



**Louisiana Board of Regents
Support Fund Endowment Programs
Review**

**Conducted by
National Association of College and University
Business Officers Consulting
Stephen Hannabury and Ronald Maples, Consultants**

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Introduction

The National Association of College and University Business Officers (NACUBO) Consulting was engaged by the Louisiana Board of Regents Support Fund administrators to conduct a review of Regents' policies, processes, reporting, and analysis to recommend a sustainable management structure to ensure campuses are in compliance and meeting the goals of programs and the Fund. In addition, the consultants were asked to convene diverse groups of donors, chief academic officers, and foundation officers to determine issues and challenges with compliance and endowment use from campus/system perspectives and to make recommendations of training, support, and relationship management to assist Board staff in providing both training and individual day-to-day support to campuses in maintaining their endowment accounts.

The consultants assigned to the project are Ronald Maples, Treasurer (ret.), University of Tennessee, and Stephen Hannabury, Executive Vice President Emeritus, Olin College of Engineering. Consultant biographies are in Exhibit 1.

We would like to thank all the individuals that we met with for their time, opinions, and suggestions. Special thanks are extended to Deputy Commissioner Carrie Robison and Higher Education Auditor/Program Manager Christopher Mestayer. They provided invaluable information, insights, and support that greatly helped this project.

Executive summary

The Louisiana Board of Regents Support Fund Endowment Programs stand out among other similar state programs for the number of matched endowments and the level of funding that has been committed to the programs. By many measures, the programs have been very successful in helping institutions achieve the Support Fund goals of enhancing academic and research quality and contributing to Louisiana's economic development. It should also be noted that everyone that was interviewed expressed great gratitude to the Board of Regents for offering the Support Fund programs and reported very positive impacts of the endowments on the individual campuses.

Our key observations include:

- The Investment Policies of the Board of Regents Support Fund Program are well done and include most, if not all, endowment management best practices.
- With institutional reporting, the correct data is being requested and collected and in most cases the institutions are providing adequate information.
- In comparison to other state flagship universities, the Support Fund minimum funding levels for Endowed Chairs and Endowed Professors, inclusive of matching funds, is low, especially for Endowed Professors.

- There was frequent and strong praise for the program administrators. People mentioned the responsiveness, willingness to help explore different approaches, and general assistance provided by the team as a major reason why the programs run well.
- Underspending from the endowment funds is a significant and widespread problem. In addition, the scholarship programs, in particular the First-Generation and Two-Year Student Workforce programs, do not appear to be having the level of impact that is intended.
- The policies and guidelines for the Support Fund programs are complex and vary from program to program. When this is coupled with the large number of people involved in managing these programs at the foundation/institution level, the result is often a lack of clarity about proper procedures, available funding, and allowable expenditures.
- It is remarkable, and a testament to the two individuals associated with the Support Fund, that programs of this magnitude can be administered and monitored with so little staff support. Having stated that, it must also be pointed out that many tasks and potential program enhancements cannot be accomplished due to limited staff resources.

We have made several recommendations in this report that we believe would make the Support Fund programs more impactful and more efficiently administered. We have also proposed a mechanism to provide funding for recommended additional resources – both staffing and programmatic – that are necessary to properly administer the programs, provide the required stewardship of the state funds, and enable program enhancements.

NACUBO appreciates the opportunity to assist the Board of Regents and we hope that the observations and recommendations included in this report are helpful.

Project elements

Document review

The following documents are among those reviewed by the consultants to familiarize themselves with the Support Fund and its programs and to provide the basis for conversations with the various stakeholders.

- Endowment policies – The LA Board of Regents Investment Policy
- Program Policies – For the Endowed Chairs; Endowed Professorships; Superior Graduate Scholarships; Two-Year Workforce Scholarships; and First-Generation Scholarships.
- Program financial information and analyses – Including the FY22-23 Plan and Budget for the Support Fund; the P&N Process Assessment of Endowments, November 2021; and vacancy analyses for the Chairs, Professorships, and Scholarship programs.

- Agreed-Upon Procedures audits – From a representative sample of foundations and institutions.
- Reports – Including a sample of chair holder reports and reports from the external consultants that reviewed proposals for the competitive matching programs.

Best practices research

We were tasked with reviewing the Board of Regents Support Fund policies against best practices related to endowment management, use (academic support), tracking, and oversight.

- Endowment management – best practices in relation to endowment management include: a comprehensive investment policy statement; pooling or comingling gifts for investment purposes; asset allocation - including a diversified portfolio of assets and asset classes; defining an acceptable level of risk tolerance; investing to generate returns that maintain intergenerational equity; investment governing structure – including use of professional asset managers; measuring investment performance against industry benchmarks for each asset class; and written, communicated spending plans.¹
 - The Louisiana Board of Regents, Endowed Chair, Endowed Professorship, and Endowed Scholarship Programs, Statement of Investment Policy and Objectives (the LBoR Investment Policy) contains the above best practices. The policies for the individual endowment programs reference the LBoR Investment Policy and incorporate its elements. The policy requires compliance with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the national standard for endowment management. The policy allows each institution to hire professional asset managers and pool assets for investment purposes, as well as encourages a diverse portfolio of assets. The policy contains the goal of preserving the purchasing power of the Program Assets, or intergenerational equity. The policy’s objective is to average a total return at or above the level of spending and fees. The policy contains a diversified group of permissible investments as well as asset class restrictions that reflect the Board’s risk tolerance. The policy requires that investment performance be measured against standard benchmarks. The policy contains an annual spending plan to be administered by the institutions.
- Use (academic support) – best practices in relation to endowment proceeds use include: written, communicated spending plans; communication of available amounts for current-year budget planning or awards; and spending the endowment income for the restricted purposes for which the money was intended. (The stated goals being enhancement of academic and research quality in higher education and economic development.)

¹ National Association of College and University Business Officers, College and University Business Administration, Endowment Management, pages 3 – 13.

- The LBoR Investment Policy contains the attributes of the above best practices. The investment policy contains an annual spending plan to be administered by the institutions. Each institution is encouraged to communicate next year's available spending budget to the appropriate campus office. We found that the endowment income is used more efficiently by some institutions for some programs than others, as reflected in reported vacancies in endowed chairs, professorships, and scholarships.
- Tracking and oversight - best practices in relation to endowment tracking and oversight include: required annual reporting of endowment investing results and spending; regular audits of endowment investing results and spending; and Board of Regents and institutional board level review of investment results, regular review of policies, and regular review of asset allocation for rebalancing opportunities.
 - The LBoR Investment Policy contains the above best practices. Annual reports are required from institutions with definitions and instructions concerning the current status of the chair, professorship or scholarship; investment performance and monitoring objectives; spending allowed for the current fiscal year; portfolio compensation/asset allocation; and annual donor and endowment holder reporting. LBoR requires that each institution provide an annual Agreed-Upon Procedures audit of their state-matched endowments. The LBoR and institutions at least annually review investment results and asset allocation, and a regular review of policy is performed.
- We conclude that the Investment Policies of the Board of Regents Support Fund Program are well done and include most, if not all, endowment management best practices.

Program Policies

We reviewed the policies for all the individual endowment programs.

- They are comprehensive and include background and historical information; eligibility requirements; processes and limitations for allocating matching funds; expectations of appointees/awardees; reporting requirements; processes for requesting exceptions and modifications; and other program policies and procedures. It is clear that the policies have evolved and been updated over time as program resources and related matters have changed.
- We found the policies to be well done and complete.
- In our review, we identified strengths and some potential concerns and recommendations. During the interviews, we heard several other strengths, concerns, and recommendations. Those that we deemed significant are included in subsequent sections of this report.

Matching programs in other states

In addition to the above investment best practices, we reviewed ten other states' endowment matching programs.

- Since the late 1990s, many states have participated in endowment matching programs. A 2007 Commonfund article² quoted a 2002 Association of Governing Boards of Universities and Colleges (AGB) study that reported 24 states had matching endowment programs. These programs significantly increased the amount of private funds invested in each state for higher education. Most of these programs were focused on chairs, professorships, and scholarships.
- For the purposes of this review, we looked at ten other states besides Louisiana that provided endowment matches. The results of this review are included in Exhibit 2. While many states continue to manage and review their endowment matching program endowments, of this group, Louisiana is one of only three states that continues to fund new matching programs. All of these programs require some kind of annual reporting. Some of these funds are managed by the state, and some matching monies are given to the institutions to manage. Most state endowment matching programs were stopped after the great recession and subsequent defunding of state higher education. Of this group, only Louisiana allows matching for private universities.

Review of reporting

We were tasked with reviewing the Board of Regents Support Fund reporting categories and definitions to ensure the correct data are being collected to measure compliance, quality, and impact of state investments, and to review campus-submitted data for gaps in reporting and lack of alignment with program goals (vacancies, expendable funds, actual expenditures, use of dollars).

Annual reporting

The Louisiana Board of Regents Endowed Chairs, Endowed Professorships, and Endowed Scholarships Programs provide detailed definitions and instructions for completing the annual reports in the LBoR endowment reporting system. The LBoR requires annual reports by institution including: general information about the chair, professorship, or scholarship; current status of the chair (vacant or filled), professorship (vacant or filled), or scholarship (vacant or filled); investment performance and monitoring objectives; spending allowed for the current fiscal year; actual spending for the previous year; portfolio composition/asset allocation; and annual donor and endowment holder reporting. Also, LBoR requires each institution to provide an annual Agreed-Upon Procedures audit of their state matched endowments.

² Rogers and Strehle, "Strategies for Increasing Endowment Giving at Colleges and Universities", Commonfund Institute, September 2007.

The LBoR's current annual reporting definition and instructions is a separate document, and it is very prescriptive and appears to contain most, if not all, of the information needed to monitor the endowment programs. Twelve sample reports were provided to the consultants from a range of all endowment programs and types of institutions. These reports were reviewed to ensure conformity with the instructions and for completeness. Much of the annual report information is prepopulated by the LBoR, which makes reporting easier for the schools. We did not detect any lack of understanding concerning the completion of the reports, although we were told that sometimes new instructions and requirements were ignored the first year or two of implementation. Also, we were told that sometimes the report doesn't indicate that the annual funds were spent, but in interviews, the schools were sure all the money was spent. No schools refuse to submit reports although LBoR doesn't really have a penalty if they do not. All the information collected is used by LBoR for monitoring purposes. The most common errors noted were: donor contact information was not included; vacancy information was not always updated; student names were included; and market value of the endowment was left blank. We conclude that the correct data is being requested/collected and that in most cases the institutions are providing adequate information.

Agreed-Upon Procedures audits

The LBoR provides general instructions and requirements for the annual, required Agreed-Upon Procedures (AUP) audits in the Endowed Chair, Endowed Professorship, and Endowed Scholarship Programs Statement of Investment Policy. The reporting requirements are included in section H of the policy, although other compliance requirements are detailed earlier in the document. There is not a separate document of instructions for the AUP audits. Section H of the investment policy contains six representations and certifications that the external auditors should certify. In addition, there are implied certifications that should be audited that are included earlier in the policy document. Fourteen sample AUP audit reports were provided to the consultants from a range of institutions. These reports were reviewed to ensure conformity with the instructions and for completeness. The reports largely focus on investment policy provisions while little attention is provided to programmatic provisions. The reports were inconsistent with a varying number of certifications and formats. While Section H of the investment policy lists six required certifications, the sample audits contained a range of 4, 5, 6, 10, 11, 15, and 17 certifications. Some of the reports included a listing of the institution's matched endowments, some of the reports included the number of matched endowments, some reports included copies of the annual reports of the institution's matched endowments and some reports included financial information as opposed to a "yes" indicating that the institution was compliant. At least two of the reports appeared to be non-compliant with the instructions and several reports contained exceptions. No schools refuse to submit audits although LBoR does not really have a penalty if they do not. All the audits collected are used by LBoR for monitoring purposes. Staff of LBoR currently do not follow up on non-compliant reports or reports with exceptions. There is no current reporting of annual AUP audit results to the LBoR Board.

Endowed funds benchmarking

We conducted a benchmarking study of endowed funds.

- The thirteen other flagship universities of the Southeastern Conference were used as comparative institutions, and data was collected from the various university and foundation websites. We realize this comparative data may not be applicable to all of the Louisiana institutions that benefit from the Support Fund, but the results do provide one view of how the Support Fund programs align with those of peer universities.
- The results of this study are in Exhibit 3 and show the following comparisons:
 - Endowed Chairs – The BoRSF minimum funding of \$1,000,000 is low compared to many peer institutions. Nine institutions for which data were available have minimum levels higher than \$1,000,000, with many at \$1,500,000 or \$2,000,000.
 - Endowed Professors – The BoRSF minimum funding of \$100,000 is very low compared to peers. In fact, only two institutions have the same or lower levels, and most are significantly higher, with many at \$500,000 or \$1,000,000.
 - Endowed Graduate Scholarships – The BoRSF minimum funding of \$100,000 was compared to peer data for Graduate Fellowships. Results show many institutions at the same \$100,000 level and several others at higher levels.
 - Other Endowed Scholarships – The BoRSF minimum funding of \$100,000 for First-Generation is quite high compared to peers, with most for which data could be found at a \$25,000 minimum level. The BoRSF Workforce Scholarships levels compare more favorably with peer levels.

Interviews and meetings

The LBoR staff arranged interviews with representatives of various constituencies and institutions. The following sessions were conducted during which the consultants interviewed the participants and solicited their opinions and suggestions.

- Academic Officers – two sessions, four total participants from:
 - Bossier Parish Community College
 - Grambling State University
 - Louisiana State University
 - Louisiana Tech University
- Development Officers – two sessions, fourteen total participants, including multiple from some:
 - Bossier Parish Community College Foundation
 - Louisiana State University Foundation
 - Louisiana State University Health Foundation New Orleans
 - Louisiana Tech University Foundation
 - South Louisiana Community College Foundation

- Southern University Shreveport
- Tulane University
- University of New Orleans Foundation

- Financial Aid Officers – one session, four total participants from:
 - Centenary College
 - Louisiana State University Health Foundation New Orleans
 - Tulane University
 - University of New Orleans

- Donors – three sessions, four total participants.

- Program administrators – two sessions, two participants at each.

Observations

Strengths

- The Support Fund endowment programs have had tremendous success, as seen from these representative results and success for the 1987 – 2021 period.³
 - \$436 million generated in non-State contributions for \$239 million in BoRSF matches
 - 318 Endowed Chairs for Eminent Scholars established at 25 campuses
 - 2,581 Endowed Professorships established at 40 campuses
 - 500 Undergraduate, Graduate, and Workforce Student Scholarships endowed at 36 campuses

- Most interviewees thought that the endowment programs were contributing to achieving the program goals of enhancing academic and research quality and contributing to Louisiana’s economic development. We received comments about how the programs have improved the quality of the faculty and the academic programs. There is less agreement about the success in contributing to Louisiana’s economic development, with a few comments about alumni becoming successful after leaving the State. There were also concerns voiced about meeting the goals, which are reported below.

- Matching funds are very important and successful in attracting donors. The “power of leveraging” was frequently mentioned by both donors and development officers.

- There is a tremendous prestige factor for faculty who receive Endowed Chairs and Endowed Professorships. We heard several stories of how being able to offer an Endowed Chair “sealed the deal” in recruiting a distinguished scholar and how offering a faculty

³ Source: FY2022-2023 Plan and Budget for the Expenditure of Revenues Available from the Board of Regents Support Fund with an Overview of Results Obtained, December 15, 2021.

member an Endowed Professorship helped in retaining them at their institution. We specifically asked if all the endowment programs were well known on campuses and the answer was a resounding yes for the Chairs and Professorships, with the scholarship programs less well known.

- The Endowed Superior Graduate Student Scholarships appear to be very important to enrolling top graduate students. While we did not hear of institutions that actively used the availability of these scholarships to recruit potential graduate students, we did hear that the awarding of the scholarships to admitted students helped with their decisions to enroll and certainly helps the departments support them.
- While interviewees were aware of the First-Generation and Workforce scholarships and agreed with the potential effectiveness of the scholarships, there was generally less knowledge of the actual results and effectiveness. However, several people spoke quite eloquently about the importance of these scholarships to the individuals and to the State. As with the Graduate Scholarships, we learned that the availability of the First-Generation and Workforce scholarships generally does not appear to be used in recruiting students. New students are awarded “general” scholarship funds after being admitted, and it is only after they have indicated that they will enroll that their financial aid award is repackaged, and the First-Generation or Workforce scholarships are awarded.
- There was frequent and strong praise for the program administrators. People mentioned the responsiveness, willingness to help explore different approaches, and general assistance provided by the team as a major reason why the programs run well.

Challenges

- We asked everyone we spoke with if the Support Fund endowments were helping their institutions achieve the goals of enhancing academic and research quality and contributing to Louisiana’s economic development. All answered yes to the academic quality and “I think so” to the economic development. What was interesting, but perhaps not surprising, is that the academic officers were able to provide specific stories of how an endowed chair, endowed professorship, or graduate scholarships helped their institutions improve. On the other hand, the development officers spoke more generally about improvements and focused more on donor relations. Nobody presented, nor did we ask for, specific quality metrics to demonstrate the improvements.
- There were several comments about the backlog in receiving matching funds and the “long waits” that some donors face before having their gifts matched. We also heard some frustration about the need for donors to give 100% of their gift prior to applying for a match, with no guarantee of when or even if they would receive a match. Further research and conversations provided information that the backlogs are primarily in the competitive programs with only a couple of institutions having backlogged requests in the other programs. We also learned that sometimes these backlogs are “self-imposed” by the

institutions who submit many more requests in a given year than the program can possibly fund.

Related to the backlog issue, we also heard that some of the smaller, less affluent institutions may not have donor bases that can make the required full gifts at one time and comments about how it could be beneficial if some accommodation could be made in these cases. Current policies do allow institutions to accumulate the private funding over time and in those programs where the institutions submit a priority list, they can move a gift that has accumulated over time to the top of their priority list once it has reached the minimum match level, if they so desire.

- Underspending from the endowment funds is a significant and widespread problem.

A review of 2018-19 data showed that of 309 endowed chairs, 62 (20%) were vacant and 22 of those (7%) had been vacant for two years or more. Many institutions had a significant number of their endowed chairs vacant. On the spending side, the overall state average was 3% of market value allocated during the year, below the required 4%. Many individual institutions were well below the 4% target; even if positions were vacant, the spending rate should be at 4% since the allocations for vacant chairs are still required to be made into spendable accounts for future use.

The data showed a slightly better situation for endowed professors. Of 2,495 endowed professors statewide, 228 (9%) were vacant and of those, 68 (3%) had been vacant for two or more years. Statewide spending was 4% although some institutions were below that level.

Perhaps the most surprising data concerned the three scholarship programs. Of 329 endowed scholarships, 116 (35%) were vacant. Statewide spending was at 3% for all three programs. The vacancy rates for the individual scholarship programs were: Endowed Graduate Scholarships, 39 of 105 vacant (38%), spending rate of 3%; Endowed Workforce Scholarships, 40 of 59 vacant (68%), spending rate of 0.42%; and Endowed First-Generation Scholarships, 47 of 183 vacant (26%), spending rate of 4%.⁴

It is remarkable that money is “being left on the table,” especially in times of reduced State support and student demographic and other challenges. We raised this topic with everyone to whom we spoke, and the answers varied based on the specific type of endowment.

For endowed chairs, we heard about how long it can take to identify and recruit the right candidate for a particular chair, frequently as long as two years. For the first generation and workforce scholarships, we heard that recipients may not be making satisfactory

⁴ It should be noted that a small number of institutions reported very high spending rates – as high as 26% for a single scholarship, so the quoted spending rates may not be entirely accurate.

academic progress and therefore lose the scholarship or even drop out of school altogether. We heard about some very well-thought-out processes for naming endowed professors, but like many things in academia, the processes can easily take most of an academic year to reach conclusion.

The academic officers we spoke with told us about how they are continually trying to get the endowed chairs and endowed professors to spend the money available to them. While this is not a “vacancy” problem, it does contribute to overall underspending from the endowments.

We asked the development officers who they worked with on their campuses in regards to the endowed funds. Most answered by saying they work with colleagues on the academic affairs teams. Not a single person said they were in contact with chief financial officers or budget directors. Only one person said they were in contact with their financial aid officers. Perhaps if these people were more involved in the process, the spending from the endowed funds would increase.

- Additional challenges related to endowed chairs were mentioned in the interviews. Among them were:
 - Available campus funds for base salary lines are often not sufficient to attract the type of eminent scholars that the Regents and the institutions would like to have on their campuses.
 - The level of endowed chair endowments, as low as \$1,000,000, may be insufficient to provide an adequate level of salary supplements and other support to attract high-quality candidates.
 - The need to conduct a national search was cited as an issue, especially when “the perfect candidate” was already on campus. When pushed on this, there was acknowledgment that the internal person could always be a candidate in the national search. It should also be noted that the Endowed Chairs policy allows an institution to appoint an internal candidate without a national search after receiving approval from the Board of Regents and the non-State donor.
 - Some of the existing endowed chairs are in disciplines/areas that are no longer relevant or needed by the institution. It was not clear that all interviewees knew that the Endowed Chairs policy allows institutions to request approval to restructure/refocus the purpose of the Endowed Chair.
 - Given operating budget constraints, institutions may choose to take the base salary line for a potential endowed chair and use those funds instead for two or three junior faculty positions.

- There is confusion about being able to use endowed chair funds for new faculty start-up costs with some complaining that the fund could not be used for start-up while others spoke about how great it is that the funds can be used for this purpose.
- Scholarships
 - The most significant concern we heard related to scholarships was about the work requirement for recipients of the First-Generation Scholarships. Interviewees expressed many concerns, including: there are often not enough student jobs on campus for First-Generation Scholarship recipients to find employment; many students, especially at the community college level, may already have jobs, often full-time jobs during the day before their evening classes; and students frequently have other valid reasons for being unable to take on another job, such as child care.
 - Based on the limited number of interviews conducted, it does not appear that the three scholarship programs are widely used in recruiting students. For example, having the admissions office inform potential applicants that scholarships for first-generation students are available might encourage them to apply. (It should be noted that we did not speak with any admission officers, so they may in fact be telling prospective students about the scholarships.)
 - Instead, it appears that the undergraduate scholarships are awarded late in the process after students have paid their admission deposits, when the financial aid offices go back to “repackage” students to utilize the restricted scholarship funds that are available.
 - Some of the financial aid officers that were interviewed had little knowledge of the scholarship programs. As mentioned previously, there does not appear to be much, if any, communication between the foundations and the financial aid offices, and presumably the admission offices.
- Reporting
 - We were told about discrepancies between reported spending and subsequent conversations between LBoR and the foundations and campuses. Reports are sometimes submitted showing zero spending from certain endowments yet when the foundation/campus is asked about it, they respond that they did spend the funds. This dichotomy may be a result of how many different people within a given foundation/campus are dealing with the various aspects of the programs – allocations, spending, reporting, etc.
 - Reviewed Agreed-Upon Procedures audits varied widely in levels of completeness and compliance with the policies.

- Program administration
 - The Support Fund program has been very successful and has experienced significant growth in the number of matched endowments. There are currently approximately 3,200 matched endowments with a total market value in excess of \$1 billion.
 - There are no dedicated staff to administer these programs. Two individuals are responsible for program administration as part of their overall responsibilities. They estimate that between the two of them, they provide between 0.35 FTE and 0.55 FTE of time to the Support Fund during the course of a year.
 - Annual funding for program administration is calculated by a mandated formula, which provides 3% of the preceding three years average program spending, not to exceed \$800,000. The calculated administration budget for FY2022-23 is \$589,003. This amount is to administer all activities of the Support Fund, not just the matched endowment programs. It should be noted that the costs of the external consultants for the competitive endowment match programs are in addition to this budgeted amount.
 - Our understanding is that Support Fund expenditures have been declining in recent years, which has led to a corresponding decrease in program administration funding.
- Miscellaneous Challenges
 - Interviewees mentioned the “haves and have-nots” regarding some larger, more affluent institutions receiving a disproportionate share of the matching funds due to larger donor bases, larger faculty and student bodies, program policies, and better infrastructure to apply for and administer the endowments. One person summed it up by saying, “The rich get richer.” Interviewees from smaller, less affluent institutions asked if the Support Fund could modify some of the policies to make it easier for their institutions to receive matched endowments.
 - While not necessarily a Board of Regents issue, we also heard about “haves and have-nots” on individual campuses. The endowed chairs and endowed professorships are very prestigious, and, in some cases, there is some jealousy from faculty who don’t have endowed professorships. We also heard stories of deans and department chairs who are envious of the level of funding that some endowed chairs and professors have from their endowments versus the sometimes-meager amounts of college or departmental discretionary funds.
 - The foundation representatives acknowledged that the Support Fund program provides adequate information about the various endowments, but they themselves need to do a better job of educating and informing their campus colleagues about the programs.

Recommendations

General program recommendations

While not specifically part of our scope of work, we want to offer some general recommendations concerning the programs that are based on our observations and comparative data. The Support Fund endowment programs have been very successful throughout the years and are well received by the institutions. However, it may be time to reassess the programs and to make changes that would result in greater impacts and benefits from the matched endowments. Please note that the following recommendations are suggested for new endowed funds only.

- Endowed Chairs for Eminent Scholars
 - We recommend an increase in the minimum level to create a new Endowed Chair to at least \$1.5 million, inclusive of the match. The larger endowments and increased allocations from them would allow institutions to offer more competitive packages to prospective endowed chairs and would provide the chair holders with additional resources, ideally leading to more impactful results.

- Endowed Professorships
 - We recommend that consideration is given to suspending the current program and introducing a replacement program(s) that would make better use of the State matching funds and would ideally yield more impactful results. This recommendation is made for two primary reasons: the very low dollar amount required to establish an Endowed Professorship provides too little in annual allocations to make a substantive difference in the work of the professors and the policy of essentially every institution being guaranteed to receive these small endowment matches dilutes the potential impact of the State funding.

 - We would encourage the Regents to instead consider alternative programs, such as:
 - An Endowed Distinguished Professorship that would be established at a higher minimum funding level, for example at \$500,000 to \$750,000, inclusive of matches. The professorships would have more prestige and provide additional annual funding to support faculty activities.
 - School/College and Departmental Endowed Funds. Higher education is moving more and more in the direction of interdisciplinary collaborative work, but the current Endowed Professorships continue to mostly support the work of “individual contributors.” These new School/College and Departmental endowed funds would be managed by the deans and department chairs and could have policies requiring spending on collaborative activities, ideally across disciplines. The new funds could also be used to support improvements to the academic programs through activities such as curricular redesign, course development, development of new majors to address current needs, etc.

Within the scope of this engagement, we make the following recommendations.

Endowment matching

- Institute incremental tiers for gifts to new endowments and additional gifts to existing endowments that would be eligible to be matched. Change the requirements that funds added to endowments be in amounts that generate matches in indivisible increments equal to the minimum match. Instead, allow donors to add funds to an existing endowment and have the increment eligible for a match at the appropriate ratio. This change would allow donors to increase their gifts without having to double the size of the minimum donation level.
- If the Endowed Professorships program were to be suspended as recommended above, continue the First-Generation Scholarships program, perhaps to a smaller, targeted group of institutions.

Endowment spending

As stated earlier in this report, it is very surprising that the institutions are not spending from the Support Fund endowments at a higher rate than they are. While there are valid reasons for some of this underspending, most of the underspending is inexplicable. We recommend the following steps to increase spending.

- Restrict those institutions with high vacancy rates and/or low spending from applying for additional matches. Reduce the “cutoff” from two-year vacancy levels of 20% to 5% and institute a similar “cutoff” for spending whereby any institution that spends less than 3% on average over a two-year period becomes ineligible to apply for new matches. While these may be seen as punitive measures, the intent is to send the message that these funds must be spent. Additionally, the policy should allow for the Regents to make exceptions in special cases.
- Eliminate the work requirement for the First-Generation Scholarships. While the intent of this requirement is presumably to help the students obtain additional financial resources, the reality is that it may keep eligible, needy students from being eligible to receive or accept the scholarship.
- Provide institutions the option to request a waiver, in certain circumstances, to the annual allocation requirement from Endowed Chair and Endowed Professorship endowments when a position is vacant. We understand that the intent of the current policy is to encourage spending versus letting endowments grow. However, that may not make sense in all situations. For example, an institution may prefer to let an endowment grow, particularly a newer endowment that has not had time to accumulate earnings, to provide for larger annual allocations in the future. There may be other cases where the institution wants to take the annual allocations and accumulate the funds for a particular purpose, for example start-up funds for a new Endowed Chair.

- Launch a communications program to help educate campus and foundation faculty and staff about the availability of the programs and ways in which allocations from the endowments may be utilized. For example:
 - Provide examples and case studies of best practices to help educate endowed chairs and professors as to what types of spending are allowed.
 - Launch an effort, in conjunction with the Foundations, to educate undergraduate admission and financial aid officers about the First-Generation and Workforce scholarships and to improve communication among these units.
 - Educate campus chief financial officers and budget directors about the endowments to help them encourage/require spending. These individuals are in a position to “encourage” deans, department chairs, financial aid officers, and others to ensure they are appropriately using 100% of available restricted funding before spending unrestricted funds.
 - Funding to support this enhanced communication program is included in the recommended additional program resources below.

Reporting

- Annual report recommendations
 - Send the instructions and definitions to the reporting entity each year with the previous year’s most frequent reporting issues highlighted either on the instructions themselves or in the email transmitting the instructions. While this will require additional up-front work by LBoR staff, it should reduce the amount of back-and-forth required to correct reporting mistakes.
 - Work with the LBoR IT team to continue to improve the reporting system to prepopulate even more of the report and include some required fields that will not allow the report to be submitted without these fields being completed, like market value of the endowment. Also, ask that the system generate reports of areas of incomplete data and/or incorrect data to the extent that can be programmed.
- Agreed-Upon Procedures (AUP) audit recommendations
 - LBoR should consider moving away from requiring an AUP audit from every institution every year. Conducting the audits is a costly and time-consuming process, and the review process is also time-consuming. Consider allowing institutions who submit well-done AUP audits that show they are in compliance or have low risk profiles to shift to an every-other-year schedule for future AUP audits.
 - As mentioned in the recent P&N audit, LBoR staff should consider establishing standardized guidelines for institutions to follow when developing agreed-upon procedures reports. This could promote consistency across all institutions and allow

detailed and streamlined reporting requirements to aid in review and monitoring of compliance.

- This new/revised guidance document should be a stand-alone document and not part of the investment policy, but should be referenced in the investment policy.
- We recommend the following changes to the AUP audits:
 - A listing of the institution's endowments and copies of the campus annual reports should be excluded from the required reporting.
 - The current number of the institution's endowments should be included in the report.
 - Financial information should be included in the reports as opposed to a "yes" indication that the institution was compliant.
- LBoR staff should develop procedures for follow up of non-compliant reports as well as reports with exceptions.
- LBoR staff should develop some type of reporting summary of AUP audits for the Board of Regents.

Program administration

The endowment programs constitute a significant level of the Support Fund activity, with nearly 3,200 separate endowment funds and over \$1 billion in market value of those endowments. The fact that the programs run so well is a testament to the two Board of Regents employees who administer the funds, among their other duties. Based on conversations with these employees, it is estimated that collectively they devote approximately 1/3 to 1/2 of a full-time equivalent position to the endowment programs, over the course of a year. While the programs are running well, there are several tasks that are not being completed due to lack of staff resources. Additionally, efforts to help the programs have greater impact and compliance are not possible with the current staffing.

We support the Deputy Commissioner's plan to change two of her current staff positions to create an Endowment Programs Manager and a Competitive Grants Programs Manager. We would recommend that two support staff positions be created to support each of these areas – endowments and competitive grants, and that a full-time audit staff position be created to oversee all the required reporting and compliance matters. In addition, we recommend that funding be provided to enhance and support communications activities and systems technology tools. We estimate that the total annual cost for these recommended additions is \$320,000, as shown in Exhibit 4.

With the understanding that the Support Fund administrative budget is set by a statutory formula, we investigated other options to generate the funds to pay for the above additions. After looking at various options and models, we recommend that a management fee be imposed on Endowed Chair endowments, at institutions that have more than \$10,000,000 of corpus in Endowed Chair endowments. Exhibit 5 shows a possible implementation of a management fee using the Endowed Chair endowments, as of June 30, 2019. There are 11 institutions that have total Endowed Chair corpus of more than \$10,000,000. Applying a management fee of 7 basis points (0.07%) of the market value would result in total fees of \$374,000, more than sufficient to cover the recommended additions to the program budget. The statewide average fee on each impacted endowment would be very reasonable at approximately \$1,200.

The implementation of the management fee could follow this schedule:

| | |
|---|---|
| End of fiscal year | June 30 |
| Financial reports due to BoR | October 1 |
| Endowment values verified and fees calculated | By December 31 |
| Institutions notified | January |
| Fee must be paid by | June 30 for spending in following fiscal year |

Given that this schedule has a built-in one-year lag in initially having funds available for spending, perhaps the Regents could identify a one-time source of funds that could be used to fund the new positions and activities in the initial “lag year.” If necessary, the management fee amount could be increased to repay the Regents over the course of a few years.

Exhibit 1 – Consultant biographies

Stephen Hannabury

Steve Hannabury brings his expertise in operations and partnerships to NACUBO Consulting. He was the executive vice president at the Franklin W. Olin College of Engineering, which he joined in 1999 as a member of the founding leadership team. During his 21-year tenure at Olin, he was responsible for the development and implementation of all business, financial, human resource, information technology, and auxiliary services, the design and construction of the new campus, and general operational programs and activities.

During this time, Hannabury developed extensive experience in collaborative activities among institutions. He served on the board of directors of the Boston Consortium for Higher Education for 16 years, including 3 years as chairman. He is also the founding president and current board chair of both Educators Health LLC and Educators Health Insurance Exchange (a Vermont-licensed reciprocal insurance company). edHEALTH is a member-owned collaboration that provides employee health insurance, data analytics, and cutting-edge programs to its 25-member educational institutions and 31,000 employees and dependents in multiple states.

Prior to Olin, he was at Boston University for 15 years working with the enrollment services unit for half his tenure and as the assistant dean for administration and finance at the School of Management for the second half.

Hannabury chaired or participated in four NEASC/NECHE regional accreditation processes, two ABET programmatic accreditations, and has served as an accreditation visiting team member multiple times for NEASC/NECHE and WASC. He has provided consultation services to international university startups in Brazil, Vietnam, England, and Saudi Arabia. He was awarded the NACUBO Distinguished Business Officer Award in July 2017.

Hannabury earned a BS degree in civil engineering from Northeastern University and an MBA from Boston University.

Ronald Maples

Ron Maples brings his experience in accounting, cash management and investments, endowment, financial reporting, and IRIS administrative support functions to NACUBO Consulting. He also has experience in increasing student success and completion rates at the state level.

Maples served the University of Tennessee for over four decades, most recently as treasurer. During his tenure, he also served as assistant treasurer for the University of Tennessee's development foundation and research foundation, leading to an interim CFO appointment for one year. Maples was also a member of the UT-Battelle bid team that won the U.S. Department of Energy's contract to manage Oak Ridge National Laboratory, and he served as a member of the transition team in the University, assuming its role as lab co-manager.

Maples earned a BS in accounting from the UT Knoxville in 1974. He obtained the designations of certified public accountant in 1979 and certified internal auditor in 1982.

Exhibit 2 – Examples of states with endowment matching programs

Louisiana – Board of Regents Support Fund – Initiated in 1987, Creates endowed chairs, professorships, scholarship endowments at both public and private Louisiana universities. 60/40 match. Funds are held and invested by the universities. Requires annual reporting.

- Created 318 endowed chairs
- Created 2,581 endowed professorships
- Created 500 undergraduate, graduate, and workforce student scholarships

[Endowment Matching – LA Office of Sponsored Programs \(laregents.org\)](http://laregents.org)

Connecticut – Endowment Fund Matching Program – Created in 1995, created endowed professorships, scholarships, and programmatic enhancements. Later expanded to buildings. \$1/\$4 match. Funds are held and invested at the universities.

- Thru 2005 - \$73.7 M appropriated from state. Resulted in \$114 M match

[Endowment Fund Matching Program \(ct.gov\)](http://ct.gov)

Florida – State Matching Gift Programs – Created in 1985, created chairs, endowments to support most any academic purpose. \$1/\$2 match. Funds are held and invested at the universities.

<https://www.uff.ufl.edu/docview/?docid=1798>

Kentucky – Research Challenge Trust Fund – Initiated in 1997, Creates endowed chairs, professorships, fellowships, and mission support projects. 50/50 match. Funds are held and invested by the universities. Requires annual reporting. Requires in person every two-years reporting to Kentucky Council on Postsecondary Education.

Below is a University of Kentucky report.

- Created 98 endowed chairs (85 were filled in FY20-21)
- Created 217 endowed professorships (171 were filled in FY2-21)

[RCTF Endowment Match Program 2020-2021 Annual Report | University of Kentucky Research \(uky.edu\)](http://uky.edu)

Massachusetts – Public Higher Education Endowment Incentive Program – Created in 1996, created chairs, professorships, and scholarships. \$1/\$2 match. Funds are held and invested at the universities.

- Created over 70 endowed professorships and chairs

[BHE FAAP 08-02 Endowment Incentive Guidelines.doc \(mass.edu\)](http://mass.edu)

New Mexico – Higher Education endowment funds – Created in 2011, created endowments for any appropriate purpose. \$1/\$2 match. Funds are held and invested at the universities. Requires annual reporting to the state higher education system. Continue to award matches.

- Thru early March – 12 endowments were awarded in 2022

[FY22 Initial Endowment Awards.docx \(state.nm.us\)](#)

North Carolina – Distinguished Professors Endowment Trust Fund – Created in 1985, created distinguished professorships. \$1/\$2 match. In 2003, match changed to 1 for 1 for institutions deemed “focus growth or special needs”. Funds are held and invested at the universities. Requires annual reporting to the NC system.

- Thru 2011 - Created 437 endowed professorships

[DP Q&A 2011Final.doc \(northcarolina.edu\)](#)

South Carolina – Smart State Centers and Endowed Chairs – Created in 2002, created centers and chairs. \$1/\$1 match. Only institutions eligible are Clemson, Medical University of South Carolina, and University of South Carolina. Funds are held and invested at the universities. Requires annual reporting to the SmartState Program.

- Created 67 endowed professorships and 51 Smart Centers

[Introduction | South Carolina Centers of Economic Excellence Program \(smartstatesc.org\)](#)

Tennessee – Chairs of Excellence Trust – Authorized in 1984, created endowed chairs at state institutions. 50/50 match. Funds are held and invested at the state. Requires annual reporting.

- Created 100 endowed chairs

[Chairs of Excellence Trust \(tn.gov\)](#)

Texas – Texas Research Incentive Program – Created in 2009, created endowments to enhance emerging research universities for research productivity and faculty recruitment. Tiered match up to \$1/\$1 match. Eight institutions are eligible. Funds are held and invested at the universities. Reporting to state. Continuing to match.

- Thru 2021 - \$675 M appropriated from state.

[Texas Research Incentive Program \(TRIP\) \(utsa.edu\)](#)

Wyoming – State Matching Fund – Created in 2001, created endowments, academic facilities, and athletic facilities. \$1/\$1 match. Funds are held and invested at the universities.

- Thru 2019 - \$222 M appropriated from state. Resulted in \$208 M match

[uwf statereport 19 web.pdf \(uwyo.edu\)](#)

Exhibit 3 – Endowed funds benchmarking, Southeastern Conference schools⁵

Louisiana Board of Regents Support Fund (including matches)

- Endowed Faculty Chairs – Minimum of \$1,000,000
- Endowed Professorships – Minimum of \$100,000
- Endowed Graduate Scholarships – Minimum of \$100,000
- Endowed First Generation Scholarships – Minimum of \$100,000 for 4-year, \$50,000 for 2-year
- Endowed Workforce Scholarships – Minimum of \$20,000 or \$40,000 depending on job area

Auburn University

Matched Professorships

- Endowment funded at \$150,000 or more, university matches \$7,500 (2016)
- Endowment funded at \$75,000 to \$150,000, university matches \$3,750 (2016)

Mississippi State

- Endowed Faculty Chairs – Minimum of \$1,500,000
- Endowed Professorships – Minimum of \$500,000
- Endowed Graduate Fellowships – Minimum of \$250,000
- Endowed Scholarship – Minimum of \$25,000

Texas A&M

- Endowed Chair – Minimum of \$1,000,000
- Endowed Professorship – Most between \$300,000 and \$500,000
- Endowed Scholarship – Minimum of \$25,000

University of Alabama

- Endowed Chair – Minimum of \$1,500,000
- Endowed Professorship – Minimum of \$500,000
- Endowed Graduate Fellowship – Minimum of \$200,000
- Endowed Scholarship – Minimum of \$25,000

University of Arkansas

- Endowed Chair, full professor – Minimum of \$1,500,000
- Endowed Chair, University or Distinguished Professor – Minimum of \$2,000,000
- Endowed Faculty Fellowship – Minimum of \$500,000
- Endowed Graduate Fellowship – Minimum of \$150,000
- Endowed Scholarship – Minimum of \$25,000

⁵ Sources: University and Foundation websites

University of Florida

- Endowed Chair – Minimum of \$2,000,000
- Endowed Professorship – Minimum of \$1,000,000
- Endowed Graduate Fellowship – Minimum of \$350,000
- Endowed Scholarship – Minimum of \$100,000

University of Georgia

- Endowed Chair – Minimum of \$1,000,000
- Endowed Professorship – Minimum of \$250,000
- Endowed Graduate Fellowship – Minimum of \$250,000
- Endowed Scholarship – Minimum of \$25,000

University of Kentucky

- Endowed Chair – Minimum of \$2,000,000
- Endowed Professorship – Minimum of \$500,000
- Endowed Graduate Fellowship – Minimum of \$100,000
- Endowed Scholarship – Minimum of \$25,000

University of Mississippi

- Endowed Chair – Minimum of \$2,000,000
- Endowed Professorship – Minimum of \$1,000,000
- Endowed Scholarship – Minimum of \$25,000

University of Missouri

- Endowed Chair – Minimum of \$1,100,000
- Endowed Professorship – Minimum of \$550,000
- Endowed Scholarship – Minimum of \$50,000

University of South Carolina

- Endowed Chair – Minimum of \$1,500,000
- Endowed Professorship – Minimum of \$500,000
- Endowed Graduate Fellowship – Minimum of \$100,000
- Endowed Scholarship – Minimum of \$100,000

University of Tennessee

- Endowed Chair – Minimum of \$500,000
- Endowed Professorship – Minimum of \$100,000
- Endowed Graduate Fellowship – Minimum of \$50,000

Vanderbilt University

- Endowed Chair – Minimum of \$2,000,000
- Endowed Faculty Fellow (for junior faculty) – Minimum of \$1,000,000
- Endowed Graduate Fellowship – Minimum of \$100,000

Exhibit 4 – Recommended staff additions

Current

Carrie Robison, Deputy Commissioner for Sponsored Programs
 Chris Mestayer, Higher Education Auditor/Program Manager

Time commitment to Support Fund Endowments

| | |
|--------------|---------------|
| C. Robison: | .25 - .40 FTE |
| C. Mestayer: | .10 - .15 FTE |
| Total | .35 - .55 FTE |

Recommended Additions

| <u>Position</u> | <u>Incremental Funds Needed</u> |
|---|-------------------------------------|
| Endowment Program Manager | \$0 |
| Competitive Grants Manager | \$0 |
| Endowment Program Support Staff | \$70,000 |
| Grants Program Support Staff | \$70,000 |
| Audit Staff | \$80,000 |
| Communications enhancements and support | \$50,000 |
| Systems enhancements & support | \$50,000 |
| | <hr/> |
| Total | \$320,000 |

Exhibit 5 – Management fee analysis – endowed chairs ⁶

| Proposed fee: | | 0.07% of market value | | | |
|------------------------------------|-------------------|-------------------------------------|-------------------------|-----------------------|------------------------|
| on endowments greater than: | | \$10,000,000 of corpus value | | | |
| Campus | EC Matched | Corpus | Market Value | Management Fee | Avg. per Endow. |
| UL SYSTEM | 66 | \$74,413,289.47 | \$127,108,218.02 | \$68,973.24 | \$1,045.05 |
| GSU | 2 | \$2,000,000.00 | \$5,588,815.99 | \$0.00 | \$0.00 |
| LAT | 13 | \$14,000,000.00 | \$17,479,102.63 | \$12,235.37 | \$941.18 |
| McN | 0 | \$0.00 | \$0.00 | \$0.00 | |
| NIC | 2 | \$2,000,000.00 | \$2,499,560.15 | \$0.00 | \$0.00 |
| NSU | 3 | \$3,000,000.00 | \$4,474,796.00 | \$0.00 | \$0.00 |
| SELU | 1 | \$1,000,000.00 | \$2,107,053.69 | \$0.00 | \$0.00 |
| ULL* | 22 | \$26,413,289.47 | \$53,006,828.54 | \$37,104.78 | \$1,686.58 |
| ULM | 7 | \$7,000,000.00 | \$13,904,794.00 | \$0.00 | \$0.00 |
| UNO | 16 | \$19,000,000.00 | \$28,047,267.02 | \$19,633.09 | \$1,227.07 |
| LSU SYSTEM | 137 | \$160,936,559.72 | \$241,573,261.89 | \$159,635.36 | \$1,165.22 |
| LSU AG | 3 | \$3,000,000.00 | \$3,982,990.69 | \$0.00 | \$0.00 |
| LSUA | 3 | \$3,000,000.00 | \$3,468,386.68 | \$0.00 | \$0.00 |
| LSU A&M | 66 | \$82,550,625.72 | \$119,638,499.66 | \$83,746.95 | \$1,268.89 |
| LSUE | 0 | \$0.00 | \$0.00 | \$0.00 | |
| LSUHSCNO | 41 | \$45,248,593.00 | \$74,398,357.59 | \$52,078.85 | \$1,270.22 |
| LSUHSCS | 11 | \$13,105,997.00 | \$20,982,309.00 | \$14,687.62 | \$1,335.24 |
| LSUS | 4 | \$4,000,000.00 | \$6,071,374.27 | \$0.00 | \$0.00 |
| PBRC | 9 | \$10,031,344.00 | \$13,031,344.00 | \$9,121.94 | \$1,013.55 |
| LAICU SYSTEM | 103 | \$132,860,000.00 | \$231,628,991.21 | \$145,574.65 | \$1,413.35 |
| Centenary | 12 | \$13,200,000.00 | \$21,540,582.73 | \$15,078.41 | \$1,256.53 |
| Dillard | 4 | \$4,000,000.00 | \$8,583,591.19 | \$0.00 | \$0.00 |
| Fran U | 1 | \$1,000,000.00 | \$1,676,535.87 | \$0.00 | \$0.00 |
| LA College | 0 | \$0.00 | \$0.00 | \$0.00 | |
| LOYNO | 10 | \$10,400,000.00 | \$20,874,221.39 | \$14,611.95 | \$1,461.20 |
| St. Joseph | 0 | \$0.00 | \$0.00 | \$0.00 | |
| TUU | 36 | \$52,360,000.00 | \$90,277,596.00 | \$63,194.32 | \$1,755.40 |
| TUHSC | 33 | \$43,900,000.00 | \$75,271,383.00 | \$52,689.97 | \$1,596.67 |
| UHC | 1 | \$2,000,000.00 | \$2,803,862.27 | \$0.00 | \$0.00 |
| XULA | 6 | \$6,000,000.00 | \$10,601,218.76 | \$0.00 | \$0.00 |
| SU SYSTEM | 3 | \$3,000,000.00 | \$3,549,907.58 | \$0.00 | \$0.00 |
| SU A&M | 1 | \$1,000,000.00 | \$1,209,627.53 | \$0.00 | \$0.00 |
| SU Law | 0 | \$0.00 | \$0.00 | \$0.00 | |
| SUNO | 2 | \$2,000,000.00 | \$2,340,280.05 | \$0.00 | \$0.00 |
| SUS | 0 | \$0.00 | \$0.00 | \$0.00 | |
| STATEWIDE | 309 | \$371,209,849.19 | \$603,860,378.70 | \$374,183.24 | \$1,210.95 |

⁶ Data as of June 30, 2019