

# Another Congressional Target: Large College Endowments

04.29.16 | Linda J. Rosenthal, JD



We [reported recently](#) that the U.S. Congress will hold hearings soon on the proliferation of tax-exempt private museums.

Now, another group of nonprofits is [in the sights of two Congressional committees](#): prestigious nonprofit colleges and universities with huge endowments.

## *Why are Some Endowments So Large?*

The Senate Finance Committee and the House Ways and Means Committee issued a joint letter to some 56 institutions of higher learning with endowments of \$1 billion or more. Legislators [want to know](#) why these funds are growing bigger while tuition rates skyrocket well beyond the rate of inflation and “the schools benefit from tax breaks because of ‘their charitable and educational’ missions.”

The lawmakers’ letter [asked 13 endowment-related questions](#), and requested answers by April 1.

This Congressional inquiry is set against a background not only of the existing endowments, but also of [record 2015 fundraising](#) for many of these institutions. For example, Harvard University received \$1.05 billion in charitable donations last year.

”

---

*The gifts received by those 20 top fund-raising institutions accounted for almost 30 percent of the \$40.3 billion in contributions made last year to US colleges and universities, continuing a trend in which the country’s richest schools receive a disproportionate share of higher education philanthropy.*

Much of this success was due to generous donations from alumni and individuals (including some who have paid massive amounts for naming rights), instead of from foundation and corporate support. “Last year’s gifts — in the form of money and appreciated property, such as art and rare books — included eight contributions of \$100 million or more.”

The Chair of the Senate Finance Committee, Orrin Hatch (R-UT) has explained that legislators want to “gather as much information as possible about how preferences in the tax code are applied” as they proceed “with efforts to reform the tax code.

This isn’t the first time that lawmakers have expressed concerns about massive endowments by the nation’s top institutions of higher learning against the backdrop of exploding tuition levels and resulting student debt.

#### Reaction by Wealthy Higher Education Institutions

As expected, officials from these well-endowed colleges and universities strongly defend these large endowments. “Harvard president Drew Faust recently wrote in a column in Harvard Magazine that endowments are intended to have ‘vigorous immortality.’”

Representatives from large institutions assert that these funds are “designed not only to pay for current operations – including student financial aid, faculty salaries, and research – but are also meant to generate income that helps to fund their operations.”

They point out, too, that donor restrictions often tie their hands, directing how money can and cannot be used. “A spokesman for a college association said that their responses to the letter ‘will demonstrate the prudent practices through which higher-education institutions manage their endowments.’”

According to Richard Doherty, president of the Association of Independent Colleges and Universities in Massachusetts, “[t]he way colleges manage endowments and make financial decisions over time has proven to be very responsible.” He believes it would be “dangerous if lawmakers were to try to force colleges to spend more of their savings.”

”

---

*There’s not a need for a legislative fix....We’ve got a pretty good formula working, a lot of it driven by private dollars, and I think it would be unwise to tinker with that.*

Various proposals have been floated. One such idea is from Rep. Tom Reed (R-NY). He wants a mandate that higher education institutions with \$1-billion+ endowments must pay out some 25% of the annual income on student financial aid or lose tax-exempt status.

### *Conclusion*

Proposed scrutiny of the nation's wealthiest colleges has supporters outside Congress as well.

The “combined value of the top one percent of college and university endowments represents about 72 percent of all higher education endowment dollars nationwide,” according to The Boston Globe. According to many critics, this represents an undue concentration of wealth and resources. Georgetown University law professor Brian Galle, who has researched the issue of massive college endowments, supports this Congressional scrutiny. “Many universities are overly focused on endowment at the expense of other worthwhile investments.” There should be questions, he believes, “to gently pressure universities to consider their policies with more of an eye to the general social good.”