

The Magic Formula to More than Doubling State Funding for Public Higher Education

A look at Higher Education Endowments in Massachusetts

Executive Summary:

- *Having an endowment provides stability for higher education institutions, it allows them to make commitments into the future and to adapt and respond to changing economic or demographic landscapes.*
- **Public universities and colleges are less likely to have endowments**, as private donors believe these institutions primarily rely on state and local appropriations, allocated from taxes which they pay.
- However, with **severe state disinvestment** from public higher education we witnessed in the last decades, public institutions are no longer adequately funded by state and local appropriations.
- In Massachusetts, state aid to public higher education has **decreased 32% since 2001, resulting in higher tuition and fees and more debt burden for students and families.**
- **State re-investment in public higher education is imperative in Massachusetts.** Correspondingly, we propose accelerating the process by re-appropriating funds into a pre-existing program that was terminated in 2010: **The Public Higher Education Endowment Incentive and Capital Outlay Contribution Program.**
- The program's goal is **to encourage private fundraising by public higher education institutions through a state matching program.**
- Twenty-four other states have created similar matching fund programs, which have proven to yield a substantial return on investment.
- In Massachusetts, the \$50 million state match funding helped public campuses raise over \$125 million in private contributions. This represents a **return of investment rate of 250 percent.**
- Senator Eric Lesser, Representative Adrian Madaro, and Representative James Arciero have filed a bill "**An Act relative to the endowment match program**" (**SD1386, HD925, HD3936**) proposing to extend \$20,000,000 for the purposes of continuing the implementation of this program.
- **We ask lawmakers to support and pass this bill, as we should not pass on the opportunity to attract an additional \$2 for every state dollar spent on our public colleges and universities.**

Full Report:

There is a long tradition of generous giving to higher education institutions in the United States. These contributions reached a record high in 2017, totaling \$43.60 billion¹. Although some public institutions attract private donations, these financial gifts are mostly concentrated in the private sector. Donations are critical for the accumulation of endowments, which are financial assets meant to be invested long-term, where the principal is left to grow to provide additional income for future expenditures or investments. Colleges follow a strict guideline regarding how much of each year's investment income can be spent, typically it is about 5 percent of the endowment's total asset value. Depending on the size of the endowment, 5 percent can represent a large sum of money; in 2018 Harvard's operating budget received more than \$1.8 billion from its endowment return.

The presence of an endowment allow colleges and universities to support existing programs and ensure stability into the future. A large endowment provides security and allows for institutions to make commitments beyond the present, while enabling them to adapt and respond to changing economic or demographic landscapes. Endowments are an important resource when it comes to providing access and diversity by allowing institutions to offer financial aid. They also provide funds for innovative research, allowing faculty and staff to explore new technologies, new academic fields, and experiment with a longer time horizon².

In Massachusetts, public university endowments are far below those of private not-for-profit colleges. While the endowment per student averages at \$160,100 at private not-for-profit institutions, this amount is almost 10 times smaller at public four-year institutions, averaging \$18,861 per student, and 100 times smaller at community colleges, where it averages only \$1,665 per student³.

Public universities and colleges are less likely to be considered for philanthropic giving as they are known to primarily rely on state and local appropriations. However, with the severe state disinvestment from public higher education over recent decades, this is no longer the case. In Massachusetts, state aid to public higher education decreased by 32% since 2001⁴. While in 1985, state appropriations accounted on average for 63.5 percent of Massachusetts' public

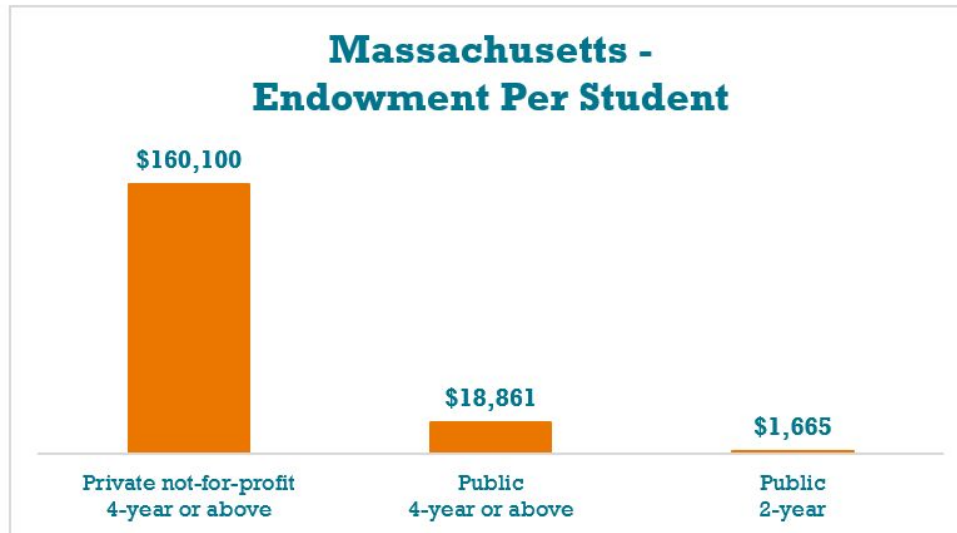
¹ "Colleges and Universities Raised \$43.60 Billion in 2017" - Press release by the Council for Aid to Education: <https://cae.org/images/uploads/pdf/VSE-2017-Press-Release.pdf>

² "Understanding College and University Endowments" White paper by the American Council on Education: <https://www.acenet.edu/news-room/Documents/Understanding-Endowments-White-Paper.pdf>

³ Average values generated by author using endowment data for all Massachusetts higher education institutions by sector downloaded from: NCES-IPEDS: <https://nces.ed.gov/ipeds/datacenter/Data.aspx>

⁴ Jeremy Thompson, "Educated and Encumbered: Student Debt Rising with Higher Education Funding Falling in Massachusetts," Massachusetts Budget and Policy Center, March 1, 2018, http://www.massbudget.org/report_window.php?loc=Educated-and-Encumbered.html.

institutions' operating budget⁵, today it covers only 22 percent of University of Massachusetts' operating budget⁶. It is imperative that our legislators re-invest in public higher education and this process can be accelerated through incentives for voluntary giving to these institutions.



Source: Average values generated by author using endowment IPEDS data

Massachusetts had already successfully implemented such strategy in the 1990s by enacting [the Public Higher Education Endowment Incentive and Capital Outlay Contribution Program](#) (line item 7066-0125). The program's goal was to encourage private fundraising at public higher education institutions by assisting such fundraising through a matching program. Through this program, the state would match private donations 1-to-2, capped at \$25 million for the University of Massachusetts system, \$2.5 million per institution for other state colleges, and \$1 million for each community college. The program was originally scheduled to terminate when the maximum matching fund had been disbursed, or by July 2003 (whichever sooner), however, it was extended until July 2010 (or when the funds are fully subscribed). Additional funds were allocated to match up to \$50 million for the University of Massachusetts system, \$5 million per institution for other state colleges, and \$1 million for each community college.

Twenty-four other states have created similar matching fund programs, which have proven to yield a substantial return on investment. [A comprehensive study](#) of these programs, by the Association of Governing Boards of Universities and Colleges (AGB), concluded that the match

⁵ Clyde W. Barrow, Social Investment in Massachusetts Public Higher Education: A Comparative Analysis, New England Journal of Public Policy, Vol. 7, No. 1- 3/21/1991
<https://scholarworks.umb.edu/cgi/viewcontent.cgi?referer=https://www.google.com/&httpsredir=1&article=1386&context=nejpp>

⁶ FY18 University Of Massachusetts Operating Budget:
<https://www.umassp.edu/sites/umassp.edu/files/content/publications/budget-office/FY18%20University%20Operating%20Budget%20Document%20%28002%29.pdf>

funds have yielded a substantial return on investment⁷. Within the first three years of being established around the nation, the return of investment for the allocated match funds was more than 317 percent — [\\$87 million in state matching funds helped raised a total of \\$276 million](#) from the private sector⁸.

Looking at the impact of the program in Massachusetts, public campuses raised over \$125 million in private contributions over the first four years of the program's inception. The state matched these donations with \$50 million in public funding, resulting in a 250 percent return of investment⁹. Community colleges, institutions that seldom attract private donations, led some successful fundraising campaigns as well: Cape Cod Community College received more than \$900,000, and Bristol Community College raised more than \$700,000. Despite its effectiveness, the program was discontinued in 2010, with no further funds being appropriated to it.

Providing an affordable quality public higher education plays a critical role in the future success of our commonwealth. With declining enrollment numbers, higher education institutions are entering a financially unpredictable era. Growing the endowments of our public college and universities by attracting private donations would make these institutions financially stronger. It would allow them to increase affordability and the quality of the education they provide, while empowering them to compete with their private counterparts.

In January, Senator Eric Lesser, Representative Adrian Madaro, and Representative James Arciero have filed a bill titled "An Act relative to the endowment match program" ([SD1386](#), [HD925](#), [HD3936](#)) proposing to extend \$20,000,000 in funding for the purposes of continuing the implementation of this program. \$10,000,000 match incentive would be allocated to the University of Massachusetts, \$5,000,000 to state universities; and \$5,000,000 to community colleges. This would potentially attract at least \$40,000,000 in private contributions to our public colleges and universities. While this will still put only a small dent to the decades of state disinvestment that we have to catch up with, we ask lawmakers to support and pass this bill. We cannot afford to pass on the opportunity to attract an additional \$2 for every state dollar spent on our public colleges and universities.

⁷ "Select Government Matching Fund Programs: An Examination of Characteristics and Effectiveness", Council for Advancement and Support of Education, 2004. <https://files.eric.ed.gov/fulltext/ED497601.pdf>

⁸ Rogers, Fred. 2005 "Strategies for Increasing Endowment giving at Colleges and Universities" - Supplement to "Sources of Endowment Growth at Colleges and Universities". https://apps.carleton.edu/campus/treasurer/assets/Commonfund___Strategies_for_Increasing_Endowment_Giving_at_Colleges_and_Universities.pdf

⁹ The Massachusetts Board of Higher Education, "Report on the history and accomplishments of the over 12 year -1990-2002." https://archive.org/stream/ERIC_ED475719/ERIC_ED475719_djvu.txt