

MICHIGAN STATE UNIVERSITY

June 14, 2011

MEMORANDUM

To: Trustee Policy Committee

From: Provost Kim A. Wilcox
Vice President for Finance and Operations Fred L. Poston
Vice President for Advancement Robert W. Groves

Subject: Spartan Cornerstone Scholarship Challenge

RECOMMENDATION

Be it resolved that the Trustee Policy Committee recommends that the Board of Trustees authorize the administration to make funds available from the April, 2009 anonymous gift of \$7 million to implement the Spartan Cornerstone Scholarship Challenge Matching Gift Program described in Attachment A, pursuant to which such funds will be designated as endowment or funds functioning as endowment when matched with other donors' qualifying new or existing gifts.



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BACKGROUND

In April, 2009 the University received an unexpected and unusually generous gift. An anonymous donor gave the University \$10 million, \$7 million of which was designated for financial aid and scholarships for women and minority students, with the proviso that, if applicable law prohibited that restriction, as it does in Michigan, the funds be used for the benefit of "all eligible students". The donor expressed the hope that the gift would make "a substantial difference to your students during these challenging times enabling a more confident, sharper focus on their studies with improved career and life prospects".

At its meeting on October 30, 2009, the Board approved the use of funds from the anonymous gift to implement the Spartan Scholarship Challenge Matching Gift Program, pursuant to which such funds were designated as endowment when matched with other donors' qualifying gifts establishing or funding new endowed scholarships. The Spartan Scholarship Challenge ended December 31, 2010, after generating over \$4 million in new scholarship gifts to the University. Part of the \$7 million set aside for the match when the Spartan Scholarship Challenge was established remained uncommitted when the Spartan Scholarship Challenge ended.

In the months since the conclusion of the Spartan Scholarship Challenge, the administration has been considering how to use the remaining part of the anonymous donor's \$7 million gift in a way that maximizes the benefit that it provides for MSU students and their families and that is consistent with the anonymous donor's intent. It has determined that the best way to achieve these goals continues to be to establish a matching gift program that leverages the gift to generate millions of dollars in endowed scholarships for MSU's students. The primary purpose of the endowed scholarships will be to help undergraduate, graduate, and graduate-professional students to attend MSU when those students might not have been able to do so without the financial assistance the scholarships provide. The program, which will be called the Spartan Cornerstone Scholarship Challenge, will continue until the date on which the remaining part of the \$7 million gift is fully committed. A more detailed description of the program is included in Attachment A.

During the Spartan Cornerstone Scholarship Challenge, the remaining part of the \$7 million gift from the anonymous donor will be invested in the Liquidity Pool. As gifts which qualify for matching under the Spartan Cornerstone Scholarship Challenge are received, the University will withdraw funds from the Liquidity Pool and transfer them into the new endowment accounts established or funded by other donors at various matching ratios depending upon the amount of the gift (\$1 from the anonymous donor's gift for every \$2 received from other donors for new qualifying gifts between \$20,000 and \$99,999; \$1 from the anonymous donor's gift for every \$1 received from other donors for new qualifying gifts between \$100,000 and \$1 million). In addition, if a donor who established an endowed scholarship under the Spartan Scholarship Challenge with a gift commitment of less than \$100,000 makes additional gifts to the endowed fund for that scholarship during the Spartan Cornerstone Scholarship Challenge Matching Gift Program in amounts sufficient to increase the total gifts to that fund to \$100,000 or more, the University will convert the existing Spartan Scholarship Challenge Scholarship into a Spartan Cornerstone Challenge Scholarship and withdraw funds from the Liquidity Pool and transfer them to the endowment account for that scholarship in amounts sufficient to raise the match for the gifts to a 1:1 ratio from a 1:2 ratio.

Thus, by making new endowment gifts which qualify for the Spartan Cornerstone Scholarship Challenge Matching Gift Program, other donors may designate a proportional amount from the anonymous donor's gift as endowment. The designation of such funds as endowment through the Spartan Scholarship Challenge Matching Gift Program is irrevocable, assuming the other donors' gifts

meet all conditions of the Spartan Cornerstone Scholarship Challenge. As a result, the matching funds from the anonymous donor's gift which are transferred into these endowments pursuant to the Spartan Cornerstone Scholarship Challenge will be treated as part of these endowments for accounting and other purposes. No distinction will be made between the funds provided by other donors and the matching funds transferred from the anonymous donor's gift once they are placed in the same endowment account.

To achieve consistent treatment of donors under the original Spartan Scholarship Challenge and the new Spartan Cornerstone Scholarship Challenge, the match for endowed scholarships established under the Spartan Scholarship Challenge with donations totaling \$100,000 or more will be increased from a 1:2 ratio to a 1:1 ratio. This will be accomplished by establishing a fund functioning as endowment (FFE) for each such endowment in the amount necessary to achieve the 1:1 ratio. Each FFE will have the same name and purpose as the endowed fund to which it relates. The anonymous donor's gift will be used to fund these FFE's as of September 30, 2011.

The Spartan Cornerstone Scholarship Challenge will dramatically increase the pool of need-based scholarship dollars at the University. It will also enhance awareness of the need for scholarship support at MSU. It should stimulate additional major gift activity during very difficult economic times. It will help MSU remain affordable for all its students and their families, no matter what their means. It will benefit Spartans for generations to come and thus realize the vision and hope expressed by the anonymous donor.

cc: L.K. Simon, K. Wilcox, R. Noto, B. Beekman, D. Brower, M. Haas, G. Klein

Attachment A

SPARTAN CORNERSTONE SCHOLARSHIP CHALLENGE MATCHING GIFT PROGRAM

Michigan State University was the recipient of an anonymous contribution in April 2009. Of this gift, \$7 million was restricted in purpose, as follows:

This contribution donated to Michigan State University is for financial aid and scholarships to women and minority students. Should state or any applicable laws prohibit such assistance to women and minorities, funds may be used for the benefit of all eligible students. It is hoped that this gift will make a substantial difference to your students during these challenging times enabling a more confident, sharper focus on their studies with improved career and life prospects.

At its meeting on October 30, 2009, the Board approved the use of funds from the anonymous gift to implement the Spartan Scholarship Challenge Matching Gift Program, pursuant to which such funds were designated as endowment when matched with other donors' qualifying gifts establishing or funding new endowed scholarships. The Spartan Scholarship Challenge ended December 31, 2010, after generating over \$4 million in new undergraduate scholarship gifts to the University. Part of the \$7 million set aside for the match when the Spartan Scholarship Challenge was established remained uncommitted when the Spartan Scholarship Challenge ended.

To take full advantage of this extraordinarily generous gift by building on the success of the Spartan Scholarship Challenge, the University will use the remainder of the gift to fund another matching gift program, this time called the Spartan Cornerstone Scholarship Challenge Matching Gift Program ("Matching Gift Program"), to generate endowed scholarships for undergraduate, graduate, and graduate-professional students who might not be able to attend the University without that financial assistance.

During the Matching Gift Program, the gift from the anonymous donor will be made available to match gifts from other donors to establish or fund new endowments, and to add to certain existing endowments, whose purposes are consistent with that of the anonymous donor's gift. The match will be at a 1:2 ratio, \$1 from the anonymous donor's gift for each \$2 donated by other donors, for qualifying new gifts totaling between \$20,000 and \$99,999, and at a 1:1 ratio, \$1 from the anonymous donor's gift for each \$1 donated by other donors, for qualifying new gifts totaling between \$100,000 and \$1 million. In addition, if a donor who established an endowed scholarship under the Spartan Scholarship Challenge with a gift commitment of less than \$100,000 makes additional gifts to the endowed fund for that scholarship during the Matching Gift Program in amounts sufficient to increase the total gifts to that fund to \$100,000 or more, the University will convert the existing Spartan Scholarship Challenge Scholarship into a Spartan Cornerstone Challenge Scholarship and raise the match for the gifts, up to \$1 million, to a 1:1 ratio from a 1:2 ratio. Thus, by making new endowment gifts which qualify for the

Matching Gift Program, other donors may designate a proportional amount from the anonymous donor's gift as endowment. The designation of such funds as endowment through the Matching Gift Program is irrevocable, assuming all conditions of the Matching Gift Program are met.

The minimum gift generally required by the University for the creation of an endowed fund is presently \$30,000. At that minimum, because of the 1:2 match, individual donors or groups of donors whose gifts qualify for matching under the Matching Gift Program will be able to establish endowed funds with gifts of at least \$20,000. Initial matching funds will not be transferred to an account for an endowment fund until gifts eligible for matching actually received in that account total at least two-thirds of the minimum gift amount.

The Matching Gift Program will run until the date on which the remainder of the anonymous donor's gift is fully committed. All gifts designated for matching must be paid in full within five years of the end of the calendar year in which the pledge is made or the gift agreement is signed. Matches will be made on a quarterly basis for qualifying gifts made during the previous calendar quarter. The maximum gift eligible for a match is \$1 million, and gifts from related or affiliated donors (e.g., the immediate family members of a donor and a donor's foundations, businesses, and trusts) will be aggregated for this purpose.

Donors who contributed \$100,000 or more to establish an endowed scholarship under the Spartan Scholarship Challenge will have their match increased to a 1:1 ratio to be consistent with the Matching Gift Program. This will be accomplished by establishing a fund functioning as endowment (FFE) for each such endowment in the amount necessary to achieve the 1:1 ratio. The anonymous donor's gift will be used to fund these FFE's as of September 30, 2011. Each FFE will have the same name and purpose as the endowment to which it relates. It is necessary to employ the FFE device to achieve the 1:1 ratio because these donors will not be required to make additional gifts in order to receive the 1:1 match. Apart from the FFE's and funds used for the conversion of Spartan Scholarship Challenge Scholarships into Spartan Cornerstone Challenge Scholarships, the match will not be applied to existing scholarship pledges or to gifts for endowed funds which were established prior to the inception of the Matching Gift Program.

Corporate or foundation matching gifts may not be relied upon to fulfill a gift commitment or pledge toward an endowed fund eligible for matching, nor will corporate or foundation matching gifts be matched. Bequests and life income gifts may not be used to establish an endowed fund eligible for matching or to add to an existing endowed fund to obtain a better match. Nor will bequests and life income gifts be matched.

All gifts eligible for matching under the Matching Gift Program must be used for endowments whose purposes are consistent with that of the anonymous donor's gift. Hence, all such endowments must have as their purpose the award of scholarships to students with demonstrated financial need in a manner that will maximize opportunities for women and minorities to the extent permitted by law.

With regard to undergraduate students, Matching Gift Fund Program endowments will be administered by the Office of Financial Aid. All students who are entering their freshman or sophomore year at the University and who can demonstrate financial need by qualifying to

participate in federal financial aid programs must be eligible for undergraduate scholarships supported by endowments eligible for the Matching Gift Program. Initial undergraduate scholarship awards may be made only to such students. The Office of Financial Aid's selection criteria for undergraduate scholarship recipients will emphasize academic credentials and promise. Donors may express preferences for the award of undergraduate scholarships to students from certain metropolitan areas or counties, or to students with certain majors, or to students enrolled in certain colleges or programs. But, the Office of Financial Aid will retain final control over the award of undergraduate scholarships from endowments supported by the Matching Gift Program to achieve maximum impact from such endowments by ensuring that all expendable amounts from such endowments are utilized in the most effective manner each year, given the goals of the anonymous donor and the Matching Gift Program. Undergraduate scholarships supported by endowments eligible for the Matching Gift Program must be renewable, assuming the recipient remains eligible to participate in federal need-based financial aid programs and continues in good standing.

With regard to graduate students, Matching Gift Program endowments will be administered by the Office of Financial Aid and either the Graduate School or the relevant college or department, depending on the size of the endowed fund. Criteria for the award of scholarships may vary depending on the size of the endowed fund. All graduate students at the University who can demonstrate financial need by qualifying to participate in federal financial aid programs are eligible for scholarships supported by endowments eligible for the Matching Gift Program.

The Graduate School, in consultation with the Office of Financial Aid, shall administer all endowments for graduate students established under the Matching Gift Program and funded by gifts totaling between \$20,000 and \$99,999. The Graduate School's selection criteria for these scholarship recipients will emphasize academic credentials and promise. While separate endowments bearing the donor's name will be established at this level of gift, the Graduate School will retain financial flexibility to pool the income streams from these endowments and to determine the amount and number of graduate scholarships from endowments supported by the Matching Gift Program and funded by gifts in this range to achieve maximum impact from such endowments by ensuring that all expendable amounts from such endowments are utilized in the most effective manner each year, given the goals of the anonymous donor and the Matching Gift Program.

Donors who make gifts totaling between \$100,000 and \$1 million and who designate these gifts for the support of graduate students may create endowments under the Matching Gift Program to benefit students in specific colleges or departments who can demonstrate financial need by qualifying to participate in federal financial aid programs. These endowments will be administered by the relevant college, in consultation with the Office of Financial Aid.

Donors may also establish endowments under the Matching Gift Program for graduate-professional students at the Colleges of Human, Osteopathic, and Veterinary Medicine. Endowments established for the benefit of students at a particular college will be administered by that college, in consultation with the Office of Financial Aid, as a general graduate-professional scholarship pool for students at that college who can demonstrate financial need by qualifying to

participate in federal financial aid programs. While separately endowed funds bearing the donor's name will be established, the respective professional school will retain financial flexibility to pool the income streams from these endowments and to determine the amount and number of scholarships from endowments supported by the Matching Gift Program to achieve maximum impact for its students from such endowments by ensuring that all expendable amounts from such endowments are utilized in the most effective manner each year, given the goals of the anonymous donor and the Matching Gift Program.

All scholarships for graduate and graduate-professional students supported by endowments eligible for the Matching Gift Program must be renewable, assuming the recipient remains eligible to participate in federal need-based financial aid programs and continues in good standing.

The Provost will make any necessary interpretations of, or exceptions to, the requirements of the Matching Gift Program.