Comments in opposition to proposal to reduce endowment spending rate

I oppose this proposal because in my view it does not adequately address the current public responsibilities of the University and sends the wrong message to the public.

There is serious debate taking place on spending rules for endowments. A number of commentators who oppose lower spending rates, including writers in the Chronicle of Higher Education and the Wall Street Journal, point out that endowments are built through generous tax privileges granted to the donors. They emphasize the public responsibility that adjoins endowment spending and caution that tax free funds should not be hoarded. As one writer put it, when these untaxed funds sit unused, piling up for long periods, the public is making a sacrifice and getting nothing in return.

Proponents of decreased spending rates say that they are maintaining the value of the endowment for perpetuity. I suspect that for many people struggling under the economic conditions that prevail in this country and in this state today, perpetuity sounds a long way off. In fact, one recent national poll reported that 60% of Americans think that colleges are more concerned with their own financial well-being than with giving students a quality education. I disagree with this view unequivocally, but I am nonetheless concerned that adoption of this proposal, in this time of economic stress and uncertainty, fuels such alienation.

I respect the sophisticated calculations that the administration has made to show that lowering our endowment spending rate today will mean both higher payouts and higher endowment value for the long term, beginning about 5 or 6 years down the road. However, these calculations are based on a set of assumptions about investment returns and inflation which are reasonable but in the end simply assumptions. If we have learned anything by the precipitous fall in endowment values all over the country not long ago, reasonable assumptions can prove mightily unreliable. Far more important than conservatively stock-piling our earnings – far more important for this University's future - will be continuing the truly remarkable development efforts and talented investing practices which have built the endowment in recent years.

A key feature of the proposal decreases the distribution that would otherwise be paid out for various endowed purposes under our present 5% spending rule during periods when the endowment enjoys a rising average endowment market value [as it has this past year]. What are those endowed purposes – those public purposes? One major purpose is financial aid, which is so vital to ensuring access to the University for qualified students. About 20% of the University's endowment payout is applied to financial aid. Another purpose is instruction, which is so important to ensuring the highest quality education for our students. About 24% of the endowment payout is applied to instruction. This is not the time to restrict what we distribute for financial aid and instruction.

We already have a strong and appropriate limitation in place under our current spending rule and we would be wise not to change it at this time.