LOMITA RAILROAD MUSEUM FOUNDATION

Policy #304
Adopted on: Mar. 13, 2019
Modified: _____

Endowment Spending Policy

1. OVERVIEW

The endowment spending policy establishes the annual payout of investment earnings for expenditure in support of the donor's intended purpose. The spending policy seeks to establish equilibrium between the need for current earnings for expenditure and the need to grow earnings over time to offset the effects of inflation.

2. ENDOWMENT SPENDING POLICY

The Endowment spending policy is determined in unison with asset allocation policies in order to balance expected real return (inflation adjusted) on investments with annual distributions of investment earnings.

2.1. The Lomita Railroad Museum Foundation has established an annual spending policy of 5.5% of the most recent 36-month average market value of the endowment, or an increase of 3.00% over the prior fiscal year, whichever is greater.

2.2. To support the Endowment's spending policy, a target asset allocation policy of 50% equity, 50% fixed income with a variation of 20% up or down for each classification has been established.

2.3. Distributions of earnings from the Endowment to support expenditures are expected to be equal to or less than actual real returns, therefore achieving the financial objective of preserving the value of the endowment assets and related revenue stream over time.

2.4. Expenditures from an endowment fund may include distributions for charitable purposes and amounts used for the management and administration of the funds, including annual charges for fundraising.

2.5. Expenditures are supported first from current income (interest and dividends) and as required, from realized gains.

2.6. Lomita Railroad Museum Foundation can spend the amount deemed prudent after
- considering the donor's intent that the endowment fund continue permanently
- the purposes of the fund
- relevant economic factors

The Endowment Spending policy does not require that the historic dollar value (HDV) be set aside as principal, but does assume that the Foundation will preserve "principal" by maintaining the purchasing power of amounts contributed and will make distributions each year using a reasonable spending rate.

3. PRESUMPTION OF IMPRUDENCE

The Endowment Spending Policy includes a rebuttable presumption of imprudence for spending more than 7% of the value of an endowment fund in one year. The value of the fund is determined based on a three-year rolling average. However, there are factors that would provide additional spending authority.

3.1. If the gift instrument directs that the Foundation expend a fund over a ten-year period, exhausting the fund after ten years, spending at a rate higher than seven percent would be necessary

3.2. The 7% rule does not require the Foundation to spend a minimum amount each year. The prudence standard and the needs of the institution will supply sufficient guidance regarding whether to accumulate rather than to spend in a particular year.

3.3. Spending above seven percent in any one year will not necessarily be imprudent as some endowment fund spending rates may fluctuate as needed.

The value of a fund, as calculated for purposes of determining the seven percent amount, will reflect increases due to contributions and investment gains and decreases due to distributions and investment losses. The seven percent figure includes charges for fundraising and administrative expenses other than investment management expenses. All costs or fees associated with an endowment fund are factors that the Board of Directors as prudent decision makers must consider.

Distribution at a rate that exceeds 7% in any given year will be considered by the Executive committee and brought to the full board for approval prior to the distribution.

A presumption of imprudence should serve as a reminder that spending should not jeopardize the long-term nature of an endowment fund. If an endowment fund is intended to continue permanently, the Foundation should take special care to limit annual appending to a level that protects the purchasing power of the fund.