Committee on Academic Planning and Budget
Development Subcommittee
Sandra Weiss, RN, PhD, FAAN, Chair

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UCSF Development Office Infrastructure and Operations Fund
A Proposed Increase in Spending Fees for Gifts and Endowments

Background
Senior Vice Chancellor Plotts and Vice Chancellor Ford presented a proposal to the Academic Senate and other campus groups to increase the monthly fees that would be placed on all expenditures of funds from gifts and endowments. They described the need to generate money that would pay for impending infrastructure and operations costs on campus, including seismic investments, technology upgrades, deferred maintenance and central administrative functions such as accounting, development office activities, and security. They emphasized that these are real costs that must be subsidized. Because the largest source of projected income to the campus in the future is from donor gifts, these have become a focus for funding of infrastructure costs.

Administrative Proposal
The current taxes on gifts and endowments include 1) an initial tax of 4% of the value of the gift when it is received, and 2) a 1% fee that is taken every time funds are expended from the gift/endowment. There also appears to be a .40% foundation endowment management fee that is based on a 36-month average of the endowment's market value. The new proposal would increase the 1% spending fee to 6%. The initial gift tax and management fee would remain the same. All gifts specifically designated for students would be excluded from the tax, as is currently the case. There was some indication that the increase could be the beginning of more increases to come, with an eventual goal of a 15% spending fee. However, this issue was not addressed in the Vice Chancellors' formal presentation.

Campus discussion of the proposal has resulted in two modifications to the initial proposal. First, administration agreed to ‘grandfather’ all existing non-endowed gifts so that the new spending fee would be applied only to new non-endowed gifts. Non-endowed funds are typically distributed in the same year that the gift is received, with no permanent principal balance. For endowments, however, administration will tax both existing and new endowments at the new spending fee level of 6%. Endowments are a specific gift category whereby funds have a principal balance from which a specified amount of interest is distributed to the recipient each year. These include distinguished professorships, endowed chairs, lectureships, research funds, and others. The second modification agreed to by administration is a one year phased increase whereby the spending fee would be 3% in 2014 and then go to 6% in 2015.

Concerns Expressed by Faculty Councils and Committees

- The proposed spending increase was based on a survey performed by the development office to determine practices at other Universities. The survey indicated a median 5% tax on gifts across ‘peer comparison institutions’. However, the survey was based almost entirely on private institutions (many of which did not have health science missions) and it confused initial taxes on new gifts with ongoing, monthly spending fees. A more accurate survey of spending fees at true comparison institutions would help to better inform decisions.
Faculty expressed the view that existing endowments should not be included in the spending increase. Any increase should apply only to new endowments that are received by UCSF. When Donors gave their gifts, they were not informed about the extent of taxation that this increase would entail and its potential impact on how their monies would be spent. Administration has indicated that the UCSF Foundation Board and key donors support the new assessment. However, if a fee increase on existing endowments does take place, faculty recommended that donors who are still living should be personally informed of the increase by development office staff. Staff should discuss with donors the rationale for the increase and how it will affect distribution of their funds.

Faculty suggested that smaller endowments/ gifts should have no spending fee increase or a lower fee than larger endowments. A 6% spending fee can have a major impact on the ability of smaller endowments to accomplish their academic goals.

If existing endowments do incur the tax increase, it was recommended that there be a phased increase involving no more than 1-2% increase each year until the 6% maximum is achieved. Administration has proposed a phased increase to a spending fee of 3% in 2014 and 6% thereafter.

The academic mission of the campus will lose funding as a result of this proposal at the expense of investments in capital and administrative operations. Endowments provide student research support and training, reimbursement of student fees, student teaching residencies, student presentations at scientific and professional conferences, support for research staff, support for faculty salaries, and the critical development of new knowledge or practices underlying better patient care. If the tax increase occurs, there will be 5% fewer funds each month that will contribute to these important academic activities. Faculty expressed the view that some of the increase in spending fees should be used to support unfunded needs related to the campus academic mission rather than solely for infrastructure and operations.

**Recommendations of the Committee on Academic Planning and Budget**

- The 10% tax being proposed (including initial tax and spending fees) appears to be higher than comparison public institutions and higher than other UC campuses. Other UC campuses have initial taxes ranging from 5% - 6.5% but no ongoing spending fees. Consideration of a lower spending fee seems warranted.

- Progressive taxation should be employed so that smaller gift amounts are assessed lower spending fees. For instance, the first $50,000 of any gift would incur a 2% fee. The next $50,000 to $200, 000 would incur a 4% fee and funds above $200,000 would be assessed at 6%.

- Any increase in spending fees should be phased in over a 3-year period, with a maximum of 2% increase each year.

- Monies that are used for student support (e.g. student research assistant positions, student tuition reimbursement) but are provided from endowments such as chairs, distinguished professorships, and research funds should be excluded from assessment of any spending fee. This recommendation is congruent with the current exclusion of student support from spending fees.

- The proposed increase in spending fees will take from 3 to 4 million dollars each year from academically focused endowments for use in operations and infrastructure. Yet UCSF is facing significant challenges in meeting its obligations for teaching and research because of shrinking resources. A portion of any increase in spending fees should be allocated to unmet academic needs such as support for salaries of faculty who have no ongoing funding. If a 6% increase in spending fees is mandated, 1% of that amount should be used to support campus academic needs.