

Public School Permanent Fund (PSPF) Community Investment

Public School Fund Investment Board Work
Session 10/16/24



HB22-1146 Working Group Recommendation

#2: Impact Investing The legislature should consider allowing for opportunities to pursue impact investing related to the Land Board and permanent fund.

1. The Land Board and the Public School Fund Investment Board (PSFIB) should create mission statements that encourage investments to be made for the intergenerational benefit of the public education of school children;
2. The Land Board and the PSFIB should explore education impact investment opportunities within the State School Lands Trust and the Public School Fund.



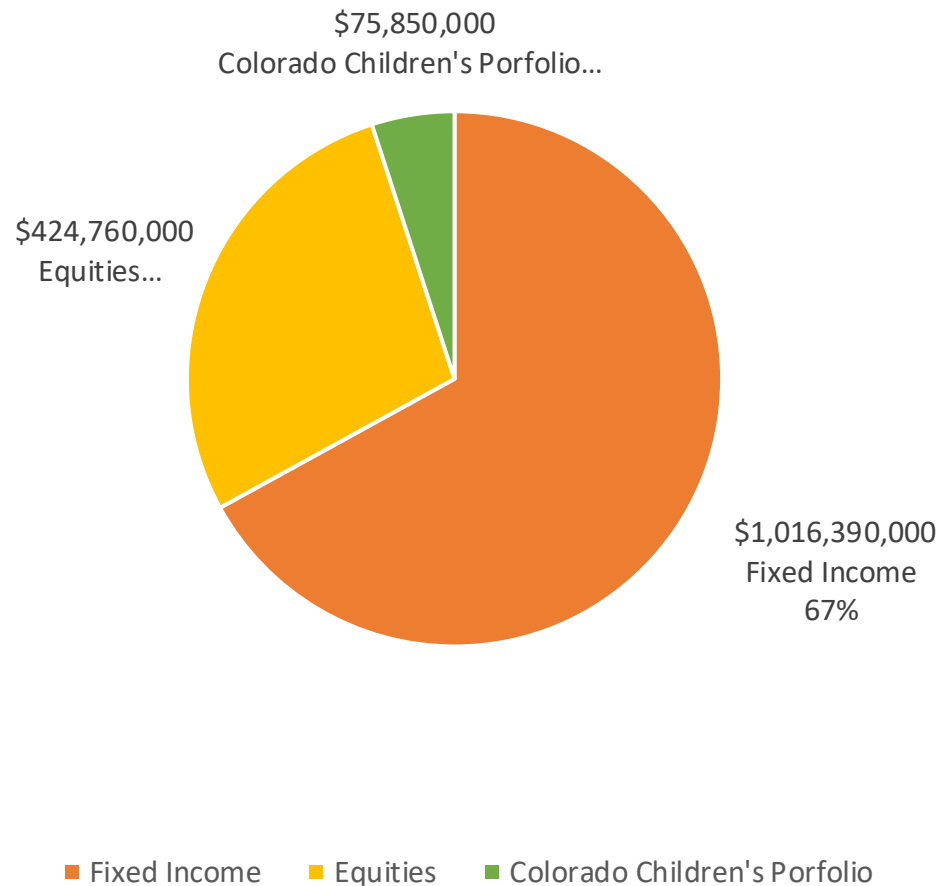
The Opportunity

Investing the PSPF in Colorado communities while still earning returns comparable to current investments, is a unique opportunity to significantly amplify benefit while still optimizing return.

Public School Fund

Including Community Investments

- Using only a portion of the new revenue into the PSPF (\$117M last year), the State could create a new part of the portfolio—the Colorado Children’s Portfolio.
- The other portfolio pieces still increase in value compared to previous year.
- The Colorado Children’s Portfolio could increase annually. It would grow at the rate and to the size the PFIB and Treasurer determined.



Allocation within the CO Children's Portfolio



17% Impact First

Concessionary
Catalytic
High impact
Mission exclusive



33% Mission-Driven

Lower risk
Target return at inflation (or 5-year avg market duration fixed income portfolio return)
Broadly mission related



50% Market Rate

Risk-adjusted, market-rate returns
Fund-level investments
Values aligned

Strategies

Impact First

- Focus on teacher housing
 - Middle Income Housing Authority bonds (funding teacher rental housing developments)
 - MBS or CMOs with CO teacher mortgages
 - Debt investment to CDFIs to provide construction loans for teacher housing or mortgages for teacher housing
 - Invest in LANDED (home ownership impact fund for teachers)





Strategies

Mission-Driven

- BEST COPs
 - District/charter school COPs
 - Charter school CECFA bonds
 - Purchase CHFA mortgages
 - Invest in CDFIs
 - All of the above options are “off the shelf,” low risk, and have a secondary market
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Strategies

Market Rate

- Mission Colorado Fund/ COinvest
- Investing alongside the State's VCA
- Ed tech (e.g. Edovate Capital)
- Middle Income Housing Authority bonds (target market=high yield debt funds)
- Maycomb Capital Outcomes Fund
- Imprint Capital (Goldman Sachs)
- Must have a CO presence
- Fund-level investments
- Scale
- Low transaction costs

Current Investment Objective

Investment Objective: The primary investment objective of the PSFIB is to securely invest PSPF assets for the intergenerational benefit of public schools and in a manner that complies with the “Uniform Prudent Investor Act,” (§ 15-1.1-101, et seq., C.R.S.). Since the PSPF is to remain inviolate and intact, and not subject to appropriation by the General Assembly, the overall objective of the PSFIB is to preserve, protect, and grow the principal of the PSPF with a prudent level of risk over a long-term time horizon.



Example PSPF Community Investment Mission Statement

The mission of the Colorado Public School Permanent Fund (PSPF) is to support Colorado children. Strategically invested capital can achieve both social outcomes and robust financial returns. Therefore, the fund's intergenerational mission is served by investing a portion of its corpus in a way that advances clear, meaningful, and measurable outcomes through the investment portfolio. Investments should be aligned with the fund's mission and seek to advance the benefit of Colorado school children.

Next Steps?

- Potential action item at next PSFIB meeting
- Potential legislation
- Request for additional analysis/information?

Appendix

Colorado School Bonds

\$3.6 Billion outstanding CO charter school bonds

\$750M backed by a State moral obligation pledge

Since charter schools cannot issue GO bonds they have a more difficult time accessing the capital markets

\$7 billion in CO school district bonds on the ballot just in 2024 (from 32 school districts)

All CO school district bonds are backed by the State

School district bonds are called out as a potential investment of the PSPF in the State Constitution

Other states also invest in school bonds through their school permanent funds.

CDFI COALITION

STATE FACT SHEET COLORADO

An Annual Snapshot of CDFI Program Awardee Activity in Colorado (FY 2020)

TOTAL INVESTMENT



2.2k originations totaling \$129.9M

JOBS



5.7k permanent FTE jobs
927 construction jobs

BUSINESS INVESTMENT

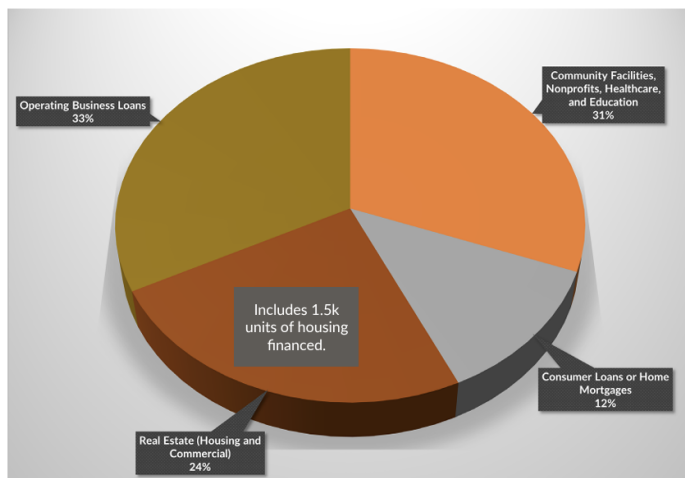


Of that activity, 1.9k loans and investments totaling \$113.9M went to Colorado businesses, nonprofits, and community facilities, with the balance going to individuals and families.

REAL ESTATE



439.9k sq. ft. of commercial real estate constructed or rehabilitated



The following 20 CDFIs are headquartered in Colorado:

- First SouthWest Bancorporation, Alamosa
- First Southwest Bank, Alamosa
- Community Enterprise Development Services, Aurora
- Columbine FCU, Centennial
- Community Choice Credit Union, Commerce City
- Affordable Mortgage Solutions, Denver
- Colorado Enterprise Fund, Denver
- Greenline Community Development Fund, Denver
- Mercy Community Capital, DENVER
- Native American Bancorporation, Co., Denver
- Native American Bank, N.A., Denver
- Rocky Mountain MicroFinance Institute, Denver
- Triple Bottom Line Foundation, Denver
- La Plata Homes Fund, Durango
- Arapahoe Credit Union, Littleton
- Oweesta Corporation, Longmont
- Impact Development Fund, Loveland
- NuVista FCU, Montrose
- Southern Colorado Community Lending, Pueblo
- Colorado Housing Enterprises, Westminster

Other States

Other states with trust funds, which are largely western states, have made community investments:

Nevada: allowing their public school fund to make equity investments in Nevada businesses

New Mexico: (Differential Rate investments) allowing their severance tax trust fund to make equity investments in Nevada businesses; buy student loan bonds from NM students; buy mortgage bonds from NM homeowners; buy higher ed bonds; buy NM lottery bonds; buy State issued bonds for capitol renovations; make equity investments in films made in NM.

Wyoming: (Alternative Investments) a slew of different “public purpose investments” (as they are called in WY), including school district bond guarantees, guaranteeing local government bonds, and certain investments “to promote economic development”.

Some Impact Investing Stats...

According to a recent survey of investors by Global Impact Investing Network, 67% of impact investors are principally pursuing risk-adjusted, market-rate returns, and also report that their portfolio performance meets or exceeds expectations for both impact and return

“Impact investing assets under management in the U.S. nearly tripled – from about \$3 trillion in 2010 to \$8.72 trillion in 2016, according to the 2016 Report on US Sustainable, Responsible and Impact Investing Trends by the US Forum for Sustainable and Responsible Investment, also known as US SIF. Today, such assets account for more than \$1 of every \$5 professionally managed.”
From RBC

“Sustainable investing has come a long way. More than one-quarter of assets under management globally are now being invested according to the premise that environmental, social, and governance (ESG) factors can materially affect a company’s performance and market value. The institutional investors that practice sustainable investing now include some of the world’s largest, such as the Government Pension Investment Fund (GPIF) of Japan, Norway’s Government Pension Fund Global (GPF), and the Dutch pension fund ABP.” From McKinsey



Stakeholder Groups Engaged

- Colorado Association of School Boards (CASB)
 - Colorado Association of School Executives (CASE)
 - Colorado Education Association (CEA)
 - Colorado State Board of Education
 - Colorado League of Charter Schools
 - BEST
 - Great Education Colorado
 - Colorado School Finance Association
 - Several State Legislators
 - The Governor's Office
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Sample of
RIAs with
Impact
Expertise

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- Align Impact
 - Imprint Capital (Goldman Sachs)
 - Pathstone
 - Sorenson Impact Advisory
 - Syntrinsic (IMA)
 - Sonen