



TEXAS TECH UNIVERSITY™

Operating Policy and Procedure

OP 02.08: Operation and Maintenance of Endowment Funds

DATE: December 2, 2016

PURPOSE: The purpose of this Operating Policy/Procedure (OP) is to set forth definitions and to outline and establish policies and operating procedures pertaining to the endowment funds of Texas Tech University.

REVIEW: This OP will be reviewed in April of even-numbered years by the Vice Chancellor for Institutional Advancement (VCIA), the Texas Tech University Chief Financial Officer (TTU CFO), and the Texas Tech University System Vice Chancellor and Chief Financial Officer (TTUS CFO).

POLICY/PROCEDURE

1. Policy Statement

The Board of Regents of the Texas Tech University System (TTUS) recognizes that all great institutions of higher education possess a large endowment and in order for Texas Tech University (TTU) to achieve the high standards of which it is capable, the total endowment must be vastly increased. To that end, the Board of Regents has established the number one development priority to be that of building the TTU endowment funds.

2. Definitions

Endowment Funds

Endowment funds are resources of the TTUS that are invested over the long term with the purpose of producing earnings. Endowments generally arise through gifts from donors and/or other external sources. Endowment funds may be classified further as:

a. Permanent Endowments

Permanent endowments are assets designated by the donor (or other external party) to be held in perpetuity. The corpus of these endowments may never be spent and expenditures must be made in accordance with the endowment agreement.

b. Term Endowments

Term endowments are established when the donor specifies that the endowment shall terminate following a particular date or event and that the corpus of the endowment may be expended in accordance with the endowment agreement. Until the passage of the specific

date or event, term endowments operate in a manner similar to permanent endowments, with expenditures from the interest earnings made in accordance with the endowment agreement.

c. Quasi Endowments

Quasi endowments are established when the Board of Regents of the TTUS or the Board of Directors of Texas Tech Foundation, Inc. (“TTFI”), with formal action, set aside certain institutional funds to be maintained as endowments.

d. Funds Held in Trust by Other

“Funds Held in Trust by Other” is the classification for endowments where the corpus is managed and invested by a third party and the earnings are distributed back to the institution.

3. Types of Endowments

a. Faculty Support

(1) Endowed Chair

The minimum donation to establish an endowed chair will vary by unit and type of research. The dean will consult with the Provost/Senior Vice President (PSVP) and the VCIA before determining the amount requested for the establishment of a chair in various programs. Recruitment and retention of top faculty engaged in intensive laboratory research require higher levels of support.

Minimum endowment levels are:

(a) \$1,500,000 for selected chairs; and

(b) \$1,000,000 for other chairs.

The donor is allowed to name an endowed chair in the college or program of choice. Subject to criteria set forth by the donor, the spendable income is typically used to supplement the chair holder's salary, as well as provide additional income to reasonably compliment the chair holder's work, including items such as the purchase of special publications, the hiring of graduate students to assist the chair holder in research projects, the involvement of post-doctoral students in the particular discipline, and other expenses that directly support the teaching or research of the chair holder. Without the prior approval of the President, no more than fifty percent (50%) of the prior fiscal year's distributions may be used as salary for the individual holding a chair. For each exception granted, written approval from the President must be obtained each fiscal year by the college or program.

(2) Endowed Professorship

The minimum donation to establish an endowed professorship will vary by unit and type of research. The dean will consult with the PSVP and the VCIA before determining the amount requested for the establishment of a professorship in various

programs. Recruitment and retention of top faculty engaged in intensive laboratory research require higher levels of support.

Minimum endowment levels are:

- (a) \$1,000,000 for selected professorships; and
- (b) \$500,000 for other professorships

The donor is allowed to name an endowed professorship in the college or program of choice. Subject to criteria set forth by the donor, the spendable income is used like the spendable income for an endowed chair, except that the spendable income is utilized more frequently for the supplementation of salaries and less frequently for other purposes available through an endowed chair. Without the prior approval of the President, no more than fifty percent (50%) of the prior fiscal year's distributions may be used as salary for the individual holding a professorship. For each exception granted, written approval from the President must be obtained each fiscal year by the college or program.

- (3) Endowed Deanship, Department Chair, or Director

The minimum donation to establish an endowed deanship, department chair, or director is \$2,000,000. Subject to criteria set forth by the donor, the spendable income is used to recruit and retain outstanding leaders by providing funds to support their salaries and to fund the pursuit of their professional goals and the development of the unit. Without prior approval of the President, no more than fifty percent (50%) of the spendable income may be used as salary for the individual holding an endowed deanship, department chair, or director. For each exception granted, written approval from the President must be obtained each fiscal year by the college or program.

- (4) Endowed Lectureship

The minimum donation to establish an endowed lectureship is \$250,000. The spendable income is used to support honoraria, publicity, and other expenditures incurred in bringing distinguished leaders to lecture on campus.

- (5) Endowed Faculty Development Fund

The minimum donation to establish an endowed faculty development fund is \$250,000. The interest earnings are used to support professional and leadership development of faculty.

- (6) Research Endowment

The minimum donation to establish a research endowment is \$200,000. Endowed research positions are to support research in particular academic areas or topics specified by the donor and agreed upon by the respective academic dean and the PSVP.

b. Student Support

(1) Presidential Scholarship Endowment

The minimum donation to establish a presidential scholarship endowment is \$150,000. Presidential scholarships are awarded to outstanding entering freshmen based on academic achievement.

(2) Chancellor's Graduate Fellowship

The chancellor's graduate fellowships are established to provide stipends to outstanding students. The minimum endowment level is \$125,000.

(3) Honors Scholarship Endowment

The minimum donation to establish an honors scholarship endowment is \$125,000. Honors scholarships are awarded to outstanding entering freshmen on the basis of academic achievement.

(4) University Scholars Scholarship Endowment

The minimum donation to establish a university scholars scholarship endowment is \$100,000. University scholars scholarships are awarded to outstanding entering freshmen on the basis of academic achievement.

c. Other

(1) Library Book Endowment

The minimum donation to establish a library book endowment is \$100,000. The spendable income will be utilized to purchase books, subscriptions, databases, and professional journals in a particular area as designated by the donor.

(2) Minimum Level Endowment

The minimum donation required to establish an endowment at Texas Tech University is \$25,000. This revisions only applies to endowments established on or after the date the revised operating policies become effective.

(3) Auxiliary Programs

The minimum donation required to establish an endowment within the National Ranching Heritage Center, the Museum at Texas Tech University or the Vietnam Center and Archive (the "Auxiliaries") Is \$10,000.

(4) Exceptions

Exceptions may not be made to the minimum levels without the prior written approval of the President, Texas Tech University Chief Financial Officer, the Vice Chancellor for Institutional Advancement and the Texas Tech University System Vice Chancellor and Chief Financial Officer (TTUS CFO).

4. Procedure for Establishment

a. Accepting New Endowments

Prior to acceptance, the Office of Institutional Advancement and TTFI legal counsel will review all requests to ensure the minimum threshold levels and other applicable criteria are met specific to the type of endowment being requested. The various types and applicable features of TTU/TTFI endowments are outlined above.

All endowments to TTU/TTFI must be made in compliance with applicable federal and state laws, and after acceptance by the institution, must be used as designated by the donor in the endowment agreement.

b. Establishing New Quasi Endowments

Quasi endowments are established when the Board of Regents of the TTUS or the Board of Directors of TTFI, with formal action, set aside certain institutional funds to be maintained as endowments. The formal action by the board will specify the use of the corpus and spendable income and set other terms and conditions relating to the fund. The Board of Regents or the Board of Directors may change the terms and conditions of the endowment or terminate the endowment by formal action. If terminated, the corpus of the endowment is returned to the original source of funding.

In Section 4 of the LTIF Investment Policy Statement, the board delegates to the Chancellor or the Chancellor's designee the authority to establish quasi endowments less than \$250,000.

c. Unrestricted Gifts

Any gift of \$100,000 or more that is unrestricted by the donor as to use or purpose will be placed in a quasi-endowment in accordance with *Regents' Rules*, Investment Policy Statement, Long Term Investment Fund, Sections 2 and 3 upon appropriate action by the Board of Regents of the TTUS or the Board of Directors of TTFI. Any unrestricted amount of less than \$100,000 but not less than \$10,000, upon recommendation by the President, will be placed into a quasi-endowment upon action by the Board of Regents or the Board of Directors.

d. Endowment Agreements

The Office of Institutional Advancement will coordinate with the donor and academic department contact (if applicable) to establish the endowment agreement. All applicable TTU/TTFI policies and internal procedures should be considered when developing the endowment agreement to ensure acceptable spending criteria is established and to prevent any unnecessary burdens in ongoing administration of the endowment funds.

e. Endowments Invested in the Long Term Investment Fund (LTIF)

Section 6.1 of the LTIF Investment Policy Statement for TTUS requires that the Vice Chancellor for Institutional Advancement ensure there are no donor-imposed restrictions preventing endowment funds from being deposited to the LTIF.

Restrictions by the donor on investment by TTU or TTFI outside the mission or current programs of TTU or any deviation from investment policy regarding LTIF shall not be honored without prior approval of the TTUS CFO and subsequently by the Board of Regents of the TTUS or the Board of Directors of TTFI.

All endowment funds invested in the LTIF will be subject to an investment management fee in accordance with Section 09.02, *Regents' Rules*.

5. **Request by Donor to Modify Endowment**

Generally, the terms and conditions relative to a completed endowment agreement may not be modified. However, it is recognized that donors of endowment funds, on occasion, have requested and directed that the usage or purpose of their endowment be changed if mutually agreeable with TTU and, if applicable, TTFI. All such requests must be made in writing by the donor and delivered to the Office of Institutional Advancement. All written requests to modify endowment agreements are also subject to the following approval requirements:

- a. Principal amount of endowment less than \$25,000 - President approval required
- b. Principal amount of endowment more than \$25,000 – Approval from the Board of Regents of the TTUS or the Board of Directors of TTFI required. The Office of Institutional Advancement will be responsible for preparing and presenting the agenda item to the appropriate governing board.

Submission of a written request to modify shall not automatically result in presentation of such request to any of the above noted reviewing parties

6. **Administration**

- a. Establishing Fund Manager Authority
 - (1) Endowment fund financial manager responsibility will be assigned to the vice president, the PSVP, dean, or equivalent level unless otherwise specified by the donor. The TTUS CFO will be the fund financial manager on all quasi-endowments.
 - (2) Operating fund (i.e., spending fund) financial manager responsibility may be delegated; however, the endowment fund financial manager responsible for such delegation is fully responsible for ensuring the proper use of funds and substantiation of expenses.

b. Recording Endowment Earnings

During setup of the new permanent endowment fund, a separate operating fund (i.e., spending fund) will be established to receive 100 percent of the endowment earnings and to provide for the accounting of allowable expenditures. Any exception to this policy must be approved by the VCIA and terms of such exception must be managed and adhered to by the appropriate vice president, dean, or equivalent.

c. Financial Management and Compliance

- (1) Fund managers are responsible for ensuring expenditures from operating funds are in

compliance with the terms and conditions of the endowment and all applicable federal, state, and university policies.

- (2) Fund managers are responsible for addressing and correcting all non-compliant expenditures.
- (3) Expenses incurred for endowment purposes should be charged, whenever practical, directly to the applicable endowment spending fund. Pooling or aggregating funds from different endowments should be avoided.
- (4) Excessive accumulation of endowment income should be avoided. Fund balances will be deemed excessive when the balance is greater than the previous two years distributions.
- (5) Questions regarding the interpretation or scope of the terms and restrictions of an endowment should be directed to the Director of Endowment Compliance for TTUS who will involve legal counsel as necessary.

d. Reporting

- (1) Annual budgets will be submitted on each endowment operating fund as directed in the annual instructions for submitting budgets.
- (2) A report on spending funds with excessive balances may be provided to the respective board, Chancellor, President, VCIA, PSVP and/or dean, as appropriate. The accumulation of excessive balances in endowment spendable funds should be based upon established academic and research plans.
- (3) The Office of Institutional Advancement provides donors with an annual performance report of the endowment and the various fund balances. Some gift agreements also require TTU and/or TTFI to provide additional reports regarding the specific use of the spendable funds.
- (4) All other reporting should be coordinated through the Texas Tech University System Office of the Treasurer.