



Spending and Reserve Policy
As adopted July 24, 2020

SPENDING

For the purposes of:

- protecting the buying power of the investment portfolio;
- supporting yearly grantmaking and operational expenditures; and
- supplementing annual fundraising efforts;

The Board of Directors shall set the maximum amount at 5% of the portfolio valuation that will be budgeted for distribution from the Investment Funds. A study of foundation endowments demonstrated that a 5.5% spending rate sustained real growth; 6.5% spending eroded the real value of the portfolio slightly; and 7.5% spending eroded the value by 40%.

During the budget process, the spending rate will be applied to the average of the market value of the investment portfolio at fiscal year end of the prior three years. In determining the spending line item for the 2021-2022 year, the value of the portfolio on June 30, 2020, June 30, 2019 and June 30, 2018 will be averaged to provide the basis.

The exact percentage to be withdrawn shall be recommended by the Endowment Committee (not to exceed the maximum of 5%) and reflected as a line item in the Operating Budget income section approved by the Budget and Investment Committee and adopted by the Board of Directors. The funds shall be disbursed on a quarterly basis beginning January 1 of the following calendar year. No other portion of the principal or income of the Investment Funds may be used by the Foundation for any purpose, with the exception of an economic emergency, natural disaster, pandemic, or pooled funds that are restricted for purposes other than grants and are aggregated within the Investment Funds for investment purposes.

RESERVE

In recognition of the extreme fluctuations in IOLTA income that have occurred in the past, currently, and are almost certain to occur in the future, the IOLTA Reserve Fund is established as a Board-designated fund. The primary objectives are:

- to sustain grant funds for the providers of civil legal aid services for low income residents;
- to mitigate the impact on its grantees in a significant and sustained decline in interest rates;
- to ensure some programmatic and funding flexibility in light of the changeable nature of IOLTA income; and
- to maintain adequate funds to ensure that the Foundation can conduct operations.

At least 10 percent (10%) of annual IOLTA revenue shall be appropriated to the IOLTA Reserve and reflected as a line item in the Operating Budget income section adopted by the Board of Directors until the Target Reserve, as defined below, is reached. Any IOLTA funds remaining after the conclusion of a grant cycle may also be placed in the IOLTA Reserve Fund. An appropriation shall be made to the reserve every year with the exception of an economic emergency, natural disaster or pandemic whereby it is deemed necessary by the Board of Directors to direct all available funds for grantees and operations. Suspension of the IOLTA reserve appropriation shall not last more than one year. During a significant and sustained decline interest rate environment beyond one year, the reserve appropriation minimum may be reduced between 1%-10% for an additional one-year period following the suspension.

The Target Reserve shall be calculated on an annual basis and shall be the sum of the following elements:

- an amount equal to three times the average of the most recent three years grant expenditures; and
- an amount equal to three times the current fiscal year budgeted administrative expenses, exclusive of grant and program expenses.

The Foundation staff shall calculate the Target Reserve after the close of the fiscal year and shall provide the calculation to the Budget and Investment Committee.

In the event of declining net revenues, the Board of Directors, upon the recommendation of the Budget and Investment Committee, will determine whether and how much of the reserve fund to disburse additionally to grantees to mitigate the impact on grantees of declines in net IOLTA revenues, based on consideration of the amount of the decline, the impact on grantees, and any information available on the anticipated period of the decline.