

SUBJECT: Asset management of the Texas preservation trust fund account

COMMITTEE: Ways and Means — committee substitute recommended

VOTE: 7 ayes — Keffer, Ritter, Bonnen, Y. Davis, Paxton, Peña, Pitts

0 nays

2 absent — Otto, Flores

WITNESSES: For — None

Against — None

On — Penny Black and Stan Graves, Texas Historical Commission

BACKGROUND: The Texas Preservation Trust Fund is a separate account in the general revenue trust fund of the Texas Historical Commission. The trust fund may be used for the acquisition, survey, restoration, or preservation of state historic property and designated landmarks. An advisory board may recommend to the historical commission rules for administering the trust fund.

DIGEST: CSHB 2558 would require the comptroller to manage the assets of the trust fund in accordance with a legal investment standard known as the prudent investor rule. Amounts distributed would be determined by the comptroller in a manner intended to provide a stable and predictable stream of distributions that would retain the purchasing power of the account investments. If the purchasing power of account investments was not preserved for any 10-year period, the comptroller could not increase annual distributions from the account until the purchasing power of the investments was restored.

An annual distribution made by the comptroller could not exceed 7 percent of the average net fair market value of the investment assets. Expenses of managing the account would be paid from the trust fund account. On request, the comptroller would be required to fully disclose all details concerning the investments of the trust fund.

The bill would take immediate effect if finally passed by a two-thirds record vote of the membership of each house. Otherwise, it would take effect September 1, 2007.

**SUPPORTERS
SAY:**

CSHB 2558 would give the Texas Historical Commission the tools it needs to diversify its investment strategy and more effectively manage the assets of the Texas Preservation Trust Fund, currently valued at \$12 million. The bill would bring the commission in line with other state endowments by allowing the comptroller, through the Texas Treasury Safekeeping Trust Company, to manage the trust fund in higher yielding investments that in-house staff might not have the expertise to manage.

The bill would strengthen the commission's ability to provide grants from the trust fund by opening up investment opportunities that have the potential to bring significantly higher returns. These would be balanced by stocks, bonds, and other "safer" investments. Together, these investments should generate sufficient returns to ensure the growth of the trust fund as well as allow for annual distributions that support the commission's efforts.

The historical commission recently has approved changing its investment strategy to include complex, and sometimes more speculative, investments. The commission estimates that the bill could produce a positive impact of \$500,000 per year on the trust fund account. CSHB 2558 would provide the commission the statutory authority it needs to permit the Texas Treasury Safekeeping Trust Company to oversee the trust fund and protect its security.

**OPPONENTS
SAY:**

CSHB 2558 could put at risk the many gifts and grants provided to the historical commission by allowing the Texas Treasury Safekeeping Trust Company to invest in higher risk, more speculative investments. For years, the trust fund's management has produced solid, if modest, returns. The commission should continue to rely on in-house staff to manage traditional, less risky investments.

**OTHER
OPPONENTS
SAY:**

CSHB 2558 should limit the percentage of the trust fund portfolio that could be invested in speculative investments. The bill also should establish a time limit after which trust fund performance would be subject to review by the historical commission and the Legislature.

NOTES: The companion bill, SB 1201 by Janek, has been referred to the Senate Finance Committee.