



**Philanthropy Study Committee:  
Meeting Minutes  
Friday, February 3, 2012**

**Attendees:**

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|  | <b>Co-Chair - Gary Gordon Chair, UNM Foundation Board of Trustees</b>                           |
| <b>UNM Board of Regent Representatives:</b>    | Lt. General Bradley Hosmer, USAF (Ret.) - Regent<br>Jacob Wellman - Student Regent              |
| <b>UNMF Board of Trustees Representatives:</b> | Gerald Landgraf - Chair, Finance Committee<br>Anne Yegge - Past Board Chair (by phone)          |
| <b>UNM Deans:</b>                              | Richard Howell - Dean, College of Education<br>Mark Peceny - Dean, College of Arts and Sciences |
| <b>UNM Staff:</b>                              | Andrew Cullen - Associate Vice President, Planning, Budget and Analysis                         |
| <b>HSC Representatives:</b>                    | Nancy Ridenour - Dean, College of Nursing<br>Ava Lovell - Vice President of Finance, HSC        |
| <b>UNM Faculty Senate Representative:</b>      | Tim Ross - President  |
| <b>UNM Foundation:</b>                         | Henry Nemcik - President and CEO  |
| <b>UNM Foundation Staff</b>                    | Curtis Helsel, Rod Harder, Sandy Liggett, Larry Ryan,<br>Bill Uher, Wendy Antonio, Suzanne Awen |

**Proceedings and Presentations**

**Welcome and Opening Comments - Lt. General Bradley Hosmer, USAF (Ret.) - Regent**

Welcome to our third meeting with much still ahead of us. The objectives and output of this Committee are important work for UNM.

**Welcome and Opening Comments - Gary Gordon, Committee Co-Chair**

I appreciate your attendance and continued efforts on this Committee. The UNMF staff has put together the materials you have in efforts to help focus our discussion. The goal will be to build a consensus and produce a report by mid-March.

**Call for Approval of the December 9, 2011 and January 6, 2012 Minutes- Gary Gordon, Committee Co-Chair**

A request was made for a motion to approve both sets of minutes.

Regent Hosmer made the motion to approve. Mark Peceny seconded the motion. The discussion of the motion was as follows:

Tim Ross asked for the result on an action item from the 1/6/12 meeting regarding short term investment income payments from UNM to the Foundation.

Henry Nemcik responded that in discussions with UNM financial representatives, the short term investment income issue had been resolved. Ava Lovell was asked to comment on the solution.

Ava explained that the initial investment income calculations for the first six months of FY11/12 were based on a blended rate of return for overnight investments at 39 bps and the global bond portfolio at 195 bps. The University recalculated the investment income based on the global bond portfolio return for the first six months which resulted in income totaling \$458,673. The annualized investment income is projected to be \$900,000.

It was requested that 1/6/12 minutes be amended to reflect the information from the preceding discussion.

The call for approval of the motion was made such that the 12/9/11 minutes be approved as presented and the 1/6/12 minutes be approved with the discussed information on short-term investment income calculation so noted.

The motion carried unanimously.

**Review of Process, Evaluate Various Funding Sources, Reduction of University Charges, Discussion of Highlighted Data and Committee Member Comments, Evaluation of 2 Major Components - Staffing Levels and Funding Models (as one discussion) - UNMF Staff, Henry Nemcik, President and CEO**

As the result of a discussion with Regent Fortner on how to develop a long term sustainable model for fund raising at

UNM, the seed for the Philanthropy Study Committee was planted. The President Elect, Robert Frank has indicated that he will be working with the UNM and UNMF staff in efforts to develop the best model to serve the university's goals.

The Committee research on benchmarking is complete. The materials and information from the first and second meetings were deemed comprehensive enough by the Committee for deliberations to move forward. The Committee's recommendations on Foundation staffing will frame the funding discussion which will in turn determine the budget and funding sources for the required budget. President Elect Robert Frank requested that David Harris and Henry Nemcik work together to develop a long term funding model. The Committee report on these recommendations will be an important part of the UNM FY12/13 budget process and should be presented to leadership as early in that process as possible. Given that the Committee felt a third meeting of presentations was not necessary, we are able to move our goal for producing the report forward to mid-March.

A review of the presentations from the previous meetings followed. Paul Robell articulated one of the most important concepts in developing a fund raising model: ". . .there is **no direct relationship to funds raised and budgeted funds required to pay for fund raising costs. . .**" Each institution must determine what works best for their situation.

*(Gary Gordon commented that in attending the recent AGB Conference one of the major topics of discussions was funding, currently a common problem and one for which it is critical to achieve a sustainable resolution.)*

Suggested funding models for the Foundation using metrics we have discussed will be presented later in this meeting.

A review and comparison of UNM Foundation staffing followed. When the fund raising operation was embedded in the University, it was difficult to establish an accurate cost for overall operations though an estimate of 125 staff with an annual cost of approximately \$11 million would be reasonable. With the transition to a stand-alone foundation, we now have the opportunity to develop a model that is both strategic and measurable in terms of return on investment. Given that the average amount raised per frontline development officers at comparable institutions is about \$1.8 - \$2 million and the number of UNMF frontline staff is 25, our base fund raising potential is currently between \$50 million to \$60 million. Several factors have contributed to higher than average dollars raised per UNM development officer in the past several years such as leadership involvement in solicitations. There a direct relationship between fund raising and "boots on the ground" when effectively managed that is not unique to non-profits. However, given institutional goals, resources, support staffing, donor pools and other factors there is an optimal level of return on investment desired unique to each organization.

The McConnell Survey, data from an outside consultant, was presented comparing UNMF staffing and compensation levels. According to this survey the UNMF compares favorably in terms of compensation and has fewer positions filled than the other organizations surveyed.

Rod Harder discussed the revenue sources referenced in the AGB handout "How Public Colleges and Universities Pay for Fund Raising" as they relate to UNM:

- Unrestricted Gifts - gifts, such as some bequests, not designated by donor for a specific use; which support the Foundation by agreement with the Regents
- Endowment Management Fee or DFA (Development Funding Allocation) - currently at 185 bps, 1.85% (note: the current fee of 185 bps has been lower in the recent past and is different for each institution depending on endowment value, institutional support and the institutional funding model. The value of the UNM endowment fund is currently approximately \$318 million)
- Institutional Support - there are several ways to allocate institutional support; cost sharing or contract for services at the unit or institutional level (HSC currently has most of the cost sharing agreements with the Foundation)
- Unrestricted Endowments - endowments not designated by donor for specific use; which support the Foundation by agreement with the Regents
- Alumni Funds - this revenue source is not currently available to the Foundation (it was noted that in some other institutions, the alumni organization and the foundation have a closer relationship than at UNM)
- Short Term Investment Income - UNM currently holds and invests \$50 million in unexpended non-endowed gifts and endowment spending distributions which under present procedures in place are immediately transferred to the University rather than held by the Foundation until needed. The investment income on these funds is paid to the Foundation. Due to recent negotiations discussed previously, this calculation

going forward will be based on the rate received on global bond investments at approximately 195 bps or 1.95%. An outside professional opinion advises that investment strategies to realize a higher rate of return may violate current policies in place for UNM and would require Regent's approval to revise these policies. Another option available to UNM would be for the Foundation to hold and invest these funds. As the Foundation is not as restricted in investment options as the University, an investment rate of return of approximately 3% could be realized with little additional risks. This strategy has been followed successfully at other institutions.

One other potential revenue source was discussed that was not listed in the AGB handout. The Lobo Energy group has undertaken the long term project of developing energy efficiencies and savings for the University by upgrading current systems and technologies. A proposal was made at the last UNMF Investment Committee Meeting by Lobo Energy representatives whereby a \$10 million investment by the Foundation in one of these projects would potentially produce a 5% return.

Henry Nemcik began the presentation of four possible staffing models for the Foundation with Paul Robell's slides on the growth of the University of Florida Foundation. Henry stated that vision is required for the kind of investment that sets the stage for growth as is clearly the case at the UFF.

Funding models were presented as follows:

- Minus Model - current staffing would be reduced by 6 frontline development officers and 6 administrative and support staff. This would result in a budget decrease of \$720,000 and a decrease of base fund raising capacity of \$5 million resulting in an annual base fundraising capacity of \$45 - \$55 million.
- Model # 1 - the current budget plus a \$500,000 contingency for unpredictable revenue sources and expenses projected with a 2% inflation rate. Staffing at 25 frontline development officers, 83.5 total staff. The FY12/13 required funding including the \$500,000 would be \$9.8 million with a base fundraising capacity of \$50 - \$60 million.
- Model # 2 - moderate growth model with assumptions of model # 1 plus the addition of 6 frontline development officers and 4 administrative and support staff over 5 years. The FY12/13 required funding for this model would be \$10 million with an annual base fundraising capacity of \$62 - \$72 million. At the end of the 5 year period, frontline development officers would number 31 and total staff would be 93.5. It was suggested that the additional development staff include regional staff in this model.
- Model # 3 - a relatively more aggressive growth model includes the assumptions of models # 1 and # 2 plus an additional 6 frontline development officers (12 total) and an additional 4 administrative and support staff (8 total) for a total of 20 additional new hires over 5 years. The FY12/13 required funding for this model would be \$10.3 million with an annual base fundraising capacity of \$74 - \$84 million. At the end of the 5 year period, frontline development officers would number 37 and total staff would be 103.5.

Rod Harder presented the projected budget proposals for models 1, 2 and 3 (see meeting materials). The DFA is intentionally projected to remain constant with any increases in the endowment used to reduce the 185 bps fee. Short term investment income is projected at the University's estimate of \$900,000. If the short-term funds were invested more aggressively, any additional investment income would reduce the projected institutional support (a committee member requested that present value models be done on the proposals including the Minus Model). Rod stated that institutional support would need to be a combination of types of revenue, the most predictable being cost sharing.

Regent Hosmer stated that the focus of this Committee should be on developing a funding model for the long term, not just a solution for the next year.

A discussion followed among committee members on possible funding sources. A table was created estimating dollar values for endowment distribution percentages, short term investment income scenarios, faculty lines, DFA bps values, reduction in rent expense and fringe benefit allocations. The table is transcribed below:

#### Easel Worksheets from 2/3/12 Philanthropy Study Committee Meeting

- Maintain and increase the level of support from the University, the direct beneficiary of the investment in fundraising, as Institutional Support is the most predictable source of revenue. A number of possible means of support suggested include:
  - cost sharing agreements
  - fees for services
  - explore the option of having Academic Affairs contribute \$200,000 in recurring funds from its budget
  - not charging the Foundation for office space - \$300,000
  - not charging the Foundation for employee benefit costs for the UNM employees assigned to the Foundation - \$290,000
- Improve the return on the \$50 million on deposit with the University by either
  - revising the University's current investment policy allowing the portfolio to generate at least a 3% return - \$600,000  
*(Note: This results in \$600,000 more investment income than the \$900,000 presently projected)*
  - or allow the Foundation to hold and invest these funds until needed by the University  
*(Note: Additional investment income reduces the amount of institutional support)*
- Increase the development funding allocation (DFA) by 30 bps from 185 bps to 215 bps generating additional revenues of about - \$1 million
- Reduce the spending distribution by 1% making available to the Foundation - \$2.7 - \$3 million  
*(Note: The spending distribution has "restricted purposes" attached to it; therefore, it could not be distributed to the University then made available to the Foundation)*

A motion was made by Nancy Ridenour to recommend a funding model that would be a blend of the presented models 2 and 3 such that 16 total new hires would be added over the 5 year projected period. This motion was seconded by Tim Ross and carried with 1 abstaining vote (a proposal and present value model were requested for the blended model to be emailed to the Committee members).

#### Report Writing & Draft Review Process - UNMF Staff, Henry Nemcik, President and CEO

The UNMF staff will develop a draft report on the model the Committee has recommended with a projected budget. The report will also include the proceedings and materials of the Committee's work. The draft report will be distributed to the members via email for comments and edits. From these responses the final report will be assembled and distributed for final approval by the Committee members. After review by President Elect Frank, the final report will then be sent to UNM leadership and relevant groups as determined by the Committee. Our target for completion and distribution of the work product is mid-March.

#### Closing - UNMF Board of Trustees Chair, Gary Gordon, Committee Co-Chair

There is still more back room work to be accomplished which will be done electronically. Everyone's participation and contributions are greatly appreciated. The work product of this Committee will be an important piece in planning for the future success of the UNM mission.

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| <p><b>BENCHMARKING</b><br/>The Committee will benchmark other institutions, both peer and aspirational, and evaluate the size and scope of the peers' development operations and funding mechanisms.</p> | <p><b>EVALUATING</b><br/>Drawing from the evaluation, the Committee will evaluate UNM's philanthropic effort, encompassing staffing, funding, and design of philanthropic efforts going forward.</p> | <p><b>REPORTING</b><br/>A report with recommendations will be presented to the UNM Board of Regents and the UNM Foundation Board of Trustees by no later than June 30, 2012 (target date: mid-April 2012).<br/>Amended: Mid-March</p> |
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