

CDE MEETING AGENDA



VISION

All students graduate ready for college and careers, and prepared to be productive citizens of Colorado.

MISSION

Ensuring equity and opportunity for every student, every step of the way.



Public School Capital Construction Assistance Board Agenda

Date & Time: February 16, 2023, 1:00pm – 3:30pm

Location: Virtual – Microsoft Teams (Live stream YouTube)

Capital Construction Assistance Board Members:

Jane Crisler - Chair	Kevin Haas	Brett Ridgway
Wendy Wyman – Vice Chair	Allison Pearlman	Matt Samelson
Brian Amack	Vaishali McCarthy	Michael Wailes

- I. Call to Order
- II. Roll Call
- III. Approve Agenda
- IV. Approve Previous Meeting Minutes from: January 19, 2023
- V. Board Report
- VI. Staff Report
- VII. Discussion Items:
 - A. Legislative Updates
 - B. List of FY24 BEST Applications
- VIII. Future Meetings:
 - March 16, 2023 – Microsoft Teams
 - April 20, 2023 – Microsoft Teams (Potential: CASBO, April 19-20, Pueblo)
 - May 18-20—Microsoft Teams
- IX. Public Comment
- X. Adjournment

CDE MEETING MINUTES



VISION

All students graduate ready for college and careers, and prepared to be productive citizens of Colorado.

MISSION

Ensuring equity and opportunity for every student, every step of the way.



Public School Capital Construction Assistance Board Meeting Minutes

Date & Time: Thursday, January 19, 2023 - 1:00pm-3:30pm

Location: Virtual – Microsoft Teams

Capital Construction Assistance Board Members:

Jane Crisler – Chair	Kevin Haas	Brett Ridgway
Wendy Wyman – Vice Chair	Vaishali McCarthy	Matt Samelson
Brian Amack	Allison Pearlman	Michael Wailes

- I. **Call to Order:** Meeting called to order by Jane Crisler at 1:02pm
- II. **Roll Call:**
Members Present: Brian Amack, Kevin Haas, Allison Pearlman, Michael Wailes, Brett Ridgway, Wendy Wyman, Jane Crisler
Absent: Matt Samelson
- III. **Approve Agenda:**
Motion moved: Brian Amack
Second by: Brett Ridgway
All for: Brian Amack, Kevin Haas, Allison Pearlman, Vaishali McCarthy, Michael Wailes, Brett Ridgway, Jane Crisler
Absent: Matt Samelson, Wendy Wyman
All opposed: None
Motion passed
- IV. **Approve Minutes:** November 17, 2022
Motion moved: Brian Amack - *Approve minutes with amendment to the "Roll Call" section.*
Second by: Allison Pearlman
All for: Brian Amack, Kevin Haas, Allison Pearlman, Vaishali McCarthy, Michael Wailes, Brett Ridgway
Absent: Matt Samelson, Wendy Wyman
All opposed: None
Recused: Jane Crisler
Motion passed
- V. **Board Report:**
 - Nothing to report

VI. **Staff Report:**

- Welcome to Brandon LaChance our new Regional Program Manager. Brandon started January 9th. His position will focus on charter school support.
- Cheryl announced her retirement. The position will be posted again soon.
- The grant application portal is now open. We received approx. 64 notifications of intent to apply for the FY23-24 grant round.
- The rule changes that were adopted in November by the CCAB became effective in January.
- Staff is finalizing legislative reports due in February.
- Animas HS will hold a groundbreaking ceremony this month and Walsh will hold one in March.

VII. **Discussion Items:**

- A. Mapleton Acceptance of Remaining FY23 Appropriation
 - Andy gave an overview of the remaining FY23 appropriation in relation to Mapleton 1 and the CCAB discussed.
- B. Colorado Energy Office
 - The memo submitted by the Colorado Energy Office was discussed and the correspondence sent to BEST applicants.
- C. Reduced Scope Approvals
 - The CCAB and staff discussed requested project scope reductions and how they are reviewed by BEST Staff and presented to the board.
 - Three projects specifically were reviewed/discussed; Alamosa RE-11J DW HVAC Upgrades and MS Asbestos Abatement, Rocky Ford No. R-2: PK-8 Replacement & High School Addition/Renovation, and Walsh Re-1: PreK-12 School Replacement.
- D. Legislative Updates
 - Andy updated the CCAB on the most recent legislative updates.

VIII. **Future Meetings:**

- February 16, 2023 - Microsoft Teams
- March 16, 2023 – Microsoft Teams

IX. **Public Comment:** None

X. **Adjourn:** Meeting Adjourned by Jane Crisler at 1:48pm



Public School Capital Construction Assistance Board
Meeting Agenda Sheet

MEETING DATE: February 16, 2023

SUBJECT: Legislative Updates

ITEM TYPE: Discussion Item

BACKGROUND:

Staff and board will discuss legislative updates as necessary.

1. Match Subcommittee Updates
2. [HB22-1146](#), directed the State Treasurer to convene a working group to “consider opportunities to improve the growth of the public school fund and its distributions for the intergenerational benefit of public schools.” The working group met several times, on a very tight schedule, and its final report has not yet been drafted. Matt Samelson and Andy Stine were on the working group (along with many others).

The attached “School Trust Asset Allocation and Distribution Study” was presented to the working group for consideration. Page 15 shows the current structure of State Land Board revenues and distributions while page 26 shows an alternative structure where all income is deposited into the Public School Permanent Fund and then 4% of the rolling 3-year average of the market value of the investments is given to the beneficiary (currently BEST and the School Finance Act). This is estimated to be about \$40M per year. Points to consider:

- Colorado schools have come to expect a certain amount of funding from BEST, which receives an average of over \$300M in requests each year (about \$730M over the past five years).
- The State Land Board has contributed an average of \$70M annually to BEST (about \$80M over the past five years).
- A large amount of debt service has been taken on with an understanding that revenues would not drop in any extreme fashion, and in a worst-case scenario would never fall below the \$40M annually required in statute.

- The State Land Board currently estimates FY23 revenues to BEST at \$95M. Taking into consideration all revenues and obligations of the program, this will translate to \$93M-\$110M available for cash grants in FY24. If SLB revenues dropped to the \$40M (4% of Rolling 3-Yr Avg MV) the amount available to award would be \$38M-\$50M.
- Should the working group consider a statement that revenues to BEST will not drop below an expected amount?

STAFF RECOMMENDATION:

N/A

STAFF RECOMMENDED MOTION:

N/A

DOCUMENTATION:

- School Trust Asset Allocation and Distribution Study

January 30, 2023



HB 22-1146 Working Group

School Trust Asset Allocation and
Distribution Study

Janet Becker-Wold, CFA

Denver Consulting

Julia Moriarty, CFA

Capital Markets Research

Important Disclosures regarding the use of this document are included at the end of this document. These disclosures are an integral part of this document and should be considered by the user.

Agenda

Executive summary

Purpose and scope of the study

Capital market expectations

Current situation

Current versus alternative structure

Appendix

Executive Summary

- This study was commissioned by HB 22-1146 Working Group to review the current structure of the School Trust and identify potential improvements in the asset allocation and distribution policies
- Land Board Distribution Policy
 - Redirecting Land Board revenues, that would otherwise go directly to BEST, to the Permanent Fund results in higher nominal and real ending market values and ultimately higher distributions
 - Revenues can be better leveraged by flowing only to the Permanent Fund for investment (not to BEST)
- Asset Allocation
 - Most School Trust assets are in illiquid property, land and mineral holdings so are difficult to modify
 - The Permanent Fund asset allocation is conservatively invested in a majority bond and short duration portfolio
 - Impediments to further diversification include: 1) current limitation on distributing only dividends/income; 2) State mandate to make up net realized losses (fund inviolate), and 3) constitutional limitation prohibiting investments directly in any corporation or company
- Permanent Fund Distribution Policy
 - The current fixed dollar distribution waterfall benefits current over future beneficiaries by not allowing distributions to grow at the rate of inflation plus student population growth in conflict with the intergenerational mission of the Trust
 - It also does not allow for the distributions to be responsive to fluctuations in the capital markets

Purpose and Scope of the Study

Goal of the Study

Focus on the mission

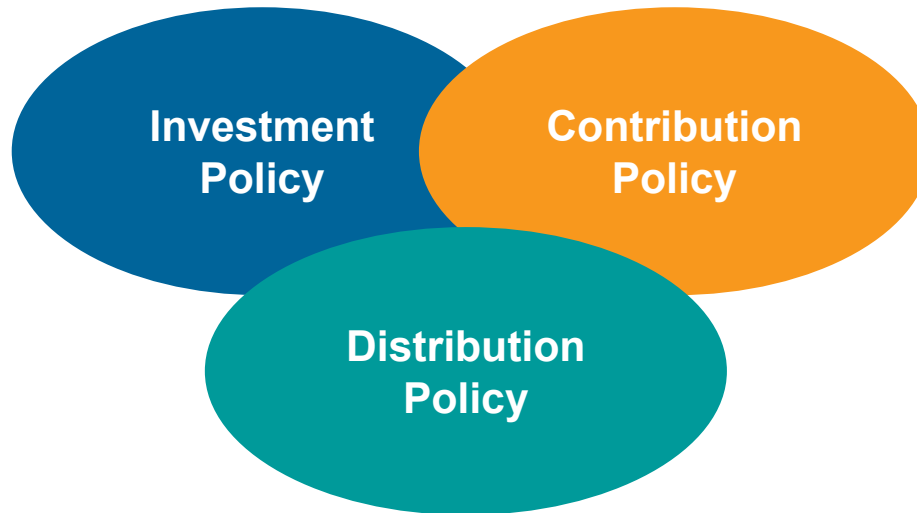
- The goal of this asset allocation and distribution study is to identify appropriate long-term distribution and investment policies for the School Trust to meet the intergenerational objectives of serving both current and future students in Colorado
- The distribution and investment policies are key components of the School Trust
- Well-engineered policies consider:
 - The School Trust’s goals and investment objectives
 - Inclusion of all appropriate asset classes
 - Liquidity needs, asset class limitations, implementation challenges, administrative and legal burdens, size or capacity constraints, etc.
 - Rebalancing discipline and more
- The appropriate policies should strike a balance between preservation/growth in the corpus and sustainable, stable distributions that result in intergenerational equity for beneficiaries

Three Key Policies

The best investment and distribution policies are determined in the context of the interaction of the three key policies that govern a fund

Investment Policy

- How will the assets supporting the mission be invested?
- What risk and return objectives?
- How to manage cash flows?



Contribution Policy

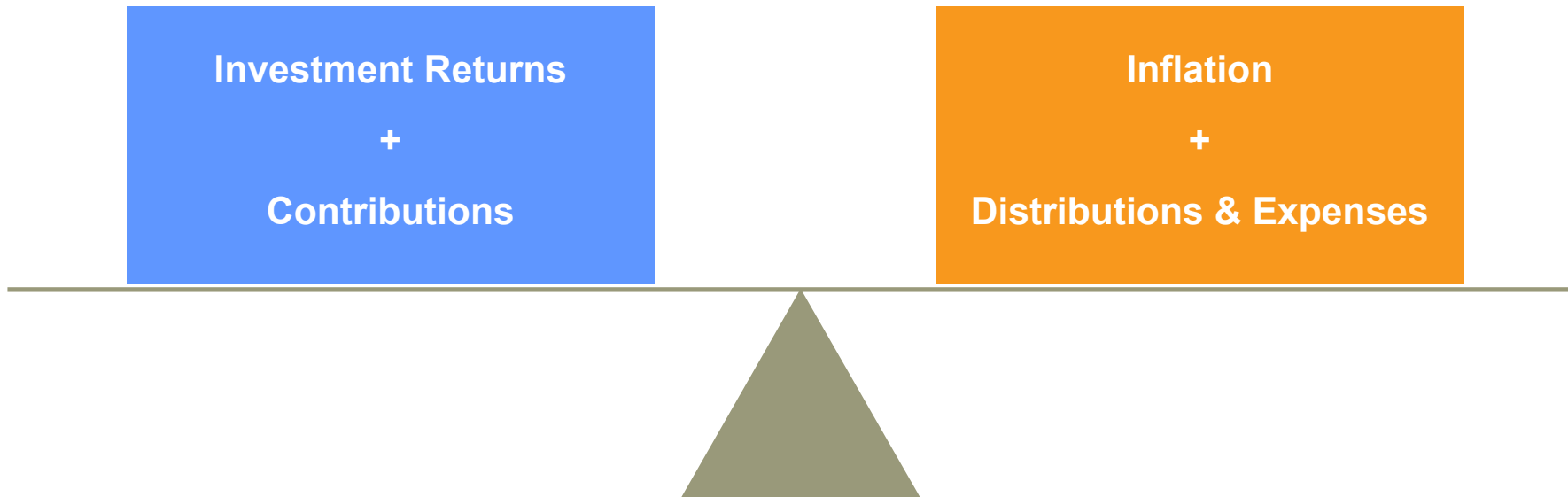
- What is the source of contributions?
- What level of contributions can be expected?

Distribution Policy

- What type of distribution policy?
- What level of distributions?

“Equation of Balance”

Required to ensure intergenerational equity and preserve the real distribution power of the corpus



- The primary objective that governs the management of most land trusts is the pursuit of intergenerational equity
 - Intergenerational equity ensures that current and future students benefit from the Trust to the same degree
 - *Over distributing today benefits current residents at the expense of future residents*
 - *Under distributing today benefits future residents at the expense of current residents*
- Investment returns and price inflation are based on Callan forecasts
- Contributions, distributions, and expenses are based on Department of Natural Resources data/forecasts while student population growth is derived from the Colorado Department of Local Affairs State Demography Office

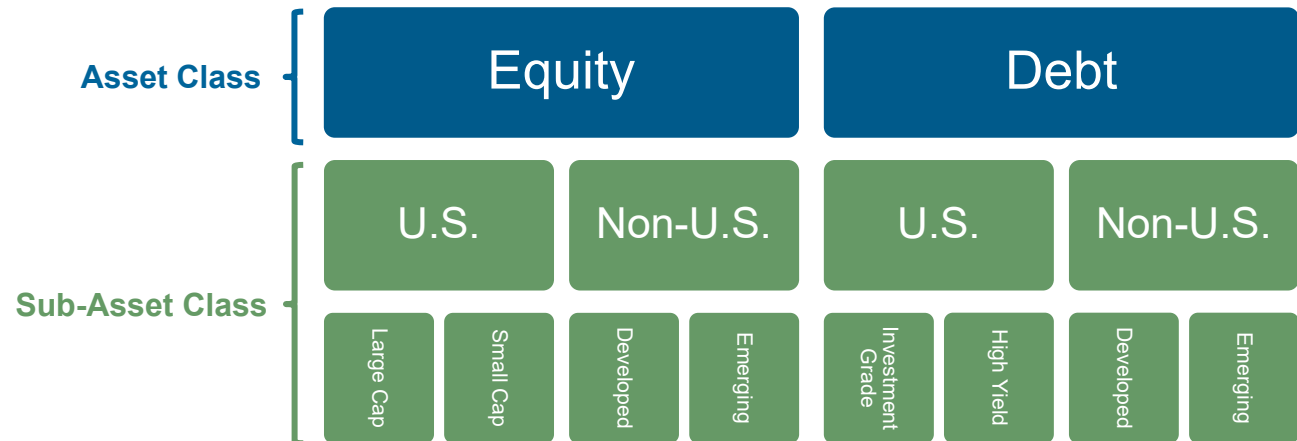
Capital Market Expectations

Callan Capital Market Process and Philosophy

- Underlying beliefs guide the development of the projections
 - An initial bias toward long-run averages
 - An awareness of risk premiums
 - A presumption that markets ultimately clear and are rational
- Reflect our belief that long-term equilibrium relationships between the capital markets and lasting trends in global economic growth are key drivers to setting capital market expectations
- Long-term compensated risk premiums represent “beta”—exposure to each broad market, whether traditional or “exotic,” with limited dependence on successful realization of alpha
- The projection process is built around several key building blocks
 - Advanced modeling at the individual asset class level (e.g., a detailed bond model, an equity model)
 - Pathways for both interest rates and inflation
 - A cohesive economic outlook
 - A framework that encompasses Callan’s beliefs about the long-term operation and efficiencies of the capital markets

The Focus is on Broad Asset Classes

- Breakdowns between investment styles within asset classes (growth vs. value, large cap vs. small cap) are best addressed in a manager structure analysis
- Primary asset classes and important sub-asset classes include:
 - U.S. Stocks
 - U.S. Bonds
 - Non-U.S. Stocks
 - Non-U.S. Bonds
 - Real Assets
 - Private Equity/Debt
 - Hedge Funds
 - Cash



2023 Callan Capital Market Assumptions

Risk and return

Summary of Callan's Long-Term Capital Market Assumptions (2023 - 2032)

Asset Class	Index	10-Year Geometric Return*	Standard Deviation	Projected Yield
Equities				
Broad US Equity	Russell 3000	7.35%	18.05%	1.95%
Large Cap US Equity	S&P 500	7.25%	17.75%	2.00%
Small/Mid Cap US Equity	Russell 2500	7.45%	22.15%	1.75%
Global ex-US Equity	MSCI ACWI ex USA	7.45%	21.25%	3.70%
Developed ex-US Equity	MSCI World ex USA	7.25%	20.15%	3.75%
Emerging Market Equity	MSCI Emerging Markets	7.45%	25.70%	3.55%
Fixed Income				
Short Duration Gov't/Credit	Bloomberg Barclays 1-3 Yr G/C	3.80%	2.30%	3.45%
Core US Fixed	Bloomberg Barclays Aggregate	4.25%	4.10%	4.30%
Long Gov't/Credit	Bloomberg Barclays Long G/C	4.75%	11.35%	5.85%
TIPS	Bloomberg Barclays TIPS	4.00%	5.30%	3.95%
High Yield	Bloomberg Barclays High Yield	6.25%	11.75%	8.00%
Global ex-US Fixed	Bloomberg Barclays Gbl Agg xUSD	2.25%	9.80%	2.40%
EMD	EMBI Global Diversified	5.85%	10.65%	7.40%
Alternatives				
Core Real Estate	NCREIF ODCE	5.75%	14.20%	4.40%
Private Infrastructure	MSCI Glb Infra/FTSE Dev Core 50/50	6.15%	15.45%	4.60%
Private Equity	Cambridge Private Equity	8.50%	27.60%	0.00%
Private Credit	N/A	7.00%	15.50%	7.00%
Hedge Funds	Callan Hedge FoF Database	5.55%	8.45%	0.00%
Commodities	Bloomberg Commodity	3.50%	18.00%	2.25%
Cash Equivalents				
	90-Day T-Bill	2.75%	0.90%	2.75%
Inflation				
	CPI-U	2.50%	1.60%	

* Geometric returns are derived from arithmetic returns and the associated risk (standard deviation).

- Most capital market expectations represent passive exposure (beta only); however, return expectations for private market investments reflect active management premiums
- Return expectations are net of fees

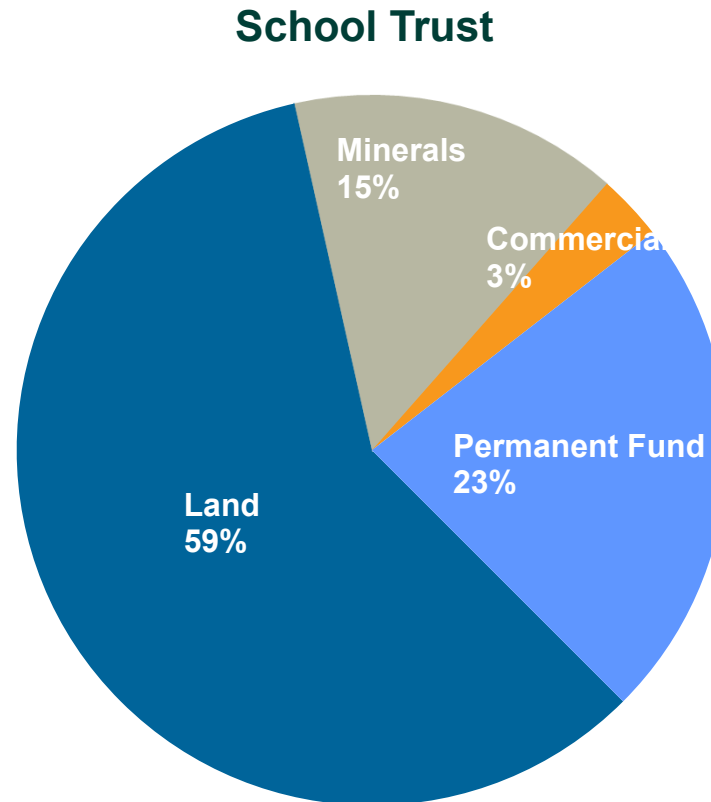
Colorado Land Return Expectations

- Land = 3.00% return
 - Based on historical revenues, the method for setting rents, and the composition of the portfolio
 - Analyzed Colorado NAAS data for rents and values, the Ranchland Sales Database for value trends, and the return series of Colorado properties in the NCREIF Farmland Index
- Minerals = 2.30% return
 - Based on Colorado's production and revenue model, the S&P GSCI, and the S&P GSCI Energy Index
 - The S&P GSCI is a composite index of commodity sector returns which represents a broadly diversified, unleveraged, long-only position in 24 commodity futures spanning five sectors: energy, industrial metals, precious metals, agriculture and livestock
- Commercial = 5.00% return
 - Based on the return series of Colorado office properties in the NCREIF Property Index, Callan's assumptions for a broadly diversified portfolio of real estate, and the composition of the Colorado Commercial Portfolio which includes office, ground leased properties, tower sites, and renewables

Current Situation

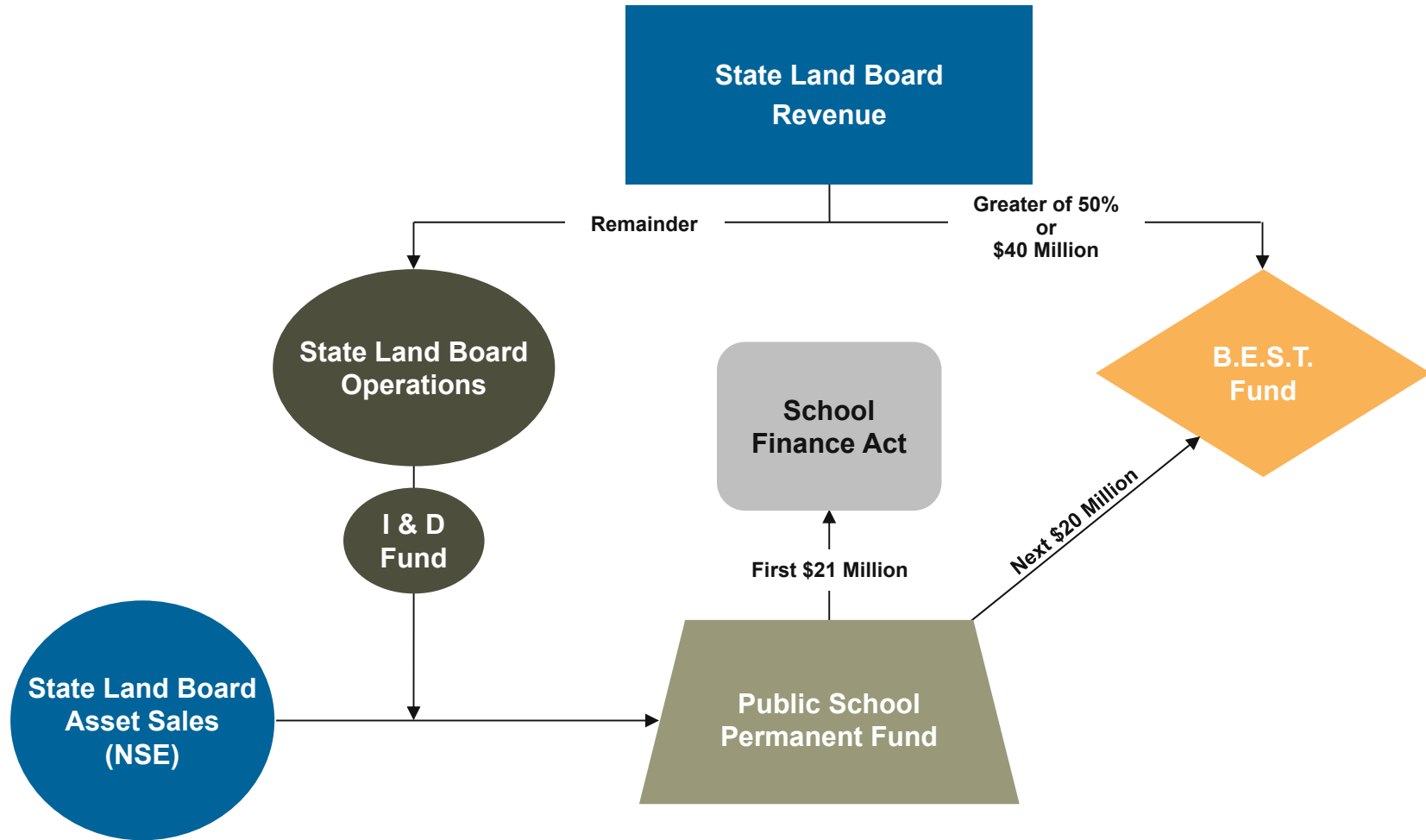
School Trust

- The School Trust was valued at almost \$5.5 billion in 2022
- Land accounts for over half of the total portfolio value
- The Permanent Fund (PF) accounts for almost one quarter of the total value



School Trust

Current structure



Land Board Asset Sales, Revenues, Operations, and I & D Fund

- Land Board Asset Sales

- Surface sales of \$75 million in mid-2024 and \$25 million in mid-2025
- \$25 million currently at the NSE (Non-Simultaneous Exchange) transfers to the PF in one year

- Land Board Revenues

- Annual gross land revenues range from approximately \$120 million to \$190 million over the 20-year projection period
- The greater of 50% or \$40 million flows to B.E.S.T. with the remainder to the PF
- Oil & Gas (O&G) royalties, which accounted for roughly four-fifths of total land revenues in FY21-22, are projected to decline by 5% per year
- The remaining revenue sources (other mineral, surface, commercial) are projected to grow by 2% per year

- Land Board Operations

- \$7.4 million in FY21-22 and expected to grow by 4% per year thereafter
- This expense is deducted from land revenues before being deposited into the PF

- Investment & Development (I&D) Fund

- Up to \$5 million annually can be reinvested in land assets in a manner that maintains them or increases their value or ability to generate income
- \$3 million per year is assumed in the modeling
- This expense is deducted from land revenues before being deposited into the PF

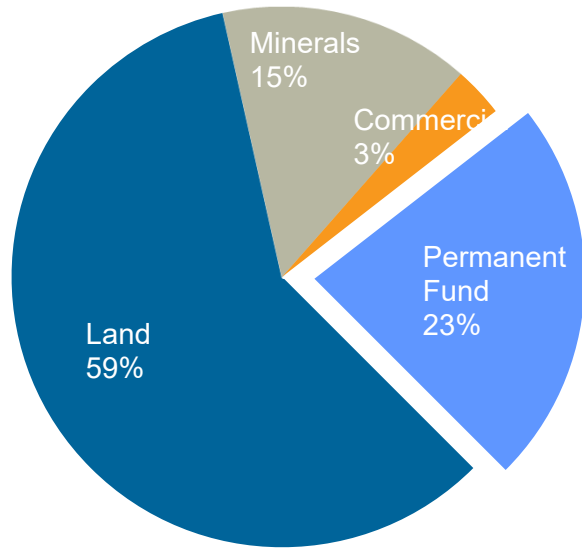
Permanent Fund Distributions

- Current policy allows for the distribution of interest and income only per the description below
 - First \$21 million of income is credited to the School Finance Act (Finance Act), unless income is less than \$21 million in which case \$500,000 is set aside to cover PF investment and administrative expenses with the remainder being credited to the Finance Act
 - Next \$500,000 is set aside to cover PF investment and administrative expenses
 - Any amount in excess of \$21.5 million up to \$41.5 million is credited to B.E.S.T.
 - Any additional income remains in the Permanent Fund*

*SB 16-035 established the waterfall and states that any amount over \$41 million, plus the cost of services and reimbursements, is credited as specified by the General Assembly taking into consideration the recommendations of the Public School Fund Investment Board. The Board has recommended that amounts over \$41 million return to the Permanent Fund.

Asset Allocation

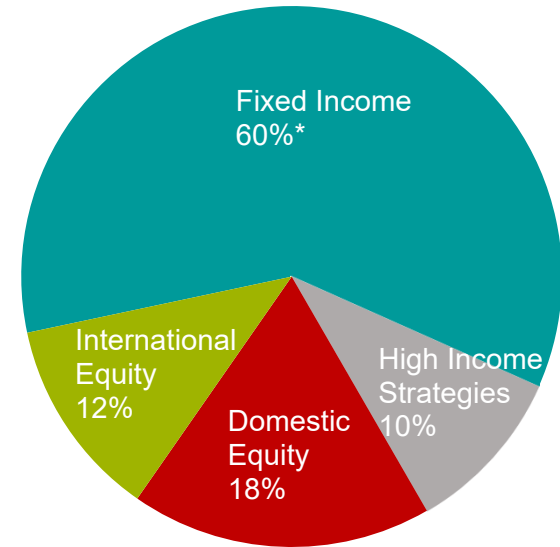
School Trust Asset Allocation



Return = 4.1%; Risk = 6.7%



PF Target Asset Allocation



Return = 5.8%; Risk = 6.9%

- The School Trust allocation (77% lands and 23% financial) has a 10-year expected return of 4.1% with a 6.7% standard deviation (assuming a constant asset allocation) versus a Permanent Fund return of 5.8% and a standard deviation of 6.9%
- Over time the School Trust's expected return is projected to grow as lands (land, minerals, and commercial) make up a smaller portion of the total Trust relative to today

*Fixed income is comprised of 87.5% market duration and 12.5% short duration bonds

Developing Risk Tolerance Framework

Range of uncertainty – stochastic projections

Interpreting stochastic results

5th percentile

- ▶ Exceeds 95% of all forecasts
- ▶ Optimistic outcome

25th percentile

- ▶ Exceeds 75% of all forecasts
- ▶ Good outcome

50th percentile

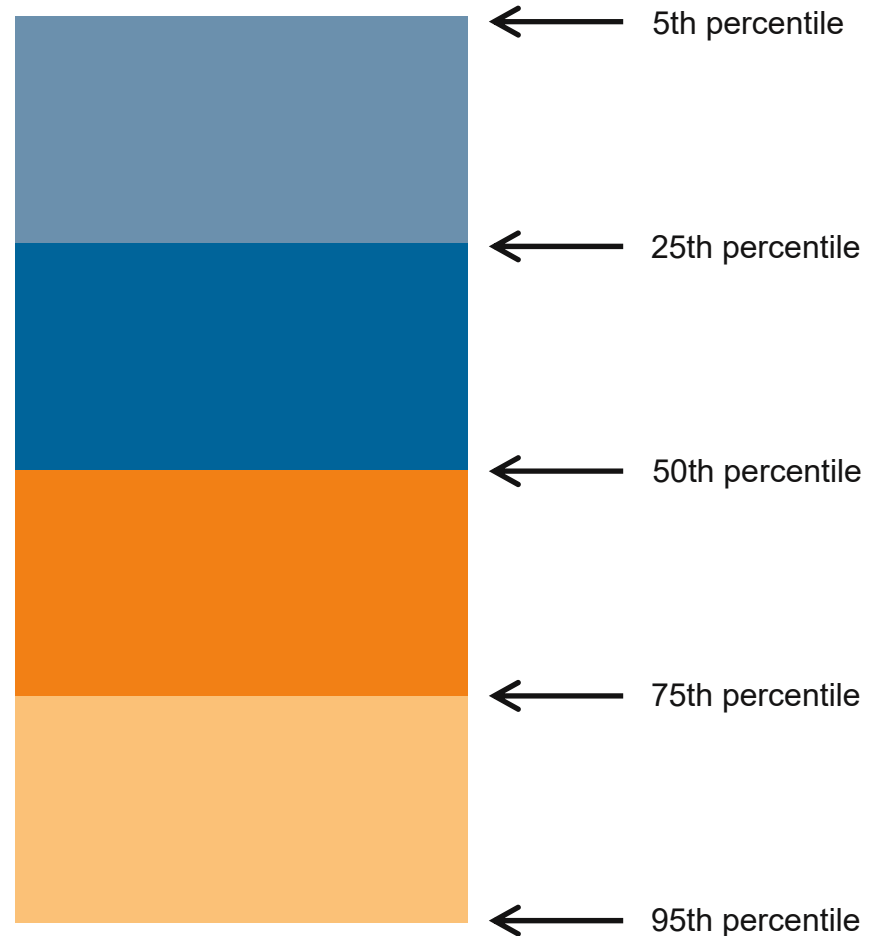
- ▶ Exceeds 50% of all forecasts
- ▶ Median outcome

75th percentile

- ▶ Exceeds 25% of all forecasts
- ▶ Pessimistic outcome

95th percentile

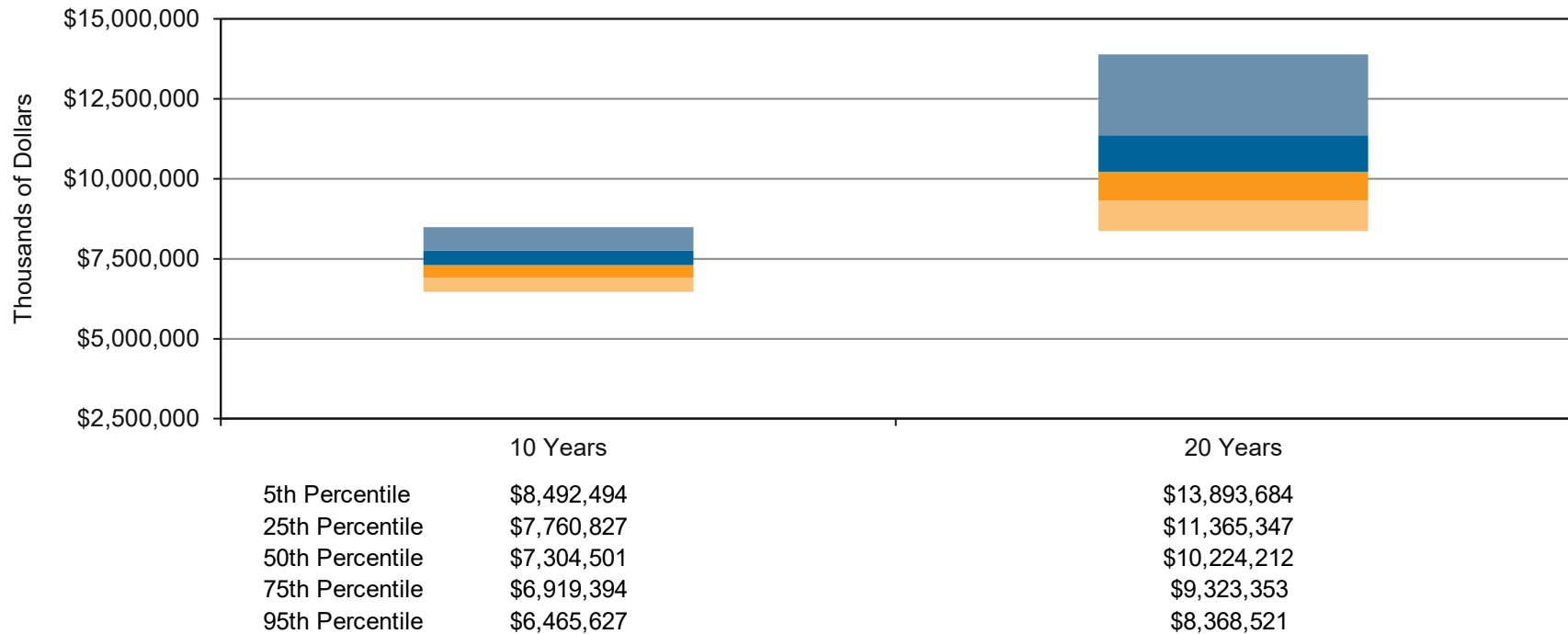
- ▶ Exceeds 5% of all forecasts
- ▶ Very pessimistic outcome



Nominal (before Inflation) School Trust Values

10 & 20 Year Projections

Ending School Trust Values

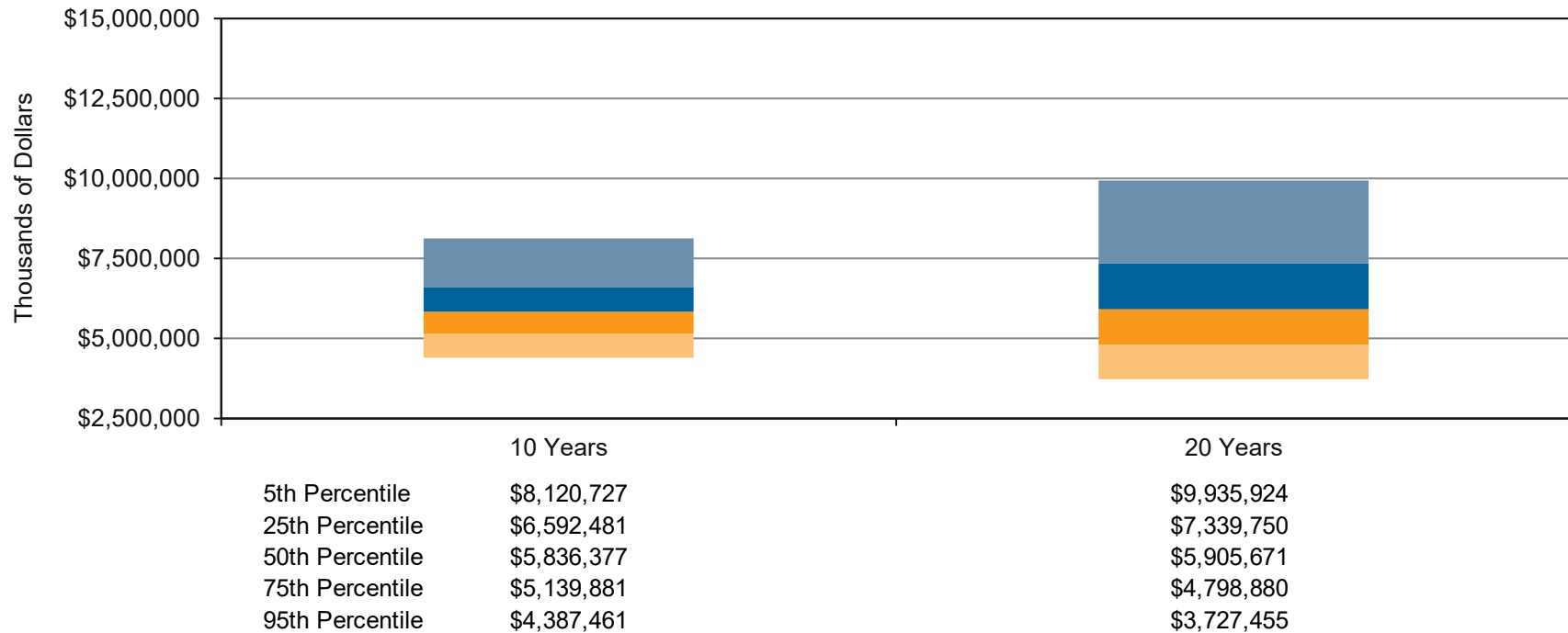


- School Trust assets are expected (median or 50th percentile) to grow from approximately \$5.5 billion in 2022 to over \$10 billion by 2042 (given current asset allocation and distribution policies and expected land revenues)
- In poor markets (95th percentile outcome), assets are still projected to grow by almost \$3 billion over the next 20 years

Real (including Inflation) School Trust Values

Price inflation and student population growth

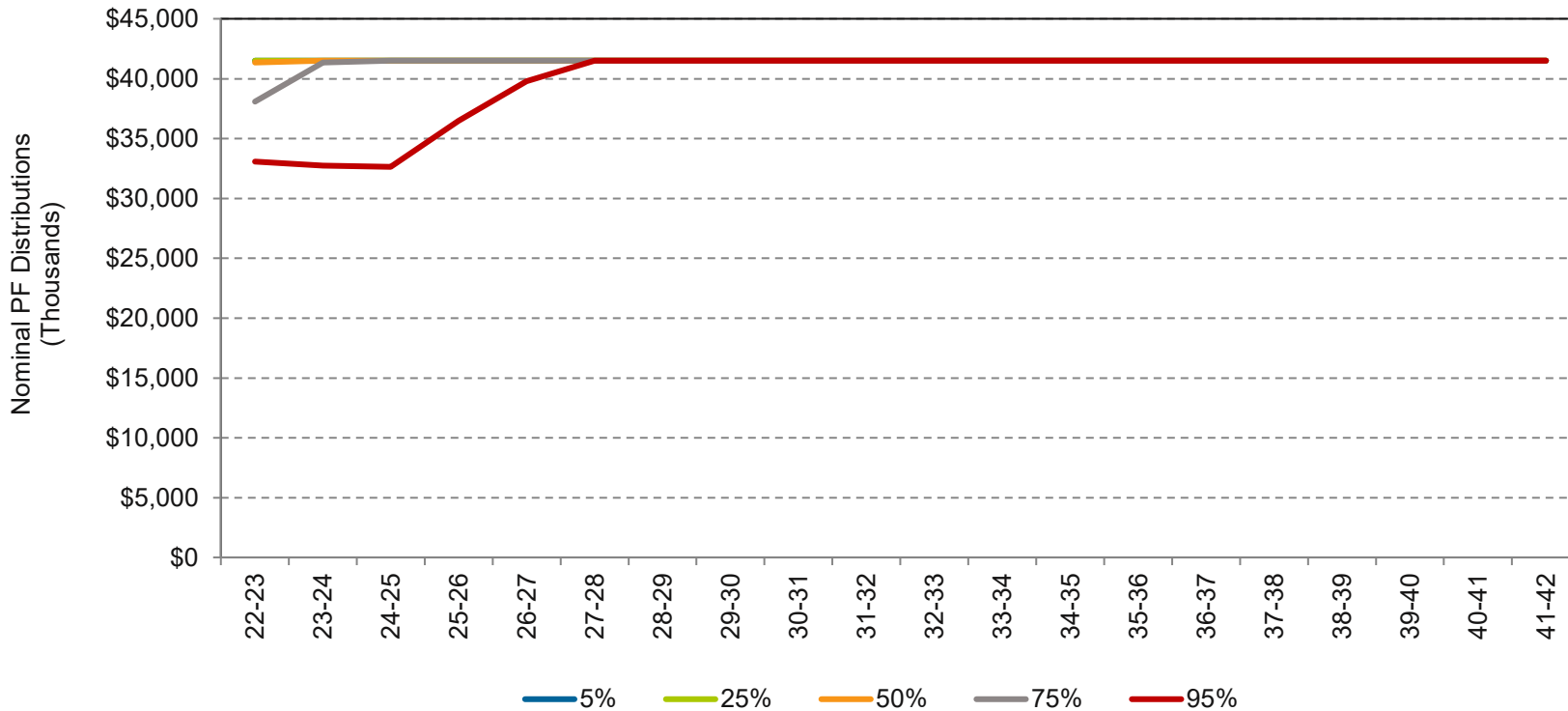
Real Ending School Trust Values



- The graph above discounts the values on previous page by price inflation (CPI-U) and student population growth
 - Median price inflation = 2.5% per year (Callan’s 10-year assumption)
 - Student population falls by approximately -0.6% in FY22-23 before beginning to rise in FY28-29 and eventually reaching 1% annual growth near the end of the projection period
- The real purchasing power of the School Trust is expected (median-case outcome) to climb by over \$400 million over the next 20 years

Nominal Permanent Fund Distributions

Fiscal Year PF Distributions

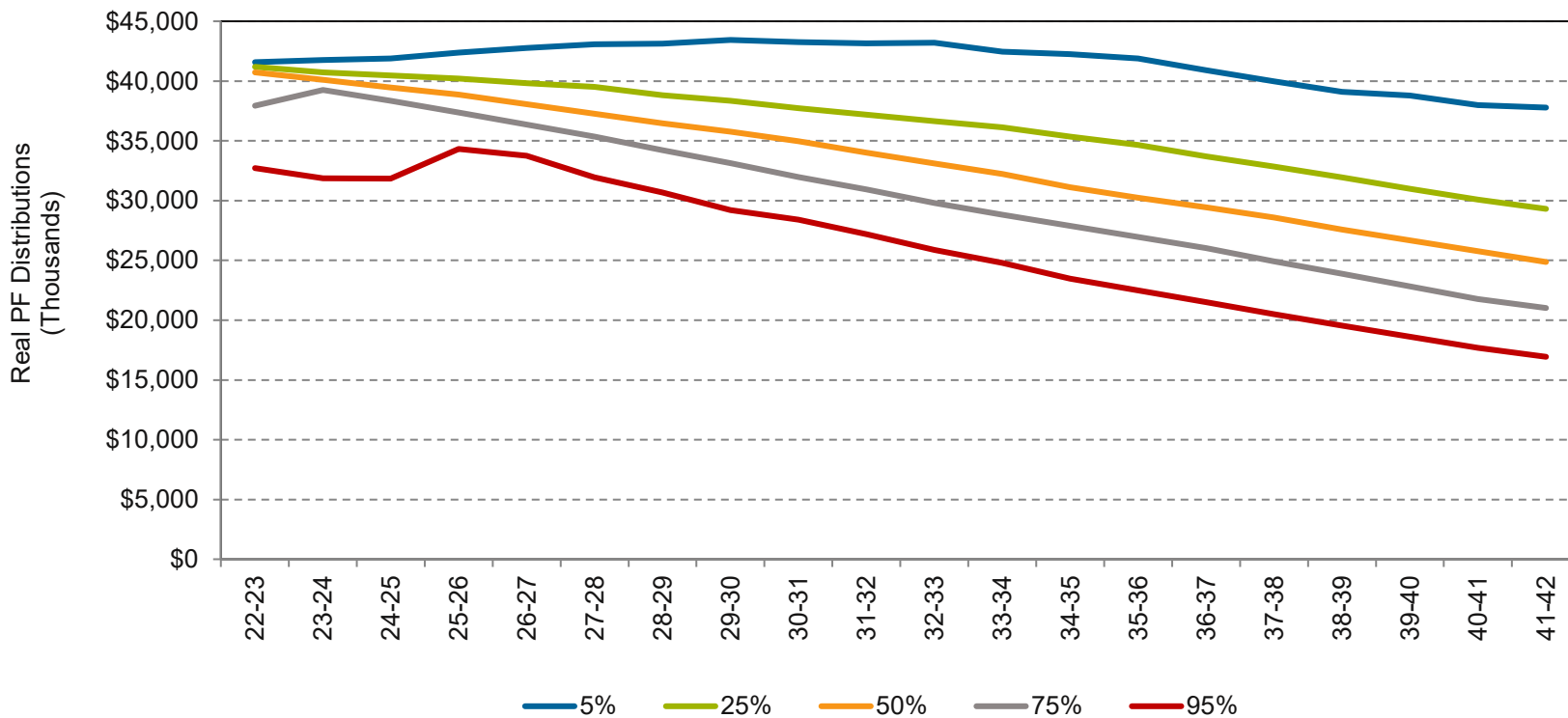


- Annual distributions are capped at \$41.5 million under the current distribution policy
- Colored lines represent expected distributions at different return scenarios (5th to 95th percentile)
- Better case outcomes (5th and 25th percentiles) are at the maximum distribution amount over the entire projection period while the expected case outcome (median or 50th percentile) reaches the maximum in fiscal year 2023-24
 - The line chart exhibits projected distributions which may differ from actual results
- Poor investment outcomes (75th and 95th percentiles) reach the maximum distribution in fiscal years 2024-25 and 2027-28, respectively

Real Permanent Fund Distributions

Price inflation and student population growth

Fiscal Year Real PF Distributions



- The graph above discounts the values on previous page by inflation (CPI-U) and student population growth
- Annual real (inflation-adjusted) distributions, in a majority of outcomes, fall as a flat nominal distributions lose value in real terms year after year
- The modest rise in the real value of distributions over the first half of the projection in the 5th percentile outcome is a combination of strong investment results coupled with low price inflation and a forecast for a declining student population through 2027

Summary Observations

Current structure

- The real purchasing power of the School Trust is expected to rise over the next 20 years
 - The rise largely stems from a cap on PF distributions which decline as a percentage of the Trust over time
- The Permanent Fund's flat dollar distribution policy results in declining real distributions
- Declining real distributions places future school children at a disadvantage relative to today's student population
- Growing the Trust at least equal to the projected rate of inflation and student population growth maintains intergenerational equity

Current versus Alternative Structure

School Trust

Alternative structure

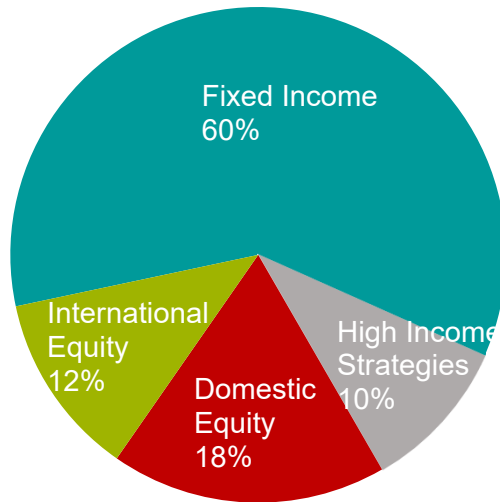


- Two of the three proposed changes are shown in red in the schematic to the left
- First, 100% of land revenues would flow to the Permanent Fund
- Second, PF distributions would now be a percentage of the moving average PF market value to reflect best practices

Permanent Fund

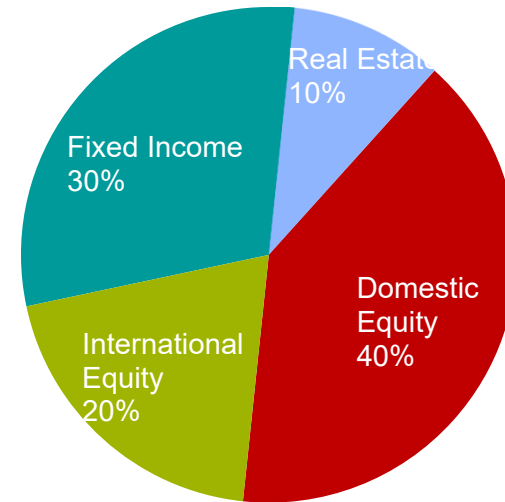
Alternative Permanent Fund Asset Allocation

Current PF Target Allocation



Return = 5.8%; Risk = 6.9%

Alternative PF Target Allocation



Return = 6.8%; Risk = 11.7%

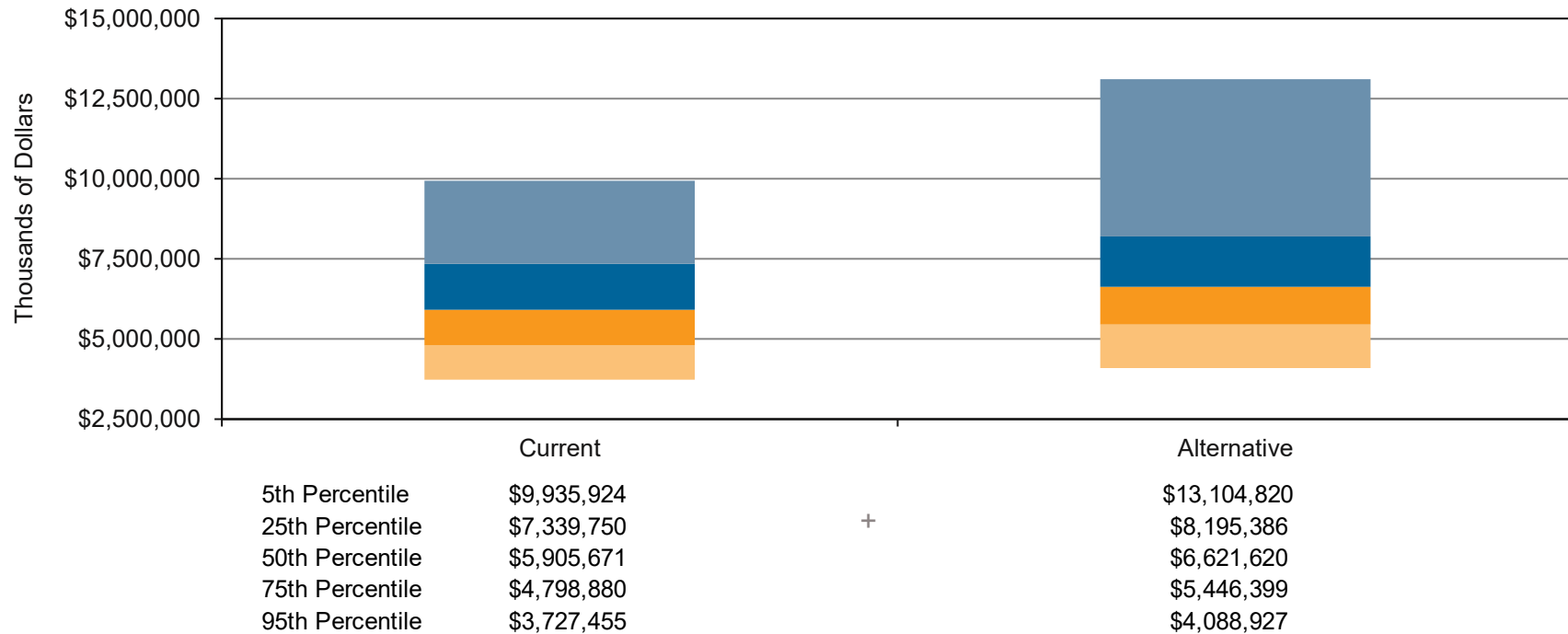
- The third suggested change is adopting a more diversified Permanent Fund asset allocation
- Return and risk is calculated over a 10-year period
- The alternative allocation is expected to generate an additional 100 basis points (or 1%) of return with an increased level of risk
 - The additional 1% return compounded over 10 years results in a projected additional market value of \$217 million in the median case

Note: Fixed income in current mix is 87.5% Bloomberg Aggregate/12.5% Bloomberg 1-3 Gov/Cr; Fixed income in alternative mix is 100% Bloomberg Aggregate

Real (including Inflation) School Trust Values

Current and alternative structures (20 years)

Real Ending School Trust Values (20 Years)



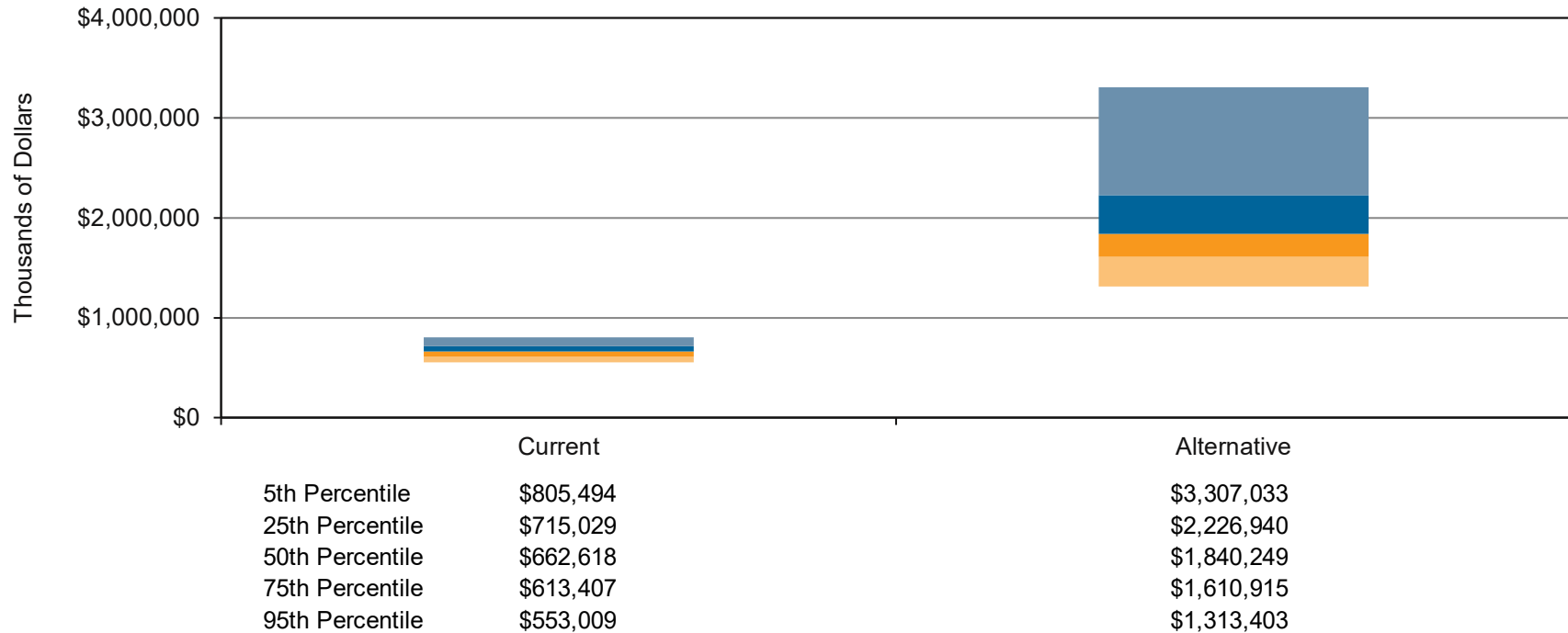
- Moving to the alternative structure* is expected to result in an additional \$716 million in School Trust assets in 20 years (in today's dollars) in the median case
- The range of real School Trust asset values is expected to be approximately \$0.4 billion (95th percentile) to \$3.2 billion (5th percentile) higher under the alternative structure

* LB revenues all go to the PF, PF distribution is 4% of rolling 3-year market value, and PF asset allocation is as shown on previous page.

Cumulative Real (including Inflation) Permanent Fund Distributions

Current and alternative structures (20 years)

Cumulative Real PF Distributions (20 Years)



- Moving to the alternative structure is expected to result in an additional \$1.2 billion in real (inflation adjusted) distributions from the PF over the next 20 years
- The range of cumulative real distributions is expected to be approximately \$0.8 billion (95th percentile) to \$2.5 billion (5th percentile) higher under the alternative structure

Isolating the Impact of Each Change to the Current Structure

Asset values and Permanent Fund distributions (20 years)

- Directing 100% of Land Board revenues to the Permanent Fund is expected to have the biggest impact on the value of the School Trust
 - Minimal impact on Permanent Fund distributions (distributions capped)
- Altering the Permanent Fund asset allocation has a significant positive impact on the value of the Trust while mostly detracting from distributions due to the income only distribution policy
- Altering the distribution policy alone hurts the value of the School Trust as distributions rise dramatically
- Real distributions rise primarily from changing the Permanent Fund distribution policy
- Assessing the impact on both assets and distributions (bottom table), shows that the combined changes are expected to add almost \$2 billion in purchasing power to the School Trust

Real Ending School Trust Values (20 Years)				
Gain/(Loss) Impact of Change (\$000)	100% of Land Rev. to PF	More Aggr. PF Allocation	% of MV Distrib. Policy	Combined Changes
5th Percentile	\$2,789,878	\$3,342,495	(\$1,581,704)	\$3,168,896
25th Percentile	\$2,006,713	\$576,166	(\$1,042,799)	\$855,636
50th Percentile	\$1,595,561	\$412,378	(\$775,260)	\$715,948
75th Percentile	\$1,298,283	\$340,965	(\$595,357)	\$647,519
95th Percentile	\$1,012,895	\$17,156	(\$427,409)	\$361,472

Cumulative Real PF Distributions (20 Years)				
Gain/(Loss) Impact of Change (\$000)	100% of Land Rev. to PF	More Aggr. PF Allocation	% of MV Distrib. Policy	Combined Changes
5th Percentile	\$4,217	(\$37,034)	\$1,068,510	\$2,501,538
25th Percentile	\$6,645	(\$23,597)	\$780,375	\$1,511,910
50th Percentile	\$3,047	(\$9,723)	\$647,544	\$1,177,631
75th Percentile	\$4,647	\$4,047	\$546,765	\$997,508
95th Percentile	\$1,804	\$11,391	\$441,579	\$760,394

Real Ending School Trust Values + Cumulative Real PF Distributions (20 Years)				
Gain/(Loss) Impact of Change (\$000)	100% of Land Rev. to PF	More Aggr. PF Allocation	% of MV Distrib. Policy	Combined Changes
5th Percentile	\$2,785,160	\$3,541,745	(\$482,442)	\$5,756,567
25th Percentile	\$2,000,737	\$779,254	(\$264,485)	\$2,532,435
50th Percentile	\$1,613,001	\$465,246	(\$119,638)	\$1,987,179
75th Percentile	\$1,293,721	\$233,255	(\$45,259)	\$1,572,554
95th Percentile	\$1,005,689	(\$108,062)	\$15,387	\$973,426

Summary Observations

Current versus alternative structure

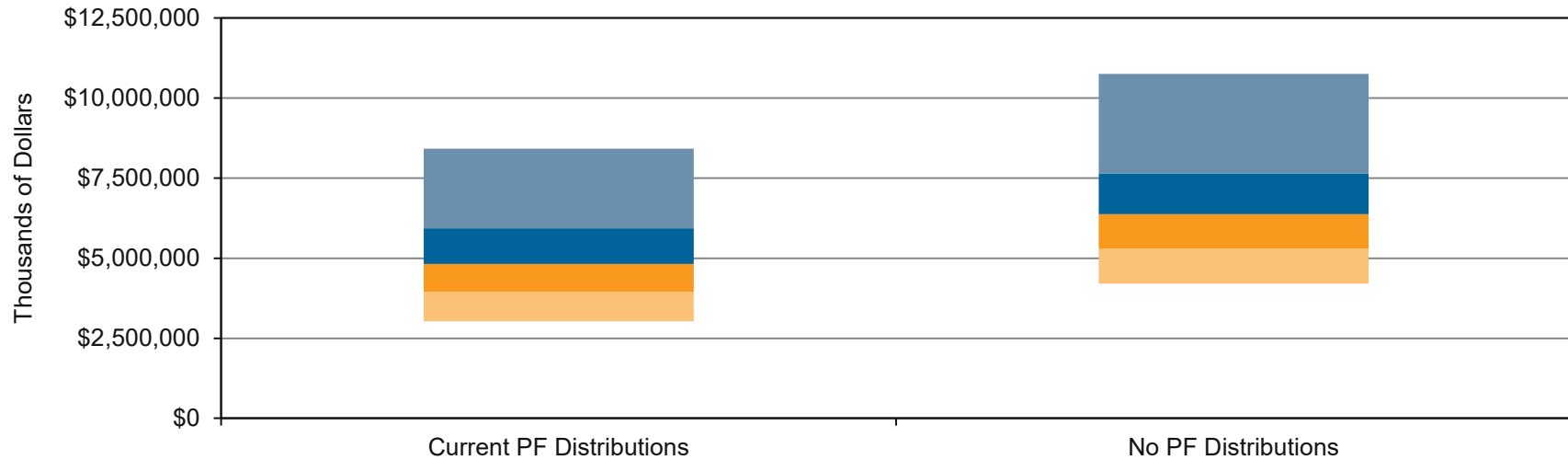
- The alternative structure fulfills the constitutional intergenerational mission of growing the corpus while generating reasonable and consistent income for current and future beneficiaries
- Moving to the alternative structure results in greater distributions and School Trust values as low returning lands that generate volatile revenues shrink in proportion to the financial asset portfolio
- Moving to the alternative structure would entail:
 - Allocating 100% of Land Board revenues to the Permanent Fund (net of DNR costs and other required set-asides)
 - Moving to a rolling average market value distribution policy in the Permanent Fund
 - *The ultimate distribution percentage should be examined in further detail to help ensure current and future generations enjoy the same level of benefits*
 - Adopting a more diversified asset allocation in the Permanent Fund

Appendix

Nominal (before Inflation) Permanent Fund Values

Current PF Distribution Policy versus No PF Distributions (20 Years)

Ending Permanent Fund Values



- Curtailing distributions from the Permanent Fund results in an additional \$1.5 billion in expected PF assets 20 years out

2023 Callan Capital Market Assumptions

Correlation

Summary of Callan's Long-Term Capital Market Assumptions (2023 - 2032)

Correlation Matrix	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	
1 Broad U.S. Equity	1.00																					
2 Large Cap U.S. Equity	1.00	1.00																				
3 Small/Mid Cap U.S. Equity	0.92	0.88	1.00																			
4 Global ex-US Equity	0.80	0.77	0.83	1.00																		
5 Developed ex-U.S. Equity	0.75	0.73	0.79	0.99	1.00																	
6 Emerging Market Equity	0.82	0.79	0.83	0.95	0.89	1.00																
7 Short Duration G/C	0.04	0.05	0.01	0.02	0.04	-0.01	1.00															
8 Core U.S. Fixed	0.02	0.02	-0.02	-0.01	0.00	-0.04	0.80	1.00														
9 Long Government/Credit	0.25	0.26	0.22	0.23	0.23	0.22	0.72	0.89	1.00													
10 TIPS	-0.07	-0.07	-0.08	-0.10	-0.09	-0.11	0.56	0.70	0.56	1.00												
11 High Yield	0.76	0.75	0.74	0.76	0.73	0.75	0.10	0.09	0.28	0.02	1.00											
12 Global ex-U.S. Fixed	0.10	0.10	0.07	0.13	0.13	0.12	0.50	0.60	0.58	0.45	0.18	1.00										
13 EM Sovereign Debt	0.66	0.65	0.65	0.68	0.65	0.69	0.16	0.19	0.34	0.08	0.62	0.21	1.00									
14 Core Real Estate	0.44	0.44	0.42	0.42	0.42	0.41	0.16	0.14	0.21	0.09	0.31	0.16	0.29	1.00								
15 Private Infrastructure	0.49	0.48	0.47	0.47	0.46	0.46	0.14	0.15	0.25	0.08	0.34	0.18	0.32	0.76	1.00							
16 Private Equity	0.80	0.79	0.77	0.78	0.76	0.75	-0.01	-0.09	0.12	-0.11	0.61	0.08	0.51	0.55	0.60	1.00						
17 Private Credit	0.70	0.69	0.68	0.68	0.65	0.68	0.11	0.00	0.18	-0.12	0.63	0.12	0.50	0.25	0.27	0.67	1.00					
18 Hedge Funds	0.68	0.67	0.63	0.65	0.63	0.63	0.23	0.29	0.44	0.20	0.60	0.25	0.54	0.28	0.30	0.48	0.51	1.00				
19 Commodities	0.20	0.20	0.20	0.20	0.20	0.20	-0.05	-0.04	-0.02	0.00	0.20	0.10	0.15	0.18	0.15	0.20	0.17	0.23	1.00			
20 Cash Equivalents	-0.06	-0.06	-0.08	-0.10	-0.10	-0.10	0.30	0.15	0.06	0.12	-0.09	0.05	-0.06	0.00	-0.04	0.00	-0.04	-0.04	-0.02	1.00		
21 Inflation	-0.01	-0.02	0.02	0.01	0.00	0.03	-0.21	-0.23	-0.27	0.25	0.00	-0.15	-0.04	0.20	0.10	0.06	-0.05	0.05	0.35	0.05	0.05	

- Relationships between asset classes are as important as standard deviation
- To determine portfolio mixes, Callan employs mean-variance optimization
- Return, standard deviation, and correlation determine the composition of efficient asset mixes

Important Disclosures

Information contained in this document may include confidential, trade secret and/or proprietary information of Callan and the client. It is incumbent upon the user to maintain such information in strict confidence. Neither this document nor any specific information contained herein is to be used other than by the intended recipient for its intended purpose.

The content of this document is particular to the client and should not be relied upon by any other individual or entity. There can be no assurance that the performance of any account or investment will be comparable to the performance information presented in this document.

Certain information herein has been compiled by Callan from a variety of sources believed to be reliable but for which Callan has not necessarily verified for accuracy or completeness. Information contained herein may not be current. Callan has no obligation to bring current the information contained herein.

This content of this document may consist of statements of opinion, which are made as of the date they are expressed and are not statements of fact. The opinions expressed herein may change based upon changes in economic, market, financial and political conditions and other factors. Callan has no obligation to bring current the opinions expressed herein.

The statements made herein may include forward-looking statement regarding future results. The forward-looking statements herein: (i) are best estimations consistent with the information available as of the date hereof and (ii) involve known and unknown risks and uncertainties. Actual results may vary, perhaps materially, from the future results projected in this document. Undue reliance should not be placed on forward-looking statements.

Callan disclaims any responsibility for reviewing the risks of individual securities or the compliance/non-compliance of individual security holdings with a client's investment policy guidelines.

This document should not be construed as legal or tax advice on any matter. You should consult with legal and tax advisers before applying any of this information to your particular situation.

Reference to, or inclusion in this document of, any product, service or entity should not necessarily be construed as recommendation, approval, or endorsement or such product, service or entity by Callan.

This document is provided in connection with Callan's consulting services and should not be viewed as an advertisement of Callan, or of the strategies or products discussed or referenced herein.

The issues considered and risks highlighted herein are not comprehensive and other risks may exist that the user of this document may deem material regarding the enclosed information.

Any decision you make on the basis of this document is sole responsibility of the client, as the intended recipient, and it is incumbent upon you to make an independent determination of the suitability and consequences of such a decision.

Callan undertakes no obligation to update the information contained herein except as specifically requested by the client.

Past performance is no guarantee of future results.

About Callan

Callan was founded as an employee-owned investment consulting firm in 1973. Ever since, we have empowered institutional clients with creative, customized investment solutions that are uniquely backed by proprietary research, exclusive data, ongoing education and decision support. Today, Callan advises on \$3 trillion in total assets, which makes us among the largest independently owned investment consulting firms in the U.S. We use a client-focused consulting model to serve public and private pension plan sponsors, endowments, foundations, operating funds, smaller investment consulting firms, investment managers, and financial intermediaries. For more information, please visit www.callan.com.

© 2023 Callan LLC

Callan

Corporate Headquarters

600 Montgomery Street
Suite 800
San Francisco, CA 94111
800.227.3288
415.974.5060

Regional Offices

Atlanta
800.522.9782

Chicago
800.999.3536

Denver
855.864.3377

New Jersey
800.274.5878

Portland
800.227.3288



Public School Capital Construction Assistance Board
Meeting Agenda Sheet

MEETING DATE: February 16, 2023

SUBJECT: FY23-24 Initial List of Applicants

ITEM TYPE: Discussion Item

BACKGROUND:

The FY23-24 BEST grant round closed on February 6, 2023.

- 57 grants requesting \$568 million from BEST with a project total of \$817 million.
- Six supplemental requests for \$34 million from BEST.
- Sixteen projects are requesting over \$10 million with the largest request at \$59 million (total request of the sixteen largest projects is \$481 million).
- 17 projects are requesting under \$1 million (total of these 17 projects is just under \$6.5 million).

STAFF RECOMMENDATION:

Review and discuss.

STAFF RECOMMENDED MOTION:

N/A

DOCUMENTATION:

List to be provided at meeting.