Compendium of Maintenance and Capital Renewal Endowment Structures

Facilities Forum

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Executive Summary

While campus growth is an encouraging sign for higher education institutions, each new building comes with substantial upfront and recurring costs. Too often, campus leaders focus on maximizing the first costs without considering how to appropriately fund recurring costs across the building's lifecycle. And while some institutions have an incremental bump in the Facilities operating budget for each new building, those funds do not account for the building's true needs (much less the major repairs and renovations required throughout a building's lifetime). As a result, Facilities leaders struggle to maintain a growing portfolio of assets even as the deferred maintenance backlog grows.

One solution to is secure long-term funding upfront through a **maintenance endowment**. Senior Facilities officers (SFOs) can partner with leaders in Advancement to create a formal policy establishing a requirement that donor-funded projects include money for a maintenance endowment, ultimately securing a long-term revenue source for future needs.

To help SFOs make the case, this resource provides a **compendium of maintenance and capital renewal endowment structures**. Ultimately, the endowment can take many different forms. The compendium provides a holistic look of actual endowments in higher education so that SFOs and other senior leaders can either adopt one as-is or pick and choose elements they like.

Each endowment is presented along with detailed implementation guidance and case study from a higher education institution. Furthermore, each tactic is evaluated on its maintenance funding potential, which gauges the relative ability of each tactic to generate funds to support long-term costs like operations and maintenance, as well as capital renewal funds. The table below provides a more detailed scale.

To simplify navigation, tactics are organized from least to most impactful.

Maintenance Funding Potential

Indicator	Scale
$	Low
$$	Mid-to-Low
$$$	Moderate
$$$$	High

Compendium of Endowment Structures

Tactic	Maintenance Funding Potential	Capsule Description
#1: Divert Leftover Contingency Funds into a Maintenance Endowment	$	Institutions allocate a completed capital project's unused contingency funds into a maintenance endowment.
#2: Require Donors to Contribute to Central Infrastructure	$	Institutions request that donors who fund new construction provide additional dollars to support an upgrade to central infrastructure or shared utility systems.
#3: Bundle Deferred Maintenance Costs with College Fundraising Efforts	$$	Institutions require deans to cover the cost of addressing deferred maintenance in spaces where donor funds are supporting programmatic renovations.
#4: Steer Donors Toward High FCI[1] Buildings	$$	Institutions coordinate with undecided donors to support projects in buildings in poor condition. Donors fund either a complete renovation or demolition and replacement.

1) Facility Condition Index.

Implementation Guidance	Case Study
To get the most benefit from this strategy, institutions should take steps to combat scope creep in early project phases. This helps ensure contingency funds can still be used to support problems or changes while still contributing to the long-term care of the building.	**Southern Methodist University** sets aside a standard 10% of a project's construction costs for contingencies. They then set aside any contingency funds that remain at the end of a capital project for an operations and maintenance (O&M) endowment. To maximize the endowment, SMU has made an effort to boost their capital project efficiency and rely less on contingency funds.
To make the case to donors, Facilities leaders should highlight how the upgrade will benefit campus. Institutions can provide donors with estimates of the impact the new building will have on central infrastructure to demonstrate the importance of funding upgrades, in addition to showing how operations in the new building will benefit from the upgrades.	When the **University of Texas at Dallas** undertakes new construction, they ask project funders to contribute to central infrastructure upgrades. They make the case that if a building is going to be using central infrastructure and utility systems, the project should contribute to the upkeep of those systems. UT Dallas frames this as a "tax" on new construction. It is not calculated in a systematic way (e.g., based on capacity or load); instead, the Facilities leader looks to the next infrastructure upgrade on his priority list and asks the sponsor of that project to pay for it. For example, if a project sponsor wants to fund a new research building and the central system needs a new chiller, the Facilities leader might request that the donor pay for the expansion, explaining that because the new research building will rely on central chillers, it is in the sponsor's interest to have them in good condition.
This tactic allows Facilities to bundle projects without using scarce resources for issues that may not be at the top of Facilities' list. Additionally, requiring deans to coordinate with Facilities on maintenance projects and renovations encourages deans and department chairs to submit renovation plans to the capital planning office before beginning the project.	At the **University of Dayton**, when colleges secure private donations for building renovation and renewal projects, they are required to cover the cost of addressing deferred maintenance in that space. The board, which approves all construction projects over $5M, asks to see plans to address deferred maintenance before approval.
Facilities should inform Advancement of capital renewal needs and link those needs with academic and institutional priorities. Advancement can then emphasize the programmatic importance of the requested renewal when communicating with donors. Advancement staff can also leverage alumni's nostalgic connection to existing buildings on campus to pitch renewal projects over new construction.	At **Caltech**, Facilities keeps the Advancement team informed of the buildings with the greatest capital renewal needs. This enables Advancement to steer donors toward buildings in worst condition. Half of the $20 million Caltech spends each year on capital renewal projects comes from donations. For example, when a donor gave $7 million for the construction of a drone research facility in an existing lab, Caltech leveraged the donation to also eliminate $1 million in deferred maintenance.

Source: California Institute of Technology, Pasadena, CA; Southern Methodist University, Dallas, TX; University of Dayton, Dayton, OH; University of Texas at Dallas, Richardson, TX; EAB interviews and analysis.

Compendium of Endowment Structures (cont.)

Tactic	Maintenance Funding Potential	Capsule Description
#5: Fundraise for a Fixed Percentage Capital Renewal Endowment	$$$	Institutions establish a capital project fundraising target that reflects both the cost of construction and the creation of a capital renewal endowment. The fundraising goal for the capital renewal endowment is a fixed percentage over the cost of construction.
#6: Fundraise for an Operations and Maintenance (O&M) Endowment Based on Projected Building Needs	$$$	Institutions include an allocation for an operations and maintenance endowment when they ask donors for money for new construction. The amount requested is calculated based on the building's projected maintenance needs.
#7: Create Separate Endowments for Capital Renewal and for Operations and Maintenance	$$$	Institutions ask donors to give a certain percentage beyond the cost of construction of a new building to create two maintenance endowments specifically for that building. One endowment is reserved to fund long-term capital renewal needs while the other supports annual operations and maintenance costs.
#8: Require New Building Occupants to Allocate a Percentage of Direct Construction Costs to a Renewal Fund	$$$	Institutions share funding responsibility for future capital renewal needs with new building occupants by requiring them to set aside apportion of construction costs into a centrally managed endowment. Units can source these funds from gifts, internal operating dollars, or other sources.

Implementation Guidance	Case Study
The fixed percentage set aside for the endowment will vary based on specific institutional goals, but must be high enough to yield sufficient revenue to support renewal across the life of the building. While Facilities leaders should advocate for as high a percentage as possible, institutions have successfully adopted renewal endowments ranging from 15-30% of the gift. Communication between Advancement and Facilities is essential to providing donors with accurate project estimates in initial requests, including the endowment necessary to effectively renew a building. Capital renewal endowments can assure donors that their gift will be well maintained in perpetuity.	In 2007, the **University of Idaho** began fundraising 15% beyond the cost of construction to establish a capital renewal fund for each new building. The Advancement office levies a 5% project management fee and the remaining 10% is invested in a single capital renewal fund managed by the Facilities executive. To date, 12 education and general projects have contributed funds to the renewal endowment totaling $564,000. Earnings are currently being reinvested back into the principal to generate higher returns and grow the endowment.
Communication between Advancement and Facilities is essential to providing donors accurate project estimates that reflect the endowment necessary to effectively maintain the facility. The endowment may or may not be called out in the request, depending on the campus climate. Maintenance endowments can reassure donors that their gift will be well-maintained for the life of the building. However, the donor may not be willing to fund the full endowment request. Advancement can also emphasize the importance of not burdening the next generation with the expenses of maintaining a complex and technologically advanced building, particularly when talking with more senior donors.	**Wheaton College** requires donors to fund both the cost of construction and an operations and maintenance endowment. The endowment request is calculated based on projected operations and maintenance needs for the building and generally falls around 25% of the cost of construction. While Wheaton maintains building-specific maintenance endowments, the payout revenue is credited to the Facilities operating budget and can be used at the Facilities leader’s discretion. The Advancement team explains to donors that maintenance endowments provide great value by preventing students from funding the operating costs of new buildings through tuition.
Institutions set aside separate endowments for annual and long-term needs to ensure adequate funds for both maintenance and future renewal projects. Since new buildings have few immediate renewal needs, institutions using this practice instead recommend more flexible pooled endowments to support maintenance and renewal where most needed that year. However, tying funds to a specific building can increase donor comfort with funding an endowment because they know the money will be used to maintain their specific gift.	**Furman University** has been fundraising 30% beyond the cost of construction for new buildings since 1996. Furman splits the 30% into two discrete building-specific endowments; 80% of the money goes to an operations and maintenance endowment, while the remaining 20% goes into a capital renewal fund. While some endowments can be used on any building on campus, most can only be used to address maintenance needs in a specific building.
Facilities should give building occupants the flexibility to raise funds from whichever sources they choose, as long as occupants meet the maintenance funding requirement.	**Oregon State University** has a policy that 10% of direct construction costs must be set aside for a fund for the renewal of the building. This fund acts like an endowment, but does not earn interest. Building occupants are the source of the renewal fund, and have the flexibility to obtain funding from general department reserves, gifts, or other sources. Once the new building is brought online, the renewal fund stays with the building, even if the occupying units do not.

Source: Furman University, Greenville, SC; Oregon State University, Corvallis, OR; University of Idaho, Moscow, ID; Wheaton College, Wheaton, IL; EAB interviews and analysis.

Compendium of Endowment Structures (cont.)

Tactic	Maintenance Funding Potential	Capsule Description
#9: Request Central Funds for Capital Renewal to Match Donor-Funded Renovations	$$$	When donors fund partial building renovations, Facilities requests additional money for deferred maintenance projects in the building. The goal is to bundle projects and reduce overall costs and construction time.
#10: Offer Naming Rights for Existing Facilities to Establish Maintenance Endowment	$$$$	Institutions offer potential donors the opportunity to name a building in exchange for funding a maintenance endowment.

Implementation Guidance	Case Study
To make the case for additional university funds, Facilities leaders should emphasize the cost savings opportunities associated with bundling projects. It is also important to communicate that donors appreciate seeing the institution partially or fully match investment in a donor-initiated project. This signals the institution’s commitment to long-term maintenance. It has the added benefit of yielding repeat donors who welcome the institution’s commitment to maximizing the impact of funds to improve campus condition.	At **Messiah College**, when a donor funds a capital project in a building with high deferred maintenance needs, the Facilities leader goes to the board and requests additional money to address deferred maintenance in that building. For example, when a donor agreed to fund an addition to the wellness center, the Facilities leader argued that bundling the roof repair with the expansion would be cheaper for the institution than tackling the roof repair at a later date. This bundling of capital renewal and new construction allowed Messiah to bring the entire roof up to code, minimized construction time and campus disruption, and reduced the cost of the roof upgrade by one-third.
Institutions can apply this tactic to both newly constructed buildings and existing buildings that do not already bear a donor’s name. Focusing on the donor’s pride in the condition of the building is one of the most effective ways to secure endowment funds; donors want their namesake buildings to be well-maintained to support their legacy.	One institution leveraged donors’ desires to name buildings and preserve their legacies to create maintenance endowments for both new and existing buildings. The tactic was so effective that the institution made establishing a maintenance endowment a requirement for anyone seeking to name a building on campus. The institution has created a $20 million dollar endowment by selling naming rights.

Source: Messiah College, Mechanicsburg, PA; EAB interviews and analysis.

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