The Board of Governors of the California Community Colleges

PRESENTED TO THE BOARD OF GOVERNORS
DATE: September 9-10, 2013

SUBJECT: Community College Real Estate Education Advancement Fund		Item Number: 2.3	
		Attachment: Yes	
CATEGORY:	Workforce and Economic Development	TYPE OF BOARD CONSIDERATION:	
Recommended By:	Van Ton-Quinlivan, Vice Chancellor	Consent/Routine	
		First Reading	
Approved for Consideration:	Brice W. Harris, Chancellor	Action	X
		Information	

ISSUE: This item proposes execution of Addendum #4 to the existing Real Estate Education Endowment Agreement between the Bureau of Real Estate (formerly Department of Real Estate Education) and the Board of Governors of the California Community Colleges, which provides discretion in appointing a designee to deposit, administer and invest the endowment. This item further proposes that the Foundation for California Community Colleges be appointed by the board as its designee, beginning with activities for fiscal year 2013-2014.

BACKGROUND: In 1975, the Department of Real Estate created the Real Estate Education Endowment to provide perpetual financial support for the enhancement of education in the field of real estate through the California Community Colleges. The California Community Colleges Chancellor's Office currently serves to deposit, administer and invest the endowment totaling approximately $3.8 million (principal and interest). Historically, these endowment funds have been deposited into conservative treasury accounts. Given the success and experience of the Foundation in administering and investing endowment and investment funds, currently totaling over $80 million, we propose that the board name the Foundation as its designee to deposit, administer and invest the Community College Real Estate Education Advancement Fund.

RECOMMENDED ACTION: It is recommended that the board authorize the chancellor to execute Addendum #4 to the Real Estate Education Endowment Agreement.

It is recommended that the board authorize the chancellor to enter into a Memorandum of Understanding with the Foundation for the California Community Colleges to become the board designee to deposit, administer and invest the Community College Real Estate Education Advancement Fund, to begin for fiscal year 2013-2014.

ANALYSIS: Since the initial execution of the Real Estate Education Endowment Agreement (dated January 20, 1975), the California Community Colleges Chancellor's Office has served to deposit, administer and invest the endowment. The endowment balance currently totals approximately $3.8 million (principal and interest) allocated for use as follows: (1) Part A designated to support Real Estate Education Center(s) at the local level; and (2) Part B designated to provide scholarships for California Community College students who satisfy curriculum requirements (per California Code of Regulations title 5, section 56608, "Scholarship Limitations").

Historically, these endowment funds have been deposited into conservative treasury accounts. The recent recession and associated low interest yield has negatively impacted the overall endowment balance and particularly impacted distributions from the fund. For example, for fiscal year 2012-2013, the usual Real Estate Education Center annual funding of $100,000 was reduced to $50,000 and an augmenting account (vocational education special projects) was used to avoid closure of the Real Estate Education Center. The Foundation and the California Community Colleges Chancellor's Office Workforce and Economic Development Division agree that a more sophisticated investment vehicle and strategy, as currently utilized by the Foundation with regard to its existing $80 million investment pool, would provide greater growth and stability for Real Estate Education Center operations, and best serve the intent and purpose of the endowment. In the event that the real estate industry is identified by the California Community College Region(s) as an emerging or priority economic sector, the Workforce and Economic Development Division reserves the right to serve as an advisory body for the deployment of the endowment funds.

Addendum #4 to the Real Estate Education Endowment Agreement serves the following purposes:

(1) delete a code section reference that no longer exists,
(2) reallocate the principal balance of the fund between Part A and Part B to better meet operational needs,
(3) authorize the use of a designee-board approved Investment Policy Statement to guide the prudent investment of the fund,
(4) authorize the board, or its designee, the use of discretionary power of administration over the expenses and spending levels from the fund in alignment with policies designed to maintain consistent annual distributions, minimize the impact of short-term volatility, monitor invasions of principal and accumulations of income, and promote long-term viability of the fund balance, and
(5) explicitly remove the stipulation that only income from the fund be utilized to meet annual obligations.

The Chancellor's Office proposes to enter into a memorandum of understanding with the Foundation whereas the fund would be deposited into the Foundation's existing pooled investment fund, invested in accordance with the Foundation's existing board-approved Investment Policy Statement, and the Foundation assumes administration and operational oversight of fund distributions. The memorandum will further define administrative and operational duties to be performed by the Foundation. Related operational and administrative costs to be paid to the Foundation from the fund are as follows:

(1) one-time fee of 0.75 percent applied to the total amount transferred to the Foundation, deducted from the fund upon receipt, and

(2) annual operational fee of 1.5 percent, applied to the total market value of the fund annually, deducted from the fund at the end of each fiscal year.

The memorandum will further define a standardized spending policy to meet annual fund distribution obligations, establishing an annual distribution floor of 4 percent and ceiling equal to 50 percent of net investment earnings. Such distribution policy is designed to maintain consistent annual distributions, minimize the impact of short-term market volatility, and monitor invasions of principal accumulations of income to promote long-term viability of the fund balance. The fund will be managed professionally by the Foundation's third-party investment advisory firm, currently JP Morgan, and overseen by the Foundation's Statewide Investment Advisory Committee, where the Foundation Board of Directors and the Board of Governors maintains ongoing representation. Board member Gary Reed currently sits on the Investment Advisory Committee.

The attached Real Estate Education Endowment Agreement Addendum #4 has been reviewed and approved for execution by the Bureau of Real Estate.

REAL ESTATE EDUCATION ENDOWMENT AGREEMENT
ADDENDUM #4

This Addendum to the Real Estate Education Endowment Agreement ("Addendum #4") is made to modify and amend the original Real Estate Education Endowment Agreement ("Agreement") executed on January 20, 1975, which was thereafter amended by the Real Estate Education Endowment Agreement Addendum ("Addendum #1"), executed on May 15, 1992, as well as by the Addendum to the Real Estate Education Endowment Agreement ("Addendum #2), executed on June 30, 2007, and most recently amended by the Addendum to the Real Estate Education Endowment Agreement ("Addendum #3"), executed on August 24, 2010.

The parties hereby amend the Agreement as follows:

1. Amendment to Definitions item "c" (Scholarship Program). Item "c" of the Agreement is hereby amended by deleting the text which reads "…as provided in Business and Professions Code Section 10465.7(b)". The purpose of this deletion is to remove the reference to this particular code section because it no longer exists.

2. Amendment to Covenants Section I (State's Undertakings and Covenants). Section I of the Agreement is hereby amended to reflect cumulative increases and the resulting revised endowment balance. Section I is hereby deleted in its entirety and replaced as follows:

   "Commissioner has caused to be paid to the Board of Governors of the California Community Colleges out of monies heretofore appropriated by the State Legislature to him for the purposes set forth in this agreement to establish a permanent endowment to be known as the COMMUNITY COLLEGE REAL ESTATE EDUCATION ADVANCEMENT FUND in an amount totaling three million five hundred fifty thousand dollars ($3,550,000.) The fund shall be composed of two parts: Part A which shall consist of two million nine hundred and fifty thousand dollars ($2,950,000) and Part B, which shall consist of six hundred thousand dollars ($600,000). Distributions from Part A and Part B shall be used as set forth in Section II of this agreement."

3. Amendment to Covenants Section II (Board of Governors Undertakings and Covenants). Section II of the Agreement is hereby amended by deleting the preamble language that begins with "The Board or its designee…" and replacing it as follows:

   "The Board or its designee, shall deposit, administer and invest the COMMUNITY COLLEGE REAL ESTATE EDUCATION ADVANCEMENT FUND in accordance with a Board, or its designee's Board, approved Investment Policy Statement. Investments shall be made to balance real capital growth with income and principal stability with an average level of risk that may experience moderate levels of volatility in the short term. The fund shall be invested with the care, skill, prudence, and diligence under the circumstances then prevailing

that a prudent man acting in like capacity and familiar with such matters would use in the investment of a fund of like character and with like aims.

The Board or its designee, shall maintain discretionary power of administration over the appropriate expenses and spending levels from the fund and shall maintain policies designed to maintain consistent annual distributions, minimize the impact of short-term market volatility, and monitor invasions of principal and accumulations of income to promote long-term viability of the fund balance

The fund shall be further administered as follows:"

All other terms of the Agreement shall remain unchanged and in full force and effect, with the exception of the requirement that "only the income from Part A/B may be used."

THE PARTIES HEREBY EXECUTE THIS ADDENDUM #4.

THE STATE OF CALIFORNIA

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Signature Date

By: Wayne S. Bell, Real Estate Commissioner

BOARD OF GOVERNORS OF THE CALIFORNIA COMMUNITY COLLEGES

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Signature Date

By: Brice W. Harris, Chancellor of the California Community Colleges

FOR INFORMATIONAL PURPOSES ONLY
PROPOSED ADDITION TO THE FOUNDATION'S INVESTMENT POLICY STATEMENT

SUMMARY OF ENDOWMENT FUNDS

COMMUNITY COLLEGE REAL ESTATE EDUCATION ADVANCEMENT FUND

This fund was established by the Commissioner of the State of California Department of Real Estate to provide perpetual financial support for the enhancement of education in the field of real estate through the California Community Colleges with the objective to advance the professionalization of the field by increasing the proficiency of real estate practitioners through real estate educational courses in the California Community Colleges. The endowment totals three million five hundred fifty thousand dollars ($3,550,000) and is composed of two parts: Part A totaling two million nine hundred and fifty thousand dollars ($2,950,000) and Part B, totaling six hundred thousand dollars ($600,000).

The Board of Governors of the California Community Colleges has appointed the Foundation as its designee to deposit, administer and invest the endowment into the Foundation's pooled investment fund. In order to reimburse the Foundation for administrative and operational costs related to the transfer of funds, the fund will be assessed a one-time fee of 75 basis points applied to the total amount transferred to the Foundation. Such fee will be deducted from the fund upon receipt. In order to reimburse the Foundation for operational costs related to ongoing administration, the fund will be assessed a fee of 150 basis points, applied to the total market value of the fund annually, deducted from the fund at the end of each fiscal year.

Available expenditures from the fund shall be 50 percent of investment earnings calculated on a total return basis, net of investment and administration expenses, determined once per year based on the average rate of return for the preceding 12 calendar quarters or, if less, the number of complete quarters the fund has been held by the Foundation, with a floor equal to 4 percent of the invested principal amount as of the beginning of the prior fiscal year. If net earnings are insufficient to meet the available payout floor of 4 percent, then the principal amount may be invaded in order to maintain consistency in annual real estate education financial support requirements. In the event the principal amount is invaded, the maximum annual expenditure shall not exceed 4 percent until the endowment is "above water." The spending policy described herein is designed to maintain consistent annual distributions, minimize the impact of short-term market volatility, and monitor invasions of principal and accumulations of income to promote long-term viability of the fund balance.