A national practice guideline for an Advancement Investment Model?

How U of T is fueling growth and expanding impact through an Advancement Investment Model

Confidential: prepared for discussion at meeting of CCAE Senior Leaders

May 24, 2024

UNIVERSITY OF TORONTO

DEFY GRAVITY

The Campaign for the University of Toronto

Advancement Investment Model
Indirect Cost of Research

TWO MUTUALLY DISTINCT FUNDING MODELS

- Advancement Investment Model (AIM) will re-introduce fees related to gifts and grants to support requirements for growth in advancement capacity and budgets, and support the costs of receiving, managing, and stewarding gifts
- Indirect Cost of Research Model (ICR) will introduce fees related to all philanthropic gifts and grants specifically designated to research to support the indirect costs of research
- These two models are mutually exclusive: AIM for all endowed gifts and grants and endowed research gifts; ICR for expendable research gifts and grants only

CURRENT STATUS

- AIM approved June 2023 by U of T Governance
- AIM rolling out in two stages: endowment fee in FY2023-24; expendable feel in FY2024-25
- ICR rolling out in FY2024-25 for advancement related research gifts and grants (already in place for non-philanthropic research grants)

History of infrastructure charges at U of T

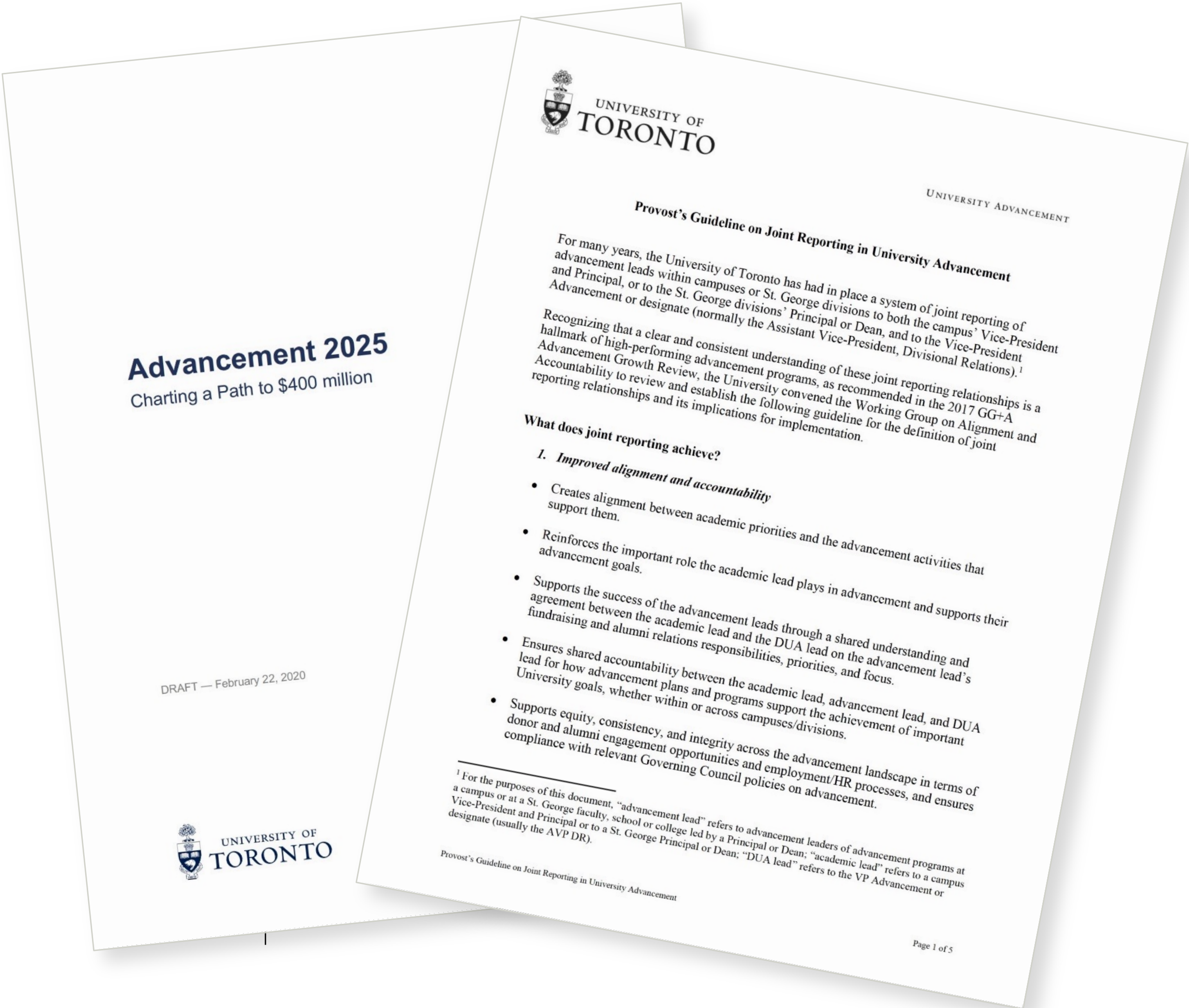
- Long history of fee-based charges at U of T, dating back to 1990s and 2000s
- Unevenly and unfairly applied; lots of exceptions; gradually phased out
- Last one removed in June 2007
- Infrastructure charges considered in 2010-11 Boundless campaign quiet phase; tabled until end of Boundless
- Advancement 2025 plan introduced February 2020, focussed on building front-line fundraising capacity in support of Defy Gravity campaign goals
- Advancement 2025 called for new annual investment of $10 - $11 million to grow bottom line productivity, increase front-line fundraising capacity

Advancement 2025

BLUEPRINT TO REACH $400 MILLION PER YEAR

These two documents, developed with detailed input from the P&D Advancement Advisory Group and supported by **extensive benchmarking** with leading U.S. and Canadian public universities, articulate a clear sense of shared of accountability and alignment within our coordinated, decentralized approach to advancement.

Advancement 2025 further summarizes the drivers and success factors of high-performance advancement at U of T. It calls for nearly 90 front-line fundraisers to be added between 2021 and 2025.


Advancement 2025

Charting a Path to $400 million

DRAFT — February 22, 2020

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UNIVERSITY ADVANCEMENT

Provost's Guideline on Joint Reporting in University Advancement

For many years, the University of Toronto has had in place a system of joint reporting of advancement leads within campuses or St. George divisions to both the campus' Vice-President and Principal, or to the St. George divisions' Principal or Dean, and to the Vice-President Advancement or designate (normally the Assistant Vice-President, Divisional Relations).[1]

Recognizing that a clear and consistent understanding of these joint reporting relationships is a hallmark of high-performing advancement programs, as recommended in the 2017 GG+A Advancement Growth Review, the University convened the Working Group on Alignment and Accountability to review and establish the following guideline for the definition of joint reporting relationships and its implications for implementation.

What does joint reporting achieve?

1. ***Improved alignment and accountability***

- Creates alignment between academic priorities and the advancement activities that support them.
- Reinforces the important role the academic lead plays in advancement and supports their advancement goals.
- Supports the success of the advancement leads through a shared understanding and agreement between the academic lead and the DUA lead on the advancement lead's fundraising and alumni relations responsibilities, priorities, and focus.
- Ensures shared accountability between the academic lead, advancement lead, and DUA lead for how advancement plans and programs support the achievement of important University goals, whether within or across campuses/divisions.
- Supports equity, consistency, and integrity across the advancement landscape in terms of donor and alumni engagement opportunities and employment/HR processes, and ensures compliance with relevant Governing Council policies on advancement.

[1] For the purposes of this document, "advancement lead" refers to advancement leaders of advancement programs at a campus or at a St. George faculty, school or college led by a Principal or Dean; "academic lead" refers to a campus Vice-President and Principal or to a St. George Principal or Dean; "DUA lead" refers to the VP Advancement or designate (usually the AVP DR).

Provost's Guideline on Joint Reporting in University Advancement

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Advancement Investment Model origins

CONTEXT FOR CURRENT IMPLEMENTATION

Advancement 2025 proposed an investment of approximately $10 million / year, primarily in divisional advancement teams, to grow the University's front-line fundraising capacity to an average of $400 million / year as a requirement of reaching a stretch campaign goal of $4 billion

In order to fund the majority of this required investment, the Vice-President, Advancement was asked to identify an alternate funding source outside the shared service budget process, and to develop a proposal for discussion with the Principal and Deans Advancement Advisory Group (PDAAG) and Campaign Steering Committee (CSC)

Specifically, we considered the reintroduction of fees related to giving and endowments. Such fees were in place at U of T up to 2007. A model had been developed in 2010 to consider reintroduction of such fees for the previous Boundless campaign, but was not implemented at the time. In 2019, as the new Defy Gravity began its quiet phase, we returned to that model to develop it further.

The Vice-President, Advancement put together a memo for PDAAG outlining the history of such fees at U of T, commenting on current industry best practices, a set of principles that guide the reintroduction of such fees, and a recommendation on the size and nature of such fees and how divisions would benefit. That strategy was endorsed in FY2021-22, for implementation beginning FY2023-24.

AIM Overview

AIM DEFINITION, PURPOSE

- Fund net new growth in advancement budgets, initially focussed on increasing **frontline fundraising capacity** within the divisions and DUA to **reach $4 billion campaign goal**
- Generate a **return of $156 million or more annually**: grow from five-year average of **$244 million as of FY2018 to goal of $400 million+ / year;** current five-year average at $354 million
- Identify source of funding for approx. **$10 million to $11 million per year** in new investment in advancement required to reach those goals
- **NB: Not dissimilar to** the collective investment made in **Boundless** to grow from $105 million / year to $244 million / year

- Reintroduce **best practice Advancement Investment Model like those in common use** in N.A.
- Create a source of investment that **scales with our fundraising success**
- **Reduce pressure** on University **operating budgets** to fuel donations revenues and achieve campaign growth targets
- Improve capacity to **secure, manage, steward and enhance experience** of donors
- **Share more equitably** with donors the costs of receiving, managing, and stewarding their gifts currently funded by operating budgets

AIM Overview

AIM PRINCIPLES

i. Generate a predictable source of income that supports strategic and scalable investment in advancement growth and that scales with fundraising success.

ii. Apply transparently, equitably, and universally across the board with no exceptions.

iii. Be shared roughly equally between the divisional advancement team budgets and the central advancement team budget (DUA).

iv. Be applied exclusively to fund growth in base advancement budgets, and not as an offset to existing advancement budgets.

AIM Overview

EXPENDABLE GIFT PARAMETERS

AIM Allocation	2% on expendable gifts
Frequency	One time as gift paid, applied on a go forward basis as of **May 1, 2024**
Cap	$100,000
Applicability	All expendable gifts on Arbor *NB: Expendable philanthropic research gifts and grants on Arbor and RIS excluded*
Revenue	Shared 60% / 40% between divisions and DUA
Source	Revenue based on 5-year averages of expendable donations, calculated by division
Exemptions	None

https://governingcouncil.utoronto.ca/secretariat/policies/fund-raising-strategy-and-programs-university-toronto-guidelines-june-20-2023

ENDOWED GIFT PARAMETERS

AIM Allocation	0.26% of our 4% targeted annual endowment distribution, leaving 3.74% of distribution for purposes of fund
Frequency	Levied annually beginning **April 30, 2024**, applied to existing and future endowments
Cap	$25,000
Applicability	All endowed gifts on Arbor
Revenue	Shared 60% / 40% between divisions and DUA
Source	Revenue based on 5-year averages of endowment distributions, calculated by division
Exemptions	None

https://governingcouncil.utoronto.ca/secretariat/policies/long-term-capital-appreciation-pool-policy-june-20-2023

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AIM & Endowments

How will AIM impact endowment payouts?

- Endowments will continue to provide steady expendable funding, with the goal to provide cash flows that will grow each year
- Our **target allocation for spending is 4%** with annual payout rates that **fluctuate within a range of 3% - 5%**
- AIM represents a **small percentage of the annual payout** and will not have a substantial impact on the funds available for spending year-over-year
- As of 2021, 5-year **average payout is 3.7%;** 3-year average is 3.8%
- The 2022 payout was 4.2%.

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AIM Endowment Scenario

Advancement Investment Model

0.26% of the endowment payout is allocated to the Advancement Investment Fund, up to a **maximum of $25,000** per year.

Leadership Major Gift ($1M - $5M): Chair Endowment

Donor Scenario:

$3,000,000 endowed gift to create a chair. 100% invested in the endowment capital.

	Application of AIM *Target payout*	**Current State Scenarios** *5-year & 3-year average payouts*	
Annual Payout	**$120,000** *4.0% payout*	**$111,000** *3.7% payout*	**$114,000** *3.8% payout*
AIM allocation	$7,800	N.A.	N.A.
Chair Funding	**$112,200**	**$111,000**	**$114,000**

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AIM Endowment Scenario

Advancement Investment Model

0.26% of the endowment payout is allocated to the Advancement Investment Fund, up to a **maximum of $25,000 per endowment per year**.

Major Gift: Graduate Award

Donor Scenario:

$100,000 endowed gift to create a new graduate student award. 100% invested in the endowment capital.

	AIM Application *Target payout*	Current State *5-year & 3-year average payouts*	
Annual Payout	**$4,000** *4.0% payout*	**$3,700** *3.7% payout*	**$3,800** *3.8% payout*
AIM allocation	$260	N.A.	N.A.
Award Funding	**$3,740**	**$3,700**	**$3,800**

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AIM Revenue Distribution

Divisions will receive a minimum distribution of **$100,000 / year** through the advancement investment model

DISTRIBUTION PARAMETERS

- **Purpose:** Support advancement growth, including the cost of securing, managing, stewarding gifts.
- **Mechanism:** Revenue generated through AIM will be allocated to a central advancement fund. Funds will be distributed at set times to support established growth plans.
- **Governance:** The Advancement Investment Fund will be governed with oversight from the VP, Advancement and with advice from the Provost. Funds will be allocated in keeping with our plans for growth.

- **Revenue distribution:** 60% / 40% split between Divisions (60%) and DUA (40%) advancement budgets
- **Minimum distribution:** $100,000 per division guaranteed each year
- **Distribution Timing:**
  - **Endowment:** end of the fiscal year, for the year that is just ending.
  - **Expendable:** twice-yearly, at the end of Q2 and end of Q4

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Communications and roll out strategy

COMMUNICATION PRINCIPLES

- **Transparent yet measured**
  We will clearly and consistently communicate the advancement investment model to all stakeholder audiences through appropriate channels, without overcommunicating.

- **Confident, not defensive**
  Our model is informed by best practices employed at charitable organizations and universities across Canada and the United States. It will provide a vital funding source that scales with our vision and collective success and reduces pressure on University operating budgets to fuel our work.

- **Supportive and authentic, leading with impact**
  Investment in our 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.

Communications strategy

KEY MESSAGES

- Impact:
  - Integrally linked to institutional aspirations for expanded impact on today’s global challenges
- ROI
  - Significant ROI in creation of additional value for beneficiaries (10x+)
  - Builds on well-established track record of ROI on existing investment in advancement budgets
- Charitable sector context
  - Well-established practice, in common use, aligned with best practice
- Equitable, sustainable, modest
  - Shares the cost of fundraising more equitably and sustainably across all constituents
  - Fees are very modest relative to sector
- Purpose
  - Increase scale of philanthropic impact
  - Fuels our growth plan to reach $400 million per year with all attendant benefits
  - Funds scalable growth in base advancement budgets (not an offset to budgets)
  - Shared equitably between divisions and central group
  - Will reduce but not eliminate future operating budget requests
  - Improve capacity to secure, manage, and steward gifts, enhance donor experience
- Reintroduction of fees
  - We are reintroducing, not introducing such fees
  - Model is similar to our past, but more modest, clear, and simple; more aligned with industry practice, more efficient
- Consultation
  - Unanimously supported by leadership through extensive consultation, and backed by volunteer leadership (Pres, Prov, P&D, campaign)

A National Best Practice Guideline?

FOR DISCUSSION

If there is a national best practice guideline, it may be more about the principles and structure of this model, rather than the specific size or nature of the fees.

Needs and revenue potential will vary from institution to institution.

But a common structure of fees, based on a common set of principles, fundamentally linked to net new investment in advancement (rather than replacing existing advancement budgetary investment), may be a common foundation for such a model.

PROCESS

U of T hosted a group of approximately 20 VPs and AVPs from 15 institutions across the country, in September 2023, to present the U of T AIM model and discuss the value of a national best practice guideline on such fees.

Encouraged by the feedback on the September meetings, U of T circulated a draft statement to a sub-group of volunteer VPs, and further refined that draft with their feedback.

Resulting draft document was prepared discussion at the CCAE National Conference meeting of Senior Leaders.

LOOKING FORWARD

Pending feedback at CCAE Senior Leaders' meeting, the guideline will be finalized and offered to CCAE as a potential National Guideline on best practices in implementation of gift fees.

Appendix: Indirect Cost of Research Model

The Campaign for the University of Toronto

DEFY GRAVITY

Indirect Cost of Research (ICR)

HISTORY

In 2002, U of T received a request from TAHSN leadership to adopt a common 10% charge on research gifts and grants to support indirect costs of research (IDC); largely concerned with seeing this applied to advancement sourced research gifts and grants

TAHSN is looking for equity across GTA system in terms of supporting indirect costs of research; want a common model

Such fees already exist in context of federal agency grants and many granting associations, but applications vary from 0% to 80%. Our research grant policy calls for 40% ICR on such grants, which is rarely achieved. In the U.S., such fees are typically 40% to 80% on top the core grant.

The request was to extend this practice to philanthropic research gifts and grants sourced through Advancement.

Internal discussions with President, Provost, VPRISI, Dean TFOM, SVP, Planning and Budget

Feb 7 presentation to Andy Smith, Chair of TAHSN, and CEO of Sunnybrook Hospital. March presentation to TAHSN leadership.

NB: TAHSN = Toronto Academic Health Science Network, a group of 12 research-intensive hospitals in the GTA affiliated with the Temerty Faculty of Medicine at U of T; 20+ community hospitals also affiliated, not part of TAHSN officially

ICR Overview

ICR DEFINITION, PURPOSE

- All research funding that comes to U of T is recorded on RIS and is subject to the University's "Guideline on Full Cost Recovery in Research"
- The Guideline affirms the University's commitment to full cost recovery in research and requires that indirect costs of research be included in all sponsored research applications and agreements at not less than 40% unless the sponsor has a different published rate or the head of the academic division approves a lessor rate
- The Guideline recognizes that most non-private sector research sponsors, including foundations and charities, have published allowable IDC rates, which are sometimes 0%
- Philanthropic research gifts that come to U of T and are recorded on ARBOR are not currently subject to those Guidelines or any IDC fees

RECOMMENDATIONS

- This proposal recommends applying a 10% charge on expendable philanthropic research grants that are recorded on ARBOR to support the indirect costs of research
- This proposal recommends that advocacy opportunities be explored with research sponsors for funding programs administered within VPRI where indirect costs are not currently permitted
- DUA and RISI will work together to coordinate, rationalize these models

ICR Overview

PARAMETERS

- Size of charge: 10% applied on all expendable philanthropic research gifts and grants administered through DUA
- Purpose of charge: Support indirect costs of research
- Revenues: Proceeds go to associated departments and faculties
- Start date: April 30, 2022 or April 30, 2023 (TBD)
- Exemptions: None
- Documentation: Specified in donor agreements as a budget item supporting research infrastructure; needs to be built into project plan for research initiatives being negotiated by DUA

- Applicability: All expendable gifts and grants on Arbor and RIS explicitly designated to research at U of T, across all disciplines and faculties, on a go forward basis
- Applicability: Endowed research gifts on Arbor, past and present, will not have an Indirect Cost of Research charge; they will be subject to the Advancement Investment Model charge
- Caps: Cap on fees related to total gift? For example: $100k, $200k (TBC)

ICR Overview

- This Guideline generally applies to non-philanthropic research grants
- Under Guidelines, standard rate is “not less than 40% of direct costs”
- In practice, amount of charge depends on the funder/sponsor policies/preferences, rather than our own; range from 0% to 65%
- IDC model suggests 10% would be applied to all grants and grants at a minimum, regardless of funder/sponsor preferences
- DUA and RISI will work together to coordinate, rationalize these models

Guideline on Full Cost Recovery in Research”

“In compiling a budget for a Sponsored Research project or proposal, the rates for cost recoveries and basis of calculation set out in these Guidelines apply unless an alternate rate and/or basis of calculation is:

(a) specified in the published terms or policies of the sponsor available at the time of proposal submission; or,

(b) otherwise requested by a Principal Investigator;

and the head of the academic division housing the Administering Unit (or designate) has so approved.”

- https://research.utoronto.ca/apply-funding/how-when-include-indirect-costs
- https://research.utoronto.ca/media/108/download

IDC AND AIM

SUMMARY

- **Expendable philanthropic research gifts and grants** that come in through advancement will be charged the 10% IDC fee
- **Expendable philanthropic research gifts and grants** that come in through RIS will be charged under the current Guideline on Full Cost Recovery in Research
- **Endowed philanthropic research gifts and grants** will be charged fees related to the Advancement Investment Model (AIM); they will not be part of the IDC model
- **Endowed and expendable non-research gifts and grants** will be charged fees under AIM; they will not be part of the IDC model