

LAWYER TRUST ACCOUNT BOARD
STABILITY-OF-FUNDING POLICY
April 27, 2007

The Lawyer Trust Account Board (“Board”), after consultation with grantees, adopts the following policy to facilitate stability in the funding of grant applicants over the long-term.

In the past, the Board has awarded grants for a one-year period. Beginning in June 2007, the Board will award grants for a two-year period (biennially).

On at least a biennial basis, the Board will review the funding that it will allocate to the grant making process. The Board will base its allocation decision on a reasonable forecast of cyclical decreases and increases in revenue, and the amount needed for an adequate “stability reserve” intended to achieve stable funding over the long-term. The Board will consider the following factors:

- A. A “lifetime” rolling average of adjusted June 30 cash-on-hand, based on all past years of the IOLTA program for which financial information is reasonably available. The “adjusted” June 30 cash-on-hand figure will take into account prior grants that remain unpaid as of that date.
- B. A five-year rolling average of adjusted June 30 cash-on-hand.
- C. The federal fund interest rate over the past five years, and reasonable economic projections of that rate for the future.
- D. The interest rates paid by the top ten Minnesota financial institutions participating in the IOLTA program over the past five years, and reasonable economic projections of those rates for the future.
- E. The State of Minnesota economic forecast as announced by the Department of Finance for the current and next biennium.
- F. IOLTA program administrative costs over the past five years, and a reasonable projection of future costs.
- G. Maintenance of an adequate minimum “emergency-funding reserve,” intended to assist grantees in the event of unforeseen emergencies, such as an unexpected loss of significant program funding or unanticipated growth in clients due to an identifiable legal or social change. The Board intends such grants to be one-time, short-term awards. The Board will not consider them to be part of the grantee’s “base” of past annual or biennial awards.

- H. Maintenance of an adequate minimum “sustainability reserve,” intended to sustain one additional year of funding at a reduced level in the event of: (1) a cessation of the IOLTA program or revenue; or (2) a continuing period of decreased revenue beyond that forecasted by the Board.
- I. The accuracy of Board’s past forecasts as to the timing of cyclical decreases and increases in revenue.

To date, based on the above factors, the Board’s goal is to maintain a total grant of \$5,400,000 for each biennium from 2008 through 2011, while growing a stability reserve adequate to maintain stable biennial grant funding at or near \$5,400,000 during a future four-year period of cyclical reduction in revenue (referred to below as a revenue “valley”). The Board may decide to adjust the grant award funding based on an average CPI inflation factor. The Board intends to calculate the stability reserve amount as follows:

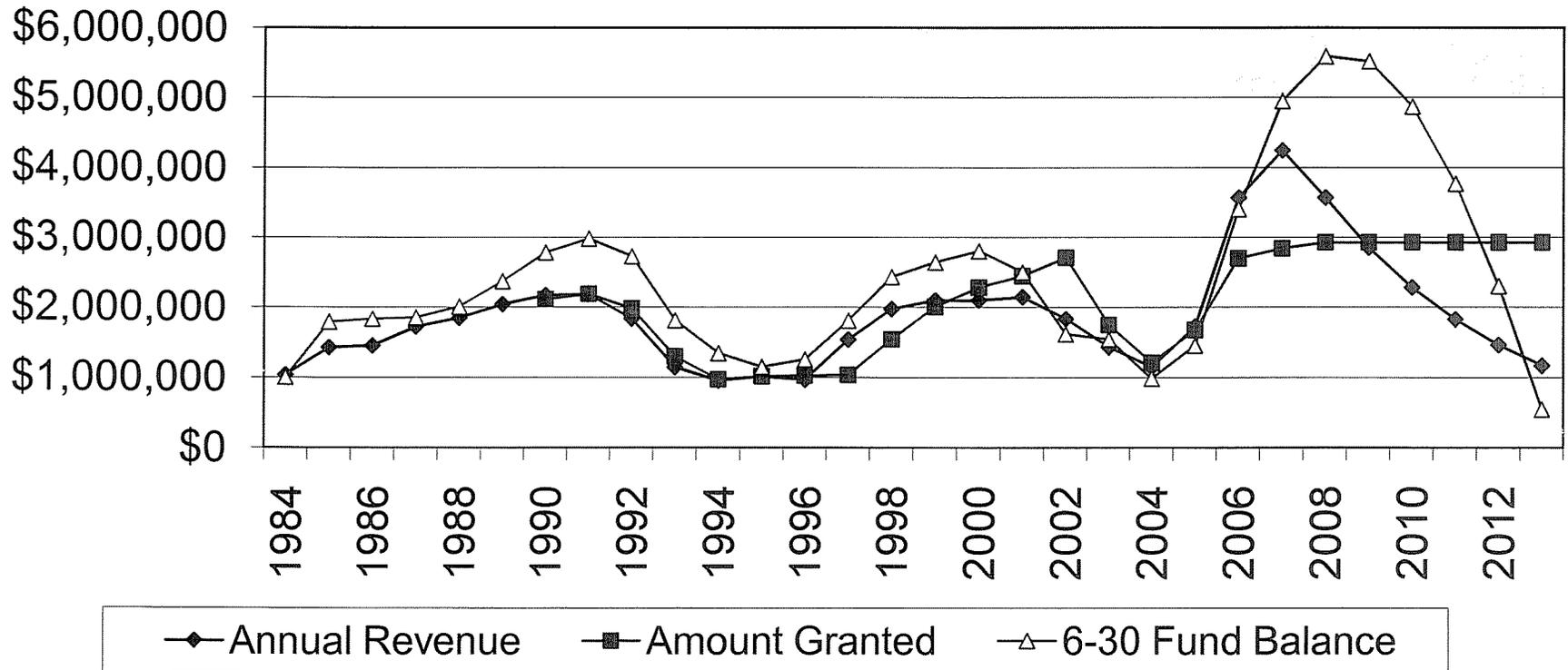
\$10,800,000	Intended grant award during 4-year revenue "valley" (\$2.7M x 4)
\$ 165,000	Inflation est. at 3% annually during the grant period
+ \$ 400,000	Projected administration costs during 4-year valley (\$100K x 4)
<u>\$11,365,000</u>	SUBTOTAL
- \$ 6,998,000	Anticipated revenue during 4-year valley
\$4,367,000	Stabilization reserve
+ \$ 1,000,000	Sustainability reserve
+ \$ 100,000	Emergency-funding reserve
<u>\$ 5,467,000</u>	TOTAL TO BE RESERVED TO ACHIEVE STABILIZATION

In the year the Board determines that the stability reserve will be adequate to maintain stable biennial grant funding for a future four-year period of cyclical decline in revenue, and if a period of declining revenue has not yet begun, the Board may decide to award a total biennial grant amount in excess of \$5,400,000.

During the period of cyclical decline in revenue, the Board will use the stability reserve to maintain stable biennial grant funding. The Board does not generally intend to reserve less than \$1,100,000, representing \$1,000,000 for the minimum sustainability reserve plus \$100,000 for the minimum emergency-funding reserve.

In the event that declining interest rates reduce income significantly during the 2008-09 biennium, the Board may reconsider this stability-of-funding policy and the adequacy of the reserve, and may as a last resort reduce grant awards.

IOLTA REVENUE 1984-2013 (20% Decrease 2010-2013)



IOLTA REVENUE 1984-2007(30% Revenue Drop 2010-13)

