COLUMBIA UNIVERSITY
Decapitalizing Endowment Funds

Purpose of the Policy
The purpose of the policy is to establish guidelines for planning and requesting the decapitalization of an endowment fund.

Owner of this Policy
Office of the Controller, Endowment Compliance

Revision History

Who Should Know this Policy
This policy applies to:
- All Schools and Departments that have financial or administrative responsibilities for endowment funds
- Office of the Controller
- Office of Management and Budget
- Office of Alumni & Development

Exclusions or Special Situations
This policy provides detail on decapitalizing endowment funds; please review the Endowment Fund Administration and Compliance Policy for complete information on endowment related matters.

This policy does not address transfers between endowment funds or the restoration of underwater endowments.

Policy Statement
Decapitalization (“Decapping”) of Endowment Funds

Decapping is appropriating for expenditure the net appreciation, reinvested income and/or principal from the endowment fund beyond the amount distributed as a result of the spending rule.

- Permanent (“True”) endowments
  - A true endowment is a permanent endowment established in accordance with donor restrictions, to exist in perpetuity.
  - The University may appropriate from a true endowment only as directed by the gift instrument. However, under NY law, if the donor has not provided specific instructions
either in a gift instrument or certain other writing, the University may appropriate so much of an endowment fund as is prudent for the uses, benefits, purpose and duration of the fund.\(^1\)

- Unless the donor specifies otherwise, the University’s policy is not to decap below 120% of the value of the original gift(s) to an endowment fund, adjusted annually at the HEPI (Higher Education Price Index) rate for periods beginning in 1961, and CPI prior to 1961 and during any period for which HEPI is not available. Inflation adjustments will begin three years after the date of the first gift to the fund, or if unavailable, the fund establishment date.\(^2\) If there have been additions to principal over many years, a more detailed inflation calculation may be required. Any exceptions to this policy must be reviewed and approved by the Office of Endowment Compliance, the VP of Budget and Planning and the Executive Vice President for Finance and Information Technology and approved by the Board of Trustees.

- **Quasi endowments**
  - A quasi endowment is a fund that functions like an endowment, but without any legal restriction to hold the fund permanently. Thus, net appreciation, reinvested income and/or principal may be decapped in full.
  - Quasi endowments created at a donor’s request may be decapped in accordance with donor requirements.
  - It is University policy that transfers of funds at a School’s request to create a quasi-endowment may not be appropriated for expenditure for at least three years from the date of establishment.

Decapped funds must be used exclusively for the uses and purposes for which the endowment fund was established. However, as a general matter, to the extent a School has transferred unrestricted funds to an endowment, upon decap those funds are again considered unrestricted and may be used at the School’s discretion.

When decapping an endowment created by donor funds, the planned decap must be reviewed with the School’s Development Officer(s). As Development manages the relationships with the donors, the fundraiser can advise about the appropriateness of the decap and determine the nature of any donor communications.

**Budgeting of Decaps**

During the annual budget process for the coming academic year, Schools must identify the endowment fund(s) expected to be decapped to balance the unit’s operating budget and to fund capital projects. This list of decaps will be reviewed by the Office of Endowment Compliance and the Office of Management and Budget. The Schools are required to review their list of endowment decaps during the quarterly monitoring processes of the academic year, confirm or adjust the decaps as necessary, and notify the Office of Endowment Compliance and the Office of Management and Budget of any changes.

In addition, endowments expected to be decapped to fund capital projects must be included in the capital project documentation submitted for review to the Office of Management and Budget and the Office of Facilities. The Office of Facilities and OMB Capital Management will determine an estimated project cash flow and the timing of the...
endowment decaps to provide sufficient notification and lead time (ideally six months) for the liquidation of endowment market value for capital purposes.

Unbudgeted decaps will not be processed by the Office of Endowment Compliance, unless directed by a donor or otherwise approved by the VP for Management and Budget. Please alert the Office of Endowment Compliance if additional decaps arise outside of the operating and capital budget processes.
Decap Procedures

Decapping of endowment funds must follow the guidelines promulgated by the Office of the Controller, in conjunction with the Office of Management and Budget (OMB) and the Office of General Counsel (OGC).

Guidelines

- Schools/Departments should evaluate appropriateness of decap
  - Terms of endowment require decapitalization or do not prohibit decapitalization
  - Expenditures to be funded are in compliance with endowment terms and restrictions
  - Cost/benefit of decapitalization
  - For true endowments, determine the available appreciation (amounts above 120% of the inflated corpus). Inflation calculation template can be found in the “Basic Procedures” tab of the Endowment Administration website (www.endowmentadmin.columbia.edu)
  - Review with School Development Officer(s)
  - Senior Business Officer of each School must approve

- Decap request packages must be submitted to the Office of Endowment Compliance
  - Decap instructions and forms may be found on the “Basic Procedures” tab on the Endowment Administration website (www.endowmentadmin.columbia.edu).
  - Decap requests must be submitted by published deadlines, as listed on the Endowment Administration website. Unless otherwise approved by Endowment Compliance and OMB, decap requests received after those deadlines will not be processed. Departments will be required to cover any resulting overdraft with other unrestricted funds.
  - Endowment Compliance will review and, as appropriate, approve the decap package. OGC will be consulted as needed when reviewing the terms of the endowment.

- Approvals
  - The VP of Management and Budget must approve all decap requests.
  - The Executive VP for Finance and the Trustees must approve all decap requests for true endowments. The University’s Executive VP for Finance and Trustees will be provided with an updated list of endowment decaps during the fiscal year.

Contacts

Office of Endowment Compliance
Jacqueline Erickson, Sr. Director, Endowment Compliance, je2015@columbia.edu

Office of Management and Budget
Nancy Johnson, Vice President, Office of Management & Budget, nj2200@columbia.edu
David Soper, Assistant Vice President, Office of Management & Budget, ds3012@columbia.edu

3 CUMC is required to have approval from the CUMC Controller’s Office and A&S is required to have approval from the A&S Vice President’s Office.
Other Relevant Policies

- Endowment Fund Administration and Compliance Policy
  http://policyleibrary.columbia.edu/endowment-fund-administration-and-compliance

- Designating Endowment Funds as Central/Current
  http://www.endowmentadmin.columbia.edu/policy.html
Appendix A

In accordance with the New York Prudent Management of Institutional Funds Act ("NYPMIFA"), when determining appropriations from permanent endowment funds, the University considers the following 8 factors:

- The duration and preservation of the endowment fund
- The purposes of the institution and the endowment fund
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the institution
- Where appropriate and circumstances would otherwise warrant, alternatives to expenditure of the endowment fund, giving due consideration to the effect that such alternatives may have on the institution
- The investment policy of the institution