

THE WEBB ENDOWMENT

The Webb Endowment stands at about \$52mm as calendar 2007 begins. For a school with 60-70 students, this is a large endowment. However, Webb's unique situation of charging no tuition prohibits normal comparisons.

Operating Expenses – For the past 3 fiscal years, the operating expenses for management has been running at about .825% of the endowment value. This includes management fees for our individual sector managers, custody of securities for separate, non-co-mingled portfolios, and a small interest expense. It does not include the cost of administrative time needed to co-ordinate with our custodian and advisor. Adding an estimate of this cost might bring the total to 1%, still a comparatively good number.

Spending Rate – Typical endowment spending rates fall between 4% and 5% of a trailing 3 year average value. For fiscal year 2006-7, a 4.75% of the 3 year trailing average rule would imply a \$2.44mm draw on the Webb endowment.

Budget Shortfall – The current fiscal year budget calls for spending on operating budget and capital projects of \$5.94mm. Income from room and board, grants, annual giving and misc. sources has been budgeted at \$2.92mm. The projected budget shortfall is \$1.75mm

Where has it come from? – The shortfall projected for this year is typical of what has occurred in the past 3 fiscal years. In these years it was made up from a combination of donations applied to operations (not added to the endowment) and additional draws on the endowment. This produced endowment draws of 6% to 7.5%; this is unacceptably high. This approach has limited the growth of the endowment to 6% in 3 years, less than the rate of inflation.

Where will it come from? – First, note that a \$30m average tuition for 60 students (or \$40m for 40 with much smaller charges for needy students) will cover the shortfall. Eliminating this as a solution leaves donations and endowment plunder as in the past.

Peter Van Dyke
February 20, 2007