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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 Charity If

- Automatic
- Publicly Supported Organization
- Public Support Test

1/3 Qualified Support

1/10 Qualified Public Support + Attraction of Public Support
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.
Growth

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

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)