



# **The endowment's role in our financial sustainability**

**Fossil Fuels & Climate Impact Task Force**

**Community Forum**

September 19, 2017

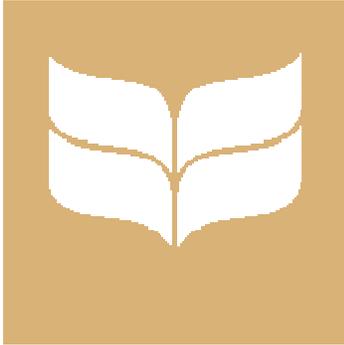
**Kate Walker**, VP for Finance & Treasurer



## Goals for today

- Better understanding of how the endowment “fuels” the **operating budget**
- Appreciation for the risks and challenges of **endowment dependence**
- How we’re mitigating **endowment dependency risks**





**Before we begin...**

**What questions would you like to have answered today?**



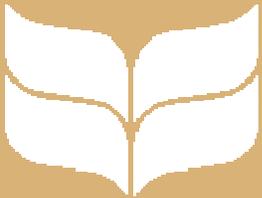
✓ **Dependence on the endowment**

✓ Endowment spending

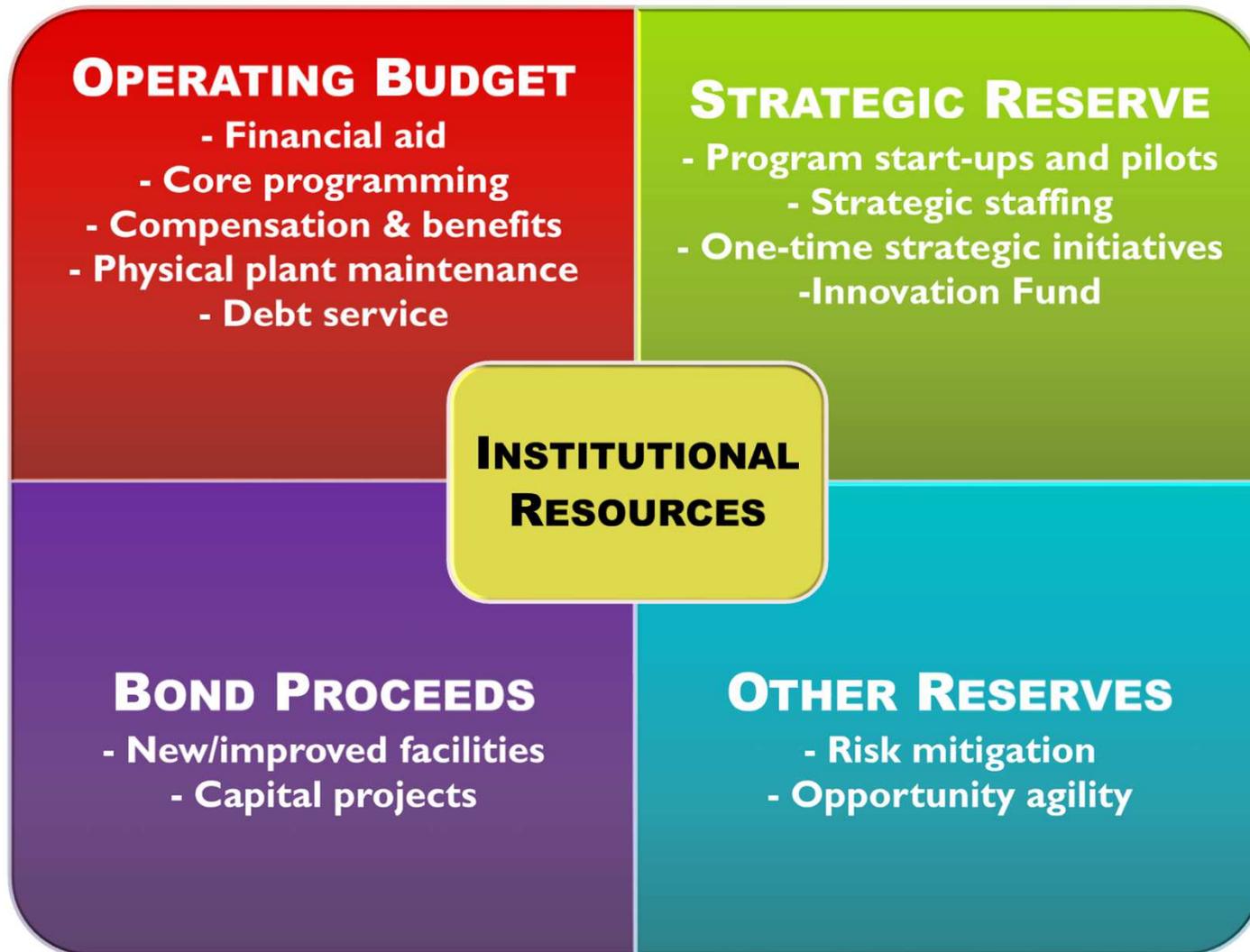
✓ Recognizing and mitigating risks

✓ Closing

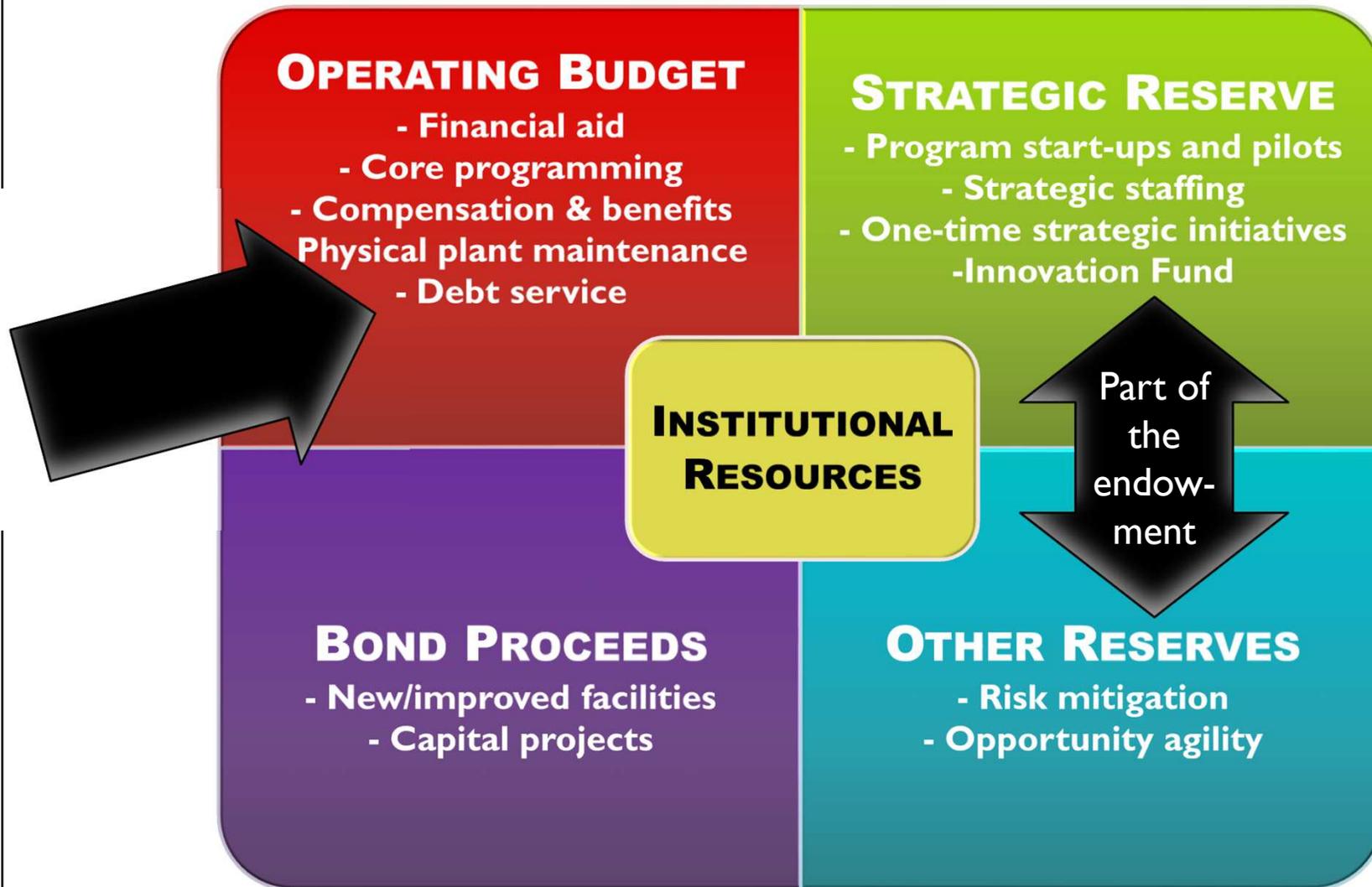
✓ Q&A



# Financial Depth and Diversity

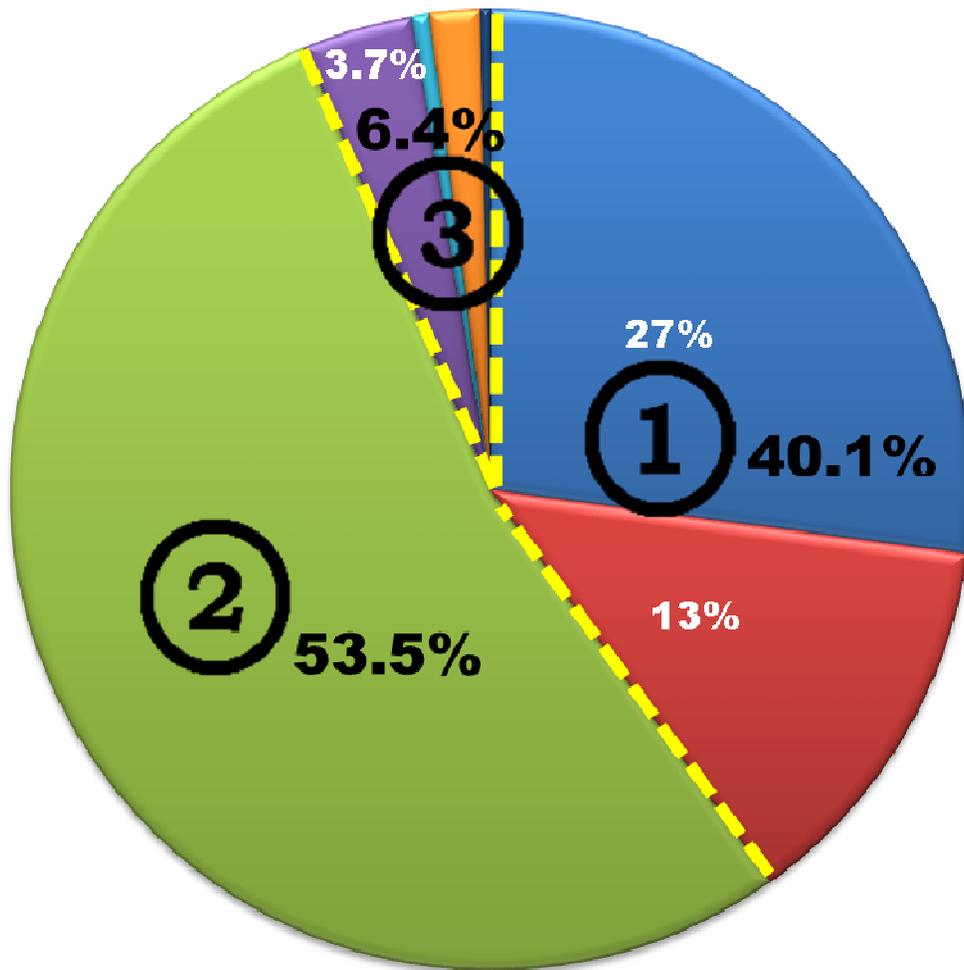


# Financial Depth and Diversity



# FY18 Revenue: Conservative and “careful”

## Revenue Allocation FY18 Budget



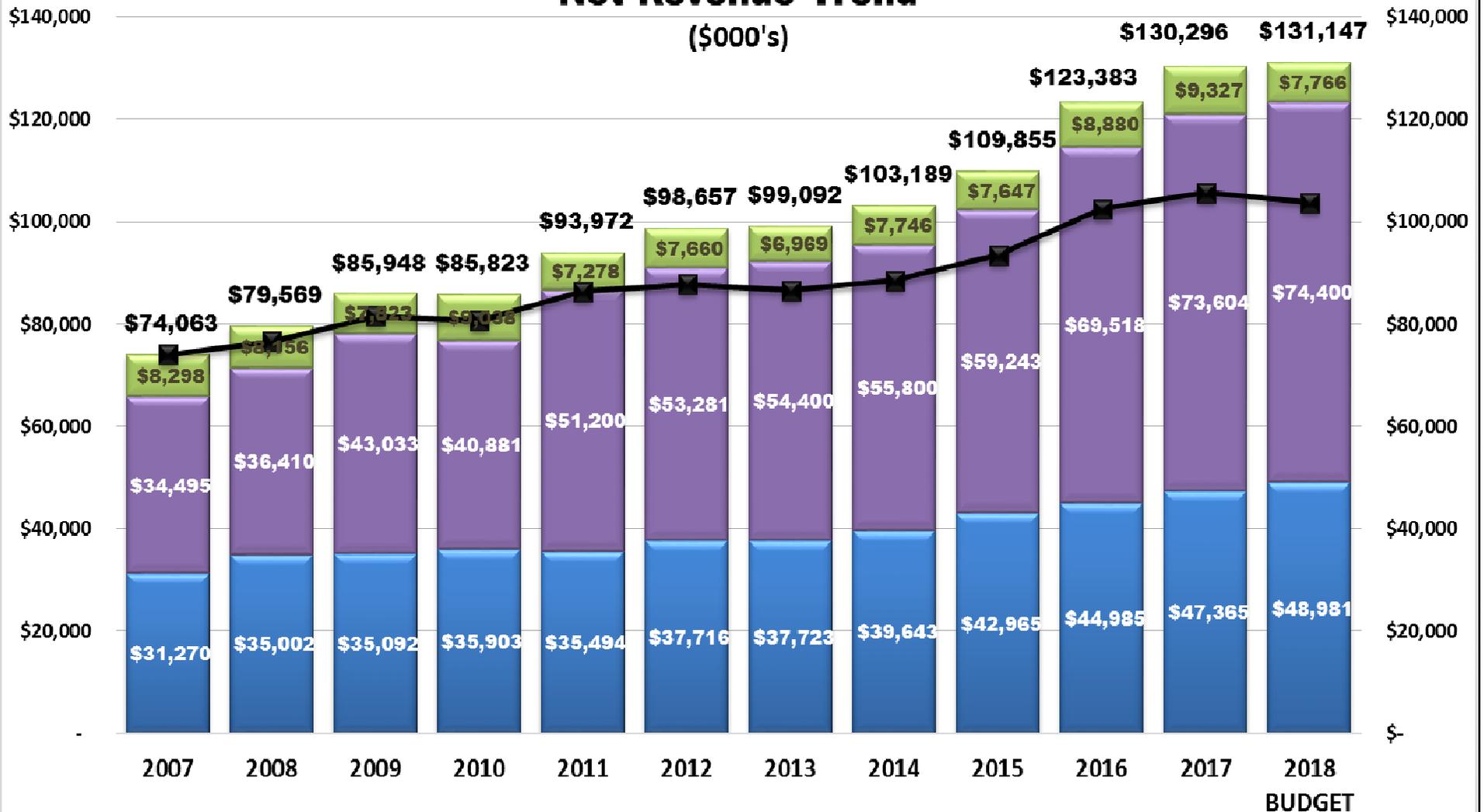
- NET Tuition & Fees (1)
- Room and Board (1)
- Endowment Payout (excluding tsf to Strat Reserve & BML&L) (2)
- Gifts (3)
- Grants + State/Federal Work Study (3)
- Other Auxiliary Services (3)
- Other Income (3)

# FY07-FY18: Revenue has nearly doubled

(NOMINAL \$ -- includes extra endowment payout)

## Net Revenue Trend

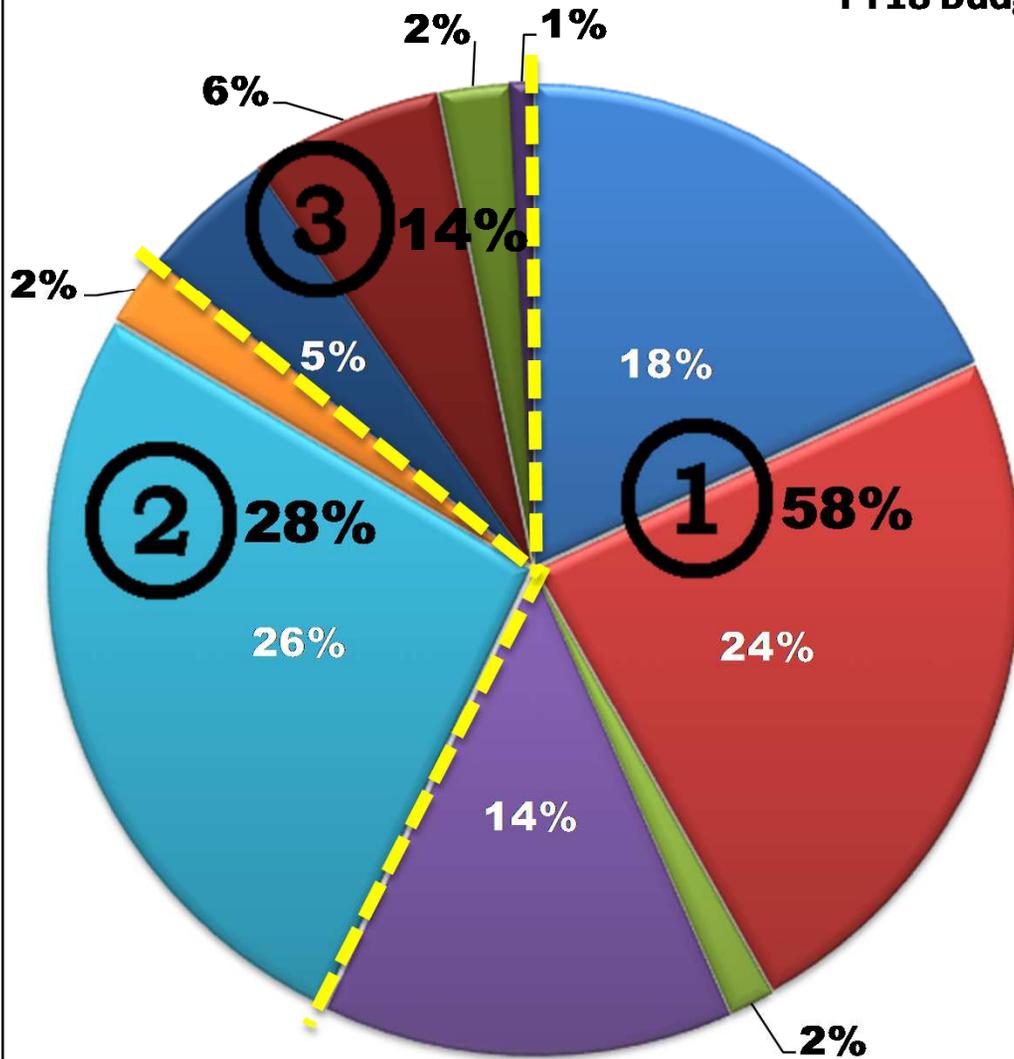
(\$000's)



■ NET Revenue from Students   
 ■ Endowment Payout (including extra)   
 ■ Gifts & Other Income   
 ■ Inflation-Adjusted

# FY18 Expenses: Realistic and within our means

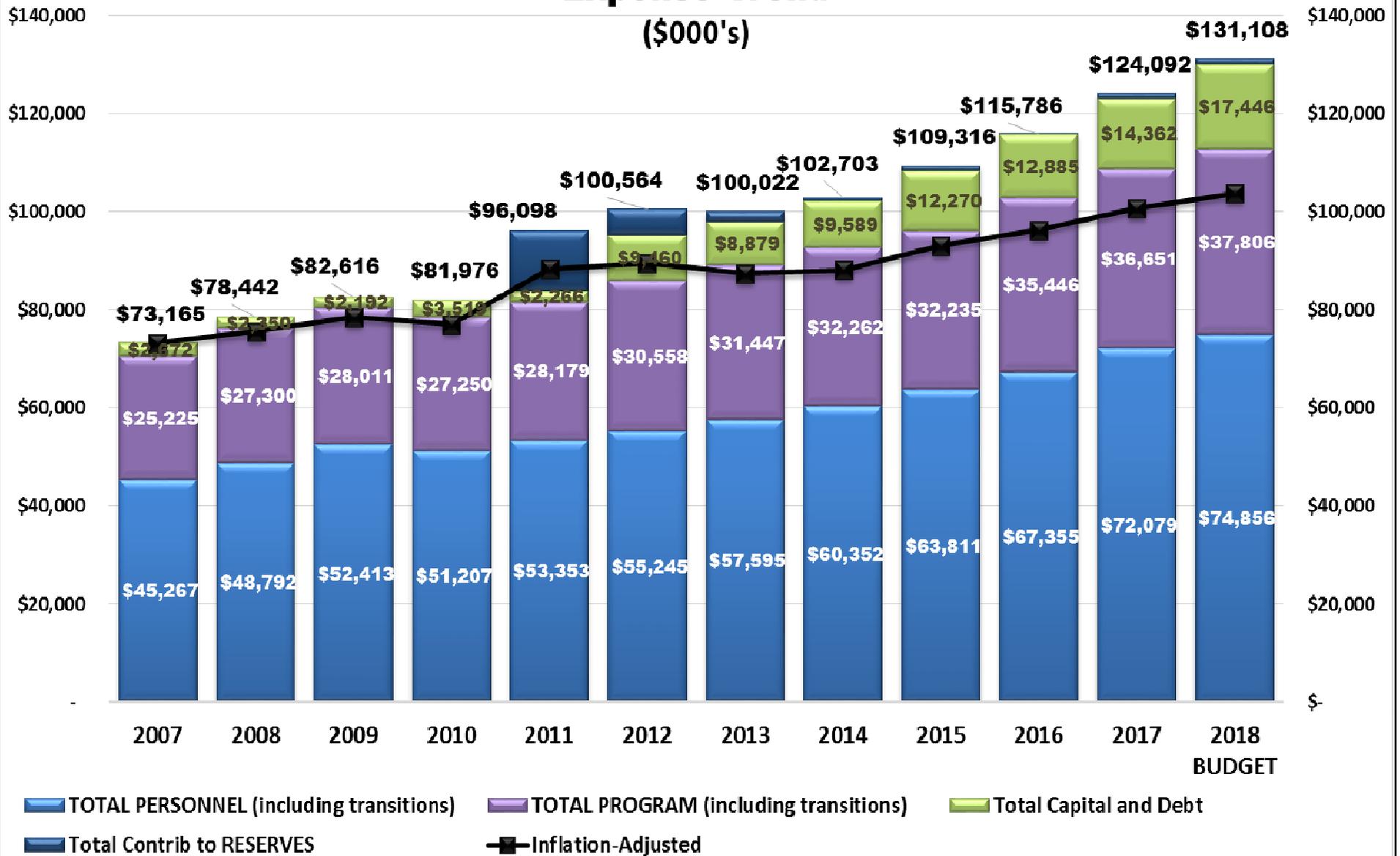
### Expense Allocation FY18 Budget



- Faculty Salaries
  - Staff Salaries, OT, and Stipends
  - Student Wages
  - Benefits and Taxes (ALL)
- ①
- Program - excl fuel/utilities
  - Program - fuel/utilities
- ②
- Debt Service - Principal
  - Debt Service - Interest & Fees
  - BM&E
  - Contribution to RESERVES
- ③

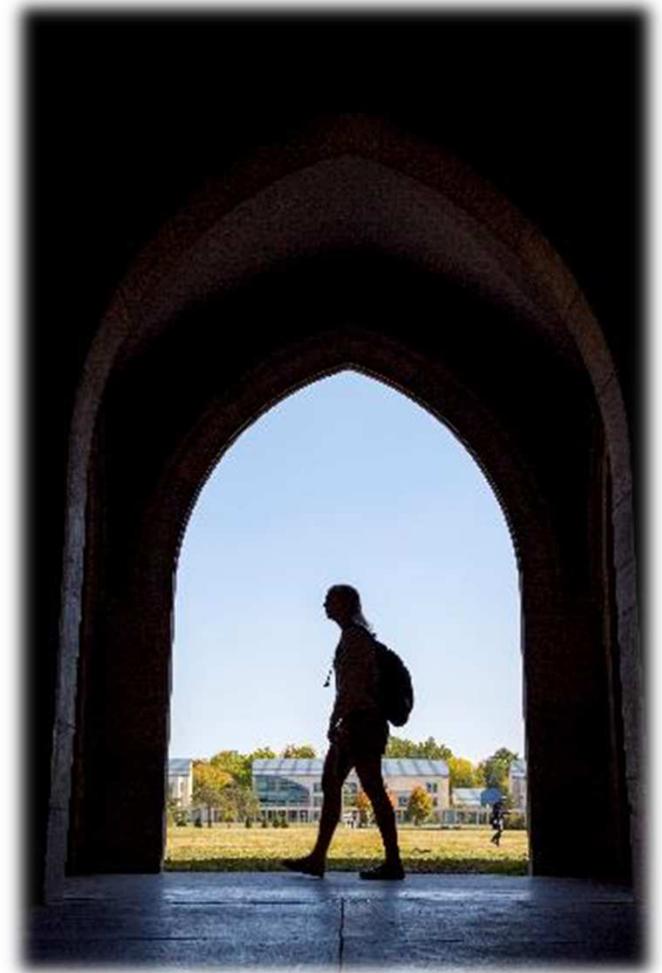
# FY07-FY18: Expenses have almost doubled<sup>0</sup> (NOMINAL \$)

## Expense Trend (\$000's)



# Our Endowment Supports Our Ethical and Financial Commitment

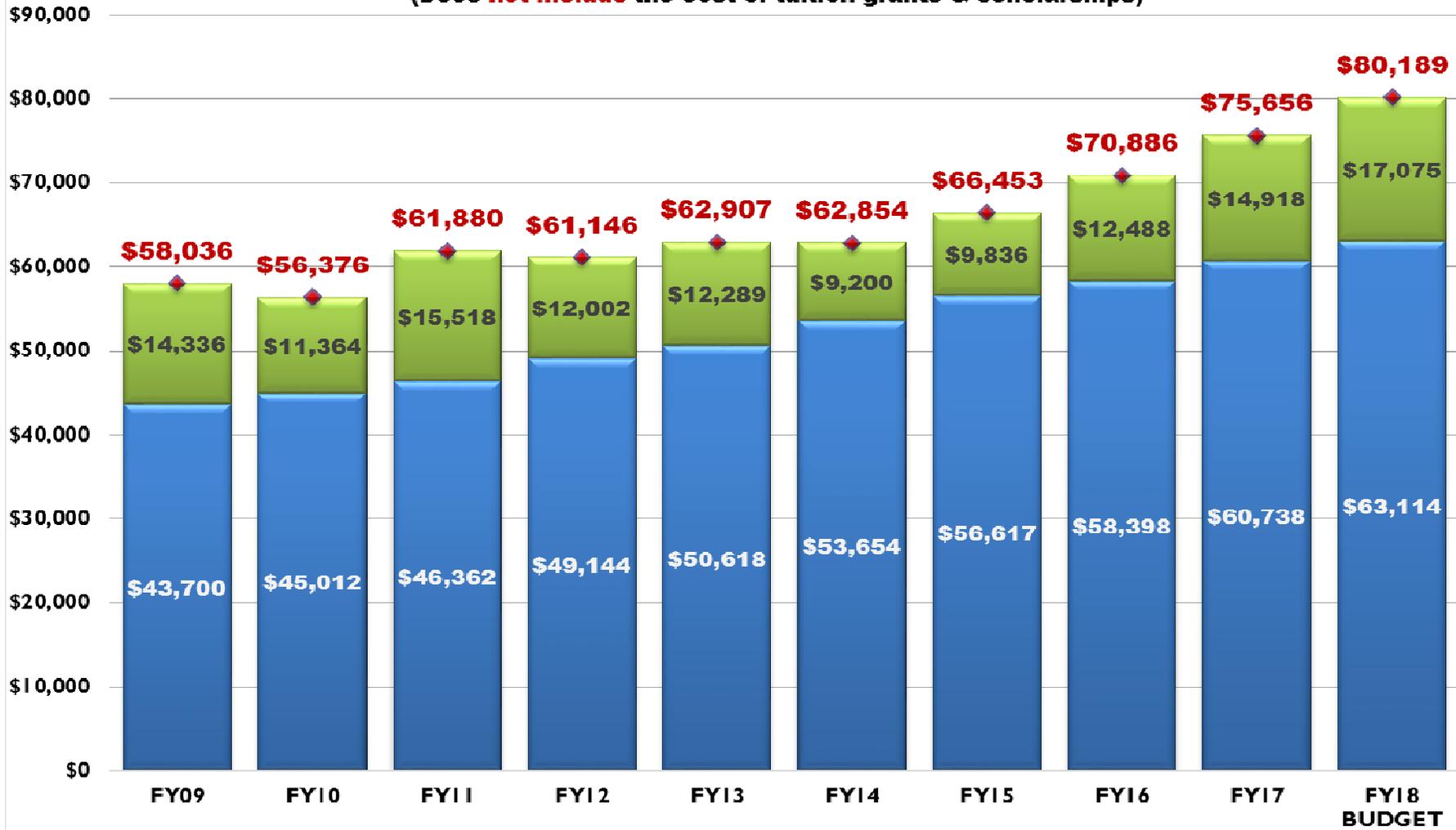
- Use our financial resources to meet our deep **commitment to diversity** and **student success**.
- Create opportunities and economic mobility in a population challenged by a **growing socio-economic gap** between those who have and those who don't.
- Invest in tomorrow's leaders by making an elite education **financially accessible** to all.



**Posted comp fee covers ~80% of Total Cost per Student**  
**Remaining ~20% is institutional support for EVERY student**

**Total Cost per Student FTE**

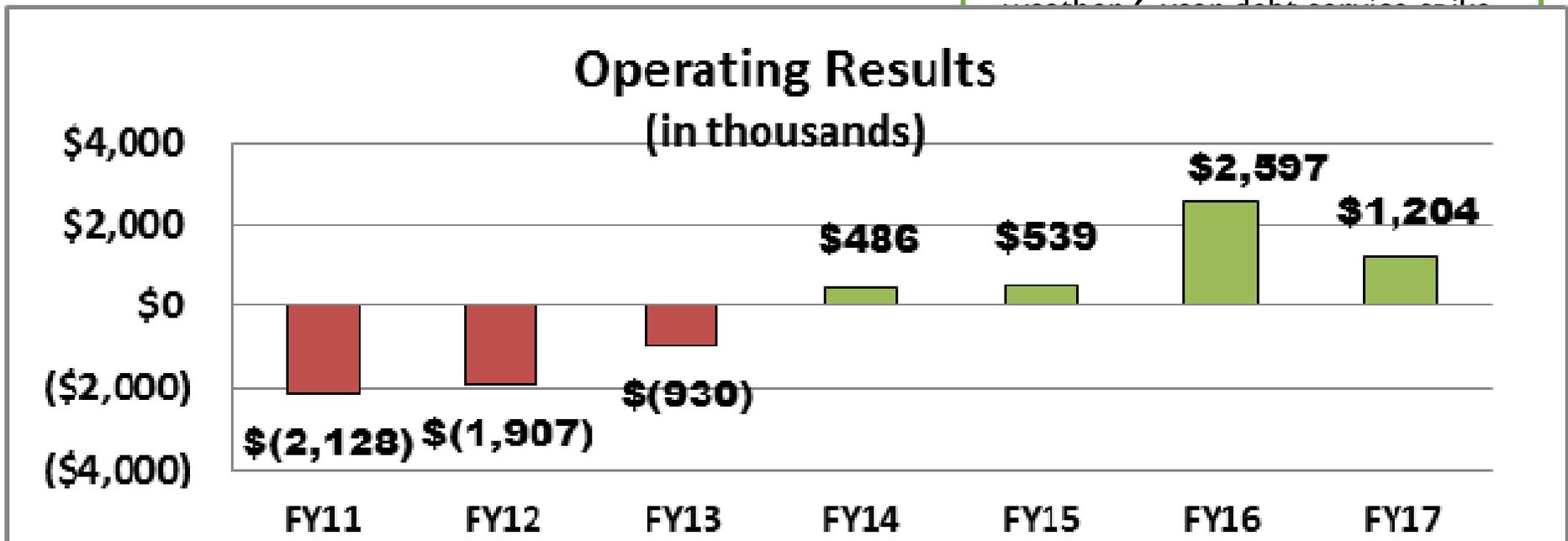
(Does **not include** the cost of tuition grants & scholarships)



- "LEGACY SCHOLARSHIP" - Institutional invt in EVERY student FTE over & above tuition grants/scholarships (INCLUDING full pays)
- Comprehensive Fee
- ◆ TOTAL COST per student FTE (Total operating expenses per student FTE; does NOT include financial aid awards)

# Can we continue the current positive trajectory?

Results do **not** include extra endowment payout in FY16-FY21 to



Since FY14, our operating results before the extra payout have contributed **~\$4.8M** to the Operating Reserve.

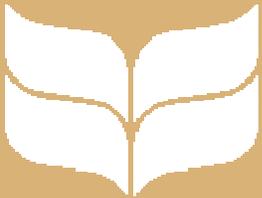
# Can we continue the current positive trajectory?



In FY14, our operating results before the extra payout have contributed **~\$4.8M** to the Operating Reserve.



- ✓ Dependence on the endowment
- ✓ **Endowment spending**
- ✓ Recognizing and mitigating risks
- ✓ Closing
- ✓ Q&A



# Endowment Spending Policy

## Distribution

Endowment distribution is calculated as **4.0% of the 12-quarter moving average** endowment market value determined annually as of the December 31 immediately prior to the beginning of the fiscal year.

## Budget Allocation

The College **shall not allocate 100% of this distribution to the operating budget.**

Factors in determining the allocation include:

- 1) Revenue balance.
- 2) Expenditure discipline.
- 3) Facility requirements (including debt service) and strategic initiatives.

In the rare instance an exception to established policy is deemed prudent and necessary, both the President and the Board must authorize such departure in advance and document the terms in the Board minutes.

# Calculating the FY18 Endowment Spend

## ***FY18 endowment spend:***

12-qtr moving avg market value*	\$	1,737,023,503
Endowment spend rate		4.0%

<b>Endowment spend</b>	<b>\$69,480,940</b>
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*\*As of Dec 31 preceding the start of FY*

# Impact of Change in Endowment Value

## FY18 endowment spend:

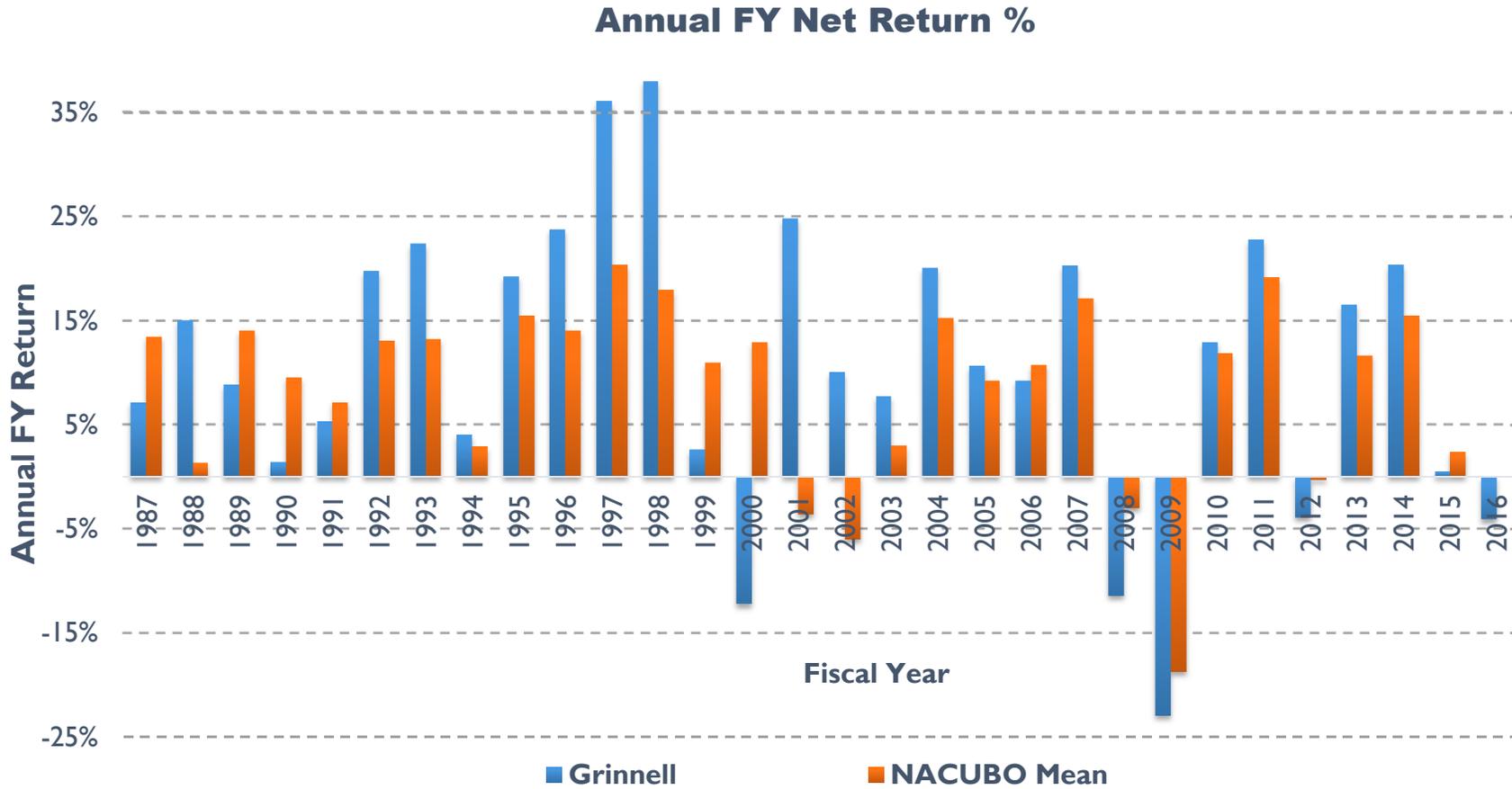
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What if the 12-qtr moving avg market value was **lower** by:

	<b>5%</b>	<b>3%</b>	<b>1%</b>
12-qtr moving avg market value*	\$ 1,650,172,328	\$ 1,684,912,798	\$ 1,719,653,268
Endowment spend rate	4.0%	4.0%	4.0%
<b>Endowment spend</b>	<b>\$66,006,893</b>	<b>\$67,396,512</b>	<b>\$68,786,131</b>
<b>Decrease</b>	<b>(\$3,474,047)</b>	<b>(\$2,084,428)</b>	<b>(\$694,809)</b>

**A small % reduction in endowment value challenges the operating budget**

# Conservative budget modeling



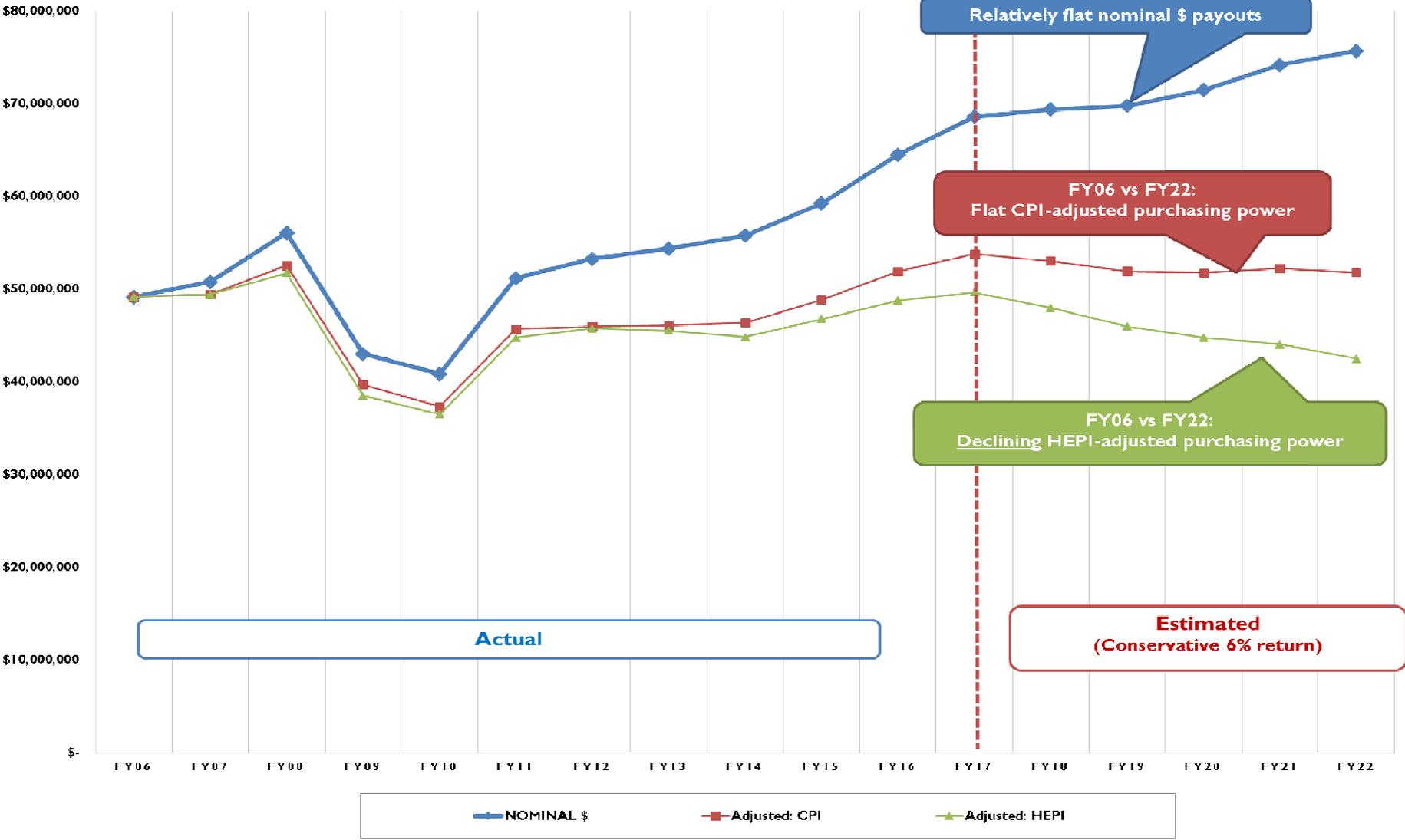
The operating budget model assumes a **6% return before payout**, which equals **2% after payout**

Over time, actual returns have **consistently exceeded** the budget model, but the trajectory is not smooth.

NCSE Average Annual Returns (\*1 year estimate from Bloomberg)

# Cautious Endowment Spend Outlook

## ANNUAL 4% ENDOWMENT SPEND



# Impact of Change: FY19-FY23

**Endowment spend** **CURRENT STATE:**

**As currently modeled. Assumes 6% return before payout.**

	FY18	FY19	FY20	FY21	FY22	FY23
12-qtr moving avg market value* \$	1,737,023,503	\$ 1,747,353,560	\$ 1,787,885,559	\$ 1,855,768,657	\$ 1,893,163,325	\$ 1,931,311,514
Endowment spend rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
<b>Endowment spend</b>	<b>\$69,480,940</b>	<b>\$69,894,142</b>	<b>\$71,515,422</b>	<b>\$74,230,746</b>	<b>\$75,726,533</b>	<b>\$77,252,461</b>
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## Endowment spend illustration #1:

1.0% market value reduction in FY18. Assumes 6% return before payout

	FY18	FY19	FY20	FY21	FY22	FY23
12-qtr moving avg market value* \$	1,737,023,503	\$ 1,747,353,560	\$ 1,781,700,484	\$ 1,843,273,875	\$ 1,874,231,692	\$ 1,911,998,399
Endowment spend rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
<b>Endowment spend</b>	<b>\$69,480,940</b>	<b>\$69,894,142</b>	<b>\$71,268,019</b>	<b>\$73,730,955</b>	<b>\$74,969,268</b>	<b>\$76,479,936</b>
*As of Dec 31 preceding the start of FY		<b>Decrease from current state</b>	<b>(\$247,403)</b>	<b>(\$499,791)</b>	<b>(\$757,265)</b>	<b>(\$772,525)</b>

Because of the spending calculation lag, the impact of change in FY18 isn't felt until FY20.

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**Endowment spend illustration #2:**

**3.0% market value reduction in FY18. Assumes 6% return before payout.**

	FY18	FY19	FY20	FY21	FY22	FY23
12-qtr moving avg market value* \$	1,737,023,503	\$ 1,747,353,560	\$ 1,769,330,334	\$ 1,818,284,311	\$ 1,836,368,425	\$ 1,873,372,168
Endowment spend rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
<b>Endowment spend</b>	<b>\$69,480,940</b>	<b>\$69,894,142</b>	<b>\$70,773,213</b>	<b>\$72,731,372</b>	<b>\$73,454,737</b>	<b>\$74,934,887</b>
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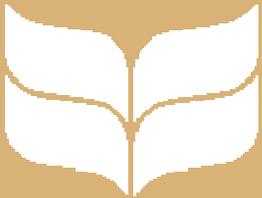
# Big Messages...

- Because of our **dependence on the endowment payout**, changes in the endowment value – either up or down – have direct impact on the operating budget, including funds available for financial aid.
- The operating budget model uses **conservative projections** for endowment returns to avoid volatility and unpleasant surprises.
- Because of the endowment spending policy **12-qtr lag**, changes to the endowment value in any given year are typically not felt by the operating budget until two years later.

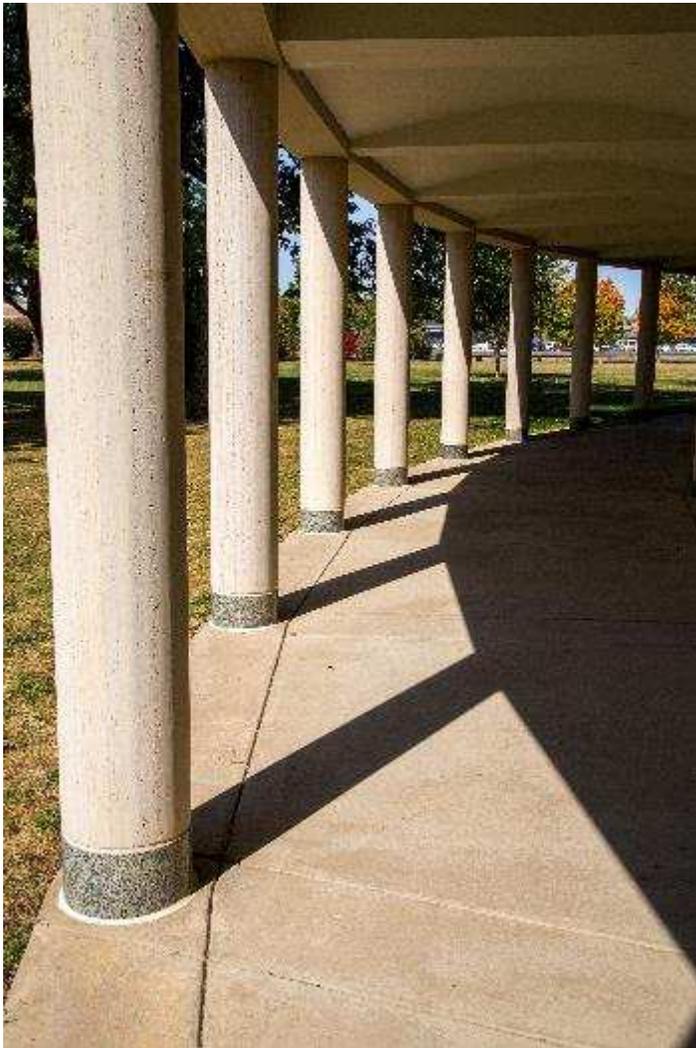




- ✓ Dependence on the endowment
- ✓ Endowment spending
- ✓ **Recognizing and mitigating risks**
- ✓ Closing
- ✓ Q&A



# Is Grinnell all that different? **YES**



- Grinnell is **highly dependent** on its endowment as a source of funding for the operating budget.
- We're fortunate that ~70% of our endowment is **unrestricted**. That's very unusual.
- Peer schools with large endowments are less dependent on the endowment because of their **more balanced revenue stream**.

# Why is endowment dependence a problem?



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- Higher risk
- Exposure to volatility
- Inability to shift balance

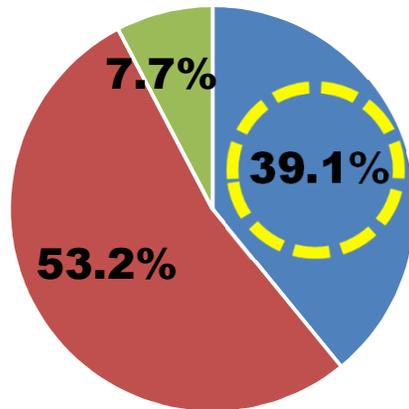
- Greater stability
- Predictability
- Ability to adjust



# 45/45/10: Financial Sustainability Strategy

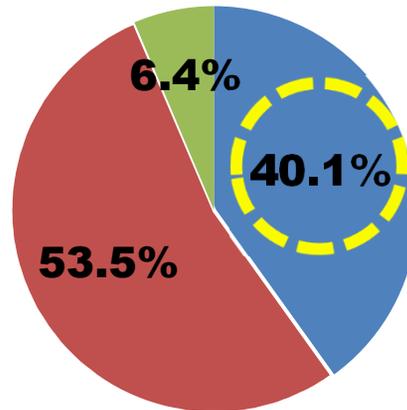


**FY17 Actual**



- Net Student Revenue
- Endowment Payout
- Gifts & Other

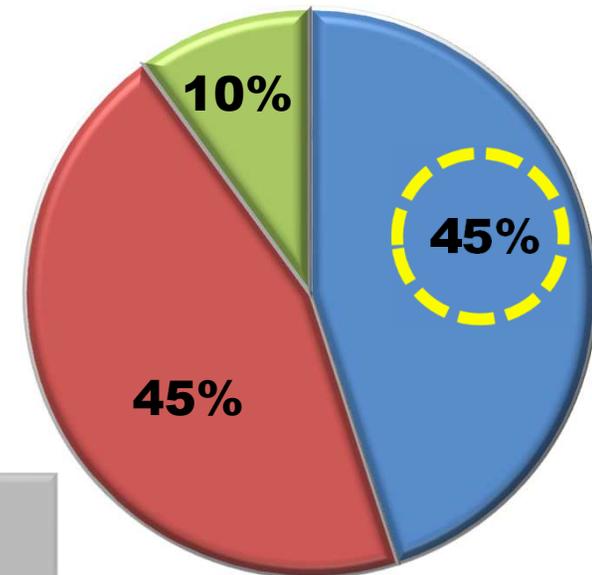
**FY18 Revenue BUDGET**



- Net Student Revenue
- Endowment Payout
- Gifts & Other



**TARGET Revenue Profile**



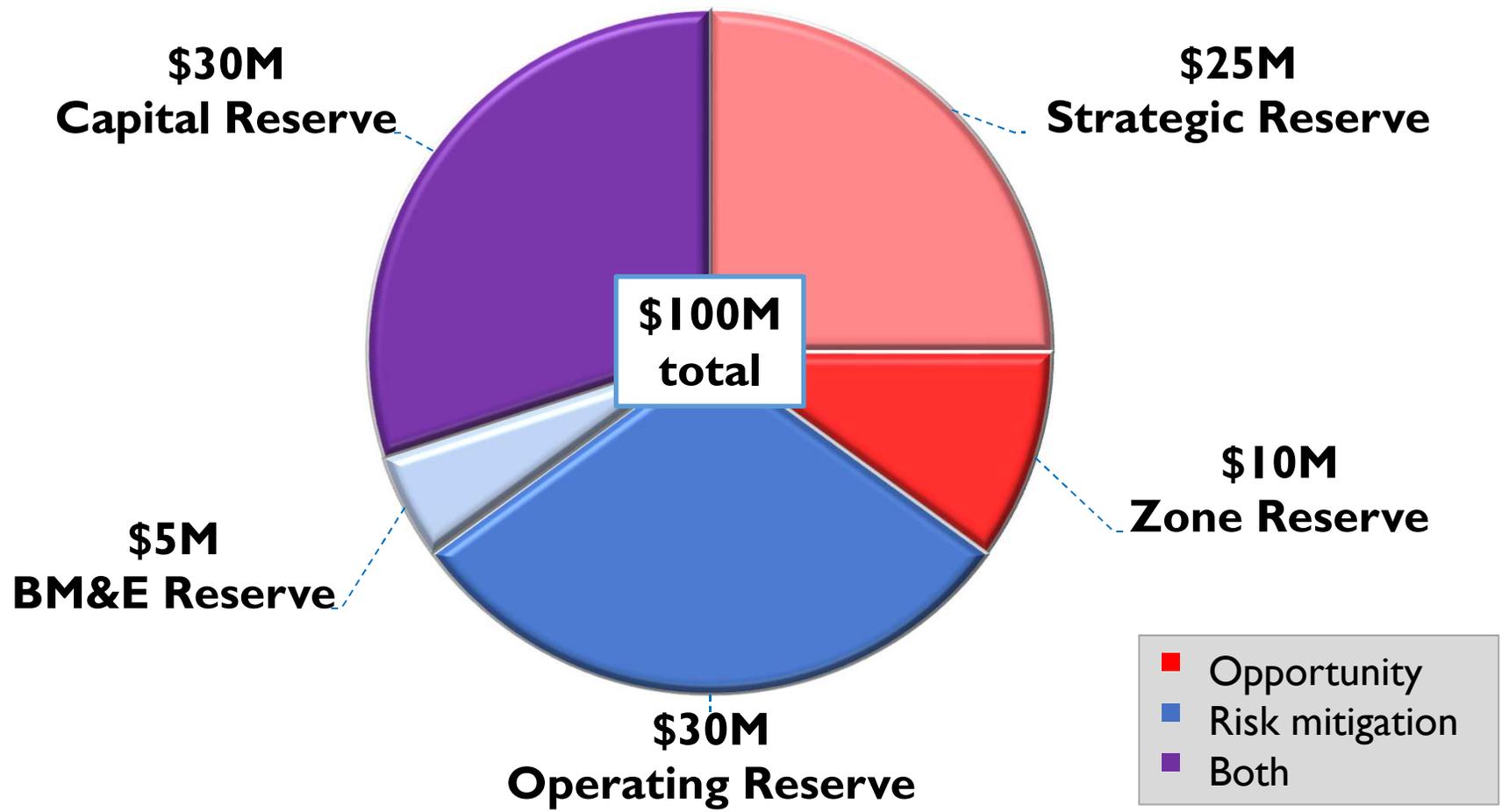
- Net Student Revenue
- Endowment Payout
- Gifts & Other

- Reduced reliance on **endowment payout** for operating budg
- Self-sustaining **reserves** – agility and risk mitigation

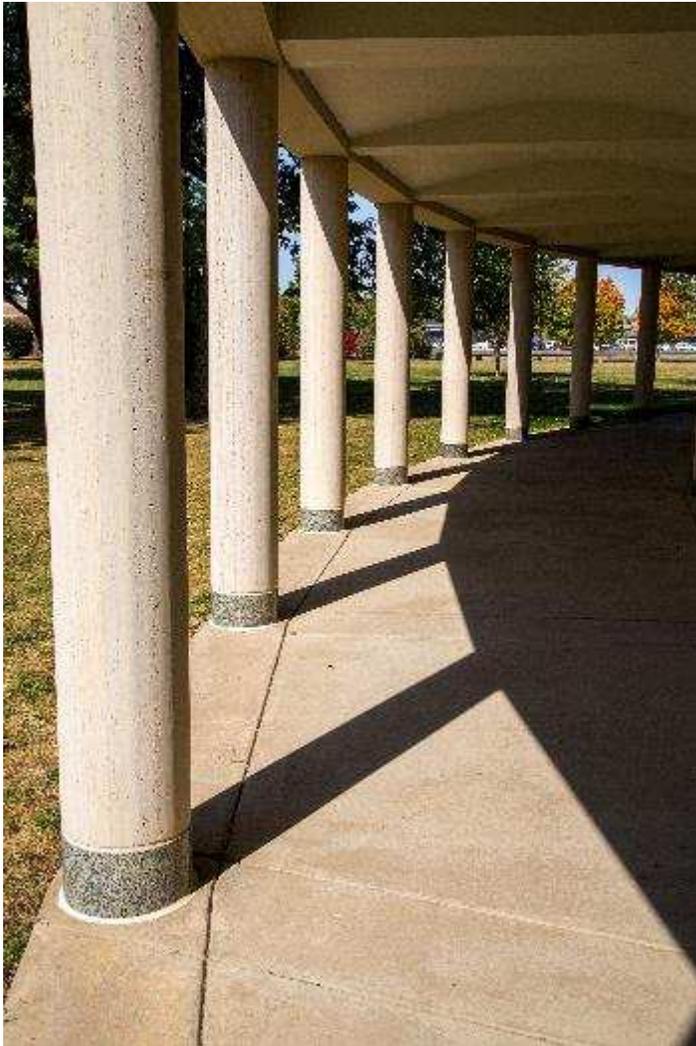
**Note:** The portion of the endowment payout used to replenish Strategic, BM&E, and other reserves is excluded from these calculations.

# Additional Protection: Self-Sustaining Portfolio of Reserves

**Target Reserve Funding Levels  
(millions)**



# Why a Portfolio of Reserves?



- Invest in programs, people, and places to build a **stronger institutional future**
- Preserve **intergenerational equity**
- Position the College to nimbly seize **strategic investment opportunities**
- Protect the College through effective **risk mitigation**

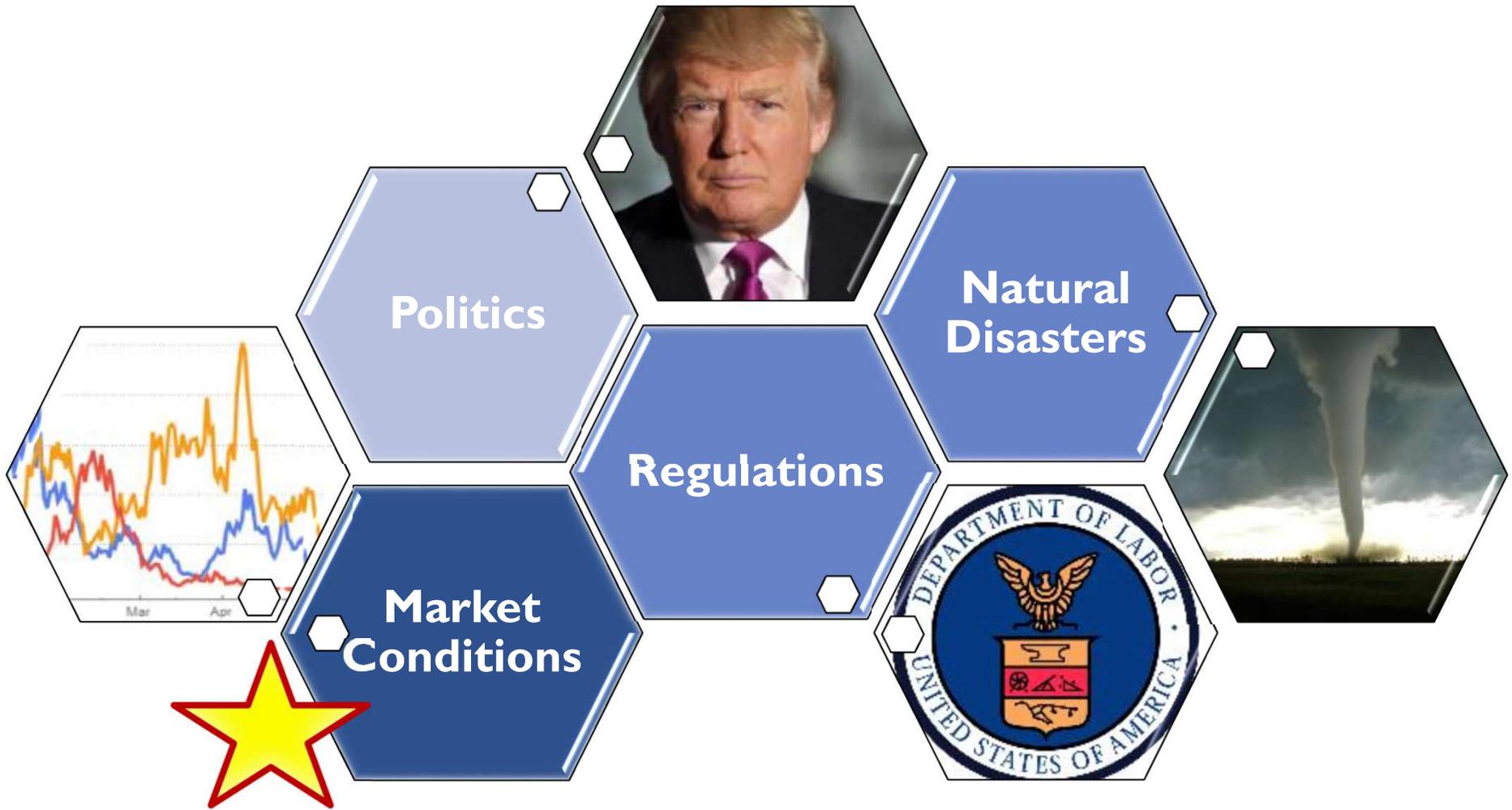
# Some risks are tricky, but manageable

**For example...**



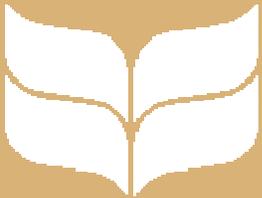
# Many are out of our control

**For example...**





- ✓ Dependence on the endowment
- ✓ Endowment spending
- ✓ Recognizing and mitigating risks
- ✓ **Closing**
- ✓ Q&A



# Grinnell = Financial Sustainability

**“Financial sustainability”** is a term commonly used to describe practices that make an entity able to sustain itself over the long term, perpetuating its ability to fulfill its mission.

SOURCE: National Council of Nonprofits  
<https://www.councilofnonprofits.org/tools-resources/nonprofit-sustainability>

## Indicators of Financial Sustainability

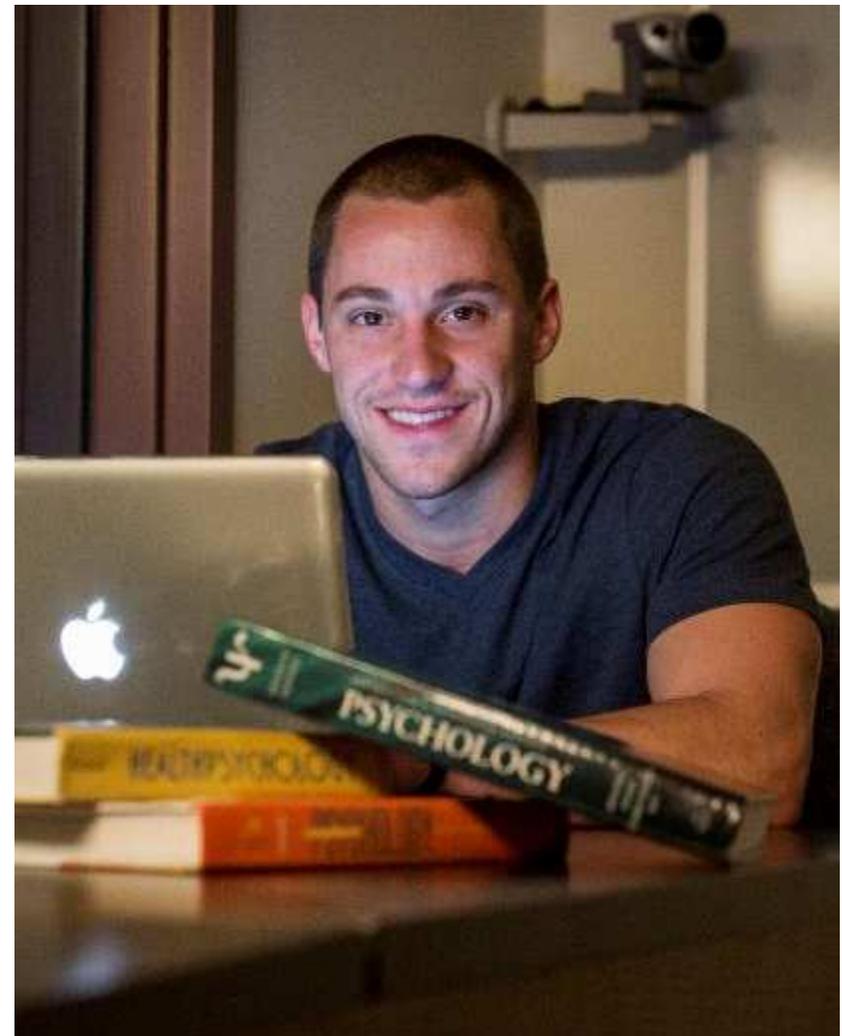
- Strong stakeholder **relationships**, including students, faculty, staff, donors, and other community members
- A range of **funding sources**, the most valuable of which are unrestricted
- Financial **reserves**
- Assessing and **managing risks** to the enterprise
- Strategically planning and **responsibly financing costs**

SOURCE: <https://www.mango.org.uk/guide/financialsustainability>



# Why does this matter?

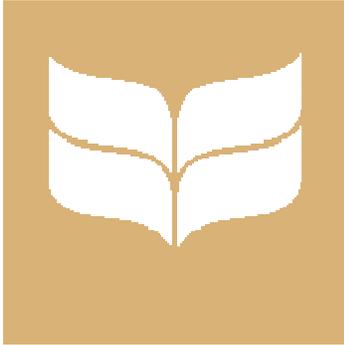
- **Access** to a Grinnell education for all qualified students without regard to ability to pay
- Resources to support and shape **successful graduates** well-prepared for life beyond Grinnell
- Ability to recruit and retain **exceptional faculty**
- Innovative **academic programming** of the highest caliber
- Strong **enrollment demand** and quality
- Exceptional retention and six-year **graduation rates**
- Institutional **reputation** and recognition
- Long-term **financial health** to support the generations to come



# Grinnell = Financial Sustainability



- Our **mission** guides use of our financial resources.
- Grinnell's financial profile is **exceptionally strong**, preserved by conservative financial discipline.
- We're managing the endowment and reserves to ensure future generations receive comparable benefits (**intergenerational equity**).
- We're making **strategic investments** in our people, our programs, and our place.
- We're **planning** today for the demands and challenges of tomorrow.
- We're responsibly managing resources for **long-term financial sustainability**.
- We're building a **stronger Grinnell**.



## Goals for today

- Better understanding of how the endowment “fuels” the **operating budget**
- Appreciation for the risks and challenges of **endowment dependence**
- How we’re mitigating **endowment dependency risks**





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# Thank you!

