

THE DISTINGUISHED PROFESSORS ENDOWMENT TRUST FUND
Annual Report
October 13, 2006

In 1985, the General Assembly created the Distinguished Professors Endowment Trust Fund. The aim was to stimulate private support and commitment to strengthen faculties and to promote excellence on the 16 campuses of the University of North Carolina. The trust fund was established to enable each institution to receive and match challenge grants to create endowed chairs for distinguished professors.

The original legislation provided for matching grants on the basis of one dollar in State money to be allocated for every two dollars raised in private funds. In 2003, the General Assembly, in response to a Board of Governors' request, amended the statute to change that ratio to a one-for-one basis for nine constituent institutions designated either as "focused growth institutions" or as "special needs institutions."

Focused growth institutions include Elizabeth City State University, Fayetteville State University, North Carolina A&T State University, North Carolina Central University, The University of North Carolina at Pembroke, Western Carolina University, and Winston-Salem State University. The two special needs institutions are the North Carolina School of the Arts and The University of North Carolina at Asheville.

The seven remaining institutions, Appalachian State University, East Carolina University, North Carolina State University, The University of North Carolina at Chapel Hill, The University of North Carolina at Charlotte, The University of North Carolina at Greensboro, and The University of North Carolina at Wilmington, are still required to meet the one-for-two match set by the original legislation.

Thus, the amount of matching money required for each level of endowment depends on the designation of the institution. Until July 2005, the statutes stipulated only two levels of endowments for distinguished professorships to be established from the trust fund. For the institutions still needing a one-for-two match, \$666,000 in private contributions qualify for \$334,000 in State matching funds to create a \$1,000,000 endowment, and \$333,000 in private contributions qualify for \$167,000 in State matching funds to establish a \$500,000 endowment.

For focused growth and special needs institutions, \$500,000 in private contributions qualify for \$500,000 in State matching funds to create a \$1,000,000 endowment, and \$250,000 in private contributions qualify for \$250,000 in State matching funds to establish a \$500,000 endowment.

Recent legislation authorized endowments of up to \$2,000,000, with the existing one-for-one or two-for-one ratios still to be followed for the current institutional designations. The legislation allowed for endowment levels between the previous \$1,000,000 limit and the new \$2,000,000 limit, but no intermediate levels were specified.

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The opportunity to put together endowments in excess of \$1,000,000 should make the Distinguished Professors Endowment Trust Fund program more attractive to some potential donors, and the larger endowments, in turn, will surely serve to create more attractive professorships for recruiting and retaining outstanding professors on our faculties.

To be consistent with the statutes and with the original half-million dollar increments in defining levels for endowments, the Board of Governors at its October 2005 meeting set four levels of endowments for distinguished professorships, i.e., at \$500,000, \$1,000,000, \$1,500,000, and \$2,000,000. The ratios for private to State funding remain on a one-for-one basis at focused growth and special needs institutions and on a two-for-one basis at the other seven institutions.

The Distinguished Professors Endowment Trust Fund has been a powerful tool to stimulate private giving. Private organizations and individuals have responded to a remarkable degree. This initiative has enabled the University to be far more competitive for highly qualified faculty than it could have ever been otherwise. Since 1985, appropriations and interest earnings have provided \$72,099,856.01 for the Distinguished Professors Trust Fund. As of September 30, 2006, \$72,047,000 has been paid to the institutions to match private gifts of \$138,953,000 for the creation of 302 endowed professorships totaling \$211,000,000.

In every instance, the full private contribution has been received and matching challenge grants have been paid from the Trust Fund to the institutions. Two grants were combined and used to create one professorship with a \$2,000,000 endowment, four were used to create \$1,500,000 endowments, 109 were used to create \$1,000,000 endowments, and 188 were used to create \$500,000 endowments.

The strong response to the program has increased the need for State matching funds. For more than a decade after the initiation of the program a backlog of unmatched private gifts grew steadily. In the 1997-99 biennium the General Assembly made a substantial effort to eliminate or reduce the backlog of professorships awaiting State matching funds. Afterwards, until 2004, the recurring appropriation for the Distinguished Professors Endowment Trust Fund was only \$2,000,000 annually. Once again, there was a growing backlog of unmatched private gifts. In its 2004 Session, the General Assembly responded generously to the Board of Governors' request for additional support for the Trust Fund. A total of \$10,000,000 was appropriated to substantially reduce the backlog. Eight million dollars of that amount was to be recurring.

In September 2004, State matching funds and accumulation of interest were transferred to create 37 new distinguished professorships at nine institutions—the largest number created in any year since the establishment of the Trust Fund. Every professorship in the queue for which the full private contribution had been received was funded. There were 21 others remaining in the queue for which the full private contribution had not been received.

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By its generous response to the Board's supplemental budget request, the General Assembly put the Distinguished Professors Endowment Trust Fund on a firm footing. Eight million dollars of the 2004 appropriation was designated as recurring money. That was expected to be sufficient to contain and, hopefully, to steadily reduce the backlog of professorships awaiting funding from the Trust Fund. Despite the increase in appropriations, however, the backlog has not been reduced.

Since November 2004, there has been an unprecedented acceleration of private gifts for these distinguished professorships. The acceleration stems largely from two factors: one is the major campaign at UNC-Chapel Hill which has given endowed distinguished professorships a high priority, and the other is the encouraging fund-raising success for this purpose at the focused growth and special needs institutions. These institutions have been able to accelerate private donations and qualify earlier for the State match as a result of the change in the required matching ratios.

By August 2005, there were 68 professorships in the queue awaiting funding, with 40 qualifying for transfer of funds to the institution and 28 qualifying for escrow. Using the recurring appropriation and a small amount of earned interest, State matching funds totaling \$8,010,000 were transferred from the Trust Fund in August and September to create endowments for a combined total of 31 new chairs at eight institutions.

Despite the expenditure of slightly more than the recurring \$8,000,000, there remained in the queue, as of September 23, 2005, a total of 37 professorships, including 13 eligible for transfer of funds. There were 24 others for which the full private contribution had not yet been received.

The number of professorships in the queue awaiting funding continues to grow. By June 30, 2006, there were 67 professorships in the queue, with 39 qualifying for transfer and 28 qualifying for escrow. The total required match for the 39 eligible transfers was \$11,015,000.

Again, using the recurring appropriation and a small amount of earned interest, State matching funds totaling \$8,010,000 were transferred from the Trust Fund in August 2006 to create endowments for a combined total of 28 new chairs at five institutions. One additional challenge grant was used to upgrade an existing distinguished professorship to the \$2,000,000 level. Four of the new professorships were at focused growth institutions. Four others were at the new and higher \$1.5 million level.

And again, the expenditure of all of the recurring appropriation plus some earned interest was not sufficient to meet the need for State matching money. As of September 30, 2006, there remained in the queue a total of 41 professorships, including 13 eligible for transfer of funds. Funding the requisite State match for these 13 professorships would require \$3,673,000. There are 28 others for which the full private contribution has not been received. To escrow the requisite State match for these 28 chairs would require

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\$7,181,000. Taking into account a small balance of \$52,856.01 in earned interest still available, the current shortfall in program funding, as of September 30, 2006, totals \$10,801,143.99.

The need for additional State funds is apparent. The current substantial backlog, the remarkable increase in requests from UNC-Chapel Hill, the increased number of requests from the focused growth and special needs institutions, and the availability of State matching money for endowments up to \$2,000,000, make that need imperative. Larger transfers for endowments without additional appropriations will consume a greater share of the available State matching funds while reducing substantially the number of new professorships that can be funded in any given year.

The Committee on Personnel and Tenure, therefore, recommends that the Board of Governors note the continuing and growing backlog of distinguished professorships and include in its budget request either a request for a higher level of recurring funding or for supplemental non-recurring funds. This highly successful initiative needs and deserves additional support.

**The University of North Carolina
Distinguished Professors Endowment Trust Fund
Status at September 30, 2006
Summary Report**

Receipts:

State Appropriations 1985-86 through 2006-07	\$ 66,175,000.00
Interest Earnings – Cumulative	5,924,856.01

Total Receipts	72,099,856.01
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Transfers to Constituent Institutions:

State Matching for \$500,000 Endowments – 188 professorships	32,641,000.00
State Matching for \$1,000,000 Endowments – 109 professorships	36,738,000.00
State Matching for \$1,500,000 Endowments – 4 professorships	2,000,000.00
State Matching for \$2,000,000 Endowments – 1 professorship	668,000.00 *

** originally funded at the \$1M level-upgraded to \$2M in 2006*

Total Transfers – 302 Professorships	72,047,000.00
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Required Matching Private Funds Generated	138,953,000.00
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Undesignated Funds at September 30, 2006	52,856.01
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Qualifying Professorships Awaiting State Funding (see list attached):

Transfers to Constituent Institutions

State Matching for \$500,000 Endowments – 5 professorships	835,000.00
State Matching for \$1,000,000 Endowments – 7 professorships	2,338,000.00
State Matching for \$1,500,000 Endowments – 1 professorship	500,000.00

Total (13)	3,673,000.00
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Escrow:

State Matching for \$500,000 Endowments – 13 professorships	2,171,000.00
State Matching for \$1,000,000 Endowments – 15 professorships	5,010,000.00

Total (28)	7,181,000.00
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Total Qualifying Professorships Awaiting State Funding (41)	10,854,000.00
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Current Shortfall in Program Funding at September 30, 2006	10,801,143.99
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Number of Distinguished Professorships by Institution **September 30, 2006**

Institution	Funded					Awaiting Funding *					Total Qualifying Professorships				
	# \$500K	# \$1M	# \$1.5M	# \$2M	Total	# \$500K	# \$1M	# \$1.5M	# \$2M	Total	# \$500K	# \$1M	# \$1.5M	# \$2M	Total
ASU	7	2			9					0	7	2	0	0	9
ECU	10	1			11	1				1	11	1	0	0	12
ECSU	2				2					0	2	0	0	0	2
FSU	3				3					0	3	0	0	0	3
NCA&T	6				6					0	6	0	0	0	6
NCCU	9	1			10					0	9	1	0	0	10
NCSA	8				8					0	8	0	0	0	8
NCSU	4	21	3		28	1	1			2	5	22	3	0	30
UNCA	3	1			4					0	3	1	0	0	4
UNC-CH	82	62	1	1**	146	15	20	1		36	97	82	2	1	182
UNCC	17	7			24	1	1			2	18	8	0	0	26
UNCG	9	5			14					0	9	5	0	0	14
UNCP	3	1			4					0	3	1	0	0	4
UNCW	7	1			8					0	7	1	0	0	8
WCU	10	5			15					0	10	5	0	0	15
WSSU	8	2			10					0	8	2	0	0	10
Total	188	109	4	1	302	18	22	1	0	41	206	131	5	1	343

* Includes professorships qualifying for escrow and transfer -- 28 qualify for escrow (\$7,181,000) and 13 for transfer to institutions (\$3,673,000)

**\$2M professorship was originally funded at the \$1M level--increased to \$2M in 2006.