

Louisiana Board of Regents

Faculty Endowment Program Issues and Policy Solutions

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10:15 a.m.

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BoRSF FACULTY ENDOWMENT SUBPROGRAMS

- Endowed Chairs for Eminent Scholars (Estab. 1987)
 - \$1M minimum corpus (\$600,000 private/\$400,000 BoRSF)
 - Competitive award based on need, contributions, outcomes
 - Primary Goal: Recruit tenured faculty who are leaders in the specified field and support their continued productivity, profile, and competitiveness

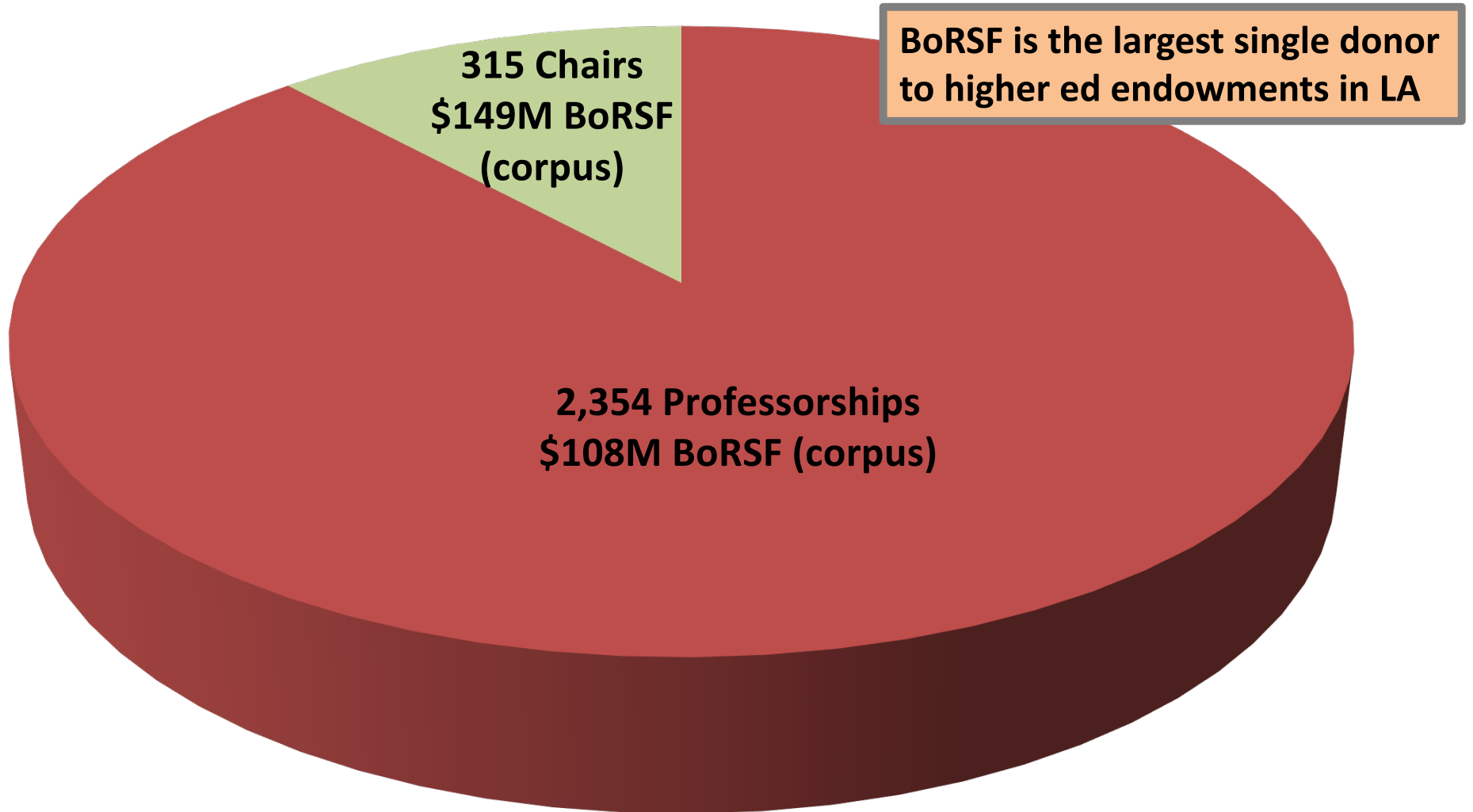
- Endowed Professorships (Estab. 1991)
 - \$100,000 minimum corpus (\$60,000 non-State/\$40,000 BoRSF)
 - Four-year campuses guaranteed two \$40,000 matches per year; Two-year campuses guaranteed one \$40,000 match per year (revised beginning FY 2017-18); additional matches may be provided at the Regents' discretion, if monies are available
 - Primary Goal: Retain existing high-value faculty and support their continued productivity as scholars and educators

FACULTY ENDOWMENTS: IMPORTANCE TO CAMPUS'S ACADEMIC & RESEARCH MISSIONS

- Purposes of Endowing Funds for Faculty Support
 - Enable campuses to recruit and retain essential high-quality faculty through financial and other incentives
 - Provide a steady, permanent source of discretionary funds for the faculty endowment holder to use for professional activities (salary supplement, student support, research/education needs – equipment, supplies – professional travel, etc.)
- Academic/Research Value
 - Help campuses recruit and retain the best faculty – block “raiding”
 - Named professorship or chair carries prestige
 - Endowment earnings provide direct support to the faculty holder’s professional work

FACULTY ENDOWMENTS MATCHED BY BoRSF

1987-2016



TOTAL FACULTY ENDOWMENTS MATCHED: 2,699 (\$257M BoRSF)

FACULTY ENDOWMENTS: STAKEHOLDERS & ROLES

- Donor: Defines the endowment and establishes restrictions within Constitutional definitions, BoR policies, and program goals
- BoR: Provides matching funds and sets forth statewide policies related to eligibility, distribution of available dollars, management/monitoring of accounts after match, etc.
- Campus: Receives, owns and oversees the endowment, serving as the responsible party for ensuring appropriate management and use
- Academic Officers (e.g., provost, dean, department chair): Select faculty holders, oversee holders' academic performance, often approve holders' spending plans
- Faculty Holders: Pursue academic and research work within the scope of the endowment; expend funds in accordance with donor, BoR and campus restrictions
- Funds Manager (e.g., foundation, development office): Manages on behalf of the campus the account corpus/principal, disbursement of funds for expenditure, and often non-State donor relations

MAJOR ISSUES CHALLENGING FACULTY ENDOWMENT PROGRAMS' EFFECTIVENESS & OVERSIGHT: 2011-17

- Persistent and intractable backlog of unmatched requests with donor expectation of immediate matching, even as BoRSF revenues fall
- Vacant slots
- Dormant endowments (never filled)
- Accrued expendable earnings
- Lack of information-sharing among stakeholders
- No provisions to make changes to unusable endowments
- Highly individualized campus management, both financial and academic
- Funds Manager concerns: restrictive investment rules, need for flexibility to forego inflation adjustments/spend down to corpus, and need to align investment policy fully with UPMIFA

KEY POLICY REVISIONS: JANUARY 2012

(INVESTMENT POLICY)

- Adjustment of portfolio composition requirements to add flexibility and potential for greater returns, while maintaining limits on risk
- Removal of mandatory inflation adjustment and allowance to expend to corpus in any year, while maintaining restriction against spending below corpus (historic dollar value)
- Removal of cap on management fee percentage – previously 1.5% of FMV – to allow for UPMIFA “appropriate usual and customary” standard (currently varies widely by account, from 1-4%)
- Development of online reporting and data management system

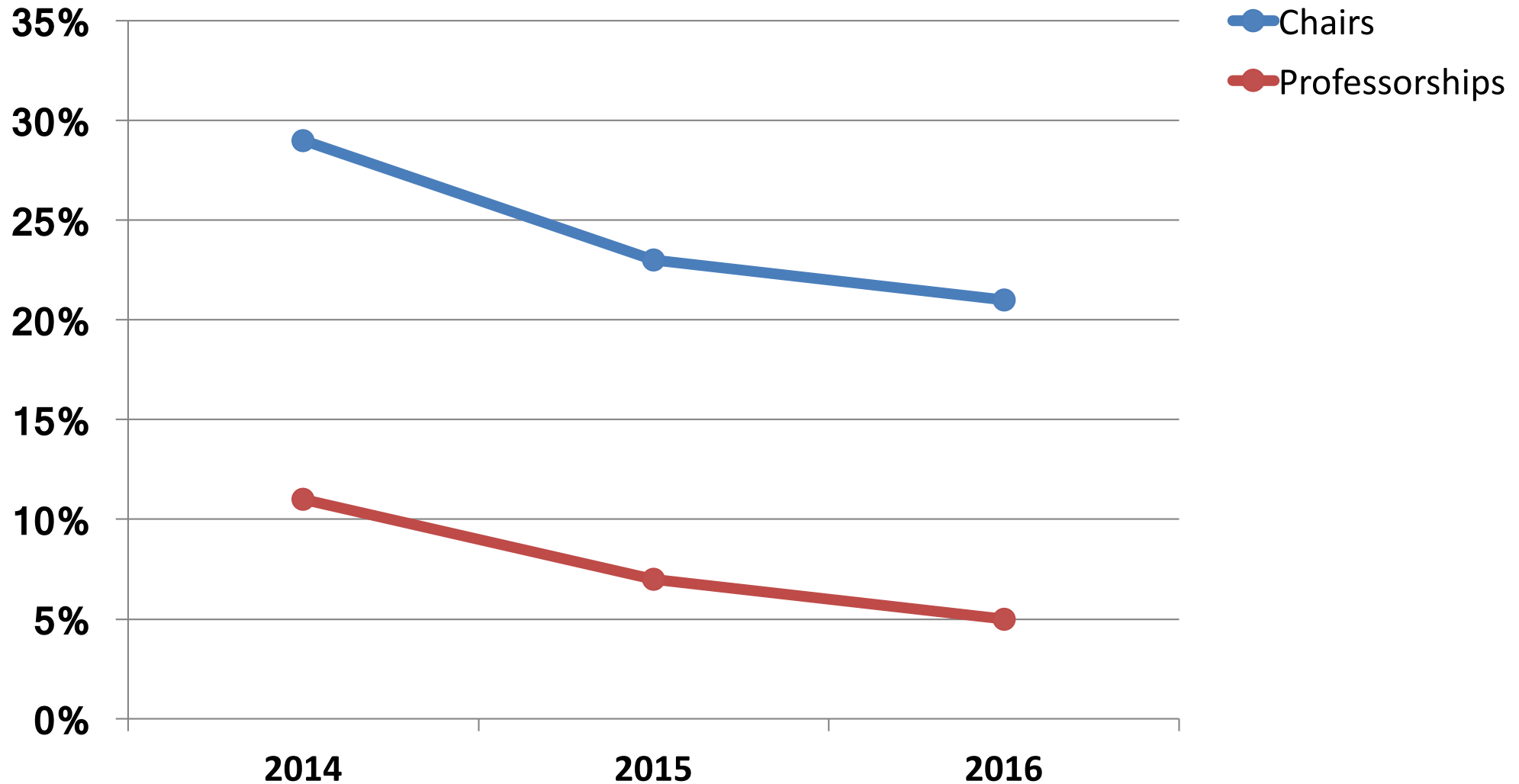
POLICY REVISIONS: OCTOBER 2012

- Explicit provision that the BoR is not obligated to match slots submitted in excess of guaranteed slots/competitive funding allocations
- Temporary Endowed Professorships suspension to understand magnitude of backlogs and address as possible (348 slots submitted for match of \$13.92M): program reinstated within one month
- Encouragement for campuses to bundle private funding to leverage limited BoRSF Endowed Professorships matching
- Required submission of campus internal standards for appointment and continuation of Professorship faculty holders
- Required “Donor Statement of Understanding” for EP, documenting that donors have been informed of BoR policies and funding limitations
- Expanded annual reporting to BoR

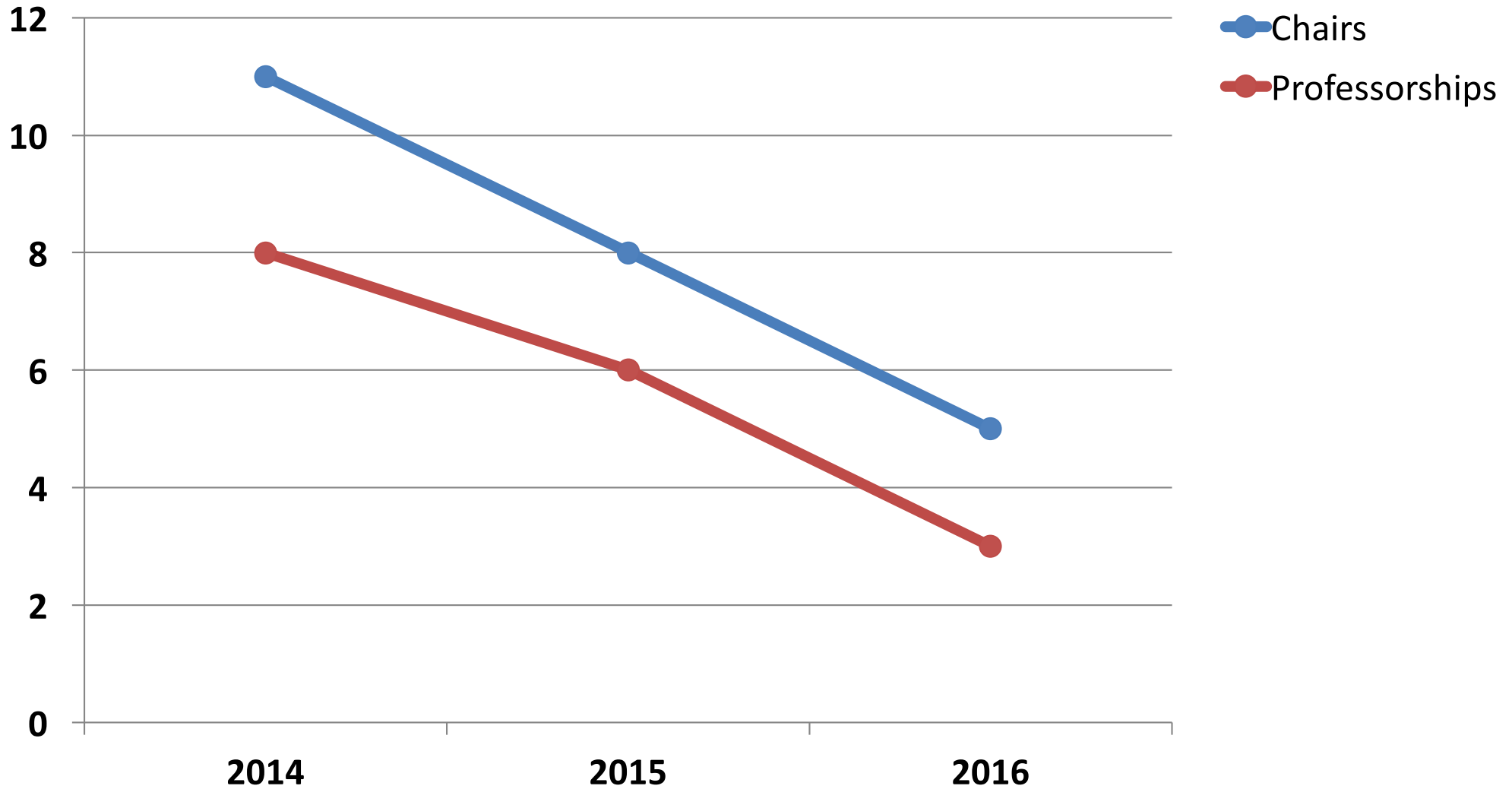
POLICY REVISIONS: SEPTEMBER 2013

- Vacancy rate provisions, limiting requests for new matching while >20% of existing slots have been vacant for more than two years
- Limitation on slots matched per campus: not to exceed the number of FTE faculty (eligible recipients)
- Mandatory annual reporting to original donor(s) except in defined circumstances
- Added flexibility through a broad waiver provision allowing campuses to request BoR approval for deviations from policy in reasonable circumstances

Statewide % Reductions in Vacancy Rates Following Adoption of 2013 Policy



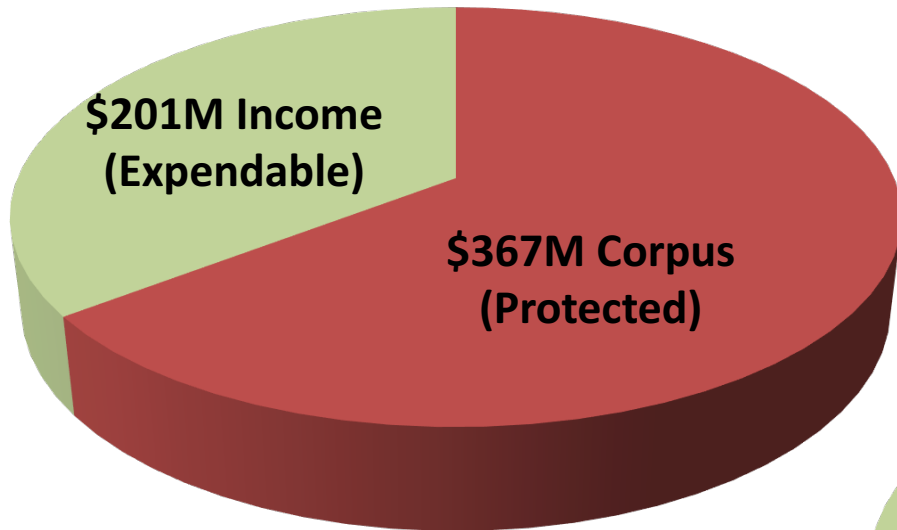
Decline in Campuses Ineligible by Vacancies Following Adoption of 2013 Policy



UNUSED ENDOWMENT INCOME: CHAIRS & PROFESSORSHIPS, FY 2015-16 REPORTING

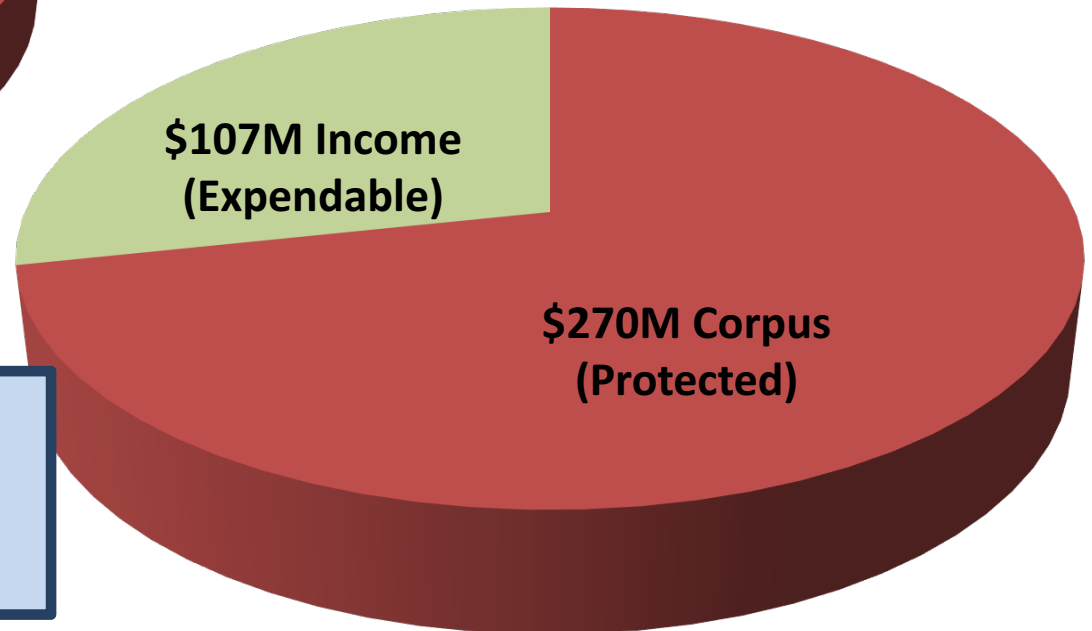
Endowed Chairs

Reported Market Value: \$568M
(35% Expendable)



Endowed Professorships

Reported Market Value: \$376M
(28% Expendable)



**TOTAL VALUE - ALL MATCHED
EP/EC: \$944M
TOTAL OVER CORPUS: \$308M (30%)**

POLICY REVISIONS: JUNE-NOVEMBER 2016

- Return of match when endowment is unusable or dormant with no approved plans to fill and options to revise/repurpose are not exercised
- Emphasis on spending within bounds of prudence and limit on retention of expendable earnings (125% rule proposed as replacement)
- Limits on accrual of assets in principal accounts by requiring deposit of % of revenues in expendable account
- Annual reporting to academic administrators and faculty endowment holders: value of account, expendable dollars and uses of funds
- Sharing of all conditions governing the endowment among contributing parties – donor(s) and BoR
- Inclusion in all future donor agreements of plans should revisions to permanent endowments be necessary

REMAINING MAJOR ISSUES: JUNE 2017

- Accrued expendable earnings and retention of revenues in long-term investment instruments
- Persistent and intractable backlog of matching requests with donor expectation of immediate matching

KEY POLICY CHANGES: JUNE 2017

- Drafts sent to campuses/systems (system heads, campus heads, chief academic officers, research officers, and foundation/development officers) for review in April and May, with responses invited by June 12 (7 responses received); notified of pending Board consideration on Friday, June 16
- **Revisions Recommended:**
 - Cap of 125% on total account market value (25% in excess of corpus – e.g., a \$1M chair may retain an FMV of \$1,250,000, with remaining earnings allocated for expenditure); retention of 125% is not a requirement, but a cap: campuses still have option to spend down to corpus
 - Chairs established in four endowment types: research, educational, workforce, and combination
 - Professorships remain non-competitive and funded in campus rank order
 - Minimum corpus levels remain the same (\$1M Chairs; \$100,000 Professorships), although:
 - In Chairs, higher levels recommended in resource-intensive programs
 - Ratio of non-State to BoRSF contributions for Professorships is 80/20
 - Mechanism in place to match Professorships submitted before July 1, 2017 at 60/40
 - For new Chairs, proposals must document that package of resources available (endowment, salary, start-up, etc.) is sufficient to attract an eminent scholar
 - Endowment matches must align with campus role, scope, mission and strategic priorities

CAMPUS/FUNDS MANAGER CONCERNS

- All comments submitted addressed capping of fair market value
- Challenges of complying FMV cap:
 - Endangers future expendable funds: higher FMV yields more funds for faculty
 - Purchasing power will not be retained in perpetuity and buffers against market collapses are highly limited
 - Spending of balance overages just to adhere to policy could lead to poor or ineffective uses
 - “Smoothing” mechanisms to ensure a steady, predictable flow of expendable funds over time will be eliminated
 - Donor relations may be compromised as donors see smaller returns and fund balances
 - UPMIFA compliance may be in question

CONTINUING NEED FOR BoR COMMUNICATION

The Commissioner and staff will conduct regional meetings with system and campus heads, chief academic officers, and funds managers to review policy revisions to BoRSF-matched faculty endowments and discuss the roles and responsibilities of all stakeholders.