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College endowments are under scrutiny

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Regional

College endowments are under scrutiny

In this environment of high student debt, rising college cost, diminished funding, and the disparagement of higher education, many politicians are taking aim at how colleges and universities spend their money. And this is not new. In 2007 and 2008 Sen. Chuck Grassley (R-IA) voiced criticism at wealthy university endowments, held hearings and proposed requiring universities to spend a certain amount of their endowments each year just like the IRS requires from non-profit organizations.

Later, in 2014, then Rep. Dave Camp (R-MI), who chaired the House Ways and Means Committee, proposed a 1 percent tax on the investment earnings of college and university endowments for colleges with endowments larger than \$100,000 per student. This year we are seeing renewed efforts by Congress on this issue. Sen. Orrin Hatch (R-PA), chairman of the Senate Finance Committee, Rep. Kevin Brady (R-TX), chairman of the House Ways and Means Committee and Rep. Peter Roskam (R-IL), chairman of the House Ways and Means Subcommittee on Oversight, initiated an investigation of 56 private colleges with endowments of more than \$1 billion.

To fully understand what is going on here we need to look at a number of facts. First, it is true that some colleges and universities have very sizable endowments. According to a report by the National Association of College and University Business Officers, the 812 U.S. colleges and universities and affiliated foundations they surveyed hold about \$529 billion in endowment assets. At the top of those institutions are Harvard (more than \$36 billion), Yale (more than \$25 billion) and Princeton (about \$23 billion). The public institution with the largest

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endowment is the University of Texas system with more than \$24 billion.

These numbers are indeed big, but there is more to it than meets the eye. Endowment accounts are highly fractioned, from very small ones that provide as little as \$500 scholarships to students to large ones funding general operations for some units or entire institutions. Harvard and Princeton, for example, have their endowments in about 4,300 separate accounts each. Because the recipient institution is legally bound to use the donation for the very specific purpose stipulated by the donor, the institutions cannot legally move that money around at will.

Additionally, a lot of endowment money does help to lower the cost of education for needy students. Although some institutions of higher education have specific scholarships aimed at attracting high quality students regardless of their financial need, most of those scholarships are intended at helping students with the cost of going to college. That is particularly true for scholarships designed to bring in financially disadvantaged minorities.

According to recent written testimony to Congress by the president of Princeton University, 80 percent of that institution's \$138.2 million undergraduate scholarship budget comes from the endowment. About 60 percent of Princeton's undergraduates receive financial aid, with an average grant that

exceeds tuition. So the endowment actually helps many students to graduate debt-free. The few students who do choose to borrow have a total average debt at graduation of \$6,600, which is quite modest in comparison to students at many other private and public universities. The other argument in support of certain endowments is that even when they are not specifically aimed at providing scholarships, by helping to reduce the cost of administering the institution they lessen the financial pressure on those institutions that are so dependent on tuition, which indirectly benefits the students by allowing them not to have to pay the full actual cost of their education.

All of this is good, but it has not always been that way. In fact, because of congressional scrutiny, wealthier institutions have become more sensitive to ensure that they offer better financial assistance to low- and middle-income students. This is welcomed news. Many institutions of higher education have, for too many years, emphasized big-ticket fundraising aimed at naming buildings, schools and/or academic positions after donors. Historically they have seen fundraising for scholarships as too small of a payoff for their efforts in courting people with deep pockets. Yet, recently, some Harvard trustees have called for their institution to offer free tuition for everyone.

Although it is true that students with a family income of \$65,000 or less can attend Harvard tuition-free, the free-for-all tuition proposal does present some issues. One is that it would be providing economic assistance to wealthy people who do not need it. The other (and untold) side of the story is that colleges like to attract wealthy students because

they represent a future cadre of generous donors for those institutions. If the vast majority of the students come from the lower economic classes, that might hurt their fundraising efforts in the long run.

The other aspect that I find intriguing of this watchdog movement by Congress is that it is led by conservatives and is solely aimed at private colleges and universities. In the last decade or so we have seen how Republicans at the state level have dramatically cut funding to public higher education. If they were to conduct a similar investigation of public institutions of higher education, it would become clear that the major reason behind increased tuition and decreased financial assistance for students has been these draconian budget cuts. And politicians do not want the public to understand the truth behind rising college costs.

These are the same political voices that keep demanding greater access and more affordability in higher education, all the while cutting budgets for those institutions. This is simply arithmetic that does not add up.

What we need is better strategic management of fundraising efforts by private colleges and better funding for state institutions whose main constituencies are the low and middle classes. Otherwise what we will continue to witness is a charade throughout the entire system.

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