Memorandum

To: Department and Program Managers

From: Jim Henry, Director of Finance

Date: February 3, 2016

Subject: Endowment Payout Growth Projections

Dear colleagues,

For many years, I’ve forwarded monthly share value emails from Fund Accounting. For the past 8 months, these reports have tracked a flat rate of return for the current fiscal year and declining share values since May 2015 (I’ll re-send December 2015’s report in a separate email). Last week, the University Budget Office (UBO) forwarded new projections of endowment payout growth for the next three years (FY 2016/17 – FY 2018/19). These projections reflect the impact of the poor endowment performance that has been reported by Fund Accounting.

For much of the past decade, endowment growth rates have exceeded expense inflation rates, and the extra funding coming from this spread has been available to support incremental activities in your department or program. The UBO is projecting the opposite situation for the next three years: that endowment growth will be less than expense rate growth, creating a widening funding gap.

I’m writing to alert you to these new projections so that you may begin factoring them into your financial forecasts and upcoming year budget. To make this situation more concrete, we’re placing an Excel workbook that calculates projected amounts of the annual funding gap in a new Endowment Income Projection subfolder in the Non-Salary View folder of the Finance Intranet Repository.

There are many factors and local decisions that may increase or decrease the gap amount, including:

- Fiscal year-end adjustments may increase/decrease endowment support of the OB, which would increase or decrease the funding gap
- New ongoing funding sources may be received in upcoming years, reducing the funding gap
- OB expense levels may increase/decrease, which would widen or narrow the funding gap
The workbook has three pages:

Assumptions
- Displays University Budget Office (UBO) projected rates for endowment payout growth and expense inflation growth.

Funding Gap
- Columns B-D display 09/01 endowment transfers supporting the operating budget (at A). These amounts may increase or decrease during the fiscal year-end as you make adjustments to close your books.
- Total OB support from endowment (at B) is shown as the starting point for Expense Growth (Columns G-H) and Funding Growth (Columns I-J). These amounts are grown by their respective growth rates.
- The resulting funding gap is displayed in Column K (at C). Amounts are cumulative – in this example, the total FY2016/17 gap is projected to be $18,162; the total FY 2017/18 gap is projected to be $36,420, etc.

Payout
- Displays fund-level historical payout for the past three years and projected payout for the current year and upcoming three years.

Keep in mind that the FY 2018/19 projected funding gap is an ongoing amount. This deficit will continue into future years until a piece or pieces of the expense/funding equation change. Examples could include:
- Endowment payout growth exceeds expense growth, reducing the funding gap
- New endowment gifts are obtained, reducing the funding gap
- Activity levels are reduced, reducing expenses, reducing the funding gap

Your Finance liaison is available to assist with your report review and to discuss possible actions to respond to projected funding gaps. I’m am also available to do the same.