

# Foundation Giving In Tough Times

An analysis of the top 50 private foundations' founding intents and potential to give more

By Katie Smith Milway & William Galligan  
*Milway Consulting, December 1, 2020*

# Agenda

1. **Research aims and method**
2. Founding intents of Top 50 U.S. private foundations and ease of amending
3. Endowment recovery from Great Recession for 25 of Top 50 foundations
4. Opportunities and challenges for increasing payouts in COVID-19 crisis

# Research Aims and Method

## Research aims:

- Understand the founding intents of the top 50 institutional foundation donors and their trustees' scope to spend down endowments over time.
- Understand the inflation-adjusted recovery arcs for endowments from the 2008-9 recession (focusing on foundations no longer controlled by a living founder/founder's family).
- Flag opportunities and challenges that these insights raise for the movement to increase payouts.

## Research method:

- Analyzed the articles of incorporation and amendments, by-laws and/or posted statements of founding intent **for Top 50 foundations** by investable assets. Appendices 1a and 1b.
- Interviewed legal experts to inform segmentation of foundations able/unable to amend status in 2020.
- Calculated endowment recovery by 2018 and projected it to 2020 from Great Recession. All calculations in 2007 dollars for **25 foundations not founder or founder-family controlled**, detail in Appendix 2.
- Reviewed literature related to payout debate and interviewed leaders on both sides of the Emergency Charity Stimulus petition before Congress.

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2. **Founding intents of Top 50 U.S. private foundations and ease of amending**
3. Endowment recovery from Great Recession for 25 of Top 50 foundations
4. Opportunities and challenges for increasing payouts in COVID-19 crisis
5. Summary Insights

# Study Set: Top 50 US Foundations by Investable Assets

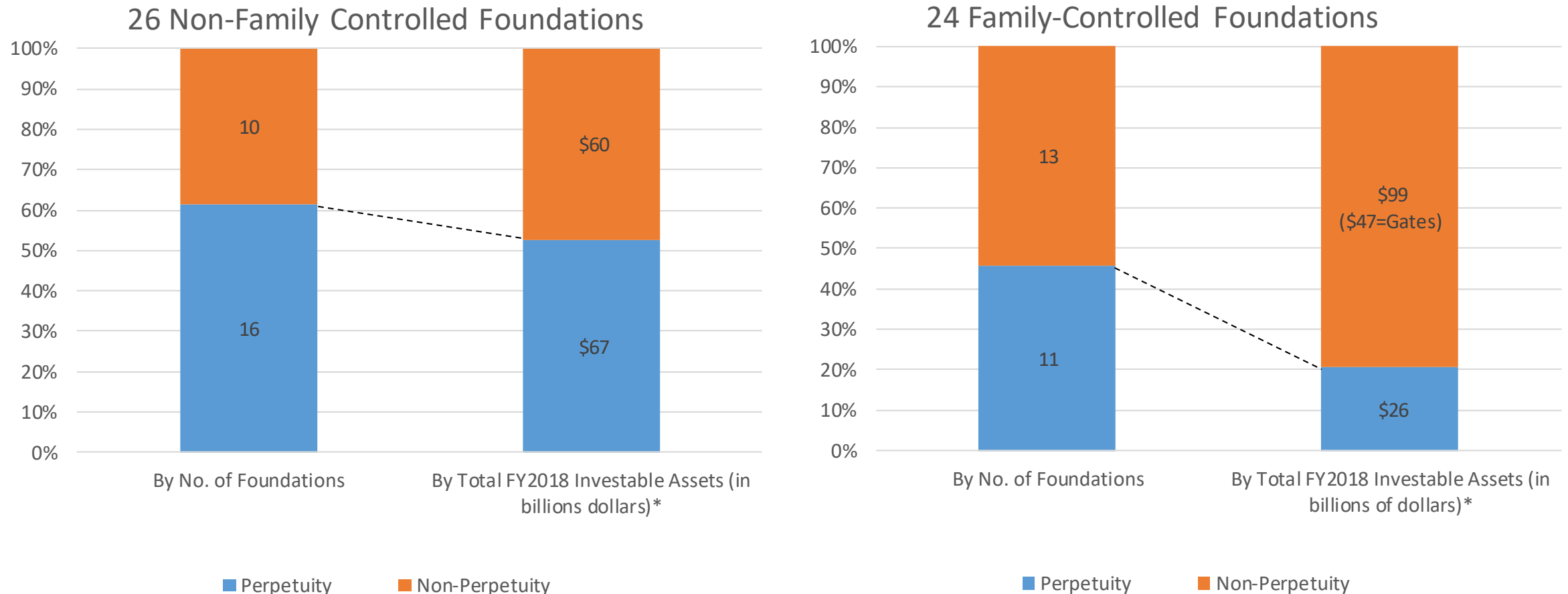
Study Set: Top 50 Institutional Foundations by Size

Ranking in terms of 2018 Endowment Size	Foundation Name	Investable Assets, at FMV for FY2018 (in thousands) ***	Ranking in terms of 2018 Endowment Size	Foundation Name	Investable Assets, at FMV for FY2018 (in thousands)	Ranking in terms of 2018 Endowment Size	Foundation Name	Investable Assets, at FMV for FY2018 (in thousands)	Ranking in terms of 2018 Endowment Size	Foundation Name	Investable Assets, at FMV for FY2018 (in thousands)	Ranking in terms of 2018 Endowment Size	Foundation Name	Investable Assets, at FMV for FY2018 (in thousands)
1	Bill & Melinda Gates Foundation	\$ 46,792,949	11	John D. and Catherine T. MacArthur Foundation	\$6,457,825	21	Duke Endowment	\$3,549,867	31	Annie E. Casey Foundation	\$2,485,505	41	Laura and John Arnold Foundation	\$1,984,329
2	Lilly Endowment	\$ 15,024,302	12	Andrew W. Mellon Foundation	\$ 6,161,815	22	Open Society Institute	\$3,388,733	32	Susan Thompson Buffett Foundation	\$2,350,982	42	Barr Foundation	\$ 1,738,164
3	Ford Foundation	\$ 12,450,770	13	Gordon and Betty Moore Foundation	\$ 6,109,024	23	Robert W. Woodruff Foundation	\$ 3,126,747	33	Charles and Lynn Schusterman Foundation	\$ 2,308,214	43	Alfred P. Sloan Foundation	\$ 1,728,497
4	Robert Wood Johnson Foundation	\$ 10,459,048	14	Leona M. and Harry B. Helmsley Charitable Trust	\$5,874,981	24	Simons Foundation	\$3,037,425	34	Ewing Marion Kauffman Foundation	\$ 2,269,714	44	Eli & Edythe Broad Foundation	\$ 1,719,369
5	Foundation to Promote Open Society	\$ 10,296,734	15	Walton Family Foundation	\$4,553,830	25	Carl Victor Page Memorial Foundation	\$ 3,011,308	35	James Irvine Foundation	\$ 2,241,752	45	Doris Duke Charitable Foundation	\$ 1,683,771
6	William and Flora Hewlett	\$ 9,709,916	16	Rockefeller Foundation	\$4,225,752	26	Charles Stewart Mott Foundation	\$ 2,986,105	36	McKnight Foundation	\$ 2,175,442	46	Houston Endowment	\$ 1,654,834
7	Bloomberg Family Foundation	\$ 8,881,786	17	JPB Foundation	\$3,630,597	27	Margaret A. Cargill Foundation	\$2,928,977	37	William Penn Foundation	\$ 2,161,786	47	Moody Foundation	\$ 1,623,950
8	W.K. Kellogg Foundation	\$ 8,392,365	18	California Endowment	\$3,625,208	28	John Templeton Foundation	\$2,809,444	38	John S. and James L. Knight Foundation	\$ 2,071,809	48	Michael and Susan Dell Foundation	\$ 1,461,785
9	J. Paul Getty Trust	\$ 7,296,451	19	Kresge Foundation	\$ 3,621,635	29	Conrad N. Hilton Foundation	\$2,595,838	39	Casey Family Programs	\$2,050,477	49	Harry and Jeanette Weinberg Foundation	\$ 1,433,333
10	David and Lucile Packard Foundation	\$ 7,058,289	20	Carnegie Corp. of New York	\$3,572,970	30	Richard King Mellon Foundation	\$ 2,516,865	40	Wyss Foundation	\$2,008,998	50	Annenberg Foundation	\$ 1,308,925

\*\*\* Uses 2017 financial data when 2018 data are unavailable (Carl Victor Page Memorial Foundation, Eli & Edythe Broad Foundation, and Ewing Marion Kauffman Foundation)

\* Does not include cash, property, or equipment as labeled on Form 990-PF.

# Non-perpetuity foundations count 46% of Top 50, and 63% of total investable assets (influenced by Gates)



\* Uses FY2017 financial data when FY2018 data are unavailable (Carl Victor Page Memorial Foundation, Eli & Edythe Broad Foundation, and Ewing Marion Kauffman Foundation)

Sources: foundationcenter.org, Foundation Websites, Department of States' Divisions of Corporations, propublica.org

# Non founder/family controlled foundations can amend purpose, but process can be lengthy

*“For foundations incorporated in perpetuity, pivoting to spend down requires amending articles of incorporation via [a multistep process](#), which, depending on the state, may (in addition to trustee approval and amendment filing with the Secretary of State) require approval from a state Attorney General and notifications to other state agencies.*

*“If the donor is living, then amendments only require founder consent...If the foundation remains in control of the founder’s family, [the process likewise is swift, assuming family agreement].”*

*“But if the donor has passed, things get complicated. Some state attorneys general (AGs) have strongly held the line on this issue, serving their role as protector of donor intent...Even if trustees survey the current need and adapt the functions of the charity accordingly, these matters are often forced before a judge (on notice to the AG)...That court proceeding could take six months to a year, often depending on the dedication of resources from the AG.”*

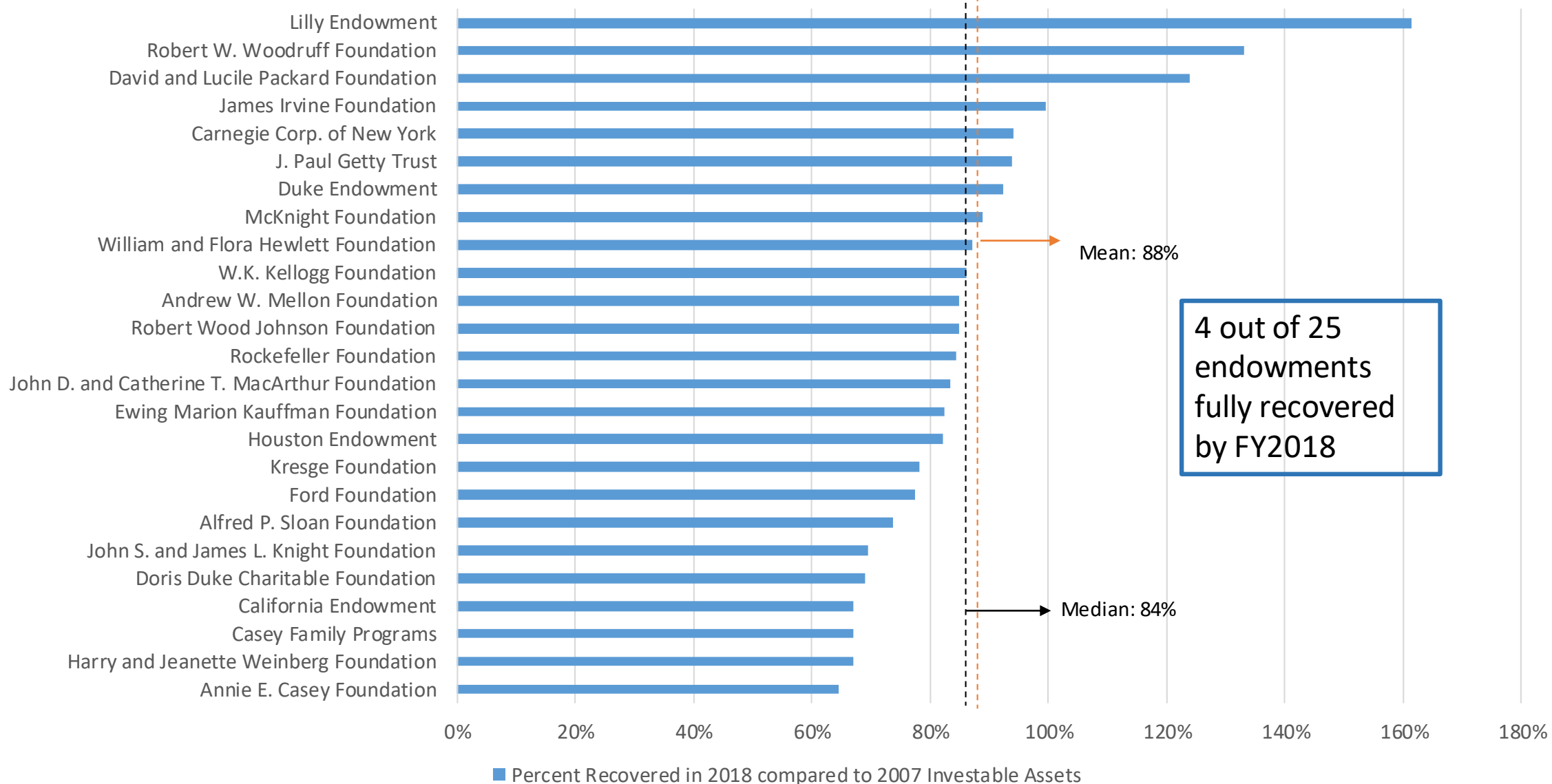
- Attorney [Michael Cooney](#), head of Nixon Peabody’s national nonprofit practice

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# Endowment recovery since Great Recession for 25 non-family controlled foundations in Top 50 (2008-2018) adjusted for inflation\* \*\*

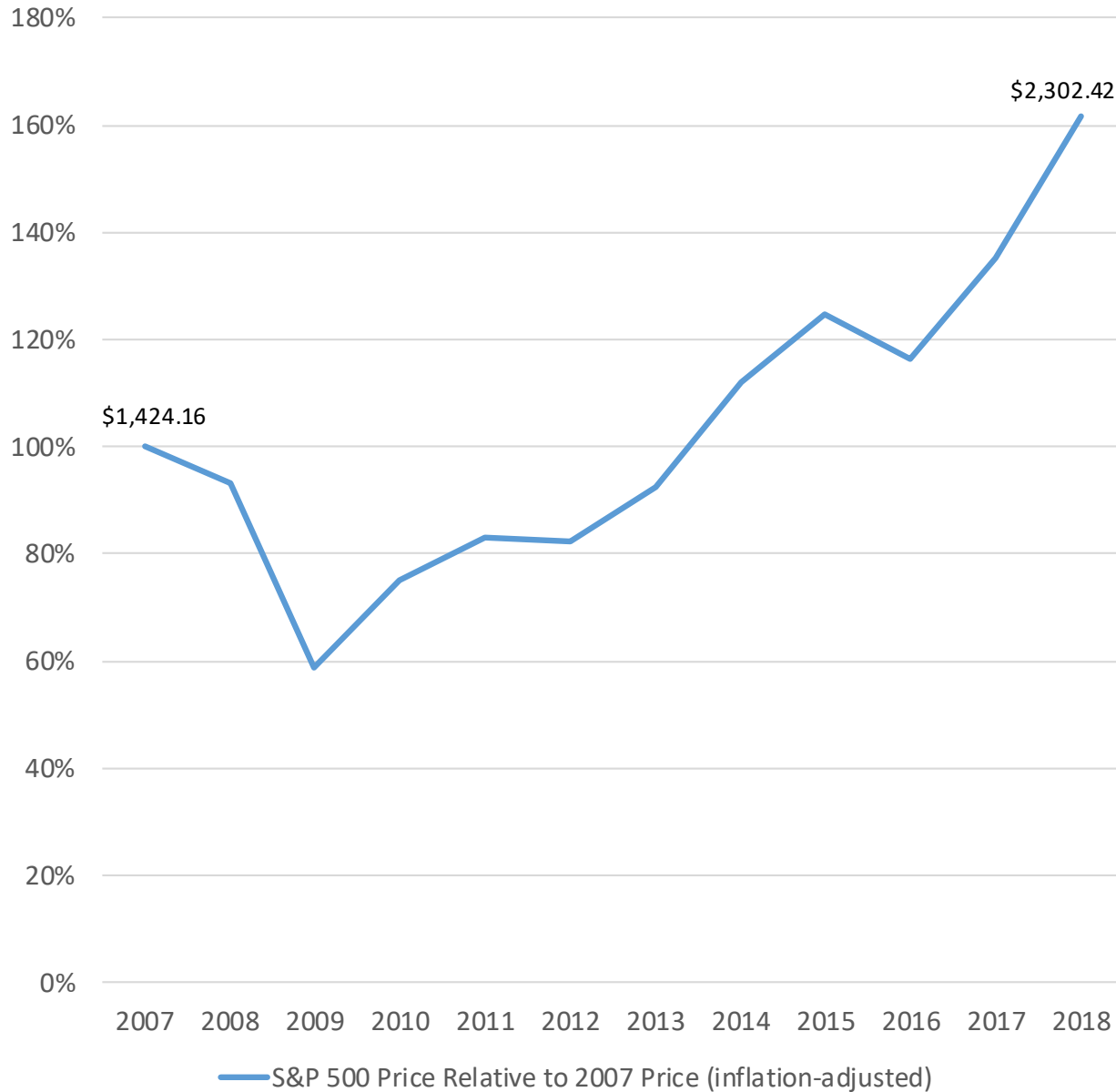


\*Excludes the Margaret A. Cargill Foundation, which gained most of its assets after FY2007

\*\* Uses FY2017 financial data when 2018 data are unavailable (Ewing Marion Kauffman Foundation)

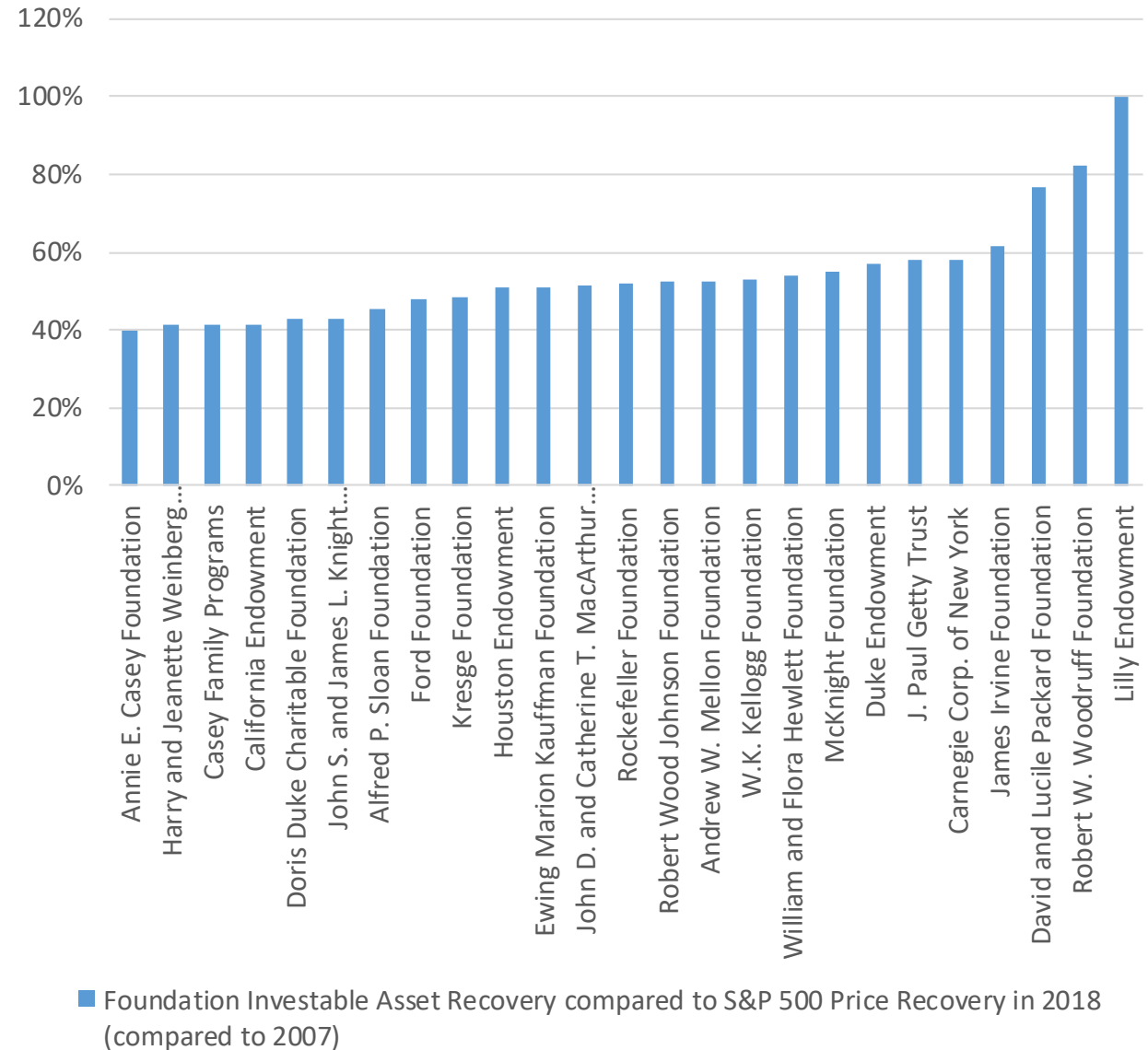
Sources: foundationcenter.org, Foundation Websites, Department of States' Divisions of Corporations, propublica.org

## S&P 500 Recovery (2007-2018)



Sources: <https://www.multpl.com/s-p-500-historical-prices/table/by-year>

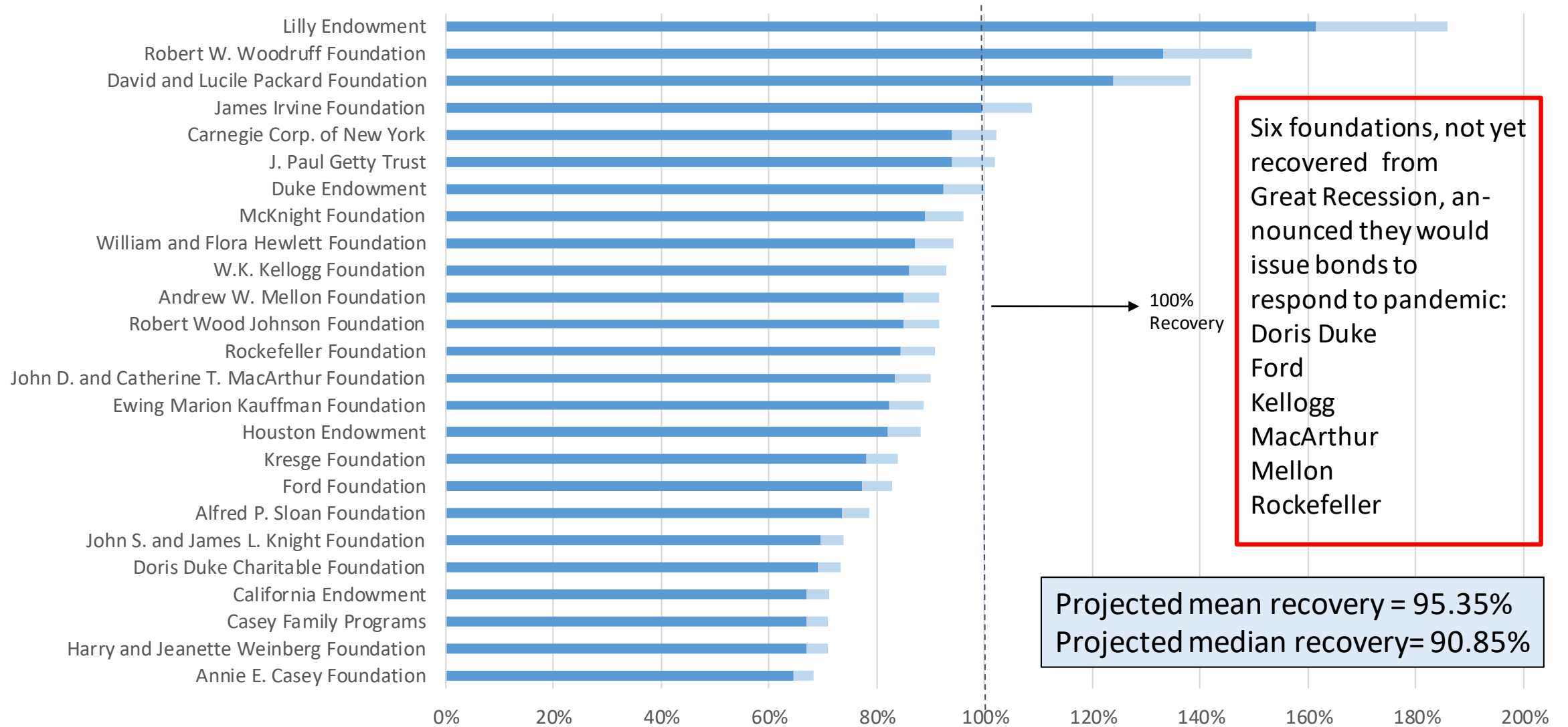
## Non-Family Controlled Foundation Recovery by 2018 Compared to S&P500 Recovery



■ Foundation Investable Asset Recovery compared to S&P 500 Price Recovery in 2018 (compared to 2007)

Sources: foundationcenter.org, Foundation Websites, Department of States' Divisions of Corporations, propublica.org, <https://www.multpl.com/s-p-500-historical-prices/table/by-year>

# Assuming endowment growth 2018 -2020 parallel to historic correlation of S&P growth\*, 7 out of 25 foundations would have recovered from Great Recession



■ Percent Recovered in FY2018 compared to FY2007 Investable Assets

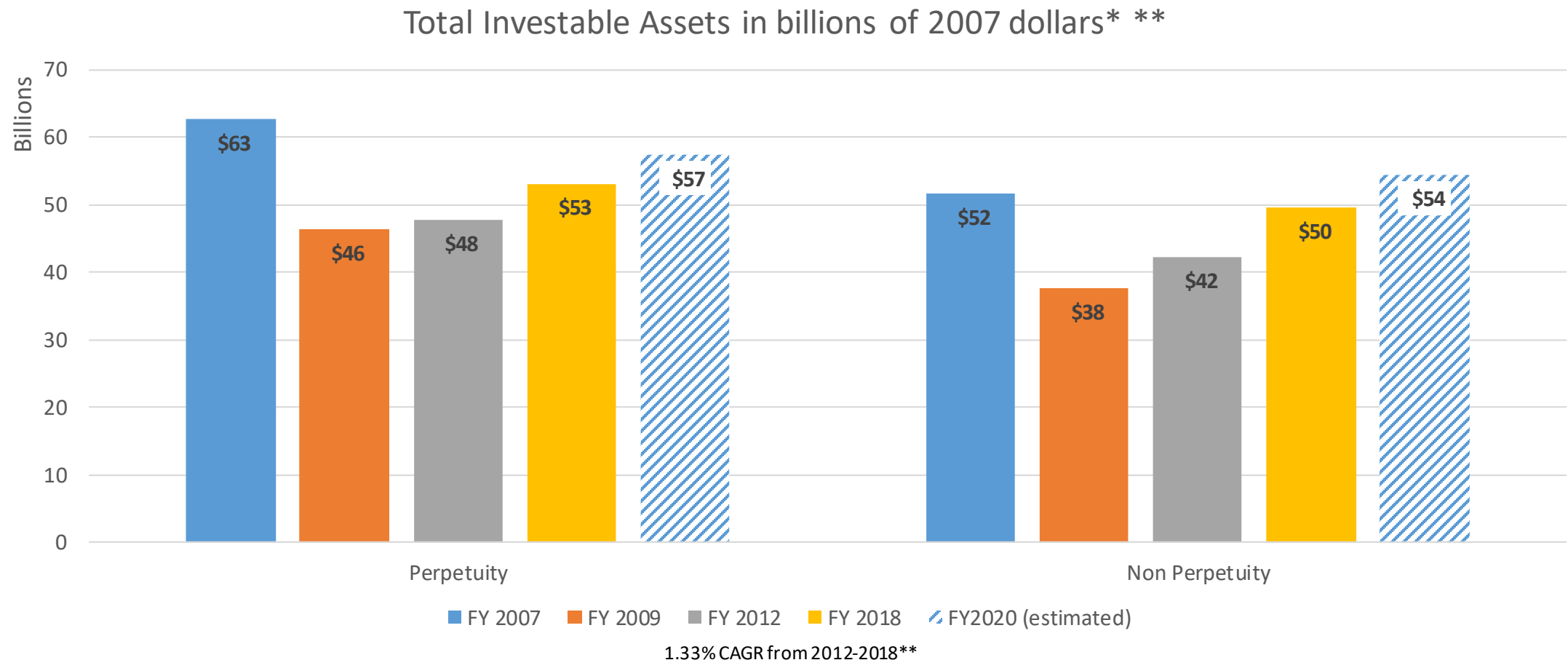
■ Estimated Percent Recovered in FY2020 compared to FY2007 Investable Assets

\*Excludes the Margaret A. Cargill Foundation, which gained most of its assets after FY2007

\*\* Uses FY2017 financial data when FY2018 data are unavailable (Ewing Marion Kauffman Foundation)

Sources: foundationcenter.org, Foundation Websites, Department of States' Divisions of Corporations, propublica.org, <https://www.multpl.com/s-p-500-historical-prices/table/by-year>

# Non-perpetuity endowments recovered on average more quickly than perpetuity endowments, propelled by a handful of outperformers



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\*\* Uses FY2017 financial data when FY2018 data are unavailable (Ewing Marion Kauffman Foundation)

Sources: foundationcenter.org, Foundation Websites, Department of States' Divisions of Corporations, propublica.org, <https://www.multpl.com/s-p-500-historical-prices/table/by-year>

# Regardless of endowment recovery, foundations step up

**Council on Foundations** says that some of its 749 foundation members are increasing payout or shifting them to COVID-19 response (but there is no comprehensive list). - David Kass, VP government affairs and strategic communications

- CoF's [public statement](#) with other PSOs encourages increased giving by all funders: *"We've been heartened that some foundations and corporate giving programs are increasing their grants at this crucial time. We call on all funders to consider joining them by significantly increasing their grant spending during this crisis."*

**Institute for Policy Studies** finds some foundations pay out substantially **more than 10 percent**, including the Walton Family Foundation, the Simons Foundation, and the Bill and Melinda Gates Foundation.\* But many more treat the 5 percent minimum payout as a ceiling, not a floor—and some fall below the floor.

**Annie E. Casey, James Irvine and Carnegie Corp.** aim to consistently payout **more than 5%** (per finance pages of their websites).

**Emergency Charity Stimulus Founder** says signatories are pouring in:

- *"We have some folks over at the Institute for Policy Studies that are going through the names to see who they are, but there was a space where you signed to indicate your institutional affiliation or your DAF affiliation and only about 300 filled that out. We're getting about 100 a day actually still."* - Scott Wallace, May 30, 2020 Interview

**Ford, McArthur, Kellogg, Mellon, Doris Duke** take on debt to increase payouts – [NYT, June 10, 2020](#); **Rockefeller**, too – [Forbes.com 10/26/2020](#)

\*IPS 2020 report: *"The Case for the Emergency Charity Stimulus"*

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# Opportunities for increasing payouts

**At least ~70% of Top 50's assets could increase payouts at a vote if founders, founders' families or trustees desire**

Top 50 foundations in the U.S. with either living donors/donor family control or not founded in perpetuity, could fairly swiftly pivot to increase payouts in crisis, even if it reduced their endowments for the long term,

**History shows recovery from a one-year, 35% endowment drop is possible over 10 years**

Endowments that fell as much as 35% in 2008 (e.g. James Irvine Foundation) fully recovered over a decade; Lilly Family School of Philanthropy [simulation study](#) of payout scenarios to respond to crisis supports notion.

**There is momentum: Foundations and DAF funders are increasing payouts – unrelated to endowment recovery**

- Nearly 300 smaller, private foundation, DAF holders and advocacy groups are [calling Congress](#) to mandate that philanthropy increase payouts to 10 percent for three years as an [Emergency Charity Stimulus](#) and benefit to tax payers by creating a stimulus with money already set aside for charitable purposes.
- National DAF sponsors report 35-50% increases in grant volume during COVID over a year earlier
- CoF signed, with eight other philanthropic support organizations, an [open statement](#) encouraging increased giving by all funders. Walton, Simons and Gates in the Top 50 have (Institute for Policy Studies report).
- Of Top 50 foundations that could payout >5%, some do, according to CoF, IPS and foundation websites (Founder family-controlled: Gates, Simons and Walton; Non family-controlled: Casey, Irvine and Carnegie), but there is no comprehensive record. At least three - Gates, Broad and Bloomberg - are on record to spend down. Five, led by Ford, announced \$1.7 billion bond-funded recovery fund 6/11/20. Rockefeller followed on 10/26-20 announcing \$1 billion grants for green recovery, funded by bonds and endowment.

# Challenges to increasing payouts

## Depleting philanthropic resources for recovery and response to the next crisis:

- Historically **only 4 of the 25 endowments we studied had fully recovered by 2018**, and only 7 likely had by 2020. [Academic study](#) by Rooney et al notes current excise tax policy penalizes short term boosts in payouts.
- Grand Valley's Johnson Center forecasts only a **35 percent probability** that increasing payouts to 10 percent for just one year would enable endowments **to recover within four years if** economy has a 2-year recovery cycle.
  - Johnson lowers probability endowment recovery to zero if the economy needs four years to recover.
- Foundations are **weighing higher payouts vs. stewarding purpose**. Some, like the Houston Endowment, focus on perpetually supporting public institutions and well-being in a specific city. Others, like the J.P. Getty Trust, were founded to operate national institutions, e.g. The J.P. Getty Museum and related art institutes, in perpetuity.
  - E.g. William and Flora Hewlett Foundation president, Larry Kramer [stated in an March 2020 letter](#) to grantees that in response to COVID-19, Hewlett would maintain budgeted grants, despite another fall in its endowment, but not increase payouts, in order to ensure resources for long term goals. On June 11, Hewlett told the NYT they were revisiting plans now that markets had rebounded.



# Challenges to increasing payouts

## **Some Top 50 were lowering payouts before the crisis (and still recovering from 2008-9):**

*The John Templeton Foundation, with \$3.2 billion in assets, had a payout rate of just 4.2 percent in 2018. And Bloomberg Philanthropies—[which] did pay out at relatively high rates of 5.6 and 8.6 percent in 2017 and 2018—paid out at an average rate of just 4.2 percent over the previous seven years before that, from 2010 through 2017. – Institute for Policy Studies*

## **ECS 10% projection doesn't account for perpetuity foundations; and lowers the floor for DAF payouts**

[ECS signatories](#) estimate the mandate would generate up to an additional \$180.9 billion in foundation grants to nonprofits over 3 years if all foundations increase payouts to 10% for three years. The calculations don't exclude non family-controlled foundations with perpetuity obligations (26% of the Top 50 foundations, representing \$58.1 billion assets ), and suggest DAFs payout 10%, whereas they currently average 20%+.

## **No plan yet from ECS signatories for distributing grants equitably**

An issue not currently raised in the payout debate is finding a mechanism to equitably distribute billions of dollars of additional grants. If [nonprofits led by people of color and serving vulnerable communities are any guide, their struggles to obtain government stimulus funds](#) through the Payroll Protection Plan (PPP), indicate that creating equitable access to increased resources may be the biggest challenge. (And PPP loans had just one set of guidelines, one funder and one type of distribution channel—banks). One channel for ECS to consider would be Community Foundation-based COVID Response funds now in place across all 50 states.

# Back Up

# Backup: Houston Endowment amended purpose from spend-down to perpetuity between 1969 and 1971

**Houston Endowment**, 46<sup>th</sup> out of 50 by investable assets.

- It was founded by Texas construction magnate Jesse Jones in 1937 with a mandate for trustees to “carry out the activities of the corporation without limitation to the amount distributed.” Jones was personally active in WWI relief under the Wilson administration and in rebuilding the U.S. economy under President F.D. Roosevelt.
- Jones and his wife established the endowment after the Great Depression and made grants to build up Houston arts, hospitals, education and civic institutions, incorporating with **intent to spend down and dissolve in 50 years**.
- After the Tax Reform Act of **1969** (13 years after Jones’ death), the endowment converted extensive real estate and business assets it held into securities.
- Two years later, **in 1971**, trustees received **approval from the state to amend to existence in perpetuity**. Amended Article 4 of incorporation states: “The period of the corporation’s duration is perpetual.”

# Backup: Bloomberg Family Foundation amended founding intent from perpetuity to spend down within 3 months

**Bloomberg Family Foundation** (aka Bloomberg Philanthropies), #7 by investable assets

- Founded September 22, 2006 to exist in perpetuity.
- On December 27, 2006, living founder and sole director Michael Bloomberg (whose board is advisory, not decision-making) amended articles to spend down the foundation by 2026, or within two years of his or his daughters' deaths, whichever came last, preserving the right to spend down sooner or later.
- *"Article Eighth: The Corporation shall continue until two years after the later to occur of (i) the death of Michael R. Bloomberg, (ii) the death of the survivor of Emma Bloomberg and Georgina Bloomberg [daughters] and December 21, 2026; provided, however, that Michael R. Bloomberg, as Director, may in his sole and absolute discretion determine at any time to extend this period or to terminate the Corporation sooner"*
- On December 18, 2015, Bloomberg restated spend down terms in Article 9 of Certificate of Amendment and Restatement: *"The Foundation shall continue until twenty years after the death of Michael R. Bloomberg, at which time the Foundation shall dissolve in accordance with the terms of Article ELEVENTH of this Certificate of Incorporation."*

Endowment recovery from Great Recession was slower than Johnson Center forecasts for “long-pain” recovery from COVID

**Forecast shocks with three payouts**

Median ending values, starting from 100 on 1/1/2020, on Dec. 31, 2024	70/30 mix		
	5% payout in all years	10% in 2020, then 5%	15% in 2020, then 5%
<b>Baseline</b> (historical averages)	124.5	117.9	113.9
<b>Bad year</b> (-15%)	105.5	97	93.7
<b>Short pain</b> (-15%, 2-year recovery)	99.5	94.9	91.1
<b>Horrible year</b> (-30%)	90.5	85.9	79.6
<b>Long pain</b> (-30%, 4-year recovery)	86.1	81.7	77.3
<b>The Great Depression</b>	59.6	56.6	53.4

Source: Johnson Center, Grand Valley State University, May 21, 2020

# BackUp — Economic Charity Stimulus Calculations

Again using the Foundation Center's estimate that the typical foundation pays out at a rate of 5.8 percent, raising the minimum payout requirement to 10 percent would result in an additional 4.2 percent in distributions. At \$13 billion per percentage point, this would have generated an additional \$55 billion to \$60.3 billion flowing out to direct charities in a single year—or \$165 billion to \$180.9 billion over three years.

	2018 Estimates
<b>Foundation Assets and Grants</b>	
Amount given in distributions by foundations (from Giving USA 2019)	\$75,860,000,000
Median payout rate (from 2012 Foundation Center analysis)	5.8%
Assets held by foundations (using Foundation Center 5.8% payout rate above)	\$1,307,931,034,483
<b>Revenue Projections from Payout Rate Changes</b>	
Additional revenue gained from each percentage point increase in payout rate	\$13,079,310,345
Additional revenue gained from increasing the payout rate to 7%	\$15,695,172,414
Additional revenue gained from increasing the payout rate to 10%	\$54,933,103,448
<b>Overhead</b>	
Overhead as a percentage of distributions (rate from 2004 Urban Institute/FC analysis)	7.0%
Amount of overhead counting towards distributions (using overhead rate above)	\$5,310,200,000
Amount of distributions if overhead was excluded from payout	\$81,170,200,000
Payout rate with overhead excluded (using rates above)	5.4%