

**CHASS Policy on “Underwater” Endowment Funds
June 25, 2012**

There are currently four endowment funds CHASS uses to support named faculty. Since the sharp decline in the performance of endowment funds in 2008 through 2010, some of these funds have not generated spending budgets comparable to the FY08/09 spending budget. Spending budgets are calculated using a formula that “smooths” quarterly performance by calculating 4% of the average market value over the previous twenty quarters. Even with this smoothing in place, three of the four funds were “underwater” at some point, meaning that all accumulated earnings and appreciation have been used and the original gift value or corpus has been eroded.

Spending Budgets, CHASS Endowed Professorships

	FY08-09	FY09-10	FY10-11	FY11-12	FY12-13
William C. Friday Distinguished Professorship (<i>Walt Wolfram</i>)	\$103,695	\$103,695	\$89,915	\$83,790	\$78,230
Goodnight-Glaxo Wellcome Distinguished Professorship in Social Sciences (<i>Vacant</i>)	\$23,750	\$0	\$0	\$0	\$20,515
William T. Kretzer Distinguished Professorship in Humanities (<i>T. Birkland</i>)	\$26,275	\$0	\$0	\$23,140	\$22,325
SAS Institute Distinguished Professorship of Rhetoric and Technical Communication (<i>C. Miller</i>)	\$46,655	\$0	\$0	\$0	\$40,410

In most cases, the letter of appointment or offer letter to a faculty member holding an endowed professorship indicates the expected annual spending budget based on historic returns. Expectations, of course, changed significantly after the financial crisis of 2008-2009.

As shown here, two of the four funds were underwater resulting in no spending budget for three years, and one other had no spending budget for two years. The other fund did not go underwater but saw a decrease in funds. Because the Glaxo-Wellcome professorship is vacant, this has not posed issues for the College; however, the others have sought relief from the College.

It is in the College’s interest to ensure that professors have the resources to engage the sort of work that they expected to undertake when hired or granted an endowed professorship. But it is also the case that the College’s resources are limited. Therefore, the College will work with professors holding these professorships based on these principles and guidelines:

Principles

1. It is understood by faculty and the College that endowment funds are subject to the usual risks inherent in any investment market, and that the spending budget will grow or shrink from year to year based on investment performance.

2. The professor and the College therefore share some of the risk inherent in these funds.
3. The College will provide, to the extent possible, funds to supplement these professorships when they have zero spending budgets. However, this is not an implicit or explicit promise that the College will make up the difference between an actual and “expected” spending budget, particularly when the spending budget is smaller than expected, but still positive.
4. For underwater funds, if college funds are available, and if the endowment fund allows for summer salary, the College’s first priority with respect to these funds is to provide the summer salary to which the faculty member is permitted to draw from the endowment. However, the summer salary will be provided on a funds-available basis.
5. With respect to summer salary and all other instances, the faculty holding endowment funds may request additional funds, and these requests will be considered among all funding requests in the College.

Policy:

1. Faculty whose endowment funds are underwater, yielding no spending budget, may request funding from their department heads for summer salary and for other expenses to cover the activities that would have otherwise been paid from the spending budget. If the department does not have the funds to cover some or all of this request, the department head may refer the request to the Dean.
2. While the departments and the College will assign a high priority to, when possible, providing funds for summer salary to cover lost endowment funds, all these requests will be competitive with other department and CHASS funding requests.
3. Faculty whose endowment funds come with a reduced spending budget may request additional funds. However, such additional funds are not guaranteed, and neither the departments nor the College are bound to pay any additional funds beyond the spending budgets established as part of the endowment.

Thus, if faculty make year-to-year commitments to, for example, research assistants or other staff, the faculty member is expected to meet their commitments to the employee from the funds available in the spending budget. Additional funds to meet these commitments may be available. But these funds will not be assumed to be available unless the Dean determines the request to be a top priority in that year, and commits to providing these funds. These decisions will be made on a year-to-year basis.

4. No faculty member may make a spending commitment that would constitute a commitment of *College* funds without the permission of the Dean or the Associate Dean of Research acting on the Dean’s behalf. No such commitments of departmental funds can be made without the permission of the department head.