

Archived Information

Endowment Challenge Grants (Title III, Part C) (CFDA No. 84.031)

I. Legislation

Higher Education Act (HEA) of 1965, Title III, Part C, P.L. 96-374, as amended by P.L. 99-498, P.L. 100-50, and P.L. 102-325. (20 U.S.C. 1065a) (expires September 30, 1997).

II. Funding History

<u>Fiscal Year</u>	<u>Appropriation</u>	<u>/</u>	<u>Fiscal Year</u>	<u>Appropriation</u>
1984	\$7,120,000		1991	17,461,773
1985	15,600,000		1992	7,500,000
1986	22,210,000		1993	7,366,000
1987	19,785,000		1994	7,565,000
1988	19,148,000		1995	8,060,000
1989	12,696,000		1996	0
1990	17,893,000			

1/ Endowment appropriation only; does not include the previously funded challenge grant program. The Endowment Challenge Grant Program was first funded in FY 1984.

III. Analysis of Program Performance

A. Goals and Objectives

This program to increase endowments and develop the capacity to raise endowments at higher education institutions that have limited financial resources and serve significant percentages of low-income and minority students.

Table 1
Endowment Challenge Grants Program Obligations by Institutional Racial/Ethnic
Identification and Institutional Type and Control

FYs 1993, 1994, and 1995

Institutional Racial/Ethnic Identification ¹	FY 1993			FY 1994			FY 1995		
	Number of Awards	Obligations	% of Total Dollars	Number of Awards	Obligations	% of Total Dollars	Number of Awards ²	Obligations	% of Total Dollars
Black	4	\$1,800,000	25.0%	5	\$1,932,750	25.4%	4	\$2,000,000	25.0%
White	13	5,400,000	75.0%	12	5,673,750	74.6%	8	4,000,000	50.0%
Indian Asians/Pacific Islanders	0	0	0.0%	0	0	0.0%	1	500,000	6.3%
Hispanic	0	0	0.0%	0	0	0.0%	1	500,000	6.3%
Total	17	\$7,200,000	100.0%	17	\$7,606,500	100.0%	2	1,000,000	12.5%
Type and Control									
4-year private	4	\$1,800,000	25.0%	1	\$500,000	6.6%	4	\$2,000,000	25.0%
4-year public	1	500,000	6.9%	3	1,382,750	18.2%	1	500,000	6.3%
2-year private	0	0	0.0%	0	0	0.0%	2	1,000,000	12.5%
2-year public	12	4,900,000	68.1%	13	5,723,750	75.2%	9	4,500,000	56.3%
Total	17	\$7,200,000	100.0%	17	\$7,606,500	100.0%	16	\$8,000,000	100.0%

¹ Predominant racial/ethnic categories are institutions where more than 50 percent of students are of that racial/ethnic category. HBCUs are defined as colleges founded before 1994 for the purpose of educating black Americans.

² The number of awards represent potential grantees who have been selected to become grantees after completing the fundraising campaign for matching funds requirements.

B. Strategies to Achieve the Goals

Services Supported

Analysis of Table 1 reveals the following concerning the distribution of Part C funds:

- Most of the funds, 68 percent or more, went to two-year schools in FY 1993 through FY 1995. Most of these schools are also white institutions.
- Support for historically black colleges and universities (HBCUs) increased when the legislative set-aside of 25 percent was established in FY 1993 and has continued at 25 percent of the funds.
- After two years with no funds, Hispanic institutions received two awards in FY 1995.

Endowment Challenge Grants encourage eligible institutions to establish or increase institutional endowment funds. The federal grant and the institution's matching funds (which together make up the endowment corpus) must be invested in low-risk securities, such as federally insured bank savings account or a comparable interest-bearing account, certificate of deposit, money market fund, or mutual fund. For a 20-year period after the grant is awarded, institutions may not spend the endowment corpus but may spend up to one-half of the interest earned on any institutional expense.

Two-year, four-year, or graduate institutions that are eligible for Part A, Part B, or Part B Sec. 326 grants (see chapters 516 through 518) are also eligible for endowment challenge grants.

Institutions are also eligible if they make a substantial contribution to graduate or postgraduate medical educational opportunities for minorities and the economically disadvantaged. Institutions that receive an endowment grant must wait five years before receiving another grant. The minimum grant

Table 2

Total Endowment and Current Endowment Value by Institutional Characteristics as of May 1996

		Grants	Schools	Institutional Match	Grant Amount	Total	Current Endowment Value
Ethnicity/	White	195	151	\$61,602,663	\$87,451,812	\$149,054,475	\$167,427,800
	Historically Black	115	69	31,766,211	37,882,597	69,648,808	89,800,493
Predominate Race	American	4	4	2,722,984	4,945,968	7,668,952	10,660,529
	Hispanic	32	17	14,885,001	20,270,002	35,155,003	49,206,923
	Puerto Rico	27	13	11,860,000	14,870,000	26,730,000	38,265,184
	Other						
	Hispanic	5	4	3,025,001	5,400,002	8,425,003	10,941,739
	Asian	4	2	2,125,000	2,750,000	4,875,000	7,120,173
	Predominately Black	3	1	1,250,000	1,250,000	2,500,000	2,728,498
	2year Public	150	119	45,094,690	68,341,819	113,436,509	126,118,939
Type and Control	2-year Private	37	19	13,829,352	16,429,363	30,258,715	35,101,942
	4-year Public	48	32	12,635,436	15,576,813	28,212,249	36,039,459
	4-year Private	114	72	40,982,381	51,382,384	92,364,765	125,054,076
	General Private	4	2	1,810,000	2,820,000	4,630,000	4,630,000
Total		353	244	\$114,351,859	\$154,550,379	\$268,902,238	\$326,944,416

must be at least \$50,000, and the maximum grant may be \$500,000; \$1.0 million; or \$1.5 million depending on the appropriation. These grants require one matching institutional dollar for every two federal dollars. As of FY 1993, 25 percent of funds are set aside for HBCUs. The program has three years to obligate fiscal year funds. Most of the funds are obligated in the appropriation year, but if an institution fails to match, the funds are reallocated to other institutions.

Table 2 shows that the total endowment invested as of spring 1996 exceeds \$326 million. The invested value is based on the last institutional report available and because many institutions fail to report annually, the actual total value is likely to be much higher. The table shows that the endowment value has grown from its initial value in all categories, both institutional and racial/ethnic.

Table 2 also shows that many schools received more than one grant, so that as of spring 1996, 244 schools had received 353 grants.

Table 4

Initial Investment and Investment as Reported in the Latest Annual Report by Year

FY	Grants	Initial Investment	Current Investment
84	35	\$14,270,552	\$26,764,645
85	58	\$32,124,490	\$40,857,005
86	79	\$42,337,160	\$58,070,876
87	32	\$31,453,108	\$39,089,995
88	37	\$31,832,865	\$37,876,563
89	21	\$22,160,292	\$26,964,222
90	21	\$29,458,014	\$32,043,188
91	15	\$27,593,632	\$27,605,797
92	20	\$15,000,000	\$15,000,000
93	18	\$10,773,000	\$10,773,000
94	16	\$11,149,125	\$11,149,125
95	1	\$750,000	\$750,000
Total	353	\$268,902,238	\$326,944,416

Table 3 compares the 1:1 match to the 2:1 match. Since the 1992 reauthorization all matches are 2:1 matches; before the 1992 reauthorization, only a few grants above a certain trigger could receive a 2:1 match. The government has spent more across 78 grants to create less initial endowment for the current 2:1 match than it did across 275 grants under the 1:1 match. Institutions have no trouble raising the required funds and the government would encourage more total initial endowment with a 1:1 match than a 2:1 match.

Given the annual reports submitted, Table 4 shows that the total invested value has not decrease but has remained the same or increased for all fiscal years.

Table 5 shows the estimated endowment growth for those institutions that submitted an annual report. The endowment often shows a loss in the first report, but the average endowment growth increases in each subsequent annual report.

Strategic Initiatives

Table 3

Comparison of Initial Endowment Value
Given 2:1 and 1:1 matches

	Grants	Match	Grant	Total
2:1 match	78	\$40,198,520	\$80,397,040	\$120,595,560
1:1 match	275	\$74,153,339	\$74,153,339	\$148,306,678

In spring 1996, a national conference that included technical assistance workshops to improve proposals and projects was held. Mini-workshops were held in several locations around the country to provide technical assistance to grantees. Information resulting from an endowment study was also shared with grantees.

Table 5

Endowment Growth as Reported in the Annual Report

FY	First Report		Second Report		Third Report		Fourth Report		Fifth Report		Sixth Report		Seventh Report	
	No. of Grants	Growth	No. of Grants	Growth	No. of Grants	Growth	No. of Grants	Growth	No. of Grants	Growth	No. of Grants	Growth	No. of Grants	Growth
84	29	0.75%	29	4.01%	29	3.96%	29	4.23%	29	4.82%	29	13.71%	29	4.73%
85	37	-0.28%	37	1.43%	37	3.30%	37	4.20%	35	4.08%	35	3.45%	35	4.12%
86	64	-0.25%	64	2.35%	64	3.91%	64	4.39%	62	5.17%	62	5.57%	52	6.15%
87	24	1.93%	24	4.82%	24	5.87%	23	5.74%	22	5.88%	5	5.87%		
88	26	-0.95%	26	3.39%	24	6.70%	15	6.78%	5	6.02%	1	8.83%		
89	19	2.82%	18	5.86%	17	6.78%	4	13.38%	1	15.16%				
90	15	-1.27%	13	6.22%	4	4.19%								
91	8	-12.31%	1	0.76%										
92	1	0.00%												
Total	223	-1.10%	212	3.77%	199	4.98%	172	5.26%	154	5.42%	132	6.44%	116	5.19%

A review of the financial reports showed that some Part C grantees invested in low-yielding endowments and because grantees can also spend half of the annual endowment income, it was feared that the value of the endowments could be eroding. This concern led to an evaluation of the endowment strategies of Part C grantees.

The evaluation showed that the endowment value for the vast majority of grantees is increasing, though most endowment grantees put too high a percentage of their endowment in low-yield cash-equivalents and could have enjoyed a greater return if they had put more of their investment in stocks and bonds. Several recommendations were made to encourage institutions to choose higher-yield investments and to change the financial reports so as to show an unambiguous rate of return.

C. Program Performance—Indicators of Impact and Effectiveness

The program office is currently developing the performance indicators that will be used to assess the program's performance.

IV. Planned Studies

An evaluation of the Title III programs began in FY 1995. Findings from the evaluation will be available in the fall of 1998.

V. Sources of Information

1. Program files.

1. Evaluation of the Investment Strategies at Developing Institutions. (Princeton, NJ: Mathtech Inc., June 25, 1996).

VI. Contacts for Further Information

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