

**Report of the State Board of Education  
Committee of the Full Board  
July 20, 2016**

The State Board of Education Committee of the Full Board met at 9:13 a.m. on Wednesday, July 20, 2016, in the State Board of Education Room, #1-104, of the William B. Travis Building, 1701 N. Congress Avenue, Austin, Texas. All members of the committee were present, as follows:

Presiding: Donna Bahorich, chair; Lawrence A. Allen, Jr.; Erika Beltran; David Bradley; Barbara Cargill; Ruben Cortez, Jr.; Martha M. Dominguez; Pat Hardy; Tom Maynard; Sue Melton-Malone; Ken Mercer; Geraldine “Tincy” Miller; Marisa B. Perez; Thomas Ratliff; Marty Rowley

**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://tea.texas.gov/About\\_TEA/Leadership/State\\_Board\\_of\\_Education/SBOE\\_Meetings/SBOE\\_Operating\\_Rules\\_Amended\\_4-17-15/](http://tea.texas.gov/About_TEA/Leadership/State_Board_of_Education/SBOE_Meetings/SBOE_Operating_Rules_Amended_4-17-15/) or in the information section (yellow pages) of the agenda.

The Committee of the Full Board received no presentations of public testimony.

Items were considered in the following order: Items #1 and #2; Wednesday’s Committee of the Full Board Item #4, Items #3 and #4; Item #7; Items #5, #8, and #6.

**DISCUSSION ITEMS**

- 1. Comments from the Commissioner of Education and Commissioner of Higher Education Concerning College Readiness Issues**  
(Board agenda page I-55)

Commissioner of Education Mike Morath and Commissioner of Higher Education Raymund A. Paredes discussed college readiness issues and related issues, such as teacher preparation and testing that can impact student’s preparation for higher education.

- 2. Board Report on First Quarter 2016 Permanent School Fund Performance**  
(Board agenda page I-57)

Tom Heiner and Scott Berard of BNY Mellon Global and Risk Solutions, presented the first quarter of 2016 Permanent School Fund performance report. Mr. Heiner began with an overview of the U.S and foreign capital markets. Mr. Heiner then reviewed the performance of the Fund for the first quarter of 2016. He stated that the PSF returned 2.14% for the fourth quarter outperforming the target benchmark by 28 basis points. The Fund ranked in the 10th percentile or top quartile of the Mellon Universe of Public Funds greater than \$1.0 billion for the 3-month period ending March 30, 2016.

Mr. Heiner and Mr. Berard reviewed first quarter 2016 performance of the Permanent School Fund by asset class, stating that the total domestic large cap equity outperformed its benchmark by six basis points for the quarter. Mr. Heiner added that Small/Midcap Equity portfolio outperformed its benchmark by 11 basis points. He added that international equities returned -0.21% for the quarter, outperforming its benchmark by seventeen basis points during the period. The fixed income portfolio returned 3.11% for quarter, exceeding its benchmark by eight basis points. Mr. Berard stated that the Absolute Return composite returned -3.07% for the quarter, outperforming its benchmark, the HFRI Fund of Funds Composite Index, by 41 basis points. Mr. Berard added that the Real Estate composite returned 3.98% for the quarter, outperforming its benchmark by 107 basis points. Mr. Berard added that Total Risk Parity Strategies returned 3.52% in the first quarter of 2016, outperforming its benchmark by 141 basis points. He further stated that the Real Return Asset class returned 3.21% for the quarter, coming in above its benchmark by 77 basis points. He added that Emerging Market Debt returned 10.48% for the quarter, falling short its benchmark by 54 basis points. Mr. Berard stated that private equity returned 4.13% for the quarter, coming above its benchmark by 282 basis points. Finally, he stated that the total emerging market equity composite returned 5.88% for the first quarter 2016, outperforming its benchmark by 17 basis points.

### **CONSENT ITEMS**

#### **3. Review of the Report on Permanent School Fund Percentage Distribution Rates Under Consideration for Fiscal Years 2018 and 2019**

(Board agenda page I-1)

[Consent agenda item #(1)]

Mrs. Baborich called on Holland Timmins, chief investment officer and executive administrator for the Permanent School Fund to make a presentation on the history and current activity of the distributions from the Permanent School Fund (PSF) to the Available School Fund (ASF).

Mr. Timmins stated that the agenda item fulfills the requirement regarding reporting the distribution rates under consideration to the Legislative Budget Board and the Governor prior to their adoption. He discussed the factors to consider in determining an appropriate distribution rate for the fund and explained that the staff recommendation for the range of the distribution rate was in agreement with NEPC's recommendation. One of the unknown factors is the amount of the contribution from the School Land Board to the State Board of Education for investment in the PSF. The School Land Board will make the determination before the next State Board of Education meeting in September and provide the details by September 1, 2016.

Mr. Timmins concluded that the staff recommendation was for the board to adopt a range for the distribution rate of between 2.50% and 3.72%.

Mrs. Baborich called on Keith Stronkowsky, senior consultant, NEPC, to make their presentation on the distribution rate. Mr. Stronkowsky discussed the factors NEPC used to make its recommendation, stating that the only difference in the variables was the inflation rate. NEPC's recommendation was for a range in the distribution rate of between 2.50% and 3.75%.

**MOTION AND VOTE:** *It was moved by Ms. Hardy, seconded by Mr. Rowley, and carried unanimously that the percentage distribution rate to the Available School Fund from the Permanent School Fund for fiscal years 2018 and 2019 shall be between 2.50% and 3.72%.*

**4. Review and Adoption of the Long-Term Strategic Asset Allocation Plan of the Permanent School Fund**

(Board agenda page I-5)  
[Consent agenda item #(2)]

Rhett Humphreys, partner of NEPC, and Mr. Stronkowsky presented Permanent School Fund (PSF) 2016 Asset Allocation Review. They discussed key themes and observations that went into the development of five alternative asset allocation policy mixes. PSF staff and NEPC worked together and staff concurred on the recommended new asset allocation policy mix (Mix E), as follows:

- US Large Cap Equities 13% (decrease of 3% from current policy)
- US Small/Mid Cap Equities 5%
- Int'l Equities 14% (decrease of 2% from current policy)
- Emerging Int'l Equities 3%
- Core Bonds 12%
- Emerging Market Debt (Local Currency) 7%
- Private Equity 13% (increase of 3% from current policy)
- Real Return 6%
- Real Estate 10% (increase of 2% from current policy)
- Absolute Return 10%
- Risk Parity 7%

The new Asset Allocation Policy's Expected Return (5-7 years) is 6.75% with Standard Deviation of Asset Return of 12.49% and Sharpe Ratio (5-7 years) of 0.421.

**MOTION AND VOTE:** *It was moved by Ms. Hardy, seconded by Mr. Rowley, and carried unanimously, that the committee recommend to the State Board of Education adoption of the 2016 Permanent School Fund Long-Term Strategic Asset Allocation Plan Mix E as recommended by NEPC. (Mr. Bradley and Mr. Ratliff were absent for the vote.)*

**DISCUSSION ITEM**

**5. Texas Certificate of High School Equivalency**

(Board agenda page I-59)

Monica Martinez, associate commissioner for standards and programs, presented an update on the progress the agency has made in transition of the Texas Certificate of High School Equivalency to multiple test providers.

## ACTION ITEM

### **6. Study of Essential Knowledge and Skills and Assessment Instruments**

(Board agenda page I-7)

[Official agenda item #3]

Ms. Martinez explained the legislative requirement for a study regarding the essential knowledge and skills of the required curriculum and related state assessment instruments. Ms. Martinez also explained the requirement that the SBOE make recommendations to the Texas Legislature regarding:

- the number and scope of the essential knowledge and skills of each subject of the required curriculum under Texas Education Code (TEC), §28.002, with each essential knowledge or skill identified as a readiness or supporting standard, and whether the number or scope should be limited;
- the number and subjects of state assessment instruments under TEC, §39.023, that are required to be administered to students in grades three through eight; and
- how these assessment instruments assess standards essential for student success and whether the assessment instruments should also assess supporting standards, including an analysis of the portion of the essential knowledge and skills capable of being accurately assessed, the appropriate skills that can be assessed within the testing parameters under current law, and how current standards compare to those parameters.

**MOTION AND VOTE:** *It was moved by Mr. Ratliff, seconded by Mr. Rowley, and carried unanimously to request that agency staff reduce the committee's comments to writing and present the language for a vote at the Friday, July 22, State Board of Education meeting.*

The following clarifications and recommendations were discussed by the committee.

1. The SBOE is already in the process of streamlining the Texas Essential Knowledge and Skills (TEKS) for the foundation curriculum and would like financial support and resources to continue the streamlining process, including providing professional development for teachers on the implementation of the TEKS.
2. The SBOE has revised the TEKS review process to instruct all review committees to carefully consider the amount of time necessary for students to develop mastery of the content and ensure that all student expectations reasonably can be taught within the amount of time typically allotted for the subject or course prior to the end of the school year or a state end-of-course assessment required by TEC, §39.023, as applicable.
3. The SBOE has adopted a schedule for streamlining the TEKS for the foundation curriculum.
4. The SBOE has determined that the number of student expectations in the TEKS does not reflect the amount of content that students must master and that multiple student expectations are often taught simultaneously rather than in isolation.
5. The SBOE has determined that not all standards need to be streamlined to the same extent.
6. The SBOE believes that a determination regarding the continued need for the readiness and supporting designation of standards for assessment of foundation subjects should be made after

the streamlining process is complete. It is important to note the terms *readiness* and *supporting* are only used for grade levels and subjects that are assessed. (See Attachment A--*The State of Texas Assessments of Academic Readiness (STAAR) A New Assessment Model*)

7. The SBOE recognizes that federal regulations require states to assess all standards and that it would not be legal to assess only readiness standards on the state assessments.
8. The SBOE supports pilot projects and other research efforts to study the ability of the state to move away from standardized tests and toward portfolio assessment.
9. The SBOE is in the process of studying the mathematics TEKS to determine whether adjustments need to be made regarding expectations for instruction and assessment of the process standards.

## **DISCUSSION ITEM**

### **7. Update on the Long-Range Plan for Public Education** (Board agenda page I-63)

Mr. Rowley informed members that Boston Consulting Group (BCG) was selected from among five respondents to the request for qualifications for a facilitator to design phase one of the long-range plan, which is to develop the scope of the plan.

J. Puckett and Tejus Kothari of BCG told members that they have completed 12 of 15 interviews with the SBOE members and 12 interviews with members of various education associations (stakeholders) to gather input on designing the scope of the long-range plan. They said the consensus, both from SBOE and outside interviews, is the Long-Range Plan for Public Education in Texas needs to be an actionable, viable and usable document across the state.

Members agreed with that sentiment and also asked that the scope of the plan be broadened to look at both the SBOE's vision and an overall vision of Texas public education as a whole. The BCG representatives said their next steps are to complete the remaining interviews, and then work on a specific design of the process to develop the long-range plan. That information will be presented to the board at its September meeting.

## **CONSENT ITEM**

### **8. Update on Texas Commission on Next Generation Assessments and Accountability and Community Conversations** (Board agenda page I-11) [Consent agenda item #(3)]

Mrs. Bahorich presented a summary of the report *Texans Speak: Public Feedback on Assessment and Accountability Systems*, which contains findings from nine Community Conversations held around the state, as well as the results from an online survey taken by more than 27,000 Texans.

Ms. Beltran, who serves as the board's representative on the Texas Commission on Next Generation Assessments and Accountability, provided an overview of the preliminary recommendations on new or revised assessment and accountability systems. The commission is scheduled to meet July 27 to finalize its recommendations.

**MOTION AND VOTE:** *It was moved by Mr. Rowley, seconded by Mr. Ratliff, and carried unanimously to recommend that the State Board of Education adopt the report Texans Speak: Public Feedback on Assessment and Accountability Systems detailing findings from the Community Conversations and the online survey, and ask that the Texas Commission on Next Generation Assessments and Accountability add the report as an addendum to its report to the Texas Legislature. (Mr. Bradley and Mr. Mercer were absent for the vote.)*

**DISCUSSION ITEM**

**9. Discussion of Pending Litigation**

(Board agenda page I-65)

The committee did not discuss pending litigation; therefore, no executive session was held.

Mrs. Bahorich adjourned the meeting at 6:12 p.m.