

Why Should Christ Church Cranbrook Change its Endowment Spending Policy?

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Tom Post

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Trust Overview

Trust	Purpose	Spending Rule	Spending Practice	How to Amend Spending Rule
Parish (established 1953)	Distributions may be used for any expense of the church	Income only	Income up to inflation protected principal	Can be amended with majority approval of parish members present at a parish wide meeting
Special Music (established 1987)	Distributions will fund the variety of special musical events and activities which enrich CCC and the community	Total return above inflation protected principal based on a three year rolling average (amended in 1993)	Total return above inflation protected principal based on a three year rolling average (amended in 1993)	Can be amended with majority approval of parish members present at a parish wide meeting
Higgins (established in 1983)	Distributions will be used for youth programs not covered by the regular church budget	Income up to inflation protected principal	Income up to inflation protected principal	Can be amended with majority approval of parish members present at a parish wide meeting
Planned Giving (established 2005)	Distributions may be used for current church expenses unless otherwise stipulated by the donor. (so far all the money in the Trust is for general purpose).	Total return above inflation protected principal	Total return above inflation protected principal	Can be amended with majority approval of parish members present at a parish wide meeting
Booth (established 1925)	Distributions may be used for current church expenses	Income Shall be Distributed	Income up to inflation protected principal	Petition of Oakland County Probate Court
CCC (established in 1985)	Distributions will be used only for major repairs, replacements and expansions of CCC owned buildings	Income up to inflation protected principal	Income up to inflation protected principal	Petition of Oakland County Probate Court
Flint (established 1986)	Distributions will be used to support outreach external to CCC.	Income up to inflation protected principal	Income up to inflation protected principal	Petition of Oakland County Probate Court

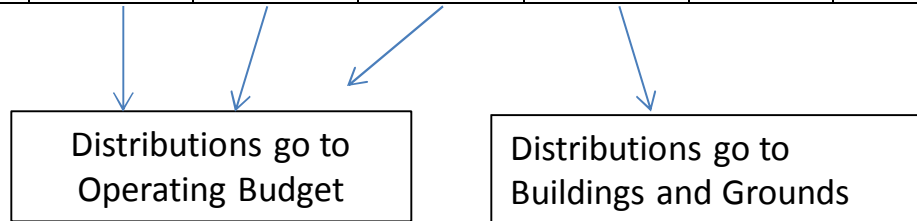
Summary: Christ Church Cranbrook relies heavily on endowment distributions, but is at risk from outdated rules

- CCC has 7 trusts funded by gifts and bequests, which provide 20% of the operating budget and much of the money for repairs and special music
- Trust distributions have fluctuated widely, with 3 trusts making no distributions in recent years, creating budget issues and putting major programs at risk
- Distributions are currently governed by outdated rules based on narrowly-defined income and “inflation protection”
- Vast majority of non-profits spend a set percentage of the average market value of their endowment, with an average payout of 4.8%
- Vestry has unanimously recommended moving to rule distributing 4% of 3-year average market value of the trusts, which is the current spend rate
- Investment and Finance Committees have unanimously supported change
- Change requires special parish meeting Nov. 4 to amend some trusts and support legal process for others

There have been enormous fluctuations in the distributions for the Trusts

Yearly Distributions

Year	Booth	Parish	Planned Giving	CCC	Music Outreach	Flint Outreach	Higgins Youth
2000	180,000.00	36,000.00	N/A	85,537.97	30,686.14	12,467.61	0.00
2001	180,000.00	36,000.00	N/A	132,426.80	30,245.32	8,337.13	2,131.26
2002	240,000.00	36,000.00	N/A	121,625.28	0.00	8,076.13	0.00
2003	185,585.44	22,077.00	N/A	97,112.99	0.00	0.00	0.00
2004	148,735.28	46,630.79	N/A	131,349.86	0.00	13,076.42	0.00
2005	163,568.93	49,068.00	0.00	139,936.12	0.00	6,862.23	0.00
2006	168,500.00	60,498.00	0.00	141,786.37	8,780.17	7,197.98	0.00
2007	267,495.72	99,854.80	0.00	155,407.62	46,476.14	8,456.14	0.00
2008	218,750.00	73,743.00	26,437.00	181,405.17	41,859.04	9,234.48	0.00
2009	209,002.00	37,500.00	0.00	218,585.19	47,681.38	9,288.37	0.00
2010	200,000.00	75,000.00	0.00	150,227.27	0.00	7,770.97	0.00
2011	210,000.00	87,500.00	0.00	124,199.70	0.00	8,875.64	0.00
Total	2,371,637.37	659,871.59	26,437.00	1,679,600.34	205,728.19	99,643.10	2,131.26



Three Trusts, with a market value of roughly \$1.2 million, made no distributions in either 2010 or 2011

Market Value at Fiscal Year Ending (9/30/xx)

Year	Booth	Parish	Planned Giving	CCC	Music Outreach	Flint Outreach	Higgins Youth
2000	5,215,943.78	1,186,559.42	N/A	3,780,252.06	484,137.29	234,718.44	56,698.33
2001	4,692,829.50	946,894.62	N/A	3,422,085.19	374,505.27	200,173.70	43,201.37
2002	4,261,982.80	858,766.67	N/A	3,050,662.83	353,071.76	180,743.77	40,895.58
2003	4,849,111.70	1,005,086.20	N/A	3,531,113.37	421,918.41	215,856.73	46,508.16
2004	5,222,092.37	2,054,790.04	N/A	3,787,804.17	472,454.46	227,817.48	49,231.31
2005	5,721,607.38	2,260,288.83	19,276.57	4,132,113.86	532,760.87	249,124.91	52,584.95
2006	6,132,776.69	2,428,137.27	342,066.40	4,412,847.45	578,780.68	266,775.77	56,331.44
2007	6,667,210.05	2,631,875.38	528,731.43	4,827,425.50	602,346.63	291,277.17	61,432.23
2008	5,449,697.80	2,162,925.83	584,846.17	3,924,748.55	471,523.85	238,825.14	56,069.49
2009	5,121,023.07	2,221,891.75	615,141.82	3,629,280.47	435,623.34	240,026.11	57,983.82
2010	5,351,273.99	2,328,239.85	665,221.84	3,811,591.10	471,081.72	251,751.47	61,185.99
2011	5,213,589.89	2,278,747.69	655,483.14	3,740,145.47	464,393.86	239,716.36	61,977.94

CCC's trusts do not follow current best practice or economic conditions

- Income trusts (like Booth) geared to 30's and 40's:
 - Little faith in stock market; steady bond income; little inflation
- Inflation-protection provisions geared to 80's and 90's:
 - Focus on real returns; rising stock market; moderate inflation
- Both rules risk little or no payout under current economic conditions *which is not donor intent and does not meet needs of CCC's mission*
 - Causes distortion in portfolio
 - Requires trustees to waive rules and Vestry to avoid adding to endowment
- Other institutions have adopted rules requiring payout of set % of market value
 - Both foundations and universities use this approach
 - Various rules (e.g. 3-year averaging) applied to smooth fluctuations
 - Foundations required to distribute 5%, universities target 4.7% and achieve 4.3% (IRS survey)

What Spending Method Do You Use?

Spending Policy

Figure 5.4 Spending Policy* for Fiscal Year 2009

<i>numbers in percent (%)</i>	Total Institutions	Over \$1 Billion	\$501 Million-\$1 Billion	\$101-\$500 Million	\$51-\$100 Million	\$25-\$50 Million	Under \$25 Million
	842	52	60	219	164	137	210
Spend all current income	4	2	2	5	4	4	6
Percentage of moving average	74	56	70	75	82	79	68
Average percentage	4.8	4.9	4.9	4.8	4.8	4.8	4.6
Decide on appropriate rate each year	9	8	7	6	7	12	14
Grow distribution at predetermined inflation rate	1	4	0	2	0	0	0
Spend pre-specified percentage of beginning market value	4	0	0	2	5	7	6
Average pre-specified percentage spent	4.9	N/A	N/A	4.8	4.9	4.7	5.2
Last year's spending plus inflation with upper and lower bands	3	19	5	5	1	1	1
Weighted average or hybrid method (Yale/Stanford Rule)	6	15	12	7	7	4	2
Meet IRS minimum of 5 percent	**	0	0	0	0	0	1
Other	9	13	13	9	7	4	12

The vast majority of endowments use a % of moving average method and the payout is higher than 4%

*multiple responses allowed

**less than 1 percent, results not meaningful

Source: Fiscal years 2000 – 2007, NACUBO Endowment Study 2008; Fiscal years 2008-2009, NACUBO-Commonfund Study of Endowments 2009
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Proposed rule would have led to much steadier distributions from all Trusts, especially Parish, Music, and Higgins

How would the proposed rule have affected MACCC?

Year	Actual MV	Actual Dist	Prop Dist	Projected MV
2000	484,137.29	30,686.14		
2001	374,505.27	30,245.32		
2002	353,071.76	0.00	16156	
2003	421,918.41	0.00	15069	402612
2004	472,454.46	0.00	15862	433961
2005	532,760.87	0.00	17441	471468
2006	578,780.68	8,780.17	18649	493246
2007	602,346.63	46,476.14	19544	501121
2008	471,523.85	41,859.04	18780	414141
2009	435,623.34	47,681.38	17542	400357
2010	471,081.72	0.00	16938	455877
2011	464,393.86	0.00	17186	432707
Total 2002-2011		144,796.73	173,167.18	

The 4% of the 3 year average allows for a more stable budgeting process and still protects the value of the endowment.

The new rule serves to smooth out distributions, not necessarily increase them

CCC - Trust/Endowment Funds							
	Fair Market Value						
Period Ending	Booth	Parish	Planned Giving	CCC	Music	Flint	Higgins
12/31/2009	5,134,997	2,244,313	631,282	3,644,308	447,194	238,815	59,502
3/31/2010	5,134,712	2,234,556	628,490	3,650,634	445,304	237,723	60,016
6/30/2010	5,014,390	2,182,936	624,240	3,575,863	442,201	236,079	60,056
9/30/2010	5,084,794	2,205,146	629,609	3,623,751	446,237	238,233	59,352
12/31/2010	5,474,027	2,499,975	704,620	3,909,626	498,489	257,568	64,393
3/31/2011	5,646,069	2,597,369	731,446	4,029,336	517,299	267,402	66,078
6/30/2011	5,630,580	2,564,511	737,278	4,038,971	521,430	269,695	66,568
9/30/2011	5,437,733	2,547,692	697,527	3,901,009	493,762	255,257	63,963
12/31/2011	5,418,207	2,383,446	700,502	3,879,321	495,859	248,019	65,462
3/31/2012	5,721,685	2,617,409	761,407	4,096,038	538,521	269,758	69,221
6/30/2012	5,601,940	2,514,476	745,979	4,021,122	527,887	264,122	68,186
8/31/2012	5,755,466	2,581,698	766,083	4,127,459	542,029	271,276	69,796
Average	5,421,217	2,431,127	696,539	3,874,787	493,018	254,496	64,383
4% Distribution	216,849	97,245	27,862	154,991	19,721	10,180	2,575
2011 Distribution	220,000	100,000	0	145,293	0	8,077	0
Distribution Supports	General Operating Fund	General Operating Fund	General Operating Fund	Buildings & Grounds	Special Music at CCC	Non-Episcopal Outreach	Sunday School

Draft of Proposed Language

The amount of income and principal available for distribution from the Trust during any quarter in a calendar year is limited to one quarter of the amount determined by applying the “Distribution Percentage” to a **three-year rolling average** of the market value of Trust corpus determined at the end of the immediately preceding twelve calendar quarters.

For these purposes, the “distribution Percentage” shall be established at **four percent (4%)**; provided, considering the advice of Finance and Investment Committees, by a **vote of 2/3 of its members the Vestry** may increase or decrease the Distribution Percentage by up to one full percentage point (so that it falls within a **range of 3% and 5%**)

While trust changes are necessary, they will not solve CCC's financial issues

- Trusts provide only 20% of operating budget, with pledges accounting for 60%
- Current deficit is about 5% of operating budget, funded out of unrestricted general reserves
- Major repairs have needed to be funded either out of general reserves (boiler, tuck-pointing) or by special campaign (organ, window)
- Both pledging and planned giving/philanthropy need to increase to provide financial security and even more if CCC is to live into its mission

Next Steps

- Town Hall Meetings
 - Wednesday 10/3 @ 7:30 pm
 - Monday, 10/8 @ 11:00 am
- Retain Butzel-Long to ask Court to change Booth, CCC, and Flint Trusts
- Parish-wide Meeting, Sunday 11/4 after 10:00 am Service
 - Approve amendments for Parish, Planned Giving, Music Outreach, and Higgins
 - Affirm parish's desire to have Court amend other trusts