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PubPol 671: Policy & Management in the Nonprofit Sector

Lecture 14: Individual Philanthropy Wrap-Up,
Foundations

Neel Hajra



**INDIVIDUAL
PHILANTHROPY
WRAP-UP**



Management Implications: The Engaged Donor

- Good because...
- Bad because...



Management Implications: Linking Performance to Funding

- (as discussed often in previous lectures!)



Management Implications: Professionalization

- Expensive...
- ...but isn't "overhead" a bad word?



Management Implications: Competition

- Competition for individuals is the “original” competition for nonprofit sector



Foundations



Definition

- Private organization that distributes money to others



Breakdown of Giving

1. Individuals: 75%
2. **Independent & Community foundations: 13% (\$45.6 billion)**
 - Independent: 72%
 - Community: 10%
 - Corporate: 10%
 - Operating: 8%
3. Bequests 7%
4. Corporations/corporate foundations 5%



“Private Foundation”

- Not publicly supported
- Benefit: Tax advantage, control
- Limitations: 5% annual distribution, 30% AGI deductible, 2% investment income tax (with 1% exception), tax on jeopardizing investments, tax on lobbying, more restrictions on “disqualified person” transactions



Private Foundation – Disqualified Persons

- "Disqualified persons" include substantial contributors, officers, directors, employees, and family members of the foregoing
- Prohibited transactions: (1) sale, exchange, or leasing of property, (2) money lending, (3) furnishing goods, services, or foundation assets, (4) payment of compensation or reimbursement of expenses, (5) transfer to or use of foundation assets, and (6) agreements to pay government officials



Examples of Private Foundations

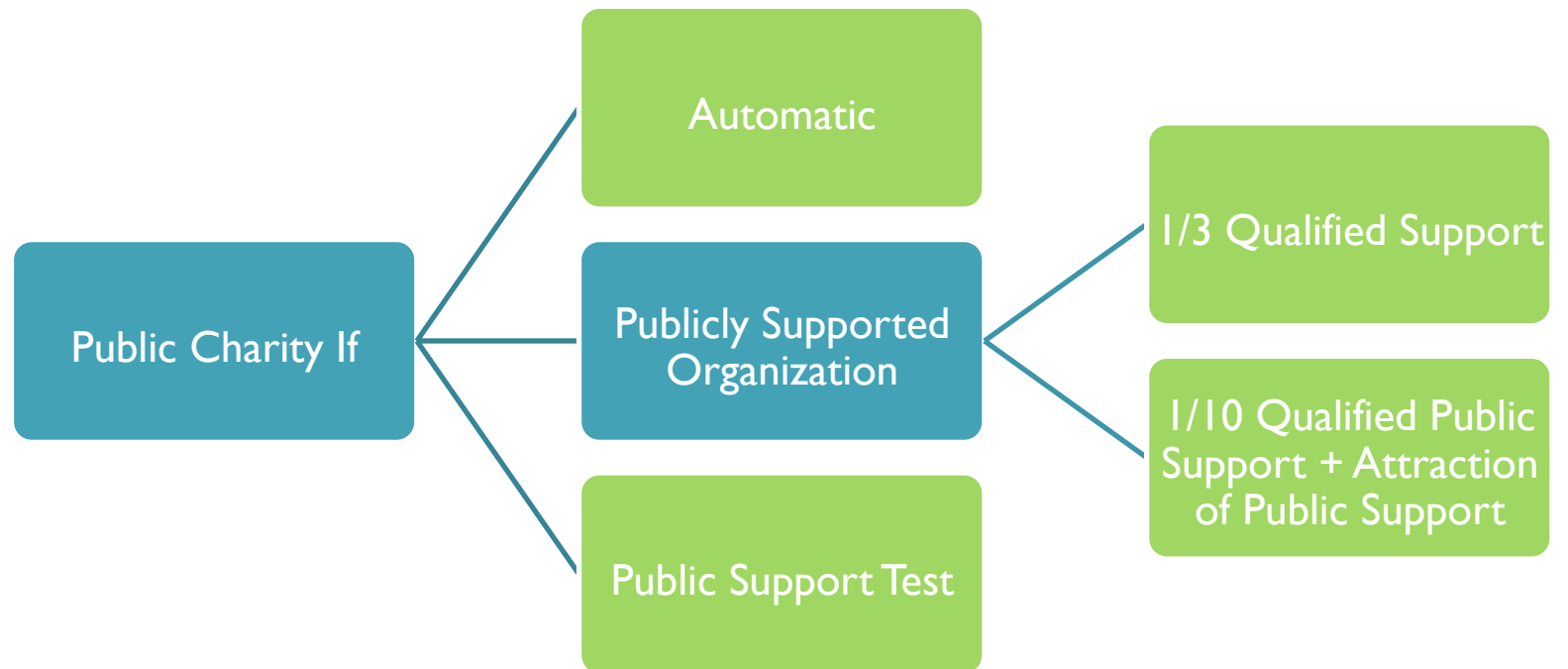
- **Family Foundations:** Individual or families that are main donors and remain involved
- **Corporate Foundations:** Assets from corporation,
- **Operating Foundations:** Operate by running programs as much as (or more than) making grants, usually endowed by individual or family.



Public Foundations

- Publicly supported!
 - Automatic (churches, schools, hospitals, etc.)
 - Public support tests
- Gifts deductible up to 50% of AGI
- Property deductible up to 30%
- No minimum annual disbursement requirements
- No excess business holdings

Refresher: Public support tests





Public Foundation Examples

- Community Foundations
- United Ways

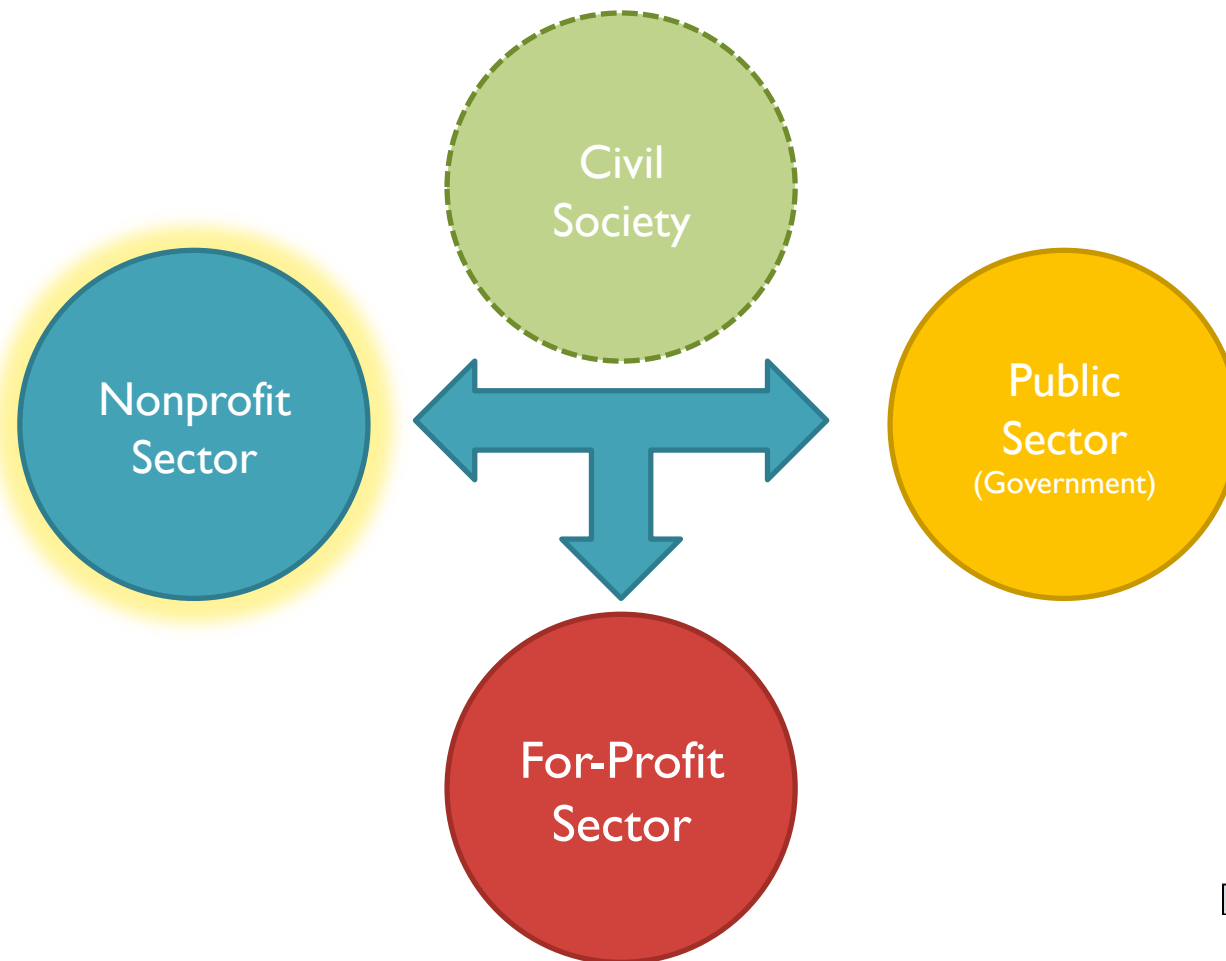


Prewitt: Role of Foundations

- He lists 4 reasons:
 - Redistribution
 - Efficiency
 - Social change
 - Pluralism
- What other roles or subroles?

Side Note: Public Policy

- Prewitt's definition





Grantseeker Bill of Rights

- Why so bitter?
- What does this say about real world role of foundations?



Grantseeker Bill of Rights

- Why so bitter?
- What does this say about real world role of foundations?



Foundations Need to “Get Real”?



Foundation Sector Challenges and Issues



No Market Pressures

- Top of food chain
- See: Bill of Rights



Home Run Mentality

- Nonprofits spend disproportionate amount of time pursuing big grants from foundations



Not Redistributive

- Funds flow to “higher strata” of society



Minimal Social Change

- Impact small relative to government, individuals, and front line nonprofits



Short Term Investing

- Many avoid long term commitments
- Over-emphasis of program investment over overhead



Transparency

- Failures kept quiet
- Same ROI problem as nonprofits

High Administrative Costs

- Perception is that foundations are more generous with themselves than with their fundees

**Table 1:
Private Foundation Median Charitable Administrative Expenses as a Percent of Assets, by Asset (3 Studies)**

	Association of Small Foundations ¹	Council on Foundations ²	Donors Forum of Chicago ³	
All	0.47%	0.77%	0.74%	
total foundation assets	< \$1 M	1.02% ³	0.62% ³	
	\$1-4.9 M			0.42%
	\$5-9.9 M	0.51%	0.91%	0.49%
	\$10-24.9 M	0.50%	0.87%	0.81%
	\$25-49.9 M	0.48%	0.79%	0.82%
	\$50-99.9 M	0.48% ⁴	0.74%	0.71%
	\$100-249.9 M		0.68%	0.64% ⁵
	\$250-499.9 M		0.74%	
	\$500 M +		0.88%	

**Table 2:
Private Foundation Median Charitable Administrative Expenses as a Percent of Grants, by Asset Size (2 Studies)**

	Council on Foundations ¹	Donors Forum of Chicago ²	
All	16.31%	13.50%	
total foundation assets	< \$5 M	5.57%	
	\$5-9.9 M	18.34%	22.15%
	\$10-24.9 M	17.53%	14.24%
	\$25-49.9 M	16.60%	14.30%
	\$50-99.9 M	15.85%	17.61%
	\$100-249.9 M	16.21%	11.86% ³
	\$250-499.9 M	16.09%	
	\$500 M +	14.79%	

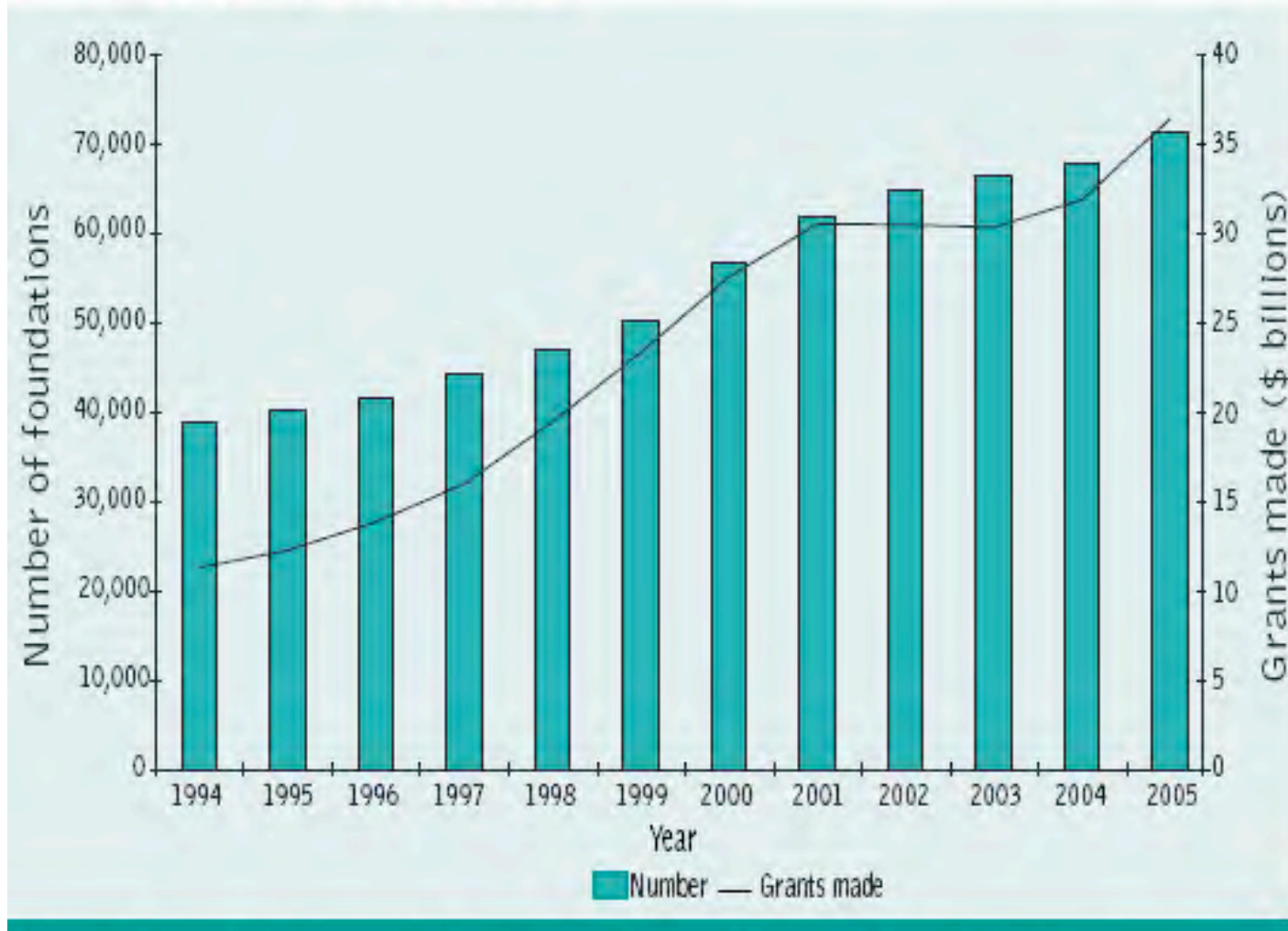
¹ *Foundation Management Series*, 12th Edition, Council on Foundations, 2006

² *Interpreting Form 990-PF: Looking Beyond Foundation Administrative Expenses*, Donors Forum of Chicago, 2004

³ Data not broken out above \$100 million.

Growth

Figure 4. Number of Foundations and Amount of Grants Made by year, 1994-2005



Source: Foundation Center, Research Studies: National Trends (2007).



Chronic Governance Problems

- Ongoing Scandals



Perpetuity Issues

- Operating for survival or outdated mission
- Payout: 5% conformity, administrative costs
- Note: Trustee benefits



Group Exercise:

- Suggest several public policy solutions to the challenges faced by the foundation sector
- Remember that preserving philanthropy should be an important consideration

(these will be discussed by Neel and Phil in the next class)