

# Congress Digs In On Huge College Endowments

11.15.16 | Linda J. Rosenthal, JD



“A not-so-old joke has it that Harvard is best thought of as a hedge fund with a university attached.” The fund in question is its endowment – the largest in the United States – valued at over \$35 billion. There have been growing concerns in recent years about the massive nest eggs of the nation’s most prestigious institutions of higher learning.

These criticisms arise against a background of record-breaking fundraising. In 2015, for instance, Harvard University, received some \$1.05 billion in charitable donations. This continues a trend in which the wealthiest schools receive a disproportionate share of the philanthropic dollars flowing nationwide into higher education.

“Critics, including some members of Congress, are asking whether endowments are doing enough to help students at a time of soaring educational debt – or if the support by taxpayers is just helping the richest schools get richer.”

Six months ago, we reported that the Senate Finance Committee and the House Ways and Means Committee had issued joint letters to over 50 colleges and universities, each of which has an endowment valued at \$1 billion or more. In that letter, there were 13 endowment-related questions; answers were requested by April 1, 2016.

This isn’t the first time that officials and legislators have raised concerns over these massive endowment funds. In 2008, the IRS sent out compliance questionnaires to approximately 400 colleges and universities in connection with a larger IRS review program focusing on “the growth of endowment funds, the compensation paid to fund managers, and whether more money from such funds should be used to offset the rising tuition rates being charged by educational institutions that are ‘*charitable*’ organizations.”

## *Defending the Endowments Status Quo*

In this year's round, representatives of the targeted schools – as expected – didn't give an inch. In their replies to the February 2016 letters they vigorously defend the current system. Many cited examples of community benefit and enrichment made possible by the large endowments. For example –

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*Duke notes it contributed \$7.5 million toward the eponymous Duke Performing Arts Center. Amherst says it ‘readily consents’ to town gatherings and events on its campus. Harvard says it contributes to its host communities ‘through a broad array of direct programming, supportive services, and civic collaborations’ and that such programs in Cambridge and Boston had an estimated value of more than \$18 million annually.*

They also tout “their role as engines of innovation” with a “financial impact [that] is positive and profound.” These world-class learning centers “generate talent for the city, research, scholars, scholarship and money,” according to one educator. “Students spend. Faculty earn and pay taxes. Parents visit.....”

In particular, these officials “have –

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*a host of arguments at the ready to justify not spending more of their money on financial aid. There is donor intent to honor. Endowments are investments representing many hundreds and even thousands of accounts, each with their own restrictions. And then there is the most common argument: preserving the institution’s wealth for the future.*

There’s more: These endowment funds have been losing money in recent years. “College endowments are poised to take the worst slide in performance since the 2009 recession.” Their portfolios are shrinking.

### ***Lawmakers Are Not Persuaded***

At the beginning of September 2016, Congressional leaders announced hearings to follow-up on the questions and answers from earlier in the year. The legislators were not impressed by the arguments and excuses from the \$1-billion+ endowment folks.

The House Ways and Means Committee’s Subcommittee on Oversight announced a hearing for September 13, 2016, titled “Back to School: A Review of Tax-Exempt College and University

Endowments.” Though the hearing was “nominally about the tax-exempt status of college endowments, ... much of the discussion focused on college affordability – a broader issue clearly on the minds of both Republicans and Democrats on the panel.” Republican subcommittee members complained about lack of transparency from these institutions – “on endowment spending as well as on what they consider wasteful spending on campus amenities, athletic salaries, administrative costs and other noneducation uses.

There was testimony from policy experts as well as from college officials, along with written comments submitted for the record.

“Steven Bloom, director of government relations at the American Council on Education, said in an interview that he thought the subcommittee came away with a greater appreciation of the complexity of higher ed policy.”

But a spokeswoman for the House Ways and Means Committee explains: “This is another step that the committee is taking to understand what colleges are doing to address soaring college costs through their endowments and nonprofit tax status.”

### *Next Up: More Questions on Endowments*

The House subcommittee’s hearing was separate from the joint inquiry with the Senate Finance Committee that produced the early 2016 letters to the colleges with the \$1-billion+ endowments. As a follow-up to that joint probe, lawmakers have sent an additional round of questions to some of those institutions.

### *Conclusion*

The battle lines have been drawn and the sides are talking at cross-purposes. Of course, Congress holds all the cards here. The tax exemption is a privilege that can be taken away or saddled with various restrictions. One proposal is to add a surcharge to the largest endowments to help provide aid to college students. Notwithstanding activity at the federal level, these wealthy educational institutions need to be watching their backs. The state and local governments in which these schools thrive are chomping at the bit to eat away at – or devour completely – their valuable property tax exemptions.