



Office of Program Policy Analysis And Government Accountability



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Follow-Up Report on Florida's Eminent Scholar and Major Gift Challenge Grant Programs

Abstract

- A growing concern over the recent increase in legislative appropriations for these programs may present the Legislature an opportunity to once again consider the policy options discussed in our report.
- The Legislature has not implemented any of the policy options nor the recommendation.
- As recommended, the Board of Regents now requires the reporting of administrative fees assessed by the university foundations so that staff may analyze the reasonableness of the foundations' fees.

Purpose

In accordance with s. 11.45(7)(f), F.S., this follow-up report informs the Legislature of actions taken by the Board of Regents in response to our Report No. 96-01, which we issued July 8, 1996. This report presents our assessment of the extent to which the Legislature and the board have addressed the findings and recommendations included in our report.

Background

The Legislature established the Trust Fund for Major Gifts to fund endowments for the Eminent Scholar and Major Gift Challenge Grant Programs. The purpose of these programs is to provide an incentive for donors in the form of matching grants. The university foundations solicit money from private donors for these endowment programs. The university foundations are also responsible for investing the endowment funds and dispersing the earnings to the academic units involved.

Endowments are funds donated to an institution to produce income. Florida statutes provide for the establishment of permanent endowments to support university libraries, instruction, and research programs. The endowments are invested and only the earnings generated from the investments can be expended. Therefore, these endowments continue to provide a source of funds that support program activities year after year without requiring additional state money.

To establish an Eminent Scholar Endowed Chair, a private donor must give \$600,000 or more. To establish a major gift, a private donor must give \$100,000 or more. The state provides each donation a match based on a percentage established in statute. (See Exhibit 1.) For example, a gift of \$600,000 to either program would create an endowment of \$1.02 million.

**Exhibit 1
State Matching Percentages Vary
According to Private Donation**

Amount of Private Donation		
In Excess of	But Not More Than	State Challenge Grant Match
\$ 100,000	\$ 599,999	50%
600,000	1,000,000	70%
1,000,000	1,500,000	75%
1,500,000	2,000,000	80%
2,000,000	---	100%

Source: Section 240.2605, Florida Statutes

Prior Findings

As part of our previous review, we identified policy options and recommendations for both the Legislature and the Board of Regents. The options focused on program funding and were designed to provide assistance to both the Legislature and the board as they defined the funding priorities for the program given the limited public resources at the time the report was published.

Policy Options for the Legislature

Our previous report identified four options the Legislature could consider to alter the way endowments are being funded. In analyzing options to improve these programs, we considered three factors. First, both programs have been successful in stimulating private financial support for state universities. Second, once an endowment is established, the state's funding responsibility ceases. And third, the endowment earnings provide a source of funds to support academic activities year after year. Each option was to be considered independently.

- **The Legislature could permanently eliminate funding these programs.** The universities could continue to establish endowments using only private donations. In 1994-95, only 4 of the 15 states' programs we analyzed provided state funds for similar challenge grant programs. This option

would not affect established endowments because the activities of the endowments are funded through earnings.

- **The Legislature could reduce its matching commitment for individual endowments.** This option would place additional financial responsibility on private donors and reduce the state's financial responsibility. However, any change made to the current state matching percentages may affect the success of the program in establishing additional endowments.
- **The Legislature could change the endowment amount needed to establish an eminent scholar chair.** The minimum threshold of \$1.02 million (private gift of \$600,000 and 70% state match of \$420,000) creating an eminent scholar chair has not changed since the program's inception in 1979. Almost 80% of the chairs endowed were established at this level. Assuming a 10% return on \$1.02 million, about 5% or \$51,000 would be allocated for use by the eminent scholar.

To increase the funds available to support a chair, the Legislature could increase the minimum donation needed to establish an eminent scholar chair. Changing the threshold amount would increase the endowment and provide additional earnings to support the chair.

- **The Legislature could provide funding incentives for universities that have established few endowments.** To attract private donors, the Legislature could provide additional financial incentives for universities with few endowments such as reducing the minimum donation required for establishing endowments.

Recommendation to the Legislature

Board policy stipulates that administrative fees for managing endowment funds should not exceed fees commonly charged by private investment firms for such services. Most university foundations charge

from 1% to 2% of the endowment value. We recommended that the Legislature amend s. 240.2605(5)(b), F.S., to require university foundations to annually report fees charged for the management and administration of these endowments in sufficient detail to allow for review by the Board of Regents.

Recommendation to the Board of Regents

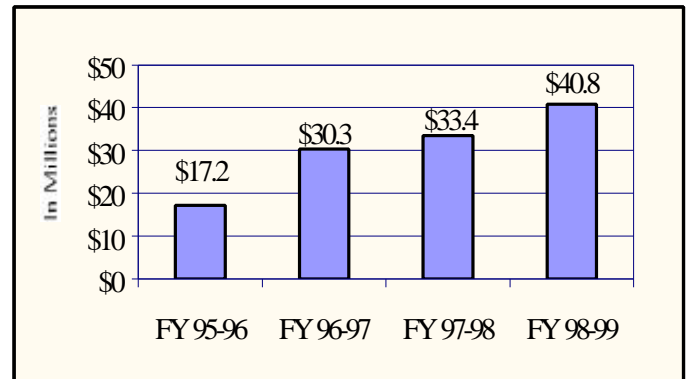
We recommended that the Board of Regents review the reasonableness of administrative fees charged by university foundations.

Current Status

The Legislature has not changed the funding system for either the Eminent Scholar or Major Gift Challenge Grant Program. The options suggested in the previous report focused on ways the Legislature could affect program funding in the case of limited resources or diminishing donor interest. Because the programs have not recently faced such circumstances, it seems reasonable that changes were not made.

However, concern over recent increases in legislative appropriations may present an opportunity to once again consider the options. Between Fiscal Years 1995-96 and 1998-99, legislative appropriations to this program have increased 137% (see Exhibit 2). Between Fiscal Years 1991-92 and 1994-95, appropriations totaled \$23.2 million, an average of \$5.8 million per year. The Legislature has appropriated \$40.8 million to the programs for Fiscal Year 1998-99. Because this program has received such large appropriations in recent years, concern centers around the fact that these increases could be decreasing the funds available to other state university programs.

Exhibit 2
Legislative Appropriations to the Program Are Steadily Increasing

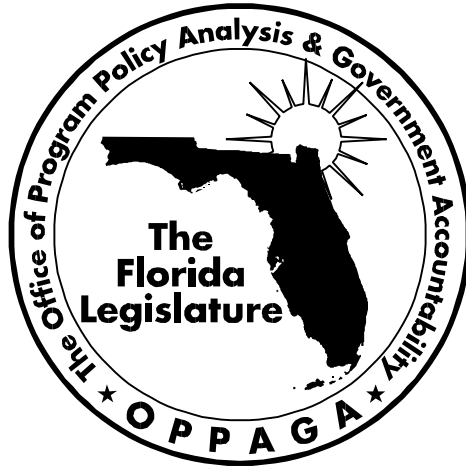


Source: State University System of Florida

The Legislature has not amended s. 240.2605(5)(b), F.S. However, pursuant to Chancellor's Memorandum CM-D-13.01-06/97, the Board of Regents now requires the reporting of administrative fees assessed by the university foundations. This information will be included in the June 1998 audited financial statements of those university foundations whose fiscal year ended December 1997. The remaining university foundations' statements are due in December 1998. Upon receipt of this information from all the university foundations, BOR staff will analyze the reasonableness of their fees.

The Florida Legislature

Office of Program Policy Analysis and Government Accountability



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