Report of the Development Budget Review Committee

Committee Members
Linda Beale (Chair)
Alan Reinstein
Linea Rydstedt
Heather Sandlin
Jack Sobel
James Woodyard
Louis J. Romano (ex officio)
EXECUTIVE SUMMARY

The Board of Governors agreed at its October 2012 meeting that the Academic Senate should review the University’s proposal for an annual $5 million increase to the Development Division’s budget. Over a two-month period, the Committee reviewed the Marts and Lundy report; met with Vice President David Ripple, Associate Vice President Rob Kohrman, Consultant Roy Muir, Deans Ackerman (Law), Fotouhi (Engineering), Parisi (Medicine) and Williams (Business); and requested and received extensive additional information.

The Committee recognizes the vital importance of fundraising to the University’s future and strongly supports the University’s efforts to enhance fundraising performance. We also recognize that enhanced performance may require additional resources. Our goal is to assist the University in assessing the appropriate amount of a budget increase, developing appropriate methods for allocating increases to the fundraising budget, and ensuring successful utilization of those increases.

The Committee undertook a review of the Development Division’s performance (based primarily on Marts & Lundy’s report) and the Development Division’s plans for using increased funds. The Division’s fundraising performance has not measured up to our peer institution’s successes. For example, our gift officers are only about 1/3 as productive as similar staff at peer institutions, even though Development receives a higher percentage of the University’s operating budget than the average of these peers. Development’s gift totals include FMRE and thus overstate results. Gift totals have dropped substantially since 2005, and the University’s endowment has declined when adjusted for inflation since 2007. Although trends nationally are towards decentralization, much of the requested budget increase will be used to hire additional top Development staff.

Development has begun to address some of the reasons for low staff productivity by moving some major gifts officers back to the academic units, removing all non-development duties from gift officers and requiring more donor contacts and follow-through, and purchasing a new database for prospect research. Nonetheless, the plans continue the unwieldy relationship between Development and the academic units, separating authority and accountability and provide inadequate metrics for linking potential increments to the Development Division budget to its performance. Accordingly, the Committee makes the following specific recommendations:

1. Remove FMRE from all Development performance statistics.
2. Provide extensive orientation and training for all Development staff and Deans.
3. Decentralize more of the fundraising functions by moving all major gift officers into the colleges, reducing the administrative hierarchy; making reporting lines clear, and holding the deans (and the VP for Development) accountable for results.
4. Set milestones for performance and link budget and gift offer salaries to these metrics.
5. Institute a regular review of Development by the Academic Senate.
I. Introduction.

At the October Board of Governors (BOG) meeting, the University administration proposed that the BOG approve incremental establishment of a permanent $5 million annual budget increase for the Division of Development and Alumni Affairs (Development). This represents a substantial General Fund allocation: such a permanent increase to one of the University’s underfunded academic schools would assuredly permit that school to make significant faculty hires and student recruiting advances, substantially enhancing the school’s—and the University’s—national reputation.

Because there had been no prior consultation with the Academic Senate, the Academic Senate Budget Committee asked that the BOG delay approval of permanent funding until the Academic Senate could review the proposal. The BOG recommended that the Academic Senate establish an Academic Senate Development Budget Review Committee (the Committee). The Committee has reviewed the Marts & Lundy (M&L) report and other budget and planning information and documents requested from Vice President for Development and Alumni Affairs David Ripple and Associate Vice President for Budget, Planning, and Analysis Rob Kohrman. It also interviewed Mr. Ripple, Mr. Kohrman, Marts and Lundy Senior Consultant and Principal, Roy Muir, and Deans Ackerman (Law), Fotouhi (Engineering), Parisi (Medicine) and Williams (Business). The Committee’s report has been reviewed and approved by the Academic Senate Policy Committee.

The Committee recognizes that an active and successful fundraising program is essential to the University. We therefore strongly support the University’s intention to reinvigorate development efforts. Reduced state funding, combined with the harmful impact on students of ever-increasing tuition rates, requires the University to seek more external funding from alumni, other interested individuals, and foundations. Enhanced funding is vital to our academic programs and to the many administrative services that support them, as well as to the establishment and maintenance of an appropriate physical infrastructure. Additional resources are necessary to accomplish these goals.

Nonetheless, questions remain regarding the best methods for increasing fundraising and the appropriate amount of General Fund support. Any budgetary commitment of the magnitude proposed requires an understanding of current fundraising problems and an evaluation of the plans for using these increased resources. Such additional funding for development means less funding for other University activities that may be of higher priority. Funds raised by development generally are not a simple substitute for General Funds lost: faculty, for example, generally cannot ordinarily be hired from donor funds.

The remainder of this report summarizes the Committee’s assessment of these issues. Part II analyzes the Development Division’s past performance. Part III briefly summarizes current plans for use of the enhanced funding, as provided to the Committee in documents and

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1 Members of the Committee are: Linda Beale (Committee Chair, Law), Alan Reinstein (Business), Lou Romano (Academic Senate President, Chemistry), Linea Rydstedt (Medicine), Heather Sandlin (Pharmacy and Health Services), Jack Sobel (Medicine), and James Woodyard (Engineering).
interview sessions. This information lays the foundation for Part IV, the Committee’s recommendations for a more robust “pay for performance” model of accountability for budget increases.

II. The Development Division’s Past Performance.

A. Major Marts & Lundy conclusions.

Although the consultants concluded that the University has the proper number of gift officers, these officers’ average productivity was only about 1/3 of that attained by similar staff at peer universities (M&L report, p.3 & p.88). Our frontline and professional/leadership staffs are the least successful of all our peers (M&L report, p. 89). Yet the Development Division budget is already 1.2% of the University’s operating budget, exceeding the average of 1.1% among the University’s peers (M&L report, p.54). A calculation of the return on investment shows the following:

1. Development raised 5.8 times its budget in total gifts relative to the peer sample average of 9.6. The five peer institutions immediately above WSU had returns ranging from 9.1 to 20.3 times their budgets (M&L report, p.87).
2. Cash gifts return-per-dollar-invested was also significantly higher in 2003 and 2004 ($6.90 and $9.08, respectively) than from 2005 through 2012, when it never topped $5.51.
3. Development raised $0.5M per full-time-equivalent (FTE) staff compared with an average of $1.2M for each FTE staff at peer institutions (M&L report, p.88).

Development’s productivity is actually worse than suggested by the return-on-investment data. The totals for WSU cash gifts include money attributed to the Fund for Medical Research and Education (FMRE). FMRE is a fee that the School of Medicine (SOM) charges its clinical practice plans: it is often referred to as the “Dean’s Tax.” Development generates none of these funds, and the funds are not added to the University endowment. FMRE is not a gift: it simply represents a pass-through of money from the clinical practice that the dean uses for research and educational purposes. Over the last decade, FMRE comprised 21% of all gifts and 26% of all cash gifts reported by Development.

The Committee asked Mr. Ripple and Mr. Muir to explain the apparent discrepancy between individual staff productivity and claimed adherence to development standards. They responded that the University’s gift officers have experienced significant turnover, have been distracted by other duties at the academic units, such as alumni relations and events, and have worked with inadequate donor databases. There was no explanation for why these conditions developed or have continued. The M&L report (p.3) also notes that too many people report to the VP and AVP of Development.

B. Academic Senate analysis.

The Committee analyzed Development’s post-2002 fundraising efforts.
Figure 1, below left, shows the value of all University gifts obtained or pledged since 2002 plotted along with the Development budget over the same time period. These data do not include FMRE in gifts. As is clearly evident, the gift level has dropped fairly consistently from a high of $69M in 2005 to its present 2012 level of $46M. During this time period the Development budget had no drastic changes, ranging from $7M to $8M. Not shown in these budget figures is $6M that Development borrowed from the General Fund between 2005 and 2008, a debt that was eliminated in 2009 by a General Fund transfer. Also not included in the budget numbers are the costs of any Development Division fringe benefits or expenditures for fundraising officers, support staff, travel, and supplies paid by other units such as schools and colleges. (If taken into account, these additional factors would result in even lower productivity results than presented here.)

Figure 2, below right, shows the ratio of all gifts and cash gifts to the Development budget over the past decade. This plot also shows a significant decline on this calculated return on investment since FY 2004.

The endowment actually declined 5% over this latter period. Although there is always some investment volatility, it appears that a similar rate of growth could have been obtained without additional funds for development efforts by simply investing the 2002 endowment in Treasury notes or a mutual fund that tracked the market. The M&L report (pp.56-7) also indicated that the size of the endowment was very low compared with peer institutions, whether considered on an overall dollar scale or normalized relative to WSU’s full-time enrollment.
The Committee requested salary and productivity information for gift officers currently paid from Development funds. Unfortunately, Development did not provide information for gifts obtained by specific gift officers but instead generally grouped the gifts by college, making it impossible to correlate specific salary levels with success in obtaining gifts. Based on this information, there did not appear to be a correlation between salary level and success at obtaining cash gifts or pledges.

Finally, these performance figures attribute all University gifts to Development Division efforts. In fact, Development is often minimally involved with principal gifts, as in the case of the Chemistry Building expansion and the Law School’s Keith addition. The Committee cannot determine the Division’s actual contribution to total gifts, but the data above generally overstate Development’s successes.

III. Overview of Current Plans for Use of Enhanced Funding.

The Committee focused on two aspects of the plans for increased Development Division funding: (i) whether appropriate metrics are in place for evaluating the Division and staff in its use of any increased funding, and (ii) whether the plans for using the budget increase address the problems noted by the M&L report of organizational complexity, over-centralization, and staff productivity shortfalls.

A. Assessment metrics.

Mr. Ripple and Mr. Kohrman initially informed us that there were no evaluation metrics in place for the Division, but that the Division was instituting productivity metrics for its fundraising staff whereby the staff would be evaluated on donor development (e.g., for each period and each potential donor level, number of contacts, calls, face-to-face meetings, “asks”, successful solicitations, etc.). Mr. Ripple later indicated that appropriate metrics are in place to evaluate the Division, but that he had no expectation of requiring enhanced performance beyond its current general compliance with the $5-raised-for-each-$1-spent industry average. Nor are there any evaluative milestones set for the Division to attain before receiving increments to the budget. The Division will have specific campaign prospect contact and fundraising targets, but no other metrics will ensure that the enhanced funding is being used successfully. It is unclear whether any repercussions arise if the Division fails to reach fundraising goals.

B. Organizational complexity and (de)centralization.

Given the statements in the M&L report and at our interviews about Wayne State’s organizational complexity problems and the national trends towards decentralization of development functions, we were disappointed to learn that the proposed $5 million budget increase is dedicated largely to beefing up the Division’s top management staff to create additional reporting bureaucracies.

As shown in Table 1, below, Development will spend $1.2M of the temporary funding provided on October 3, 2012 to hire 12 new permanent personnel, all except one of whom will
Mr. Ripple’s growth plan for spending the full $5M annual increase projects an overall increase of 42 positions, only 23 of which will be direct fundraisers (Table 2).

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| SUBTOTAL                  | 42   | $3,065,600 | $74,400 | $3,140,000 |
| Operational Budget (18% of total) | 1  | $900,000  | $900,000 |
| TOTAL REQUEST             |     | $5,000,000 |         | $5,000,000 |
At the academic units, new deans find little fundraising structure, there are frequent staff vacancies, and deans operate with inadequate data on donors or fund balances, making it difficult to initiate an effective fundraising program. The “partial decentralization” described in the M&L report is proceeding minimally, primarily through dual reporting of major gifts officers in a few academic units. There is a mix of approaches, with some schools and colleges shouldering out of their own budgets alumni relationship and events responsibilities that were formerly handled by Development, while others fund Development functions such as retention bonuses for major gift officers, hiring of secretarial staff, and some support of general office and travel expenditures. We were unable to get a full accounting of these development expenditures by the various schools and colleges, but they are not insignificant. Alumni relations responsibilities could grow to represent a substantial shift of costs to already underfunded schools and colleges even while the Development Division’s budget is substantially increased. Moreover, there seems to be little logic for the alternative methods of allocating responsibilities. The schools of Nursing, Medicine, and Engineering apparently have a major gifts officer with dual reporting lines. All other major gifts officers currently report directly to Development.

The unwieldy structure remaining even under the new plan shows, for example, that the SOM has received the most decentralized control, with a broad plan to hire ample alumni and fundraising staff, supported by a combination of Development and SOM funding. Teresa Muscat has already been transferred from the Development Division to the SOM to head its development efforts, along with $100,000 from the Development budget to support her salary. In contrast, the Law School earlier transferred $44,000 from its budget to Development to partially cover a new major gifts officer who reports to Development; but the school also funds from its own budget significant retention bonuses, a secretary and other development effort costs. The Engineering School is in the middle of those two: there is a dual-reporting line funded by both units for the new major gifts officer, and the school also now accepts full responsibility for its alumni affairs. The Business School dean acknowledged that the school’s development efforts have been “run poorly,” with staff turnover and inadequate donor-relations efforts hampering fundraising success. Expectations are that the fundraising performance will improve with a better donor database in the central office and removing extraneous duties from major gifts staff. Nonetheless, there was over a six-month period during which no major gifts officer was in place and the Business School dean’s attention was focused elsewhere. Although a major gifts officer has recently been hired at $80,000, that person is not an experienced fundraiser.

IV. Academic Senate Recommendations.

Based on its review of documents and interviews with central administrators and deans, the Committee recommends steps to connect budgetary increases to performance and ensure accountability.

A. Remove FMRE from all Development performance statistics.

The Academic Senate Budget Committee has repeatedly urged that FMRE funds be eliminated from Development Division reports, but FMRE continues to be separately stated as
part of the total. Although the University’s General Counsel has indicated that it is *allowable* to include the Dean’s Tax in the Development totals, the inclusion is nonetheless *unreasonable* when assessing Development’s fundraising performance. Since Development has no role in soliciting or administering FMRE funds, the inclusion of FMRE artificially inflates Development’s results. Whenever the clinical practice in the SOM expands or the Dean’s Tax rate increases, it will falsely appear as though Development has successfully increased its efforts.

Accordingly, the Committee strongly recommends that the BOG instruct Development to present gift totals and productivity metrics for the division (and for individual staff) exclusive of any FMRE amounts.

**B. Provide for orientation and training of all Development personnel in best-practice fundraising and donor-relations methods.**

Mr. Ripple stressed that one reason for inferior fundraising performance was the significant Development personnel turnover and the number of inexperienced fundraisers. The Development proposal apparently deals with those problems by significantly increasing salary levels (including promotions of existing staff). While some increases in salaries may be appropriate when positions are substantially changed, the proposed salary levels seem out of alignment with the University’s current budgetary situation and the lack of salary increases for faculty. The Committee was surprised to see very little emphasis on orientation and training for Development personnel. No fundraiser will be effective who does not understand well the academic mission and characteristics of the school or college that s/he supports. Similarly, personnel who come to fundraising from sales careers or other related fields will need orientation into academe and into the best practices for academic fundraising.

The Committee strongly recommends reserving an appropriate portion of any increased budget to cover orientation and professional development for new and existing Development professionals.

**C. Cut back on centralization and the resulting expansion of the Development administrative hierarchy; move all major gifts officers to the schools and colleges (and possibly also alumni relations and annual giving).**

The trend in university fundraising is towards decentralized efforts that more closely associate with the academic units to which the funds will accrue. Not surprisingly, the consultants report that the University’s overly centralized Development office is “unwieldy” and “too large and complex to be managed centrally” (M&L report, pp. 3, 5). Nonetheless, they still recommended hiring many additional high-level bureaucrats to retain centralized control of alumni relations, annual gift functions, prospect research and principal gifts, even though the result is that some deans will be expected to fund and hire alumni relations and events-coordinating officers on their school budgets. Consequently, the $5 million figure actually

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2 The M&L report recommended an AVP for major gifts, an AVP for medical and health sciences (including pharmacy and nursing), an AVP for advancement services (covering information systems--IT/data integrity, prospect research/management) as well as various senior directors.
understates the increased budgetary commitment to Development, since some costs of functions formerly performed by Development are being shifted to the schools and colleges. (The academic units will likely also suffer additional cuts to their budgets to fund the large allocation to Development.)

We agree that the Development Division should provide adequate administrative support to the schools and colleges for fundraising efforts. Thus, the arguments for purchasing appropriate software (accomplished prior to the proposed budget increase) and adding at least some new data-entry operators and prospect researchers to update and coordinate information for a University-wide donor database are convincing. Nonetheless, the Development Division has not made a persuasive case that it needs a new management hire at a senior salary level to oversee information systems. The University already employs both a VP for Development and Alumni Affairs and a VP for Computing and Information Technology: another top manager adds needless hierarchy and confuses reporting.

We also agree that the Development Division is likely best equipped to pursue corporate/foundation philanthropy and principal gift donors working with the President, Provost, deans, and other University officers. It would be reasonable to hire one or two competent fundraisers in those areas reporting to the VP for Development. Nonetheless, we see no need for so many senior management personnel at the salary levels contemplated. (Mr. Ripple indicated in interviews that the new salaries will be only slightly below those at the University of Michigan, an institution that pays its faculty from 1.5 to 3 times what Wayne State’s faculty are paid.)

The Committee is unconvinced that maintaining separate funding and direction of development activities from the Development Division with mere coordination with the deans is a sound basis for significantly increased fundraising success. We have heard little reason for not shifting the funding and reporting for major gift and annual giving back to the schools and colleges, with indirect reporting to the Development Division and coordination between Development and the deans. The deans still labor under the handicap of waiting for Development to act—whether it be in taking innovative steps to update the prospect database while full implementation of the new software unfolds or ensuring that vacant positions are filled promptly with experienced staff. Separating authority and accountability between the deans and Development will likely result in continuing underperformance, since Development can try to attribute any failed goals to the deans and deans may attribute failure to inadequate Development support.

Accordingly, the Committee strongly recommends the following related steps to move from centralized to more decentralized fundraising activities:

1. **Shift major gifts officers’ primary reporting relationship and funding to appropriate academic units.** The University should also consider moving funding and staffing for annual giving and alumni relations to the units, with indirect reporting lines to Development.
2. **Hold the deans accountable for substantial increases in annual gift totals.** The deans should be evaluated as the drivers of fundraising efforts at the school and college level.
New deans can be given a year of intensive training and orientation, after which their annual salary increases should be based in significant part on their success in increasing the dollars raised in the school each year. Deans should likewise have reasonable targets for, and accounting regarding, donors contacted and solicited each year. New contracts might include potential bonuses based on aggressive fundraising targets.

3. **Cut back on the plans for more administrative bureaucracy in Development but enhance Development support functions and corporate/principal-gift fundraising.** The Development Division is best equipped to provide database management, prospect research, and marketing and communications assistance, as well as training and promotion of best practices for all development personnel whether housed in the Division or in the academic units. Development should also create a lean but highly skilled staff focused on principal gifts and corporate and foundation philanthropy, as the M&L report noted.

D. **Institute “pay for performance” metrics for incremental increases in the Development budget that require accomplishment of division and staff productivity milestones.**

We were surprised to see that there were few metrics to determine whether the Development Division appropriately utilizes the significant budget additions proposed. We recommend that Development operate under a “pay for performance” structure. The budget should be increased incrementally only upon satisfaction of pre-set milestones. Failure to satisfy those milestones should require a re-assessment of the budgetary expectations and the organizational structure, with repercussions for senior management as well. Ideally, the milestones would require Development itself to raise the needed funds for the enhanced fundraising effort, through an increase in the fee arrangement for gifts and endowments.

1. **Require the Development division to satisfy a significantly higher standard for dollars-raised-per-dollar-expended than currently contemplated.**

Based on the numbers in the M&L report, the Committee concluded that Development’s annual fundraising could increase from about $50M to about $150M – without hiring any new personnel – if we required our gift officers to be as productive as those of our peer institutions. Much has already been done to address the suggested reasons for inferior fundraising productivity: moving special-events support to Marketing; shifting alumni relations and events functions away from major gifts officers to other staff (in the cases of the engineering and business schools, for example, to staff expected to be paid from school budgets); hiring some new fundraising staff; and purchasing new software to support an improved prospect database. We believe there is broad scope for improvement in Development’s performance with these and other management efficiencies. Yet the Committee was informed that there would be no expected increase in the funds raised per dollar expended beyond the current 5-to-1 ratio generally achieved, even after the proposed $5M has been added to Development’s annual budget.

The Committee remains deeply skeptical about claims that a $5 million bump in the annual budget should be associated with the same dollars-raised-per-Development-dollar-expended average industry standard already achieved with the current unwieldy operation. Accordingly,
the Committee recommends that the Development Division be required to achieve a dollar-raised-per-dollar-expended standard (excluding FMRE and including all costs expended directly or indirectly on behalf of development activities) that increases from the current 5.78 to at least 9.5 at the end of three years, approximating the level achieved by the University in earlier years and the level currently achieved by our next higher peer institution. If the new standard has not been attained by the end of three years, additional budget funds would not be forthcoming and amounts already provided would be reduced. There should be another increase in the ratio to at least 11 at the end of five years. Again, if the new standard is not attained, budget cutbacks or reorganization should be undertaken.

2. Relate compensation for gift officers to specific fundraising goals.

Development’s expansion plan assumes that paying significantly higher salaries and setting new productivity targets will be sufficient to improve performance. Alternative measures might be more successful, such as reducing the expected salary levels for all gift officers by five or ten thousand dollars while offering each officer a ten thousand dollar bonus each year for three years upon reaching specific higher fundraising targets. Those targets would increase for each of the three years during the bonus period.

3. Tie annual Division budget increments to achievement of fundraising milestones.

Business research suggests that performance grows when proper incentives reward success. Thus, the University should link Development’s budget to total cash gifts raised. Table 3 compares Development’s proposed model and one that incorporates incentives in the budget allocated to Development. It shows that a fee increase on cash gifts from 2% to 5% (a fee level below what many of our peer schools charge) and the allocation of all fees on these gifts and the endowment to Development would permit the University to fund a substantial Development budgetary increase over five years with a result approximating the $5 million annual General Fund increase, assuming all new gifts could be charged the 5% fee. We realize

![Table 3. Comparison of Development Budget Model with a Model Proposed by the Review Committee](image)

1. Model proposed by Development increases General Fund budget $1M per year and uses $1.5M of an unrestricted bequest.
2. Model proposed by Committee uses fees on endowment and cash gifts to supplement the FY2012 General Fund budget going forward.
3. General fund reduced to match model proposed by Development for FY2013.
that this model is not completely feasible, since some Foundation and other gifts do not permit a fee, and it may not be feasible or appropriate to charge a fee for gifts that come to the University without any Development Division efforts. Some variant of this model, however, would provide a performance-based incentive to augment the Development budget by reasonable amounts that would not necessitate cuts to other areas: if Development uses each year’s funding increment wisely, it will earn sufficient additional fee income to justify the next year’s further budget increases.

E. Institute regular Academic Senate consultation to assess Development performance.

The Committee notes that the Development effort has traditionally been subject only to administrative review. Even though the Division’s fundraising performance had declined since 2005 and, when measured in constant dollars, the endowment had also actually declined since 2007, the decline garnered little attention.

We believe that the Academic Senate should have a consultative role in reviewing the Development efforts, as it does in reviewing academic center budgets and performance.

Accordingly, we recommend that the BOG institute an annual review process for Development, in which the Academic Senate is charged to establish a committee to review Development’s performance and report to the BOG on that performance at the BOG meeting prior to the meeting for regular BOG approval of the University’s budget. That review should update the assessment provided herein and consider whether the Development Division has sufficiently satisfied the evaluation milestones to merit any anticipated General Fund budget increase.

V. Conclusion.

The Committee and faculty heartily endorse the goal of improving fundraising performance at the University. The future of the University depends on it.

We are concerned, however, that the Administration’s proposal for a huge budget increment from General Funds does not represent a well-considered solution. It does not offer adequate justification for the amount of the increase or explain the source of the funds. A $5 million General Fund allocation will undoubtedly result in cuts to the academic units that cannot be made up by fundraising. Further, approving the full budget proposal now will tie the hands of the University’s new president without establishing a sound plan for success. The continued centralization of most fundraising functions under the current proposal may well be counterproductive.

What is needed is a concrete plan that links additional funding with improved performance and establishes accountability in the schools and colleges that are the main fundraising drivers. That is what this Committee recommends. We believe that our proposal will greatly improve fundraising performance at a fraction of the cost of the Administration’s proposal. The Academic Senate is prepared to work with the current administration to develop a better plan.
of action to leave for the incoming administration. It is also prepared to work with the incoming administration on the refinement and implementation of that plan.

The BOG’s October approval of an initial increase to the Development Division budget out of discretionary funds is a good start: the Development Division can work on the most needed changes to its operations with that funding. We would urge that the BOG delay approval of any General Fund increases until it has time to assess the issue of decentralization and accountability and considers our suggested model linking budget increases to Development Division performance.