The Stockton University Foundation Spending Policy

Policy #: 2007-1

Adopted: February 2, 2017

Covers: All board members, finance and investment committee members, and employees of the Foundation and/or of the University involved with the investing of Foundation funds.

Purpose

To establish a set of guidelines to govern the rationale for the spending policy of endowed funds. The goal of the spending policy is to preserve the purchasing power of the endowed assets.

The Board of Directors will be advised by the guidelines and recommendations of the Association of Governing Boards of Universities and Colleges regarding endowment management.

Introduction

A former trend of colleges and universities was to simply spend current income. However, as this practice proved detrimental to endowment growth, governing boards began implementing a target spending rate. Important factors in determining the target spending rate include projected investment returns and inflation rates.

Therefore, it was recognized that for an endowment to maintain its inflation-adjusted level of support (referred to as intergenerational equity), it must earn an investment return equal to the spending rate plus the inflation rate. According to the 2006 NACUBO Endowment Study, the average return earned by endowments less than or equal to $25 million was 7.4% over the prior 10 years, with an inflation rate of 2.6 percent. These results would permit a spending rate of 4.8 percent while still maintaining the inflation-adjusted value of the endowment. However, many believe that the Consumer Price Index understates the cost inflation faced by colleges. Therefore, Stockton University will take a reasonable and conservative stance and adopt a 4% spending policy.

Spending Formula

The Stockton University Foundation will use a spending formula that is based upon a percentage of the market value of the endowment. For Fiscal Year (FY) 2018 the annual spending rate for each applicable fund will be an amount up to four percent (4.0%) of the average market value of the endowment over the trailing twelve (12) quarters. FY 19 distribution will be an amount up to 4% of the average market value of the endowment over the trailing sixteen (16) quarters. FY 20 distribution will be an amount up to four percent (4%) of the average market value of the endowment over the trailing twenty (20) quarters. Distributions for funds in existence less than the applicable trailing quarters will be calculated based on the number of available quarters. The exact annual distribution amount will be recommended by the Finance Committee to full Board for approval. The first .25% of the recommended distribution will be directed as an administrative fee to help fund the operations of the Foundation. The remaining distribution will be directed towards the philanthropic restrictions outlined in each applicable gift agreement. In the event the annual spending rate calculation is higher than the accumulated investment income, only the amount equal to the accumulated investment income will be distributed.

Benchmarks

The Investment Committee will review publications like the *National Association of College and University Business Officers* (NACUBO), *Association of Governing Boards* (AGB), *Commonfund Institute,* and *USA Today* among others that study and report on benchmarks related to college endowments and spending.

Spending Oversight

Spending allocations will be applied consistently with the underlying mission to provide support for University priorities under the direction of the University Foundation Board. The distribution or spending of the aggregate amount is guided by the individual endowment agreements first, and then the balance is determined by the University Foundation Board. Foundation employees will provide detailed reports on endowment values and proposed spending allocations. The proposed spending of allocations shall be voted on annually by the University Foundation Board.