School Fund items first, followed by School Finance items.

DISCUSSION ITEMS

1. Presentations by Finalist Candidates for Global Custody and Securities Lending Services for the Permanent School Fund
(Board agenda page III-25)

Holland Timmins, Executive Administrator and Chief Investment Officer, introduced this item by directing the committee members to the Executive Summary which included an overview of the evaluation process, the role of a Global Custody Bank and a Strengths and Weaknesses matrix on each of the firms. Presentations were made to the committee by individuals representing the following three finalist firms: JP Morgan Chase Bank, N.A., State Street Corporation and The Bank of New York Mellon.

A fourth firm, Northern Trust was ranked number four and the evaluation team did not recommend that the firm be included in the site visits or brought forward to make a presentation to the committee.

The following three firms gave presentations by their respective representatives:

J. P. Morgan Chase Bank, N.A.
Joe Holt, Chase Bank Austin Region Chairman
Michael Ravensbergen, Managing Director-Sales and Client Management Executive, North America
Brendan McCarthy, Securities Lending Relationship Manager
Jeff Mortimer, Investment Analytics Consultant/Manager
Janet Fennessy, Relationship Manager
Robert Garcia, Business Development Manager
Tim Carroll, Vice President Measurisk

State Street Corporation
Joe Antonellis, Vice Chairman
Vin Debaggis, Senior Vice President and Division Head, Public Funds
Lisa Massena-Lambert CFA, Senior Vice President, Investment Analytics
Suzanne N. Lee, Senior Managing Director
John Roth, Customer Services Relationship Manager, Public Funds
Richard Protasewich, Vice President, Specialized Trust Services

The meeting recessed at 2:56 p.m. and reconvened at 3:09 p.m.

The Bank of New York Mellon
Vince Sands, Executive Vice President Asset Servicing
Michael McDermott, Client Services Manager-Global Securities Lending
Todd Rossignol, Everett Site Manager, Client Accounting and Reporting Services
Tom Heiner, Senior Investment Analytics Consultant

2. Presentation on the Absolute Return Portfolios Managed for the Permanent School Fund
(Board agenda page III-27)

Mr. Bradley introduced the item.

The following representatives of Goldman Sachs Asset Management gave a presentation regarding the absolute return strategy:

Goldman Sachs Asset Management
Kent Clark, Chief Investment Officer, Hedge Fund Strategies
Patrick Sullivan, Managing Director, US Institutional – Public Funds

The committee deferred Mr. Hubbard's review of the Permanent School Fund's absolute return portfolio to the August meeting.

3. Discussion of Proposed Amendment to 19 TAC Chapter 105, <u>Foundation School Program</u>, Subchapter B, <u>Use of State Funds</u>, §105.11, <u>Maximum Allowable Indirect Cost</u>
(Board agenda page III-29)

Rita Chase, Director of Financial Audits, introduced the item and stated that the agency was proposing to increase the indirect cost rate for special programs from 15/10% to 45% to be incompliance with the directive from House Bill (HB) 3646. She stated that HB 3646 directs the State Board of Education to increase the indirect cost allotments to reflect the funding represented by the basic allotment. HB 3646 increased the state compensatory education indirect cost rate to 45%. The other special program areas would be special education; bilingual/ESL; career and technology and gifted and talented.

Mr. Bradley asked if the bill stated what rate must be adopted. Ms. Chase stated no, it just states the Board increase the percentage to keep the direct funding at the same level as the previous year.

Mrs. Knight asked staff to explain what the state compensatory education funds were used for. Ms. Chase stated funds are to be used for the at-risk students.

Mr. Agosto asked staff to provide an explanation on how the funds could be spent for each special program.

Mr. Bradley asked that copies of handouts be included with the minutes. The handouts showed the changes the new percentage would have on the allotments. One handout was presented by TEA staff (Attachment A) and the other was by presented the Career and Technology Association of Texas (Attachment B).

Public testimony was provided by the following individuals:

NAME: Robin Painovich
AFFILIATION: Career & Technology Association of Texas

NAME: Dr. Linda Anderson
AFFILIATION: Birdville ISD, Director of Career & Technology Education

NAME: Marty Thompson
AFFILIATION: Denton ISD, Dean of Advance Technology Complex/Career & Technical Director

NAME: Patrick Calhoun
AFFILIATION: Beaumont ISD, Career & Technical Education Director

4. Discussion Regarding Allocation of Funds for the Purchase and Distribution of Instructional Materials
(Board agenda page III-35)

David Anderson, general counsel, presented the item for discussion. He explained that no action was required since the purchase and distribution of instructional materials for fiscal year 2010 would be funded by sources other than the available school fund.

ACTION ITEMS

5. Braille Materials for the Visually Impaired
(Board agenda page III-1)
[Official agenda item #15]

Charles Mayo, manager of distribution and accessibility, introduced the item and explained the need for the committee to approve release of two RFPs for production of Braille masters and Braille copies of the Literature, Language Arts and Reading textbooks to be considered for adoption by the board in November 2009. Mr. Mayo stated that the agency would organize a panel of outstanding teachers of the visually impaired and other Braille experts to review the proposals and make recommendations to the commissioner of education.

MOTION AND VOTE: *It was moved by Mr. Bradley and carried by unanimous vote to recommend approval of the release of requests for proposals (RFPs) for production of Braille masters and Braille copies of textbooks that are to be adopted by the State Board of Education in November 2009 and that this item be placed on the consent agenda of the State Board of Education meeting on July 17, 2009.*

6. Large Type Textbooks for the Visually Impaired
(Board agenda page III-3)
[Official agenda item #16]

Mr. Mayo introduced the item and explained the need for the committee to approve release of an RFP for production of large type versions of the Literature, Language Arts and Reading textbooks to be considered for adoption by the board in November 2009. Mr. Mayo stated that the agency would organize a panel of outstanding teachers of the visually impaired to review the proposals and make a recommendation to the commissioner of education.

MOTION AND VOTE: *It was moved by Mr. Bradley and carried by unanimous vote to recommend approval of the release of a request for proposal (RFP) to produce large type editions of the textbooks that are to be adopted by the State Board of Education in November 2009 and that this item be placed on the consent agenda of the State Board of Education meeting of July 17, 2009.*

DISCUSSION ITEM

7. Review of Permanent School Fund Securities Transactions and Investment Portfolio
(Board agenda page III-37)

Catherine Civiletto, deputy executive administrator, provided a summary of the status of the Permanent School Fund portfolio. All reports presented to the Committee were for the reporting period April 1, 2009 through May 31, 2009. This included the current fair market value of the Fund, the asset allocation mix as of May 31, 2009, PSF transactions summary, income and portfolio gains/losses and expenditures for the period September 1, 2008 through May 31, 2009, GLO managed real estate assets summary of revenues and contributions to the Fund for the period pre 1982 to May 31, 2009, securities lending activity for the period September 1, 2008 through May 31, 2009, Bond Guarantee Program Status Report, the proxy votes against management provided by the proxy vendor RiskMetrics Group, details of purchases and sales on all portfolios, internal fixed income rating changes for the period September 1, 2008 through May 31, 2009, broker commissions cumulative for the period January 1, 2009 through May 31, 2009 and activity in the short term investment assets.

CONSENT ITEM

8. Ratification of the Purchases and Sales of the Investment Portfolio of the Permanent School Fund for the Months of April and May 2009
(Board agenda page III-5)
[Consent agenda item #(1)]

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 April and May 2009 in the amount of $588,193,155 and $592,331,361 respectively (Attachment C).*

The meeting of the Committee on School Finance/Permanent School Fund adjourned at 5:30 p.m.