CAPITAL RESEARCH CENTER

Foundation Watch

Giving to College Endowments

How Colleges Violate Donor Intent... What Donors Can Do About It

by Martin Morse Wooster

Summary: Donors should be especially wary when giving to universities. Don't assume that college administrators will use your donations for the purposes you intend. Capital Research Center Visiting Fellow Martin Wooster offers these tips for those making gifts to academia. Among his recommendations: Make your wishes as explicit as possible. And consider putting term-limits on your gifts to prevent their misuse after you pass away.

The Scientific-Atlanta Foundation presents a $50,000 check to Gwinnett University, the university's first corporate donation.

It happens every spring. If you're prosperous or well-known, chances are that you'll get a call from your college's fund raising office, asking why you haven't contributed to your alma mater—or if you have contributed, why your contribution isn't larger. Donating to education is, of course, a worthy endeavor. But there's a great deal of evidence that shows the most inefficient way to contribute to scholarships is to give unrestricted gifts to a university. Even restricted gifts frequently are misused when universities choose to violate the donor's intent.

Despite some setbacks in recent years, university fund raising offices remain large, sophisticated enterprises. This June, the *Columbus Dispatch* profiled the Ohio State University development office. Ohio State didn't even begin major fund raising drives until 1985; today, the school has a $1.1 billion endowment, and it collected $210 million from alumni in 2001. The Ohio State development office has a $14.5 million budget and a staff of 158, including four branch offices in the U.S. and a fifth to be set up in Asia.

Ohio State's most lavish fund raising event is its annual Winter College, held for two days in Naples, Florida. Alumni, most of them retirees, pay $175 to hear lectures from faculty, mostly on topics of interest to seniors, such as health issues and estate planning. The alumni then respond generously: Ohio State president William Kirwan returned from the 2002 Winter College with four $100,000 checks and one for $250,000.

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As fund raising enterprises go, Ohio State is a medium-sized endeavor. Large private schools raised more cash, particularly during the boom years of the 1990s. Between 1994-2001, 11 schools (including Ohio State) successfully completed billion-dollar capital campaigns. The University of Virginia, for example, finished its billion-dollar drive in February 2000, and then announced that the drive would be called "Beyond a Billion," with premium seats to football games reserved for big donors.

Harvard ended a five-year drive in 2000 with $2.6 billion, raising its endowment to an all-time high of $19.6 billion—a sum so large that a *Harvard Crimson* writer boasted that his school was "one of the richest non-profit institutions on the planet" with an endowment "second only to the Vatican."

In an October 2000 interview, Harvard development officer Andrew K. Tiedemann told the *Harvard Crimson* that university development officers were dissatisfied with the 34 percent rise in alumni donations between 1999 and 2000. Harvard had to be the number one university in America, and thus had to have more money than anyone else.

"We don't persuade alumni and friends that we need money," Tiedemann said. "If we stood still we could get along, which is not true of many other institutions, but the opportunity costs for Harvard and society would be great and we would quickly not remain on the forefront. Harvard would not be Harvard in a very short period of time."

Harvard wasn't even the most successful fundraiser in the Ivy League. Columbia raised $2.74 billion between 1990-2000, thanks to 300,000 donors, including 29 gifts of between $10-25 million, six gifts of between $25-49 million, $50 million from the Bill and Melinda Gates Foundation, and $85 million from telecommunications magnate John R. Kluge.

It should be noted that among the more generous donors to colleges and universities in the 1990s were CEOs of now-disgraced corporations. Among them:

* Tyco International CEO L. Dennis Kozlowski, who contributed so much to Seton Hall University that the institution's business school is housed in Kozlowski Hall.

* Global Crossing CEO Gary Winnick donated $11 million to C.W. Post University, which named its administration building Winnick House.

* There are at least 40 Arthur Andersen professors of accounting at various colleges.

* Enron cancelled plans to endow two chairs at the Rice University management school. But there's still an Enron Professor of Economics at the University of Nebraska (Omaha). And former Enron CEO Kenneth Lay, through his Lay Family Foundation, has endowed chairs at the University of Houston (where Lay obtained his doctorate in economics), Rice University, and the University of Missouri (Columbia). The *Los Angeles Times* reported in February that the University of Houston is still counting on the Lay Foundation to endow a second professorship at that school, along with a proposed Ken Lay Center for the Study of Markets in Transition.

College Contributions and Assets: How Much?

As the boom times of the 1990s turned into the hard times of this decade, the giving trends to colleges are mixed. Two national reports issued this year provide contradictory evidence about giving to colleges. The Council on Aid to Education (a division of RAND) reports that giving to colleges in fiscal year 2001 amounted to $24.3 billion, an increase of 4.3 percent over fiscal year 2000. (By contrast, donations in fiscal year 2000 rose by 13.7 percent over fiscal year 1999.) The most successful colleges were Harvard (with $683 million in donations), Stanford ($469 million), and Columbia ($358 million).

However, the 2001 annual edition of *Giving USA* presents a somewhat gloomier picture because it measures donations by calendar years, thus taking September 11 into account. According to *Giving USA*, donations to education (including gifts to colleges, universities, libraries, and elementary and secondary schools) fell by 2.3 percent to $31.2 billion in 2001, following a drop of 0.7 percent in education giving from 1999 to 2000.

Endowments are also shrinking. A survey conducted by the *Chronicle of Higher Education* in October 2001 looked at the 25 richest schools and sampled 25 others. It found that 37 of the 50 schools saw their endowments fall between fiscal years 2000 and 2001. Harvard's endowment fell from $19.1 billion to $18.3 billion during these two fiscal years. (By contrast, Yale's endowment rose from $10.1 to $10.7 billion.) These endowment losses have led to some reductions in university development offices, including at Dartmouth and the University of Connecticut.

There's some evidence that donations have picked up somewhat this year. In March, the *Chronicle of Philanthropy* talked with development officers at several schools, including Emory University, Ouachita Baptist University, and Hollins

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College, and all reported increased donations after sharp declines between September-December 2001, so that all three schools would report slight increases or no change in donations between fiscal years 2001 and 2002.

And so far, schools have shown they can still attract the big donors. The 21st century record to date remains the $400 million given by the William and Flora Hewlett Foundation (created by the co-founder of Hewlett-Packard) to the Stanford University endowment in 2001. There have been at least four nine-digit donations in 2002.

* In June, the Lilly Endowment announced that it would give up to $138.9 million over a multi-year period in matching grants to 38 public and private universities in Indiana. Each school will receive $150,000 to launch a six-month fund raising campaign. The endowment will then match alumni donations up to $3 million, and total donations up to $3.5 million.

* The University of Texas (Austin) announced a $150 million donation from John A. Jackson, a petroleum magnate who graduated from the university in 1940. Jackson made the gift, which will be used to increase the endowment of the John A. and Katherine G. Jackson School of Geosciences, after previous donations to the school totalling at least $40 million. The university announced that Jackson's gift ensures that the school will reach its billion-dollar "We're Texas" capital campaign 2 1/2 years ahead of schedule.

* The Johns Hopkins University received $150 million from Jones Apparel Group chair Sidney Kimmel. The school announced that the Johns Hopkins Hospital would create the Sidney Kimmel Comprehensive Cancer Center. The *Baltimore Sun* reported that Kimmel "did not graduate from Johns Hopkins, has never been treated for cancer, and has no personal ties to Baltimore." Kimmel, whose foundation largely gives to cancer research, became interested in Johns Hopkins after the daughter of a close friend was treated for cancer at the university hospital.

* The largest grant announced so far this year is a $300 million matching grant to the University of Arkansas by the Walton Family Charitable Support Foundation, controlled by heirs of Wal-Mart founder Sam Walton. The grant will only be paid if the university successfully raises $300 million by June 2004. No money has changed hands yet, but the donation has already sparked controversy. In August, Circuit Court Judge Chris Piazza, responding to a lawsuit filed by the weekly *Arkansas Times* under the Arkansas Freedom of Information Act, stated that the school's dealings with the Walton Foundation (it was given the code-name "Quantum") could stay secret because disclosure of the plan could give the university's rivals a competitive advantage.

Asking for Money

Why do donors contribute to colleges? If fundraisers were certain they knew the answer to this question, their jobs no doubt would be much easier. But whatever the donors' motives for giving, universities are not shy about asking them for money. Sometimes college presidents offer peculiar enticements.

Several schools have entered the burial business. Mount St. Mary's College in Emmitsburg, Maryland expanded its cemetery in the early 1990s; alumni have bought 325 of the 450 new plots available, at fees ranging from $500 on up. The University of Virginia has sold 130 of the 180 slots available in its new burial ground, at a cost to donors of $3,000 per plot. The University of Richmond has gone farthest. It spent $1 million to build a columbarium designed to hold ashes from cremations. The school offers 2,970 niches to hold burial urns, at a cost to donors of $3,000 each.

Other schools offer donors the pleasure of personal attention. The *Harvard Crimson* in 1999 observed that wealthy potential donors would receive an invitation to have lunch with capital campaign co-chair Robert Stone at the New York Yacht Club. "Bob takes you to lunch at the Yacht Club and orders a plate of oysters," said capital campaign co-chair Rita Hauser. The waiters "all call him 'commodore' and at the end of the lunch he says, 'Wouldn"t it be nice if you gave a few million?"

If lunch with Stone didn't work, the Harvard prospect received two follow-up visits—one from then-president Neil Rudenstine and a second from provost Harvey V. Fineberg. "You get a call from Neil and you chit-chat about the world and about the weather and then he says, 'This school needs money,'" Hauser said. "And if that doesn't work, you get a visit from Harvey. He doesn't waste any time and asks you immediately. I have never known this trio to fail."

But some university presidents get directly to the point. University of Southern California president Steven Sample told the *Los Angeles Times* how he attracted a nine-figure gift from biomedical entrepreneur Alfred E. Mann. Mann graduated from the University of California (Los Angeles), but negotiations between Mann and UCLA had broken down. In May 1997, Sample heard about this and cold-called Mann. "Mr. Mann, you don't know me from Adam," Sample said. He then took Mann to lunch at the Pasadena Ritz-Carlton and explained that, as a private school, USC was better able to respect Mann's wishes than the state-run UCLA. Eight months later, Mann donated $112.5 million to USC to establish the Mann Institute for Biomedical Research.

Then there is the case of Edward Harte, former publisher of the Corpus Christi (Texas) *Caller-Times*. Harte wanted to leave his fortune to the city where he had spent most of his career. But first he consulted with his adult children, one of whom was interested in marine life in the Gulf of Mexico. The child persuaded his father that it was best to give money to Texas A & M University (Corpus Christi), although neither Harte nor any of his children had attended the school. (Harte previously had given the school $4.5 million.)

Harte met with the school's president, Robert R. Furgason, and offered to donate $25 million for five endowed chairs in ocean science. According to the *Chronicle of Higher Education*, Furgason told Harte the donation was too small. The school needed six chairs, not five, and each new professor needed two research assistants who would earn $25,000. That upped the bill to $36 million. And all the new professors and staff would need a new building, which would cost $10 million.

Harte said he reacted "a little testily" to Furgason's request to nearly double his gift. But Furgason's hard-ball tactics worked. Harte agreed to donate the full $46 million for the Harte Research Center. Furgason said that while he had taken some heat for his aggressive tactics, "it wasn't a bluff on my part. It really was a very friendly conversation between us."

What's In It for the Donor?

After the deal is struck, what do donors get in return? Often the deal schools offer donors is this: Give us enough money for an endowed chair, a scholarship, or a building, and we'll name something after you that will ensure that you will be remembered forever.

Colleges offer an amazingly diverse portfolio of "naming opportunities." Visit the University of Arizona alumni association building, and you'll find the Dick McDonald restrooms, named because McDonald, a plumber, donated $30,000. "It was serious from the donor's point of view," alumni association president Kent D. Rollins told the *Chronicle of Higher Education*. "It has certainly alerted us as to what donors might be interested in."

The *Minneapolis Star-Tribune* reports that college athletic departments are increasingly entrepreneurial in offering naming opportunities. At the University of Iowa, 35 of the 50 students on the football team hold endowed positions. ($250,000 creates an endowed chair for the quarterback). Penn State offers alumni who played football the chance to put their names on a locker for $25,000. Clemson, for a $75,000 donation, offers football season-ticket holders the opportunity to will their 50-yard-line seats—and a good parking space—to their heirs.

Correction: The photo caption on page 1 of the October Foundation Watch incorrectly stated that Henry Ford was the father of Henry Ford II. He was the grandfather.

However, a donor can't always assume that a school will fulfill its agreement. A "head of advancement for an established college on the East Coast who prefers to remain anonymous" wrote an article for *Philanthropy* exposing the tricks of the trade. Some schools sell the naming rights to a building to several donors, placing one donor's name on one door and another donor's name on another. Other schools hyphenate names, changing the "Jones Building" to the "Jones-Smith Building" or placing the "Smith Center" inside the "Jones Building."

Take the case of California State University (San Marcos). In 1995, entrepreneur Donald Owen Van Ness donated $1 million to the school with the understanding that its business school would be named after him. But in 1998, shortly before Van Ness's death, he agreed to a codicil to his will stating that, instead of the entire school, Van Ness's name would only be posted on one room of the business school's library.

Van Ness's friends sued, saying the donor was coerced, and citing as evidence an email where Van Ness asked for his money back. But in September 2001, a mediator ruled in favor of the university, stating that the school did nothing illegal in reducing the reward for Van Ness's donation.

The Endowed Chair

There are particular perils in giving to the "endowed chair." In Britain, the Margaret Thatcher Foundation raised two million pounds to endow a Margaret Thatcher chair of enterprise studies at Cambridge. But according to *Spectator* writer Justin Marozzi, the first holder of the chair, Alan Hughes, was a Labour Party supporter who contributed a paper to *Rebuilding Socialist Economies: A New Strategy for Britain*. In an interview, Hughes refused to say whether he was a free-market economist, supported the ideals of Lady Thatcher, or if he believed in capitalism.

Institute of Economic Affairs president John Blundell observes that securing the agreement of Lady Thatcher to raise money to endow the Thatcher chair was a "very bad, deeply flawed strategy from the start." He notes that the donor "might secure the first appointment, but in time they lose interest or die, and the chair becomes captured by the academic establishment."

But it's not only conservatives who have reason to be suspicious of fundraising campaigns to endow chairs. There have been instances where liberals faced opposition in trying to endow controversial chairs. Supporters of Anita Hill, for instance, raised $250,000 to endow a chair in her name at the University of Oklahoma law school. In 1995, the Oklahoma state legislature matched the grant, despite grumblings by some legislators.

From the beginning, the Anita Hill Chair was fraught with controversy. The University of Oklahoma accepted donations for the chair, but refused to do any fund raising for it. Newhouse News Service reporter Elizabeth Bryant observed in 1998 that "Hill and some of her supporters believe the foot-dragging [by the university] is calculated and reflects an atmosphere in which conservatism is entrenched and controversial viewpoints—like Hill's on sexual harassment—are shunned."

"The fear of just the research (on sexual harassment,) and my name being attached to it," Hill told Bryant, was one reason why the University of Oklahoma was not in a hurry to fill the chair.

In 1998, Hill left the University of Oklahoma for Brandeis University. And in May 1999, the university dissolved the endowment for the Anita Hill Chair, claiming that $500,000 was not enough to hire a nationally-known sexual harassment scholar. The school said that it would work with Hill to either return the money to donors with interest, set up another endowment at the school, or give the funds to a foundation.

Is Fool-Proof Giving Possible?

How should donors give to colleges? My best and only advice is: Be careful.

Perhaps the worst way to contribute is to give unrestricted funds to an endowment. If you do this, you sign away all control over how your money is spent. It's likely that your gift will help your alma mater in some way, but it's not inconceivable that the school will use the funds for a purpose that has nothing to do with education. In 2000, Eckerd College president Peter Armacost and vice-president for finance J. Webster Hull were forced to resign when it was found that $19 million—three-fifths of the school's endowment—was spent without the knowledge of the school's board of trustees. Most of the money went to support a home for the elderly and a housing complex, both of which went bankrupt.

Donors with definite political or philosophical commitments should avoid giving money for endowed chairs. Remember: Believers in the principles of free enterprise and limited government can't assume that endowing a chair of free enterprise or entrepreneurship will add a pro-freedom scholar to a school's roster. Universities can legitimately argue that it is a violation of academic freedom for a donor to have veto power over appointments. And even if the chair goes to someone who shares your beliefs, don't forget that money donated to colleges is fungible — the money a school saves by not having to pay the salary for an endowed chair is money that can be spent on causes a donor may oppose.

To make sure that their intentions are observed, donors to colleges and universities can take several actions.

1.*They should state their wishes as explicitly as possible.*

The case of Lee Bass is well known. He offered $20 million to Yale to create a Program on Western Civilization only to see the proposal collapse when Yale wanted to use the money to pay for professors who were hostile to the principles of Western Civilization. Donors to colleges should assume that, unless proven otherwise, the college executives they deal with are liberals hostile to conservative principles. Donors should have escape clauses in their donations to colleges that terminate the grant if a school violates donor intent. In addition, donors should also insert "add-on" clauses to their gifts stating that their money adds to, but does not replace, the college's budget. This ensures that schools use your gift to pay for causes you espouse.

2.*They should make their gifts term-limited.*

Donor intent for gifts made in perpetuity is usually ignored within one generation after a donor's death. At Princeton, for example, the heirs of donor William Robertson are suing the school because they charge that the school is taking Robertson's gift, designed to aid the Woodrow Wilson School of Public and International Affairs, and spending it on something else. Had Robertson, who died in 1981, placed a time limit on his gift, his heirs would not have to deal with Princeton's violation of Robertson's wishes.

3.*They should consult with trusted third parties, such as the American Council of Trustees and Alumni (ATLA) and Donors Trust—and Capital Research Center.*

These groups have experience in dealing with colleges, and they can identify which schools are most trustworthy in keeping faith with the intention of donors.

4. *Above all, donors considering setting up a grantmaking foundation to support higher education ought to ask themselves this question: Which is better:*

a) to make gifts while you are alive to specific programs so that you can see how your money is spent? Or

b) to establish a perpetual endowment and hope that students in future generations remember that you gave the money?

The great donor Julius Rosenwald provided the wisest answer to this perennial question in philanthropy. In his important 1929 essay "Principles of Public Giving," Rosenwald concluded that donors could not assume that a perpetual gift would ensure that they would be remembered in the future.

"If some men are remembered years and centuries after the death of the last of their contemporaries," Rosenwald wrote, "it is not because of endowments they created. The names of Harvard, Yale, Bodley, and Smithson, to be sure, are still on men's lips, but the names are not those of men but those of institutions. If any of these men strove for lasting remembrance, they must feel kinship with Nesselrode, who lived a diplomat, but is immortal as a pudding."

Martin Morse Wooster is a Visiting Fellow at Capital Research Center.

PhilanthropyNotes

The federal **Victims Compensation Fund** has announced it will pay an average of $1.75 million to 14 families who lost a relative in the September 11 attacks. The cases were closely watched because they were very complex and because the families were represented by the group **Trial Lawyers Care**, 1,200 lawyers who volunteered to aid victim families free of charge. Attorneys for the brokerage firm Cantor-Fitzgerald – which lost two-thirds of its employees in the attack – complained earlier that victims' families faced heavy paperwork and worried that the fund would not sufficiently compensate families of highly paid workers. But the government's announcement has changed many minds. Said Leo Boyle, president of Trial Lawyers Care, "Our faith and trust in the system thus far has been vindicated." Fund Special Master Kenneth Feinberg hopes the settlements will encourage more families to forego legal action and apply for aid. The fund has received 724 claims to date.

The wave of corporate scandals is drawing attention to **CEO abuse of corporate philanthropy**. A September 22 *New York Times* story reports on the mixing of corporate philanthropy and CEO personal philanthropy which has left many shareholders wondering if corporate philanthropy is misused by top executives. Former **Tyco International** CEO Dennis Kozlowski, indicted on racketeering, fraud, tax evasion and grand larceny charges, also faces a company lawsuit accusing him of taking personal credit for more than $43 million in Tyco charitable donations and allocating another $63 million in company funds to his favored personal charities. The extent of potential abuse is unknown because federal securities laws seldom require companies to report charitable contributions to the **Securities and Exchange Commission** (SEC). The SEC admits it does not regularly monitor corporate giving habits. **Rep. Paul Gillmor** (R-OH) has submitted bills requiring disclosure of corporate philanthropy to the SEC. But powerful lobbies – corporations and organizations representing nonprofits – are thwarting his efforts. One disclosure provision was removed from the recently-enacted corporate accountability bill after lobbying by the **American Heart Association**, **Council on Foundations**, **Independent Sector** and the **American Society of Association Executives**. They complained that disclosure made it harder to solicit corporate donations and recruit CEOs to be nonprofit board members.

Walter Annenberg, the billionaire publisher and philanthropist, died of pneumonia on October 1. Annenberg's media empire included *TV Guide* and the *Philadelphia Inquirer.* As a philanthropist, he donated more than $1 billion to hospitals, museums and schools, mainly through the **Annenberg Foundation,** as well as making many smaller unpublicized gifts: He paid off the mortgage on the home of the widow of the Dallas police officer killed by Kennedy assassin Lee Harvey Oswald. But his celebrated 1993 gift of $500 million to fix the nation's public schools offered a poor model in large-scale private giving. Critics note that Annenberg's generosity was dissipated on spending that reinforced the public school establishment (teachers unions, boards of education and politicians) and ignored parental choice and other market-based alternatives. (See March 1998 *Foundation Watch*.)

The **Turner Foundation** has announced it will not accept new funding proposals for 2003 and will lay off two-thirds of its staff. Ted Turner established the foundation in 1990 and has had to make additional contributions each year to fund its mission. But since early 2001, the value of Turner's holdings in AOL Time Warner has dropped from $7.5 billion to about $1.6 billion. Foundation president Michael Finley said the foundation will also probably not entertain new funding requests in 2004. Turner will continue to fulfill his $1 billion commitment to the United Nations Foundation.