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ENDOWMENTS AND FOUNDATIONS

Community College Foundations Revisited

The importance of building a strategic endowment plan

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Executive summary

Community colleges, commonly referred to as junior colleges until the 1970s, continue to be an important part of our educational system in the United States. It is estimated that about 41% of all undergraduates are at community colleges today.[1] These primarily two-year institutions often focus on local low-income students who seek to be the first in their families to earn a degree, but there are also older adults who are looking to either start or continue their college education.

A *New York Times* article, "*Middle-Class Families Increasingly Look to Community Colleges*," claims that there is a growing trend among middle class families to consider community colleges as a cost-effective way to continue the education experience.[2]

According to the article, over the past 10 years, Pasadena City College (CA) showed a 320% increase in students who have parents with a combined income exceeding $100,000. It further states that other community colleges in the United States are showing similar results.

Moreover, the 2018 *New York Times* study looked at tax records and college attendance data and found that hundreds of two-year colleges are now magnets for students from wealthy families, with many—such as Williston State College in North Dakota and Colorado Northwestern Community College in Rangely—having clocked notable increases. For example, Northern Virginia Community College reported a 69% increase (to 6,104 in 2017 from 3,610 in 2010) in first-time students whose families earned $60,000 or more.[2]

While this is a positive trend for some community colleges, in general, community colleges continue to face the challenges of lower overall enrollments—seen over the past decade—and reduced funding levels from state and local governments. These challenges have impacted many community colleges financially and strategically. Recent observations indicate that some private two-year schools have closed, and there is an example of two public community colleges merging in New Jersey.

Continued

"Beyond our traditional fundraising campaigns, the Foundation's growth will depend more and more on alumni and friends who name the CCC Foundation in their estate plans. Bequests, charitable trusts, and planned gifts provide the greatest, long-term benefits to our students and the communities we serve."

—One community college president discussing the importance of growing the Foundation holistically, from the 2014 Annual Report to Donors for the CCC Foundation.

It is interesting to note that 28% of community colleges have on-campus housing, according to AACC 2019 Fast Facts.

In this report, we begin with an overview of the community college sector, as well as a discussion of industry trends. We examine fundraising and endowment management strategies, which are becoming more important to these institutions in the current environment. We also review the benefits of using fundraising foundations as part of a community college's development and endowment management efforts. We include a new discussion on the importance of building a strategic endowment plan, which is an important tool for community colleges that seek to grow their endowment funds through a holistic approach.

Finally, we share the results of our independent research of 191 community colleges in the greater Northeastern United States (12 states), using a universe of colleges that is consistent with the list maintained by the American Association of Community Colleges (AACC). Our study included looking at the use of separate foundations by community colleges as both a fundraising and endowment management vehicle. For our study, community colleges are defined as public, private (not-for-profit), and for-profit institutions that offer two-year, associate's degree programs. Many of our insights on community colleges can be applied to other similar institutions across the nation:

Our key points

1. Community colleges will continue to be an important educational option.
2. Community colleges will continue to experience enrollment declines and government cutbacks. Ongoing reviews of strategic and financial plans will be needed as these colleges experience greater scholarship and infrastructure needs.
3. Community colleges will need to assess and maximize both their fundraising plans and endowment growth plans, similar to four-year colleges.
4. Community colleges can maximize their foundations through the development of a strategic endowment plan (SEP). The SEP can help formulate a long-term endowment growth plan, which includes both investment and fundraising strategies.

Overview of the community college sector

Community college facts and figures

Community colleges have been an important part of the U.S. educational system since the first community college, Joliet Junior College (IL), was founded in 1916. Until the 1970s, community colleges were commonly referred to as "junior colleges." However, that term has evolved to mean a *private*, two-year institution, while a community college has evolved to describe *publicly funded* two-year institutions. Community colleges primarily attract and accept students from the local community, have an open admissions policy, and are often supported by local tax revenue.

According to the AACC, community colleges have a fundamental mission: to ensure that millions of diverse and often under-served students attain a high-quality college education. The association further states that as of 2018, approximately 41% of all U.S. undergraduates are community college students.[3]

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Figure 1

The number of U.S. community colleges

Type	# Schools	% of total
Public	941	90%
Private	75	7%
Tribal	35	3%
Total	**1,051**	**100%**

Source: AACC 2019 Fast Facts.

Figure 2

Community college revenues by source

Type	Dollars	2017	2012
State funds	$19,962,607,648	33%	34%
Tuition and fees	$16,919,744,855	28%	16%
Local funds	$12,143,496,648	20%	20%
Federal funds	$6,890,649,604	11%	16%
Other funds	$5,032,734,883	8%	14%
Total	**$60,949,233,638**	**100%**	**100%**

Source: AACC 2019 Fast Facts.

Figure 3

Demographics of students enrolled for credit (AACC Fast Facts Summary 2019)

White	46%
Hispanic	25%
Black	13%
Asian/Pacific Islander	6%
Native American	1%
Two or more races	3%
Other/Unknown	4%
Nonresident alien	2%
Total	**100%**

Source: AACC 2019 Fast Facts.

A growing number of undergraduates attended community college. A 2017 *Wall Street Journal* article notes that 49% of students who graduated with a bachelor's degree from U.S. institutions in 2016 attended a community college, and two-thirds of those did so for three or more terms, according to National Student Clearing House data.[4]

Recent data provided by the AACC show that there are approximately a combined 12 million credit and non-credit community college students currently enrolled. Approximately 58% are signed up for credit programs and 42% for non-credit programs. Of the seven million credit students, 37% are enrolled full time and 63% are enrolled part time. For the 2017 – 2018 school year, students paid, on average, annual tuition and fees of $3,660 for a public, in-district community college versus $10,230 for a four-year public, in-state school.[5]

According to the AACC, there were 1,051 community colleges in the United States in late 2019. The majority (90%) were public community colleges. There were also 75 private community colleges located in the U.S. as of that time (see Figure 1).

Community colleges have a unique revenue structure. As can be seen in Figure 2, there has been an increase in funding from tuition and fees, while the revenue from federal and other sources has actually declined slightly.

AACC research also provided information on the demographics of community college students, as reflected in Figure 3. We see that the highest percent of students enrolled are white (46%) and Hispanic (25%). On a gender basis, according to the AACC, 56% were women and 44% were men.

In addition, AACC 2019 Fast Facts data suggest that the average age of community college students is 28 years old, while the median age is 24 years. AACC notes that 54% of the students are younger than 22 years old, 38% are between the ages of 22 years and 39 years, and 9% are older than 40 years.

Trends in higher education and community college giving

Enrollment challenges for community colleges

Enrollments at community colleges mostly grew during the first decade of this century, based on information recorded by the 2018 AACC report, *Community College Enrollment Crisis*. The study reports that peak enrollment was in 2010, and has since shown a decline each autumn by more than one million students nationally (14.4%) through 2017. Each of the different segments of the community college population has been impacted differently.

According to Kent Phillippe, associate vice president at the AACC, the historically low unemployment rate, declining number of high school graduates, and the increased number of students attending four-year colleges has led to a decrease in community college enrollment nationally. The one population that has shown an increase is the dual enrolled high school population. Some colleges have seen greater than 50% of their enrollment come from students who have not yet graduated from high school, as the AACC 2019 Fast Facts shows.

Continued

The AACC studied trends of the past 17 years and noted that:[6]

- Full-time student enrollment declined at a faster pace than part-time student enrollment between 2010 and 2017
- Enrollment of students over the age of 18 years declined between 2010 and 2017; the under-18 age group did not show a decline, largely due to the rapid increase of high school students enrolling in community college classes
- Enrollment of women, while still a majority, decreased since their highest representation in 2004
- In 2014, white students were not the largest group enrolled nationally in community colleges
- The enrollment figures for white students has steadily declined since 2010, while those for non-white students has remained relatively steady since 2012—largely driven by an increase in Hispanic students
- State data suggest that enrollment levels have regional variations; in fact, two states with College Promise programs showed enrollment increases that corresponded with the implementation of statewide, free-tuition programs
- Enrollment in community colleges has declined since 2010; however, the same cannot be said for four-year public colleges, and, to a lesser extent, four-year independent colleges

It is worth noting that the college continuation rate of high school graduates may impact community colleges.

Community college giving

Community college giving is another area we have been reviewing. In the Council for Aid to Education's *2018 Voluntary Support of Education* annual survey—which includes responses from approximately 871 institutions—it was noted that colleges and universities raised $46.7 billion in fiscal year 2018. This was a 7.2% increase from 2017, for institutions that report for both years.[7]

The data also included information on community colleges (Figure 4). The 104 public/private community colleges that responded represent approximately 12% of the colleges. The respondents reported total fundraising of $175 million in fiscal year 2018 (an average of $1,678,000 per school), and giving rose 8.0%. We note that the sample for community colleges is relatively small and we would need to better understand the respondents (i.e., size of school and region, etc.) to better reflect on the data.

Planning for the future

In recent years, there have been a number of discussions surrounding free community college tuition on both the federal and state levels.

In October 2019, democratic presidential candidate Joe Biden announced a $750 billion higher education plan. In this plan, the federal government would have a role in educating Americans beyond high school. Moreover, it would be a federal-state partnership, and he proposed that the federal government cover 75% of the program.[8]

There is also the *College Promise Campaign*. This national, nonpartisan initiative seeks broad public support for funding the first two years of higher education at community colleges. A progress report shows that 24 states are already part of this program, with a number of states planning to join. For example, New York has the *Excelsior Scholarship Program* (2017) whereas California has the *California College Promise Grant* (1984).[9]

On a related note, the University of Connecticut announced on October 10, 2019, that lower income students who attend UCONN would receive free tuition.[10] This plan is to be funded by the college's fundraising efforts, as noted by President Thomas C. Katsouleas during his inauguration:

"The plan is to have an aggressive plan over the next couple of years to raise approximately $100 million, which will throw off as an endowment of $4 million and fully cover the cost of this program. The [UConn] foundation is the primary fundraising arm."

These free tuition plans may have an impact on the operations of community colleges, namely enrollment, revenues, and budgets. Community colleges will need to assess any impact on their financial budgets, which may lead to the increased importance of fundraising and endowment-building efforts.

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Figure 4

Voluntary support by type of institution, 2017 and 2018 (dollars in thousands)

Type of Institution	Number Reporting	2017 Amount	2017 Average per Institution	2018 Amount	2018 Average per Institution	% Change in total support
Multiple campuses						
Public	16	$3,434,877	$214,680	$3,808,719	$238,045	10.9
Research/Doctoral	**226**	**23,636,421**	**104,586**	**25,175,873**	**111,398**	**6.5**
Private	76	13,575,312	178,623	14,020,184	184,476	3.3
Public	150	10,061,108	67,074	11,155,689	74,371	10.9
Master's	**277**	**2,280,698**	**8,234**	**2,446,559**	**8,832**	**7.3**
Private	135	1,344,231	9,957	1,419,686	10,516	5.6
Public	142	936,467	6,595	1,026,873	7,232	9.7
Baccalaureate	**213**	**2,911,482**	**13,669**	**3,160,111**	**14,836**	**8.5**
Private	185	2,799,264	15,131	3,038,397	16,424	8.5
Public	28	112,218	4,008	121,714	4,347	8.5
Specialized	**35**	**1,400,092**	**40,003**	**1,739,564**	**49,702**	**24.2**
Private	20	224,367	11,218	252,772	12,639	12.7
Public	15	1,175,725	78,382	1,486,792	99,119	26.5
Associate's	**104**	**161,590**	**1,554**	**174,509**	**1,678**	**8.0**
Private	0	0	0	0	0	0
Public	104	161,590	1,554	174,509	1,678	8.0
Total all institutions	**871**	**$33,825,160**	**$38,835**	**$36,505,335**	**$41,912**	**7.9**

These statistics reflect amounts reported by 871 institutions providing complete data both years.
Total support for 2018 = $46.73 billion based on 929 reporting institutions.
Source : Council for Advancement & Support of Education (CASE) 2019.

"Community colleges play a vital role in North American higher education and are vital to the economic health and cultural vitality of the surrounding communities where they are located. They have an excellent case for charitable support from a range of constituencies. Therefore, they are and should continue to assert that case for contributions. Essential to this endeavor is that leadership at these institutions and their supporting foundations recognize the crucial role the advancement function plays in the future of our nation's community colleges. The advancement function must be staffed and adequately funded as community colleges assume an increasingly important role in the higher education system."

—Anne Kaplan, director, Council for Aid to Education, who leads the Voluntary Support of Education survey.

The use of fundraising foundations

How can community colleges effectively increase their fundraising numbers? One strategy establishes a separate fundraising foundation to lead development efforts. Many public community colleges have set up these foundations for this purpose.

According to Roy Muir, a senior consultant at Marts and Lundy since 1988, philanthropic programs at community colleges across the United States have been slow but consistent, and are now growing more quickly, going well back to the 1970s. Muir states: *"Overwhelmingly, these are launched by, and in tandem with, the creation of separate 501(c) 3 foundations. As with other public educational programs, the dramatic increase in such programs is driven by the rapid disinvestment in education by state legislatures and local school districts."*

There are a variety of reasons why these foundations can be beneficial to community colleges:

- **Increasing trustee opportunities:** A separate foundation creates additional board leadership and volunteer opportunities for trustees, who, in turn, can be substantial donors. This has allowed some foundations to steadily increase trustee memberships.

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We think the most successful community college foundations have a combination of very strong fundraising and investment missions. They view the foundation as an advantageous way to fundraise and invest the funds. These foundations successfully "get," "manage," and "give" the funds.

- **Marketing:** This permits a college to have more focused marketing and branding strategies. Done properly, colleges are able to maintain separate websites to highlight special events, and to communicate about different ways to give.
- **Maintaining focus/control:** This is a way to keep fundraising, operations, and administration separate and away from the core operations of the college. It enables trustees to focus on fundraising rather than on how the college operates. As a result, management and trustees of the community college are able to focus on the complexities of day-to-day operations and not fundraising.
- **Donor choice:** Separate 501(c) 3 organizations are often established as a way to give to a separate foundation rather than an entity that is controlled by the local or state government. It also can allow for a charitable donation in some cases.
- **Investing endowment funds:** Many community colleges utilize this structure to manage their investment portfolios. They often represent restricted endowment funds, endowed scholarships, and quasi endowments.
- **Limiting liability:** Funds placed in a separate foundation may be protected from any college-related litigation. Trustees of the foundation may also be viewed as separate from the college with respect to their liability exposure.
- **Separating finances:** This allows college finances to be kept separate from any fundraising efforts. Keeping the funds separate gives a better picture of the parent financials, and would not have implications for grants or government support.
- **Borrowing:** This provides another separate pool of funds that can be used as collateral for loans.
- **Fundraising vehicle for foreign colleges and universities:** Not-for-profit organizations based in foreign countries often use U.S.-based foundations to help fundraising efforts with U.S.-based donors. The funds are then funneled back to the parent organization.
- **Real estate management:** Some colleges set up real estate foundations, a separate 501(c) 3 organization, to acquire, develop, and manage real estate projects for the college.

Research study key findings and observations

We now turn our attention to the results of our independent study. Our study of 191 community colleges was focused in the greater Northeastern United States, and used a universe of colleges that is consistent with the list maintained by the AACC. Total foundation assets for the colleges in our study were approximately $2.8 billion, with 50 community colleges having investment portfolios greater than $10 million.

To better understand the current fundraising strategies and to offer some insight, we looked at colleges in 12 Northeastern states as noted in Figure 5. We reviewed the websites and Form 990s of each school and, in some cases, spoke with school representatives.

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Figure 5

Community college foundations by state

State	Number of community colleges	Number of separate foundations	Number of community colleges without a foundation	Percent with separate foundations
New York	53	39	14	74%
Virginia	25	25	0	100%
Pennsylvania	23	18	5	78%
New Jersey	20	19	1	95%
Massachusetts	20	17	3	85%
Maryland	16	16	0	100%
Connecticut	14	12	2	86%
Maine	8	6	2	75%
New Hampshire	7	0	7	0%
Vermont	2	0	2	0%
Delaware	2	1	1	50%
Rhode Island	1	1	0	0%
Total	191	154	37	81%

Sources: AACC Data; IRS form 990s; websites. As of December 2019.

Figure 6

Ten largest foundations/endowments in the greater Northeast region

Rank	College	State	College foundation	Long-term investments $mn
1	Culinary Institute of America	NY	None	$136.13
2	Northampton Area Comm. College	PA	Northampton Comm. College Foundation	$57.09
3	Westchester Comm. College	NY	Westchester Comm. College Foundation	$47.90
4	Dean College	MA	None	$42.03
5	Harrisburg Area Comm. College	PA	Harrisburg Area Comm. College Foundation	$34.50
6	Montgomery College	MD	Montgomery College Foundation	$29.86
7	SUNY Broome College	NY	Broome Comm. College Foundation	$29.26
8	Norwalk Comm. College	CT	Norwalk Comm. College Foundation	$26.78
9	Trocaire College	NY	None	$24.09
10	Landmark College	VT	None	$23.18
			Total	**$450.80**

Asset levels include long-term investments (not savings and cash).

Sources: Guidestar; various form 990s; websites. As of December 2019.

Of the community colleges we studied, we found that 154 (81%) of the schools have separate fundraising foundations. The 10 largest community college foundations represent 29% of total foundation assets in the Northeast (Figure 6).

With the exception of one public college in Maine, most public community colleges in the studied region have separate foundations. In New Hampshire, the public colleges are unique. They offer a state foundation called the Community College of New Hampshire Foundation, which handles the fundraising and investment management for their seven public colleges. Virginia has the Virginia Foundation for Community Colleges, even though each community college has its own foundation.

Turning to private community colleges we find that most of the schools in our sample do not have separate foundations. They typically utilize a development department. Certain community colleges, particularly those in Virginia, also have real estate foundations.

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Figure 7

Community college fundraising dashboard

	Recent foundation giving	Five-year annual giving	# of trustees/ # of staff	# of fundraising events	Overall % mentioning legacy society	Overall % mentioning online recurring giving option	Overall % mentioning endowment option	% mentioning IRA rollovers	% mentioning donor advised funds
Averages	$1,239,760	$1,110,551	20.7 / 3.3	2.0	35%	59%	54%	13%	4.5%

Sources: Guidestar; various form 990s; websites. As of December 2019.

Fundraising findings and strategies

Overall, in the greater Northeast region, total fundraising for the most recent reporting period is about $216 million; an average of $1,239,760 per college (see Figure 7). This is an 11.6% increase over the five-year average of $1,110,551 per college. *Giving USA* reported in July 2019 that for fiscal year 2018, giving to education declined 1.3% from the previous year. However, there was a 6.3% rise in higher education giving.[11] The higher level of giving to community colleges illustrates how important it is to continually review and strengthen fundraising plans and strategies for the future.

On a state-by-state basis (most recent years) Pennsylvania ($1,886,298), Maryland ($1,591,133), and Virgina ($1,280,785) showed the highest levels of per-college average fundraising. New Jersey presented one of the lowest fundraising amounts among the larger states, with an average of $597,287 per school.

Diversified fundraising strategies

Most of the community colleges we reviewed in the greater Northeast region have instituted more diversified fundraising plans. These can range from IRA rollovers, to donor advised funds (DAFs), to planned giving societies. Although most still rely on their annual funds and special events (e.g., golf outings, galas, etc.), many of them have improved their planned giving, technology, and communication plans.

Planned giving

Planned giving strategies, especially bequests, are key strategies that four-year colleges utilize. They are important ways to grow the endowment.

We noted in our study that most foundations mention planned giving on their websites. This includes bequests, appreciated securities, IRA rollovers, retirement plans, insurance policies, charitable trusts, and, in some cases, charitable gift annuities. In certain instances, we saw that some community colleges have also shown an interest in perpetual trusts.

Overall, 77% of the colleges reviewed mentioned planned giving as part of their offering (up from 76% in the prior study). Additionally, 54% of the colleges mentioned endowment options (see strategic endowment plan) and endowed scholarship options.

Continued

"It is important that community colleges and their foundations take a holistic view when it comes to their technology, communications, and marketing plans. As fundraising becomes more important to community colleges, these strategies will become crucial to the success of these foundations. A well–thought-out plan maximizes the success of their annual funds and campaigns. For example, it has never been more critical for nonprofits to use data to drive thoughtful, focused fundraising activity. To gain a comprehensive picture of a donor's engagement, institutions must understand how data is generated and flows across each application within their IT infrastructure. Creating a technology plan, coupled with a strategy for the entry, management, and use of data, is key for community colleges looking to achieve consistency, data integrity, and to make the most of their information."

—Allison Willner, assistant vice president, Data Strategy, at CCS Fundraising.

Planned giving legacy societies

An important extension of planned giving is what is known as planned giving legacy societies. The society members in these organizations are recognized for their intentions to support the college through their wills or other planned giving vehicles.

These societies can provide a crucial means of recognizing planned giving donors and staying connected through various events. Our study found that only 35% of community colleges mentioned legacy societies on their websites and marketing materials (versus 32% in the prior study conducted in 2013). Moreover, only 8% of the foundations listed the benefits of being a member of the legacy society; listing the benefits of being a member can help to grow the society membership.

Additional giving options

Donors have two additional giving vehicles. One is gifting through the use of DAFs, one of the fastest-growing areas of philanthropy. It is important for community colleges to mention these funds on their sites since many donors use them as giving vehicles. Interestingly, we found that only 4.5% of these sites mentioned DAFs on their websites and marketing.

Separately, IRA rollovers are another area that many nonprofits are focusing on; we found only 13% listed this option on their sites.

Technology plans

Incorporating strategic technology plans into overall fundraising efforts would enhance many areas of community colleges, including, communications, donor databases, websites, social media, peer-to-peer fundraising, email, and online giving.

With technology and related donor communication/marketing strategies evolving quickly, it is important that colleges develop comprehensive written plans. Development, marketing, and communications teams should come together for a unified approach.

In the current environment, online communication and a well-structured giving page are important. During our study we took note of how websites are being employed to market college foundations. In many cases, it was easy to see information related to donors through a "donate now" button or a "ways to give" page. While some colleges highlight their foundation on their main site, others require a significant amount of hunting to find a donor/foundation page.

Many of the websites were effective—listing ways to give. However, a number of sites read like simple brochures. A foundation's website page should include background information, case statement, board leadership, upcoming events, ways to give, testimonials, and also detail on how to give, as well as other important information about the foundation.

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Investment/governance observations for community college foundations

- Review the investment policy statement annually
- Set both short- and long-term objectives
- Review asset allocation targets to confirm long-term return expectations
- Monitor and adjust endowment cash positions
- Complete an annual stress test on the portfolio to assess how the portfolio may respond to a market shock
- Assess the overall investment fees by looking at both the advisory and imbedded manager/fund fees

An online giving option is an important part of a college's website, particularly at year end, when donors are looking for ways to give efficiently. Of the foundation websites we reviewed, we observed an increase to 93% with a giving option versus 74% in our 2013 report. Online giving can also be used as part of an email campaign strategy; simply include a link to the page. Interestingly, only 59% of the community colleges we looked at offer donors the opportunity to make a recurring gift.

Additional observations on communications

During our review, we became aware of some new strategies that community colleges are using to reach potential donors and enhance their fundraising plans. Some of the examples we noted include:

- Rebranding the college to exclude the word "community"
- Listing audited financials, Form 990, and a donor report
- Sharing the names of honorary trustees on the website, including bios and pictures
- Offering an online option for international students
- Using a wedding registry as a giving option
- Offering an estate planning session and planned giving brochure
- Highlighting the benefits of being a member of the legacy society
- Using student testimonial videos
- Offering Amazon Smile as a way to show support
- Providing an investment policy statement and gift acceptance policy

Investment findings and strategies

As part of our research on community college foundations, we reviewed the endowments and related investment strategies that community college foundations utilize. In the mission statements of most of these foundations they discuss their goal of maximizing the impact of the educational mission of the community college.

Overall results show endowment growth

For the community colleges in our study that had information on their investment portfolios (from Form 990), we learned that the average long-term portfolio size is approximately $8.8 million (most data are fiscal year as of June 30, 2017). This was calculated to include only long-term investments. Most of these long-term funds represent individual endowment funds and scholarship endowment funds, as well as quasi endowments funds. The average growth rate of these funds over the prior fiscal year was 9.1%, which was driven by improved capital markets and increased fundraising. Some college foundations mentioned on their websites that their goal was to grow their endowment funds to build resources for the future.

High cash allocation can impact future results

We found that 65% of the foundations were utilizing long-term investment strategies, while 35% had a significant portion invested in money market funds and savings accounts. If the funds comprise endowment funds and other longer-term funds, the board should develop an investment strategy that matches the objective of these funds. There are times when the foundations should maintain a higher cash position to reflect a short-term cash need.

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Two endowment spending approaches: income and total return

An income approach is when an endowment fund bases its spending rate on the level of interest. One Massachusetts College said: *"When you designate an endowed fund for your gift, the principal is invested in perpetuity and the earned interest is used as the donor intends."* This may be perceived as a conservative way to provide support, but it also presents unique challenges during periods like today, with generationally low levels of interest rates and dividend income. This income may not be sufficient for colleges or donors in providing the sought after level of support.

A total return approach provides more flexibility for advisors, and reorients the focus toward "growth" rather than "income" as the way to meet current obligations. An Illinois-based college said: *"The primary objective for the advisors is to conserve and enhance the capital value of the fund in real terms through asset appreciation and income generation. The investment strategy of the fund is to emphasize total return…"* Low current interest rates are less of a concern as the liquidity is not satisfied through income alone. Asset allocation and diversification become more critical considerations in a total return approach.

Asset allocation and investment policy are key decisions

While community college foundations provide an effective fundraising tool, as with any long-term pool of assets, making sure the appropriate objectives, spending and liquidity requirements, and risk tolerances are defined and considered is of great importance. Creation or revision of an up-to-date investment policy statement codifies this work. Further steps related to asset allocation and the specific investment choices that comprise portfolio construction round out an effective and comprehensive investment program. The asset allocation decision between active and passive strategies has been a key topic item.

An investment policy statement (IPS) provides the foundation for all future investment decisions and serves five basic purposes:

- Setting realistic goals and objectives
- Defining the asset allocation policy and spending requirements
- Establishing performance measurement standards
- Establishing roles and responsibilities
- Setting communication procedures

The IPS documents anything relevant to the governance of an investment program and is intended to keep investors focused on their objectives during short-term swings in the market, while providing fiduciaries (boards, advisors, et al.) with context for stewardship of the overall portfolio.

Each state has a legal and regulatory framework for its resident nonprofits and endowment funds that have investment implications. An example is New York's Prudent Management of Institutional Funds Act (NYPMIFA), which has the specific requirement that all nonprofits adopt a written investment policy.

Endowment spending should be assessed

One key challenge for boards is balancing the conflicting goals of the spending policy. On the one hand, they must maintain stable operating support to meet the demands of today. On the other hand, boards have a fiduciary responsibility to protect the purchasing power of the endowment over time—to meet the longer-term needs of tomorrow. Spending rates that are too high favor the present generation's claims (operating budget) over the future generation's claims (preservation of capital in real terms) and vice versa. Keeping spending policy simple and easy to calculate permits timely budgeting and can be helpful to boards faced with difficult decisions on how to allocate resources. The average spending rate for colleges and universities has trended down in recent years.

In our experience, major donors today are more interested in the college's investment strategies

While we studied the colleges, we observed situations where additional investment information was provided. This could be a result of how major donors seek greater information on how their donations are being managed today, and their expectations of high due diligence and oversight.

Continued

One college comments in its class agent letter on how a stronger fundraising platform can have a positive impact on its endowment:

"We all know (we) had been a bit behind our peers in fundraising, leading to our smaller endowment, and therefore, less income from the endowment supporting the college's annual expenses. The good news is (our) fundraising initiatives have been much more effective in recent years, supporting the type of top-tier educational experience to current and future students of which we can all be proud."

(Sample College Class Agent Letter)

Some information that was included:

- Investment policy statement
- Mentioned compliance with UPMIFA (Uniform Prudent Management of Institutional Funds Act)
- Willingness to provide customized statements
- List of investment committee members and biographies
- A snapshot of the portfolio holdings
- Mention of investment strategy
- Endowment policy guidelines

The importance of building a strategic endowment plan

Taking a holistic approach to endowment/foundation management

As with many types of public charities (fundraising foundations), successful foundations grow themselves most effectively by focusing on both their fundraising and investing strategies, hand-in-hand. This is important because over the next decade, Wilmington Trust anticipates future portfolio returns to be lower than historical returns, which will limit the growth of the investments from an internal performance perspective. It will be important to look externally to grow the endowment through new gifts. Thus, the fundraising side of the program will significantly impact endowments/foundations as a key way to grow. For example, planned giving strategies are an important way to increase an endowment/foundation fund.

Developing a strategic endowment plan

One way to memorialize the growth strategy of a foundation is to develop a comprehensive game plan or a strategic endowment plan (SEP). The SEP provides a summary of the nonprofit endowment/foundation's history, as well as its goals and future growth strategies (see Figure 8). The SEP complements the investment policy statement and gift acceptance policy. It also requires a dialogue between the finance staff and development staff, which is an important relationship.

Figure 8
Sample strategic plans summary

Strategic endowment plan summary: For endowments & foundations

History of the foundation

- Why and how was the foundation started?
- What is the objective of the foundation?
- What is the asset level goal of the foundation?

Increasing the foundation's assets through fundraising

- What are the different ways to grow the foundation's assets?
- How can fundraising benefit a foundation?
- How do your peer organizations build endowment?

Increasing the foundation's assets through investment management

- What are the growth expectations of the endowment/foundation?
- Are these realistic given current markets?
- Are the investments on track?
- Does the current asset allocation make sense?

Endowment game plan

- What type of endowment disclosure?
- Is there a named endowment fund process?
- Are we receiving value-added services from our advisor?
- Do we complete an annual a peer analysis to compare the foundation to other foundations?
- Should we issue an investment advisory request for proposal (RFP)?
- What endowment/foundation trends are we following?

Continued

Figure 9

Observations of community colleges' endowment growth plans in action

Community college	Location	Examples of strategic endowment plans in action
Cayuga County Community College Foundation, Inc.	Auburn, NY	President comments: "*Beyond our traditional fundraising campaigns, the Foundation's growth will depend more and more on alumni and friends who name the CCC Foundation in their estate plans. Bequests, charitable trusts, and planned gifts provide the greatest, long-term benefits to our students and the communities we serve.*"
Quinsigamond Community College	Worcester, MA	Started an endowment capital campaign of $3 million to increase their endowment to $10 million.
Corning Community College Foundation	Corning, NY	Detailed a goal to have an endowment of between $3 million and $5 million over next few years.
Maria College	Albany, NY	Stated that bequests can be used to fund endowments.
Monroe Community College Foundation	Monroe, NY	Noted their goal of having a $5 million endowment.
Trocaire College	Buffalo, NY	Started a $3 million capital campaign for scholarship endowment: Fund the Future of Western New York.
Blue Ridge Community College Foundation	Blue Ridge, VA	BRCC Campaign exceeds $8 million, which includes new endowment funds.
UCC Foundation	Cranford, NJ	Mentions that all gifts from unrestricted bequests are placed in the foundation's endowment.
John Tyler Community College Foundation	Midlothian, VA	Next Up: A Campaign for Tyler includes $3 million capital campaign funds for endowment.

Using a strategic endowment plan to grow the foundation asset base

Fundraising:

- Diversify your fundraising plans
- Review planned giving options and create a legacy society
- Develop strong technology and communications plans

Endowment investing:

- Set an endowment goal; review and compare on a regular basis
- Be diversified in all ways and watch your cash position
- Be vigilant on your spending rate

Examples of how some community colleges are developing strategies to maximize the growth of their endowments through a holistic approach can be seen in Figure 9. These examples show the different ways that community colleges can set endowment goals and strategies to accomplish these goals.

Looking ahead

Community colleges continue to be an important part of our educational system in the United States. These two-year colleges have focused on local, low-income students seeking to be the first in their families to earn a degree, as well as older adults looking to start or continue their college education. The community college arena is being impacted by demographic and economic forces, but enrollment at community colleges is starting to benefit from middle-income families as they consider the benefits of starting at a local community college and then transferring, versus attending a traditional four-year program. Overall, enrollment has been lower in the recent decade, which is starting to impact community colleges and their budgets.

In order for community colleges to succeed, they must continue to look at private philanthropy just as four-year traditional colleges have done for many years. Philanthropic dollars will be even more important in the future, and separate foundations will be a key strategy for enhancing and managing a robust fundraising plan. Community colleges will also need to take a more holistic approach as they seek

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to build their foundation and endowment funds. See Appendix B for a profile of the Westchester Community College Foundation that has both a fundraising plan and a well-structured investment/endowment program.

Strong community college foundations will be those that cannot only maximize their fundraising efforts while effectively managing their endowment funds over the long term, but that can develop a strategic endowment plan to help them plan for the future.

APPENDIX A: ASK THE WILMINGTON TRUST ENDOWMENT INVESTMENT EXPERTS

What should an investment policy statement (IPS) include and how often should we update?
The IPS serves as an "architectural plan" for the board. This important document should be reviewed every year as a committee.

What is the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and does it impact our management?
UPMIFA is a rule for nonprofits/endowments, and requirements vary by state. For example, New York State has NYPMIFA, which requires some refinements to the investment policy statement.

What are the short- and long-term market expectations?
With the economy slowing, and with lower interest rates and dividend yields, many analysts have lowered their short- and intermediate-term projections. Many have also reviewed their longer-term plans. As of early 2020, we expect returns over the next decade to be lower than historical with the equity market.

How can we maximize the growth of our endowment?
The best way to grow your endowment is to maximize both the fundraising plan and the endowment management plan. Both areas are crucial for the success of the endowment. The development of a strategic endowment plan can be beneficial.

Should we be reassessing our spending policy on our endowment funds?
The spending rate is a key consideration for investment committees. The average spending rate for colleges and universities in the NACUBO (North American College and University Business Officers) study is 4.4% for 2018, which has moved lower in recent years. Many colleges are reviewing their spending rates in light of lower expected returns.[12]

What is a normal amount of cash?
Each organization needs to assess what their level of reserve funds should be. Maintaining an adequate reserve fund is important. Maintaining too much cash can have a negative impact on the endowment returns since cash returns are very low, while not having enough cash can lead to serious liquidity and operational challenges. Some community colleges choose to hold larger cash balances for expected spending.

Should we have alternative investments such as hedge funds?
The decision to incorporate alternative investments (e.g., hedge funds, private equity, real estate) is based on each college's specific situation as it relates to the endowment's size, risk profile, liquidity needs, and investment policy requirements.

Do we need an investment advisor?
Each college should assess whether an outside advisor would be a valuable resource. The investment committee's experience and time are important considerations. Other factors that should be reviewed are expected returns, costs, and valued-added services, such as fundraising insights.

How often should we do a request for approval (RFP) and review our investment manager?
It is important to periodically review your relationship with each of your vendors to ensure that you are receiving timely service, forward-looking products, and are not paying excessive fees. Some colleges reissue an RFP every three or five years.

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APPENDIX B: FOUNDATION PROFILE: WESTCHESTER COMMUNITY COLLEGE

Westchester Community College (WCC) is an example of how a community college uses a separate fundraising foundation. Founded in 1946, WCC was originally known as the New York State Institute of Applied Arts and Sciences in White Plains. In 1957, the County of Westchester bought the 360-acre John Hartford estate in Valhalla and designated 218 acres for the community college. There are approximately 12,000 full- and part-time college credit students. Continuing education students bring the total number served by the college each semester to more than 24,000. The Foundation celebrated its 50 years of operation in 2019!

Westchester Community College utilizes a separate foundation to maximize its fundraising plans and its endowment management strategies. The Foundation (founded in 1969), has a goal to raise funds to meet college and student needs not covered by public funds; it does this through the development of voluntary and supplemental support resulting from gifts, bequests, and fundraising activities. It currently maintains total net assets of $53.0 million, and is focused on long-term balanced growth. The WCC foundation recently won an award from the Council for the Advancement & Support of Education for their continued strong fundraising results.

The Foundation has a website page that includes a tag for “Donors.” You can find information about the Foundation under the “About Us” selection on the page. The Foundation offers a number of ways to give including an annual fund, online giving, recurring giving, and planned giving. On the planned giving page, there is also mention of their legacy society. Additionally, the site shares information on upcoming special events, as well as the contact information for its development team and staff.

As of August 31, 2019, the Foundation has raised $5.4 million for the fiscal year and more than $31 million during the past six years.

Foundation structure: Separate 501(c) 3 organization

Founded: 1969

Staff: 10 professionals and 7 support staff

Board: 55 board members

Donor targets: Individuals, local businesses, corporations, foundations

Ways to give: Annual appeal, scholarship program, special events, tribute gifts, special project gifts, leadership gifts, planned giving

Legacy society: Yes; “Hartford Hall Society”

Recognition: Lists names of society members on website and annual report

Foundation fundraising trend (8/30/19 fiscal year):
2019: $5.4 mn
2018: $4.3 mn
2017: $3.8 mn
2016: $4.9 mn
2015: $4.6 mn
2014: $8.3 mn

Website: “Alumni, Donors, Parents” and “Foundation” tags; separate “Foundation” page

Planned giving details: Stock, bequests, charitable gift annuity, life insurance, real estate, endowments, retirement plans

Special events: Three events

Online giving: Yes; recurring

Social media: Use emails and college Facebook page

Newsletter: Yes

Campaign: *Pathways: The Campaign for Student Success* (since 2013); WCCF has raised $43mn towards the goal of $50mn

Communication: Annual report, IRS Form 990, audited financials, investment policy statement

Total portfolio net assets: $53,020,520

Permanent endowment: $31,008,529

Strategy: Long-term investment strategy

Policy statement: Must follow NYPMIFA requirements

Source: WCC website and staff.

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Read Walter's additional published nonprofit research reports:

Catholic Foundations Continue to Advance in the United States (2019)

Fundraising and Endowment Strategies for Independent Schools in New York

Overview and Insights on Public Library Foundations

Trends in Healthcare Philanthropy and the Use of Separate Foundations

Our New York-based Endowments and Foundations Team assists not-for-profit organizations, including community colleges, throughout the Northeast and nationally in working to meet their investment and philanthropic needs. The team can provide value-added services that go beyond the investment relationship, such as an ongoing Philanthropic Speaker Series, nonprofit sector white papers, and specialized peer reviews. They work with the firm's endowment clients either as a full-service advisor or as a single investment solution provider. The team has helped clients complete a competitive analysis (peer review) and strategic endowment plan, which is part of its full-service, value-added approach.

Walter specializes in serving endowments, foundations, and health care organizations as part of the New York-based Endowments and Foundations team. He has authored original research on a number of nonprofit sectors, including community colleges, hospitals, public libraries, private schools, and religious organizations, that have been covered by the financial press. Walter has nearly three decades of financial services industry experience. He holds an MS in philanthropy from New York University, an MBA from Babson College, and a BA in economics from Bates College. Walter is an adjunct professor at NYU and teaches Endowment Concepts & Practices.

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