



# California Wildlife Foundation

## California Wildlife Endowment Fund Quick Reference

### Definitions

#### ENDOWMENT AMOUNT

The amount of funds that will be invested indefinitely for a specific, agency-approved project or purpose.

#### INITIAL FEE

Calculated as 1% of the **ENDOWMENT AMOUNT** and is paid to CWF, in addition to the **ENDOWMENT AMOUNT**, at the time the investment account is established.

#### ANNUAL DISBURSEMENT

The agency - approved annual project budget. This amount, adjusted for inflation, will be disbursed by CWF to the designated recipient annually.

#### CAP RATE

(or capitalization rate)

The expected average annual rate of return over the entire period of investment **net** of the average long-term rate of inflation and annual fees.

### Determining the ENDOWMENT AMOUNT

The **CAP RATE** is used to determine the required size of the endowment. The **ENDOWMENT AMOUNT** is determined by dividing the annual project maintenance cost by the **CAP RATE**. CWF prefers to use a 2% **CAP RATE** for its endowment funds.

### Why CWF uses a 2% CAP RATE

Endowment funds should be managed so as to ensure that the principal is preserved over the long term, and CWF considers a 2% **CAP RATE** a realistic figure to use over time. In order to cover a 2% payout annually, adjusted for inflation, the fund will need to generate more than this in some years to build a reserve to cover years in which market conditions don't allow for a return at this level.

For example, the **ENDOWMENT AMOUNT** required to pay out \$50,000 annually (adjusted for inflation) is \$2,500,000. See below how the **ENDOWMENT AMOUNT** and the total amount of funds required to establish the fund are calculated.

<b>ANNUAL DISBURSEMENT</b> (agency-approved annual budget)	\$ 50,000*
<b>ENDOWMENT AMOUNT</b> (\$50,000 / 2%)	2,500,000
<b>INITIAL FEE</b> (1% of \$2,500,000)	<u>25,000</u>
Total amount of funds being delivered to CWF in order to establish the fund	\$2,525,000

\* In this example, the **ANNUAL DISBURSEMENT** is 2% of \$2,500,000 or \$50,000, adjusted annually for inflation.

### What if a CAP RATE higher than 2% is used?

If a higher **CAP RATE** than 2% is used, a lower endowment amount is required to meet the required annual project budget. For example, the endowment required to pay out \$50,000 annually (adjusted for inflation) based on a 4% cap rate is \$1,250,000, whereas the endowment required to meet this budget based on a 2% cap rate is double that – \$2,500,000. This represents a very large difference in what is required of the project sponsor. However, an endowment based on a 4% cap rate would have to generate an average annual return of about 7 or 8%, or end up dipping into principal in order to meet the annual pay-out obligation. We believe that an endowment with a return requirement at this level would end up eating away at the principal of the endowment over time, and we do not recommend this option.

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