

# EXECUTIVE SUMMARY

## *School Land Board Veterans' Land Board*

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This report includes the Sunset reviews of both the School Land Board (SLB) and the Veterans' Land Board (VLB). Both of these three-member boards are unique in that they are independent entities within the Texas General Land Office (GLO) chaired by the land commissioner, and all SLB and VLB staff are GLO employees. The review generally found that the boards' programs operated effectively but focused on providing GLO leadership and the boards with more information and implementing consistent policies, which will improve oversight, especially as it related to both boards' contracting processes.

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### **School Land Board**

Established by the Legislature in 1939, SLB oversees the management, sale, and leasing of over 13 million acres of Permanent School Fund (PSF) land, which generates revenue the board uses to purchase additional real estate and make investments that ultimately help fund public education. In fiscal year 2017, gross revenue from PSF land totaled \$1.9 billion and investment income totaled \$943 million.

Since the last Sunset review of SLB in 1984, the board's authority has greatly expanded. In 2001, the Legislature gave the board authority to make investments to generate revenue for the PSF. Prior to this, SLB only supervised the management, sale, and leasing of PSF lands, and the State Board of Education invested the revenues to benefit the fund. The Legislature expanded SLB's investment authority further in 2005 and 2007, allowing the board to invest in real estate, energy, and infrastructure, in addition to land. Since receiving this authority, the board has grown its portion of the PSF from \$1 billion to about \$6.5 billion. Based on the success of this expanded authority, this review paid special attention to SLB investments.

SLB is not a typical state board and does not provide a direct service to the public, nor does it regulate a profession or industry. The board exists to make money for the PSF through its management of the fund's land and investment portfolio. Although the board's investments perform very well and the review found no significant problems within the investment program, the agency needs

to implement additional best practices to better guide the investment process and provide the board and other policymakers with more information about the overall performance of the fund. Having the board adopt clear guidelines to direct the investment policy and strategies, and reporting more detailed information about the fund would allow the board, the Legislature, and others to more fully understand SLB's investment program, and better ensure this successful investment portfolio is maintained in the future.

Additionally, the Sunset review found the work of SLB in overseeing PSF land and investments is hampered by the board's small size. The three board members cannot informally discuss the work of the board without violating the Texas Open Meetings Act, and the board structure leaves only two board members to make important decisions when one board member has a conflict of interest with an investment or an agreement before the board. Also, the board cannot form subcommittees to allow members to develop expertise on certain functions of the board. The addition of more members would allow it to operate more effectively. The other recommendations in this report improve SLB's contract monitoring processes and apply standard review elements to the board's statute. Along with these improvements, Sunset staff recommends continuing SLB for 12 years.

### ***Veterans' Land Board***

Established in the Texas Constitution in 1946, VLB provides land, home, and home improvement loans; long-term nursing care; and burial and internment services to veterans and their families. VLB's programs have expanded since its last Sunset review in 2006, when VLB operated six veterans nursing homes and two veterans cemeteries. Today, VLB operates eight homes, with a ninth scheduled to open in Houston in 2019, and four veterans cemeteries. As a constitutionally-created board, VLB is subject to review, but not abolishment under the Sunset Act, so the review did not address continuation of the board.

Evaluating VLB's procurement and contracting operations was a top priority for the review, since the board contracts for the administration of many of its large programs, including the servicing of its home loan program, and the construction and operation of its veterans nursing homes and cemeteries. In 2016, GLO consolidated its contracting functions and made significant improvements to the front end of its contracting process — creating the requests for proposals, evaluating proposals, awarding bids, and writing contracts. However, additional changes are needed to improve VLB's contract management and monitoring at the program level. VLB needs to make additional improvements to ensure all of its contracting processes adhere to best practices, including establishing and implementing consistent contract monitoring policies, and better training project managers on how to monitor contractor performance. These changes will help ensure VLB holds its contractors accountable and gets what it pays for. Additionally, the board itself needs to be more involved in overseeing the contracting process, particularly when entering into multi-million dollar contracts.

The following material summarizes the Sunset staff recommendations on both SLB and VLB.

## Issues and Recommendations

### ***School Land Board***

#### ***Issue 1***

##### **While Well Performing, the School Land Board Should Improve Transparency and Oversight of Its Investments.**

Since receiving the authority to invest PSF revenue in 2001, SLB's portion of the Permanent School Fund has grown significantly and is now worth approximately \$6.5 billion. While the board has had positive returns from its investments, the Sunset review found certain areas where the board could benefit from implementing best practices in public funds investment management and reporting. Specifically, having more robust investment policies and strategies would provide better guidance to investment staff and help the board hold staff accountable for achieving its investment objectives. Additionally, the composition of SLB's investment advisory committee limits available expertise for board investments, and SLB's investment reports provide limited information on investment performance and the overall performance of the PSF. Having more detailed information on investment returns and asset allocation information publicly available would help the Legislature, stakeholders, and others see how well the board is managing public funds as well as the overall performance of the PSF.

##### **Key Recommendations**

- Direct SLB to adopt rules to guide the investment policy and strategies.
- Direct SLB to adopt rules for the size, membership, and responsibilities of the investment advisory committee.
- Direct SLB to publicly report more detailed investment information in the *PSF Comprehensive Annual Financial Report*.

#### ***Issue 2***

##### **Texas Has a Continuing Need for the School Land Board, but Changes to the Board's Structure and Contracting Processes Would Improve Operations.**

Texas and its public schools benefit from SLB overseeing the sale and lease of public land and related investments that generate revenue for the PSF. However, the three-member board structure limits communication among board members and ultimately its effectiveness. A larger board provides more flexibility to allow board members to develop expertise and make better informed decisions, and allows the board to carry out its duties if members are absent or must recuse themselves from a vote due to conflicts of interest. Additionally, some of SLB's contracting processes do not fully align with best practices, contributing to inconsistencies in contract monitoring.

##### **Key Recommendations**

- Continue the School Land Board for 12 years.
- Expand the board from three to five members.

- Direct SLB to review and approve large contracts, and to develop, adopt, and implement clear and consistent contract monitoring policies.

## ***Veterans' Land Board***

### ***Issue 1***

#### **The Veterans' Land Board Needs to Make Additional Improvements to Ensure Contracts Adhere to Best Practices.**

VLB manages 71 major contracts, with a value of over \$95 million, to administer its loan, veterans nursing homes, and veterans cemeteries programs. Because VLB is housed within GLO, the board has worked with the agency to begin to centralize its contracting functions but could still improve its processes for monitoring contractors. Each VLB program manages and monitors its own contracts, contributing to operational inefficiencies, such as a lack of documented policies and procedures for project managers and inconsistent contract oversight by program staff. Standardized contracting policies and procedures, detailing the duties of project managers, and requiring training for staff and board members would improve the quality of VLB's contract oversight.

#### **Key Recommendations**

- Direct VLB and GLO staff to work together to develop and require regular training for contracting staff.
- Direct VLB to work with GLO to further develop written policies outlining clear authority over the board's contracting functions, including the roles of project managers and program staff.
- Direct VLB and GLO to develop a framework for identifying, documenting, and reporting contract compliance issues.

### ***Issue 2***

#### **The Veterans' Land Board's Statute Does Not Reflect Some Standard Elements of Sunset Review and Others Have Not Been Implemented.**

Among the standard elements considered in a Sunset review are provisions that the Sunset Commission applies across the board to all state agencies under review designed to ensure open, responsive, and effective government. VLB's governing statutes do not include standard provisions relating to board member training, which would ensure members understand the scope of the VLB's rulemaking authority, and policies related to separating policymaking functions of the board from day-to-day administrative functions of staff.

#### **Key Recommendation**

- Apply and update standard across-the-board recommendations to VLB.

## Fiscal Implication Summary

Overall, the recommendations in this report would not have a fiscal impact to the state. Most of the recommendations are designed to improve the boards' internal operations and efficiency, but the fiscal impact would depend on implementation. However, one issue would have a direct fiscal impact to the School Land Board, as summarized below.

***SLB Issue 2*** — The recommendation to expand the membership of the SLB board from three to five members would result in additional travel expenses for the two new board members. The board should use its administrative fund to pay the estimated additional \$2,840 per year in travel expenses.

