



TEXAS TECH UNIVERSITY HEALTH SCIENCES CENTER

Operating Policy and Procedure

HSC OP: 02.08, **Operation and Maintenance of Endowment Funds**

PURPOSE: The purpose of this Health Sciences Center Operating Policy and Procedure (OP) is to set forth definitions, outline, and establish the minimum donation amounts for each gift type pertaining to Texas Tech University Health Sciences Center (TTUHSC).

REVIEW: This Operating Policy and Procedure will be reviewed on April 1 of each even-numbered year (ENY) by the TTUHSC Vice President for External Relations (VPER), with recommendations for revision forwarded to the TTUHSC Vice President and Chief Financial Officer (TTUHSC 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 Health Sciences Center 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 building the endowment of TTUHSC.
2. **Definitions.**
 - a. **Gift.** A Gift, also referred to as a charitable contribution, is defined by the Internal Revenue Service (IRS) as a voluntary transfer of property to, or for the use of, a qualified organization that is made without getting, or expecting to get, anything of equal value in return. For purposes of this regulation, Gifts shall include amounts actually paid or noncash assets transferred. The definitions of a restricted and unrestricted gift outlined in *Regents' Rule* Chapter 6 apply to this OP.
 - b. **Endowment Funds.** "Endowment Funds" are resources invested over the long term with the purpose of producing earnings. Endowment Funds may be held by the Texas Tech Foundation, Inc. ("TTFI") or other affiliated entity, for the benefit of TTUS or one or more of its component institutions, including TTU, or held directly by TTUS, TTU or another component institutions. Endowments generally arise through gifts from donors and/or other external sources. Endowment funds may be classified further as defined below.
 - c. **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.
 - d. **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 then 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 made in accordance with the endowment agreement.
 - e. **Quasi-Endowments.** The Board of Regents of TTUS or the Board of Directors of Texas Tech Foundation, Inc. (TTFI), with formal action, may set aside certain institutional funds to be maintained as endowments.
 - f. **Funds Held in Trust by Others.** "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.

- g. **Current Use Funds.** Funds that are given and held in an account, for an identified purpose, that are intended to be spent down and not invested as part of other long-term investment goals.
3. **General.**
- a. **Minimum Donation.** The minimum donation required to establish an endowment at TTUHSC is \$25,000.00.
 - b. **Academic Positions.**
 - (1) The requisite donation to establish new chair or professorship endowments will vary by school and type of research, subject to the minimums listed in this operating policy. The dean will consult with the VPER, or the equivalent thereof, before determining the amount requested for the establishment of a chair or professorship endowment in various programs. Recruitment and retention of top faculty engaged in intensive laboratory research require higher levels of support. TTU OP 32.22 and HSC OP 60.09 outline the procedures for recruiting, nominating, and/or appointing faculty to an endowed chair or an endowed professorship.
 - (2) Donors may name a chair or professorship endowment in the school, department, or program subject to the minimum requirements set forth in section 4 of this OP.
 - (3) Subject to criteria set forth by the donor, the spendable income of an endowed deanship, department chair, or department director 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.
 - (4) Additionally, subject to criteria set forth by the donor, the spendable income for any one of the endowed leadership positions or faculty support described below may be used to supplement the holder's salary, as well as provide additional income to reasonably complement the holder's work, including the purchase of special publications, the hiring of graduate students to assist the holder in research projects, the involvement of post-doctoral students, and other expenses that directly support the teaching or research of the holder. Provided, however, that no more than fifty percent (50%) of the spendable may be used to supplement the holder's salary without the written approval of the President and the SVPAF, as outlined in section 02.08.b.5 below.
 - (5) No more than fifty percent (50%) of the prior fiscal year's distributions may be used as salary for the individual holding an endowed academic position, including, but not limited to, a deanship, department chair, directorship, chair, or professorship without prior written approval from the President and the VPER, or equivalent thereof. Written approval must be obtained each fiscal year by the college or program for the exception to apply.
4. **Minimum Funding Levels.** Notwithstanding the foregoing, the processes, policies and procedures governing philanthropic and/or honorary namings of facilities, academic units, endowed positions and other named gift funds shall be governed by Regents' Rules Chapter 06 and Chapter 13, as applicable. To the extent these operating policies and the Regents' Rules contradict each other, the applicable Regents' Rules shall control.

Additionally, subject to criteria set forth by the donor, the spendable income for any one of the endowed leadership positions described below may be used to supplement the holder's salary, as well as provide additional income to reasonably complement the holder's work, including the purchase of special publications, the hiring of graduate or professional students to assist the holder in research projects, the involvement of post-doctoral students, and other expenses that directly support the teaching or research of the holder. Provided, however, that no more than fifty percent (50%) of the spendable income may be used to supplement the holder's salary without the written approval of the President and the VPER, or equivalent thereof, and CFO, as outlined in section 3.b.(4) above.

- a. **Faculty Support.** Subject to the restrictions and processes outlined in 02.08.3.b above and approval of the President and VPER, the minimum donations to establish an endowed academic leadership position are listed below. Recruitment and retention of top faculty engaged in intensive laboratory research require higher levels of support.
- (1) **Endowed Chair** – the minimum donation to establish a chair endowment is \$1,250,000 for the School of medicine, and \$1,000,000 for other schools.
 - (2) **Endowed Deanship, Department Chair or Director** – the minimum donation to establish an endowed deanship, department chair or director is \$2,000,000.
 - (3) **Endowed Professorship** – the minimum donation to establish an endowed professorship is \$750,000 for the School of Medicine, and \$500,000 for other schools.
 - (4) **Endowed Faculty Development Fund** – the minimum donation to establish an endowed faculty development fund is \$250,000. The spendable income is used to support honoraria, publicity, and other expenses incurred in bringing distinguished leaders to lecture on campus.
- The spendable income may be used to support professional and leadership development of faculty. Qualifications for an Endowed Faculty Development Fund will be 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 \$100,000. Presidential scholarships are awarded to outstanding entering students on the basis of academic achievement and leadership in school or community activities.
- c. **Current Use fund**
- (1) The minimum gift required to establish a separately named current use fund is \$5,000.00 and must include a donor commitment for a period of five (5) years. Criteria for funds established at this level shall be limited to specific parameters as established internally by TTUS Institutional Advancement and managed by IA legal counsel.
 - (2) Current use gifts under \$1,000.00 with a less than five (5) year commitment should be directed to one of the following: (1) the President's Fund for Excellence, (2) University's General Scholarship Fund, (3) a College, Department, or Dean's Fund for Excellence, or (4) a College, Department, or Dean's General Scholarship Fund.
- d. **Other**
- (1) **Research Endowment.** The minimum donation to establish a research endowment is \$500,000. The spendable income will be utilized to support research in particular academic areas and on topics of research specified by the donor, as agreed by the respective academic dean.
 - (2) **Minimum Level Endowment.** The minimum donation to establish a scholarship or other endowment in cases where a higher level does not seem possible is **\$25,000.00**. Administrators must assure that endowments are solicited at levels that provide adequate support.
 - (3) **Exceptions.** Exceptions may not be made to the minimum levels without the prior written approval of the President, Texas Tech University Health Sciences Center Executive Vice President for Finance and Operations, VPER or equivalent thereof, the TTUS Vice Chancellor for Institutional Advancement, and the TTUS Vice Chancellor and Chief Financial Officer.

5. Procedure for Establishment.

a. Accepting New Endowments

- (1) Prior to acceptance, the TTUS 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.
- (2) All endowments to TTUHSC/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

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

The establishment of quasi-endowments of \$250,000 or more requires formal action by either the TTUS Board of Regents or the TTFI Board of Directors, dependent upon the fund type.

The Senior Vice President of Advancement Services will approve all quasi-endowment requests prior to their submission to the TTUS Board of Regents or the TTFI Board of Directors.

- (2) **Formal Action.** The formal action by the board will specify the use of the corpus and the spendable income and set other terms and conditions relating to the fund. The board or Board of Directors may change the terms and conditions of the endowment or terminate the endowment by formal action.
- (3) **Termination.** If terminated, the corpus of the endowment is returned to the original source of funding.
- (4) **Routing.** All requests for new quasi-endowments & modifications to existing quasi-endowments shall go through TTUS IA. TTUS IA will be responsible for preparing and presenting these requests to the appropriate entity with authority as outlined above in 02.08.5.b.1.

c. Unrestricted Gifts

- (1) 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, and the 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

- (1) The TTUS Office Institutional Advancement will coordinate with the donor and academic department contact (if applicable), and IA Legal Counsel to establish the endowment agreement. All applicable TTUHSC/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)

- (1) 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.
- (2) 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.
- (3) All endowment funds invested in the LTIF will be subject to an investment management fee in accordance with Section 09.02, Regents' Rules.

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

- a. Generally, the terms and conditions relative to a completed endowment agreement may not be modified by the donor of the gift. 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 TTUHSC and, if applicable, TTFI.
- b. All such requests must be made in writing by the donor and delivered to the TTUS Office of Institutional Advancement. All written requests to modify endowment agreements are also subject to the following approval requirements:
 - (1) If the principal amount of the endowment is \$25,000 or less, the President must approve the modification.
 - (2) If the principal amount of the endowment is more than \$25,000, the Board of Regents of TTUS or the Board of Directors of TTFI must approve the modification. In these instances, the TTUS 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.

7. **Administration**

a. **Establishing Fund Manager Authority**

- (1) Endowment fund financial manager responsibility will be assigned to the VPER, Dean, or equivalent level unless otherwise specified by the donor and approved by the VPER, Dean, or equivalent level. The TTUHSC CFO, or their designee, 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 proper use of funds and substantiation of expenses.

b. **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.

c. **Recording Endowment Earnings**

- (1) 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.

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.