



An Audit Report on

Certification of the Permanent School Fund's Bond Guarantee Program for Fiscal Year 2023

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State Auditor

The State Auditor's Office certifies that, for the fiscal year ended August 31, 2023, 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 0.25 percent of the total guarantee capacity in reserve for the same time period. On February 3, 2023, the Board approved the reduction of its required reserve for the Bond Guarantee Program from 5 percent to 0.25 percent. This change resulted in a revision of Texas Administrative Code, Title 19, Chapter 33, effective March 1, 2023, and increased the total remaining capacity available.

As of August 31, 2023, the total principal of the 3,441 outstanding bond issues guaranteed by the Program was \$115.7 billion, which included \$111.6 billion for public school districts and \$4.1 billion for charter districts. (See the Summary of Bond Guarantee Activity for additional information on the Program's fiscal year 2023 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 2023 were:

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This audit was conducted in accordance with Texas Education Code, Sections 45.053 and 45.0531.

Summary of Bond Guarantee Activity

This summary shows the changes in the number and dollar amount of outstanding bonds guaranteed by the Program.

[Summary of Bond Guarantee Activity](#) | p. 4

- Internal Revenue Service - \$219.6 billion¹
- State capacity - \$153.7 billion²
- Charter district allocation - \$11.3 billion³

Change in Internal Revenue Service Limit

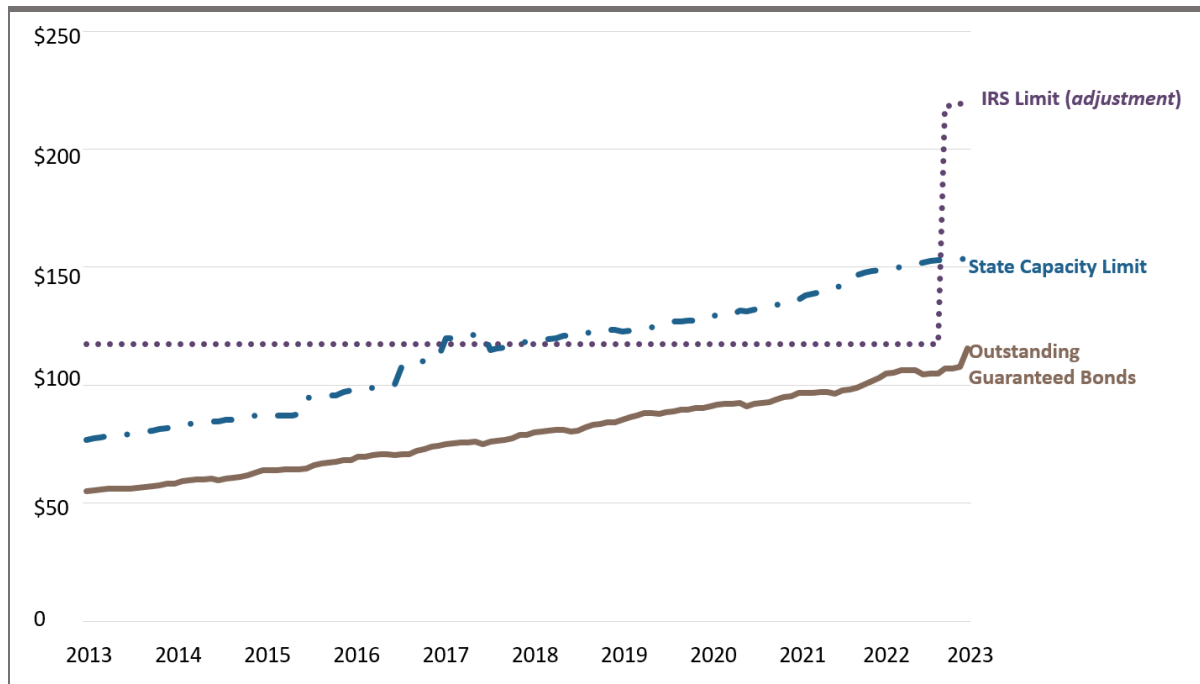
During fiscal year 2023, the Internal Revenue Service increased its limit for the Program (based on Fund assets) from \$117.3 billion as of December 16, 2009, to \$219.6 billion as of August 31, 2023.

Source: Internal Revenue Service Notice 2023-39.

Figure 1 shows the amounts of outstanding bonds guaranteed, the calculated State Capacity Limit, and the Internal Revenue Service Limit from September 1, 2013, through August 31, 2023.

Figure 1

**Amount of Outstanding Bonds Guaranteed Compared to State Capacity and Internal Revenue Service Limits
Fiscal Years 2014 through 2023
(September 1, 2013, through August 31, 2023)**



Source: Based on Program data from the Texas Permanent School Fund Corporation for the fiscal year ending August 31, 2023.

¹ Notice 2023-39 from the Internal Revenue Service (IRS) established a bond guarantee capacity limit of no more than 500 percent of the total cost of the assets held by the Fund.

² Texas Administrative Code, Title 19, Section 33.6, 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).

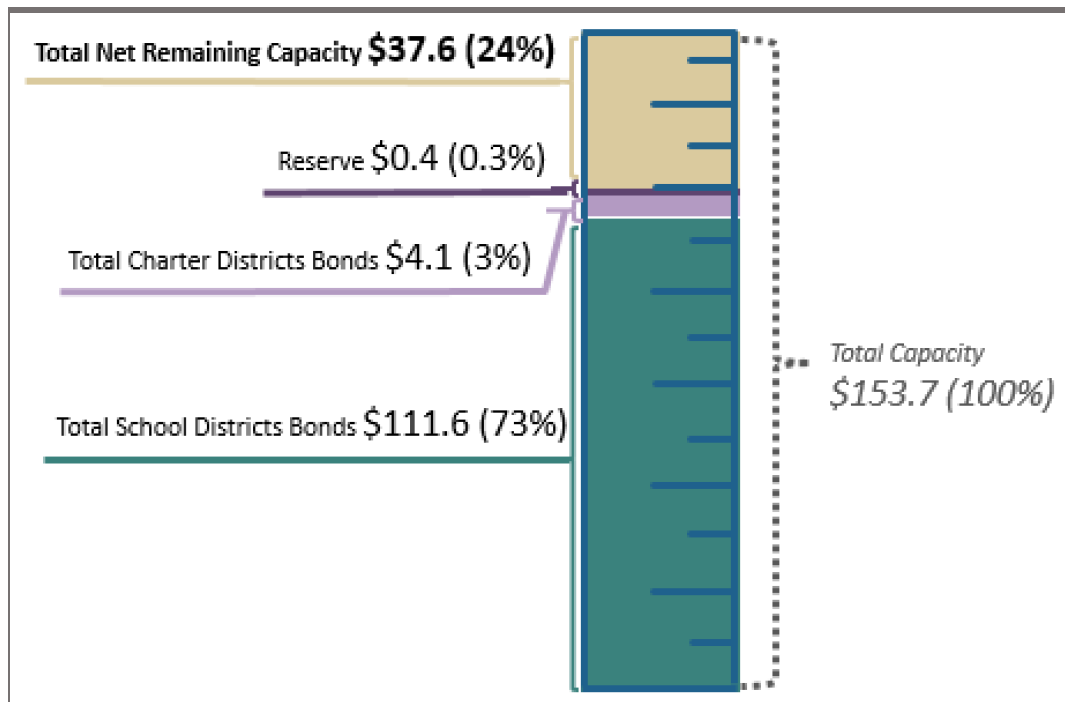
³ Texas Education Code, Section 45.0532(a) limited the available bond capacity for charter districts. That limit, as further described in Title 19, Texas Administrative Code, Section 33.7(d), is based on the percentage of the number of students enrolled in open-enrollment charter districts compared with the total number of students enrolled in all Texas public schools, as determined by the commissioner of education. For fiscal year 2023, that percentage was 7.36 percent.

Capacity is currently subject to a statutory reserve set by the Board of 0.25 percent of the Fund’s capacity, plus an additional 0.25 percent reserve of the charter district allocation.

As Figure 2 shows, as of August 31, 2023, the Program could guarantee an additional \$37.6 billion in bonds.

Figure 2

***Bond Guarantee Program Capacity as of August 31, 2023
(Amounts in Billions) ^{a b}***



^a Shaded portions of chart are not presented at scale.

^b Percentages may not add up to 100.0 due to rounding.

Source: Based on Program data from the Texas Permanent School Fund Corporation for the fiscal year ending August 31, 2023.

Summary of Bond Guarantee Activity

Figures 3 and 4 summarize fiscal year 2023 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.

Figure 3

Number of Guaranteed Bonds Outstanding Fiscal Year Activity

Category	School Districts	Charter Districts	Total Number of Issues
Number of Issues on September 1, 2022	3,348	94	3,442
Issues guaranteed	227	15	242
Issues matured	(181)	(7)	(188)
Issues refunded and adjustments made	(55)	0	(55)
Number of Issues on August 31, 2023	3,339	102	3,441

Source: Based on Program data from the Texas Permanent School Fund Corporation for the fiscal year ending August 31, 2023.

Figure 4

Dollar Amount of Guaranteed Bonds Outstanding Fiscal Year Activity

Category	School Districts	Charter Districts	Total Number of Issues
Balance on September 1, 2022	\$99,528,099,929	\$3,711,396,000	\$103,239,495,929
Issues guaranteed	18,522,300,926	437,165,000	18,959,465,926
Issues matured	(4,306,228,172)	(64,019,000)	(4,370,247,172)
Issues refunded and adjustments made	(2,096,258,001)	(1,630,000)	(2,097,888,001)
Balance on August 31, 2023	111,647,914,682	4,082,912,000	\$115,730,826,682

Source: Based on Program data from the Texas Permanent School Fund Corporation for the fiscal year ending August 31, 2023.

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 2023.

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 2023.

Audit fieldwork was conducted from September 2023 through December 2023. We conducted this performance audit in conjunction with the financial opinion audit of the 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)

- Erin Hubener Peloquin, CPA, CIDA, CRFAC, CISA (Assistant Project Manager)

- Chase H. Dierschke, CIA

- Michelle Ann Duncan Feller, CPA, CIA (Quality Control Reviewer)

- Michael Owen Clayton, CPA, CISA, CFE, CIDA (Audit Manager)



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