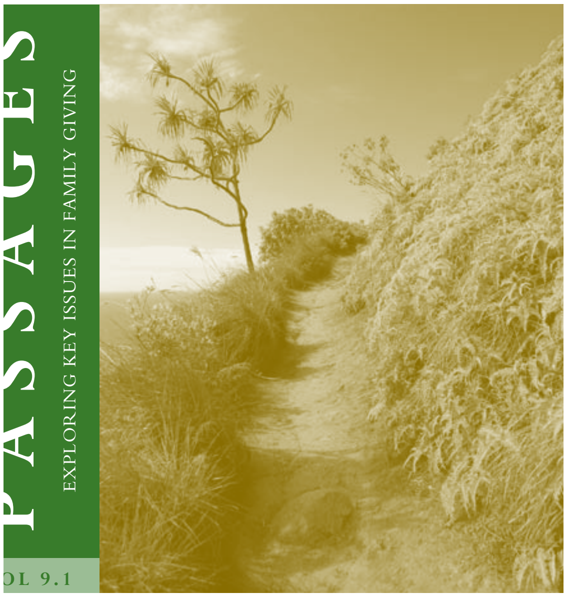
Families Step Up to Meet the Economic Crisis

By Joseph Foote



On a sunny Sunday in November, 2008, the board of the Durfee Foundation gathered in the 48-year-old foundation's office in Santa Monica, California. Four of the five trustees—all family members—and two staff were present. The trustees already knew that the foundation's assets of approximately $30 million had fallen 30 percent. The talk before the meeting focused on the growing economic crisis and its impact on the foundation, local nonprofits, and the national economy. As president, third-generation member Carrie Avery called the meeting to order. The mood was serious, thoughtful, determined. The discussions, similar to those playing out in philanthropic family meetings across the country, focused on community conditions, grantee concerns, and the foundation's responsibilities. The decisions made at that four-hour meeting reflected the kind of dilemmas the economic crisis is forcing all philanthropists to confront.

The recession that began in 2008 has caused philanthropic assets for most families to decline sharply. Program plans for 2009 and 2010 have been disrupted, forcing many philanthropic families to cancel new initiatives, respond to pleas from longstanding grantees about cash shortfalls, and swing rapidly toward support of basic human needs.

At the same time, stresses on grantees are rising sharply as state and local funding and corporate support falls. Job losses and mortgage foreclosures have resulted in unprecedented increases in households seeking support for food, shelter, warmth, and clothing.

Families who operate foundations, donor-advised funds, and other formal giving vehicles have responded promptly and generously to community needs. By and large, families have acted to protect philanthropic assets, canvassed their grantees to assess the damage, reorganized grantmaking policies and programs to

This *Passages* is based on an informal nationwide telephone and email survey conducted by the National Center for Family Philanthropy in November and December 2008 and January 2009. The purpose is to share information, policies, ideas, and strategies from family philanthropy colleagues on moving forward during the current economic crisis.

NATIONAL CENTER FOR FAMILY PHILANTHROPY

meet immediate community needs, and suspended time-consuming application procedures to speed up the granting process. Many families have, albeit reluctantly, put long-range programs on hold and diverted funds to nonprofits providing for human needs such as food, clothing, rent assistance, and fuel subsidies.

The Durfee Foundation board decided to maintain its current asset allocation system, honor its commitments, cut back on pending new or possible grants, and ensure that foundation actions would not harm the settled expectations of its grantees. The board also examined in-house expenditures for possible savings, and considered delaying a scheduled audit on grounds that the 2007 audit was clean, no personnel or practices had changed since then, and the expense of an audit was substantial.

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Observers of the philanthropic scene are noting that family philanthropies are especially positioned to help in times of crisis because they are not "saddled with the bureaucracy" that may slow decisionmaking. In addition, many family philanthropists have business backgrounds, valuable connections, and a first-hand sense of their community's vital signs, enabling them to quickly diagnose and prescribe remedies to local problems.

Families want to preserve charitable assets for the longer haul, to be sure, but many view the erratic stock market in this way: "We have enjoyed a wonderful five or six years of asset growth," says Richard L. (Skip) Moore, president of the Weaver Foundation in Greensboro, North Carolina "In 1999, we were about $19 million. We closed out last year at $32 million. We are down now to about $24.5 million. We've granted a lot of money during those years, which pleases us a lot. We will not cut back to 5 percent or less. We will probably spend some of the extra money we have earned over the past few years to meet new needs."

All persons commenting for this *Passages* recognized that the economic turmoil is still unfolding, that 2009 and 2010 may bring new and more severe hardships for thousands of people, and that the country—and the world—will need time and hard work to dig out of this situation. Everyone stressed that even the near-term future is impossible to predict, given the huge financial dynamics involved, and that every family in philanthropy faces highly individual conditions and will likely respond in highly individual ways.

FEELING THE STRAIN OF FAMILY PHILANTHROPY IN HARD TIMES

The dramatic fall in financial assets is nerve-wracking enough. Add to that the rise in community needs and the fall in community resources, and some sense emerges of the emotional forces operating on philanthropic families these days. It's often a question of resources: too many needs, not enough money.

It's one thing for a family foundation board or donor-advising team to decide at a morning session to meet existing program commitments. It's quite another to stop in at a grantee's food bank that afternoon and talk with a young single mother who doesn't know how she is going to make it through the winter. Nancy Brain of Portland, Maine, who is a trustee of the Frances Hollis Brain Foundation and also manages the Sam L. Cohen Foundation, speaks admiringly of the grit of families facing winter in small inland towns and coastal fishing villages in her state. She feels that

It is often said that family philanthropy differs from other forms of philanthropy because it is so personal, because often the money was made in the community that the philanthropy serves, and because the family that make the grants lives there.

STEPS TO CONSIDER DURING A TOUGH ECONOMIC CLIMATE

Based on what foundations are telling us they are doing, NCFP offers the following **10 steps you can consider**:

1. **Raise payout for 2009.** Some large foundations are raising it to 7% and smaller mid-sized ones as much as 17% (even those currently committed to perpetuity). Most are trying to approximate their 2008 grant totals. Some donors also are adding to their foundation endowment or advised fund so the base is bigger.

2. **Re-negotiate the terms of existing grant agreements.** For example:
   a. Extend the time the grantees have to complete the work;
   b. Allow grantees to allocate the funds to other needs that may have become more pressing since the grant was awarded;
   c. Drop the match requirement for challenge grants;
   d. Make payments sooner than originally planned;
   e. Extend the time to pay out grants to larger, better endowed grantees to free up dollars for smaller, more vulnerable grantees.
   f. Adjust expectations for what the U.S. dollar will buy overseas. For some international grants, the value of the dollar has declined since some multi-year grants were made.

3. **Rather than dipping into fragile investments, take a line of credit** against assets, then make grants and pay operating expenses from that credit line.

4. **Offer emergency grants and loan programs** to current or even new grantees.

5. **Provide support beyond grants.** For example, convene regional nonprofits to identify problems, work on solutions, and keep funders and nonprofits communicating.

6. **Offer technical assistance** to those dealing with legal, real estate, personnel, and financial questions that are either beyond their normal scope of expertise or were once handled by staff that had to be cut back.

7. **Change the timing or frequency of your grant cycle** so grantees don't have to wait as long to apply or receive an answer.

8. **Eliminate some of the paperwork** from the application and reporting processes—recognizing that nonprofits may have fewer staff with less time.

9. **Discuss your position on perpetuity.** Some of you will recommit to perpetuity in light of the concern for future generations and community needs. Others will decide that perpetuity is not the reason they do this work and will focus on having the most impact immediately. Either way, have the conversation.

10. **Focus on relationships** as much as on corpus. Keep in touch with your grantees so they feel supported and keep in touch as a family as well. This is what giving families do best and will, more than anything, help us get through the gloomy economic days to come.

the challenge is to fulfill already made commitments, while at the same time responding to the immediate and critical needs of those caught in the current economic crisis.

The sudden economic downturn has, according to some observers, jolted both old timers in family philanthropy and younger family members. The veterans see their steady world of giving turned topsy-turvy by the drop in assets, disruption of long-range grantmaking plans, and rapidly increasing community needs. Younger family members—many of them raised in today's secondary school environment of community service and volunteering, and less experienced in the ups and downs of Wall Street—are both eager to help in community work and anxious about the fall in portfolio values.

FAMILIES ARE CONCERNED AND INVOLVED

The National Center survey suggests that, overall, families in philanthropy are highly informed on current economic and financial events and keep abreast of developments daily. Family foundations and other philanthropies are holding emergency meetings of family members, boards, outside advisors, grantees, and community leaders. Family philanthropies have established regular contact with other foundations, nonprofit groups, community foundations, and government officials. Families that normally shun publicity feel that current circumstances warrant an extra dose of transparency and extra effort to inform the community on their activities.

Families are continuing to consult their money advisors and managers, foundation portfolio managers, and brokers; surprisingly, none of those contacted has discharged a professional manager, even in the face of substantial portfolio losses. Family members who are financial professionals are especially relied on for advice. Outside advisors, including wealth managers and lawyers who specialize in nonprofit law, are extremely busy. As to the future, far less is certain; several family foundation leaders predicted that foundation portfolio management strategies in the future may be based on more conservative growth models than in the past, with preservation of capital a prime consideration.

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Although nonprofit organizations have expressed concern that foundation funding priorities may shift because of the economic downturn, research indicates that their fear is by and large unfounded. A research advisory issued Nov. 11, 2008, by the Foundation Center shows that foundation grantmaking priorities in most areas — such as the arts, health, and international affairs — do not shift suddenly because of reduced resources. "Yet, foundations do respond to pressing demands outside of their core focus areas during times of exceptional need," the advisory says. "For examples, U.S. foundations provided $700 million in the aftermath of 9/11 and almost $500 million through mid-2007 for relief, recovery, and rebuilding efforts following the 2005 Gulf Coast hurricanes. However, foundations may use discretionary or emergency funds or tap their endowments to provide that support, rather than cutting back on support for existing funding priorities."

The advisory, titled "Do Foundation Giving Priorities Change in Times of Economic Distress?", cautioned that historical patterns might not always hold up in current circumstances. Steven Lawrence, senior director of research, noted "There is no guarantee that patterns seen during the early 2000s economic downturn will predict how the current reality will unfold. But nonprofits should be reassured that dramatic changes in overall foundation giving priorities are unlikely."

What's Right for the Family, Foundation, Grantees, Beneficiaries?

Families in philanthropy are exploring options for preserving their family wealth and philanthropic assets and helping to ensure the ability of their grantees and ultimate beneficiaries to make it through the crisis. That's a tall order, given the severity of the turmoil and the rapid drop in asset values that almost everybody has experienced.

Although no universal response has been observed, or is likely, a spectrum of responses does show up on the screen of analyst/advisors such as Amy Zell Ellsworth, senior staff member with The Philanthropic Initiative, a nonprofit advisory team in Boston that since 1989 has designed, carried out, and evaluated philanthropic programs for individual donors, families, foundations, and corporations. Ellsworth, interviewed in December, sees these major markers on that spectrum:

- **Increasing Giving:** "We have clients who, in spite of reduced resources, are increasing their giving at this point, with an understanding and recognition that times are tough. As one of our clients put it, he realizes that even with his significant financial losses, he's always going to be stable and financially comfortable. People who are the hardest hit are those already struggling. So his philosophy, and one that we support, is to stay the course. He is dipping into capital to do that."

- **Holding the Line:** "We have other clients who have made commitments and are sticking with them out of respect for the organizations that they support and the populations they serve. Some have been lucky because they make their gifts quarterly, which means they got some philanthropic dollars out the door in advance of the drop in values In addition, they are not reducing grants for the fourth quarter."

- **Cutting Back:** "Other funders are cutting back pretty dramatically. They have lost a great deal and are concerned about being able to stay viable. They want to be able to make a difference in the future as well as at present. That is in contrast to those who feel that the real answer is to make commitments now, when they feel organizations are at the greatest risk."

PHILANTHROPIC FAMILIES TAKE LEADERSHIP ROLES

In a crisis, leadership counts. The Meadows Foundation, one of the largest foundations in Texas, feels a special responsibility to maintain contact with and support for its hundreds of grantees, spread throughout every county of that huge state. "We've been through this before," says Meadows Foundation President Linda Evans, "After 9/11, when charitable donations were redirected to assist victims in New York and Washington and support of local agencies declined, we changed our funding priorities and deferred supporting projects that were not critical in nature. We focused on emergency operating support to meet immediate needs of the Texas nonprofit community and offered bridge loans to some agencies," Evans says. "In addition, we deferred most capital gifts and invited agencies conducting capital campaigns to come back when things improved," she adds.

"So we had a template for this crisis," Evans continues. "We took action right away. The board is watching our budget closely and approving it on a quarterly basis. We are paying all current commitments to grantees and are making new grants to support critical needs. We are looking at every possible way we can to help. For example, we've allowed tenants whose leases were about to expire in rent-free space on our nonprofit Wilson District campus to stay in place. We extended it for a year on an emergency basis, to give them some breathing room. You can only imagine how valuable that is to them," Evans adds.

"In addition, the foundation will continue to convene meetings with our funding partners to develop funding collaboratives. We understand that none of us can address this economic crisis alone but together, we can and will make the difference," she concludes.

The William and Flora Hewlett Foundation led by getting out in front of the family foundation community with a concise, coherent policy response statement and sharing it with the world. On October 29, shortly after the meltdown began with the implosion of the Bear Stearns and Lehman Brothers investment firms, the foundation released A Note on the Economy disclosing that it had "experienced a sharp decline in its assets." It then set the tone for many other family foundations that were just beginning to consider options.

"Our response," the Hewlett statement said, "is motivated by the principle that, insofar as possible, our grantees should have the resources they need to achieve our shared goals." To that end, the foundation said that it would honor grant commitments made in 2008 and previous years and that "we also plan to increase the percentage of our endowment that will be paid out in grants in 2009." The foundation said it would not embark on some new initiatives and that, despite the increase in the payout rate, 2009 grantmaking would likely be reduced by 5 to 7 percent compared with 2008.

This statement, widely circulated in the family philanthropy universe, gave boards early guidance on how one leading family foundation was approaching policy decisions early in the meltdown.

FAMILY FUNDERS ARE JOINING EMERGENCY COLLABORATIONS

One positive outcome of the economic crisis is that more foundations are working collaboratively. For example, the *Boston Globe* reported on four Boston family foundations that awarded $1.1 million to food banks, fuel-assistance programs, and other nonprofits providing basic needs in order to help bridge the gap caused by shrinking donations during the holiday season.

The Eos Foundation had planned to award $100,000 for basic needs, the *Globe* reported, but decided to increase that amount in light of rising food and fuel costs and the mortgage-foreclosure crisis. To expand the effort, Eos reached out to the Highland Street Foundation in Framingham, the Boston-based Paul and Phyllis Fireman Foundation, and a third family funder who chose to remain anonymous. The combined effort is channeling funds to some 30 nonprofits in the metropolitan area, including $400,000 to the Greater Boston Food Bank, which serves 600 food assistance program programs in 190 communities.

STORIES FROM THE FIELD SHOW RANGE OF PHILANTHROPIC RESPONSES

Families in philanthropy all face similar questions: What's happening with our philanthropic resources? What should we do about grantmaking? Where can we cut our own expenses to free up funds for charitable giving?

The National Center has collected representative anecdotes from family foundations and other philanthropies that show the range of concern and creativity that families around the country are expressing.

Hutton Foundation: Founders' Real Estate Savvy Benefits Nonprofit Agencies

Santa Barbara, California
Thomas C. Parker, President

"We were founded by real estate entrepreneurs and funded by wealth generated in real estate, so it was natural for the Hutton Foundation to seek opportunities in the economic crisis. A downturn in property prices led our board to purchase a building at a bargain, renovate it, and offer it to nonprofit agencies. We consider this a mission-related investment, and it is working out just fine for the nonprofits and for the foundation. We currently own, manage, and operate 13 such properties throughout the Santa Barbara region, all benefiting local area nonprofits."

Walter & Elise Haas Fund: Freeing Up Funding for Emergency Needs

San Francisco, California
Pamela H. David, Executive Director

"We are holding our programmatic funding steady from 2008 levels, in absolute value. In 2008, we began separating our 5 percent payout from administrative costs; we did this because we thought it best to be as transparent as we can, even though the majority of our administrative expenses are directly related to our grant making. In 2008, the 5 percent payout came to $12.3 million, using an average of the portfolio's value over the prior 12 quarters. The trustees have agreed to continue this method and level of payout, which comes to $12.35 million in 2009.

"With this level of funding we are able to maintain funding in our four primary program areas at 2008 levels. We are reducing funding for capital projects, however, because many of these are slowing down or being suspended. I've also reduced my own grantmaking budget, which I used to support various leadership and civic engagement initiatives. By doing so, we are able to carve out nearly $1 million for a 'safety net' initiative, in which we hope to partner with other foundations, local government, and other organizations to address emergency needs related to the economic downturn.

"Finally, we are following the lead of the James Irvine Foundation by sending out a letter to grantees saying that we understand that times are hard, which may change your plans, goals, or grant objectives. Our letter invites grantees to come and talk with us about their problems, and it lets them know we will give them as much flexibility as we can within the general contours of their grant objectives.. The board of trustees and staff believe that we have to give our grantees, who are doing important work in our community, as much flexibility as they need to get through this tough period."

The Nathan Cummings Foundation: Cash Management Is Critical

New York City
Lance E. Lindblom, President & Chief Executive Officer

"The most difficult issues involve cash management, to meet future grant commitments, our own operations, and so forth. With the market fall, a foundation may face unanticipated capital calls, where you have to provide capital on a commitment to a private equity fund, for example. You are contracted to meet that call. Or you may need cash to meet a grant commitment.

"We're now figuring out our budget for 2009. Even given the hits, next year is not going to be massively affected. We work on a rolling average of 12 quarters over three years. We take 5.75 percent in figuring our budget. In the past three years, we had a number of very high quarters, and now we have lower quarters. It will smooth out. We won't know about next year's budget until we see the last quarter of 2008.

"We will meet our commitments. But foundation people are very, very worried. Larger foundations can smooth out their hits, but smaller foundations will be hit much harder, and 2010 will likely be worse for grantmakers than 2009. In nonprofits, there will have to be mergers, triage, that's just going to happen, because there are going to be fewer resources."

Lumpkin Family Foundation: Listening to the Community, Meeting Its Needs

Mattoon, Illinois
Bruce Karmazin, Executive Director

"Our grantmaking decisions are made by committees composed of family members and community representatives. The board allocates a budget to each committee, then ratifies committee decisions. We have lost about one-third of our endowment value, and reductions in grantmaking are likely in 2009 and more so in 2010, depending on market performance. Our area of coverage is 16 counties in East-Central Illinois, which is the traditional area served by the telephone company that created the wealth for the foundation.

"The board has trimmed each committee's budget and redirected those funds into a Board Opportunity Fund that the board can use to respond to urgent community needs. We were already in the process of creating what we call a Virtual Center for Nonprofit Management—a network of nonprofit service providers such as community foundations, United Ways, and others—to help connect organizations throughout our region. Now, because of the economic downturn, we are bolstering the amount of community convening we do as part of that launch.

"We are doing our biannual conference in 2009, but we are also planning a fairly significant convening, probably in the early spring, to get people talking about their response to the economic crisis. We also plan periodic meetings in communities across the region several more times throughout the year, under the direction of the center's community steering committee and with the help of local institutions. The Lumpkin Family Foundation instigated the effort and we will pay expenses, but the community is running it.

"Because our assets are down, we have trimmed back almost evenly across programs. The good news is that the board has increased payout to 6 percent in 2009. And we will have about $400,000 in the Board Opportunity Fund to support important ideas or projects we uncover through our convening, or during the normal committee process—particularly in support of smaller, vulnerable agencies.

"We don't generally work in the basic needs arena, but because the family is closely tied to the area, we try to listen. Even before the financial crisis hit, there was growing need at food banks, more basic needs. We were hearing news about government cutbacks or holdbacks of funds for universities, and the like. We are listening."

William Caspar Graustein Memorial Fund: Sticking with the Strategy

Hamden, Connecticut
David Nee, Executive Director

"I expect our portfolio to be down about 15 to 20 percent for the year. We expect to roll forward with the same advisor and largely the same balance of underlying managers. We will probably scale down the size of upcoming investments in venture capital/private equity, because we are now somewhat unbalanced in that direction and because of liquidity concerns going forward. We somewhat anticipated the liquidity crisis in mid-September and drew cash for all our obligations through December 31. We anticipate a large distribution from TIFF's Multi-Asset Fund on that date, so we are probably good through the first two months of the New Year for cash flow.

"We are already in active partnership with state government, and expect to offer $550,000 in matching funds to the state: $300,000 for local plans to improve early school success for children ages birth to age eight; and $250,000 for parent leadership development. I expect the Memorial Fund will maintain this offer. Whether state government can step up is an open question.

"We are committed to a strategy—our Discovery Initiative—through December 31, 2009. I do not anticipate major changes before then. I have invited staff to think about whether our director's discretionary fund, some $150,000, should be applied this year only to basic needs.

"Short term, our course is clear. For our next five-year plan, 2010-2014, we will need to weigh just how different the world has become, and tailor strategy accordingly. It may be that we will all drive smaller cars and live more modestly. I do not have a decision rule in mind as to what level of unemployment (for instance) would lead us to abandon strategic grantmaking and focus totally on basic needs."

The Pembroke Perlin Fund: Being Extra Diligent with Long-Time Grantees

Seattle, Washington
Mary Pembroke Perlin, Donor

"These times definitely make you more cautious in all your spending, whether it's philanthropic or other. Overall, we are being extra diligent with the people we have funded before, staying in close touch with them, reassuring them that we will continue our support. In some cases, even if we don't spend as much cash in grants in 2009, we are thinking about multiple-year pledges, just to add that extra bit of security to some of these grantees. Instead of doing all of a grant upfront in one year, we are looking at some that we would do over three years.

"These multiple-year grantees would be mostly our basic need grantees: food, clothing, and shelter. We focus on basic needs and self-sufficiency for women. A lot more women and single women with children are in need, and there are still too many hungry children in this country.

"We do not do a lot of specific program-related funding. We support general operations. We are very small, we have 15 to 20 grantees, sometimes up to 30 in a year. Our grants are $5,000 or less. Our area of concern is the Pacific Northwest.

"Out in the neighborhoods, we are definitely hearing from a lot more development directors. The volume has increased. They are asking us not to forget about them. The nonprofit boards I am on are taking a long look at priorities, making sure that they can meet their top priorities first, if spending has to be trimmed. But very few nonprofits have much to trim to begin with. They operate pretty close to the bone. Still, many are doing planning that maybe wasn't part of their three- to five-year strategic plan. They have impromptu meetings and ad hoc task forces set up to deal with what happens if there is a real crisis in donations over the next year.

"Our Regional Association of Grantmakers, Philanthropy Northwest, has definitely convened meetings around this topic, about funding in an economic downturn. The Seattle Foundation has also been calling some conversations and organizing gatherings of donors. It's critical that grantmakers network right now and talk about how we weather this storm."

A Classic Family Philanthropy: Close to the Community

"We don't have any staff. Just my husband and me. Our donor-advised fund is held by the Seattle Foundation. A family fund is a different milieu from other philanthropy. I used to be head of a corporate program, and family philanthropy is more on the ground. Literally, one of my biggest grantees is three blocks down the street, one of the biggest providers in Seattle. Their mission is to eliminate poverty, and they have many, many programs throughout the city. So when they bring me a grant proposal, they literally come to my front door. We are going to stay dedicated and reassure the nonprofits that we're not going to go away and want to continue to work with them to ensure their success." —Mary Pembroke Perlin

The Weaver Foundation: Alleviating Suffering Close to the Ground

Greensboro, North Carolina
Richard L. (Skip) Moore, President

"We will follow the same strategy that we followed in 2001, when the technology bubble burst. That is, we have a $2 million line of credit, which we will exercise and live off of as long as we can, so that we don't have to sell any of our endowment assets. When the market comes back, or we see some improvement, then we will sell some assets to clear the line of credit. With other money coming in, we should be able to meet our grant commitments.

"Our strategy in 2009 will probably be to tilt toward the agencies that meet immediate, emergency human needs. That will be balanced by commitments we have made to community and economic development, but we will be looking at feeding and housing people. We are rescheduling some pledge payments that are, for example, for a capital campaign pledge to a university. When appropriate, we are pushing those back toward the end of 2009 instead of paying them in January or February. If we can avoid selling assets at the bottom of the market, we will have more resources for future philanthropy.

"The nonprofits are telling us that they see an increase in client loads. In some cases, they are seeing an increase in working poor in addition to those who are down and out altogether. Distress has moved up the economic scale. We are hearing that a lot of the emergency funds are expended, money to keep the heat and lights on. Agencies fear an increase in the homeless population, and they foresee an increase in emergency shelters. In hard times, people tend to come into the central city area, which increases the service population. We have just committed some money to a group that is forming a day shelter.

"We are talking with other funders. The Greensboro Community Foundation and the United Way are going to put together an emergency fund that will seek money from foundations and the public, which will then be regranted to nonprofit agencies that do emergency feeding and housing. A grants committee will allot the money out."

Surdna Foundation: Holding Fast
New York City
Phillip Henderson, President

"The New York Regional Association of Grantmakers held a meeting recently that drew about 25 or so CEOs or senior people from foundations in the New York area. We talked about this whole set of issues. The three big questions were: What's the financial health of our own intuitions? What's the health of our grantees? What are the trend lines for other sources of funding dollars — government, corporate, individuals? The answer was for all three, it's too early to tell, and we should get back together early in the New Year and see what more we could be doing. The majority expected their funding to stay the same. Surdna is in that group. Most of these institutions try to create a more stable environment for their grantees, and not turn away when times get tough.

"Our assets are down over the past 12 months, like everybody else's. We're not sure where the bottom is, and we're feeling a strong sense of uncertainty right now. Our only advantage is that our fiscal year is July 1 to June 30, so we are only halfway through a year and therefore only at the beginning of planning our budget for next year. That really gives us a chance to wait to see whether we have reached a bottom in terms of the financial markets. We can spend more time talking with and listening to our grantees, going beyond the basic assumption that it's going to be bad and that grantees will suffer. So we can actually get a flavor of what that's going to look like.

"We determine our spending on a trailing 12-quarter average value of foundation assets, which is meant to smooth out spending over time. That means that, for the coming year, using this model our projected spending does not go down much. Depending on how long our endowment values go down and how low, we might have to reconsider at least for a temporary period the 12-quarter spending rule, so that we don't substantially deplete our core assets.

"If the market does not rebound, using the 12-quarter spending rule will mean that the immediate future for us is stable, in terms of spending, but the downturn will have a bite a couple of years out. We might decide to take a bit of that hit earlier.

"Our basic assumption is that everybody's going to suffer. We do a lot of work with community development corporations and other local advocates, many of which are direct recipients of state or local or federal grants. State and local dollars are going to be very scarce in the coming period. Nonprofits that rely on corporate dollars, particularly from the financial community, as so many do here in New York City, are going to be strongly affected. Individual giving is going to go down.

"As to dipping into principal, Surdna has rarely done this. It is a 90-year-old institution. We were formed in 1918, before the Crash and the Great Depression. We have reaffirmed in several periods, including within the past year, a belief that perpetuity is the way to go. We will remain perpetual."

Flora Family Foundation: Finding Ways to Meet Commitments
Menlo Park, California
B. Stephen Toben, President

"Our assets are down 20 percent this year. We have decided to assume about a 20 percent reduction in our grantmaking next year. That sounds pretty draconian, but we have a structure that will not inflict as much harm as it otherwise could. We have a modular program. We inform grantees each year that they should not assume that a particular award is likely to be renewed in ensuing years.

"Even though we turn over about a third of our portfolio every year, we are very careful about maintaining adherence to what we call a 10 percent guideline, so that our funding never represents more than 10 percent of an organization's budget. We are careful not to create a dependency relationship with organizations. There are some exceptions.

"Very few people could have foreseen a year ago what has happened this year. So our withdrawal or non-renewal will not be pain free. At least we've tried to be very clear in putting organizations on notice that we are not able to renew. We do make multi-year grants, and we are not in any way planning to reduce the commitments that we have made going forward into 2009 or 2010. For example, we have $1.5 million in grants for two- and three-year commitments and we will not retreat from those, even if it means that in 2009 and 2010 we will be spending in excess of 5 percent.

"We have limited our administrative budget to a 2 percent increase. Mainly, that is just cost-of-living adjustments for salaries."

FAMILIES FIND THE TRUE MEANING OF PHILANTHROPY

After all the talk about assets and grantees and client loads, families in philanthropy are in these hard times realizing anew the value of their work in the most immediate possible way. They are not talking about changing the world, but about keeping people warm and fed and safe this winter.

It is important to note that, in many communities, support is a team effort that arises from the realization that everybody is in this jam together. Businesses and their corporate giving arms, community foundations, civic groups, and individuals are all stepping forward to do their part. Once again, however, as in previous crises, many communities are finding that family philanthropies are—among all government, corporate, and charitable supporters—the most ready to respond to, knowledgeable about, and involved in the local community.

NOW, A WORD FOR THE GRANTEES

One commentator is already sick and tired of the depressing news for nonprofit organizations. Jan Masaoka, writing in Blue Avocado (www.blueavacado.org) on January 2, 2009, offers this advice to nonprofits:

Declare an emergency. When people have permission to think and act out of the normal groove, they can be bolder, more creative, and energized, or at least more ready to accept changes. So say it out loud: "We are in an emergency period…."

Schedule worrying for later. Don't feel guilty if you aren't worrying just because everyone else is.

Do less with less. If a program's funding has been cut by 30 percent, you may need to do 30 percent less. The best decision may be to open fewer days a week, hold fewer performances, or stop taking children over five. On the other hand, *working harder might be necessary*, at least for awhile.

Ask for help, even if you don't know what would help. Yes, I'm talking about you executive directors… I realize that as executives we like to tell the board about a problem only if we already have a solution in mind. It's much harder to go and say, 'Help. I don't know what to do.'

Call a community summit on your behalf, and see if they can support you. In the end, we can only do what our constituents will support us to do.

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The next couple of years will be rough for all of us—grantmakers and grantees alike. Because we want all family foundations and funds to learn about how their peers are responding to the economic crisis, we are making this *Passages* available at no charge. Normally, *Passages* issue papers are available only to our Family Philanthropy Online Knowledge Center subscribers and *Friends of the Family*.

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WE WELCOME YOUR COMMENTS.

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