

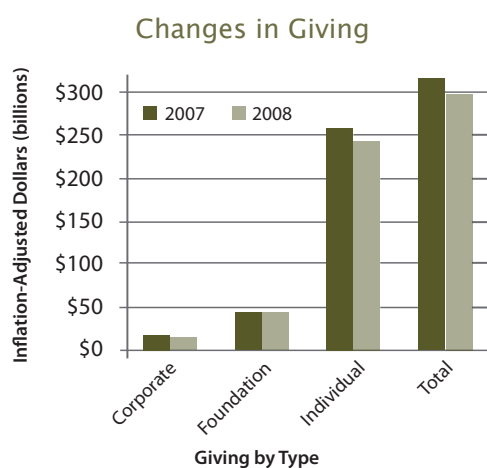
# QUARTERLY PHILANTHROPY REPORT

ARABELLA ADVISORS PRESENTS NEWS ON PHILANTHROPY

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## The Latest Takes on Giving

Charitable giving in the United States fell last year by the largest margin in five decades, according to a widely cited annual [study](#) by the Giving USA Foundation. After reaching a record high of \$314 billion in 2007, donations declined 5.7 percent in inflation-adjusted terms in 2008, the largest drop recorded since Giving USA began collecting data in 1956.



Source: Giving USA Foundation

Yet the decrease is not as drastic as it might sound. Nor are the study's findings wholly negative. As a percentage of GDP, giving remained remarkably steady from 2007 to 2008, declining only 0.1 percent to equal 2.2 percent of GDP last year. Donations also exceeded \$300 billion in current dollars for only the second time in history.

Gifts from individuals, which account for three-fourths of all donations, decreased by 6.3 percent, but foundation giving declined only slightly—despite a 30 percent drop in foundation assets. Rising to meet the current economic challenge, foundations established community relief funds, gave nonprofits more flexibility in spending grant dollars and focused their grant making on assisting groups in need. Community foundations in particular provided much-needed support, surpassing their independent and corporate counterparts by increasing their grantmaking 2.7 percent, according to another recent [report](#) by the Foundation Center.

Giving USA also reported an eight percent decline in corporate giving for the year. Yet a [survey](#) conducted by the Committee Encouraging Corporate Philanthropy found that over half of the companies surveyed actually increased their cash and in-kind donations in 2008. This increase occurred despite a decline in corporate profits reported by 68 percent of the respondents.

Perhaps most surprisingly, contributions to human services organizations declined by 15.9 percent in 2008, falling much faster than the average, even as the need for these organizations' services increased.

At the same time, donations to international affairs organizations grew marginally in current dollars, challenging the assumption that donors would focus their giving locally during a time of need. The [Hudson Institute](#) estimates that U.S. private giving for international causes now exceeds U.S. government aid for the same purpose.

## Feeling the Urge to Merge

As charitable resources shrink along with the economy, nonprofits and their funders are looking for ways to maximize their impact and minimize their costs. Increasingly, they have identified nonprofit mergers and alliances ("M&A") as strategies for helping nonprofits survive—and hopefully even thrive—in this new economic reality.

A recent [study](#) by the Nonprofit Finance Fund found that 42 percent of surveyed organizations either had developed a program in partnership with another nonprofit in the past year or planned to do so in the coming year. Nearly 20 percent expressed an interest in conducting a merger feasibility analysis, and five percent indicated that they had recently

merged with another organization or intended to do so soon.

Meanwhile, foundations across the country have begun hosting workshops to help grantees explore opportunities to collaborate. Some foundations, including the San Francisco Foundation and Dayton Foundation have set up funds to cover the up-front costs of M&A. Through its [Collaboration Prize](#), the Lodestar Foundation has collected M&A case studies that it will begin sharing through a searchable database later this summer.

Some funders in San Francisco and Boston are pushing particularly hard for nonprofit M&A. In San Francisco, which faces the largest budget shortfall in its

### The Fundamentals of Nonprofit M&A

Nonprofit mergers and alliances are about much more than the bottom line. Experts say they are most likely to succeed when they start with two forward-thinking organizations that put a shared mission first and focus on long-term opportunities. To learn more, see Arabella Advisors' Issue Brief on "[Investing in Nonprofit M&A](#)".

history, a [task force](#) composed of government officials and the San Francisco Foundation CEO has recommended that

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the city create incentives for nonprofits to merge and consolidate back-office functions to reduce costs. Anticipating cuts in public funding, the **Boston Foundation** is likewise pushing groups to consider strategic mergers and alliances with the goal of increasing efficiency and cutting costs. As significant budget shortfalls loom, other cities seem likely to follow suit.

## Spending Down Endowments

Roughly one in ten family foundations plans to spend down its assets in order to maximize its impact in the present, and

an additional one in four is undecided about its future, according to a Foundation Center **study**. The study maintains that interest in limiting foundations' lifespans, or "sunsetting," has increased in recent years due to an impending wave of leadership transitions and announcements from several influential philanthropists, including Bill Gates, that they will spend down their own foundations' endowments.

Most foundations are designed to exist in perpetuity. But experts predict that the economic downturn and subsequent drop in assets will spur even more foundations to consider sunsetting. Facing shrunken endowments and heightened community needs, younger foundations in particular are expected to forego future grant making to increase current giving.

The planned closing of the **Beldon Fund**, an environmental-policy foundation, is a case in point. The Fund's intentional ten-year lifespan enabled it to give \$14 million annually in comparison to the \$4 million granted by comparable, but perpetual, foundations. Now sharing its lessons learned with the philanthropic community, the Fund is viewed as a model for limited-life foundations.

## Not Just for Profit

With the pot of charitable dollars shrinking, a new type of corporate structure that blends social goals with business practices is **growing in popularity**. Called a low-profit, limited liability company, or "L3C," this structure is basically a hybrid of a nonprofit and for-profit organization. First adopted in Vermont a year ago, legislation recognizing such not-just-for-profit businesses has now passed in four other states and is pending in several others.

The L3C status may ultimately allow organizations to receive investments from foundations much more easily than for-profit businesses currently can. L3C organizations are designed to qualify for **program-related investments** (PRIs), or investments made by foundations in for-profit ventures that support philanthropic

## TAKING THE INITIATIVE

**GE** pledges \$3 billion over six years to encourage healthcare innovation

**Former president of Ebay** commits \$100 million to start the Skoll Urgent Threats Fund

\$68.5 million given anonymously to **women-led universities**

**Open Society Institute** pledges \$100 million to aid Eastern Europe

**Dalai Lama** offers \$100,000 to help save Florida University's religious studies department

missions. With grant budgets down, PRIs give foundations a means to use invested assets to further their impact.

## Service and Social Innovation

Asking every American to "make an enduring commitment to serving your community and your country in whatever way you can," President Obama recently signed the **Edward M. Kennedy Serve America Act** into law. The act is designed to vastly expand government service and volunteer programs. It aims to triple the size of AmeriCorps by 2017, expanding the national service program from 75,000 to 250,000 participants. It will also increase education grants available to AmeriCorps participants and create new education awards for "Silver Scholars": volunteers who are 55 and over.

In addition to expanding the national service framework, the act creates a "Social Innovation Fund," designed to "identify and grow ideas that are addressing our most intractable community problems." This fund will provide social entrepreneurs with money to build out successful social ventures as well as seed funding for experimental initiatives.

To learn more about Arabella Advisors, please visit [www.arabellaadvisors.com](http://www.arabellaadvisors.com)

## BRIEFLY

### Kiva launches microloan service for U.S. entrepreneurs

San Francisco Chronicle, June 10, 2009

### The Philanthropist premiers on NBC

The Boston Globe, June 24, 2009

### Philanthropy giants hold secret meeting in New York

ABC News, May 20, 2009

### Strapped states delay nonprofit payments

Foundation Center, May 3, 2009

### Gates Foundation unintentionally raises \$10.4 million

Chronicle of Philanthropy, June 4, 2009

## COMING UP

Multi-Generational Family Retreat,  
**Association of Small Foundations**  
Lakeville, CT, July 31-August 2

Rural Philanthropy Conference,  
**Council on Foundations**  
Little Rock, AR, July 13-15

"Leadership in the Storm: Investing in Outcomes for Children, Youth, and Families," Annual Conference,  
**Grantmakers for Children, Youth and Families**  
Minneapolis, MN, September 22-24

International Educational Conference,  
**Association for Healthcare Philanthropy**  
San Francisco, CA, September 23-27