Fundraising and Endowment Resilience: Lessons for Leadership

CASE

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ABOUT CASE

The Council for Advancement and Support of Education (CASE) is the professional organization for advancement professionals at all levels who work in alumni relations, communications, and marketing, development, and advancement services.CASE's membership includes nearly 3,600 colleges, universities, and independent elementary and secondary schools in more than 82 countries. This makes CASE one of the largest nonprofit education associations in the world in terms of institutional membership. CASE serves more than 90,000 advancement professionals on the staffs of member institutions. CASE has offices in Washington, D.C., London, Singapore, and Mexico City. The association produces high-quality and timely content, publications, conferences, institutes, and workshops that assist advancement professionals in performing more effectively and serving their institutions.

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CONTENTS

Introduction

There are hopeful signs that the U.S. may be emerging from the worst of the Covid-19 pandemic. While commencement exercises for the class of 2021 look far from normal, widespread access to the vaccine for individuals 16 and over likely means that classes will be returning to classrooms and students will be returning to campuses in the fall. The degree to which the past year's forced transition to online learning will inform instructional practice going forward remains unclear. That the pandemic will create lingering financial challenges for colleges and universities is more probable. Undergraduate enrollment declined 4.4% in the fall of 2020 and spring 2021 undergraduate enrollment was down 4.5% from the prior year. International student undergraduate enrollment, an important revenue driver for many institutions, was down 15% in spring 2021 and is unlikely to recover in the year ahead.

Institutions' financial challenges stem from factors beyond enrollment revenues. While the overall impact of the pandemic on state budgets has been less than expected, 26 states reported declines in state funding for the 2021 fiscal year. At the same time that enrollment revenues were falling, many students were facing financial crises of their own, challenging institutions to increase financial aid and tuition discounting. Fortunately, institutions were not forced to radically curtail endowment spending at the same time.

After precipitous declines in the first quarter of 2020, investment markets quickly rebounded and continued to grow, enabling sustained endowment spending. The market rebound also contributed to sustained philanthropic support which correlates closely to market performance. These factors make it an ideal time for boards and administrations to pause and assess endowment spending policies, that may have been neglected through a long period of sustained growth, and focus on building endowment value through new gift flows.

> As pandemic restrictions relax, advancement programs must make every effort to retain staff and maintain the capacity to support both online and in-person activities.

Many experts expected the COVID crisis to lead to significant declines in giving, but alumni and other donors remained committed in their support of colleges and universities, specifically by responding to appeals to help students and institutions navigate the crisis. CASE's Voluntary Support of Education survey (VSE) found that college and university fundraising held steady from the 2019 to 2020 fiscal year. While in-person cultivation activity and events were canceled, institutions dramatically increased their online programing and communications, enabling them to engage previously uninvolved alumni. As pandemic restrictions relax, advancement programs must now sustain and steward these relationships, making every effort to retain staff and maintain the capacity to support both online and in-person engagement and cultivation activities.

This paper provides an overview of research conducted by CASE over the past year examining ways institution leaders and boards responded to the challenges posed by the pandemic. It illustrates patterns of resilience throughout the pandemic as well as in the wake of the 2008 global financial crisis.

Much of the work presented here was generously funded by Strategic Investment Group (Strategic). CASE appreciates their support and collaboration as a thought partner. Thanks are also due to The Association of Governing Boards of Universities and Colleges (AGB), which collaborated with CASE and Strategic on surveys of board members and chief advancement officers.

Research

PERSPECTIVES OF BOARDS AND CHIEF ADVANCEMENT OFFICERS ON ENDOWMENT STEWARDSHIP AND MAJOR GIFT FUNDRAISING

In the summer of 2020, CASE collaborated with Strategic and AGB on two complimentary surveys. One survey addressed to chief advancement officers (CAOs) of colleges and universities, asked questions about how institutions were managing endowment spending and stewardship, changes they were making to philanthropic priorities and fundraising strategy, and perceptions of donor interests. A second survey asked members of college, university, and affiliated foundation boards to share their perspectives on the impact of the pandemic on their institutions, how their boards were addressing endowment spending and stewardship, and ways they might be changing their personal philanthropy in light of the Covid Crisis. The surveys collected data from chief advancement officers of 165 institutions and 60 board leaders representing a wide range of institutions.

In the first months of the pandemic many institutions made current use giving a fundraising priority, focusing appeals on student financial aid and emergency assistance rather than funding for endowment and other capital purposes:

- 85% of institutions made student financial aid and emergency assistance a priority for their mass appeal fundraising.
- Half of institutions also made raising funds for emergency operating support a priority.
- A third reported that funding for new construction, renovation, and other capital projects had become less of a priority.

At the time of the survey in June 2020, markets had started to recover, but had not yet delivered the significant growth that was realized by the end of 2020. At that time, donors remained committed and supportive, if cautious in their giving:

- A quarter of institutions reported that many or most donors were deferring giving decisions, BUT,
- 14% reported that many or most donors were increasing their giving to the institution and only 8% reported that many or most donors were reducing their giving.
- Half of institutions reported that major donors were receptive to funding appeals focused on addressing current challenges.

Donor interests aligned with institution priorities:

- Half of institutions reported increased interest in current use, unrestricted giving.
- A third saw less interest in giving for building construction and renovation.
- Donor interest in endowment giving remained largely unchanged.

The Black Lives Matters protests also galvanized donors. Over three quarters of institutions reported increased donor interest in financial aid of traditionally underrepresented students and over half were seeing increased interest in research or programs addressing social justice or racial equity issues.

The crisis compounded financial existing financial challenges for many institutions and may impact the way they fulfill their missions going forward:

- Over a third of board members agreed that their institutions were facing “existential challenges” prior to the COVID crisis.
- 70% of board members reported that their boards were “exploring fundamental changes” to the way their institution fulfills its mission.

The surveys also identified a critical gap in some institutions' policies, oversight, and stewardship.

Board members reported that on average 13% of endowment accounts were underwater at the time of the surveys. Underwater endowments are funds that have fallen below "historic dollar value" (HDV), the value of the endowment at the time of its creation. Almost a quarter of chief advancement officers, however, reported that their institution did not have a board policy addressing spending from underwater endowments. A similar proportion left the question blank, suggesting a lack of familiarity about the way their institutions manage underwater endowments. More surprisingly 15% percent of board members reported that their institution did not have a board policy on spending from underwater funds and a worrying 28% did not know if their institution had such a policy.

At periods when significant numbers of endowments are in danger of falling underwater, development officers should consider meeting with endowment donors to determine if they would like to make a current use or supplemental endowment gift to support endowed purposes while the fund recovers value. CAOs that did solicit supplemental gifts for underwater funds reported, on average, that 30% of donors elected to make additional gifts. Over half of CAOs did not, however, have any plans to solicit supplemental gifts from endowment donors in the event that their funds fell below historic dollar value.

IMPACTS OF THE 2008 FINANCIAL CRISIS ON COLLEGE AND UNIVERSITY FUNDRAISING: LESSONS FOR 2021 AND BEYOND

The 2008 financial crisis and the Covid pandemic differed in several important ways. First and foremost, the 2008 financial crisis had a significant and sustained impact on investment markets. In 2008, institutions were impacted by both declines in giving and losses in endowment value. Institutions which relied on endowment for operating revenue, faculty support, and student financial aid were, in many cases, forced to reduce or suspend distributions from endowment funds which had fallen below historic dollar value. The NACUBO Commonfund Study of Endowments for fiscal year 2009 found that underwater funds accounted for an average of 22% of higher education endowments. A survey of 2007 college, university, and affiliated foundations conducted by AGB in March 2009 found that 38% of the dollar value of responding institutions' endowment pools were underwater at the time of the survey. In contrast, respondents to the June 2020 survey of CAOs reported that an average of 13% of endowment accounts were underwater.

Uniform Prudent Management of Institutional Funds Act (UPMIFA) statutes mandate that boards manage endowment expenditures to preserve the long term purchasing power of funds necessitating reductions in spending when endowment values fall underwater for sustained periods of time. (See ***Stewardship of Endowments*** below for an in-depth discussion of UPMIFA.) A CASE analysis of the ***Impacts of the 2008 Financial Crisis on Fundraising and Endowments*** (see below) found that college and university endowments took an average of three to five years after the financial crisis, depending on institution type, to recover to 2008 values.

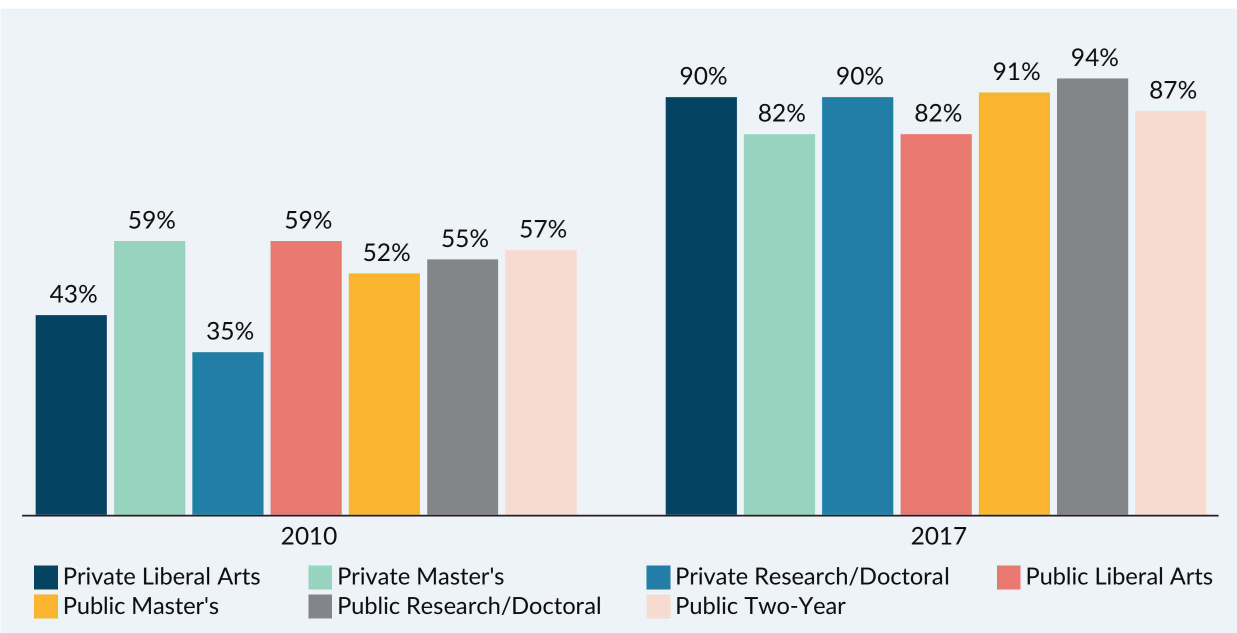
In contrast, endowments have fared well during the Covid pandemic. Although markets suffered severe declines in the early months of the pandemic, they staged an extraordinary recovery rebounding to record heights by the Fall of 2020. The market turmoil likely led many major donors to defer large gifts, but the quick market recovery enabled institutions to sustain endowment distributions. As noted above, institutions will, however, face lingering budgetary challenges as they emerge from the crisis and a market correction remains a possibility as the pandemic continues to disrupt economic activity around the world.

The American Council on Education estimated that the pandemic cost higher education $120 billion in lost revenue and new expenses incurred during 2020. The National Student Clearinghouse Research Center reported 560,000 fewer undergraduates enrolled in the fall of 2020 compared to the previous year. The Bureau of Labor Statistics estimated that colleges and universities had reduced their work force by 13% during 2020. At present, the long-term impact of the crisis on fundraising remains unclear, but philanthropic support and endowment funds will clearly be of critical importance as institutions navigate forward.

While total philanthropic support received by U.S. colleges and universities largely held steady from 2019 to 2020, giving for endowment and other capital purposes declined. Participants in the CASE VSE, the authoritative source of data on giving to U.S. colleges and universities, reported a small 2.6% decline in gift funds received from 2019-2020. Unlike the VSE, which focuses on philanthropic funds received by institutions, the CASE-Ross Survey of giving to U.K. institutions and the CASE-CCAE survey of giving to Canadian colleges and universities also capture data on new gift commitments and pledges. In keeping with VSE findings, funds received by CASE-Ross and CASE-CCAE respondents were largely unchanged. In contrast, new funds secured, which includes the value of pledges and other commitments at their value for up to 5 years, declined by 20%. The decline in new funds secured in 2020 may signal a decline in funds received in 2021.

Aggregate, year-over year changes, are, however, of limited value in understanding the ramifications of a crisis like the Covid-19 Pandemic. To understand the potential long-term impact of the crisis on college and university fundraising and endowments, CASE conducted an analysis of higher education fundraising following the 2008 financial crisis, examining a sample of 631 institutions that submitted data to the VSE every year from 2008 to 2019 and calculating how many years it took

Percent of Institutions that Met or Exceeded 2008 Levels of Philanthropic Support 3 and 10 Years After the 2008 Financial Crisis (% of Institutions Recovered)



A significant number of institutions had still not matched 2008 levels of philanthropic support 10 years later.

institutions' fundraising to recover to what was, for many, an historic high-water mark for fundraising in 2008. From 2008 to 2009, giving to colleges and universities declined by over 11% after four years in which fundraising had grown by 5% or more annually.

Recovery times varied by institution type. Research and doctoral institutions recovered to 2008 levels in an average of four years. Masters and liberal arts institutions took an average of five or six years to recover. Recovery times also varied widely among institutions of the same classification. While over half of public doctoral institutions met or exceeded 2008 levels of support in just two years, almost 20% of public doctoral institutions took six or more years to recover. Similar disparities in recovery rates are apparent for all classifications of institutions. A significant number of institutions, between six and 18% depending on classification, had still not matched 2008 levels of philanthropic support ten years later.

Endowment giving, a primary driver of endowment growth, was slower to recover than current use giving. While giving for current operations recovered in three years or less for all institution types except community colleges, giving for endowment took an average of six years to recover. For 11% or more of institutions in all categories, endowment giving did not rebound to 2008 levels for a decade or more.

This has important implications for the way institutions manage endowment spending during and following market crashes. Severe market events reduce the value of endowment portfolios and simultaneously depress giving. While both investment returns and new gift flows contribute to endowment growth, the importance of new giving is often under appreciated. It is also a factor that institutions can, to a degree, control. Institutions cannot influence markets, but they can increase fundraising activity. Institutions may be tempted to prioritize current use giving during periods of financial stress, but a sustained focus on endowment giving can help ensure that ongoing support for such critical purposes as student financial aid and faculty salaries is maintained or even grows on an ongoing basis.

Institutions cannot influence markets, but they can increase fundraising activity.

Impacts of the 2008 Financial Crisis on Fundraising and Endowments: Ten-Year Trend Data on Sources of Support to U.S. Colleges and Universities

This interactive HTML document presents adjustable charts and associated source data detailing how long it took different types of colleges and universities to regrow fundraising to the historically high levels of 2008 in the wake of the financial crisis. The document also details differences in recovery times for different different categories of philanthropic support. For best results open the link using Chrome or Firefox browsers.

https://www.case.org/system/files/media/file/Impacts%20of%202008%20on%20Fundraising%20and%20Endowments.html

Staffing Continuity and Fundraising Resilience

To understand the factors impacting fundraising resilience, CASE surveyed a group of 26 long-serving CAOs who had been at their institutions during the 2008 crisis and whose institutions had recovered significantly faster than the overall average for VSE participants on a variety of fundraising outcomes in the decade following the 2008 financial crisis. The resilient institutions surveyed were not all well-resourced. A quarter of them characterized their budgets and staffing as "insufficient" prior to the 2008 crisis, but all but one institution maintained or increased staffing and budgets in the wake of the crisis; staff continuity was the most commonly cited factor contributing to resilience.

> Retaining fundraising staff may be politically difficult, but sustaining investment makes sound financial sense.

Retaining fundraising staff may be politically difficult when other institutional positions and instructional budgets are being cut, but sustaining investment makes sound financial sense. A separate analysis of VSE data from over 100 institutions found an average return on investment in fundraising of 942.9% for 2018. This translates into a cost-per-dollar-raised ranging from four cents for specialized institutions to just over 20 cents per dollar for master's institutions. Not surprisingly, there is a strong correlation between fundraising investment and outcomes. Data from a group of 30 institutions over a period of nine years demonstrated that virtually all investment in fundraising yields a positive return and higher investment yields higher returns. The data also suggest that returns on investment grow over time. For the 30 institutions that submitted year-over-year data, fundraising grew by 17.8% (adjusted for inflation) over the nine years from 2010 to 2018. During that same period their fundraising production grew by 56.7 % (adjusted for inflation).

> Staff continuity is of particular importance in sustaining major gift and endowment fundraising.

See: ***Advancement Investment and Fundraising Results: A Nine-Year Study of 30 Higher Educations Institutions in the United States***.

There is keen competition for fundraising talent. It takes new development officers months or years to reach full productivity, so staff retention is critical to sustaining fundraising performance. While sustaining investment and staff size is critical (overall staffing costs account for about 75% of fundraising costs), *staff continuity* is of particular importance in sustaining major gift and endowment fundraising, which account for the vast majority of individual philanthropic support for colleges and universities.

Layoffs and even turnover in development officers disrupt relationships with donors and can lead to reduced or deferred giving at precisely the moment when institutions are most in need of private support. As noted above, donors are often very responsive to appeals for supplemental gifts to sustain endowment spending when fund values plunge, but continuity of staffing is required for such stewardship. Making the investment necessary to retain development officers likely compounds the already high return on fundraising investment.

Unlike previous financial or market crises, the Covid pandemic led to fundamental changes in the ways institutions engage with alumni, donors, and other constituents. The forced transition from in-person to online events had the benefit of enabling institutions to engage with large numbers of alumni who were geographically remote from campus and others who had not previously participated in events. Sustaining and deepening these new relationships represents both a challenge and an opportunity. Institutions that invest the resources to manage and cultivate relationships with newly engaged alumni will, in time grow their prospect pipeline and alumni giving. Institutions that curtail spending on advancement services and alumni relations will likely fail to realize the benefits associated with growing and diversifying their population of engaged alumni.

Stewardship of Endowments

An endowment gift, intended to provide support for a designated purpose in perpetuity, is a profound affirmation of faith in the recipient institution, signaling the donor's confidence in the institution's ability to fulfill its mission for centuries to come as well as its ability to manage and grow endowed funds. Stewardship of endowment funds and donors starts with solid investment and spending policies.

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For a comprehensive overview of endowment management practices for governing boards see: ***Endowment Management for Higher Education*** (AGB 2017).

BOARD POLICY ON SPENDING OF UNDERWATER ENDOWMENTS

The Uniform Prudent Management of Institutional Funds Act (UPMIFA) is a unform act providing guidance for non-profits on the investment of endowments and endowment expenditures. Some variant of UPMIFA is law in every state except Pennsylvania. UPMIFA affords institutions flexibility in determining when to suspend distributions from endowment accounts that have fallen underwater, outlining a prudence standard for boards but not stipulating that a specific amount of endowment funds be set aside as inviolate principal. Honoring donor intent is at the heart of UPMIFA and individual gift agreements are the ultimate authority on spending from individual funds. When making decisions regarding the accumulation or spending of endowment funds UPMIFA requires that boards consider the following factors:

1. The duration and preservation of the endowment fund;
2. The purposes of the institution and the endowment fund;
3. General economic conditions;
4. The possible effect of inflation or deflation;
5. The expected total return from income and the appreciation of investments;
6. Other resources of the institution; and
7. The investment policy of the institution.

These factors comprise a profoundly complex equation. Scenario modeling and analysis provided by investment consultants or institutional investment offices are necessary to understand the long-term implications of endowment spending on future value and purchasing power. While UPMIFA statues vary from state to state, some do include a rebuttable presumption of imprudence for spending over a specified percentage of fund values. It should also be noted that UPMIFA's provisions on spending are only applicable to funds for which the donor has not stipulated a preference regarding spending; if a donor agreement directs that distributions be made regardless of the current value of the fund or suspend all distributions when the fund is underwater, the institution must honor those preferences.

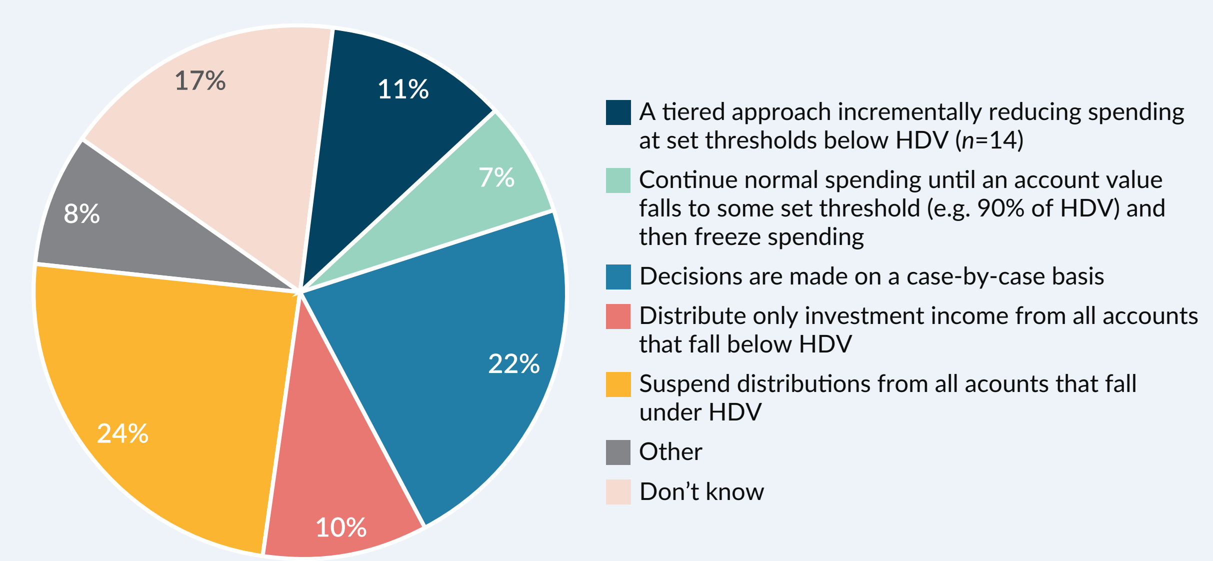
As with a general endowment spending policy, a board policy addressing spending from underwater endowment funds can help ensure that spending decisions are not unduly influenced by short term pressures to distribute funds that may have long-term consequences for fund values. Policy approaches may include the following provisions for spending from underwater funds:

- Discontinuation of all distributions,
- Distribution of only interest and dividends,
- Continuation of normal distributions until funds fall to some threshold below HDV (e.g., 90% below the value at which the fund was created),
- A calibrated approach in which distributions are reduced by incremental amounts at various thresholds below HDV.

Policies may also allow for different spending practices based on account purposes (e.g., continuing distributions supporting currently enrolled students but discontinuing endowed scholarships for an upcoming year that have yet to be awarded) or determining spending practices on a case-by-case basis in light of the seven factors outlined above.

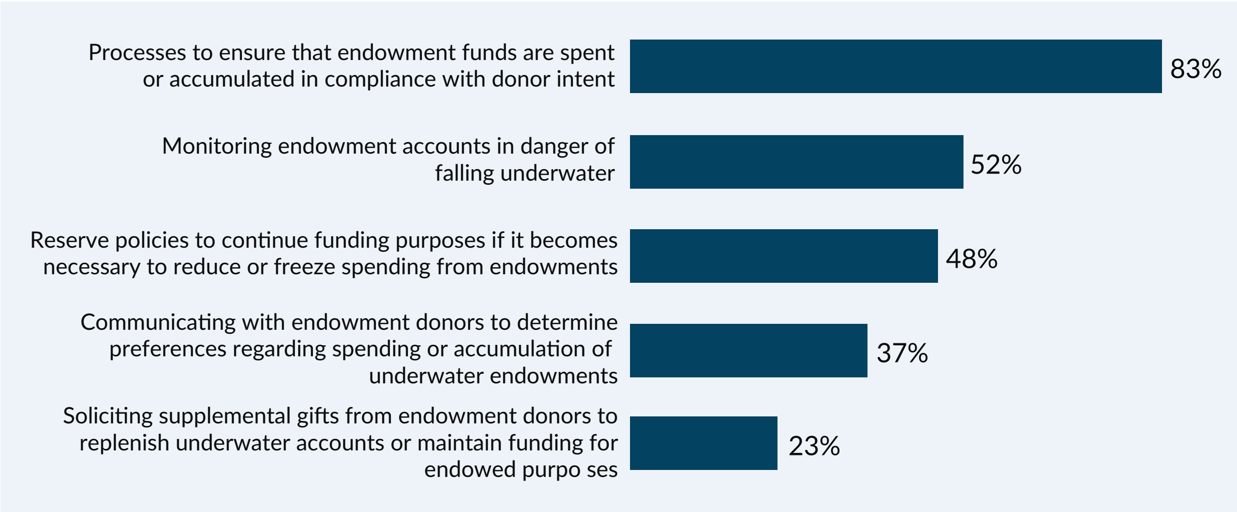
Respondents to the June 2020 survey of chief advancement officers found a wide spectrum of approaches. Worryingly, 17% of CAOs did not know about board policies for spending from underwater funds. Also of concern is the proportion of institutions (22%) making decisions on a case-by-case basis. One of the benefits of a prescriptive policy is it that it helps boards stay the course in challenging times. While some extraordinary funds may require individual board attention, few boards have the time to make case-by-case spending decisions for hundreds or thousands of individual endowment accounts.

Board Policies Regulating Spending from Underwater Endowments



Survey of CAOs *n*=126

Endowment Management and Stewardship Practices (% of Boards Members Reporting Practices)



OTHER FIDUCIARY PRACTICES

The CASE-AGB survey of boards also identified some troubling gaps in stewardships of endowment funds. Almost half did not monitor accounts in danger of falling below HDV, two thirds did not communicate with donors to determine their preferences regarding spending from underwater funds (this may be the result of prior reviews of gift instruments and consistency in addressing donor preferences in gift agreements), and, most worryingly, 17% reported that they did not have processes in place to ensure that endowment funds are spent or accumulated in compliance with donor intent. Beyond setting and adhering to endowment investment and spending policies, boards, to effectively steward and grow endowment should ensure that:

- All legacy endowment agreements have been reviewed to determine donor intent regarding spending from underwater endowments;
- A process exists to monitor individual endowment fund values relative to historic dollar value and report a high-level summary of this information to the board on a regular basis;
- Investment officers employ scenario modeling or similar techniques to understand and predict the potential impact of spending practices and adverse market events;
- Policies and practices are in place to ensure that endowed and other restricted funds are used strictly in compliance with donor intent and expended in a timely fashion. This might include audits of endowed funds and requirements that balances of expendable endowment funds be monitored and reported to the board;
- The institution sustains investment in institutional advancement functions.

Multiple studies have demonstrated that new gift flows, rather than investment returns alone, have a critical impact on long-term endowment growth. If growing endowment is critical to the long-term financial health of the institution, board support of and investment in advancement is necessary to achieve that objective.

In addition to their fiduciary duties, board members should also embody and champion institutional values. Their personal philanthropy sets an example for other alumni and friends and their support of and advocacy for institutional fundraising initiatives is critical in building a robust institutional culture of philanthropy.

Advancement Leaders' Role in Endowment Stewardship

Sound fiduciary oversight is only one facet of effective endowment stewardship. Education of stakeholders with the institution, development staff, and volunteer leaders and engagement and communication with donors are also necessary for effective stewardship. Advancement leaders should:

- Make sure they are familiar with their institution's endowment management and spending policies and be prepared to inform prospective donors about how their gifts will be managed and stewarded;
- Educate development officers about institutional policies related to the management and spending of endowments;
- Work with other administrators to ensure that endowment funds are expended in a timely fashion and in accordance with donor intent;
- Make sure gift agreements reference applicable spending policies and, when appropriate, document donor preferences regarding spending of underwater funds and possible alternate uses;
- Provide donors with periodic reports on investment performance and use of distributed funds;
- Engage with donors of funds likely to fall underwater to understand their preferences regarding continued spending and present donors with opportunities to make supplemental gifts to maintain fund values while continuing support for endowed purposes;
- Work with donors and institutional colleagues to identify alternate uses for endowed funds for purposes that have become impossible, impracticable, or illegal to fulfill (e.g., scholarships for students in a discontinued program).

Questions Boards Should Be Asking

- Can we confidently affirm that endowed funds are only expended in ways that fully comply with donor intent and that expendable funds are not allowed to accumulate unspent?
- Have we conducted stress tests and scenario modeling to understand the impact of investment policies and spending practices on the long-term purchasing power of the endowment?
- Do we have a formal policy addressing spending from underwater endowments?
- Do we receive periodic updates on underwater funds?
- Does our institution make appropriate investments in fundraising?
- Do all board members provide philanthropic leadership as donors, by helping institution leaders identify and engage prospective supporters, and by serving as advocates for philanthropic support of the institution?

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