

Office of the President

TO MEMBERS OF THE COMMITTEE ON LONG RANGE PLANNING:

## DISCUSSION ITEM

*For Meeting of January 20, 2010*

### ANNUAL ACCOUNTABILITY SUB-REPORT ON PRIVATE SUPPORT

In accordance with the Regents' schedule for accountability sub-reports, the *Annual Accountability Sub-Report on Private Support* has been prepared for this meeting. This report contributes to the series that the Committee on Long Range Planning has established in order to:

- review key areas of the accountability framework in more detail;
- discuss strategic choices that need to be made by UC in those areas;
- inform the Board's deliberations about important policy and budget questions; and
- achieve a richer understanding of UC as a system and of campus distinctiveness.

This sub-report highlights issues of private support that are illustrated in the accountability report, and the ways in which philanthropic support is contributing to the research, teaching, and public service activities of the University. The report also focuses on efforts to ensure that private support is closely aligned to the University's priorities – especially in the areas of faculty support and student support.

### BACKGROUND

This past year, the University of California received more than \$1 billion in private support for the ninth year in a row. In addition, the University's endowment(s) distribute well in excess of \$300 million annually to support various activities. As such, there is a need to understand the role and the limitations that philanthropy has in the University's overall budget.

**Overview of fundraising results.** In the fiscal year ending June 30, 2009, the University of California received slightly more than \$1.3 billion in private support [Figure 1]. The economic crisis clearly impacted the amount of support that UC (and other charitable institutions) received this past fiscal year. Donations from alumni, friends, corporations, and foundations were all lower than in the preceding year, and the total year-to-year reduction in philanthropic support was the most significant in the University's history. However, the funds raised exceeded early projections and represented the second most successful fundraising year in the University's history.

Over the past couple of decades, the University of California has seen relatively steady growth in the amount that it receives in philanthropic support **[Figure 2]**. There have been modest declines in several years, coinciding with economic recessions. The economic downturns contribute to this decline in two ways: first, many donors are not in a position to be as charitably inclined. This is particularly apparent in the reduction in gifts of real estate, securities, and other non-cash gifts. In 2007-08, the University of California received \$270 million in non-cash gifts; this dropped dramatically to \$120 million in 2008-09. In addition, as private foundation endowments declined in value, their distributions to UC and other charities declined as well. Second, it is difficult for the University to maintain the momentum of its fundraising efforts during periods of significant budget cuts. Despite these forces, the University continues to receive strong support from the donor community. Many of our campuses report that the number of gifts received each year continues to increase. Each and every gift is assisting the University in fulfilling its mission of teaching, research, and public service. As such, the University is grateful to its alumni and friends for their support – and for recognizing the many ways in which the University is serving the people of California.

Over the last several years, the University of California has been very successful in raising philanthropic support, even when compared to our peers **[Figure 3]**. It also merits noting that our Comparison 8 institutions are some of the most successful fundraising universities in the country. In the most recent year (June 2008) in which fundraising results are tabulated by the Council for Aid to Education, all four private schools were in the list of the top twenty universities – including three of the top four slots. While the top 20 is dominated by private schools, one of our public peers also made this list – along with three UC campuses.

As is the case with philanthropic support at colleges and Universities across the country, the vast majority of the support that UC receives is restricted by donors to specific purposes **[Figure 4]**. While there are literally thousands of specific gift designations, there are a number of broad categories that are used for this purpose: department support, research, campus improvement, student support, instruction, other, and unrestricted. Typically, gifts directed to specific Schools, Colleges, and Departments constitute the largest total for gifts within any of these broad categories. As one might expect of an institution with the depth and breadth of research that UC exhibits, support for research is also well represented. In each of the last ten years, unrestricted gifts represented only approximately two percent of all gifts received by the University.

The University also tracks the extent to which private support is directed to endowment, capital improvement, and current operations. This is done to gauge the extent to which private support is directed towards the current needs of UC, and how much is designed to assist with the long-term financial needs of the institution. This analysis is done on a systemwide level **[Figure 5]**, and on a campus-by-campus level **[Figure 6]**.

Although UC and other higher education institutions would like to receive more unrestricted support, donors are increasingly interested in supporting particular areas of interest. This is actually beneficial to UC, as donors tend to have more interest, and passion, if their gifts are targeted for specific purposes where they have a strong personal interest. Moreover, the University has increased its stewardship efforts in order to ensure donors have a better

understanding of how their gift(s) are making a difference to UC.

**University of California Endowments.** Additions to endowment are tracked on a year-to-year basis [Figure 7]. While it is difficult to determine an appropriate “balance” between gifts for current use and gifts for endowment, the University of California must continue its efforts to build up its endowments to ensure a steady stream of income to support future generations. In that regard, the University has a practice of establishing “funds functioning as endowments” in instances where a donor has not designated whether his/her bequest should be a current use gift or an endowment.

In his 1874 inaugural address, UC President Daniel Coit Gilman stated: *“We must look to men (and women) of wealth to provide the richer and more complete endowments which will place our University by the side of her older sisters at the East”* This is even more apt in 2010.

**Figure 8** highlights the disparity in endowment per student between UC and its peers. Particularly, the four private schools against which we are measured are some of the most well-endowed schools in the country. Two of these schools have an endowment per student that is approximately twenty times larger than the UC average, and two schools have an endowment per student that is roughly forty times that of UC. While the public peers do not have such a significant difference, UC does lag behind a couple of our public peers as well. In order to provide a broader context, **Figure 9** compares the UC endowment per student with the endowment per student at AAU Private Institutions and AAU Public Institutions. This slide demonstrates that other public institutions are in a similar position to UC in terms of needing to build endowment. For many years, public colleges relied upon annual support from the State in the same way that private schools depended upon endowment payout. As state support for higher education has suffered, endowments are viewed as a means to help make up the difference. However, endowments – and private support – tend to be quite restrictive. At UC, and colleges and Universities across the country, there are certain types of expenses that are typically funded by gifts and endowments. Conversely, there are significant operational needs for which state funding and student fees are often the only feasible option.

It is important to note that the UC endowment is not a single fund. Rather, it consists of thousands of individual funds that make up the Regents General Endowment Pool and thousands of other funds that are invested in the endowment pools managed by each of the UC Campus Foundations. The very first endowment fund at UC was the result of the Morrill Act signed by Abraham Lincoln, creating the State Land Grant Colleges and Universities in 1862. Under the Act, the proceeds from the sale of the federal lands was to be used to create an endowment. The first major private gift to UC created the first “real endowment” -- the Agassiz Endowed Professorship in Oriental languages, established in 1872 by Regent Edward Tompkins. Over the ensuing years, thousands of additional gifts have been received by The Regents and the UC Campus Foundations establishing endowments. All told, there are close to 12,000 individual funds with a market value of approximately \$8 billion as of June 30, 2009.

Until the recent economic downturn, the University’s endowments had shown steady growth over the past decade [Figure 10]. The endowment per student also increased during this period, but not as significantly as the total dollar value of the endowment. This is due to the fact that

UC, under its public mandate, sought to provide the opportunity of a UC education to the greatest number of students, and increased enrollment during this period. In contrast, many private schools have maintained enrollment at the same level for a prolonged period of time.

Like the private support that UC receives each year, the endowment payout is similarly narrowly restricted for specific purposes [Figure 11]. The reason is the same, as donors tend to want their gifts to support particular areas of interest. UC's endowments are more restricted than most other colleges and Universities. The American Council on Education estimates that 55 percent of private school's endowments are restricted, and 80 percent of a public institution's endowments are restricted. At UC, approximately 93 percent of our total endowment is restricted. At UC and other institutions, virtually all new endowments are restricted, as donors are increasingly using terms such as "venture philanthropy" as they support particular programs of interest. In the first half of the life of the University, it did receive some unrestricted gifts that were used to establish endowments, so that the unrestricted percentage of the UC endowment is slightly larger than the 2 percent of recent gifts that are unrestricted in purpose. However, over time, many of these funds have been allocated for specific purposes. These allocations were pursuant to Regental Policy which stated: *"The Regents, in their fiduciary capacity as trustees of Endowment Funds, reiterate their long-standing policy that endowment funds and income therefrom should be used for the enrichment of University programs and not for programs for which state funds are deemed requisite for the necessary educational activities of the University."*

Of course, the donor terms are critical in determining the purpose to which a gift will be put to use. However, this Policy also demonstrates, to some extent, the fundraising focus of the University during all of these years. In simple terms, the University didn't emphasize raising money for many activities such as student support (or faculty salaries) since the state was providing adequate funding in these areas. However, faculty support and student support are now a major focus of our fundraising efforts.

**Endowed Chairs and Professorships.** Endowed Chairs [Figure 12] have become essential for academic support, as well as attractive gift vehicles for donors. They provide recognition in perpetuity for the honoree, as well as increasingly vital discretionary support for research, graduate fellowships, salaries and public-service activities for chair holders in the designated disciplines. Endowed chairs are supporting a wide array of academic disciplines, as illustrated by the chart showing the academic areas supported by chairs established in the most recent fiscal year [Figure 13]. UC Endowed Chair Policy was broadened about ten years ago to encompass department and base-salary support not possible earlier, thus adding to the flexibility with which endowed chair payout may be used. The area of endowed chairs also provides an elegant symmetry between donor interests and the institution's academic and fundraising priorities. It is a gift arena that is expected to sustain interest and to grow in the years ahead.

**Student Support.** The Regental Policy on Financial Aid states: *"A basic value of the University of California is that the University should serve a diverse student body. Inherent in such a value is a concern that financial considerations not be an insurmountable obstacle to student decisions to seek and complete a University degree. This basic value is at the heart of the University's*

*Financial Aid policy for all of its student body...*” In practice, this Policy is implemented through financial aid programs funded from federal, State, outside agency, and UC sources. The UC sources are further broken out into privately-funded scholarships and fellowships, and “Other UC” sources, including our “return-to-aid” practices.

In recent years, UC has had a higher percentage of students receiving Pell grants than other comparable institutions. In addition, the state of California provides substantial financial assistance (almost all of which is devoted to undergraduate students). However, as illustrated in **Figure 14**, the amount of student support funding from UC sources is significantly greater than either federal or State support. While the UC support is primarily from resources derived from “return-to-aid” and similar practices, over \$110 million annually is distributed from privately-funded scholarships and fellowships.

UC also continues to seek gifts for scholarships and fellowships, and has received over \$100 million in gifts directed towards student support in each of the last five years [**Figure 15**]. While this support is significant, UC recognizes that students and their families are facing unprecedented financial pressure. As a result, the University recently announced ***Project You Can***. This fundraising effort seeks to raise \$1 billion over the next four years for undergraduate and graduate student support. This ambitious fundraising goal represents approximately double the amount that the UC system has been raising annually for student support. This effort is essential as UC seeks to honor its commitment of access and affordability to students and their families.

(Attachment)