

BOARD OF REGENTS
EASTERN MICHIGAN UNIVERSITY

SECTION: 30

DATE:

June 21, 2011

RECOMMENDATION

OPERATING AGREEMENT BETWEEN EASTERN MICHIGAN UNIVERSITY AND EASTERN MICHIGAN UNIVERSITY FOUNDATION

ACTION REQUESTED

It is requested that the Eastern Michigan University Board of Regents approve a five-year operating agreement between Eastern Michigan University and the Eastern Michigan University Foundation.

STAFF SUMMARY

On April 14, 2011, The Board of Regents approved a one year extension of the Operating Agreement with the EMU Foundation. The Board also requested a study be conducted of the organization of the fundraising function at Eastern Michigan University and that recommendations be made whether or not these functions should continue to be operated by the Foundation or should be brought "in-house" as a university department.

That study has been conducted. The study concludes that there would be little cost savings in changing from a Foundation structure to an "in-house" structure and that the benefits of operating as a Foundation would be lost to EMU if a structural change was made.

It is recommended that a new five year operating agreement with the EMU Foundation be executed that includes the following provisions related to reporting and accountability:

- a. That the Foundation adopt a Five Year Plan for raising annual support from \$6 million to \$15 million a year by 2016 to be delivered to the President by July 1, 2011. The goals for each fiscal year are set forth on Attachment A to this document.
- b. That the agreement stipulates that the Foundation Executive Board and Representatives of the Board of Regents will meet annually to discuss fundraising performance and endowment investment and draw policies.
- c. That language be contained in the agreement that reinforces that the priorities of the EMU Foundation Board are the development of resources for the university and to manage and grow the endowment.
- d. That the agreement stipulates that the total endowment draw percentage be reduced over the five year period to the target amounts set forth on Attachment A to this document.
- e. That the Foundation, through its Executive Director, will institute performance measures and major gift and college/Athletic Department goals for each development professional in accordance with the recommendations for performance outlined in the reports prepared by Marts & Lundy.
- f. That the EMU Foundation Board, through its Trusteeship Committee, will require that all members, in addition to executing conflict of interest forms, also execute a Code of Ethics statement that is being developed by the Board of Regents for all boards associated with the University.

FISCAL IMPLICATIONS

None

ADMINISTRATIVE RECOMMENDATION

The proposed ~~Board~~ action has been reviewed and is recommended for Board approval.

University Executive Officer

Date 6-13-11

Attachment A

EMU Foundation Fundraising Goals by Fiscal Year

FY 2012	\$ 9,500,000
FY 2013	\$10,500,000
FY 2014	\$12,000,000
FY 2015	\$13,500,000
FY 2016	\$15,000,000

EMU Foundation Endowment Draw Goal by Fiscal Year

(Current Budget is 4% spending for university programs/scholarships and 3.5% for Foundation operating costs)

Fiscal Year	% to be used by university	% Foundation operations	Total
2012	3.5	3.25	6.75%
2013	3.25	3.0	6.25%
2014	3.0	2.5	5.5%
2015	3.0	2.0	5.0%
2016	3.0	1.5	4.5%

Analysis of Operating Fundraising Function through the EMU Foundation or as a
University Department

Prepared by Thomas R. Stevick

Vice President of Advancement and Executive Director of the EMU Foundation

June 2011

Introduction

On April 14, 2011, The Board of Regents passed a resolution authorizing a one year extension of the Operating Agreement with the EMU Foundation. The Board also requested a study be conducted of the organization of the fundraising function at Eastern Michigan University and that recommendations be made whether or not these functions should continue to be operated by the Foundation or should be brought "in-house" as a university department. On April 25, representatives of the Executive Board of the EMU Foundation met with Chairman Wilbanks, President Martin and Vice President Stevick to request that the study be conducted this spring and be submitted to the Board of Regents for review and action by the June 21, 2011 board meeting.

Executive Summary

The EMU Foundation has lagged behind its peers in fundraising success over the last eight years. Whereas schools like Western Michigan University, Central Michigan University and Bowling Green State University now routinely raise \$12-17 million per year, we have remained relatively flat in our fundraising results at about \$6 million per year. Our peers have doubled and even tripled our success in raising funds from alumni and friend donors, corporations and foundations.

This analysis focuses on the current structure of the fundraising operation at Eastern Michigan University to examine if structure is a significant factor in the productivity issues. We examined the structure of our peers who are raising more money annually, we examined the cost structure of the EMU Foundation as compared to operating development as a university department and we sought professional counsel as to the legal and practical reasons why universities continue to operate separate support foundations.

In the end, we concluded that there were no compelling reasons to change the Foundation structure at EMU. There would not be a significant cost savings involved with any change and productivity would not necessarily increase by moving fundraising "in house". Instead, it was concluded that we need to strengthen our accountability methods and measures. This report recommends a series of accountability measures that affect the Foundation board, fundraising staff, deans and faculty.

1. Foundation Structure and our Peers

The first reason we concluded that a structure change was not necessary is because the fundraising operation at EMU is similar to our more successful peers and has advantages over an in-house operation. Beginning in the late 1970s and continuing to today, most public universities maintain foundations for the purposes of fundraising and asset management. All of the public universities in Michigan, except the University of Michigan and Central Michigan University, have foundations. All of the MAC public institutions, except CMU, have foundations. The EMU Foundation was established in 1990 for the same reasons that other university foundations are founded. Those reasons include:

- Ability to attract high-profile volunteers to serve on the board to assist fundraising
- Flexibility in holding certain assets and investing in entrepreneurial activities
- Ease of paying travel and entertainment expense associated with fundraising
- Provides a means of clearly separating state funds and donated funds

Although a majority of the schools examined maintain foundations, there is some variety in how these enterprises are structured. For example, at some universities the fundraisers, support staff, etc. are employees of the university. The foundation boards maintain responsibility for the endowment, entrepreneurial activity and fundraising assistance. Most of the universities maintain relatively large foundation boards (20-100 members), though a few operate with very small boards that focus primarily on the endowment. EMU is structured in the way most common to Public Masters Universities. A staff member of the institution (VP of Advancement) directs fundraising with support from the foundation staff and the volunteer board.¹ The EMU Foundation has a staff of 30 and a Board of Trustees comprised of 27 members and 25 emeritus members.

We then conducted a series of interviews with Vice Presidents at our peer institutions. Here, we tried to ascertain the reasons why those universities continued to operate foundations and what benefits the Vice Presidents saw in the arrangement. Not surprisingly, these Vice Presidents enumerated many of the same justifications listed above. Most common was the desire to attract influential donors to the board and to have flexibility in dealing with certain gifts, expenses and employees. Thus, when simply comparing the structure of EMU's fundraising operation with other universities it was concluded that we are structured along the lines of our peers. And that the reasons cited by other universities for operating foundations were relevant to EMU as well. This information supported maintaining the Foundation structure.

2. Cost Efficiency

The next factor examined was whether or not there would be a cost savings in bringing the fundraising operation into the university. The conclusion was that there would be minimal savings that would not justify the disruption of the current operation. Three specific costs were examined. Table 1 below illustrates that there would be some operational cost savings. However, Table 2 looks at employee costs and surmises that because of higher benefit costs, moving Foundation employees in-house would lead to higher costs. Finally, selling the building and moving all employees to campus would not be cost effective at this time, although it is an alternative that should be examined on an ongoing basis.²

¹ CASE, Results of the 2009 CASE Survey on Foundation Funding Sources and Budget Restructuring, October 2009.

² The office location of fundraising employees is really not a structure issue. Employees could be housed on campus if the appropriate facilities existed regardless of whether or not they were in-house employees or Foundation employees. Many of our peers operate foundations that are housed on campus.

Table1. Operational Cost Savings by Moving In-House (based on FY11 budget):

Audit/Tax	\$ 45,000
Benefits Consulting	5,000
Insurance	24,000
Legal	5,000
Foundation Board of Trustees Meetings*	6,000
Total Savings in Operational Costs	\$ 85,000

*Note that some Foundation Board of Trustees Meeting expenses would be offset by Development Advisory Board Expenses.

Table2. Employee Costs Foundation vs. In-House (based on FY11 budget):

Employee Salaries – Foundation	\$ 2,113,000
Employee Benefits – Foundation	536,000
Total Salaries & Benefits – Foundation	\$ 2,649,000
Employee Salaries - In-House EMU*	\$ 2,057,000
Employee Benefits - In-House EMU*	653,000
Total Salaries & Benefits - In-House EMU	\$ 2,710,000
Total Increase in Salaries & Benefits	\$ 61,000

*Note that the In-House EMU calculation assumes the reduction of one position that is primarily assigned to the administration of Foundation staff payroll and benefits, expense processing and accounting.

Table3. Building Cost Variables:

June 30, 2011 Mortgage Balance on EMUF Building	\$1,968,000
June 2009 Appraised Value per Gerald Alcock Company	\$1,860,000
FY11 Annual Building Budget (Net of Rental Income)	\$238,000
Estimated Cost to EMU to Renovate Space for Advancement Division	TBD

The tables above illustrate that the total costs saving would be about \$24,000 per year if the Foundation were to convert to an in-house department. There would probably not be a gain on the building sale and the cost of renovating space on campus would be prohibitive during the current budget concerns. The option of all employees moving to campus, especially Alumni Relations employees and certain fundraisers, should constantly be reevaluated for cost effectiveness as there would be benefits in having these employees on campus. However, none of these factors weigh in favor of changing the fundraising structure at EMU at this time.

3. The accountability for fundraising productivity remains in the hands of the Vice President of Advancement regardless of the structure

The current structure of authority provides that all Foundation employees report to the Vice President of Advancement/Executive Director of the EMU Foundation. The Vice President in turn reports to the President of the university and to the Foundation Board. This structure assures that the activities of the fundraising professionals are aligned with the strategic priorities of the university. As an added measure of connection and accountability, a number of the fundraising professionals are assigned to specific colleges and to Athletics and thus have a "dotted-line" of reporting to a dean or the Athletic Director. These fundraisers maintain offices on campus.

There is no question that fundraising productivity and accountability are major concerns. Starting a year ago, under a plan developed by consultant Roy Muir and implemented by Linda McGill and Jill Hunsberger, major gift activity began to increase. Development officers were more accountable for their activity and visits with major gift prospects. This, however, is an ongoing effort as we continue to set our sights higher for our donors and our fundraising professionals. In FY 2012 we will be setting increased goals not just for our fundraisers but for the colleges as well. These are management functions and internal controls that need to be instituted and enforced regardless of the structure of the organization.

The Foundation Board must take a bigger role in improving fundraising results. As stated earlier in this study, one of the key reasons to have a foundation is that it allows the university to attract people of influence and wealth to a board that serves the needs of the university. This has always been a concern with this Foundation and the performance over the years has been mixed. On the positive side, the first million dollar donor to the university was a Foundation board member. Other Foundation board members have brought significant corporate support to the university. Still others have given \$50,000, \$100,000 and more during their lifetimes. However, there is still significant work to do in attracting and motivating a Foundation board that uniformly commits to giving and influencing major gifts.

Once again, however, this is a management concern and not a structural concern. The EMU Foundation Board is the only volunteer board at EMU solely devoted to fundraising. And although the performance of the board can be improved, they have been a source of support and major gifts for many years. Like everyone involved in the development process –staff, deans, donors – we need to raise the sights of the Foundation Board members and continue to recruit new board members who can contribute in the ways necessary to raise our fundraising goals. This is the responsibility of the Vice President/Executive Director.

Recommendations: Accountability Measures

1. It is recommended that the current Foundation structure remain in place and that the Board of Regents authorize the President to enter into a new Five Year Operating Agreement with the EMU Foundation that includes the following accountability measures added:
 - a. That the Foundation adopt a Five Year Plan for raising annual support from \$6 million to \$15 million a year by 2016 to be delivered to the President by July 1, 2011.
 - b. That the agreement stipulates that the Foundation Executive Board and Representatives of the Board of Regents will meet annually to discuss fundraising performance and endowment investment and draw policies.
 - c. That language be contained in the agreement that reinforces that the priorities of the EMU Foundation Board are the development of resources for the university and to manage and grow the endowment.
 - d. That the agreement stipulates that the total endowment draw percentage be reduced to a target of 5% over the five year period of the agreement. That specifically, the amount used for Foundation operations be reduced from the current 3.5% to 1.5% and the net amount made available for spending to the university each year be reduced to 3% over the agreement period.
 - e. That the Foundation, through its Executive Director, will institute performance measures and major gift and college/Athletic Department goals for each development professional in accordance with the recommendations for performance outlined in the reports prepared by Marts & Lundy.
 - f. That the EMU Foundation Board, through its Trusteeship Committee, require that all members, in addition to executing conflict of interest forms, also execute a Code of Ethics statement that is being developed by the Board of Regents for all boards associated with the University.

2. It is recommended that the University President, the Vice President of Advancement and the Provost develop a series of accountability measures for deans and department heads that will include the following:
 - a. That each college and the Athletic Department be given specific goals for the amount of funds raised each year.
 - b. That more faculty members be recruited to develop grant proposals.
 - c. That specific donor cultivation and solicitation activities be measured each year for performance reviews for deans and department heads.