Frequently Asked Questions From UCSF Faculty and Staff

REVISED 5/27/14

What's the problem?

UCSF's revenue sources are heavily restricted. Currently, private gifts pay only a portion of the cost of the activities they are intended to support. The University must find other funding for the infrastructure to support those activities, including utilities, space, services and administrative costs. Much of these costs are currently paid from the unrestricted funds available to the center, known as the Core Financial Plan. It is expected that, given declines in state funding and pressures on federal sources, uses from these funds will significantly exceed sources for the foreseeable future, requiring spending each year from a declining reserve balance. For UCSF to have a sustainable business model, it is imperative that funds supporting our mission pay more of the full cost of the activities they support.

What's the plan?

<u>Infrastructure and Operations Fund</u>

- **Effective July 1, 2014, 4% at the time of receipt of gift and 6% at the time revenue is posted to the campus gift or endowment income account.**
- **Replaces existing gift assessment model (4% at time of receipt of the gift/1% at the time of expenditure)**
- **All gifts and endowment income subject to assessment, excluding student support (as defined below)**
- **Unexpended gift and endowment income balances as of 6/30/14 will be assessed at the existing 1% rate.**
- **Gifts to <u>existing</u> capital campaigns will receive grandfathered exemption**
- **Exceptions will require alternate funding source from the Department**
- **Revised assessment related to endowment income will be phased in, so that 2014 payout (paid in FY 14-15) will be assessed at a lower 2% rate, rising to the 4% with the 2015 payout (paid in FY 15-16), and to the 6% level with the 2016 payout (paid in FY 16-17).**

Why is UCSF planning a 10% assessment?

- **To increase necessary support for facilities operations and maintenance and central administrative functions.**

  In reality, the cost of the infrastructure and administrative services required for UCSF to deliver service exceeds 10% of the direct cost of those services. Even the negotiated federal campus indirect rate for on-campus research of 58.5% fails to cover the real costs associated with funded projects. However, in setting the assessment at 10%, we considered the interests and perceptions of our donors, as well as the practices of our peer research institutions, such as Johns Hopkins Medicine, Duke Medicine, Penn, and Harvard, all of which assess gifts at a rate of 15% to 20%. The proposal recognizes that in our local market, donors will compare us with Berkeley and Stanford. Berkeley imposes a gift assessment of 10.5% on research gifts but just 2.5% on non-research gifts, while Stanford imposes an infrastructure assessment of 8% on many sources of revenue, including gifts.

The Infrastructure and Operations Fund is a component of the "Core Financial Plan." What is the Core Financial Plan?

The Core Financial Plan is our term for the funds from unrestricted sources that support the basic operations of the schools and administration, utilities and infrastructure across the campus, and strategic campus wide initiatives. The major sources of these funds, which amount to about $500 million annually, include Indirect Cost Recovery on federal contracts and grants, state appropriations, tuition, and investment income. The demands include the following obligations:

- Campus Seismic Investment: UC Hall, Clinical Sciences Building, San Francisco General Hospital
- Facilities Investments: Deferred Maintenance Obligations for Existing Campus Buildings and Scheduled Renewal Projects
- Technology Investments: Business, Research and Clinical Systems and Related Infrastructure
- Strategic Programmatic Investments and Utilities
- Continuing funding of central administrative functions including finance and accounting, development, and security
- Operating requirements of the schools, including utilities and support for faculty, instruction and research.

Without action, over the next ten years, these demands exceed the projected sources, requiring the campus to utilize steadily declining reserves.

When will the new assessment take effect?

The new assessment will be effective on July 1, 2014.

Why not simply take 10% off all gifts at the front end?

An upfront 10% assessment would be a burden on endowments, because it would delay the availability of funds for spending (if the full assessment were deducted from initial payouts) and may be more likely to create a negative experience for donors. Keeping the existing 4% gift assessment, and replacing the current 1% expenditure assessment with a 6% assessment on endowment income helps to spread the infrastructure expense over the years the funds are used without concentrating the burden at the front-end.

An earlier plan for the new assessment structure was for a 4% gift assessment and a 6% assessment as funds were spent. The new structure calls for a 4% gift assessment and a 6% assessment as gift revenue and endowment income is posted to the campus ledger. Why was the change made?

When planning was in its early stages, financial administrators expressed their strong preference for assessing funds when revenue is posted rather than when expenditures are made to simplify planning and budgeting for departments. The adjustment was made in response to these comments.

Will unexpended gift balances on July 1, 2014, but received before July 1, 2014 be subject to the increased assessment?

No. Balances in Regents gift accounts on July 1 that would have been subject to a 1% expenditure assessment will be assessed 1% in July, and be subject to no further assessments. Balances at the Foundation on July 1 and subsequently transferred from the Foundation to Regents accounts will be initially assessed at the new 6% revenue assessment, but offsetting credits of 5% will post for transfers made from unexpended balances as of July 1 until those balances are exhausted.

Will endowment payout from existing endowments be subject to the increased assessment?

Yes. After a phase-in period (see next question), payout from all endowments will be assessed at 6% when the income is posted to Regents endowment income accounts or transferred from the Foundation. The need for support for infrastructure and operations extends to all activities funded by our endowments, regardless of the date of the original endowment gift. We believe our endowment donors will accept the change, particularly when they understand the need and the intended use of the funds. Maintaining multiple assessment structures in perpetuity based on the date of a gift is not practical.

How will the phase-in of the increased assessment on endowment payout work?

The payouts for endowments at the Regents and the Foundation are typically posted in August or September. Payout posted in August/September, 2014 (the "2014 payout") will be subject to a 2% assessment, payout posted in August/September, 2015 (the "2015 payout") will be subject to a 4% assessment, and payout posted in August/September, 2016 and beyond will be subject to the full 6% assessment. The accounting entries for the assessment on Foundation payout will occur when the funds are transferred to campus accounts from the Foundation. The controller's office will ensure that the "2014 payout" and "2015 payout" will be assessed at the lower rates even if they are transferred in a later year.

Why is there a phase-in for endowment payout?

The phase-in period was agreed to after extensive discussions with faculty leadership, so that programs dependent on endowment income would not see a decrease in payout in 2014 because of the assessment. With the phased-in assessment, projections suggest that endowment payout available to departments will increase at least 2.75% in 2014 over 2013. As a result of good endowment performance in recent years, we expect both Regents and Foundation endowment payout available to departments to continue to increase in 2015 barring a major market downturn.

Will there be any exceptions?

Gifts for scholarships and graduate student degree fellowships will be exempt from the assessment. Gifts to existing capital campaigns will continue to be exempted until those campaigns are complete (Mission Bay Hospital, Neuroscience Initiative, CVRI Initiative, Stem Cell building, and the 4th floor of the Diller Cancer Research Building). UCSF will not exempt gifts to new capital campaigns. UCSF will no longer exempt gifts made for junior faculty and non-degree fellowships, which have been exempt in the past.

Why will scholarships be exempt?

Institutions typically use unrestricted funds to support students, and our peer institutions generally exempt scholarships from gift assessments.

What are the types of gifts that will qualify for the scholarship exemption?

Gifts restricted by a donor for scholarships and fellowships to pay tuition, living expenses, and other educational costs for students in professional and graduate degree programs at UCSF, including stipends. This may include merit-based student awards that are NOT intended to be used for research expenses.

Gifts to support trainees in non-degree programs such as residencies and post-graduate clinical and research fellowships will not be exempt from the assessment.

The fund restriction determines whether a gift fund is exempt from the assessment. The use of a fund for scholarships, when the fund is not specifically restricted for student support, does not exempt the fund from the assessment.

Will new capital campaigns be exempt?

Gifts for new capital projects will not be exempt from the assessment.

Will FFEs (Funds Functioning as Endowment) that were funded by non-gift funds be exempt from the assessment? Some of these funds have already been subjected to internal assessments, such as a Dean's tax, when they were recognized as revenue to the department.

Deposits of non-gift funds in an FFE will not be subject to the 4% assessment at the time of transfer of the funds to the FFE. In addition, withdrawals of principal (corpus) from FFE's funded with non-gift funds will not be subjected to assessments. However, endowment income funds will be subject to the 6% assessment when the payout on such FFE's is posted to Regents accounts.

Some faculty make gifts to their own research and some have received exemptions from the current gift assessment for these gifts. Will these gifts continue to have exemptions from the new assessments?

Other than gifts for student support and existing capital campaigns, all gifts will be subject to the new assessment structure. Other existing exemption arrangements, including current arrangements with certain campus support groups, will end July 1, 2014.

What if a donor refuses to allow the assessment on his gift?

We believe that most donors, when educated about the program, will understand the institutional need for funding the infrastructure required for the activities they support. If a donor insists that all of their funds be expended on direct costs, the department can elect to have the assessment charged to other department funds. If neither the donor nor the department will pay the assessment, UCSF will not accept the gift.

Will gifts from all donors be treated the same? (Individuals, foundations, corporations)

Yes. All donors will be expected to include the assessment in their gift, or the department will need to fund the assessment from other funds.

If a donor won't allow their gift to be assessed, and the benefitting department can't afford to pay the assessment, could a dean waive the assessment entirely, or pay the assessment for the department?

While a dean will not have authority to waive the assessment, a dean will have the ability to specify other funding sources to pay the assessment.

Can you legally raise the assessment on a gift or endowment payout funds from 1% to 6% without donor permission?

Our gift agreements disclose the assessment structure in place at the time of the gift, but do not place restrictions on how the university manages its funds flows in the future. This assessment helps pay for the real costs of infrastructure and central services that support the donor's intended purpose. We intend to notify donors of the change in policy, and in some cases this may be an opportunity for faculty and the development office to initiate discussions about additional giving.

Stanford and Berkeley have assessment structures that are different from the one UCSF is proposing.

Our plan is different from the assessment structures at Berkeley and Stanford. However, we have a different financial model. Berkeley and Stanford have significantly higher sources of unrestricted funding, including high levels of tuition revenue, unrestricted giving from large alumni bases, or a history of unrestricted endowment giving.

Won't donors resist giving to UCSF if we have a higher gift assessment than other universities?

At peer institutions, new assessments have not significantly impacted giving. Our donors give to faculty and programs at UCSF about which they care passionately, and these faculty and programs are not at Stanford or Berkeley.

My department has significant unexpended gift balances. Can I spend the money before July 1, 2014 and avoid the increase in the assessment?

Existing balances will not be assessed more as a result of the new structure. Regardless of when you spend your existing balances, the assessment will be 1%.

How should we communicate with donors about this?

The Development Office will be initiating discussions with major institutional donors. Members of the Foundation Board have already been informed and have fully endorsed the plan. The Development Office is also informing major donors considering new gifts about the revised structure in the course of their discussions.

We strongly advise you to work with the Development Office before initiating any discussions directly with donors about the Infrastructure and Operations Fund assessment.

The Development Office is ready to assist you in communicating with donors about the Infrastructure and Operations plan. They will be happy to meet with donors to help you explain the importance of UCSF's infrastructure and core services to the work that we do, how the Infrastructure and Operations Fund works, and how the donor's gift will support our mission.

Faculty and department leaders understand that the expense represented by the Infrastructure and Operations Fund assessment is real and will need to be funded regardless of the restrictions a donor may put on a gift. So a faculty member or department will need to be prepared to provide an alternate funding source for any gift that restricts our ability to charge the gift fund for the assessment. Consequently, we will all be well-served to understand and support this program in our discussions with donors.

Who should I contact with questions?

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