

THE DISTINGUISHED PROFESSORS ENDOWMENT TRUST FUND

**Annual Report
October 18, 2005**

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, however, now authorizes 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 allows for endowment levels between the previous \$1,000,000 limit and the new \$2,000,000 limit, but no intermediate levels are specified.

Any such gradations will need to be set by the Board of Governors and included in its policies for administering the Distinguished Professors Endowment Trust Fund. To date, no institutional requests for challenge grants to match private gifts for creating a \$2,000,000 endowment have been received.

Nevertheless, 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 current half-million dollar increments in defining levels for endowments, the Committee on Personnel and Tenure recommends that the Board of Governors set four levels of endowments for distinguished professorships, i.e., at \$500,000, \$1,000,000, \$1,500,000, and \$2,000,000 and that 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. A detailed proposed revision of the Board's policies concerning the Distinguished Professors Endowment Trust Fund is attached to this report.

Even at current levels, this program 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 \$64,072,478.63 for the Distinguished Professors Trust Fund. As of September 23, 2005, \$64,037,000 has been paid to the institutions to match private gifts of \$123,963,000 for the creation of 274 endowed professorships totaling \$188,000,000.

In every instance, the full private contribution has been received and matching grants have been paid from the Trust Fund to the institutions. One hundred of the 274 grants were for \$334,000 for \$1,000,000 endowments, 161 grants were for \$167,000 for \$500,000 endowments, 11 grants were for \$250,000 for \$500,000 endowments, and two were for \$500,000 for \$1,000,000 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. By September 2004, a total of 58 professorships at nine UNC institutions were in the queue awaiting the State match. 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.

DRAFT

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.

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.

Since November 2004, however, there has been an unprecedented acceleration of private gifts raised 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. At Chapel Hill the number of new gifts for additional endowed professorships and for the completion of partial gifts for some already in the queue is truly remarkable.

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. Twelve of the grants were for \$167,000 for \$500,000 endowments, eight were for \$250,000 for \$500,000 endowments, nine were for \$334,000 for \$1,000,000 endowments, and two were for \$500,000 to create \$1,000,000 endowments.

The latter two included a new \$1,000,000 chair at Western Carolina University and the first \$1,000,000 endowed distinguished professorship at The University of North Carolina at Pembroke. In all, 10 of the newly funded professorships were at four focused growth or special needs institutions. Last year, the corresponding number was only three grants for \$250,000 each. Clearly, 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.

Thus, 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. Of those 13, eight are for \$167,000 for \$500,000 endowments, two are for \$250,000 for \$500,000 endowments, and three are for \$334,000 for \$1,000,000 endowments. Funding the requisite State match for these 13 professorships would require \$2,838,000. There are 24 others for which the full private contribution has not yet been received. Of these, 11 are for \$167,000 for \$500,000 endowments and 13 are for \$334,000 for \$1,000,000 endowments. To escrow the requisite State match for these 24 proposed chairs would require \$6,179,000. Taking into account a balance of \$35,478.63 in earned interest still available, the current shortfall in program funding, as of September 23, 2005, totals \$8,981,521.37.

DRAFT

The need for additional State funds is apparent. The current substantial backlog, the growing number of requests from UNC-Chapel Hill and 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 could consume the lion's share of the available State matching funds and reduce 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 assess in February the extent of the projected 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.

Committee on Personnel and Tenure

Number of Distinguished Professorships by Institution
September 23, 2005

Institution	Funded			Awaiting Funding *			Total Qualifying Professorships		
	# \$500,000	# \$1,000,000	Total	# \$500,000	# \$1,000,000	Total	# \$500,000	# \$1,000,000	Total
Appalachian State University	7	2	9				7	2	9
East Carolina University	10	1	11				10	1	11
Elizabeth City State University	2		2				2	0	2
Fayetteville State University	3		3				3	0	3
N. C. A & T State University	6		6				6	0	6
North Carolina Central University	9	1	10				9	1	10
North Carolina School of the Arts	8		8				8	0	8
North Carolina State University	4	20	24				4	20	24
UNC Asheville	3	1	4				3	1	4
UNC-Chapel Hill	72	56	128	18	16	34	90	72	162
UNC Charlotte	17	7	24	1		1	18	7	25
UNC Greensboro	7	5	12				7	5	12
UNC Pembroke	3	1	4				3	1	4
UNC Wilmington	7	1	8				7	1	8
Western Carolina University	8	5	13				8	5	13
Winston-Salem State University	6	2	8	2		2	8	2	10
Total Professorships	172	102	274	21	16	37	193	118	311

*Includes professorships qualifying for escrow and transfer -- 24 qualify for escrow (\$6,179,000) and 13 for transfer to institutions (\$2,838,000)

Proposed Amendments to Board of Governors' Policies 600.2.3
Regarding the Distinguished Professors Endowment Trust Fund

.....
Paragraph II.3. For a constituent institution other than a focused growth or special needs institution, the institution must have \$1,333,000 in donations and interest in its Endowment Fund to qualify for \$667,000 in State matching funds to establish a \$2,000,000 endowment, must have \$1,000,000 in donations and interest to qualify for \$500,000 in State matching funds to establish a \$1,500,000 endowment, must have \$666,000 in donations and interest to qualify for \$334,000 in State matching funds to establish a \$1,000,000 endowment, and must have \$333,000 in donations and interest for \$167,000 in State matching funds to establish a \$500,000 endowment.

Paragraph II.4. For constituent institutions other than focused growth and special needs institutions, the appropriate challenge grant amount (\$667,000, \$500,000, \$334,000, or \$167,000) may be placed in escrow in the Trust Fund for an institution that has in its Endowment Fund \$222,000, \$166,600, \$111,000, or \$55,500, respectively, and written pledges of additional private contributions in the amount of \$1,111,000, \$833,400, \$555,000, or \$277,500, as appropriate; provided that each payment or aggregate payments on this balance shall be no less than the amount of the initial payment or payments and shall be made on or before the anniversary date of the initial payment or payments and the full amount shall be paid within five years of the initial payment or payments. When the full requisite amount (\$1,333,000, \$1,000,000, \$666,000, or \$333,000) is in the Endowment Fund, the challenge grant shall be paid from the Trust Fund.

Paragraph II.5. For focused growth and special needs institutions, the appropriate challenge grant amount (\$1,000,000, \$750,000, \$500,000, or \$250,000) may be placed in escrow in the Trust Fund for an institution that has in its Endowment Fund \$166,600, \$125,000, \$83,300, or \$41,600, respectively, and written pledges of additional private contributions in the amount of \$833,400, \$625,000, \$416,700, or \$208,400, as appropriate; provided that each payment or aggregate payments on this balance shall be no less than the amount of the initial payment or payments and shall be made on or before the anniversary date of the initial payment or payments and the full amount shall be paid within five years of the initial payment or payments. When the full requisite amount (\$1,000,000, \$750,000, \$500,000, or \$250,000) is in the Endowment Fund, the challenge grant shall be paid from the Trust Fund.

Paragraph II.6. For focused growth and special needs institutions, the institution must have \$1,000,000 in donations and interest in its Endowment Fund to qualify for \$1,000,000 in State matching funds to establish a \$2,000,000 endowment, must have \$750,000 in donations and interest to qualify for \$750,000 in State matching funds to establish a \$1,500,000 endowment, must have \$500,000 in donations and interest to qualify for \$500,000 in State matching funds to establish a \$1,000,000 endowment, and must have \$250,000 in donations and interest to qualify for \$250,000 in State matching funds to establish a \$500,000 endowment.