

## Report on and Recommendation Regarding Quasi-Endowments

### FINANCE AND RESOURCE MANAGEMENT COMMITTEE

May 4, 2018

#### Background

The university has long had the authority to invest endowments, gifts, and other private funds in a wide array of financial securities. With the expanded authority to invest nongeneral funds provided in Section 23.1-2604 of the Code of Virginia, the university authority was expanded to include investment and management of endowment funds, endowment income, gifts, all other nongeneral fund reserves and balances, and local funds of or held by the university in accordance with this section and the provisions of the *Uniform Prudent Management of Institutional Funds Act* (§ 64.2-1100 et seq.). While the investments allowed under the expanded authority have the potential for higher returns, they also involve more risk.

While private gifts and endowments are normally received and invested by the Virginia Tech Foundation (Foundation), the focus of this report is on public university funds that, through the authority provided in Section 23.1-2604, are invested by the Foundation under an agency agreement. These investments are made in accordance with the provisions of the Virginia *Uniform Prudent Management of Institutional Funds Act* and the university's investment policy.

As of December 31, 2017, the market value of university funds invested in the endowment pool managed by the Foundation was \$225.7 million. This includes John Lee Pratt's 1977 restricted gift of \$11 million to support Animal Nutrition and the College of Engineering that has grown to \$48.4 million as of December 31, 2017.

Investments are made for the purpose of generating higher investment income to advance university goals and objectives. Investment income currently supports university operations, initiatives, scholarships, and maintenance reserve programs while holding down student fees. Beginning in 2018-19, a portion of the investment income from unrestricted assets will support the university's share of costs for the Virginia Tech Carilion School of Medicine.

Investment horizon is based on the nature of the funding and strategic plans. University owned long-term investments held in the Foundation endowment investment pool can effectively function as a quasi-endowment, where the purchasing power of the principal over the long term is preserved.

## **Quasi-Endowment**

True endowments are funds received from a donor with the restriction that the principal is not expendable. This allows for the gift to have an impact over a longer period than if it were spent all at once. Endowments may also come with stipulations regarding usage. As a result, an endowment payout may be restricted to a specific purpose such as a scholarship, professorship, or program. Two examples of true endowments, held by the university, are the Rolls Royce Endowments which were created by the Commonwealth as part of the incentive package to recruit the company to Virginia and the Pouring Rights Scholarship from Coca-Cola.

Quasi-endowments represent university funds designated by the Board of Visitors rather than a donor. They carry the same intent to provide ongoing income from a long-term investment; however, the governing board retains the authority to repurpose such funds and to remove funds from the quasi-endowment asset category at any time.

The university has completed a comprehensive review of its long-term investments and strategic plans. As a result of this review, the university recommends that the following funds should be designated and/or reaffirmed by the Board of Visitors as quasi-endowments.

### **Pratt Estate**

The Pratt Estate gift was previously designated by the board as a quasi-endowment in the late 1970s. The university recommends the Board of Visitors reaffirm this fund as a quasi-endowment for its restricted purpose of Animal Nutrition and the College of Engineering. The endowment value as of December 31, 2017 was \$48.4 million.

### **Donaldson Brown Scholarship**

During the 1940s, the late Mr. Donaldson Brown made gifts to the university designated for the President's Student Loan Fund. Mr. Brown's stipulations for administration of the fund allowed use of the funds for student loans or scholarship. In 1992, the funds were redirected to provide scholarships. The endowment value as of December 31, 2017 was \$0.9 million. Due to the age of the gift, prior board designations are uncertain; as a result, the university seeks for the Board of Visitors to designate this fund as a quasi-endowment for scholarships consistent with the terms of the gift.

### **Nationwide Scholarship**

A 2014 settlement agreement with Nationwide Life Insurance Company related to student medical insurance premiums included the establishment of a scholarship fund in their name from any residual or unclaimed funds. The university has invested these funds to create ongoing income for scholarships. The value as of December 31, 2017 was \$6.2 million, and additional funds in the range of \$2 to \$3 million may be available

for investment within the next year. The university seeks for the Board of Visitors to designate this fund and any future funds received as a quasi-endowment restricted for scholarships.

### **Student Health Insurance Fund**

In 1997, the university received a stock conversion settlement from Trigon when the company went public. The university invested these funds to support the health care insurance program. The value as of December 31, 2017 was \$0.4 million. The university recommends the Board of Visitors designate this fund as a quasi-endowment designated in support of the student health insurance program. This may include the administration of student insurance programs.

### **Gloria Smith Professorship**

In August 2000, the university approved an allocation from the Athletic Department's Sugar Bowl proceeds to serve as a base that would provide ongoing support for the Gloria Smith professorship. The professorship, named in honor of the late Gloria D. Smith, a counselor and advocate of minority students on campus before her retirement, is awarded for a period of two years to an outstanding faculty member who contributes significantly to the growth and development of minority students, student athletes, and scholarly pursuits. The value as of December 31, 2017 was \$0.4 million. The university recommends the Board of Visitors authorize this fund as a quasi-endowment designated for the professorship.

### **Multicultural Affairs Scholarship**

In August 2000, the university approved an allocation from the Athletic Department's Sugar Bowl proceeds to serve as a base that would provide ongoing support for scholarships for Multicultural Affairs. These resources are held by the Foundation and generate annual payout that are available for scholarship expenditure. The value as of December 31, 2017 was \$0.1 million. The university recommends the Board of Visitors authorize this fund as a quasi-endowment designated for scholarships.

### **Chinese Endowed Geosciences Scholarship**

In 2002, the Department of Geological Sciences established a scholarship fund to support Chinese graduate students from funds provided by the People's Republic of China. The value as of December 31, 2017 was \$0.1 million. The university recommends the Board of Visitors authorize this fund as a quasi-endowment designated for scholarships to support scholarships for Chinese graduate students studying Geosciences.

## **Licensing & Trademark Scholarship**

Over the last two decades, the University's Licensing & Trademark agreements have created one-time resources that have been invested to create ongoing income for scholarships. The value as of December 31, 2017 was \$13.0 million. The university requests the Board of Visitors to designate this fund as a quasi-endowment for scholarships.

## **Management of Quasi-Endowments**

The university has or will transfer these funds to the Virginia Tech Foundation to be invested in accordance with the university's agreement with the Foundation regarding the management of all such university funds.

The investment of university resources and designation as a quasi-endowment creates an ongoing revenue stream for the university. The university's Chief Financial Officer is responsible for the periodic monitoring of these quasi-endowments and for the deployment of the quasi-endowment payouts in the university's budget process to achieve the intended objectives of the quasi-endowment.

## **RECOMMENDATION:**

That the funds listed on Attachment A be reaffirmed and/or designated as quasi-endowments.

June 4, 2018

## Attachment A

### University Funds Recommended for Quasi-Endowment Reaffirmation and/or Designation

Fund Title	Source of Funding	Use of Funds	Fund Purpose	Market Value*
Reaffirm				
Pratt Fund	Estate of John L. Pratt	Restricted	Animal Nutrition & Engineering	\$48.4M
Designate				
Donaldson Brown	Donaldson Brown Gift	Restricted	Scholarships	\$0.9M
Nationwide	Medical Insurance Settlement from Nationwide	Restricted	Scholarships	\$6.2M
Student Health Insurance	Trigon Stock Conversion Settlement	Unrestricted	Student Health Insurance	\$0.4M
Gloria Smith Professorship	Athletics Sugar Bowl Proceeds	Unrestricted	Professorship	\$0.4M
Multicultural Affairs	Athletics Sugar Bowl Proceeds	Unrestricted	Scholarships	\$0.1M
Chinese Geosciences	People's Republic of China	Unrestricted	Scholarships	\$0.1M
Licensing and Trademark	University Licensing & Trademark Agreements	Unrestricted	Scholarships	\$13.0M

\* As of December 31, 2017

# Report on and Recommendation Regarding Quasi-Endowments

June 4, 2018

**DWIGHT SHELTON**

**INTERIM SENIOR VICE PRESIDENT FOR OPERATIONS AND  
ADMINISTRATION, VICE PRESIDENT FOR FINANCE AND CFO**



# *Endowment Types*

## ■ True Endowments

- Created by donors
- Investment income may be used, but the principal may not be spent
  - Received by the Virginia Tech Foundation directly
  - Could come to the university
    - Example: Rolls Royce and Coca-Cola Pouring Rights Endowment

## ■ Quasi-Endowments

- University funds designated by the board to function like an endowment
  - Purchasing power of the principal over the long term is preserved
- Board has authority to repurpose the funds and to remove resources from the quasi-endowment at any time

# *Virginia Tech Foundation Investment Pool*

*FY 2017 Market Value of \$995.8 million*

- The Virginia Tech Foundation receives and invests private funds and endowments given for the support of programs at Virginia Tech
- VTF also invests university funds in accordance with an agency agreement with the university

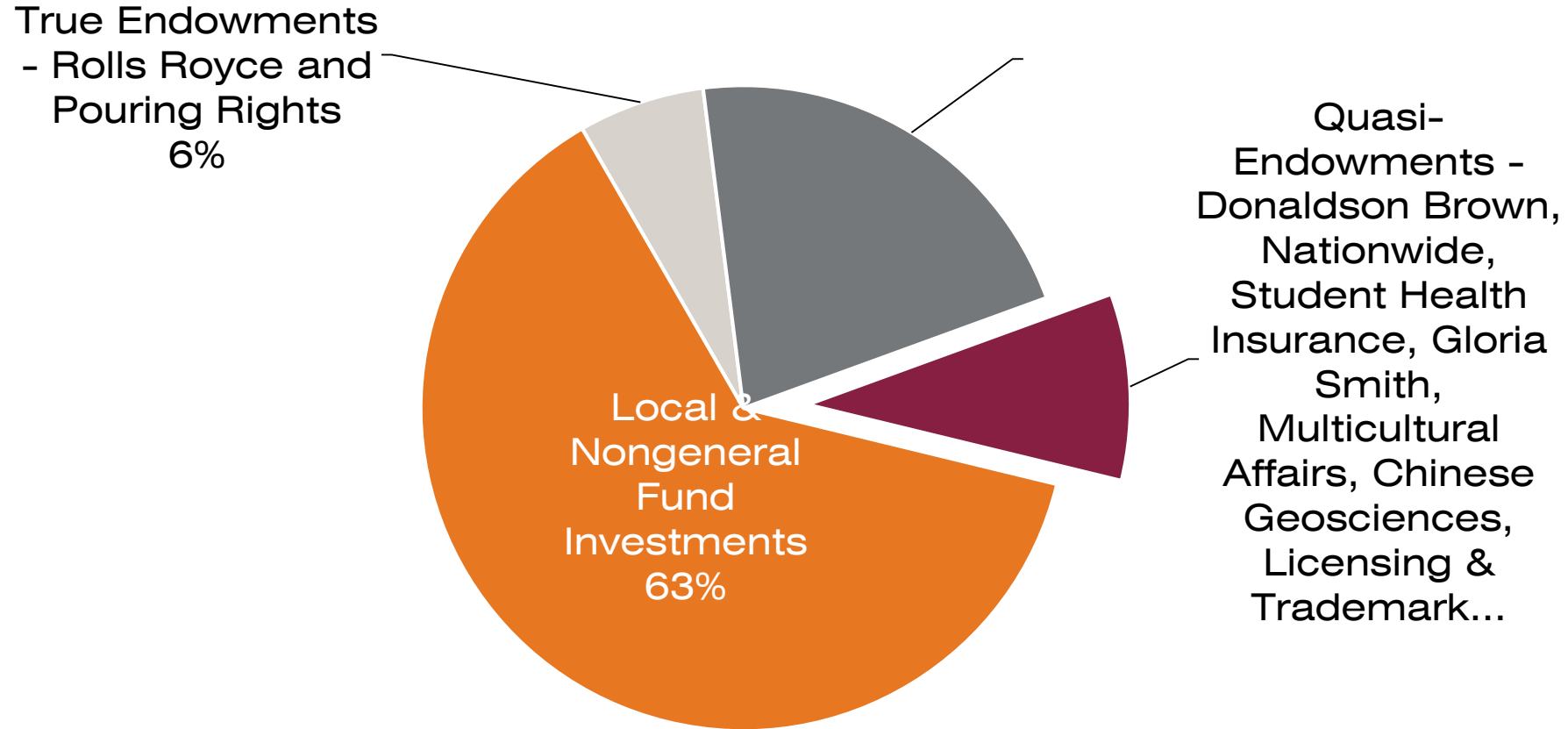


# *University Investments*

- §23.1-2604 of the Code of Virginia provides the authority to invest and manage the endowment funds, endowment income, gifts, all other nongeneral fund reserves and balances, and local funds held by the university
- Investment and management of these funds
  - While there is market risk, the objective is for higher investment income to advance university goals and objectives
  - Supports university operations, initiatives, scholarships, and maintenance reserve projects while holding down student fees
    - Beginning in 2018-19, a portion of the investment income derived from unrestricted assets will support the university's share of costs for Virginia Tech Carilion School of Medicine

# University Long-Term Investments

**\$225.7 Million Market Value  
As of December 31, 2017**



# ***Listing of Quasi-Endowments Owned by the University***

## **Funds Previously Designated by the Board as Quasi-Endowment:**

Pratt Fund	Restricted	Animal Nutrition and Engineering	\$48.4M
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## **Funds Recommended as Board Designated Quasi-Endowments:**

Donaldson Brown	Restricted	Scholarships	\$0.9M
Nationwide	Restricted	Scholarships	\$6.2M
Student Health Insurance	Unrestricted	Student Health Insurance	\$0.4M
Gloria Smith Professorship	Unrestricted	Professorship	\$0.4M
Multicultural Affairs	Unrestricted	Scholarships	\$0.1M
Chinese Geosciences	Unrestricted	Scholarships	\$0.1M
Licensing and Trademark	Unrestricted	Scholarships	\$13.0M

**Total Recommended Quasi-Endowments      \$69.5 M**

*\* Market Values as of December 31, 2017*

# *Management of Quasi-Endowments*

- The University has or will transfer these funds to the Virginia Tech Foundation to be invested in accordance with the university's agreement with the Foundation regarding the management of all such university funds.
- Quasi-endowments create an ongoing revenue stream for the university to advance strategic goals and objectives while holding down tuition and fees.
- The university's Chief Financial Officer is responsible for the periodic monitoring of these quasi-endowments and for the deployment of the quasi-endowment payments in the university budget process to achieve the intended objective(s) of the quasi-endowment.

## **RECOMMENDATION:**

That the aforementioned funds be reaffirmed and/or designated as quasi-endowments.

June 4, 2018

