Guiding Principles on Supplemental Funding Sources for Advancement

Draft Discussion Paper proposing a National Best Practice Statement on the Design and Implementation of Gift Fees, for discussion at the CCAE Senior Leaders Meeting, May 24, 2024

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Context

Ensuring Canada's culture of charitable giving to institutions of higher learning continues to thrive

Canada's charitable sector continues to make a deep, vital and transformational impact across all areas of society, borne by the generosity of Canadians who give selflessly in support of a variety of meaningful causes. In 2021, Canadians gave a remarkable $11.8 billion in charitable donations[1]. In 2022, generous donors gave $1.5 billion to Canada's colleges and universities—a 31% increase from two years prior[2].

Canada's thriving culture of generosity helps nurture compassionate, caring communities, strengthens our national fabric and forms a core part of what it means to be Canadian.

This is particularly true of giving across Canada's **higher education sector—the largest driver of social mobility and social progress in our country**. Giving to higher ed opens countless doors of opportunity for young people at watershed moments of personal growth and discovery. Philanthropy helps generate talent, knowledge and innovation of immense and tangible benefit to society, whether it's developing life-saving medicines, slowing and stopping climate change, responsibly advancing AI, furthering equity, inclusion and diversity, and much more.

Since the 1990s, **public** (i.e. government) **funding of higher education has been in steep decline**. Within the university sector, the percentage of operating budgets supported by public funding has fallen precipitously across the country, from 85% or more in the 1990s to well below 50% today for most Canadian institutions[3] and as little as 20% for some Ontario-based institutions[4]. At the same time, demand for higher education has risen sharply, with the number of enrolled students at colleges and universities growing by nearly 70% over the same period[5].

In such an environment, **universities and colleges rely heavily on donations**—both restricted and unrestricted—to support growth in student enrolment, financial aid, breakthrough research, new teaching programs, innovation, public engagement and international collaboration.

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1 https://www150.statcan.gc.ca/n1/daily-quotidien/230314/dq230314c-eng.htm

2 CASE Insights on Philanthropy (Canada) 2022 Key Findings, p. 5

3 https://policyalternatives.ca/sites/default/files/uploads/publications/Ontario%20Office/2023/11/back-from-the-brink.pdf, page 21

4 Statistics Canada, https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=3710002601

5 https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3710001101&pickMembers%5B0%5D=1.1&pickMembers%5B1%5D=2.1&pickMembers%5B2%5D=6.1&cubeTimeFrame.startYear=1996+%2F+1997&cubeTimeFrame.endYear=2021+%2F+2022&referencePeriods=19960101%2C20210101

In other words, philanthropy has enabled vastly expanded activities that reach more people, offer more programs and provide more places that meet the needs of learners and societies. It has become essential to advance academic missions and aspirations. As a result, finding ways to grow and accelerate fundraising in service to these ambitious agendas has become an imperative for Canada's higher education sector.

To that end, this document proposes a set of **best practices and guiding principles** for Canada's higher education sector on the use of supplemental funding sources for advancement—specifically, the use of expendable gift fees and endowment assessments.

Implemented fairly, consistently and strategically, these gift fees can be an invaluable source of supplemental funding to scale up and accelerate growth in fundraising and philanthropy and to support ever-more ambitious institutional agendas and aspirations.

The Problem

How do institutions scale up fundraising and engagement with increasingly limited budgets?

Research shows that the most efficient and effective way for universities and colleges to grow fundraising revenues and alumni engagement is to increase budgetary investment in advancement[6].

It's not hard to see why. Professional post-secondary advancement teams are exceptional and efficient stewards of resources, with a long history of delivering a high rate of return on investment in the form of increased visionary and transformational giving. On average, every **dollar invested in post-secondary advancement activities typically generates between five and ten dollars in additional philanthropy**[7].

The problem, however, is that Canada's higher education sector is facing increasingly tight constraints on institutional **operating budgets**—the single largest funding source for advancement activities—that are **supported primarily through tuitions and government transfer payments**.

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[6] Research conducted by consulting firm GG+A in 2020, for the Advancement Leadership Forum, demonstrated that, "There is a clear correlation between investment and results….with an R2 = 0.87, the strongest correlation is between total advancement expenditures and dollars raised (mean total fundraising progress)."

[7] CASE: Advancement Investment and Fundraising Results: A Nine-Year Study of 30 Higher Education Institutions in the United States, p. 4: Table Summary of Fundraising Investment https://www.case.org/system/files/media/file/CASE%20VSE%202019%20Res.%20Brief%20%234--Advance.%20Invest.%20and%20Fndrsng--screen.pdf

These constraints, along with increased competition for resources within institutions, leave little room within operating budgets to invest in fundraising and alumni engagement, threatening to undermine the ability of institutions of higher learning to pursue aspirations for expanded access and greater impact.

The Solution

Modest and focused fees on philanthropic gifts—an equitable, predictable and sustainable source of supplemental advancement funding that scales with success

Implemented properly, gift fees—most often calculated as a modest percentage of endowed distributions and expendable gifts or grants—**are a proven way to supplement advancement funding and fuel fundraising and engagement growth** amid this era of operational budgetary constraints.

Gift fees reflect the principle that the **real costs of raising, receiving, managing and stewarding gifts should be shared equitably between all stakeholders**, including donors, with most of the costs still borne by the institutions themselves.

These fees are also **predictable and sustainable**, producing revenues that **scale up with fundraising success**, ensuring they keep pace with inflation and the need for continued growth and innovation.

Gift fees also amplify, rather than detract from, philanthropic impact. By investing a small amount of gift proceeds toward advancement activities, universities can generate additional donations—a virtuous circle in which the ultimate beneficiaries are students, faculty, donors, and society broadly, through enhanced access to and opportunities for learning and cutting-edge research for both students and faculty, and enhanced stewardship and gift management for donors.

It is for these reasons that most charitable institutions across North America use some form of gift fee.[8] They are applied nearly universally in Canada's health care and cultural sectors and by U.S. academic institutions. But while such fees are not uncommon at Canadian academic institutions (approximately 35% use them), **higher education is the last charitable sector in Canada to adopt them widely.**

[8] Based on a GG+A overview conducted for the University of Toronto in 2020.

Best Practice
Not all gift fees are equally effective

While there are significant variations in the type, nature, percentage, use and application of gift fees, some are more effective than others.

Endowment assessments and one-time expendable gift fees

The gift fee model **most commonly used in North America and widely considered current industry best practice** includes both endowment assessments and one-time expendable gift fees[9]:

1. **Endowment assessments**, in which a reasonably modest percentage of annual endowment payouts are taken at the time of distribution.
2. **One-time fees on current-use expendable gifts**, in which a reasonably modest percentage of the gift is taken at the time of payment.

These two fee types are arguably the **most equitable, predictable, and scalable.** They are **straightforward, relatively easy to manage, consistent and transparent.**

They are based on the principle that there is a cost to receiving, managing, and stewarding transformational gifts—not just for the beneficiaries but for the donors as well, to keep them informed of, and engaged in, the impact of their benefactions.

These two fee types are most effective when they are used to supplement advancement funding to support the growth of transformational giving. With additional investment in advancement produced by these fees, fundraising revenue grows and the scale and impact of philanthropy grows, which in turn generates additional fees to support further investment in fundraising—a virtuous circle as noted above.

As a result, these types of fees have the further **advantage of scaling with increased giving**, which is not the case with current operational funding for advancement.

It should be noted that in some Canadian institutions, gift fee revenues are taken into institutional operating budgets, rather than reinvested in fundraising and engagement. The risk in such cases is that advancement fails to thrive, fundraising growth stalls and the expected ROI evaporates, while the impact and accountability of such revenues become harder to measure and demonstrate.

[9] Based on a GG+A overview conducted in 2021.

Indirect cost of research fees

A third category of fees common in higher education are those for expendable gifts or endowments specifically designated to support the **indirect cost of research (ICR)**. Such fees are increasingly common across both research and advancement operations in higher education and have their own complexities and advantages. Some institutions levy ICR fees in addition to advancement gift fees; others adopt an either/or approach that applies either an indirect cost of research fee or advancement gift fees to research gifts, but not both.

Typically, ICR fees are assessed at 10% on expendable gifts to research and from 0% to 5% on endowed gifts to research, with the resulting revenues flowing to the research budgets of researchers' home departments or faculties. Best practice institutions often delineate these funds as a separate funding line within major gift research proposals and gift agreements.

Less common and arguably less effective models

Other **less common and arguably less effective models** for advancement investment fees include:

- **Endowment holdbacks**, in which donor payments toward endowed gifts are first put into a holding account for periods of three, four, six months or longer to earn short-term investment income for institutional or advancement operations. A persistent environment of low interest rates has made gift holdbacks **less effective**, and now with higher and more variable rates, they are even **less predictable**, creating significant **challenges for institutional budget planning**. Moreover, as the holdbacks accrue interest during this holding period, the benefits to intended recipients are delayed.

- **Direct fees on endowed gifts** (typically taken upon receipt): While not uncommon in the hospital sector, where such fees range from 5% to 15%[10], these fees have rarely been applied in the educational sector. A significant drawback of this type of fee is that it reduces the book value of the endowment to an amount less than the original donation, making it **less impactful** than originally intended and **less desirable** for both the institution and donor.

- **Capital project fundraising costs** included within the budget of construction projects: Typically set at 10% of either the project budget or

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[10] See, for example, https://secure.supportsinai.ca/site/SPageNavigator/designatedgifts.html and https://www.sickkidsfoundation.com/aboutus/ouraccountability/designatedgiving

fundraising target[11], this type of fee model is relatively clear and easily managed. However, some institutions and/or units within institutions may go many, many years without major capital projects, making this model **less equitable** and **less consistently reliable** in generating scalable advancement investment.

Guiding Principles

For designing and implementing a fair and effective gift fee model

Of course, no two institutions of higher learning are the same; each will face their own set of unique challenges and circumstances in the use of advancement investment fee models, which necessitates a tailored approach to the best practices described in this document.

To that end, the following guiding principles are intended to support institutions in implementing a fair and effective gift fee model that will help accelerate giving and engagement and thus expand their institution's broad societal impact.

In general, gift fee models should aim to be:

1. **Reasonable**: fees should be as reasonably modest as possible with secure caps or maximums in place to avoid overreach and to ensure each gift achieves its intended impact.

2. **Fair**: fee models should ensure both benefactors and beneficiaries share in the costs of securing, managing and stewarding gifts, recognizing that the majority of such costs are covered through institutional operating budgets.

3. **Transparent**: fees should be openly communicated to donors through clear policies and regular reporting; links to web-based policies or guidelines should be included in all proposals, gift agreements and stewardship reports.

4. **Consistent**: fees should be applied universally to *all* gifts, regardless of source, amount, purpose, designation, etc., without exceptions or exemptions[12].

5. **Simple**: fee models should be easy to implement, hard to "game," and avoid convoluted or overly complex fee structures.

[11] GG+A research conducted for U of T in 2020.

[12] An exemption might be to substitute an Indirect Cost of Research fee on gifts specifically designated to research.

6. **Impactful**: fees should be geared to impact and clear in their purpose —to improve advancement's capacity to raise, secure, manage and steward gifts, grow fundraising success/donations, enhance the donor experience and promote meaningful alumni engagement at scale.

7. **Equitable**: fees should be distributed thoughtfully and strategically to enable growth in fundraising and engagement results broadly to the benefit of the entire institution; in more decentralized programs, such fees should be distributed equitably for the benefit of all advancement teams.

8. **Scalable**: fees should scale with success, forming a virtuous circle of advancement investment that generates a high rate of return in the form of additional giving and engagement.

9. **Supplemental**: fees associated with this model should supplement and grow advancement budgets, not offset or replace them, to support scaling of fundraising and engagement results.

Recommended parameters

Best practices for definition and implementation of gift fees and endowment assessments

The parameters described below are recommended for institutions planning to implement gift fees and endowment assessments or to evolve their existing approach to such fees to align with industry best practice on using gift fees as strategic drivers of advancement excellence and growth.

The proposed model envisions two components as hallmarks of this best practice, addressing both endowed and expendable donations. However, it is by no means a prerequisite that both components must be adopted together or at the same time. Local conditions, past and present instances of such fees, program requirements and priorities or other factors may lead some institutions to adopt one or the other of these components or phase them in over time.

1. **Endowment assessment parameters**
   - Assessed within the range of 0.25 to 0.5%[13].
   - Taken annually as a fixed percentage of endowment distributions at the time of payout.
   - Capped within the range of $25,000 to $50,000 annually for each endowed gift.
   - Applied to all endowed gifts, regardless of source, type, amount, purpose, designation, etc.
   - Used to support net new investment in advancement budgets and shared thoughtfully and equitably with advancement teams and functions to advance strategic drivers of fundraising and engagement growth broadly.

   Example: At the University of Toronto, the annual endowment assessment is 6.5% of the annual 4% endowment distribution target, equivalent to approximately 0.26% of the market value, capped at a maximum of $25,000 annually. Fee revenues are shared approximately 60% / 40% between faculty-based and central advancement teams as net new budgetary investment applied specifically to advance frontline fundraising capacity.

2. **Expendable gift fee parameters**

   - Assessed within the range of 2.5 to 10%[14].
   - Taken at the time of expendable pledge payments.
   - Capped within the range of $100,000 to $250,000 for each expendable gift.
   - Applied to all expendable gifts, regardless of source, type, amount, purpose, designation, etc.
   - Used to support net new investment in advancement budgets and shared thoughtfully and equitably with advancement teams and functions to advance strategic drivers of fundraising and engagement growth broadly.

   Example: At the University of Toronto, the expendable gift fee is 2.5% of the total gift, capped at a maximum of $100,000 on the total amount of the gift and taken as a percentage of payments as they are made. Fee revenues are shared approximately 60% / 40% between unit-based and central advancement

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[13] GG+A research conducted for the University of Toronto in 2020. NB: Both endowment assessments and expendable fees are generally higher in the hospital and cultural sectors, reflecting the requirements of their independent foundation-based fundraising model, which depends much more on fee-based models and unrestricted giving, rather than operating funding from their partner institutions, to support their activities.

[14] GG+A research conducted for the University of Toronto in 2020.

teams as net new budgetary investment applied specifically to advance frontline fundraising capacity.

Other recommended parameters:

- Ensure endowment assessments are modest, taken as a fixed percentage of distribution, with caps in place to provide reasonable upper limits on total fees taken.

- Consider smoothing mechanisms where applicable to determine fee percentages—for example, using 5- or 10-year endowment distribution averages to calculate endowment distributions and assessments.

- Follow a clear schedule to determine frequency of endowment fee charges, whether taken annually or semi-annually (i.e. twice annually).

- Establish mechanisms to ensure monies generated from the model are shared equitably and strategically in support of advancement priorities for fundraising and engagement growth; in more decentralized programs, consider sharing mechanisms that distribute fee revenues equitably among central and unit-based advancement teams, ultimately favouring support of frontline advancement activities to scale donations and engagement.

- Ensure that gift agreements, endowment reports, and related documents make explicit reference to such fees through the inclusion of links to web-based policies or guidelines that articulate their purpose and parameters.

- Do not include the actual amounts of fees in individual gift agreements since fees may change from time to time with organizational needs or circumstances; rather, gift agreements should include links to online policy or guideline statements that can be updated as fee parameters evolve, ensuring all past and present gift agreements remain aligned with evolutions in current practice.

- Avoid exemptions or deal-making with individual donors, which can create a rapidly escalating landscape of exceptions that undermine both the integrity of gift fee models and the solicitation process.

- Engage board and/or cabinet members in discussions on the principles of how gift fee models are designed and applied and in particular to support universal implementation with no exceptions.

- Consider introducing a board-approved policy or a provostially approved guideline that articulates your institution's commitment and approach to gift fee mechanisms, made publicly available on relevant websites with links included in gift agreements.

- Put into place strong financial administration and controllership mechanisms and demonstrate full transparency and reporting.

Communications principles

For advancement investment fee models

Often, fundraisers and institutions feel on the defensive when communicating the rationale or details on endowment assessments and gift fees. Like the process of solicitation itself, the presence of such fees and what they enable serve a valuable purpose—one that **does not call for an apologetic stance**. In this regard, conversations or communications regarding advancement investment fees should be informed by the following principles:

Confident, not defensive
Informed by best practice and in common use, such fees will provide a vital funding source that scales with our vision and collective success and reduces pressure on university operating budgets to fuel additional growth.

Supportive and authentic, leading with impact
Investment in advancement operations multiplies the impact of donations now and in the future and improves our capacity to secure, manage and steward gifts, and enrich the donor experience.

Transparent yet measured
Clearly and consistently communicate the advancement investment model to all stakeholder audiences through appropriate channels, without overcommunicating.

Addressing Challenges

Advancement investment fee structures must be well thought out, easy to understand and include responses to potential objections

No matter the advancement investment model, it is incumbent on institutions of higher learning to maintain transparency, openness and clarity in reporting, while favouring a revenue model that is scalable, predictable, equitable, sustainable and consistently applied to ensure meaningful funding growth for advancement programs—an area with proven high rates of return on investment.

Despite their effectiveness, the use of advancement investment fees may give rise to challenges that should be acknowledged and addressed well ahead of their implementation. For example, some donors may reasonably object to the institution directing any portion of their gift—no matter how small—away from their intended beneficiary.

It is imperative that institutions include frontline staff and volunteer leaders in discussions to secure their advice and endorsement to help respond to these objections—for example, by demonstrating, in concrete terms, how they further, rather than reduce, positive philanthropic impact and equitably share the costs of administering and reporting on gifts with the benefactors.

Institutions should also consider, in careful consultation with donors, how to fairly and transparently introduce—or grandfather in—advancement fees on existing endowment gifts with signed agreements. Frequent reference to clear and consistent policies and guidelines is essential to addressing any such concerns.