



## **Endowment Funding Petition Guidelines**

### **Background**

Endowments will potentially shift into an underwater position when the investment markets experience difficult times. "Underwater endowments" are those where the fair market value ("FMV") of the endowment is less than its historic dollar value (commonly known as the endowment principal).

The State of California adopted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) on September 30, 2008. Among other changes, UPMIFA allows schools to remove the historic value rule and tap into principal as long as the institution determines it is prudent for the uses, benefits, purposes and duration for which the endowment fund is established. As a result, the Board of Trustees amended the investment policy in spring of 2009 to allow spending from endowment principal upon executive managements' approval. The following provides guidelines and instructions for those departments that wish to petition for principal spending.

### **Petition Procedures**

Departments and schools should first review their underwater endowments' activities and consider eliminating related expenses as feasible. In addition, consider related restricted gifts, discretionary funds and other resources as temporary funding sources for the crucial expenditure. The use of endowment principal should be a last resort because it will prolong the time for the endowments to recover. If the department determines that a petition for funding is necessary, it should submit a petition package. See related section below for additional details.

### **Eligibility**

Departments can petition for an amount up to 4% of the fair market value of the endowment as of the end of the most recent fiscal year.

## **Timeline and review process**

<u>Timeframe</u>	<u>Process</u>
By March 15	Departments to review their needs and submit petition package to Deans or department heads for review and approval
By March 22	Petition package submitted to Tax & Compliance for review
By March 31	Reporting & Compliance manager to complete review and submit recommendation along with analyses and supporting schedules to Vice President of Finance and CFO for review and approval
By April 14	Vice President of Finance and CFO approves/denies petition
Late April	Vice President of Finance and CFO presents final approved list to the Investment Committee of the Board of Trustees

## **Petition package**

It is important that the departments / schools provide sufficient information in their petition package to assist with the evaluation. We are providing a Petition Form to use as a guide and to aid in the review process. We also have a Signature Routing Form to ensure all proper reviews have been completed. In addition to the required forms noted above, we encourage departments to provide additional information regarding your requests.

### Required information

- Rationalization/ Explanation for the need of funds
- Crucial endowment expenditures by expenditure categories (budget lines)
- Efforts you have made to identify other resources, including:
  - Projected available restricted gifts account balance (if any)
  - Funds available from discretionary accounts and operating budgets

### Preferred information:

- Donor agreement(s) or communication(s) – if relevant to support your rationale
- Calculation details and backup support for fiscal year expenditures. Rationalization for each expenditure category
- Current or pending organizational changes or expenditure structure changes

If you have any questions regarding the petition process, please feel free to contact:

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