BEYOND FIVE PERCENT:
The New Foundation Payout Menu

BY HEIDI WALESON

BEYOND 5% REPORT CONTENTS

In 1991, the governing committee of the Whitaker Foundation, which had been supporting the development of biomedical engineering since the foundation was established in 1975, felt that the time was ripe for a large investment in the field. They determined that a program of grants to establish and strengthen fledgling university biomedical engineering departments was the best use of the foundation's assets, and in order to pay for that investment, decided to spend down the entire corpus in 15 years. By the time the foundation closed its doors in 2006, it had poured over $800 million into biomedical engineering, effectively jump-starting the field, which now has nearly 80 departments.

Whitaker is an example of a foundation that, driven by its mission, chose a non-traditional path with respect to lifespan and payout. The vast majority of US foundations, which number about 71,000, are set up to exist in perpetuity, replenishing their assets through investment, with the expectation that their money will be around to address the problems of the future as well as those of today. The majority of foundations also pay out, in grants and administrative costs, around 5% of their assets each year, the minimum required by US law. This rate was initially set at 6% by the Tax Reform Act of 1969, and revised to 5% in 1976. Such practices have become the default position for foundations. (For the purpose of this paper, perpetuity and 5% payout are termed "traditional" foundation practices.)

Why is this so? For some foundations, perpetuity is dictated explicitly in the founding documents, but that is not the case for all. Analyses that tackle the issue of the time value of money, attempting to determine the relative value of a dollar spent on philanthropy today vs. in the future, yield contradictory results. The issue of payout percentage has been subject to debate, with various studies taking different positions as to the long-term effect of different rates on the corpus, but the general assumption in foundation circles is still that the 5% payout rate is the number that will enable foundations to maintain their purchasing power into the future. In their 2001 study of foundation payout rates, Askash Deep and Peter Frumkin list five excellent reasons for and five against a payout higher than 5%, which in theory should result in a more diverse payout landscape. However, these scholars found that "the weight of tradition and professional experience" is a critical reason for the convergence of foundation payout rates at around 5%. For example, trustees see their "duty of care" as an instruction to "preserve assets for the future," a large endowment confers status, and, given the many priorities involved in running a foundation, it is easier — and less risky — to do what everyone else does, rather than come up with a rationale and a system for doing it differently. (For more details on the payout debate, see "Money, Mission and the Payout Rule," by Thomas J. Billitteri, an Aspen Institute study.)

However, a number of donors and foundations are challenging these assumptions, taking the position that considerations other than perpetuity and payout should determine the structure of their giving. Some believe that certain fields of interest (for example, the protection of the environment) urgently require more money now. Some feel that higher payout and/or a shorter lifespan will yield more effective philanthropy with greater impact. Some, like Whitaker, see the potential to address — and solve — a single, identifiable issue with more concentrated funds.

Donors may prefer to maintain personal control over their philanthropy, and thus plan to do their giving during their lifetime, and/or establish a time limit for their foundations after their death, in order to preserve donor intent. Some want to see all their money working now. Some dislike the idea of bureaucracy, and feel that the structure of traditional foundations is more oriented toward preserving capital than toward doing good. Some feel that with new fortunes being made and inherited, that future needs will be taken care of by future donors.

NEW STRUCTURES FOR GIVING

Such donors and foundations have had to find different ways to structure their giving, coming up with models that turn the traditional philanthropic paradigm on its head. Perhaps the most dramatic recent example was Warren Buffett's decision to give $30 billion to the Gates Foundation, rather than start his own. Buffett reasoned that Gates already had a system for giving away large amounts of money, in areas that suited his own philanthropic interests. One twist is that the Buffett money does not go into the Gates corpus; it will be given over a period of years, and spent as it is given — rather like the biggest donor-advised fund ever. The Gates Foundation followed up on the Buffett gift with its own surprising announcement — that it would sunset 50 years after the death of its last founding trustee.

Such unusual foundation structures may include a limited lifespan. The Whitaker Foundation, established after the death of the donor, chose to spend down its assets entirely within a specified number of years. Foundations like the Beldon Fund and Atlantic Philanthropies, both set up by living donors, may establish a term for spend down that may or may not be longer than the life of the donor. Others, like the Richard and Rhoda Goldman Fund and the Lewis B. and Dorothy Cullman Foundation, have sunset provisions, planning to go out of business in a definite number of years following the death of the donor or family members.

Foundations that are not intending to spend down may adopt payout rates higher than 5%, believing that greater expenditures are necessary to fulfill their missions. The Bradley Foundation, for example, pays out at a rate of 5.5% in grants only (not including administrative costs), and has maintained the purchasing power of its endowment. The Evelyn and Walter Haas, Jr. Fund has increased its payout rate to a minimum of 5% in grants only in order to address pressing issues, with the understanding that, depending on investment returns, a smaller corpus may be passed on to the next generation of family trustees.

Some foundations establish flexible payout rates, which vary from year to year depending on opportunities. The HKH Foundation, for example, increased its giving by one-third before the 2004 elections, a moment that it felt was propitious for increasing civic engagement. The Needmor Fund maintains a 6% payout rate as a base, but actually gives a great deal more because a network of involved family members provides additional annual support that is earmarked for current grantmaking.

Unusual structures in foundation operations go beyond changes in lifespan and payout. Some foundations have chosen to fulfill their missions through activities other than grantmaking, including running their own charitable initiatives and investing in for-profit enterprises with social goals. The Haigh-Scatena Foundation's sole employee, its executive director, spent half his time consulting with the foundation's grantees. The Omidyar Network invests in both non-profit and for-profit enterprises, and includes an online networking component. The Endswell Foundation/Renewal Partners, a time-limited entity, parlayed a relatively small asset base into charitable and for-profit investment in British Columbia, including the development of the Tides Canada Foundation, a public foundation, which now administers grantmaking for Endswell and others.

This paper looks at 13 foundations, and examines the ways in which their non-standard structures — whether in the areas of lifespan, payout, or methods — arise from their missions. For many of them, the choice to do things differently has meant that they have had to invent their own methods to carry out their work. While it is a given in the field that every foundation is different, some are more different than others, and the kinds of rethinking required by these unusual foundations yield lessons not only for those who are considering following in their footsteps, but for all foundations and donors.

RETHINKING THE OPERATION

In looking at these foundations, we wanted to find out how they thought about their missions and structures. In what areas were their choices, driven by mission, different from those of more traditional foundations?

Some of our questions included:

- What are the goals of the foundation? How was the lifespan, payout, or structure determined as a way of accomplishing those goals?
- How are grantmaking policies affected when a foundation is time-limited, or adopts some other unusual structure?
- How is the foundation's relationship with its grantees affected? Are there special responsibilities that the foundation should assume (e.g., extraordinary exit strategies for its grantees, such as endowment grants)?
- How are its commitments to its employees affected?
- What evaluation procedures does the foundation use for its work?
- What is the financial model for a foundation that is a. time limited, b. has a higher payout, c. has a flexible payout depending on opportunities, d. is both a charitable and investment operation?
- How is the investment strategy affected?
- How is governance affected?
- Are there legal or tax issues?
- How might the foundation best document its experience and its legacy?

Each of the foundations profiled here grappled with these questions. Rather than outline a comprehensive history for each, we have chosen to highlight particularly instructive lessons learned for each.

FOCUS:
The Whitaker Foundation and the Helen F. Whitaker Fund

OVERVIEW

TWO FOUNDATIONS, BOTH OF WHICH SPENT DOWN WITHOUT BEING EXPLICITLY REQUIRED TO DO SO BY THE DONORS, ADOPTED A VERY NARROW FOCUS FOR THEIR GRANTMAKING.

The idea of spending down a foundation's assets, rather than establishing it to exist in perpetuity, dates back at least to the 1920s and 1930s, when Julius Rosenwald, who made his fortune building Sears, devoted the lion's share of his philanthropic resources to building schools for black students in the South, and was publicly vehement in his opposition to permanent endowments. More recently, several large foundations have spent down, concentrating their resources in particular areas. The Lucille P. Markey Charitable Trust, which funded basic medical research, closed in 1998, spending over $500 million. (Its final report, published by the Council on Foundations, provides a detailed roadmap for the practical issues of spend down.) The John M. Olin Foundation, which closed in 2005 after having spent $370 million, is a remarkable example of extremely focused and successful work aimed at providing support for conservative viewpoints and policies through academic programs and think tanks. The donor, John M. Olin, who set the foundation on this path in 1973 and died in 1982, specified that his foundation be spent down during the lifetime of his trusted associates, to avoid mission drift.

The Aaron Diamond Foundation, spurred by Aaron Diamond's widow, Irene, was designed to spend down in 10 years. Its best-known legacy was the creation of the Aaron Diamond AIDS Research Center, where major breakthroughs in AIDS treatment were developed. The Diamond Foundation went out of business in 1996, having expended more than $ 200 million on AIDS research as well as other focus areas, including education, human rights and the arts. A successor organization, the Irene Diamond Fund, was created to continue Mrs. Diamond's philanthropy; Irene Diamond died in 2003. The Diamond Fund is now itself in the process of spending down.

The Whitaker Foundation was somewhat unusual in that the donor, Uncas Whitaker, founder of AMP, an electrical connector company, only recommended, but did not insist, that his foundation be spent down within 40 years of his death. Nor did he specify an area of concentration for the funds. The governing committee, who were family members and trusted associates, chose biomedical engineering as an area that reflected Whitaker's personal interests. They started their work giving research grants in the field, a promising but scattered and underfunded area, which at the time had been largely overlooked by the National Science Foundation and the National Institutes of Health. In 1988, the Foundation started a program that gave awards of up to $5 million to support graduate and postgraduate biomedical engineering at universities and medical schools. Miles Gibbons, who had been Uncas Whitaker's attorney, and who headed the Foundation until his retirement in 2000, says that while interested faculty and students were at the universities, deans and provosts tended to resist forming new departments. "With our advisors, we came up with an amount that was large enough to entice universities to create those departments, and was sufficient to support young faculty and graduate students, and to some extent underwrite the costs of renovating or creating lab space."

THE WHITAKER FOUNDATION WAS SOMEWHAT UNUSUAL IN THAT THE DONOR, UNCAS WHITAKER, FOUNDER OF AMP, AN ELECTRICAL CONNECTOR COMPANY, ONLY RECOMMENDED, BUT DID NOT INSIST, THAT HIS FOUNDATION BE SPENT DOWN WITHIN 40 YEARS OF HIS DEATH. NOR DID HE SPECIFY AN AREA OF CONCENTRATION FOR THE FUNDS.

In 1991, after a decade and a half, the committee felt that biomedical engineering was at a turning point, and that a large, immediate investment could make a significant difference. They decided that the Foundation would devote all of its assets to fostering education in biomedical engineering, spending down to do so. As outlined in the Foundation's final report, the awards included funds for "research, education programs, curriculum development, fellowships, internships, textbooks, conferences, meetings, leadership development, faculty hiring, classroom and laboratory construction and renovation, building construction, industrial collaborations, government collaborations, professional societies, and finally, international grants and scholarships." The booming stock market enabled the Foundation to make some very large awards, as high as $15 million, which brought some of the most prestigious universities into the fold. At the time of the decision to spend down, the trustees expected to be able to put $600 million into the field; the number ultimately exceeded $800 million.

In addition to providing grants, Whitaker moved from western Pennsylvania to a suburb of Washington DC, where it could be closer to public policy makers and become a catalyst for interest in the biomedical engineering field. The Foundation expanded its staff and developed relationships with other organizations. However, it deliberately never developed an extensive bureaucracy. At its largest, when it was giving out $70 million in grants in a year, the foundation employed 13 people. Key to its functioning was the hands-on committee, advised by a circle of experts in the biomedical engineering field.

The result of Whitaker's investment was the accelerated establishment of biomedical engineering, and its transformation from a fledgling enterprise to a mature field. Whitaker supported the creation of at least 30 academic departments and enhancements at many others. Freestanding research institutes now address the collaboration of engineers and medicine. New technologies have begun to come out of the laboratories. The NIH, which did not fund projects in the field when Whitaker started its work, established a new institute of radiology and bioengineering and several other foundations began funding the field.

For Miles Gibbons, the key to Whitaker's success was "focus."

THE RESULT OF WHITAKER'S INVESTMENT WAS THE ACCELERATED ESTABLISHMENT OF BIOMEDICAL ENGINEERING, AND ITS TRANSFORMATION FROM A FLEDGLING ENTERPRISE TO A MATURE FIELD.

The Foundation had a single area of interest, and pursued that goal single-mindedly. Gibbons feels that the 15-year spend-down period worked well because the Foundation had already established its mission, and knew what it was going to do during that period.

Gibbons brought the same kind of discipline to the operation of the Helen F. Whitaker Fund, which was established in 1984 after the death of Uncas Whitaker's widow. The only donor stipulation for this smaller foundation (with starting assets of $16.9 million) was that it not fund biomedical engineering, and the governing committee — Helen Whitaker's daughter, her niece, and Gibbons — eventually focused on western classical music, a passion of the donor's. After several years of consultation in the field, it found a niche: advanced training for classical musicians, support for composers, and, unusually, classical music service organizations, such as the American Symphony Orchestra League — membership organizations that have limited fund-raising appeal for most donors. The Fund consistently supported the same organizations over its lifetime, ultimately distributing nearly $60 million in grants.

Helen Whitaker suggested that the Fund spend down in 20 years, feeling that this was the best way to make an impact with a relatively small amount of money. In 1992, when the committee made the decision to spend down, they again did research, and determined that the best use of the remaining assets would be endowing the programs that their annual giving had been supporting, such as the management fellowship program at the American Symphony Orchestra League. The Fund invited some of its regular grantees to make endowment proposals, and offered a dozen challenge grants with various terms. While some of these groups had little endowment capability, most were able to use the challenge grants to successfully build endowment. Others ultimately found the challenge difficult, since the timing coincidentally corresponded to a stock market slump, and were only able to receive some of the promised Whitaker funds, even under renegotiated terms. In all, the challenge grant program ended up providing about $16 million in grants and leveraging an additional $27.6 million in matching funds for the organizations.

THE LEARNING CURVE:
The Beldon Fund

OVERVIEW

A LIVING DONOR WITH NEWLY INCREASED ASSETS DECIDES ON A 10-YEAR SPEND DOWN FOR HIS FOUNDATION, NECESSITATING THE CREATION OF A NEW MODEL.

John R. Hunting had been an active philanthropist in environmental issues for several decades. When the source of his wealth, the Steelcase Furniture Company, went public in 1997, the resources of his foundation, the Beldon Fund, increased significantly. Hunting made a decision to couple the new funding with a commitment to spending all of the foundation's assets and income in ten years. Hunting saw accelerated degradation of the environment on a number of fronts, and wanted to see if he could make a difference in his lifetime, and even galvanize others with greater means — and longer horizons — with his own efforts and zeal. He also chose a time frame that ensured that he would be actively engaged with the foundation throughout its lifespan, which ends in 2009.

Hunting formed a board of experts in environmental advocacy and philanthropy, which hired an executive director, William Roberts, an attorney and economist who had worked on Capitol Hill and at the Environmental Defense Fund. Roberts and the board found few models on which to design their operations, program, staffing and financial planning to fit the needs of a rapid spend down foundation. Instead, they came up with what Roberts calls "a Chinese menu of strategies."

An early consequence of Beldon's need to forge its own operational path was that the foundation initially chose half a dozen program areas to support. But after two years, realizing that it would be impossible to have an impact in so many areas with its limited lifespan and funds, Beldon narrowed its focus to Human Health and the Environment, a related Key States program, and a discretionary grant fund that supported civic engagement activities related to those two major program areas. "As a perpetual funder, you can take your time and gradually back out if things don't work out or if other interests take precedence. But, we didn't have that luxury — we had to find a way to make things work," Roberts says. "We realized that we had to choose issues and strategies that fit within our 10-year trajectory. We narrowed the list down to issues where we thought the climate was ripe for change and where we could have an impact within the foundation's lifespan."

For example, Beldon chose to concentrate resources geographically, selecting a small number of states where the moment was ripe to build the capacity and clout of environmental advocacy organizations. It also carefully selected an issue focus: the relationship between environmental contamination and human health, seeking to expand the base of support for environmental protection to unusual allies such as health professionals and people experiencing adverse health effects. Finally, it focused on building an infrastructure for nonpartisan civic engagement by environmental advocates, an area of emerging interest among environmental grantmakers.

With its annual grants budget of $13–15 million, Beldon has been able to spend three or four times more on grants each year than it would have done at the more typical 5% payout rate. At the same time, spend down has given Beldon flexibility that it would not have had with a financial management setup geared toward perpetuity. For example, in 2001, environmental advocates realized that they were operating in a policy environment not friendly to their goals. Beldon provided one of the lead grants to create a flexible pool of funds, shared by environmental groups at the national level, to be used on an as-needed basis to respond to immediate threats to environmental protections. "By moving large sums quickly, and mobilizing others to do the same, Beldon was able to provide national environmental advocates with the resources to fend off some notable threats. One of their biggest battles was unwanted drilling in the Alaska National Wildlife Refuge," Roberts says. "As a perpetual

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foundation, given our assets, I'm not sure we could have provided that kind of help."

Spend down and limited lifespan pushed the foundation's board and staff to focus on capacity building (for the organizations and the sectors), encouraging collaboration among grantees, and enlisting other funder engagement in Beldon's ways of working. To do this, Beldon decided to establish itself as a knowledgeable leader in its funding area, and it hired seasoned professionals, people who were already leaders in the field, as staff members and consultants. Beldon staff and consultants spend about one-third of their time on activities other than grantmaking, including sharing strategies and ideas with other grantmakers. For example, the environmental health area now has a consortium of more than a dozen funders who work together on projects. Through consultants and direct support, Beldon has also worked with grantees to help them develop a more diverse funding base, with less reliance on foundations — a key investment given Beldon's pending departure from the field.

With a limited time to get its work done, Beldon incorporated an evaluation process that would enable the foundation to make mid-course corrections, as necessary.

"We chose to do assessments of our overall funding strategy rather than focused evaluations of individual grantees," Roberts says. By assessing the performance of a cluster of investments, Beldon was able to flag issues that needed attention as well as refine its goals for the programs. For example, an evaluation of its program in environmental health noted that the grantees were doing good work in isolation, but the overall result was less than the sum of its parts. Beldon changed its funding strategy in a way that encouraged those groups to collaborate, bringing "coherence and greater impact to the program as a whole."

With financial management services oriented towards foundations that exist in perpetuity, Beldon had to work with its financial professionals to develop an investment strategy that would account for the unusual but purposeful decline of its endowment. At the same time, the blend of assets and income had to be spread over the 10-year lifetime in a way that maximized the foundation's programmatic impact. Roberts characterizes the resulting planning model as a "3-D chess game." One of its principal characteristics is an extremely conservative investment strategy that assumes a 5.25% return on investments, much lower than the usual foundation goal of 8% or 9%.

In retrospect, Roberts feels that 10 years left a very tight time frame to implement and complete a spend down plan. "To get a clear, focused, staffed strategy humming in less than two years is optimistic. Then you're on the street, looking for grants to make, explaining the strategy, which can take another year or two. All pistons don't fire until year three or four. Then you make a mid-course correction in year five or six, so now you have maybe three years where you're at full tilt—`the sweet spot.' At year eight, you've got to think about phasing down." Roberts describes Beldon's grantmaking model as a "mountain," in which spending started off slow, then ramped up to peak capacity during the "sweet spot" years. "You have to get your financial planners to build that mountain," he says.

Another important lesson of Beldon's experience is relevant to any foundation, no matter its lifespan. Says Roberts, "The biggest impediment is that financial

WE NEED TO THINK OF THE GRANTS BUDGET AS A NUMBER THAT WILL FLUCTUATE, AND CREATE A SYSTEM OF INVESTMENTS, GRANTS, AND SPENDING THAT WILL GO IN A WAVE PATTERN OVER A PERIOD OF YEARS.

and budgeting mechanisms for foundations are not set up for flexibility. Even at Beldon, where I'm not tied to a 5% payout or hamstrung by a fixed investment strategy, there are few useful forecasting and planning tools that allow you to tailor spending to meet program goals. Foundations generally default to level spending plans because it's a lot easier than inventing more programmatically flexible spending schemes. We need to think of the grants budget as a number that will fluctuate, and create a system of investments, grants, and spending that will go in a wave pattern over a period of years." Beldon's John Hunting bemoans the timidity of foundation trustees and their interpretation of five percent as a spending ceiling. "Flexible payout should guide the perpetual funder as well as the donor who chooses to spend down," he says. "With more imagination and courage, today's donors can more effectively help solve today's problems."

RETOOLING FOR SPEND DOWN:
The Atlantic Philanthropies

OVERVIEW

A LARGE FOUNDATION DECIDES TO SPEND DOWN, AND COMPLETELY ALTERS ITS OPERATIONAL MODEL.

From its founding in 1982 until 2001, The Atlantic Philanthropies, a large Bermuda-based foundation started by Charles Feeney, a co-founder of Duty Free Shoppers, operated anonymously. In the late 1990s, according to John Healy, who recently retired as the foundation's CEO and was succeeded by Gara LaMarche, Atlantic began to commit funds at a rate that would not allow it to exist in perpetuity. He suggested that Atlantic formalize a deliberate policy of spending down, and in 2002 the decision was made to spend its entire endowment of nearly $4 billion before 2020. Reasons included respect for the views of Feeney, a believer in "giving while living," who sits on the board but does not dictate Atlantic's direction. Healy also notes that foundations that exist for long periods of time "don't necessarily improve as they get older," that spend down gives "a productive air of urgency to everything that you are doing," and finally, "If you spend your money in a short period, concentrated, wisely, you have a better chance of having significant impact on issues you care about."

The decision to spend down — through an annual grants budget of $300–$350 million — required enormous organizational changes in the foundation. Atlantic repositioned its grants program, eliminating some long-time areas of concentration. It created a more formalized grant-making process, integrated its far-flung country offices, which had previously operated independently, and assumed a more public profile. It instituted a dedicated in-house evaluation team. It increased staffing by 22%, to about 100 employees; there was also significant employee turnover. The operational change in the foundation between 2001 and 2005 was detailed in a study by McKinsey & Co., published in The McKinsey Quarterly in September 2006. The process, according to an executive quoted in the report, was "messy."

In this new incarnation, Atlantic limited its grantmaking program to four areas: aging, disadvantaged children and youth, population health, and reconciliation and human rights. It gives grants in seven countries; each program operates in three or four of those countries. Because of its limited lifespan, Atlantic's grantmaking philosophy now includes larger grants to fewer grantees, long-term relationships with those grantees, a focus on problems that allow for impact within the spend down period, and manageable goals. Healy says, "We focus on a small number of countries, a few projects. Our objectives are unusually specific. We keep our focus narrow, and don't take on grandiose goals. We could spend the whole endowment in one year on AIDS, but it would be a waste. Our approach to health in countries where we are [Vietnam, Australia, South Africa] is that if the very praiseworthy efforts to devise a cure for AIDS have results, we will need a strong public health infrastructure to get that cure into people's bodies."

The large grants budget (an initial $300 million for 2006 became $400 million; and the foundation's investment performance for the year actually resulted in an increase in foundation assets, despite risk-averse investment strategies) means that Atlantic has the capacity to give out big single grants, such as $14 million for KIPP (Knowledge is Power Program) Academies in the US. With such large sums at stake, Atlantic has to pick its grantees carefully. Healy says, "We want to get involved with grantees that have figured out ways of dealing with particular social issues, that are proven to work and that merit expansion, or with grantees with promising approaches that are worth evaluating rigorously, and if justified, expanded. If you compare us to the world of venture capital, we are not providers of seed capital, the first stage. We are the second or third stage investor, driven to that by limited life. We don't have the time to cast our bread on the waters and see what happens."

BECAUSE OF ITS LIMITED LIFESPAN, ATLANTIC'S GRANTMAKING PHILOSOPHY NOW INCLUDES LARGER GRANTS TO FEWER GRANTEES, LONG-TERM RELATIONSHIPS WITH THOSE GRANTEES, A FOCUS ON PROBLEMS THAT ALLOW FOR IMPACT WITHIN THE SPEND DOWN PERIOD, AND MANAGEABLE GOALS.

At the same time, Healy feels that the foundation should take risks, and even have some failures. He cites Atlantic's $7 million investment in immigration reform in the US. "Political winds can shift. It failed in the last Congress. We didn't get reform, but I'm fairly sure that without that investment, things would be worse. For example, immigration was not the political touchstone it was expected to be in the last election; extreme positions did not fare well. We think we had something to do with that. We're investing heavily in Northern Ireland to create a web-based system that will enable older people and their advisors to figure out what health and other benefits they should be getting. It's very risky — a lot of money has gone down the drain in large internet projects."

Since Atlantic has almost another decade of grantmaking before it leaves the scene (it plans to cease grantmaking in 2016), the foundation has not yet formulated specific exit strategies from its current programs. It did, however, exit many of its long-term programs when it changed focus, and that experience should be helpful when the time comes. Healy says, "I tell the staff, as you contemplate entering relationships with grantees, contemplate exiting as well. The key is to be candid, to have a lot of communication, and be generous in the provision you make. We put a lot of money into grantees to whom we were waving goodbye, so they were not damaged." The lesson from that prior experience, Healy says, is that the foundation must continually remind people "that we are not going to be around forever, and ask them to secure other sources of money. We take a much broader view of grantees than we did in the past: we discuss not just their interest in undertaking programs, but their capacity to successfully undertake them. That leads us to put money in core costs, like back office operations and succession planning, things that wouldn't attract money otherwise."

THE LESSON FROM THAT PRIOR EXPERIENCE, HEALY SAYS, IS THAT THE FOUNDATION MUST CONTINUALLY REMIND PEOPLE "THAT WE ARE NOT GOING TO BE AROUND FOREVER, AND ASK THEM TO SECURE OTHER SOURCES OF MONEY. WE TAKE A MUCH BROADER VIEW OF GRANTEES THAN WE DID IN THE PAST: WE DISCUSS NOT JUST THEIR INTEREST IN UNDERTAKING PROGRAMS, BUT THEIR CAPACITY TO SUCCESSFULLY UNDERTAKE THEM.

Another Atlantic goal is to document and analyze its process of spend down and communicate what it learns. The McKinsey study was one such project; others are underway, both through Atlantic's evaluation team and outside entities. Healy feels that the scrutiny can help, even when it reveals uncomfortable things. "We've all got to publicize failures," he says. "I hope we don't have too many, but uncomfortable lessons can help others." If the foundation has a legacy other than being remembered through the work of its grantees, he says, it is "an appreciation of the merits of limited life philanthropy."

GIVING WHILE LIVING:

The Richard and Rhoda Goldman Fund and the Lewis B. and Dorothy Cullman Foundation

OVERVIEW

TWO HANDS-ON DONORS CHOOSE TO GIVE EVERYTHING AWAY DURING THEIR LIFETIMES.

Seven years ago, Richard Goldman decided that his San Francisco-based foundation would raise its payout to 10% in grants. "The purpose was to encourage people to raise their level of giving," Goldman, who is now 86, says. "Five percent is just a number picked by Congress." Goldman felt the money should go to work sooner rather than later. He was also disturbed by reports of excessive administrative spending by foundations, and was critical of the steady accumulation of assets in endowments. He chose the 10% number, and decided that within ten years of his death, the remaining assets of the foundation would be distributed among the foundations of his children. He decided against trying to spend all the money within his own lifetime, reasoning, "If I did, I might push too hard, and make some mistakes."

One aspect of Goldman's philanthropy will exist in perpetuity, however: the Goldman Environmental Prize, founded in 1990, which awards $750,000 annually to draw attention to people doing environmental work under difficult conditions, is endowed with $70 million. "As long as there's a need, it should be there, without having to raise more money," Goldman says.

The foundation, which focuses on the environment, Jewish causes, Israel and the Bay Area, had assets of $450 million at the end of 2006, and gave $43 million in grants. It funds some large capital projects, and gives annual operating support to about 80 Bay Area organizations. The higher payout rate, says Amy Lyons, the foundation's executive director, gives the foundation the freedom to "think bigger, and more creatively; to pursue things you might not have before." One example is the foundation's recent $1 million in grants to mark the 25th anniversary of AIDS. "We don't regularly fund AIDS, but this was a one-time big push. It got local press, and helped raise visibility about the ongoing AIDS crisis. It was a big help for some of the groups, many of whom are struggling, and some of whom had cycled out on their funders. They were able to relax a little in fundraising."

Richard Goldman is an active participant in the Fund's work. He comes to the office every day, makes grants between board meetings, and regularly meets with grantees. "We're following his direction, and not getting bogged down in details," Lyons says. The Fund is talking about closure issues, but has not yet put a definite plan in place. The Fund's investment management is overseen by Goldman's own advisors — it has no dedicated in-house financial staff for that purpose, but it pays investment management fees. Goldman says that when the fund switched to a 10% payout, the investment policy became more conservative; now, he says, "we are going to be more flexible."

Goldman feels strongly about his projects — the rebuilding of a trail from Cliff House to Sea Cliff in San Francisco; a promenade in Jerusalem which is one place, he says, "where Arab and Jew walk together." Of the three children who will inherit the assets of the Fund, one is on the Fund's board, another is on the Prize board, and a third lives on the east coast, "but we consult." He hopes they will carry on the tradition. Do they pay out 10% from their own foundations? "I don't know — they're building now. They'll get to it sooner or later."

Lewis Cullman's plan for his foundation is to have it spent out within a year of his death. He believes that money should be spent now; and that future generations should take care of future problems. His idea of philanthropy goes back "to what I learned as a little boy from my mother — I don't care what people say about me when I'm dead. I won't be around to hear it. Why not get the joy out of spending your money while you're alive?" Cullman's life as a full-time philanthropist began in 1999, when he sold his business (the company that makes the At-A-Glance calendars) and

> **THE HIGHER PAYOUT RATE, SAYS AMY LYONS, THE FOUNDATION'S EXECUTIVE DIRECTOR, GIVES THE FOUNDATION THE FREEDOM TO "THINK BIGGER, AND MORE CREATIVELY; TO PURSUE THINGS YOU MIGHT NOT HAVE BEFORE." ONE EXAMPLE IS THE FOUNDATION'S RECENT $1 MILLION IN GRANTS TO MARK THE 25TH ANNIVERSARY OF AIDS. "WE DON'T REGULARLY FUND AIDS, BUT THIS WAS A ONE-TIME BIG PUSH. IT GOT LOCAL PRESS, AND HELPED RAISE VISIBILITY ABOUT THE ONGOING AIDS CRISIS."**

put the proceeds into a foundation to give him some time to think about how best to spend it.

Cullman, who is 88, and his wife Dorothy are very involved in a handful of New York organizations, including The New York Public Library, The Museum of Modern Art, The American Museum of Natural History, The Metropolitan Museum of Art, The New York Botanical Garden and Chess-in-the-Schools. The bulk of their giving has gone to those institutions. Cullman does his own investigating and grantmaking; his foundation operates with the aid of two secretaries. The Cullmans have given away $250 million to date; the rest of the money in the foundation (still over $40 million at the end of 2005) is pledged to the organizations that he supports. Some organizations will receive the principal after his death; some will receive income on that principal during his lifetime and some will receive the income only until his death. "I can't possibly fine-tune it, so that it's gone the day of my death, but I believe it should not persist much after I'm gone," he says.

Cullman has no target amount to give away each year. "It depends what the needs are. Sometimes I'll pre-pay something. I've loaned money to charities, when they need it for something right away; they can raise the money and pay me back later. I want to use every conceivable business practice with charity. Early in my career, I ran a fund to buy unrecognized securities. In giving money away, I like to do the same thing. I like to be imaginative. Anyone can give to organizations like the Red Cross — that's no fun." Cullman says he likes interesting programs, such as one that involved a collaboration between The American Museum of Natural History and The New York Botanical Garden. The educational plans of the Museum of Modern Art persuaded him to finance a building, something he doesn't normally do. He's deeply committed to the Chess-in-the- Schools program, to which he gives operating support. He is also participating in giving to a Capital Reserve Fund for that organization, which will survive after he is gone.

GIVING AWAY MONEY HAS BECOME HIS LATE-LIFE CAREER. "I DON'T HAVE A BUSINESS ANY MORE, SO I LIKE TO FEEL I'VE DONE A GOOD JOB WITH CHARITIES," HE SAYS. "THERE ARE GUYS THAT LOVE TO COUNT THEIR MONEY — THAT'S NOT MY STYLE. I'VE DONE WELL, SO WHY NOT GET SOME JOY OUT OF IT, BEYOND YOUR EVERYDAY PLEASURES?"

Cullman expects to be involved with any institution to which he gives substantial funds — he's on the MoMA board, and several of its committees, for example. He also wants reports on what the institution is doing with the money, and he feels that putting his name on programs encourages other philanthropists to give. Giving away money has become his late-life career. "I don't have a business any more, so I like to feel I've done a good job with charities," he says. "There are guys that love to count their money — that's not my style. I've done well, so why not get some joy out of it, beyond your everyday pleasures?"

QUICK SPEND DOWN:
The Haigh-Scatena Foundation

OVERVIEW

A SMALL, HIGH-PAYOUT FOUNDATION DECIDES TO SPEND DOWN IN THREE YEARS; ISSUES INCLUDE THE PRACTICAL ASPECTS OF GOING OUT OF BUSINESS, GRANTMAKING CHANGES, AND CONSIDERATION OF LEGACY.

The Haigh-Scatena Foundation, which has been in existence since 1967, has long been what its executive director and sole employee, Ron Clement, terms "a hybrid of a grantmaking and operating foundation." Hired in 1989 with the mandate, "We want you to be helpful," Clement, a 20-year veteran executive director of non-profits, spent about half his time developing programs and finding resources for 50 or so of the foundation's grantees. Also unusual was the fact that Haigh-Scatena paid out at a rate of about 15 % each year, which corresponded to its average investment return over the 18 years that Clement has been at the foundation.

The $3 million foundation, which funds social change, particularly in the area of juvenile justice, had also contemplated spending down at various times in its existence. In 2004, the trustees definitively made the decision to do so — by August 31, 2007. The trustees had numerous discussions about the best way to expend its assets in such a short period of time. One issue was that the prospect of spend down made the trustees think about the Foundation's legacy, which had not previously been a concern. "When you're a change funder, you're always funding works in process," Clement says. "Now, the trustees are confronted with the question, is there going to be a legacy, a significant change you can see before we are out of business? There probably won't be, though we might get lucky. I told the board that this is why foundations decide that the best thing to do is to put their name on a building, because it will always be there, where you can see it."

At first, distributing all the money among the 75 regular grantees was considered. However, since the Foundation would no longer be providing ongoing operating support, it was decided that some larger grants to fewer organizations would be more useful. For the first time, Haigh-Scatena issued a request for proposals, and gave $100,000 grants to 11 groups. The trustees wanted to use the foundation's final $800,000 in grants to make an important contribution to its key area of juvenile justice as well as to address the legacy issue. After some research, it was decided to expand the focus area to "Juvenile Offender Re-entry," and in January 2007, the Foundation issued another RFP to seven organizations. In March, the $780,000 final grant was awarded to a proposal from a consortium of four of the groups; each of the other three received $25,000 in general support, which required dipping into the foundation's contingency funds. The chosen proposal, Clement said, was appropriate for a legacy grant: "With one grant, we will be supporting a short list of some of the very best people and organizations working on juvenile justice reform in California. Also, the grant is large enough, the recipients well enough known, and the focus current enough to generate some attention soon." The "impeccable finances and reputation" of the grantees were also important, given the Foundation's closing. Clement says. "They are solid enough to minimize any concerns we could have about problems with performance, disreputable conduct, or regulatory agency attention arising in the next year or two."

The mechanics of spend down have included legal review and liquidating the foundation's portfolio (moving from equities to bonds to cash). With the help of attorneys and accountants, Clement did research and laid out a detailed operational plan "with every task I could think of, month by month. I'm constantly updating it." One important consideration is staff: a foundation in spend down does not want to lose its employees before the operation is complete. The board gave Clement a formal employment contract, which includes a settlement if he stays through the end.

The prospect of both federal and state oversight of the Foundation's closure has required special care. For example, the California attorney general's oversight process takes several months, so papers need to be filed by the end of April in order to meet the Foundation's deadline — not necessarily an easy task, given that the board members have some final discretionary grantmaking to do, and are used to operating on an ad hoc basis. Oversight considerations have also had an effect on final grantmaking. For example, one of the proposals from the second RFP was explicitly for lobbying work, something that foundations by law are not permitted to fund. In the past, Haigh-Scatena might have tabled the proposal and helped the group revise it, so as to make it acceptable. "We don't have time to do that now," Clement says. "My board has never had to look at a project and say, we have to disqualify you."

RAISING THE PAYOUT:
Evelyn and Walter Haas, Jr. Fund

OVERVIEW

A FAMILY FOUNDATION DECIDES TO RAISE ITS MINIMUM PAYOUT IN ORDER TO TACKLE IMMEDIATE PROBLEMS, AND ACCEPTS THE POSSIBILITY OF A SMALLER CORPUS.

In 2001, the trustees of the Evelyn and Walter Haas, Jr. Fund decided, as part of a strategic planning process, to raise its base payout rate to a minimum of 5% in grants only. The three children of founders Evelyn D. Haas and the late Walter A. Haas, Jr. had become more engaged in the work of the foundation with their mother after their father died in 1995. Ira Hirschfield, the president, says, "The three children are now in their late 50s and early 60s and are actively involved in and committed to the Haas, Jr. Fund's work. They felt so engaged, and believed that the issues that we were working on were so deeply compelling, that now was the time to do more." Hirschfield also cites the close, trusting working relationship between the board and the staff as being crucial to the decision.

The assets of the foundation had been steadily growing since 1995. However, the trustees decided that program, rather than desire for perpetuity, would drive their strategy. The 5% grants-only number is a baseline, and the foundation is contemplating several large initiatives that could make the payout much higher in coming years. "We haven't made the decision to spend out," Hirschfield says. "Because of the markets, last year was a good one, and the corpus actually grew from $549 million to $599 million after grants and expenses. This was more than the inflation rate, so the Fund did more than maintain purchasing power. But even if the assets hadn't grown so well, we wouldn't have changed these decisions. We understand our decision to do a minimum of 5% in grants only could one day decrease our corpus, and we're comfortable with that possibility."

Key areas of interest for the Haas, Jr. Fund are improving the lives of low-income children and families, revitalizing underserved neighborhoods, enhancing non-profit leadership, and promoting equal rights and opportunity. It was an early leader in funding gay marriage and immigration reform, and although these movements have experienced setbacks and backlash, there have also been successes, and other funders have joined in the effort. With rising opportunity to move social change in these two areas, the Fund is prepared to significantly increase its investments. As opportunities to make a major difference develop in other program areas, the Fund is prepared to capitalize on these efforts as well. Hirschfield expects to focus these increased resources, and make larger grants. He says that the change in payout policy has allowed "the possibility for deeper and more expansive thinking." "It changes how and with whom you collaborate," he says. "With $500,000, you could do good work in immigration reform. With $4 million, you can start asking a different set of questions to address immigrants' needs, as well as deepen collaborations with other funders working across the country."

SINCE MAKING THE DECISION TO PAY OUT A MINIMUM OF 5% IN GRANTS ONLY, THE HAAS, JR. FUND HAS BEEN STEADILY INCREASING ITS GRANTMAKING, FROM $16 MILLION IN 2002, TO A PLANNED $30 MILLION IN 2007.

Becoming a large funder in these controversial areas also means greater visibility, which brings its own risks, something that the board discusses regularly. Another practical concern is the cost in excise taxes of radically increasing grantmaking. Since making the decision to pay out a minimum of 5% in grants only, the Haas, Jr. Fund has been steadily increasing its grantmaking, from $16 million in 2002, to a planned $30 million in 2007. However, because of the way taxes are calculated based on payout level, a large one-time grant could penalize the foundation by raising its excise tax in later years. "Let's say one of our big initiatives came through in 2007, and we went up to $45 million, and then back to $30 million the following year," Hirschfield says. "That could cost us $3 million in increased excise tax over the next five years. It is a disincentive."

GIVING 5.5%:
The Lynde and Harry Bradley Foundation

OVERVIEW

A FLAGSHIP CONSERVATIVE FOUNDATION PAYS OUT OVER 5% AND MAINTAINS ITS ENDOWMENT WITH A STRONG COMMITMENT TO DONOR INTENT.

In some respects, the Milwaukee-based Bradley Foundation is the successor to the John M. Olin Foundation. Greatly expanded in 1985 with proceeds from the sale of the Allen-Bradley Company to Rockwell International, the foundation's board recruited Michael Joyce, one of the architects of Olin, to make Bradley "Olin West."

Beginning with $290 million in assets, the Foundation entered many of the same areas as Olin, supporting conservative think tanks and university programs, as well as public policy initiatives. With two-thirds of its grantmaking in the public policy area, Bradley is active in legal reform, public diplomacy, defense policy, and labor and employment law reform, among others. It gives annual operating support to numerous grantees, and sponsors the Bradley Prizes, four $250,000 awards given annually to prominent conservative thinkers and leaders.

John Olin opted to preserve donor intent in his foundation by requiring it to spend down; Bradley, which was restructured in its current form many years after the death of the donors, established donor intent through a mission statement, written by Joyce, "to encapsulate the brothers' philosophy and serve as a guidepost for the foundation's future giving," according to John J. Miller in "Strategic Investment in Ideas: How Two Foundations Reshaped America." The Foundation, which in 2005 had assets of nearly $756 million, is maintaining its corpus. It also has a "donor intent" program, which offers outside donors the opportunity to align their giving with that of the Foundation; over $3 million was contributed in 2005.

However, Michael Grebe, an attorney who became the Foundation's president when Joyce retired in 2001, says that the foundation's mission requires spending more than 5%. The formal policy, established about four years ago, is a payout of 5.5% of the value of Bradley's endowment on a trailing 12-quarter basis, on grants only. Administrative expenses increase the percentage to over 6%. Prior to the adoption of this policy, payout had been determined each year. "We looked back 15 years, and 5.5% was close to the average, so we adopted it as a firm policy," Grebe says. "We assume our investment returns will more than cover that level." The payout policy, which sometimes results in additional excise taxes, is revisited annually.

Unlike Olin, the Bradley Foundation also developed a strong local funding program, giving regular support to cultural, educational, and community institutions in Milwaukee and Wisconsin. As detailed by Miller, Bradley, by "acting locally and thinking globally," made Milwaukee a showcase for many of its conservative ideals. One of the most dramatic of these was the school choice movement: Wisconsin was the first state to allow public dollars to be spent for children to attend private schools. Bradley's support for the effort was multifaceted. Beginning in the 1980s with grants to support the book "Politics, Markets and America's Schools," which argued powerfully for school choice, and assistance in founding the Wisconsin Policy Research Institute, the foundation also gave grants to the Landmark Legal Foundation, which fought attacks on school choice, and funded a private voucher scholarship program designed to make religious schools an option for voucher students and to widen the public policy discussion on the issue. After a long-running court case, the Wisconsin Supreme Court ruled in favor of school choice in 1998.

MORE THAN INVESTMENT RETURNS: The Needmor Fund

OVERVIEW

A FAMILY FOUNDATION GIVES GRANTS FUNDED BOTH BY INVESTMENT RETURNS AND ANNUAL GIVING.

The Needmor Fund, a Toledo, Ohio-based family foundation that supports community organizing, has an unusual payout policy. The 6% paid out of its endowment is supplemented each year by annual gifts from about 10 family members that are earmarked for annual giving. As a result, payout from the $28 million foundation is between 9% and 12% each year.

The foundation, which is 50 years old, established the payout policy in the late 1990s, during the discussion of the payout debate. "We were going through a period of rapid growth, as were many," says Sarah Stranahan, a board member and former board president. "We didn't actually know what the payout was — and we discovered that it was actually 13%, with 5% coming from the endowment. We needed to make a proactive payout policy. We wanted the endowment to maintain its purchasing power in the future, but our goal was not to become a bigger foundation. We calculated that with 2.5% for inflation and 1% for management fees, and the fact that we were making an average of 9-11% over the last 25 years, that we could pay out 6%."

Additional funds come from family members who make annual gifts (in 2007, $400,000, plus $480,000 from the lead trust of a family member who died in the 1990s). The 2007 grants budget is $1.85 million; administration costs are $641,000. To facilitate planning, the foundation sends out letters in January asking donors if their gift will be the same. It also keeps its donors informed through a newsletter, as well as an annual board meeting open to all family members — a two-day event that features a site visit and a panel discussion. "It's an incentive for excellence," Stranahan says. "If the foundation is doing such exciting enough work that living donors want to put money there, that's a high bar." Three generations of the family participate.

Needmor is also committed to using all its resources to support its mission. It screens 100% of its investments, 15% of its assets are in community development investments, including certificates of deposit in community development financial institutions, and it has an active shareholder advocacy program, involving its grantees. And while the foundation wants to be able to continue funding into the future, Stranahan says, it "would never turn down the opportunity to make a difference now." The investment and mission guidelines also encourage the board to consider spending down or merging with another entity should the assets drop below $20 million, making the administrative cost of grantmaking too high a proportion of its assets.

WHILE THE FOUNDATION WANTS TO BE ABLE TO CONTINUE FUNDING INTO THE FUTURE, STRANAHAN SAYS, IT WOULD NEVER TURN DOWN THE OPPORTUNITY TO MAKE A DIFFERENCE NOW.

Additional funds from family members have given Needmor the opportunity to undertake some special projects. For example, in the 1990s, a $2 million gift was put towards helping small community organizations have a voice in national welfare reform; as Stranahan puts it, "People had a place in the debate who wouldn't otherwise have been there." In the final year of a $300,000 legacy, given over three years, the foundation decided to make one-time gifts to some of its core grantees, rather than start new relationships or put the money into its own endowment. "They are still strong," she says.

RAMPING UP:
The HKH Foundation

OVERVIEW

A FOUNDATION WITH FLEXIBLE PAYOUT, DEPENDING ON OPPORTUNITIES.

The HKH (Harold K. Hochschild) Foundation, a $30 million family foundation, usually gives between $1.5 million and $2 million in grants each year, in its core areas of disarmament, civil liberties, and the environment, a 6-7% grants-only payout. However, in 2004, it increased its giving to over $3 million, entering the areas of voter registration and civic engagement for the first time, to increase awareness for the upcoming election. Harriet Barlow, the Foundation's executive director, noted that a decline in civic participation was disadvantageous to the foundation's key areas, and that investment in voter awareness would help get the peace and environmental movements "out of their silos."

"Our trustees' view is that we should seize the moment if there is a political opportunity — a readiness in the electorate to be responsive, or a high level of citizen anxiety about the world," Barlow says. "At that time, concern about the war and corruption made it a good moment to mobilize people. We believe it is always healthier to have more people engaged." The Foundation has also found such opportunities in other years: "We had a full docket, but we added several hundred thousand to fund the Center for Constitutional Rights at the time of Guantanamo and the Patriot Act," Barlow says. "We saw the opportunity to make a difference. Over time, if not necessarily immediately, prudent investments in social change have an effect. There are still prisoners at Guantanamo, but it got to the Supreme Court, and there was some revision of the Patriot Act. One spends what one has to spend." The fluctuation has not resulted in additional excise taxes, she says.

USING ALL THE MODELS: Endswell Foundation / Renewal Partners

OVERVIEW

A YOUNG DONOR INVENTS HER OWN PHILANTHROPIC STRUCTURE; HER MOTTO IS "GET OFF YOUR ASSETS."

When Carol Newell, then in her 30s, received an inheritance from several family members in 1992, she put together a team, including Joel Solomon, whom she had met through the Threshold Foundation, and Drummond Pike, founder of the US Tides Foundation, to help her think about how to create a foundation that would make the best use of it. "Most of the options seemed to be to lock it up and try to build it," Solomon says. Other ideas, such as community economic development and program-related investing, then in their infancy, were more appealing to Newell, who felt strongly that all her money should go to work at once.

It was the quincentenary of Columbus's discovery of America, "a metaphor for us to think about the next 500 years, and make sure that things we thought were precious might still be around," Solomon says. "There's not much we could do about 500 years, but 50 seemed reasonable." Newell decided to focus her efforts on sustainable economic development and social and environmental justice in a single region, British Columbia, and to use multiple strategies, including charitable giving, investment and real estate development, to accomplish her goals. The inheritance was divided into the Endswell Foundation, a grant-making entity, and Renewal Partners, a venture capital operation that would invest in young, promising for-profit businesses that reflected these values. Solomon headed both.

Newell's original intention was to spend down the foundation part of her operation in ten years, but the booming stock market, which increased her starting stake (non-profit and for-profit combined) from $35 million to $50 million, replenished the money as quickly as it was given out, extending the spend-down period to 20 years. Endswell, distributing about $2 million in grants annually, quickly became the largest locally based private funder in its mission area in Canada, a country with a far less vigorous philanthropic tradition than the US.

With the field wide open, Endswell also took on the role of convener, bringing other funders interested in its goals to the region and providing its grantees with a platform to present their work. In addition, the Endswell team also founded Tides Canada, a national public foundation modeled on the US Tides Foundation, which is focused on gaining funding for social justice and environmental issues. Now in spend-down mode, with about $15 million remaining in assets, Endswell has transferred the administration of its grantmaking to Tides Canada as a donor-advised fund. Other donors have followed suit, and Tides has also become a fiscal agent for Canadian grantmaking by large US foundations in its mission area.

ENDSWELL, DISTRIBUTING ABOUT $2 MILLION IN GRANTS ANNUALLY, QUICKLY BECAME THE LARGEST LOCALLY-BASED PRIVATE FUNDER IN ITS MISSION AREA IN CANADA, A COUNTRY WITH A FAR LESS VIGOROUS PHILANTHROPIC TRADITION THAN THE US.

Being able to pursue multiple strategies has been a strength for Endswell/Renewal. For example, when a small non-profit publishing company came to Endswell for a grant, Solomon suggested that, with little grant money available for such activities, it consider "being a business about trying to change the world." The company is now one of the only profitable small publishers in Canada, with titles about sustainability and other related areas. However, Solomon says, Renewal follows the "patient capital" model, and does not push businesses to sell so it can get its money out. "We thought the theory should be building infrastructure, and while accepting capitalism as a framework, practice a kinder, gentler form of it."

Another example involves even more Endswell/Renewal strategies. Pivot Legal Society, an organization that works with the disadvantaged of Vancouver, was supported through grants and invited to a network gathering of the Social Venture Institute at Hollyhock, a retreat center on Cortez Island, supported by the foundation, where it made contact with social entrepreneurs and non-profit resource advisors. Endswell also joined with two other foundations and the local credit union to help Pivot buy a building, in a deal that could eventually give the organization part ownership in the property. Renewal has invested in Pivot's planned subsidiary, a conventional law firm, to capture the business (wills, estates, and the like) of people interested in social justice issues.

The next phase for Endswell/Renewal is as a catalyst, continuing to bring in other funders with more resources, as well as brokering deals. Endswell

WITH THE FIELD WIDE OPEN, ENDSWELL ALSO TOOK ON THE ROLE OF CONVENER, BRINGING OTHER FUNDERS INTERESTED IN ITS GOALS TO THE REGION AND PROVIDING ITS GRANTEES WITH A PLATFORM TO PRESENT THEIR WORK. IN ADDITION, THE ENDSWELL TEAM ALSO FOUNDED TIDES CANADA, A NATIONAL PUBLIC FOUNDATION MODELED ON THE US TIDES FOUNDATION, WHICH IS FOCUSED ON GAINING FUNDING FOR SOCIAL JUSTICE AND ENVIRONMENTAL ISSUES.

is now contemplating phase out strategies, including the possibility of giving "modest exit chunks" to some grantees, and terminating in about eight years. But the example of Warren Buffett looms large, and Solomon hopes that other donors may become interested in putting their resources into the Endswell Fund of Tides Canada, thus continuing its existence. Renewal Partners is in the process of being reborn as Renewal Capital, also with the intent of bringing in other investors. The assets are being steered to program-related investments (PRIs), thus "churning" the funds further. Newell has started a $1 million social justice fund in Tides, and other ideas, such as a revolving loan fund in Tides, are under consideration. Newell and Solomon are also offering their services as seminar leaders and consultants to help other donors figure out how best to "get their money out the door," or, as Newell phrases it, "Get off your assets."

By using multiple strategies and deploying all its assets in a very focused area, Endswell/Renewal has, in its relatively short life, made an enormous contribution to British Columbia. It has created "a strong and vibrant social purpose sector here, by being the glue," Solomon says. He cites a recent collaborative project that would not have happened in the old days: $60 million in private funds was raised, with Endswell as a key player, matched by $60 million from the Canadian government, for the 20 million acre Great Bear Rain Forest. This vast project represents a new method for land conservation, protecting land from exploitation while also financing the indigenous people who live there to invest in "sustainability businesses," which reflects Endswell's mission of jobs and the environment. "We haven't stopped the march of environmental degradation, but we've helped," Solomon says. And in February 2007, Newell received an Order of Canada, Canada's version of a knighthood, recognizing the $60 million that she has contributed or invested in Canada.

BY USING MULTIPLE STRATEGIES AND DEPLOYING ALL ITS ASSETS IN A VERY FOCUSED AREA, ENDSWELL/RENEWAL HAS, IN ITS RELATIVELY SHORT LIFE, MADE AN ENORMOUS CONTRIBUTION TO BRITISH COLUMBIA.

A DIFFERENT STRATEGY: Omidyar Network

OVERVIEW

A TECHNOLOGY ENTREPRENEUR CREATES A PHILANTHROPIC STRUCTURE THAT REFLECTS THE BUSINESS THAT MADE HIS FORTUNE.

The entrepreneurs of the tech boom are changing the face of philanthropy in many ways. There is the sheer size of their assets: the $30 billion Gates Foundation is the most obvious example. But in addition, these new philanthropists are interested in using the ideas that made their fortunes to help change the world. And they are doing it now, rather than waiting for their old age.

A number of these newer philanthropists also use their charitable foundations to give as much money as they feel is necessary to advance the mission they have chosen, rather than being constrained by a set payout percentage. Such foundations may be almost entirely spent out each year, and replenished from other personal sources. For example, in 2005, Lawrence J. Ellison, founder of the Oracle Corporation, put $36 million in cash and stock into his Ellison Medical Foundation, which is focused on the biology of aging. The foundation spent $26.3 million in grants that year.

Pierre Omidyar, 39, the founder of eBay, is especially interested in microfinance, the concept that very small loans given to individuals who would not normally qualify to borrow money can lift people out of poverty. Much of the work in microfinance has been done through non-profit entities, but Omidyar became persuaded that for-profit investment in this area could drive the field further. He had set up a charitable foundation, but in 2004, he came up with a new structure for his social impact charitable giving and investment that would reflect his ideas about how to best pursue this mission.

This new entity, the Omidyar Network, an LLC, is "the organization responsible for defining, managing, and executing the strategy to advance our mission," according to Iqbal Paroo, until recently its president and CEO. It has a number of subsidiaries, two of which hold funds to be invested in non-profit organizations and for-profit companies. Each was set up with $200 million, but additional funds are added annually. "We take a cross-sector, market-based approach," Paroo says. "We define the area aligned to our mission of economic, social and political self-empowerment — for example, access to finance. We map out that space, and we figure out which projects require non-profit dollars and which ones require for-profit dollars. We are mindful that using non-profit dollars, where private capital would be appropriate, distorts the market, and that there are other situations where private capital wouldn't be appropriate and the right dollars are charitable ones." A third area of investment, now being developed, is public policy, influencing individuals and government.

OMIDYAR NETWORK INVESTED APPROXIMATELY $60 MILLION IN 2006, ITS THIRD YEAR OF OPERATION, WITH ABOUT $30 MILLION EACH IN NON-PROFIT AND FOR-PROFIT ORGANIZATIONS. NEITHER THE AMOUNT NOR THE SPLIT WAS PRESCRIBED: OMIDYAR INVESTS BASED ON OPPORTUNITY RATHER THAN A SET NUMBER.

Omidyar Network invested approximately $60 million in 2006, its third year of operation, with about $30 million each in non-profit and for-profit organizations. Neither the amount nor the split was prescribed: Omidyar invests based on opportunity rather than a set number. The payout for the charitable entity was about 12% in 2006, but Paroo points out that the Network is not tied to any particular payout number. "The floor is 5%, but if through the strategic plan we find opportunities to invest our charitable dollars, we don't say `We've reached 5%.'" The fund also receives annual contributions from Pierre Omidyar, so it is not dependent on its own investment income. Nor are administrative expenses charged to that entity: the Network has a separate entity, Omidyar Network Services, that pays rent, utilities, salaries, etc. for all its operations.

Omidyar Network's mission is empowering individuals to make life better for themselves and their communities through the sharing of information, resources, and tools. Its model is eBay itself — a commercial enterprise that links individuals into a network, enabling the sharing of information and goods through the building of trust. Its main areas of concentration are access to finance (particularly microcredit), philanthropic markets, open innovation (largely geared towards sharing scientific data), and participatory media.

Investment in both the non-profit and for-profit areas follows the same strategy, based on a venture capital approach rather than a grantmaking cycle (ON doesn't use the term grantmaking). ON evaluates the organizations: "Is this a great idea? A great team? Do they know how to execute? Do they have a plan? Will they advance the mission and cause?" Paroo says. "Each investment has a customized approach. We examine the role a non-profit would play in advancing our mission, and what it would require — operating support, capacity building, project funds, etc. We do follow-on investments, as we would in for-profit companies: when we see what the first investments have enabled them to create, we go to the second or third round."

With the non-profit Donors Choose, an online marketplace that connects individual donors to school projects in need of funding, for example: "We funded them early to help them develop their technology and platform. Then we helped them with capacity, and then to go to scale." Donors Choose was also encouraged to develop a "syndicate of strategic partners," to bring in not only more funding, but more ideas. To determine whether follow-on investment is appropriate, Omidyar uses an internally developed evaluation methodology, agreed upon in advance with the organization, that defines the goals it intends to achieve with the investment, such as building capacity or reaching a certain level of market penetration. "As long as they are achieving those goals, they can get additional funding."

Like any other venture capital operation, the for-profit companies that Omidyar invests in are expected to make money eventually. Paroo says, "Our belief is that business can be a force for social change, so we look for businesses where profitability is the proxy for driving social change. More profit means more change." The time frame for the investments varies — some is long-range patient capital; other businesses are expected to go public or be bought in a shorter time. Indeed, one company, Ethos Water, was bought by Starbucks a year and a half after Omidyar Network invested, giving a return on its investment that went back into the capital pool.

TO DETERMINE WHETHER FOLLOW-ON INVESTMENT IS APPROPRIATE, OMIDYAR USES AN INTERNALLY DEVELOPED EVALUATION METHODOLOGY, AGREED UPON IN ADVANCE WITH THE ORGANIZATION, THAT DEFINES THE GOALS IT INTENDS TO ACHIEVE WITH THE INVESTMENT, SUCH AS BUILDING CAPACITY OR REACHING A CERTAIN LEVEL OF MARKET PENETRATION.

The Omidyar Network is only part of Pierre and Pam Omidyar's philanthropic activity: they contribute about $30 million a year to other causes through a donor advised fund, and have several other projects. The Omidyars also recently gave $100 million for endowment to Tufts University, with the requirement that it be invested entirely in microfinance initiatives. Paroo himself is moving into a new job with the family, looking into opportunities in the developing world; his successor, Matt Bannick, is planning to double the Network's staff of 30 and develop strategies to use public policy as an additional lever of change. Paroo expects the Omidyar Network to grow. "The source of the money is Pierre Omidyar (whose fortune has been reported to be about $8 billion)," he says. "We've been scaling steadily since the Network was structured in 2004. If we find the right opportunity — like we did with the Omidyar-Tufts microfinance fund — even if it is $50 million or $100 million, we will invest it."

CONCLUSION

As the preceding profiles indicate, foundations can have an impact when they choose to increase their payout rate or limit their lifespan. While some of these profiled efforts are still in their early stages, the fact that these donors have looked at philanthropy through a new lens opens intriguing vistas.

From the urgency and focus conferred by a spend down schedule, to the need to find a more flexible way to relate a foundation's administrative and grants expenditures to investment policy, to the adoption of entirely new structures for philanthropy, the experience of these foundations offers important lessons for the whole field.

Some of the lessons include:

» The process of adjusting a foundation's payout rate to something other than 5% or its lifespan to something other than perpetuity re-affirms some of the basic principles of effective grantmaking, such as mission clarity, focus and impact.

» The rigorous conversation that such an adjustment requires — clarifying mission and goals, identifying strategies, and determining the allocation of resources over time — is inherently valuable, contributing to intentionality that will serve the foundation well, whatever the course it decides to follow with regard to payout and lifespan.

» Linking payout or lifespan to mission can offer a foundation unique opportunities to be deeply involved in areas it cares about, to be responsive to changing circumstances, and/or to make large investments that can prove to be strategic tipping points in its fields of endeavor.

» Choosing spend down prompts foundations to consider the consequences of their exit from the field, and can result in such valuable activities as work on capacity-building of its grantees.

» Today, more and more donors and foundations are considering structures and strategies that go beyond the assumptions of 5% payout and perpetuity, enriching the field as a whole.

Making the decision to pay out more than 5%, spend down, and/or adopt new models for giving has required these and other foundations and donors to address numerous practical considerations, such as staffing, investment, grantmaking procedures, exit strategies, evaluation and legacy. As is the case with the larger questions of strategy and direction, the choices made about these issues have also been tied to mission, and tailored to the accomplishment of that mission.

Experimentation with payout, spend down and methods is likely to continue. A 2004 Foundation Center survey reported that of the 879 private, community and corporate foundations that responded, 69.3% were planning to exist in perpetuity, 9% were not, and 22% were undecided. Funders who had established foundations in the previous decade were more likely to indicate that they would not exist in perpetuity than those established before 1989. A 2007 Foundation Center report noted that "new foundations being created today are much bigger, and much more money is moving through them at a faster pace than through older foundations."

The new billionaires and other people of means now entering the philanthropy sector are likely, by both size of their investment and their ideas about giving, to influence how foundations conceive of the relationship of mission, payout and lifespan. New, strong interest in the effectiveness of philanthropy and how to create greater impact may well result in the continued questioning of existing foundation procedures, and the discovery of new ways in which the vast and growing reservoir of charitable dollars can be used to benefit humankind.

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RESOURCES

TAX REFORM ACT OF 1969

After a decade of intense government scrutiny of foundations, the Tax Reform Act of 1969 established several regulatory mechanisms for foundations, including an excise tax on investment income, an annual payout requirement, and prohibitions against self-dealing. The minimum payout rate was originally set at the greater of realized income or 6% of investment assets. In 1976, the rate was reduced to 5%; in 1981, the income standard was dropped. Today, a foundation is required to pay out a minimum of 5% of the monthly average of the value of its endowment over the previous year.

EXCISE TAX

The two-tier system for excise taxes on foundations is considered by some to be a disincentive to flexible payout rates. The tax was first established in 1969 at four percent of investment income. It was reduced to two percent in 1978, and the current two-tier system was established in 1984.

Under these rules, a foundation pays an excise tax of two percent of its net investment income for the year. The tax is lowered to one percent if the foundation meets an arcane test. First, it must calculate the average monthly fair market value of its assets, and multiply this by the average payout percentage for the previous five years. If the current year's payout exceeds this number by at least one percent of the net investment income for the current tax year, it pays 1% instead of 2%. Thus, if a foundation adopts an unusually high payout rate for a year or two, and then returns to the lower rate, it has raised the threshold for its excise taxes in future years. The two-tier system was intended as an incentive to increase charitable giving; ironically, it has had the opposite effect by keeping foundations to a steady level of payout in order to avoid the tax increase.

NUMBER OF FOUNDATIONS

According to data published by the Foundation Center in April 2007, there were 71,000 foundations in the US at the end of 2005, an increase of more than 3,000 in that year; and an increase of more than 77% over a decade. The increase in foundation giving overall was estimated at 11.7% in 2006, thanks to the robust stock market, a higher level of new foundation establishment, and elevated payout rates by greater numbers of "pass-through" foundations, among other factors. Foundation assets grew by 10-12% in 2006. Sara L. Engelhardt, president of The Foundation Center, said that "the new foundations being created today are much bigger, and much more money is moving through them at a faster pace than through older foundations."

LIST OF PROFILED FOUNDATIONS

THE ATLANTIC PHILANTHROPIES
New York, NY
www.atlanticphilanthropies.org

BELDON FUND
New York, NY
www.beldon.org

THE LYNDE AND HARRY BRADLEY FOUNDATION
Milwaukee, WI
www.bradleyfdn.org

LEWIS B. AND DOROTHY CULLMAN FOUNDATION
New York, NY
www.lewiscullman.com

ENDSWELL FOUNDATION / RENEWAL PARTNERS
Vancouver, British Columbia
www.endswell.org

RICHARD AND RHODA GOLDMAN FUND
San Francisco, CA
www.goldmanfund.org

EVELYN AND WALTER HAAS, JR. FUND
San Francisco, CA
www.haasjr.org

HAIGH-SCATENA FOUNDATION
Davis, CA
Ron Clement
3206 Oyster Bay Ave.
Davis, CA, 95616
530.304.2993

THE HKH FOUNDATION
New York, NY
www.hkhfdn.org

THE NEEDMOR FUND
Toledo, OH
www.needmorfund.org

OMIDYAR NETWORK
Redwood City, CA
http://home.omidyar.net/index.php

THE WHITAKER FOUNDATION
Arlington, VA
www.whitaker.org

THE HELEN F. WHITAKER FUND
Mechanicsburg, PA
Miles Gibbons
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Diane Feeney, President of the French American Charitable Trust (FACT), a co-sponsor of this report, is willing to be a resource or speaker on the topic of payout. Please contact her via her foundation website (www.factservices.org) or (415) 288-1305.

NCG
NORTHERN CALIFORNIA GRANTMAKERS
INSPIRATION COMMUNITY LEADERSHIP

NYRAG
New York Regional Association of Grantmakers