

Date of Hearing: April 26, 2022

ASSEMBLY COMMITTEE ON HIGHER EDUCATION

Jose Medina, Chair

AB 2422 (McCarty) – As Amended April 6, 2022

SUBJECT: California State University: investments

SUMMARY: Authorizes the California State University (CSU) to invest in institutional comingled funds and exchange-traded funds, and limits investment in real estate investments trusts, to those subject to regulation by the United States Securities and Exchange Commission (SEC), and increases the limit on the total amount that may be invested in specified mutual funds, real estate investments trusts, institutional commingled funds, and exchange-traded funds, to 65% of specified money. Specifically, **this bill:**

- 1) Authorizes the chief fiscal officer (CFO) of a campus of the CSU, upon approval of the CSU Board of Trustees (BOT), to invest certain money, as specified, received by the CSU in institutional commingled funds, as specified, offered by investment advisors registered with, and under the regulatory authority of, the SEC, or in exchange-traded funds subject to registration by, and under the regulatory authority of, the SEC.
- 2) Limits the real estate investment trusts that could be invested from specified money listed in 1) above to those that are publicly traded and registered with the SEC.
- 3) Authorizes the California State Treasurer or CFO of a campus of the CSU, upon approval of the CSU BOT, to invest money from the CSU Special Projects Fund in institutional commingled funds, as specified, offered by investment advisors registered with, and under the regulatory authority of, the SEC, or in exchange-traded funds subject to registration by, and under the regulatory authority of, the SEC.
- 4) Limits the real estate investment trusts that could be invested in from the CSU Special Projects Fund to those that are publicly traded and registered with the SEC.
- 5) Increases, commencing with the 2022–23 fiscal year (FY), the limit on the total amount that may be invested in mutual funds, real estate investments trusts, institutional commingled funds, and exchange-traded funds, as described above, to up to 65% of that money.

EXISTING LAW:

- 1) Authorizes the CFO of a campus of the CSU, upon approval of the CSU BOT, to invest certain money received by the CSU in mutual funds subject to registration by, and under the regulatory authority of, the SEC, or in United States registered real estate investment trusts. (Education Code (EDC) Section 89724)
- 2) Establishes the CSU Special Projects Fund, which consists of grants, revenues, and funds of any nature received by the trustees for research, workshops, conferences, institutes, and special projects from the state, federal government, local government, or private persons; continuously appropriates all grants, revenues, and funds deposited in the fund to the trustees for the operation, support, and development of research, workshops, conferences, institutes,

and special projects in the CSU; and authorizes the Treasurer or the CFO of a campus of the CSU, upon approval of the trustees, to invest money from the fund in mutual funds subject to registration by, and under the regulatory authority of, the SEC, or in United States registered real estate investment trusts. (EDC Section 89725)

- 3) Limits, commencing with the 2019–20 fiscal year, the total amount that may be invested in those mutual funds and real estate investment trusts, as described in 1) and 2) above, to up to 30% of that money. (EDC Section 89726)

FISCAL EFFECT: Unknown.

COMMENTS: *Purpose.* According to the author, “...the CSU has done a very successful job of managing the investment authority it received in 2016, called the Total Return Portfolio (TRP). This positive track record demonstrates that the CSU should be given some additional flexibility to prudently expand their investment activities under AB 2422, especially as UC can pursue investment opportunities without restrictions.”

Total Return Portfolio. SB 1412 (Block) Chapter 282, Statutes of 2016, was the original legislation to allow the CSU to invest a portion (with a cap of 30%) of its total investment portfolio in mutual funds and real estate investment trusts. This investment authority led to the creation of the CSU TRP which has grown over several years and led to the distribution to campuses of one-time capital improvement projects.

In October 2021, the CSU Investment Advisory Committee approved the third annual TRP distribution to the system of approximately \$55.6 million, bringing total TRP distributions to the system since inception to approximately \$113 million. TRP distributions are allocated to the campuses annually for capital outlay or maintenance.

The author notes that AB 2422 maintains all the guardrails currently in statute, including:

- 1) All TRP investment activity is overseen by the CSU Investment Advisory Committee, of which the State Treasurer is a member.
- 2) All CSU investment activity is reported annually to the Legislature and Department of Finance.
- 3) In case of investment losses, the CSU is prohibited from requesting funds from the state treasury or from raising student tuition or fees.
- 4) Core CSU operations are protected from investment volatility since earnings from the TRP may only be used for one-time capital needs and not relied upon for long-term uses.

Arguments in support. The Honorable Fiona Ma, the California State Treasurer, wrote that, “as one of the chief financial officers of the state, I am always working to ensure our college and university campuses have the tools they need to deal with capital and deferred maintenance issues we have seen grow significantly, especially in the wake of the pandemic. That is why I am proud to continue the work of my predecessor at the Treasurer’s office, who worked with [Senator Block] on his previous bill to allow CSU to expand its investment options. We are pleased that the expanded authority, which led to the creation of the CSU [TRP], has been

successful and has led to significant support to CSU campuses for one-time capital outlay and deferred maintenance needs.

REGISTERED SUPPORT / OPPOSITION:**Support**

Academic Senate California State University (ASCSU)
Bakersfield, California State University
Cal Maritime, California State University
California Polytechnic State University, San Luis Obispo
California State Polytechnic University, Humboldt
California State Polytechnic University, Pomona
California State Treasurer
California State University - Fullerton
California State University Alumni Council
California State University Dominguez Hills
California State University Long Beach
California State University San Marcos
California State University Sonoma
California State University, Chico
California State University, Los Angeles
California State University, Northridge
California State University, Office of The Chancellor
California State University, Sacramento
Channel Islands, California State University
East Bay, California State University
Fresno, California State University
Monterey Bay, California State University
San Bernardino, California State University
San Diego State University
San Francisco, California State University
San Jose, California State University
Stanislaus, California State University

Opposition

None on file

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