NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

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CALIFORNIA TREASURER ANGELIDES, JOINED BY STUDENTS, EDUCATORS, AND REAL ESTATE EXPERTS, UNVEILS 'CALIFORNIA HOPE ENDOWMENT' PLAN TO EXPAND HIGHER EDUCATION OPPORTUNITIES AND BOLSTER STATE'S ECONOMIC COMPETITIVENESS

'21st Century Land Grant' of State's Neglected Real Estate Assets Would Create $5 Billion -Plus Endowment – Nation's Seventh Largest – to Increase Number of Young Californians Who Can Attend College

SACRAMENTO, CA – California State Treasurer Phil Angelides, joined by college students, educators and real estate experts, unveiled a groundbreaking proposal to expand the number of young Californians who can attend college and receive degrees by transforming the State's poorly managed real estate assets into a $5 billion-plus "California Hope Endowment" for higher education. The Endowment, which would become the seventh largest higher education endowment in the nation, could provide more than $2 billion in funding over the next 10 years for initiatives to increase college opportunities.

Under the Treasurer's proposal, state-owned real estate would be placed in a public trust corporation – the CalHope Trust – and managed like a business to earn returns for the Endowment that could reach $300 million annually after its start-up period. The Endowment, in turn, would bolster opportunities for students at the State's world-class higher education system – the University of California (UC), California State University (CSU), and California Community Colleges – through innovative approaches that would include funding of college scholarships, outreach and college preparatory programs for students, and also more challenging academic programs at the high school level. The Endowment's revenue would be used to provide financial resources over and above the amount that the State currently spends on higher education, including the amounts that Governor Arnold Schwarzenegger has promised in his recent compacts with the UC and CSU.

"Today, many young Californians face high hurdles in pursuing their college dreams," Angelides said here at an afternoon news conference. "It is a powerful challenge for California to open the college door wider to more students, but it must be done. The California Hope Endowment is aimed at making the college dream come true for more, not fewer, young Californians."

After its start-up, the Endowment's projected $300 million in annual revenue could provide enough money, for example, to double the amount California now spends, from all sources, on outreach and academic preparation for disadvantaged students. Used as financial aid, the Endowment's annual revenues could be enough to provide a full-fee scholarship to 385,000 full-time community college students, or give a scholarship for fees and all other costs to 19,000 CSU students.

The Treasurer's California Hope Endowment proposal comes at a time when the Governor's budget for the current 2004-05 fiscal year includes enrollment cuts, reductions in course offerings and student fee hikes at the UC, CSU and community college systems. It also comes at a time when California ranks only 25th among the states in the percentage of ninth graders who achieve a college degree by age 24. And it follows a recent report from the National Center for Public Policy and Higher Education, which said, "California's historically strong performance in enrolling students in college-level education and providing affordable educational opportunities may be at risk."

Pat Callan, President of the National Center for Public Policy and Higher Education, endorsed the California Hope Endowment proposal, saying, "The Endowment initiative can be a key component of a new California strategy to stem the erosion of college opportunity. 'Hope' is the appropriate and operative word. This proposal offers hope to students and families that this state's historic commitment to college access for every Californian who is eligible and motivated to enroll will be restored."

The Treasurer called his proposal "a 21st Century land grant for California Higher Education," likening it to the 19th Century federal land grants that President Abraham Lincoln and Congress enacted to provide seed money to build public colleges, including the University of California. Under that program, California received a grant of 150,000 acres of federal land, which the Regents of the new university selected and then sold at a premium price averaging $5.17 an acre. The sale brought California $775,000 – or $9.8 million in 2003 dollars – to support higher education. Today, rather than federal land, this new investment in the State's human capital would be financed with a grant of state real estate assets.

Gary Hart, a former State Education Secretary, former California State Senator and the founder of the California State University Institute for Education Reform, also endorsed the Treasurer's California Hope Endowment at today's news conference. "For many decades, California's higher education system – once looked to as a model for the nation – has promised every California student the ability to meet his or her full potential," Hart said. "With this dream fading for so many, as public investment shrivels and costs soar out of reach for many families, this new Endowment provides renewed hope to many California students."

Also endorsing the Endowment proposal at this afternoon's news conference was Ken Futernick, Professor of Education at California State University, Sacramento. "Without adequate funding," Futernick said, "tens of thousands of well-qualified high school students will miss the opportunity to continue their education in California's colleges and universities. For years to come, the California Hope Endowment would help to ensure a higher education path for all students, regardless of income, race or ethnicity."

Another supporter, Robert Edelstein, Professor of Real Estate Development, Chair of the Haas Real Estate Group and Member of the Fisher Center for Real Estate and Urban Economics at the UC Berkeley Haas School of Business, said, "The California Hope Endowment provides a tremendous opportunity to bring together public assets and private sector efficiency to create an innovative new approach to managing the State's real estate, while at the same time investing in our State's future."

The Treasurer noted today that at a time when higher education matters more than ever to the State's future, California's fiscal woes present serious challenges to maintaining the State's traditional commitment to higher education: the State faces an on-going structural budget

deficit, and higher education is one of the few major areas of the budget not protected by constitutional guarantees or federal law.

As a consequence, California's higher education system is particularly vulnerable to future reductions, on top of cuts already being absorbed by campuses and steep fee hikes forced on students in this year's state budget. At the same time, Angelides said, California is operating in an environment that makes higher education success more challenging for many of the State's students. For example, one out of every five California children lives in poverty, one in four is an English-language learner, and two out of five students have parents who did not attend college.

"If California is to maintain its position at the forefront of the world economy," the Treasurer said, "we must again use a piece of our wealth – the State's mismanaged real estate assets – to endow the dreams of the young people who will be the teachers, engineers, scientists and business people California will need to prosper in the decades ahead."

To that end, Angelides said, now is the right time to put a portion of the State's real estate assets – including offices, industrial buildings, warehouses, and non-environmentally sensitive urban land clearly appropriate for development – to work to fund higher education opportunities.

The State's current management of its real estate assets is widely decried as inefficient and costly. As the State's Little Hoover Commission noted back in 1995, when it first proposed creating a public trust to manage the State's real estate, it is not enough to just modestly rearrange the organizational boxes. Despite tremendous opportunities offered by the strong real estate markets of the last decade, the State has failed to reap any financial gains from its property. And, despite piecemeal efforts at reform, the State is still building projects that are more expensive than higher-quality private sector projects, that do not relate well to surrounding neighborhoods, and that do not meet the highest standards of design and environmental stewardship.

As an example, the Treasurer pointed to a San Francisco office of the Department of Motor Vehicles near Golden Gate Park. It is a property that currently brings no income to the State, but could be worth as much as $25 million in returns if developed as a mixed use housing and retail project. Another example is the State's proposed West End complex, a group of office buildings just west of the Capitol. This site could be developed as a major urban mixed-use project, meeting the State's office needs but also creating more than $200 million in returns for the Endowment.

In addition to Futernick and Secretary Hart, others who joined the Treasurer at the afternoon news conference here in support of the California Hope Endowment included Carol Galante, President and CEO of BRIDGE Housing, a non-profit affordable housing development company; and Jenny Gama, a freshman psychology and political science major at the University of California, Davis.

For a complete copy of the California Hope Endowment report released today, "The California Hope Endowment: A 21st Century Land Grant for California Higher Education," please visit the Treasurer's website: www.treasurer.ca.gov.

The California Hope Endowment: A 21st Century Land Grant for California Higher Education

Endowing More College Dreams to Secure California's Economic Competitiveness

California Hope Endowment

California State Treasurer Phil Angelides

October 2004

The California Hope Endowment: A 21st Century Land Grant for California Higher Education

Executive Summary

California stands in the front rank of the global economy by choice, not chance. Looking to the future, past generations of Californians used their assets and wealth to create more wealth and opportunity for their descendants. They built a world-class system of higher education – the University of California (UC), the California State University (CSU), and community colleges. They bridged the Golden Gate and built a transportation system that tied together an enormous state. If our children and grandchildren are to prosper, this generation of Californians must show the same foresight, tailoring innovations and making investments for a new era. But at a moment when higher education matters more than ever to the State's future, "California's historically strong performance in enrolling students in college-level education and providing affordable educational opportunities may be at risk," the National Center for Public Policy and Higher Education recently reported.

To respond to this challenge, State Treasurer Phil Angelides calls on California to turn a neglected public asset – State-owned real estate that could be worth more than $5 billion – into an endowment to expand the number of young Californians who can attend college and receive degrees. The California Hope Endowment would be funded by a transfer of State-owned property – including offices, industrial property, warehouses and non-environmentally sensitive urban land clearly suitable for development – from the bureaucracy to the CalHope Trust, a public trust corporation that would manage the property like a business on behalf of the taxpayers and the Endowment. If these assets were properly managed, they could yield more than $2 billion over the next 10 years for the Endowment. This revenue would be used to provide funding – for outreach, college preparation and counseling, scholarships – over and above the amounts that the State currently spends on higher education, including the amounts that Governor Arnold Schwarzenegger has promised in his recent compacts with UC and CSU.

After its start-up, the Endowment would have annual earnings that would allow it, for example, to double the amount California now spends, from all sources, on outreach and academic preparation to help students enter college and succeed there. Used as financial aid, the Endowment's annual revenues would be enough to provide a full-fee scholarship to 385,000 full-time community college students, or give a scholarship for fees and all other costs to 19,000 CSU students.

Instead of cutting back on higher education opportunity, California needs to act now to increase the number of Californians who go to college and receive degrees. In 1862, when President Abraham Lincoln and Congress wanted to expand access to higher education for workers and farmers, they passed the Morrill Act, granting public lands to support the creation of the University of California and dozens of other state universities across the country. So, too, must this generation of Californians endow the higher educational achievement necessary if California is to succeed in the increasingly competitive global economy. The transfer of State property for the benefit of the California Hope Endowment would be California's land grant for the 21st Century.

The Treasurer's proposal comes in two parts:

First, it would create the California Hope Endowment, which would be charged with renewing the promise of the 1960 California Higher Education Master Plan. With its initial assets of $5 billion, the California Hope Endowment could start operations with what would be the seventh largest higher education endowment in the nation.

The Endowment would:

- Support and fund the most promising and innovative approaches to increasing the number of Californians who achieve a college degree.
- Operate like a charitable foundation, outside the education bureaucracy and independent of the individual college systems but working in concert with them. The Endowment could accept donations from corporations, individuals, and foundations to supplement its assets.
- Be governed by a public board, including appointees of the Governor and members of the governing boards of the colleges and universities.

Second, to fund the Endowment, the proposal would remove a portion of the real estate owned by State government from the bureaucracy and transfer it to the new CalHope Trust. The State's management of its real estate is widely decried as inefficient and costly. The Trust would offer California opportunities the State has long squandered: to produce revenue; build higher-quality, environmentally sustainable, smart growth projects; create jobs; and reduce government costs. The Trust would manage California's new land grant to yield a financial return for the Endowment and its mission.

The CalHope Trust would:

- Operate like a high quality real estate business charged with achieving financial returns on investment, housing State tenants in a cost-efficient way, and building high quality projects that meet smart growth principles and the highest standards of design and environmental sustainability.
- Buy, lease, build, and sell properties, and enter into joint ventures with private-sector firms, the State's pension funds, and local communities.
- Be subject to State, regional, and local land use and environmental approvals that apply to private-sector projects. The State bureaucracy is currently exempt from the normal land use controls on its projects.
- Organize itself as a public trust corporation, with a public board of appointees subject to open meeting laws and a staff similar to those at the California Public Employees' Retirement System and the California State Teachers' Retirement System, which successfully manage multi-billion dollar real estate portfolios earning more than 10 percent annually over the last five years.

The California Hope Endowment:
A 21st Century Land Grant for California Higher Education

Endowing More College Dreams to Secure California's Economic Competitiveness

California stands in the front rank of the global economy by choice, not chance. Looking to the future, past generations of Californians used their assets and wealth to create more wealth and opportunity for their descendants. They built a world-class system of higher education – the University of California (UC), the California State University (CSU), and community colleges. They bridged the Golden Gate and built a transportation system that tied together an enormous state. If our children and grandchildren are to prosper, this generation of Californians must show the same foresight, tailoring innovations and making investments for a new era.

In that spirit, State Treasurer Phil Angelides calls on California to turn a neglected public asset – State-owned real estate that could be worth as much as $5 billion – into an endowment to expand the number of young Californians who can attend college and receive degrees. The California Hope Endowment would be funded by a transfer of State-owned property – including offices, industrial property, warehouses and non-environmentally sensitive urban land clearly suitable for development – from the bureaucracy to the CalHope Trust, a public trust corporation that would manage the property like a business on behalf of the taxpayers and the Endowment. If these assets were properly managed, they could yield more than $2 billion over the next 10 years for the Endowment. The revenue would be used to provide funding – for outreach, college preparation and counseling, scholarships – over and above the amounts that the State currently spends on higher education, including the amounts that Governor Arnold Schwarzenegger has promised in his recent compacts with UC and CSU.

"The 21st Century... will be the 'human capital' century... Expanding the number of Californians with higher education is critical to continued economic growth and expanded opportunity."

Instead of cutting back on higher education opportunity, California needs to act now to increase the number of Californians who go to college and receive degrees. In the 19th Century, when President Abraham Lincoln and Congress wanted to expand access to higher education for workers and farmers, they used a grant of public lands to support the creation of the University of California and dozens of other state universities across the country. So, too, must this generation of Californians endow the higher educational achievement necessary if California is to succeed in the increasingly competitive global economy. The transfer of State property for the benefit of the California Hope Endowment would be California's land grant for the 21st Century.

The Higher Education Challenge

California initially prospered because it had gold, oil, fertile soils, and a welcoming climate. In the future, though, the prosperity of the California economy, and the well-being of its families, will depend not just on our natural resources and the quality of our environment, but on the skills and knowledge of California's people. Economists widely agree that the 21st Century – even more than the 20th – will be the "human capital" century, and that expanding the number of Californians with higher education is critical to continued economic growth and expanded opportunity.

Thanks to the wisdom and sacrifice of past generations, California in the second half of the last century excelled at providing unparalleled higher educational opportunity. Following the guidance of the landmark 1960 California Master Plan for Higher Education, enacted under Gov. Edmund G. "Pat" Brown, Sr., the State built an unrivaled system of universities, state colleges, and community colleges. Those colleges and universities educated a generation of California achievers and attracted people from all over the world for education and research, catalyzing the creation of millions of jobs. But today, when higher education matters more than ever to the State's future, "California's historically strong performance in enrolling students in college-level education and providing affordable educational opportunities may be at risk," warns the National Center for Public Policy and Higher Education, in "Measuring Up 2004," its biennial report card on higher education.

The risks come from many directions. In his budget this year, Governor Schwarzenegger proposed that California break its 40-year-old promise to provide a spot at the UC and CSU systems to all students who meet the entrance requirements. In addition, he proposed eliminating state support for outreach to disadvantaged students, reducing student aid, and raising fees. The Legislature rejected many of these proposals, but the decision came too late for many of the 22,000 students who had already been turned away from UC and CSU and made other plans for college. The final budget reduced enrollment at CSU by 11,000 and raised student fees this year alone by 14 percent – $700 a year for UC undergraduates, $288 a year for CSU undergraduates – with more sharp fee increases slated for the future. Community college fees rose by 44 percent – to $780 for each full-time student – at a time when an estimated 100,000 students have dropped out of the system because of higher fees and unavailable classes.

Moreover, because the Governor and the Legislature have failed to face up to the State's on-going structural budget deficit – the Legislative Analyst's Office estimates that the annual deficit will grow to more than $8 billion in the 2006-07 budget year – higher education remains particularly vulnerable to further reductions because it is one of the few major areas of the budget not protected by constitutional guarantees or federal law.

Even as it copes with these fiscal woes, California is operating in an environment that makes higher education success more challenging: One of every five California children lives in poverty. One in four is an English-language learner, speaking one of the more than 50 primary languages heard in California's schools. Although many of California's students are full of energy and ambition, two of every five have parents who have never attended college themselves. These children are the leaders and workforce of the future. They are the teachers, engineers, scientists, and business people California will need to prosper in the decades ahead and compete with countries like China, which graduates four times as many engineers as the United States, and South Korea, where young adults are twice as likely as Americans to have received a college degree in science or engineering. It is a powerful challenge for California to open the college door wider to more students, but it must be done.

Today, California is not adequately meeting these challenges. Many California students graduate high school poorly prepared for college work. California lags far behind the top states in the percentage of high school students enrolled in upper-level math and science courses. A declining percentage of high school graduates are enrolling in college by age 19, and California now ranks only 25th among the states in the percentage of ninth graders who achieve a college degree by age 24.

These problems are not just afflictions of an educational system and a drag on California's future economic growth. They cloud the personal college dreams of millions of young Californians. Today, too many California students attend a high school that does not offer advanced placement classes or adequate high-level courses in math and science. They may not have a parent or a counselor who knows how to prepare for and apply to college. Their community college may not offer enough of the classes and guidance they need to transfer to a four-year university. College costs may be too high for their families. When their college dreams flicker, California's future dims.

Endowing Renewed Hope

The California Hope Endowment is aimed at renewing the promise of the Master Plan and making the college dream come true for more, not fewer, young Californians. It would be charged with breaking down the many barriers that block the path to college success for so many students. It would supplement, not replace, needed General Fund investment in teaching and research. The Endowment's mission would be to move California and Californians to the next level of college attainment.

Operating outside the education bureaucracy and independent of the individual college systems – but working in concert with them – the Endowment would be free to assess and promote the most promising and innovative approaches to increase the number of Californians who achieve a college degree. Potential areas of investment include:

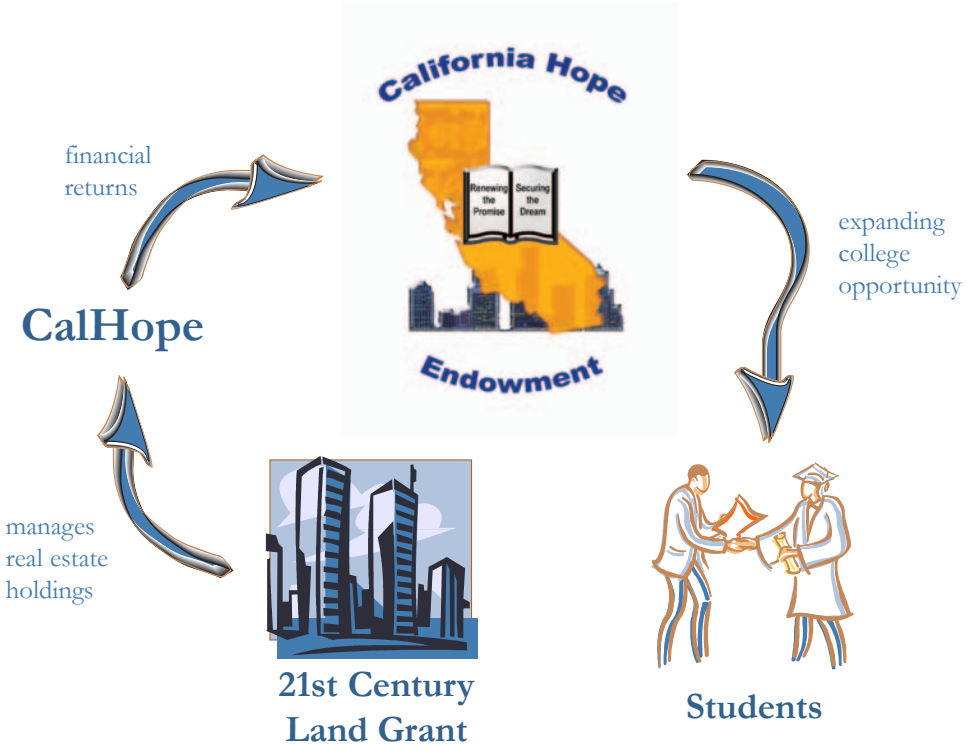
"The California Hope Endowment is aimed at. . . making the college dream come true for more, not fewer, young Californians."

- Strengthening academic enrichment and college preparation and outreach programs like MESA (Mathematics, Engineering, Science Achievement) and AVID (Advancement Via Individual Determination), to assure that students take the right courses and receive the right counseling to prepare them for higher education.

- Increasing the availability of advanced placement classes and classes meeting the A-G requirements for university admission at high schools that now lack them, and encouraging dual enrollment at community college, so that motivated students are not held back by limited course offerings at their high schools.

- Bolstering financial aid at public colleges and universities so that rising fees and the high cost of textbooks do not close the door on students from working families, whether they are recent high school graduates or adults returning to college in mid-career to improve their knowledge and skills.

- Improving counseling and coordination between community colleges and the universities, so that more community college students take the right courses and transfer to universities to receive a four-year degree.
- Offering improved counseling and support to make sure that more students who begin college graduate with a degree.



Endowed with real estate that could be worth as much as $5 billion and, after start-up, yield $300 million a year in financial returns, the Endowment would have annual earnings that would allow it, for example, to double the amount California now spends, from all sources, on outreach and academic preparation for disadvantaged students. Used as financial aid, the Endowment's annual revenues would be enough to provide a full-fee scholarship to 385,000 full-time community college students, or give a scholarship for fees and all other costs to 19,000 CSU students.

The California Hope Endowment would operate like a charitable foundation and be governed by a seven-member public board. The board would be composed of four public members, appointed by the Governor and confirmed by the Senate, and one member each from the respective governing boards of the State's three higher education segments, to be selected by the boards themselves. The Endowment could accept donations from corporations, individuals, and foundations to supplement its assets. The funds in the Endowment could be used to make grants to any of the public higher education segments, partnerships among the segments, or programs operating in public schools.

Funding the Endowment

In 1862, Congress passed the Morrill Act "to promote the liberal and practical education of the industrial classes." The Act granted each state then in the Union a portion of federal lands to sell,

and directed that the proceeds of the sale be used to support a public college. The University of California, founded in 1868, was one of those land grant colleges. California received a grant of 150,000 acres of federal land, which the Regents of the new university shrewdly selected and sold at a premium price, averaging $5.17 an acre. The sale brought California $775,000, or $9.8 million in 2003 dollars, to support higher education. Within 50 years, UC had become the largest university in the world.

California should again finance a new investment in the human capital of the future with a grant of assets – a portion of the real estate owned by State government, including offices, industrial buildings, warehouses and non-environmentally sensitive urban land clearly appropriate for development. Although the State has no up-to-date valuations, these properties, exclusive of land holdings, could be worth an estimated $5 billion, meaning that the California Hope Endowment could start operations with what would be the 7th largest higher education endowment in the nation.

The state of California is one of the largest owners and managers of real estate in the nation's most dynamic real estate market. The State Department of General Services, in its admittedly incomplete inventory, estimates that the State owns about 6.6 million acres of land and about 23,000 structures totaling around 204 million square feet. It leases another 2,000 sites, including about 15.5 million square feet of offices. It owns 46 million square feet of offices, industrial spaces, warehouses, residences and parking structures – not including facilities such as hospitals, laboratories, libraries, classrooms, prisons, and dormitories. These holdings offer California opportunities the State has long squandered: to produce revenue; build higher-quality, environmentally sustainable, smart growth projects; create jobs; and reduce government costs.

"It is a powerful challenge for California to open the college door wider to more students, but it must be done."

California needs to fundamentally reform its real estate management to put its assets to work meeting a fundamental challenge. As the State's Little Hoover Commission noted in 1995, when it first proposed creating a public trust for the State's real estate, it is not enough to just modestly rearrange the organizational boxes. To seize those opportunities and provide billions of dollars worth of assets to fund the California Hope Endowment, Treasurer Angelides proposes to remove control of these new "land grant" properties from the bureaucracy and place it in the CalHope Trust, which would manage the assets like a business for the benefit of the State's taxpayers and California's educational future.

The Real Estate Mess

The State's management of its real estate is widely decried as inefficient and costly. In 1995, the Little Hoover Commission faulted the State for its "antiquated" system of property management,

acting as a "caretaker" instead of an active manager of its property. Almost a decade later, in May 2004, Governor Schwarzenegger, in an executive order seeking to identify surplus property, was still describing the State's property management as "disjointed" and "deficient." The State's inventory of real estate is still incomplete, and includes no comprehensive valuation of its assets. The recent California Performance Review reiterated the Little Hoover's Commission's decade-old complaints and listed the commission's public trust idea as one option for reform.

On top of everything else, the State has also failed to reap financial gains from its property, despite the tremendous opportunities offered by the strong real estate markets of the last decade, when the National Property Index of the National Council of Real Estate Investment Fiduciaries (NCREIF), a benchmark of real estate market investment performance, averaged annual returns of 10 percent.

Despite piecemeal efforts at reform, the State is still building projects that are more expensive than higher quality, private-sector projects; that do not relate well to surrounding neighborhoods; that do not meet the highest standards of design and environmental stewardship; and that forfeit opportunities to make money for the State. For example, the State's new East End complex near the Capitol squandered an opportunity to create value for taxpayers in one of the most dynamic real estate markets in the nation. A different kind of real estate manager could have used the six blocks to build a high quality, mixed-use, smart growth project of the kind that the surrounding community advocated and that the marketplace would have embraced. Instead, the State built an expensive, city-deadening monolith in the heart of California's capital. The project was built at a cost of $266 per gross sq. ft. By contrast, the nearby CalEPA building, completed two years earlier by a private-sector development team working in partnership with the City of Sacramento, cost $179 per gross sq. ft. In the end, the East End Project cost the State at least $95 million more than had the complex been built at the cost for private-sector, Class A office buildings in downtown Sacramento.

The State's East End complex cost $95 million more than a comparable private-sector, Class A office building.

On top of that, the state agencies occupying the project are now paying $3.77 per square foot in rent, more than the highest rents for Class A buildings in downtown Sacramento.

If the State continues to operate its real estate through the bureaucracy, it will continue to forfeit opportunities in the future. To the west of the Capitol, the State owns two blocks near Capitol Mall, the site of the proposed West End complex, another group of state office buildings. This site could be developed in partnership with the private sector as a major urban mixed-use project, meeting the State's office needs but also creating more than $200 million in returns for California.

Around California, the State is still employing low-value uses on high-value urban properties, such as surface parking lots at Department of Motor Vehicle offices in high density neighborhoods in the Bay Area and Los Angeles. Redeveloping these underused urban, infill properties as mixed-use projects could yield tremendous value to the public and benefit the surrounding communities. For example, if the State were to convert the block occupied by the DMV near Golden Gate Park to a mixed-use housing and retail complex, the project could create $25 million in returns for Californians.

Seize the Opportunity with a Public Trust

The State's property ought to be managed like a high-quality real estate business. The CalHope Trust would be charged with meeting the real estate needs of state agencies and managing the State's property to earn a return to expand higher education opportunity in California. It would be modeled after other successful public real estate operations – the California Public Employees' Retirement System (CalPERS), the California State Teachers' Retirement System (CalSTRS), and the British Columbia Buildings Corporation (BCBC) – which have all produced positive financial results. Over five years ending March 31, 2004, CalPERS has earned an average annual return of 11.9 percent on its real estate holdings, after fees; CalSTRS has earned a net of 10 percent annually. In British Columbia, the BCBC has shown how a public trust real estate operator can simultaneously provide service to public agencies and financial returns to the taxpayers. Created three decades ago as a public trust corporation to manage that province's public property, BCBC reported an average annual return on equity of 16.48 percent from 1998 through 2003, and had a net income in 2003 of $46 million (Canadian) on holdings of public property only about one-tenth the size of California's.

The California Hope Endowment: Positioned to be the 7th Largest in the Nation

Endowment	Funds
1. Harvard University	$18,849,491,000
2. Yale University	$11,034,600,000
3. Princeton University	$ 8,730,000,000
4. University of Texas System	$ 8,708,818,000
5. Stanford University	$ 8,864,000,000
6. Massachusetts Institute of Technology	$ 5,133,613,000
7. California Hope Endowment	**$ 5,000,000,000**
8. University of California	$ 4,368,911,000
9. Columbia University	$ 4,350,000,000
10. Texas A & M University System and Foundations	$ 3,802,712,000

Source: National Association of College and University Business Officers (Rankings Based on 2003 Fiscal Year Data)

Transferring the State's real estate would create one of the largest higher education endowments in the country. With an estimated value of $5 billion, the California Hope Endowment would rank seventh in the nation, behind only Harvard, Yale, Princeton, the University of Texas system, Stanford and MIT in total assets.

Experience suggests that a California real estate trust endowing the California Hope Endowment could earn substantial returns on these huge assets. The Trust would potentially have many ways of making money. By setting rents for its State customers at market rates, the trust would encourage more efficient use of space and property. It could sell unneeded property and redevelop underused, valuable sites with private sector and community partners. Even if the new CalHope Trust earned just 6 percent on the endowment, the annual return would be around $300 million. The Trust would contribute enormously to the future of higher education by doing something that the State currently fails to do: earn a return on the public's real estate investment.

The property to be transferred would first be identified by the CalHope Trust after a complete inventory of State holdings. All transfers from the bureaucracy to the Trust would be subject to approval by the Legislature. The Trust would be structured as follows:

- It would be governed by a seven-member board, including four public members appointed by the Governor for their expertise in real estate, finance, and urban planning; the Secretary of the State and Consumer Services Agency; and one appointee each of the State Treasurer and the State Controller. The appointed members would serve staggered terms of four years and be subject to confirmation by the Senate. Like CalPERS and CalSTRS, the CalHope Trust board would be subject to the State's open meeting laws.

- Management and staff of the Trust would be organized in a manner similar to CalPERS and CalSTRS, which managed $11.9 billion and $5.0 billion real estate portfolios, respectively, as of March 31, 2004. Managers would receive compensation pegged to the Trust's long-term financial returns and the quality and sustainability of projects, so as to attract the highest quality professionals in the real estate industry.

- The Trust would manage State property according to the best practices of the top urban real estate development/management businesses. It would be charged with achieving target returns on investment consistent with getting optimal public use from the property it manages, housing State tenants in a cost-efficient way, and building high quality projects that meet the smart growth principles of Executive Order D-46-01 of 2001. That Executive Order, sponsored by Treasurer Angelides and Assemblymember Darrell Steinberg (D-Sacramento), and signed by then-Governor Gray Davis, requires State departments to locate offices in proximity to public transit and affordable housing, to consider sites that promote neighborhood revitalization and offer opportunities for mixed use, and to work with local communities on projects to assure high-quality buildings that are environmentally friendly.

- All projects undertaken by the Trust would be subject to State, regional, and local land-use and environmental approvals that apply to private sector projects. The State bureaucracy is currently exempt from the normal land use controls on its projects.

"One of the keys to California's successful growth has been the smart use of its physical assets to create the most enduring form of wealth – the knowledge and ingenuity of its people."

- The Trust would be empowered to buy, lease, build, and sell properties, and to enter into joint ventures with private sector firms, the State's pension funds, and local communities.

- Any land transferred to the Trust would become the endowment of the new California Hope Endowment to support higher education, and the annual returns of the Trust would support the Endowment's mission.

Conclusion

One of the keys to California's successful growth has been the smart use of its physical assets to create the most enduring form of wealth – the knowledge and ingenuity of its people. In the 19th and 20th Centuries, it first used federal land grants to build the University of California and, later, royalties from oil production on State tidelands to construct college classrooms and laboratories. In this new century, California must again turn to its physical assets – the State's mismanaged real estate – to endow more college opportunities for young Californians.

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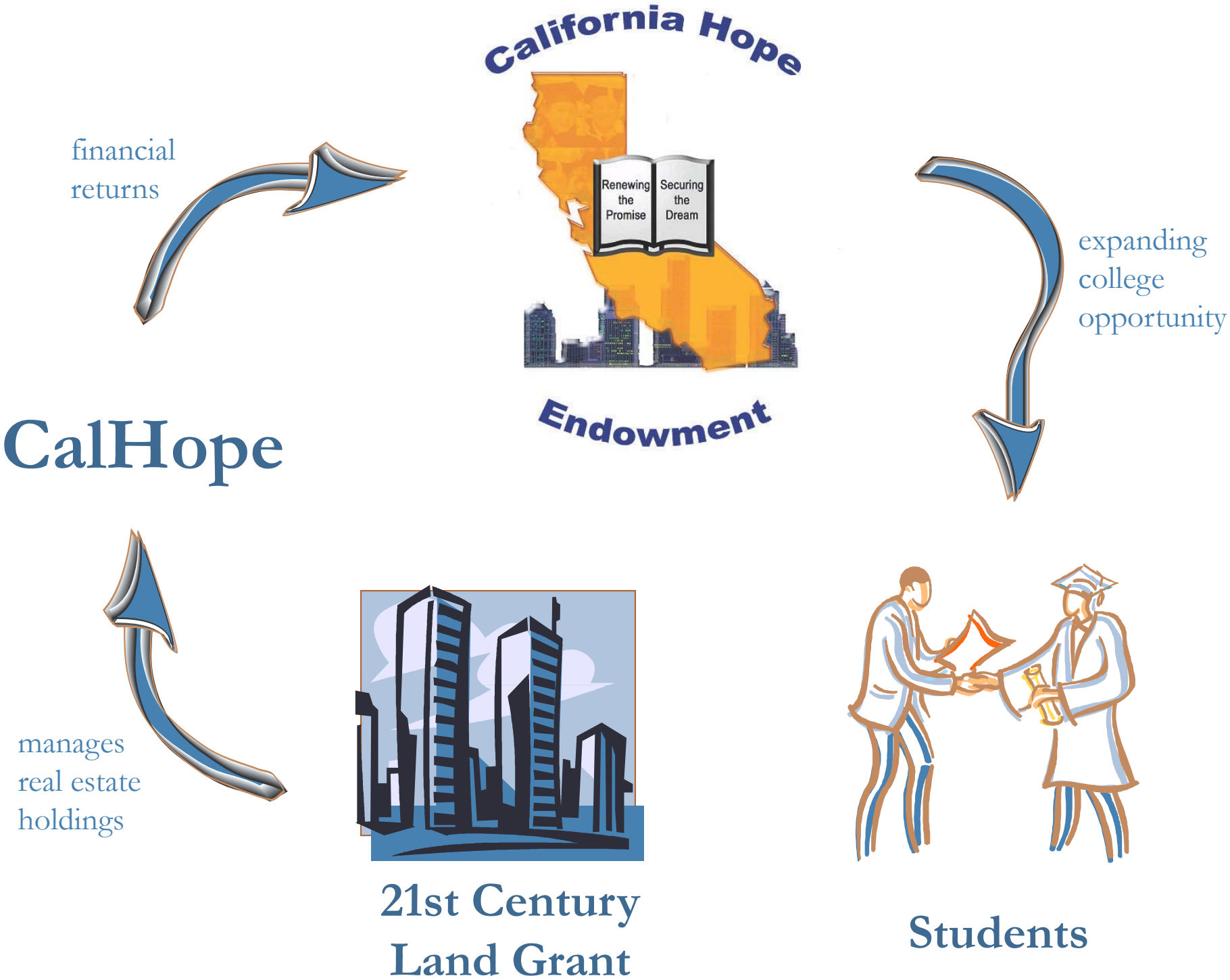
California Hope

Endowment

The California Hope Endowment: Positioned to be the 7th Largest in the Nation

Endowment	Funds
1. Harvard University	$18,849,491,000
2. Yale University	$11,034,600,000
3. Princeton University	$ 8,730,000,000
4. University of Texas System	$ 8,708,818,000
5. Stanford University	$ 8,864,000,000
6. Massachusetts Institute of Technology	$ 5,133,613,000
7. California Hope Endowment	$ 5,000,000,000
8. University of California	$ 4,368,911,000
9. Columbia University	$ 4,350,000,000
10. Texas A & M University System and Foundations	$ 3,802,712,000

Source: National Association of College and University Business Officers
(Rankings Based on 2003 Fiscal Year Data)


California Hope
Renewing the Promise
Securing the Dream
Endowment
financial returns
expanding college opportunity
CalHope
manages real estate holdings
21st Century Land Grant
Students

The California Hope Endowment

$5 billion in real estate = $300 million a year in revenue

COULD PAY FOR:

- **Full-fee scholarships for 385,000 Community College Students, or**
- **Full fees and other costs for 19,000 CSU Students, or**
- **Double current outreach programs**