Memorandum

To: Department and Program Managers

From: Jim Henry, Director of Finance

Date: May 8, 2017

Subject: Endowment Payout Growth Projections

Dear colleagues,

For several months, we’ve alerted you to the modest growth rate in endowment payout for 2017/18, and how it is lagging behind inflation growth of expenses. As we approach the summer budgeting process, we are providing reporting that will make this situation more concrete by quantifying this gap in dollar terms. We’ve placed this Excel workbook in the 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 for FY 2016/17 through FY 2019/20.

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

Funding Gap
- Columns B-D display FY16 actual transfers to support the operating budget (at $). These amounts reflect the fiscal year-end adjustments you made to close your books.
Funding Gap (continued)

- 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 FY 2016/17 gap is projected to be $13,566; the total FY 2017/18 gap is projected to be $24,670, etc.

Keep in mind that the FY 2019/20 projected funding gap is an ongoing amount. This deficit could continue into future years until a piece or pieces of the expense/funding equation change. Examples may 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.