



# Certification of the Permanent School Fund's Bond Guarantee Program for Fiscal Year 2021

January 26, 2022

Members of the Legislative Audit Committee:

The State Auditor's Office certifies that, for the fiscal year ended August 31, 2021, 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, 2021, the total principal of the 3,429 outstanding bond issues guaranteed by the Program was \$95.3 billion, which included \$92.0 billion for public school districts and \$3.3 billion for charter districts. (See attachment for additional information on the Program's fiscal year 2021 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 2021 were:

- Internal Revenue Service - \$117.3 billion<sup>1</sup>
- State capacity - \$135.4 billion<sup>2</sup>
- Charter district - \$6.3 billion<sup>3</sup>

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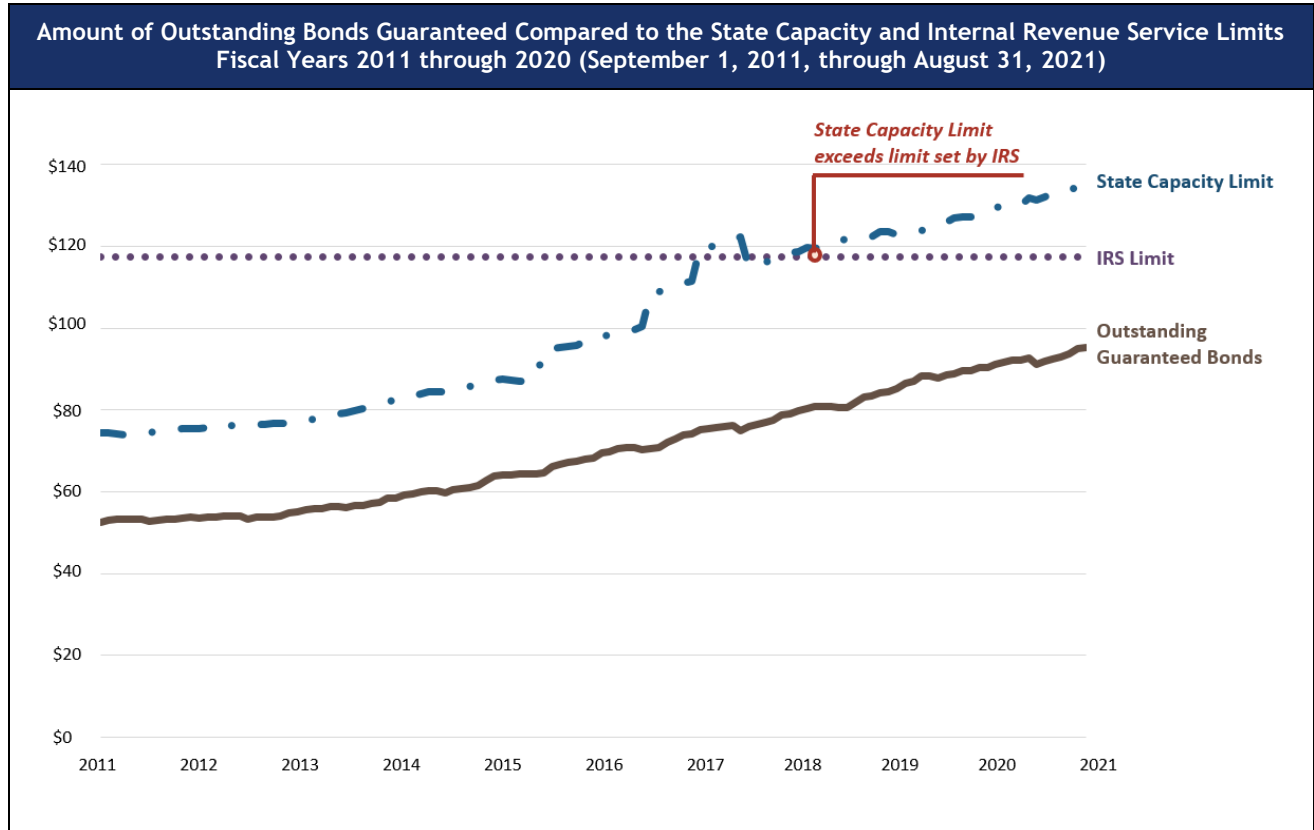
<sup>1</sup> Title 26, Code of Federal Regulations, Section 1.148-11(d)(1)(i)(F), established a bond guarantee capacity limit of no more than 500 percent of the total cost of the assets held by the Fund as of December 16, 2009.

<sup>2</sup> Title 19, Texas Administrative Code, Section 33.65(e)(1), 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).

<sup>3</sup> 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 2021, that percentage was 6.83 percent.

Figure 1 shows the amounts of outstanding bonds guaranteed, the calculated State Capacity Limit, and the Internal Revenue Service Limit from September 1, 2011, through August 31, 2021.

Figure 1

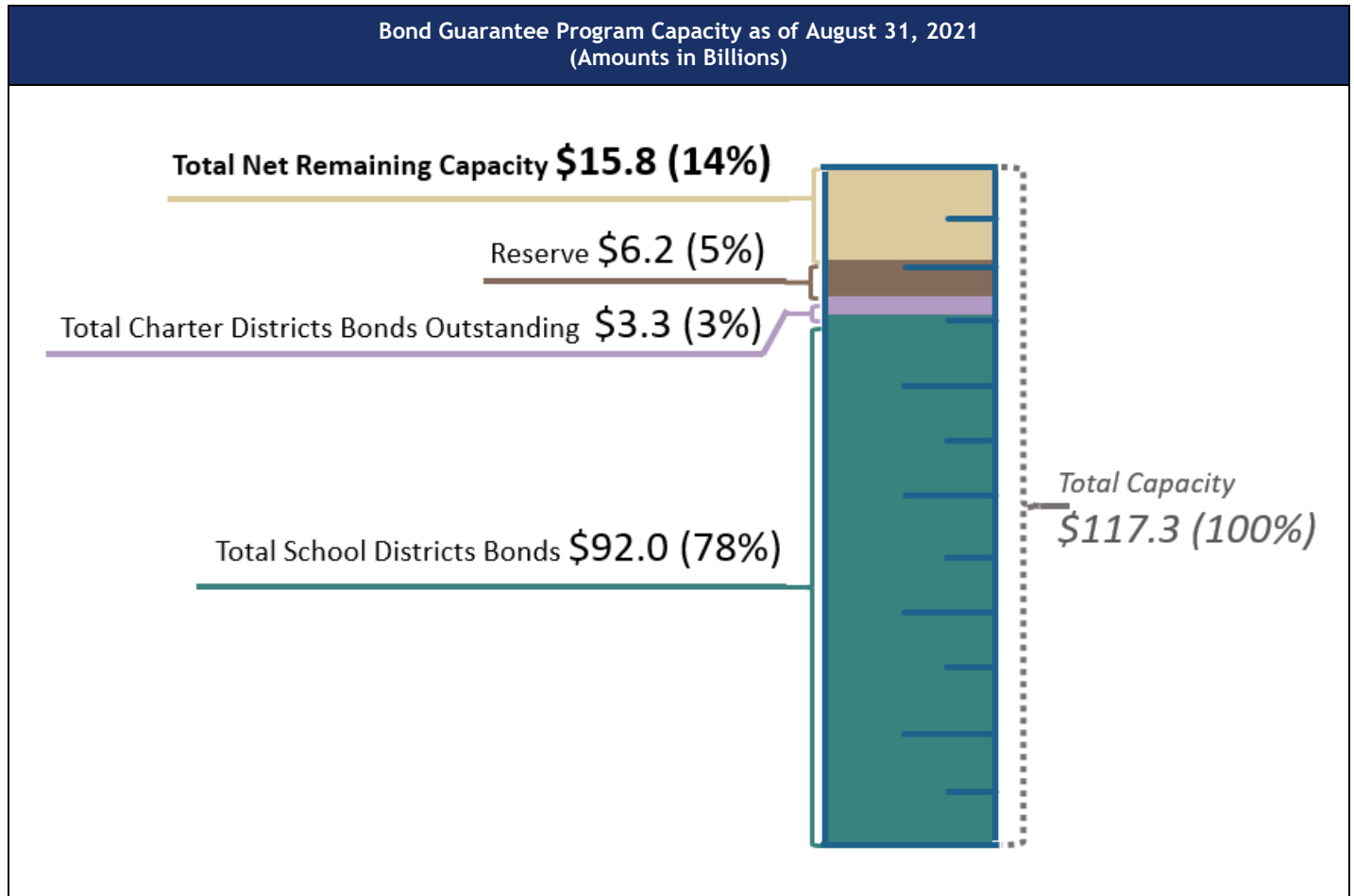


Sources: Texas Permanent School Fund *Annual Comprehensive Financial Report for the Fiscal Year Ending August 31, 2021*, and Program data from the Texas Education Agency.

Capacity is subject to a statutory reserve set by the Board at no less than 5.0 percent of the fund’s total capacity. That reserve includes an allocation of 5.0 percent to guarantee charter district bonds.

As Figure 2 on the next page shows, as of August 31, 2021, the Program could guarantee an additional \$15.8 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 2021 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  
State Auditor

Attachment

cc: The Honorable Greg Abbott, Governor  
Members of the State Board of Education  
Dr. Keven Ellis, Chair  
Ms. Pam Little, Vice 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  
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 district 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 2021.

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 2021.

Audit fieldwork was conducted from September 2021 through December 2021. We conducted this performance audit in conjunction with the financial opinion audit of the Permanent School Fund and in accordance with generally accepted government 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:

- Amadou Ngaide, CFE, CICA, CIDA (Project Manager)
- Benjamin Nathaniel Keyfitz, CPA, CFE (Assistant Project Manager)
- Taylor L. Huff, CFE
- Mary Ann Wise, CPA, CFE (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 2021

Tables 1 and 2 summarize fiscal year 2021 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, 2020	3,296	64	3,360
Issues guaranteed	392	22	414
Issues matured	(206)	(2)	(208)
Issues refunded and adjustments made	(136)	(1)	(137)
<b>Number of Issues on August 31, 2021</b>	<b>3,346</b>	<b>83</b>	<b>3,429</b>

Source: Supplementary information in the Permanent School Fund's *Annual Comprehensive Financial Report for the Fiscal Year Ending August 31, 2021*.

Table 2

Dollar Amount of Guaranteed Bonds Outstanding Fiscal Year Activity			
Category	School Districts	Charter Districts	Total Amount of Issues
Balance on September 1, 2020	\$ 87,800,478,245	\$ 2,536,202,000	\$ 90,336,680,245
Issues guaranteed	17,334,335,971	893,850,000	18,228,185,971
Issues matured	(3,747,026,975)	(43,471,000)	(3,790,497,975)
Issues refunded and adjustments made	(9,436,611,319)	(78,595,000)	(9,515,206,319)
<b>Balance on August 31, 2021</b>	<b>\$91,951,175,922</b>	<b>\$3,307,986,000</b>	<b>\$95,259,161,922</b>

Source: Supplementary information in the Permanent School Fund's *Annual Comprehensive Financial Report for the Fiscal Year Ending August 31, 2021*.