

## The Development Learning Collaborative Helps the University of Illinois Foundation React to Budget Instability and Access New Resources

### Challenge:

Facing a projected budget shortfall driven by the recession, the University of Illinois Foundation was looking to identify new sources of funding to provide budgetary stability for the Foundation and maintain the level of services provided by it to the three campuses in the system.

### Solution:

The Development Learning Collaborative (DEV-LC) research team conducted a survey of 20 public universities, institutionally related foundations and private universities to uncover current trends in funding mechanisms for development operations. Issues addressed in the survey included:

- Mechanisms universities are using to fund their development operations
- Implementation and structure of various funding mechanisms
- Exceptions made by universities regarding gift fee rules

### Results:

The Foundation presented the research findings to its Board and senior leaders throughout the system. As a result further budget cuts were forestalled and changes were made to the endowment fee structure that enabled the Foundation to maintain the level of resources available for development activities.

### About the University of Illinois Foundation:

*Location:* Urbana, Illinois

*Date Established:* 1935

### About the Development Learning Collaborative:

(DEV-LC) advises colleges and universities in improving the effectiveness of their institutional advancement efforts by helping them generate new ideas, prioritize investment decisions, benchmark staffing and productivity levels for discussions with internal stakeholders, and improve the professional development of their staff.

### Feeling the Impact of the Recession

In the fall of 2008, the University of Illinois Foundation was facing a serious budget shortfall driven by the impact of the economic recession on fundraising. In order to better understand the long term implications, the Foundation team ran an exercise that looked at best, middle and worst case scenarios connected to the impact and length of the recession.

The results of the exercise were sobering. Under the worst case scenario the team realized that the Foundation was at risk of exhausting its financial reserves within a couple of years. In addition the exercise demonstrated that it might take up to seven years for the Foundation to build its reserves back up to the level it had reached in early 2008. Compounding the problem, given the severe impact of the recession on the state of Illinois, all three campuses in the system (Urbana-Champaign, Chicago and Springfield) were facing possible cuts in university budget resources devoted to fundraising.

Realizing that additional funding sources needed to be identified in order to avoid further budget cuts and reserve expenditures, the Foundation asked the Development Learning Collaborative (DEV-LC) for assistance. Past DEV-LC research had illustrated that mechanisms commonly used by public institutions – such as endowment-management fees charged on the current market value of the endowment – provide greater autonomy from institutional and state budget challenges, yet can also open the development office to the risks of stock market fluctuations. Alternative revenue sources would need to be explored.

### Leveraging the Experience of Peers

To help the foundation, the DEV-LC research team conducted a survey of 20 public institutions, institutionally related foundations and private universities to provide the Foundation with insight into funding mechanisms being used by the peers of the Urbana-Champaign and Chicago campuses. The survey addressed three main questions:

1. What mechanisms are universities using to fund their development operations?
2. How are the various funding mechanisms implemented and structured?
3. What exceptions do universities make to their gift fee rules?

*“I don’t know who else does what you do. By serving as an independent source of guidance and data, you provide us with unbiased insight and a voice that is respected by the decision-makers within the Foundation as well as the University. We knew the collaborative nature of the membership made you well suited to help us tackle this issue which is why we turned to you for help.”*

Tyler Fitch  
Director of Planning and Policy Analysis  
University of Illinois Foundation

## **Data and Insight to Inform Decision-Making**

The research uncovered great variability in regards to funding mechanisms as well as considerable interest in the topic among the Foundation’s peers. In general, the desire for greater flexibility and growth opportunities had prompted interest in examining new funding mechanisms for development operations across almost all the institutional advancement offices surveyed. The economic downturn had set the debate about funding mechanisms in a new context, balancing greater urgency for reallocating university budget resources with concerns about exposure to market risk and potentially negative donor reactions.

Some of the specific findings from the survey included:

- Public institutions commonly use gift sources in funding development operations, generating flexibility and greater autonomy. In fact, 92% of the public institutions surveyed used at least one gift source in funding development operations.
- The two most commonly used gift sources by public institutions, with each used by 85% of public institutions, are income earned on an ongoing basis on unexpended fund balances and endowment-management or cost-recovery fees charged on the current market value of endowed funds.
- Of the 61% of public institutions that receive funds from the base university budget or general funds for development operations, the average percentage contributed by this funding sources is 38%.

## **Protecting Funding Levels**

Armed with the results of the research along with information from other sources, the Foundation held a series of meetings with its Board and senior leadership throughout the system. By laying out a range of funding mechanisms, the Foundation was able to educate the leadership on the various funding options currently available to avoid further budget cuts and maintain the level of services provided by it to the three campuses in the system.

As a result, changes were made to their endowment fee structure that enabled the Foundation to maintain the level of resources available to support development operations. Said Fitch, “The research helped us make an informed decision by giving us a full understanding of the major options available to us in regards to securing major funding.”

*“The research helped us make an informed decision by giving us a full understanding of the major options available to us in regards to securing major funding.”*

Tyler Fitch  
Director of Planning and Policy Analysis  
University of Illinois Foundation