

**Southern Connecticut State University Foundation  
Endowment Spending Policy**  
*REVISION DATE: May 22, 2019*

The two key components of the policy are to preserve the purchasing power of the assets (“Intergenerational Equity”) and to provide a predictable and steady support for programs (i.e. scholarships, awards, etc). Returns over time should be equal to the effective spending rate plus a consideration of inflation as well as any expense levies.

In order to achieve the above, the Finance Committee approves an annual effective spending rate by March for the coming fiscal year. December 31 values are used to calculate the effective spending rate.

The Effective Spending Rate is calculated by taking 4% of the average of the 12 quarters (3 years) market values of the portfolio for the period ending December 31.

Example of how to compute Effective Spending Rate for period ended December 31, 2018:

1. Multiply the average by four (4) percent and divide by the December 31, 2018 portfolio market value to get the Effective Spending Rate. Once calculated, the rate should be no more than 6.00% and no less than 4.00% (including 1.50% administrative fee).
2. Multiply the market value of each individual endowment fund as of December 31, 2018 by the Effective Spending Rate. The resulting amounts are the dollars available to be used for the endowment award beginning July 1, 2019 (academic year 2019/2020).

An endowment gift must be received by December 31 to be eligible for a spending allocation on the following July 1. Appreciation and/or depreciation in the market value will accrue to each individual endowment fund.

An endowment spending allocation will be suspended from any endowed fund where the market value vs. historical gift value fell to 80% or below (equivalent to 20% or more underwater).

In a prolonged down market, the Finance Committee reserves the right to review the situation and make appropriate adjustments to the spending policy, if necessary.

The Administrative Fee will be charged to each endowed fund (to be used to fund the Foundation’s operating budget for the following fiscal year commencing July 1<sup>st</sup>) based on December 31<sup>st</sup> market values. The fee charged is one (1.50) percent but may be revised at the Board’s discretion.

Underwater Accounts

In the event any of the endowment accounts are underwater, then the Finance Committee shall meet and specifically approve any distribution. If the endowment agreement specifically prohibits distributions for any reason, including underwater situations, the endowment agreement shall prevail and the distributions will be eliminated or reduced in accordance with the donor intent.

### **Adjustments Made:**

January 15, 2009: The spending rate was set at two (2) percent for calculation purposes for the period ending December 31, 2008 in response to significant market decline.

March 16, 2009: Committee voted to suspend awards from any endowed fund where the market value vs. historical gift value fell to 80% or below (equivalent to 20% or more underwater).

October 28, 2009: Committee voted to include a definition of an “Underwater Fund” and a policy statement for “Underwater Accounts.”

February 8, 2010: Committee voted to increase the spending rate set in January 2009 from two (2) percent to three (3) percent for calculation purposes for the period ending December 31, 2009.

February 28, 2011: Committee voted to change the methodology in calculating the endowment spendable from a five (5) year rolling average to a twelve (12) quarter average based on three (3) years. Further, for transparency purposes, the committee voted to include the 1% administrative fee in the minimum and maximum endowment spending parameters bringing the new range to a minimum of 4.0% and a maximum of 5.75%.

May 4, 2011: Committee voted to change the annual endowment administration fee from 1.0% to 1.25%.

February 27, 2012: Committee voted that a gift must be received at least six months prior to July 1 to be eligible for a spending allocation.

January 26, 2017: Committee voted to reduce the annual administrative fee from 1.25% to 1.00%.

February 22, 2018: Committee voted to approve the updated policy with more current example and strike “or no less than 4% of December’s market value” in Section 1.

February 20, 2019: Committee voted to approve the updated policy to update range of effective spending rate: Once calculated, the rate should be no more than 6.00% and no less than 4.00% (including 1.00% administrative fee).

May 22, 2019: Committee voted to increase the annual administrative fee from 1.00% to 1.50%.

## **Terminology Used in Endowment Spending Policy**

### **Market Value:**

Current market price of the portfolio using the individual security prices when available, as indicated by the latest trade record or the values as provided by investment managers when those investments do not have readily determined current values. The value of the total pooled fund includes receipts, disbursements, interest, dividends, realized gains or losses and unrealized gains or losses.

### **Pooled Fund:**

Consolidation of all Foundation endowment funds for investment purposes.

### **Historic Dollar/Gift Value:**

HGV/HDV is defined as the dollar value of all contributions to the endowment principal (net of gift fees) and other additions to the fund required by the donor or law, such as Connecticut State Matching Funds.<sup>1</sup>

### **Underwater Fund:**

An underwater fund is an individual endowment fund that has a current market value that has declined below its historic dollar value. Underwater funds are addressed on a 'fund by fund basis', not in the aggregate (portfolio approach). A decline in the value of an institution's endowment funds naturally causes a reduction in the amount of overall funds an entity has available to distribute in accordance with its internal spending policy.

September 10, 2007 revision approved by Finance Committee  
January 15, 2009 adjustment/revision approved by Finance Committee  
March 16, 2009 revision approved by Finance Committee  
October 28, 2009 revisions approved by Finance Committee  
February 8, 2010 revision approved by Finance Committee  
February 28, 2011 revisions approved by Finance Committee  
May 4, 2011 revisions approved by Finance Committee  
May 11, 2011 policy approved by SCSU Foundation Executive Committee  
February 27, 2012 revision approved by Finance Committee  
January 26, 2017 revision approved by Finance Committee  
February 22, 2018 revision approved by Finance Committee  
February 20, 2019 revision approved by Finance Committee  
May 22, 2019 revision approved by Finance Committee

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