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News

Whose Money Is It, Anyway?

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To the average faculty member, the life of an endowed chair or director of an endowed program must seem wonderful. Shielded from the somewhat turbulent world of university finances, those professors seem to have a constant stream of revenue for their own intellectual pursuits.

But Dartmouth College is siphoning more funds out of those streams to irrigate thirsty areas in the rest of the university.

To help patch a $100 million budget gap, administrators increased the percentage they take from some endowment returns to help pay for administrative costs, a move that has angered some faculty members who have raised questions about the ethics of the move and the lack of information provided to faculty members.

Because of the policy shift, about $2 million that would have previously gone to endowment recipients will now go to the administrative unit that oversees each recipient. The College of Arts and Sciences will receive an additional $250,000, for example, based on the endowment returns of its endowed chairs and programs.

The change is part of a comprehensive plan that included budget cuts in areas such as administrative and programming support, benefits, and compensation. Faculty members have been vocal in demanding more information from administrators about how the cuts were made, and especially regarding the endowment levy; they say they weren't clearly notified of the change.

"People are troubled by the ethical questions that it raises," said Ronald M. Green, a professor in the religion department with an endowed chair and one of the prominent critics. "Can central administration take money that was directed for a specific program or departmental purpose?" Many donors who thought that about 85 percent of their gift money was going straight to whatever areas they supported now have no choice but to see more of the funds shifted to administrative costs.

The discussion at Dartmouth draws attention to a part of fund-raising and endowment management that is often overlooked, particularly at universities that are very dependent on endowment revenue: who pays for everything that's not as exciting as a new faculty chair or fellowship program. Such programs can actually be a drain on universities if they don't have the resources to maintain associated costs.

Since 1999, the university has redirected 14.29 percent of the payouts for endowed programs that don't explicitly bar such action to the administrative unit to cover what it calls "associated program costs." These costs can include things like electricity, facilities, and IT. Administrators liken the levy to the component of federal grants directed for overhead costs, which range in percentage but can often be as high as 50 percent of a grant. They argue that the percentage that is taken from the endowment returns for administrative costs still goes toward the goals of the gift, just in a different form, and that the money still doesn't cover the associated costs and must be supplemented by other revenue sources.

In determining how to patch the budget gap, administrators decided to raise that rate to 19.1 percent, effective July 1.

Two factors caused the almost $100-million budget hole at Dartmouth. The first was a drop in endowment returns -- a large component of Dartmouth's revenue -- caused by the stock market decline. The second was that the university had increased its endowment payouts in the period leading up to the recession and had to lower that payout rate once the market dipped.

So faculty members who already saw endowment returns drop because of the stock market or because of the decision to decrease payouts will now see more taken out of the returns for associated costs.

The decision to up the percentage directed toward administrative costs was made after examining how best to cover costs associated with endowments and exploring how peer institutions cover such costs, said Carrie Pelzel, senior vice president for advancement at Dartmouth. Notes to administrators' May 23 presentation about the budget to the Arts and Sciences faculty say that tactics used by other universities "include charging fees ranging from 8 percent to 12 percent on gifts as they are received, which Dartmouth does not do; levying an administrative charge at endowment distribution, ranging from 20 percent to 25 percent, which is comparable to Dartmouth's associated program cost rate; and charging other administrative fees, including development, which Dartmouth does not do."

"There are schools whose rate is higher, and some whose rate is lower," Pelzel said, but she would not say which universities fell into those categories.

Green said he would be more comfortable with the change if he knew that it put Dartmouth in line with other universities in the Ivy League, including the rate as well as how donors are notified. The university notifies donors when they make a gift that some of the money goes to associated program costs. Administrators are working on a plan to tell donors about the change.

Practices at other institutions vary. A spokeswoman for Cornell University said the university had no fees attached to its gifts and does not earmark any for administrative costs. A spokesman for Columbia University said "the university directs a percentage of gifts to help its schools recover a portion to support their administrative and central costs. While the rates vary somewhat, they generally do not exceed 10 percent." For non-endowed gifts, these fees are charged as the money is paid out. For endowed donations, the fees are charged as the income generated from the endowment is used. Harvard officials declined to comment on the university's policies.

The practice of directing gifts or endowment returns to pay for costs not directly proscribed by the donor is common, and most colleges and universities explain and spell out that component of the gift, said Rae Goldsmith of the Council for Advancement and Support of Education. Sometimes this money goes to supporting fund-raising efforts, and other times it goes toward administrative or overhead costs.

But because colleges and universities have widely differing practices on using fund-raising money for overhead or other administrative costs; because private colleges and universities are not obligated to report to the public what their policies are; and because public university fund-raising is often conducted by private foundations, it is hard to place where Dartmouth's change puts it on the spectrum.

CASE says it is common practice for colleges and universities, particularly public university foundations, to use a portion of initial gifts to pay for fund-raising options. The rate tends to be around 5 percent. At the University of California at Berkeley, the university takes 2.5 percent of donor gifts and 10.5 percent of research gifts, unrestricted funds used to support the research of one or more faculty members.

"The college at that time wanted to choose an approach would direct as much of revenue as possible to the actual activity being supported by donor," Pelzel said. "In their judgment, this policy would achieve this end."

The California Institute of Technology directs 15 percent of endowment payouts to overhead costs, as well as taking 15 percent of unrestricted gifts.

At the May 23 meeting at Dartmouth, faculty members passed a resolution calling for more transparency about how the budget gap was closed, particularly with regard to the endowment levy. Administrators said they would comply with that request.

— Kevin Kiley

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