



TOPIC: Establishment of a \$50M Quasi-endowment fund to enhance development operations

COMMITTEE: Advancement Committee

DATE OF COMMITTEE MEETING: February 5, 2014

SUMMARY: During the 2013 session of the General Assembly, legislation was passed and signed into law enabling the Board of Regents to establish a quasi-endowment (a fund established by the Board and managed as an endowment) of up to \$50M.

Attached is a plan for soliciting contributions from institutions, of non-state supported cash balances, that will be collected, aggregated, and then transferred to the University System of Maryland Foundation for investment as a quasi-endowment. The funds are intended to be invested similarly to other endowment funds; with intent to ensure the ongoing purchasing power of the annual spendable income available over the long-term. The purpose of the fund will be to advance and enhance development and fund-raising capabilities at System institutions, with a particular emphasis on strategies to expand endowment giving.

Several bases of allocation of the \$50M amongst USM institutions are worthy of consideration, with the attached plan proposing for the Committee's consideration the initial allocation to USM institutions to be based on relative size. If some institutions are unable, or uninterested, in contributing to the fund then a second allocation of the under-subscribed amount, so that an aggregate fund of \$50M can be accumulated.

Institutions will be expected to prepare, and provide to the Advancement Committee, plans on the use of the spendable income to be distributed from the fund associated with their institutions investment into the fund, and annually report on the success against the plan. The Advancement Committee will annually determine the use of spendable income associated with funds contributed from the System Office or System-wide resources.

So as to enhance the likelihood of capital growth early, the funds will initially be invested with the USMF Operating Fund. After a minimum of two fiscal years, the Advancement Committee will consider moving the fund to the longer-term, Endowment Fund, a pool expected to produce higher investment returns over the long-run, but which also involves higher volatility in returns and incrementally greater risk of negative results. Spendable income distributions will begin with the fiscal year 2015, to be dispersed as spendable income is distributed for all USM Common Trust endowment funds, except for the Quasi-endowment to enhance development operations will not be subject to administrative fee reimbursement provisions of the Board of Regents Policy IIIV-5.30 - Policy on Endowment Fund Spending Rule.

ALTERNATIVE(S): The Advancement Committee could modify elements or request a different plan.

FISCAL IMPACT: None.

CHANCELLOR'S RECOMMENDATION: That the Advancement Committee adopt the attached plan as a framework for aggregating funds to establish a fund to enhance development and fund-raising operations of no more than \$50 million, to be established, managed and administered in accordance with the attached plan's framework. It is the intention of the Advancement Committee that the spendable income from the quasi-endowment to institutions be used to enhance funding available for the development and fund-raising operations, rather than a basis for substituting existing funding.

COMMITTEE RECOMMENDATION: Approval DATE: February 5, 2014

BOARD ACTION: DATE:

SUBMITTED BY: Joseph F. Vivona (301) 445-1923/Leonard Raley (301) 445-1945



Building a Quasi-Endowment to provide Development Office Funding 2013 Session Senate Bill 431

Education Article 12-104 (e) provides:

- (e) (1) the Board may:
- (i) Apply for, accept, and spend any gift or grant from the Federal government, any foundation, or any other person; and
 - (ii) Maintain and manage gift and endowment funds.
- (2) (i) Subject to subparagraph (ii) of this paragraph, the Board may maintain and manage quasi-endowment funds
- (ii) The Board may only make a one-time transfer of no more than \$50,000,000 from the non-state supported fund balance held and invested by the State treasurer to the quasi-endowment fund.

Background:

1. Funds made available for institutional spending from endowment funds, including quasi-endowments (funds invested and managed in a manner similar to endowment funds, at the direction or decision of the Board of Regents), is governed by Board of Regents Policy VIII-5.30 Policy on Endowment Fund Spending Rule.
2. In fiscal year 2013, the Regents revised the Spending Rule policy to respond to lower future expectations of investment returns, so that the objectives and responsibilities associated with the Maryland Uniform Prudent Management of Institutional Funds Act can continue to be satisfied. Basically, these responsibilities require that the investment approach to risk and returns, and the amount of spending made available annually, result in maintaining the purchasing power of the fund over time.
3. The Spending Rule includes an annual distribution for spending on donor-specified purposes (or Board-specified purposes in the case of quasi-endowments) with a target rate of 4.25% (previously 4.75%) phased in over a five-year period. The policy also provides for a reimbursement to institutions for costs associated with administering endowments of up to 0.5% (previously 0.9%) also phased in over a five-year period. Many institutions were using the administrative fee reimbursements to free up institutional resources to support the fund-raising operation.
4. The intent of Senate Bill 431 was to enable institutions to invest funds currently held by the State treasurer's office in the Common Trust Fund, which is invested with other endowment funds owned by affiliated foundations as a part of a \$1 Billion portfolio professionally invested by industry experts. A quasi-endowment fund of \$50 million would generate (roughly and dependent upon market value changes) \$2,125,000 annually that could then be used to replace and/or expand development office funding reduced through the administrative fee reimbursement changes to the Spending Rule.

Building a Quasi-Endowment to provide Development Office Funding 2013 Session Senate Bill 431

The Plan:

1. For a one-month period beginning March 1, each institution will be allocated a portion of \$40M of the \$50 million 'cap' on the quasi-endowment that relates to the institution's relative size of the System's aggregate budget. The System Office will contribute up to \$10M to establish a fund, the spendable income from which will be directed by the Board of Regents Committee on Advancement.
2. Institutions will have 30 days to 'subscribe' or commit to funding some or all of their allocated portion of the cap with non-state supported funds. At the end of March, an assessment of the aggregate of the subscriptions will be made, and those institutions that have committed to funding the entire amount allocated to the institution will then be given an opportunity to fund a portion of the balance of the amount necessary to accumulate a \$50 million total quasi-endowment fund. The institutions with the interest and ability to fund greater contributions will be given an additional 30 days to commit to funding additional amounts up to the aggregate \$50 million legislated limit.
3. Institutions that contribute non-state-supported funds to establish a quasi-endowment fund will be asked to execute a Memorandum of Understanding that documents the understood purpose of the fund, and govern the use of the spendable income.
4. In early May 2014, the System Office will have institutions transfer their committed funds and will aggregate those into a single, \$50M transfer of funds to the USM Foundation for investment with the Common Trust Fund. The \$50M will be invested in the USM Foundation's Operating Fund for a minimum of the first two years, in order to provide protection against loss of the original investment, and then may be moved to the Endowment Fund at the direction and timing of the Board of Regents Committee on Advancement. No administrative fees will be assessed against the \$50M fund. Spendable income distributions will begin with FY 2015.
5. Institutions will receive annual spendable income distributions from the fund (from the donor or Board-specified spending) proportionate to their contributions to the \$50 million fund beginning with fiscal year 2015 (transfers occur in June of each fiscal year). These funds, by Board direction through review of institutional plans designed to improve and enhance endowment-building, will be required to be expended on fund-raising or development activities, or other Board-approved purposes.
6. Institutions will report annually to Board of Regents Committee on Advancement the use of the Quasi-endowment spendable income and fund-raising success or results. The Committee on Advancement will review institutional need for additional development funding and make decisions on use of the System-wide portion of Quasi-endowment (portion of the Quasi-fund derived from USM Office funds) based on criteria to be developed by the Committee on Advancement.

**Building a Quasi-Endowment to provide Development Office Funding
2013 Session Senate Bill 431**

Institution	FY 2014 Current Fund Appropriation	Allocated Initial Cap	Projected Annual Spensible Income *(@4.25%)
UMB	\$1,062,695,369	\$ 8,632,485	\$366,881
UMCP	1,807,174,357	14,680,036	623,902
BSU	110,042,299	893,895	37,990
TU	443,479,082	3,602,469	153,105
UMES	134,212,370	1,090,234	46,335
FSU	107,438,083	872,740	37,091
CSU	92,352,514	750,198	31,883
UB	128,536,291	1,044,125	44,375
SU	172,615,768	1,402,193	59,593
UMUC	437,660,910	3,555,207	151,096
UMBC	382,378,176	3,106,134	132,010
UMCES	45,583,523	370,284	15,737
Total	\$4,924,168,742	\$40,000,000	\$1,700,000

**actual spendable income to be determined annually based on application of Board of Regents Policy VIII-5.30 Policy on Endowment Fund Spending Rule*

Note: The \$10,000,000 to be contributed from System Office or System-wide funds would generate approximately \$425,000 per year in spendable income available to enhance development and fund-raising operations at the direction of the Advancement Committee

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2013 Session Senate Bill 431**

Timetable for steps to implement:

February 5, 2014	Present to Board of Regents Committee on Advancement for input and / or approval.
March 1, 2014	Initiate first round of institutional commitments to fund portions of the Quasi-endowment fund.
April 30, 2014	Assess commitment status against \$50M goal, solicit additional commitments to extent necessary.
May 2014	Collect institutional funds and transfer aggregate of \$50M to USM Foundation.
June 2014	Invest in Operating Fund for a period of at least two years, and then consider transfer to Endowment Portfolio at timing direction of Advancement Committee.
June 2015	Spending rule distributions would begin, enabling some increase in value before first withdrawals.
Annually	Board of Regents Committee on Advancement review of effectiveness of development funding and assessment of institutional need for the purpose of making grants of spendable income from System-wide portion of Quasi-endowment.