St. Mark's Episcopal Cathedral

Intergenerational Stewardship Policy

Approved by St. Mark's Council and Board of Directors of St. Mark's Foundation – 2018

I. Purposes

The overarching purposes of this *Intergenerational Stewardship Policy* are: (a) to honor *past* donors' desires to provide a permanently restricted and perpetual source of income to support the ongoing ministries of the Cathedral that they loved, and (b) to assure prospective *future* donors that their planned gifts and bequests to the Cathedral's endowment will be faithfully tended and used for the benefit of countless generations of St. Markans to come.

This *Intergenerational Stewardship Policy* provides direction to representatives of St. Mark's Episcopal Cathedral who are responsible for either establishing annual operating budgets . . . or monitoring and controlling expense account variances from a budgeted plan throughout each year in the future. It should be read annually by the investment advisors of St. Mark's Foundation, and by members of the Board of Directors of St. Mark's Foundation and the Council of the Cathedral. This *Intergenerational Stewardship Policy* is intended to be fully compatible with the *Cathedral's Gift Acceptance Policy*, and is written to be especially supportive of the ministries of St. Mark's *Stewardship* and *Generations* committees.

II. Amendments and Addenda

This *Intergenerational Stewardship Policy* may be amended only by a majority vote of members of the Cathedral's Council. All deviations from this policy's procedures, as well as all excess or extraordinary withdrawals, loans, or uses of endowment funds as collateral are to be documented annually by the Council as permanent addenda to this policy. This policy, along with all future amendments and addenda, shall be readily available for reading by any parishioner at all times.

III. Operational Budgeting

This *Intergenerational Stewardship Policy* applies only to the Cathedral's share of the endowment funds managed by St. Mark's Foundation. The Foundation also manages the share of the endowment that is designated for use by the Wells Foundation. Banks manage separate trust funds to benefit St. Mark's.

In the fourth quarter of every year, the Cathedral's Finance Committee shall recommend, and the Council shall approve, an operating budget for the following year that includes, as revenue, withdrawals from the Cathedral's ***share of the endowment*** (hereinafter referred to as ***SHARE***) that **shall not exceed** the ***lesser*** of two limiting dollar amounts, calculated according to the following two formulas, {a) and b)}:

a) The average of the trailing five (5) years' ***net rate of return*** on the Cathedral's ***SHARE***, multiplied by the average of the trailing three (3) years' ending market values of the Cathedral's ***SHARE***, where the annual ***net rate of return*** percentage on the ***SHARE*** is defined for each year by this simple formula:

Numerator		***Denominator***
[End-of-Current-Year's Market Value of the *SHARE* + Withdrawals during the year (excluding loans disbursed from the ***SHARE***) **– Gifts and Bequests added during the year** (excluding loan repayments) **– End-of-Prior-Year's Market Value of the *SHARE*]**	/	**[End-of-Prior-Year's Market Value of the *SHARE*]**

b) The rate of withdrawal recommended by the Foundation's Board of Directors as a prudent one for the following year (based on their professional investment advisors' *expected future* rates of return on the endowment's investments), multiplied by the average of the trailing three (3) years' ending market values of the Cathedral's ***SHARE***.

IV. Control of Budget Variances and "Excess" Withdrawals

No less frequently than quarterly, the Treasurer of the Cathedral shall report to the Council *significant* negative year-to-date (YTD) budget variances for each operating-expense account. The Council members shall determine each year the dollar and percentage terms of what will constitute a *significant* negative variance for expense accounts, and the definition of *significant* shall be reported in the minutes of a Council meeting early in each year.

In order to prevent having to incur any "excess" withdrawals of funds from the Cathedral's ***SHARE***, the Council shall appoint leaders to work throughout each year with "owners" of budgets having *significant* YTD negative budget variances to bring their spending under control.

At the end of any year in which a *significant* "excess-above-budgeted" total withdrawal is taken from the Cathedral's ***SHARE***, the Treasurer shall add an addendum to this policy, detailing the cause(s) of such a withdrawal. The Council shall then direct the Cathedral Administrator to record any such *significant* withdrawal to be a loan liability on the books of the Cathedral, and a loan asset on the books of the Foundation. To fund its operating expenses, any loan incurred by the Cathedral that stems from a significant "excess-above-budgeted" withdrawal shall incur a prime-rate interest charge (payable to the Foundation); and any such loan shall be fully repaid within two (2) years.

V. Extraordinary Withdrawals

Whenever an unforeseen event occurs that might suggest to some the need or desire for a *significant* "extraordinary" withdrawal of funds from the Cathedral's ***SHARE*** to cover <u>unbudgeted expenses</u>, then both the members of St. Mark's Council and the Foundation's directors shall agree in writing whether funds will be withdrawn in the form of a "grant" or a "loan." Any agreement reached about an interest-free "grant" must be documented in writing, signed by the Cathedral's Treasurer, and added as a permanent addendum to this policy. As soon as any new "grant" of "extraordinary" funds is received by the Cathedral, new fundraising efforts shall be initiated by the Council to replenish the Cathedral's ***SHARE*** with 100% of the value of such funds within five (5) years. <u>Under no circumstances shall any "grant" dollars be used to fund any capital expenditures</u>.

VI. Loans

With the written agreement of both the Council and the Board of Directors of the Foundation, the Foundation may make loans to the Cathedral from its ***SHARE*** to fund either short-term needs for working capital or long-term capital-expenditure projects.

Short-term loans must be for a period of no more than two (2) years; and prime-rate interest will be budgeted for and paid annually by the Cathedral to the Foundation.

Longer term loans to fund capital expenditures may be considered by the Council and the Directors of the Foundation only if members of the Finance Committee: (a) perform a detailed capital-budgeting analysis of a proposed project, (b) conclude that that the proposed project has a high probability of achieving a positive Net Present Value (of Benefits – Costs), and (c) recommend to the Council that it should approve funding such a new project with a loan from St. Mark's ***SHARE***. The terms of any such long-term loan, including the risk-adjusted discount rate (RADR) to be budgeted as an interest expense and paid for annually by the Cathedral shall be agreed to by both the Council and the Board of Directors of the Foundation. All loan agreements shall be documented in writing and added as permanent addenda to this policy.

VII. Endowment Funds as Collateral

The same procedures detailed in the preceding section (VI. Loans) shall be followed if, for any reason, the Cathedral ever pledges any portion of its ***SHARE*** as collateral needed to secure a line of credit with, or obtain a loan from, a bank or other external lending institution.