

## FY24 Increase in Philanthropic Allocation and Research Administrative Fee Frequently Asked Questions | March 30, 2023

### 1. What are the Philanthropic Allocation and Research Administrative Fee?

**The Philanthropic Allocation (PA)** is an assessment on non-research gifts that is used to offset a portion of the costs of advancement activities, including all aspects of fundraising, alumni relations, and communications. The PA is currently 5%.

**The Research Administrative Fee (RAF)** is an assessment on research gifts, defined as gifts that support the research activities of one or more faculty members or research programs. The RAF is currently 10.5%.

### 2. How are the PA and RAF allocated?

The PA of 5% is allocated as follows:

- 2.5% to the Chancellor (ledger fund 56992) to support campuswide advancement activities; and
- 2.5% to the Vice Chancellor or Dean (ledger fund 56996) to support the advancement efforts of the unit benefitting from the gift.

The RAF of 10.5% is allocated as follows:

- 7.5% to the unit administering the gift;
- 2.0% to support the campus's research enterprise; and
- 1.0% to support Futures Grants for research.

### 3. Are the PA and RAF covered by a campus policy?

Yes, they are covered by the [Assessment and Distribution of the Campus Philanthropic Allocation and Research Administrative Fee](#) policy. The campus policy will be updated to reflect the forthcoming change.

### 4. What about the PA and RAF is changing?

The PA and RAF are both being increased by 2.5%. Following the increase, the PA and RAF will be 7.5% and 13%, respectively. The incremental 2.5% will be distributed to ledger fund 56909.

### 5. Why are the PA and RAF changing?

The increase will provide urgently needed funds for the campus's efforts to address deferred maintenance. Recruitment and retention of faculty and graduate students is increasingly being hampered by the campus's deep list of deferred maintenance projects, and Berkeley's reputational risk related to this need is escalating. The campus

is aiming to spend \$30M/year on deferred maintenance projects starting in FY24. The change to the PA/RAF is expected to generate about half of that amount.

**6. When is the change effective?**

The PA/RAF increase is effective with gifts, including bequest distributions, and pledge payments, with a record date of July 1, 2023 or later. Because the PA/RAF are assessed when cash transfers to the ledger for operating use, or for investment in the case of endowed funds, the PA/RAF are not associated with pledges, documented intentions, bequest commitments, etc., but are associated with payments on these.

**7. Who will make decisions about how the incremental deferred maintenance funding will be spent?**

These decisions will be made by the campus's [Finance Committee](#), which is composed of the Chancellor, the Executive Vice Chancellor and Provost, the Vice Chancellor of Finance / Chief Financial Officer, and the Vice Chancellor of Administration.

**8. Will donors be able to direct the use of the incremental 2.5%?**

No. While it's understandable that donors may want to see this allocation from gifts they make benefit the areas of the campus that they have the most affinity with, the attempts to address the deferred maintenance crisis will be most successful with campus leadership making the decisions.

**9. How was the decision to change the PA and RAF made?**

Before arriving at the decision to change the PA and RAF, the Chancellor consulted with the Cabinet, the Council of Deans, the Board of Visitors, the Executive and Finance Committees of the UC Berkeley Foundation, and the Campaign Management Team. The Vice Chancellor of University Development and Alumni Relations, in her role as President of the UC Berkeley Foundation, also consulted with the Chair and President of the Berkeley Endowment Management Company.

**10. Are other steps being taken to leverage private philanthropy to fund deferred maintenance?**

The Chancellor also decided to allocate all unrestricted realized bequests, which are allocated to the Campus Priorities Fund, for this use. This change is effective immediately. While the timing of realized bequests cannot be predicted, it's expected that this decision will result in an average of about \$4M per year to be used to fund deferred maintenance.

**11. Were other ideas considered?**

The Chancellor considered seeking increases in the endowment payout and the endowment cost recovery, as well as an allocation from endowed chair payout. These ideas were not pursued following consultation with counsel who clarified the applicability of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and confirmed that to do so would be inconsistent with the purposes of the endowed gifts.

**12. What campus office is responsible for administering the PA and RAF?**

University Development and Alumni Relations (UDAR) is responsible for the administration of both the PA and RAF. UDAR's responsibility is limited to ensuring that the PA and RAF are distributed correctly to the appropriate ledger funds according to policy and the specifics of each executed gift agreement.

**13. Are the PA and RAF assessed on all gifts?**

The PA/RAF are assessed on all gifts of cash or gifts, such as gifts of securities or real estate, that are liquidated and result in cash. They are not assessed on gifts of personal property, otherwise known as gifts-in-kind, such as gifts of books, art, musical instruments, laboratory or computer equipment, and vehicles.

**14. Are the PA and RAF different depending on whether a gift is directed to the UC Berkeley Foundation or the UC Regents?**

No. The PA/RAF policy is applicable to all gifts that benefit UC Berkeley, irrespective of which fiduciary – the UC Berkeley Foundation or the UC Regents – they are directed to.

**15. Are any campus units exempt from the PA and RAF? How will the change impact them?**

No. No campus units are exempt from the PA and RAF or from the forthcoming increase.

**16. How does the PA impact campus affiliated entities? How will the change impact them?**

For affiliated entities such as the Cal Alumni Association, International House, and the Faculty Club, 2.5% of the PA is assessed and allocated to the Chancellor to support campuswide advancement activities. The remaining 2.5% of the PA is allocated to the affiliate to support its own advancement work. Once the increase is in effect, gifts supporting the affiliates will also be assessed the incremental 2.5% to fund deferred maintenance since the buildings they operate in are the property of or are situated on the property of the University of California.

**17. Are any campaign priorities exempt from the PA and RAF? How will the change impact them?**

No. All campaign priorities are subject to the PA/RAF. However, there are five capital projects, all part of the Places of Possibility or Undergraduate Opportunity and Experience campaign priorities, that are exempt from the increase in the PA. They are the Gateway, Heathcock Hall, the Engineering Student Center, the Center for Connected Learning, and the Athletics Gender Equity campaign. The rationale for this exemption is that project budgets against which funds are being raised are already set.

**18. Are any donors exempt from the PA and RAF? How will the change impact them?**

There are a small number of individual donors and affiliated organizations that are exempt from the PA/RAF. These donors are [listed on Eureka](#) and the forthcoming change will not impact their exemptions.

Professionally managed private foundations with a policy of not paying overhead or administrative costs are also exempt from the PA/RAF, and the forthcoming change will not impact these exemptions. These donors are also [listed on Eureka](#).

**19. What about professionally managed private foundations that cap fees or indirect costs? How will the change impact them?**

Some professionally managed private foundations cap fees. A list of these donors can be found on [Eureka](#). In these cases, the order of priority for the PA has been to first distribute to the Chancellor and then to the unit. Once the increase in the PA is in effect:

- The first 2.5%, or up to the cap, will be distributed to the center for deferred maintenance;
- The next 2.5%, or up to the cap, will be distributed to the center for advancement; and
- The last 2.5%, or up to the cap, will be distributed to the benefitting unit for advancement.

The order of priority for the RAF has been to first distribute to support research campuswide and then to the unit. Once the increase in the RAF is in effect:

- The first 2.5%, or up to the cap, will be distributed to the center for deferred maintenance;
- The next 2%, or up to the cap, will be distributed to support the campus's research enterprise;
- The next 1%, or up to the cap, will be distributed to support Futures Grants; and
- The last 7.5%, or up to the cap, will be distributed to the administering unit for administration of the gift.

**20. Are any gifts excepted from the PA and RAF? How will the change impact them?**

A small number of donors have negotiated exceptions to the PA/RAF on a gift-by-gift basis. To the extent these exceptions relate to open pledges, the exceptions will be honored when the increase goes into effect. UDAR is reviewing these exceptions and will let relevant primary managers know of any issues that may need to be addressed. These exceptions do not create a precedent for future gifts from the same donors.

**21. How will PA and RAF exceptions work once the increases are in place?**

The [exception process](#) will not fundamentally change once the increases are in place. Currently, only the Chancellor can waive the 2.5% from the PA that is allocated to support campuswide advancement efforts, which has happened only rarely, and only the Vice Chancellor for Research (VCR) can waive the RAF. Only the Chancellor will have the authority to waive the incremental 2.5% that will fund deferred maintenance, and the expectation is that this too will be a rare occurrence. The PA exception form and the RAF waiver form will be updated; the latter will become more complicated given that both the Chancellor and VCR will have roles in the process.

**22. Has the endowment payout calculator been updated to reflect this change?**

The assumptions embedded in the endowment payout calculator have been changed to reflect the forthcoming change in policy.

**23. When will the increased PA and RAF appear in gift agreements?**

Interim language referencing the forthcoming change was incorporated into draft gift agreements beginning on March 20th. The language will be updated again once we are working with agreements that we expect to record on July 1, 2023 or later.

**24. How will the language in gift agreements change?**

The standard language for gift agreements has been:

**Philanthropic Allocation.** A portion of each gift, currently 5%, is used to help support UC Berkeley's fundraising and engagement efforts in accordance with UC Berkeley's policies. The Philanthropic Allocation is subject to change.

**Research Administrative Fee.** A portion of each research gift, currently 10.5%, is used to cover the administration costs of UC Berkeley's central campus units involved in research, and to provide unrestricted investment in future research at UC Berkeley. The Research Administration Fee is subject to change.

The interim standard language for gift agreements is:

**Philanthropic Allocation.** A portion of each gift, currently 5%, is used to help support UC Berkeley's fundraising and engagement efforts in accordance with UC Berkeley's policies. The Philanthropic Allocation is subject to change. UC Berkeley intends to increase the Philanthropic Allocation to 7.5% effective July 1, 2023, to also provide resources to address capital renewal, including deferred maintenance.

**Research Administrative Fee.** A portion of each research gift, currently 10.5%, is used to cover the administration costs of UC Berkeley's central campus units involved in research, and to provide unrestricted investment in future research at UC Berkeley. The Research Administration Fee is subject to change. UC Berkeley intends to increase the Research Administrative Fee to 13% effective July 1, 2023, to also provide resources to address capital renewal, including deferred maintenance.

Once the increase is in effect, the language will change to:

**Philanthropic Allocation.** A portion of each gift, currently 7.5%, is used to help support UC Berkeley's fundraising and engagement efforts and capital renewal, including deferred maintenance, in accordance with UC Berkeley's policies. The Philanthropic Allocation is subject to change.

**Research Administrative Fee.** A portion of each research gift, currently 13%, is used to cover the administration costs of UC Berkeley's central campus units involved in research, to provide unrestricted investment in future research at UC Berkeley, and to support capital renewal, including deferred maintenance. The Research Administration Fee is subject to change.

## 25. How will donors learn of the increase in the PA and RAF?

Our goal is to be transparent with donors about the fees that are assessed against the gifts they make. Donors who are currently working on new gifts will see a reference to the increase in draft gift agreements (see above).

Other donors with open pledges and/or PA/RAF exemptions or exceptions will receive a personalized communication, currently planned for an early May mailing. There will be multiple versions of the letter; we will communicate differently with donors with open pledges to the five exempted capital projects, individual donors with existing exemptions, professionally managed private foundations with exemptions or caps, and all other donors with open pledges. We will not send letters to donors with bequest commitments, recognition only pledges, recurring / open-ended pledges, or telemarketing pledges.

Primary managers will have an opportunity to review the donor lists prior to the mailing. The list review will begin on April 3rd and fundraisers will have a week to provide feedback. Depending on the details, primary managers may be asked to have a conversation with the donor or deliver the letter personally, or we may agree to opt the donor out of the communication altogether.

Once the increase is in effect, we'll also update language on gift receipts, including those generated by [give.berkeley.edu](http://give.berkeley.edu) and [crowdfund.berkeley.edu](http://crowdfund.berkeley.edu), on fillable pledge forms, on the [Give to Berkeley FAQ](#), and in the Endowment Financial Report FAQ. Campus units that refer to the PA/RAF on their own websites should make similar changes no later than July 1, 2023; we will issue a reminder about this when the revised policy is published to the campus policy webpage.

## **26. What impact will this change have on operational reports?**

There are a limited number of operational (CADSmart) reports that are impacted by this change, including the Batch Verification Report (BVR), the Chancellor's Unrestricted Revenue Distribution Report, and the Projected Spendable Revenue Dashboard. They will be updated to coincide with the effective date of the revised policy, and users will be notified when that is done.

## **27. Is this the first time the PA and RAF have changed?**

No, the assessment on gifts to support Berkeley's advancement work has changed over time. Previously known as the "gift fee", the 5% PA, with an even split between the Chancellor and the Vice Chancellors and Deans, went into effect for FY17.

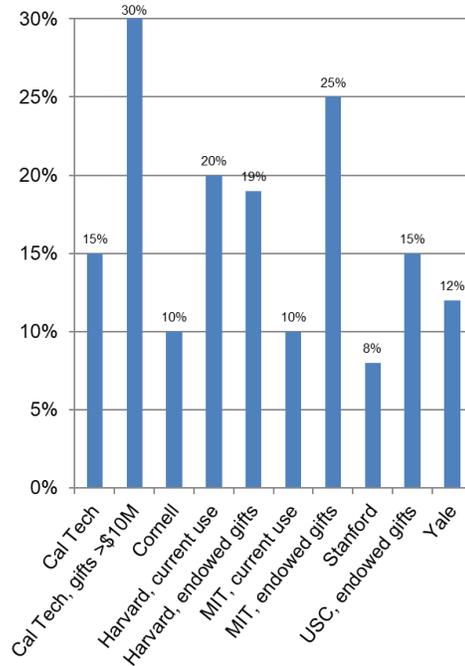
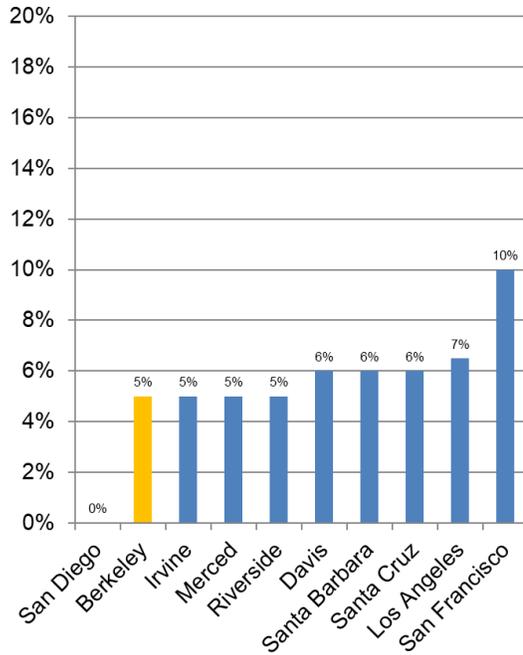
From FY07 through FY16, the gift fee was 2.5%, all of which was distributed to the units. Campuswide advancement activity was partially funded by a six-month hold on endowment gifts. These gifts were invested in the Short-Term Interest Pool (STIP), with the STIP earnings being distributed to the Chancellor, before being invested in the General Endowment Pool (GEP), creating a delay in the activation of endowment payout.

From FY04 through FY06, the gift fee was 6.5%, with 4% distributed to the Chancellor and 2.5% distributed to the units. Before that, it was 2%.

The RAF of 10.5% went [into effect in FY05](#). Before that, there was no distinction made between research and non-research gifts

## **28. How do the PA and RAF compare to assessments made by other institutions?**

Doing a direct comparison isn't straightforward, as institutions have different ways of leveraging private philanthropy to support advancement efforts, gift administration, and overhead. Among them are upfront fees on gifts, assessments on endowment payout, and assessments on expenditures from gift funds.



These charts show how our PA compared to other institutions' stated fees in 2017 when we last changed the PA. Since then, UC Irvine has eliminated its fee. (Note that UCLA's fee is 6.5%.) An updated chart will be made available when we refresh our peer benchmarking, which we aim to complete by the end of June.

We do not know of other institutions that have differential fees for research gifts.

## 29. Who can I contact with questions?

General questions about the changes can be directed to Nancy McKinney at [nlmckinney@berkeley.edu](mailto:nlmckinney@berkeley.edu) or 510.643.7664.

Questions about the letter that will be sent to select donors can be directed to Katy Galli-Kreps at [kbgalli@berkeley.edu](mailto:kbgalli@berkeley.edu).

Questions about gift agreements or policy exceptions can be directed to Fund Stewardship and Compliance at [fundhelp@berkeley.edu](mailto:fundhelp@berkeley.edu).

Questions about reporting can be directed to Tam Vuong at [tvuong@berkeley.edu](mailto:tvuong@berkeley.edu).

You can also visit the Philanthropic Allocation and Research Administrative Fee page on [Eureka](#) which will be updated to reflect the forthcoming changes.