Johns Hopkins: How Restricted Endowment Funds Affect Budget Flexibility

Restricted Funds – Why the Endowment Can't Save a Budget – Johns Hopkins University Case Study

Following federal funding cuts, Johns Hopkins University ("JHU") announced that they will repurpose a portion of its existing spend from their $13.1B endowment to help fill their c. $1B research funding gap. The cuts hit JHU particularly hard, as JHU is the largest recipient of NIH (National Institute of Health) grants, and over 50% of its revenue comes from federal funding.[1] JHU has already lost over 100 federal research grants and cut 2,200 jobs following the USAID cuts.[2]

Why can't JHU take more out of the endowment to support the gap? Why can it only repurpose existing funds?

JHU's endowment, which has 78% of its AUM in donor-restricted funds, highlights the nuances of endowments that add a layer of complexity when trying to solve budget issues.

What are restricted funds?

Endowments are often made up of many underlying gifts. A portion of these gifts are unrestricted, meaning the institution can use those funds for any purpose it sees fit. However, there are also restricted funds, which occurs when the donor provided stipulations about how those funds can be spent. Examples could include financial aid for specific criteria (e.g., geographic focus, major focus), faculty support (e.g., endowed chairs), specific school funding (e.g., library books only), among a number of other purposes. An institution can decline any gift with overly stringent stipulations. These stipulations are legally binding and therefore not easily changed.

To change a restricted fund stipulation, institutions either need the original donor to change the legal document, or, if the original donor is now deceased, the institution can petition its state's Attorney General to change it. A revision is likely a broader application of the original intent, not to unrestricted purpose.

Why can't restricted funds be used to fill any funding gap?

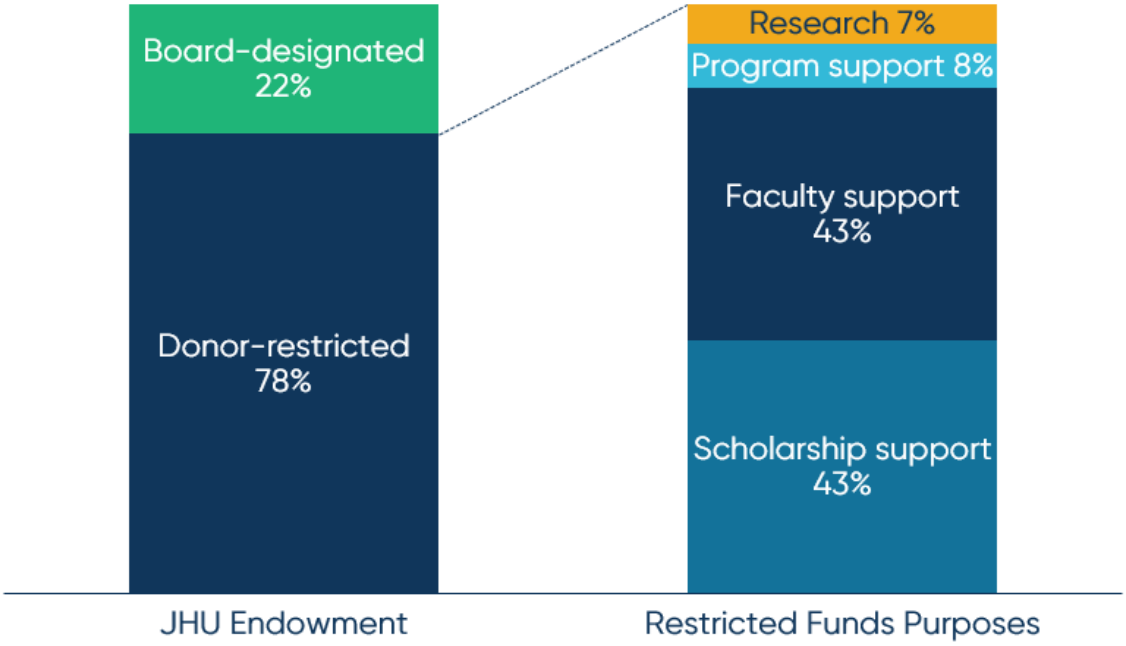
Restricted funds can only be used for their designated purpose, meaning the endowment is not a *carte blanche* savings account for the institution. Only unrestricted funds can be used for these emergency purposes, reducing the funds available for special appropriations.

Johns Hopkins University: A Case Study on Restricted Funds

JHU has a $13.1B endowment, 78% ($10.2B) of which represents restricted funds. JHU notes that its endowment is comprised of approximately 4,700 individual funds, including both restricted and unrestricted funds. JHU's endowment supported 6% of its budget in FY24, while federal contracts represented more than 50%. JHU withdrew 4.2% from its endowment in FY24.[3]

JHU's high allocation to restricted funds provides the university with less flexibility in how the organization can use its endowment. Of those restricted funds, only 7% are designated for research and the stipulations may be too narrow for funding cut-related projects. To entirely replace lost funding, JHU would be required to use one-third of its unrestricted funds ($2.9B). Covering the entire funding cuts would deplete all of the unrestricted funds in 3 years. Because endowed funds must exist in perpetuity per the Uniform Prudent Management of Institutional Funds Act (UPMIFA), this solution is not feasible, which is why JHU ultimately repurposed the existing endowment payout instead of taking more from the endowment.

Johns Hopkins University Endowment Details



Source: FY24 Johns Hopkins University Annual Report.

The Baltimore Banner reported on JHU's statement on the issue of restricted funds: *"It's a common misconception that universities can simply "use the endowment" in moments like this. The reality is that most of our endowment is made up of legally restricted funds designated by donors for specific purposes. The principal of the endowment must legally be preserved in perpetuity — to support Johns Hopkins' mission now and for future generations — and cannot be drawn down like a reserve fund. That said, we are using flexible resources — some of which are tied to endowment earnings — to help sustain critical research in this moment of uncertainty."*[4]

Conclusion

Higher education institutions face many challenges today with federal funding cuts. The nuances of endowments make it hard for institutions to utilize just the endowment to solve budget issues. In addition to the "in perpetuity" requirement for endowed funds (meaning taking out too much continuously will ultimately drain the endowment), the restricted vs. unrestricted funds dynamic is another factor institutions contend with.

For its clients, TIFF is focused on ensuring each client's Strategic Asset Allocation, in particular, liquidity, is tailored to the unique circumstances of each institution. Understanding the structure of your endowed funds, and broader institution's financial circumstances, can help any institution weather a challenging time such as we are in currently.

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Footnotes

1. FY24 Johns Hopkins University Annual Report, inclusive of grants, contracts, and similar agreements and Applied Physics Laboratory contract revenues.
2. https://www.thebaltimorebanner.com/education/higher-education/johns-hopkins-federal-research-UMTJ2XGVFBB6JB4ZG3RB2LSXLU/
3. FY24 Johns Hopkins University Annual Report.
4. https://www.thebaltimorebanner.com/education/higher-education/johns-hopkins-federal-research-UMTJ2XGVFBB6JB4ZG3RB2LSXLU/

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