MEMORANDUM

TO: Department and Program Managers

FROM: Jim Henry, Director of Finance

DATE: March 4, 2016

SUBJECT: Updated Endowment Payout Growth Projections

Dear Colleagues,

I’m writing with updates to the endowment payout growth projections sent in early February. Since that time, the Merged Endowment Pool (MEP) has continued to experience difficult market performance and share prices have dropped from a high of $320 in May 2015 to $300 in January 2016 – a 6.25% decrease in value.

Endowment payout growth is now projected as:

- FY 2016/17 0.0% (no growth over FY 2015/16 amounts)
- FY 2017/18 0.9% growth
- FY 2018/19 1.5% growth

The Board of Trustees have approved the FY 2016/17 payout number, so this parameter is final. Growth parameters for FY 2017/18 and FY 2018/19 are still projections and may be revised during the upcoming year as a clearer picture of MEP performance emerges.

Expense growth parameters have also been revised downward (from a weighted average of 3.52% to 2.62%), reducing the size of the funding gap in these new projections. Growth parameters for each expense type will become available in the next few weeks and we’ll forward these when they are final. Please begin factoring these parameters into your financial forecasts and upcoming year’s budget plan.

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.
To make this situation more concrete, we’ve updated the Excel workbook sent in February with the new funding and expense parameters. Your report may be found in the Endowment Income Projection subfolder in the Non-Salary View folder of the Finance Intranet Repository.

The workbook has three pages:

**Assumptions Page:**
- Displays University Budget Office (UBO) projected rates for endowment payout growth.

**Funding Gap Page:**
- 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 $28,156; the total FY 2017/18 gap is projected to be $46,948, etc.

**Payout Page:**
- 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 some part of the expense/funding equation changes. 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.