



Legislative Council Staff

Research Note

Version: Final

Date: 11/29/2016

Bill Number

Senate Bill 16-035

Sponsors

***Senators Johnston and
Sonnenberg
Representatives Rankin and
Young***

Short Title

The Public School Fund

Research Analyst

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Status

This research note reflects the final version of the bill which was signed by the Governor on June 10, 2016 and became effective on August 10, 2016.

Summary

The bill creates the Public School Fund Investment Board (board) to oversee investment of the Public School Fund (or Permanent Fund) and broadens the allowable investment options for the fund. The board is charged with establishing policies concerning allowable investments of the fund and the distribution of income and interest earnings. The bill allows the board to hire a private fund manager to advise it about fund investments. The board is required to distribute financial statements each November 1.

Under current law, the first \$21 million in interest earned from investments on the Permanent Fund is used to pay costs of K-12 education through the annual School Finance Act. Beginning in FY 2017-18, the distribution formula is changed as outlined below:

- \$21 million to pay for the costs of K-12 education through the annual School Finance Act, unless less than \$21 million is earned on the Permanent Fund, in which case board expenses are paid first and the remaining earnings are allocated to K-12 education;
- board expenses, including any costs incurred to hire a professional fund manager;
- \$10 million, less the amount paid in board expenses, to the Public School Capital Construction Assistance Fund for the Building Excellent Schools Today (BEST) program. This amount increases to \$20 million, less the amount paid in board expenses, beginning in FY 2019-20; and

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- remaining moneys are distributed as determined by the General Assembly, taking into consideration the recommendations of the board.

Interest and income that is not distributed by June 30 of any fiscal year becomes part of the principal of the Permanent Fund.

Background

Under current law, the greater of 50 percent or \$40 million of State Land Board School Trust revenue goes to the BEST program. School trust moneys also fund State Land Board operations (about \$10.5 million per year). Any remaining moneys are deposited into the Permanent Fund. The Permanent Fund is inviolate and only interest and income earned on investments may be expended. Income from the fund is used to support K-12 education through the School Finance Act (up to \$21 million); any remaining moneys are used to grow the size of the trust.

According to the State Land Board, in FY 2014-15 the Permanent Fund earned \$22.8 million in interest income. The average rate of return on fund investments is 2.8 percent per year. The fund is invested in fixed income investments. The State Land Board reports that states such as Idaho, Texas, and Oklahoma invest their state land trust funds in more diversified assets and average a rate of return of 5 to 8 percent per year.

Senate Action

Senate State Affairs Committee (March 28, 2016). At the hearing, the Deputy State Treasurer and a representative from the State Land Board testified in support of the bill. The committee adopted amendment L.008, which struck everything below the enacting clause and creates the board to oversee the Permanent Fund. The committee referred the bill, as amended, to the Senate Finance Committee.

Senate Finance Committee (April 12, 2016). At the hearing, the Colorado State Treasurer and a representative from the State Land Board testified in support of the bill. A representative from Legislative Council Staff answered committee member questions about the bill's fiscal note. The committee adopted amendments L.009 and L.010, and referred the bill, as amended, to the Senate Appropriations Committee. Amendment L.009 added a party affiliation diversity requirement for the board members appointed by the State Treasurer. Amendment L.010 created a requirement that the board give recommendations to the General Assembly regarding distribution of income and interest described in a separate part of the bill.

Senate Appropriations Committee (April 27, 2016). The committee referred the bill to the Senate Committee of the Whole.

Senate second reading (April 28, 2016). The Senate passed the bill on second reading, as amended.

Senate third reading (April 29, 2016). The Senate passed the bill on third reading with no amendments.

House Action

House Finance Committee (May 5, 2016). At the hearing, representatives from the State Land Board, the State Treasurer's Office, the Colorado Rural School Alliance, and the Colorado

Association of School Executives testified in support of the bill. The committee referred the bill to the House Appropriations Committee.

House Appropriations Committee (May 9, 2016). The committee adopted amendment L.011 and referred the bill, as amended, to the Senate Committee of the Whole. Amendment L.011 provides for an amount to be appropriated annually to the State Treasurer for the board to hire the private fund managers required by the bill.

House second reading (May 9, 2016). The House passed the bill on second reading, as amended.

House third reading (May 10, 2016). The House passed the bill on third reading with no amendments.

Consideration of Amendments

Senate action (May 11, 2016). The Senate concurred with House amendments and repassed the bill.