



Amendment 10 lets colleges invest state funds in stocks

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Editor's note: Louisiana voters will be asked to make decisions on 13 proposed constitutional amendments on the Sept. 30 ballot. In order to help our readers better understand the possible impact of these proposed changes to our Louisiana Constitution, each day we will publish one of the proposed amendments from the Public Affairs Research Council of Louisiana's Guide to the Constitutional Amendments.

No. 10 -- Higher Education Investments

CURRENT SITUATION: Most Louisiana colleges and universities have endowment funds provided largely by gifts to the institution. Endowments are funds given to a university or college for investment in order to provide revenue for professorships, fellowships, scholarships and other programs. The endowment principal is invested, and only a portion of investment earnings derived from the principal is spent. The Constitution prohibits the investment of public funds in stocks.

The vast majority of most institutions' endowment funds are private dollars given to private foundations associated with particular campuses. However, a small portion of endowed funds are public dollars. These public funds in endowment come from state contributions made through the "8(g)" fund.

Endowment gifts made by private donors directly to a public campus, rather than the private foundation associated with that campus, are also considered public funds. Those funds, however, were typically endowed prior to the extensive use of private foundations and the "8(g)" program. In both cases, these public funds make up only a small portion of funds in endowment.

The managing board of each higher education system invests endowment funds in accordance with its written investment policy and with the approval of an investment advisory committee composed of the state treasurer, the legislative auditor and the commissioner of administration. Public colleges and universities are allowed to invest public funds in stock in 16 of 20 states examined by PAR. An annual survey by the National Association of College and University Board Officers showed that the responding 746 public and private institutions invested, on average, nearly 60 percent of endowment funds in equities in 2005.

PROPOSED CHANGE: The amendment would authorize higher education institutions or their respective management boards to invest up to 35 percent of state-funded, permanently endowed funds in stocks. The authorization would apply to "8(g)" funds provided by the state for endowments as well as any endowed funds held directly by public higher education institutions. Stock investments would undergo the same approval process required of non-equity investments. All proceeds from interest, dividends, realized and unrealized gains may be invested.

COMMENT: Members of the higher education community initiated this amendment to maximize the potential of all funds held by their respective institutions. For example, LSU projects that it could potentially earn an additional \$1.6 million on its endowments if this proposal passes.

Earnings from endowment investments are essential to higher education institutions, because they provide support for financial aid, faculty salaries and other operating costs. Endowed chairs, professorships and fellowships are important tools for attracting top faculty members, which improves the institution's ranking.

The proposed 35 percent constitutional cap on stock investment of the state-funded share of endowments would maintain the same investment allowance for the "8(g)" funds prior to transfer to higher education institutions. The cap would also be relatively conservative compared with the investment practices of colleges and universities nationally. NACUBO's 2001 Endowment Study reported private and public institutions investing an average of 58.5 percent in equities, down from 64.3 percent in 1999.

With the exception of a few years, the greater investment flexibility of institutions participating in the NACUBO study yielded relatively high rates of return. The more conservative limit of 35 percent on stock investment proposed is consistent with stock investment caps placed on other Louisiana funds.

LEGAL CITATION: Act 856 (Representative Cazayoux) of the 2006 Regular Session, amending Article VII, Section 14(B). The companion legislation is Act 717 (Representative Cazayoux) of the 2006 Regular Session.