Before Sunset:

Recommendations for Spending Down a Foundation and Extending Impact

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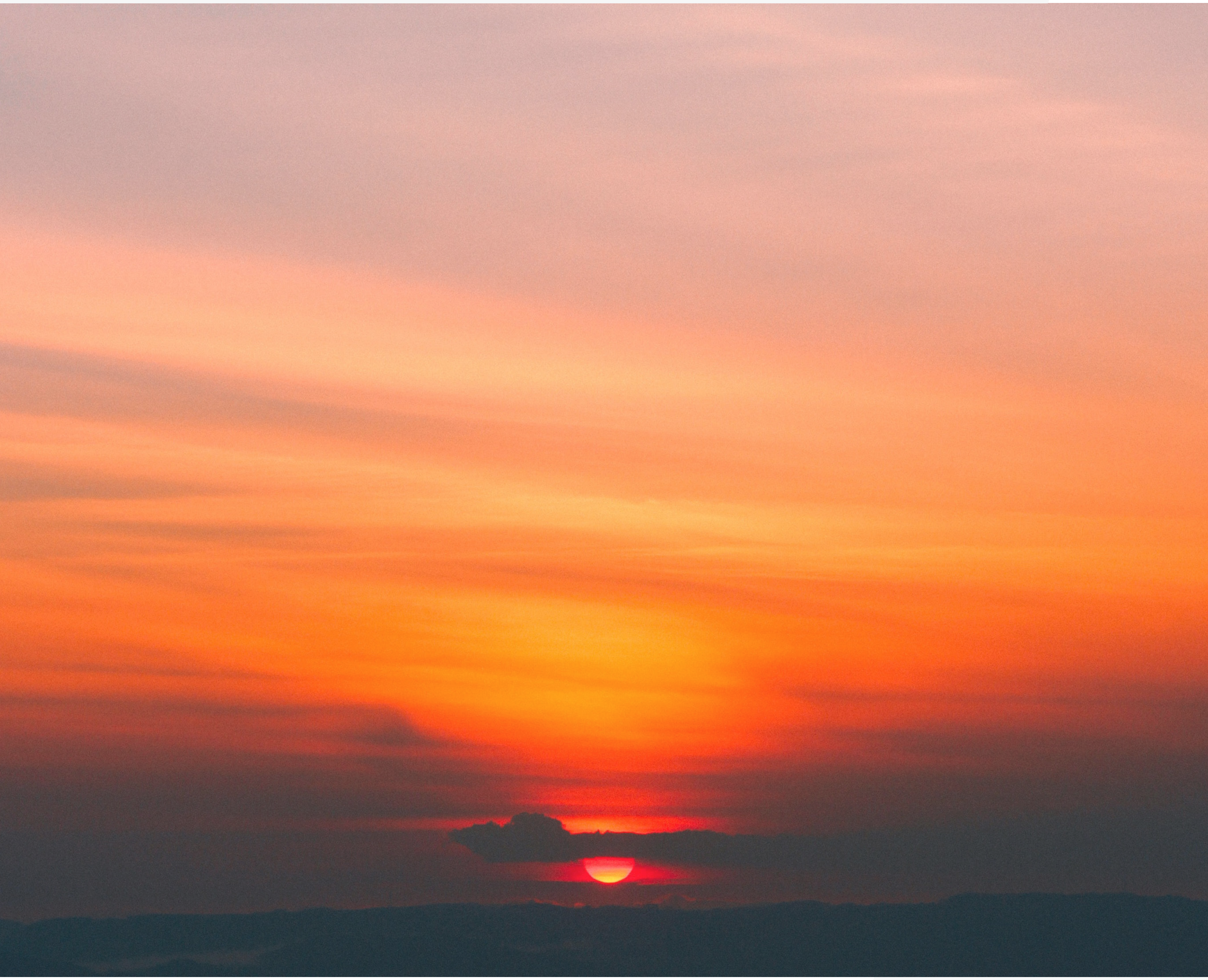

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Introduction

Foundations that decide to sunset—to fully spend down their endowments over a set period—have the opportunity to allocate their substantial resources to catalyze change and support sustainable resourcing for organizations and movements. Realizing the full promise of a successful spend down requires thoughtful, strategic, and careful planning. Thankfully, there is a growing wealth of knowledge about spend-down best practices as current and former spend-down foundation leaders share the many of approaches they took to planning their sunsets, partnering with grantees and peer donors, supporting staff members and maintaining internal capacity, and influencing the field.

With support from and in partnership with the Kataly Foundation, Arabella Advisors conducted one-on-one interviews with many current and former spend-down leaders and gained valuable insights about the practices their foundations employed. The following report presents what we learned and accompanying recommendations that, if implemented, could help future spend-down foundations extend their impact far beyond their limited lifespans. We hope the information we share here will enable spend-down foundations to be good partners to the grantees and movements they support, positive conveners and educators for peer funders, and supportive employers to their teams.

Partners

How Spend-Down Foundations Support Their Grantee Partners

Spend-down foundations must strike a delicate balance with their grantee partners. While many may understandably wish to make major, catalytic investments in their partners, they must also intentionally and thoughtfully promote partners' independence and guard against organizations' over-reliance on a single donor. Spend-down foundation leaders noted that, ideally, the organizations, movements, and ecosystems a foundation supports should have sustainable funding by the end of the foundation's lifespan. Overall, most spend-down leaders interviewed for this report were willing to do everything in their power to support grantee partners in achieving financial sustainability, and the leaders checked in regularly with partners to ensure they were working toward shared goals. The most successful spend-down foundations had highly collaborative relationships with their grantee partners and developed supports based on grantees' needs, feedback, and suggestions.

As part of a foundation's efforts to minimize the impact of its exit on grantee partners, leaders suggested:

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Communicating openly and transparently about grantee partners' funding trajectories	Helping grantees build and enhance their development capacity through non-monetary supports	Offering flexible, long-term funding	Making use of creative grant structures to maximize grantee support	Focusing evaluation efforts on the needs and goals of grantees over those of the foundation

Supporting Grantees: What Worked

1. Ensuring clear grant trajectories.

Informants stressed the importance of determining and communicating clear final funding timelines with grantee partners as soon as decisions had been finalized internally (ideally several years before the grantee relationship end date). However, some informants believed it was important to standardize grantee trajectories, which would streamline foundation operations. Other informants wanted to customize grantee trajectories to create grantee relationships that were more responsive to grantee partners' needs. The informants who favored standardized funding trajectories suggested grouping grantee partners to minimize confusion internally and enable more effective long-term planning. (For example, grantee partner group A would receive three final years of funding, grantee partner group B would receive four final years of funding, etc.) The informants who created individualized trajectories for each funding relationship, often foundations with smaller grant portfolios, required increased grants-management capacity to manage relationships on non-standard timelines. Across the board, informants agreed that regular and open communication with grantee partners was essential.

2. Providing non-monetary supports.

Informants noted that they supplemented final grants with non-monetary support, though foundations solicited differing levels of input from grantees on the support they offered. Ideally, the foundation would work closely with grantees to understand the kinds of non-monetary supports they would find useful and provide support flexibly and responsively. Non-monetary support includes:

- Building peer networks and relationships by hosting grantee convenings and making introductions to facilitate exchange and learning.
- Providing consultant support to help organizations build essential organizational capacities, such as marketing and communications functions to better reach essential audiences, or better development databases to effectively steward donor relationships.

- Helping grantee partners solicit future funding by helping them fill out and submit applications.

Many foundations worked with grantee partners to understand which types of support would be most helpful, using surveys, small-group conversations, and regular check-ins. In addition to providing discrete services, all funders we spoke with were committed to doing whatever they could for their grantees and felt comfortable improvising to meet their needs.

3. Giving flexible multiyear grants.
Informants encouraged giving larger, multiyear grants toward the end of a spend-down foundation's lifespan and allowing grantees to determine their own disbursement timelines. The Brainerd Foundation, for example, found that multiyear grants reduced the ambiguity of the spend-down process for grantees and made more tangible the fact that the foundation would no longer exist or give grants after its sunset. The Quixote Foundation allowed grantees to determine the disbursement timeline of the organization's final grant within the five-year window of the foundation's final years.

4. Creatively structuring grants.
Beyond emphasizing the importance of multiyear funding (specifically general operating support), spend-down foundations employed several creative grant structures to maximize support to grantee partners. Some spend-down foundations established designated funds such as a "capacity-building fund" or an "innovation fund," which provided grants intended to build the capacity of organizations' development teams or encourage out-of-the box, experimental programming, respectively. Other funders provided recoverable grants, especially to fund targeted needs that would promote financial sustainability and/or unlock additional income for the organization. Finally, for extremely mission-aligned organizations, some funders provided funds to seed an endowment or, for smaller organizations, left funds intended to serve as an endowment with an intermediary funder.

5. Conducting responsive evaluation.
As spend-down foundations near their sunset date, it becomes even more important to center grantees' learning goals in evaluation practices rather than prioritize foundation-driven metrics. Given the foundation's limited lifespan, its evaluation practices should encourage and enable grantees to conduct learning activities that are useful for their varied goals, such as program improvement, reports to other funders, or influencing the field through thought leadership.

Supporting Grantees: What Didn't Work

Remaining too open-ended.
Multiple interviewees wished they had narrowed their foundations' focus and strategic priorities earlier. One foundation's leadership team, for example, regretted waiting until its final five years to reduce the number and range of grants it made and wished that it had instead invested in fewer, larger grants earlier. Spend-down foundation leaders also wished they had communicated their narrowed focus to existing and potential grantee partners more transparently. For instance, one foundation reflected that, toward the end of its spend-down, it continued to accept proposals for new organizations and projects when it was not in a position to enter into new funding relationships. It admitted that openly communicating the fact that the foundation was not open to unsolicited proposals would have been a more responsible approach.

PLATFORMS

How Spend-Down Foundations Influence the Field

Many of the foundation leaders we interviewed were among the earliest and most visible leaders to intentionally spend down their assets; accordingly, they were very attuned to their roles as thought leaders and donor organizers. They discussed the ways in which their foundations sought to influence peer donors' approaches and priorities, and the ways in which they continue to shape the field long after the foundations' sunsets, including by:

1. Dedicating time and effort to cultivating support for the foundation's priorities and grantees among peer donors

2. Planning ahead to gather and share lessons from the spend down with the field

Supporting the Field: What Worked

1. Building support among peers.

All informants recommended that a spend-down foundation take responsibility for building the necessary support for its priorities among other funders. Given that foundations cannot control what organizations or issues peer funders ultimately support after they sunset, foundations went to great lengths to encourage sustained engagement with—and, ultimately, adoption of—their priorities. Foundations took a range of approaches to peer donor organizing, including:

- **Individual donor outreach.** Most spend-down foundation leaders made direct calls to individual donors and colleagues at other foundations, offering their knowledge about issues and strategies. Our informant at the Beldon Fund noted that newer donors and foundations with limited staff members most appreciated this kind of direct outreach.
- **Collaborating with peer funders.** Foundations collaborated with other funders to exchange information to ensure their funding was complementary.
- **Intensive donor education.** The Brainerd Foundation established the Northwest Conservation Philanthropy Fellowship, a program designed to deepen the strategy and commitment of a pre-existing informal network of Seattle donors. The foundation provided annual cohorts of approximately 10 individuals with an in-person, experiential dive into an environmental issue area involving external speakers and mentorship from Brainerd's co-directors. Informants considered the program one of the foundation's clearest successes and noted the power of having peers from across a pectrum of backgrounds educate one another. Annual giving from the fellowship's 70 graduates has since grown to exceed the Brainerd Foundation's average annual grantmaking during its spend-down.

2. Sharing lessons.

The organizations we spoke with memorialized their spend-downs online or through published documents to preserve and share their knowledge. Many informants hired communications consultants and recommended that foundations start distilling their knowledge early before any staff members depart.

Supporting the Field: What Didn't Work

Writing without an audience.

Foundation leaders cautioned against overinvesting in memorializing spend-downs or developing content for the field writ large without a clear understanding of how audiences would use the content. Any evaluations or process documentation conducted should have specific audiences in mind and should provide immediate, practical value to practitioners.

PEOPLE

How Spend-Down Foundations Support Their Staff

Staff members are the lifeblood of a foundation, and the leaders we interviewed took great care to establish generous and transparent systems to support these staff members and ensure their continued leadership beyond the life of the foundation. As former Quixote Foundation Executive Director June Wilson poignantly explained, a spend-down foundation can and should think of supporting staff members to transition out of the foundation as a crucial extension of the foundation's impact and legacy; that is, it is an investment in helping these individuals use their vast, cumulative knowledge to help grow new organizations and movements.

A staff member working for a spend-down foundation knows their remaining time in the role is limited. This can be a stressful proposition, which may encourage staff members to seek and secure alternative employment prior to the end of a spend-down foundation's lifespan. Ultimately, this can make staff retention a challenge for limited-life foundations. But if spend-down foundations make a point to support their staff members throughout their tenures and beyond—especially through their transitions from the spend-down foundation into their next chapters—these foundations can improve retention, help their staff hone their skills and grow their networks in preparation for their next roles, and contribute to building a pipeline of strong talent in the philanthropic field.

The leaders we interviewed emphasized four primary practices to this end:

1. Communicating the foundation's spend-down timeline, and its implications for staff members and programs, early and often
2. Offering generous compensation and severance packages that incentivize staff member retention
3. Providing career counseling and other supports to ease staff members' transitions
4. Supplementing staff capacity using external consultants to account for more variable needs toward the end of the sunset

Supporting Staff: What Worked

1. Communicating early and often.

Spend-down foundation leaders we spoke with emphasized the importance of transparent communication with staff members throughout the spend-down process. They noted that, ideally, staff members would receive regular updates on the spend-down planning process and would be notified as soon as the foundation determined the projected end date for their specific role (which would happen no later than 18 months before the foundation's planned end date).

These communications should happen during all-staff meetings, and the timeline of each staff member's individual role should be part of regular one-on-one meetings with supervisors.

2. Providing retention packages.

All informants belonged to foundations that provided highly competitive, individualized, monetary retention bonus packages to incentivize staff members to stay through their individualized, role-specific end dates. The foundations developed their staff member end dates and accompanying retention packages based on each foundation's projected staff needs and each individual staff member's tenure and role. Features of retention packages included:

- A pledged minimum notice from the foundation before the staff member's role would end; notices ranged from three to 18 months in advance.
- Severance pay ranging from three months' to two years' worth of salary, increasing with tenure, for staff members staying until their projected termination date. Informants agreed that, in hindsight, severance pay should be at least six months' worth of salary.
- Phased severance, giving employees who opted to leave before their projected termination date a prorated percentage of their severance benefits.

3. Investing in staff futures.

Spend-down foundation leaders supplemented monetary compensation packages with nonmonetary benefits and supports to help staff members transition to new roles after the sunset. Informants emphasized the importance of regularly soliciting staff members' input to ensure the foundation provides the types of support most useful to them.

- The Bechtel Foundation, Brainerd Foundation, and Beldon Fund offered professional development funds to support career transitions, which staff members could use at their discretion to fund activities such as career counseling, courses, trainings, and financial planning.
- In the years leading up to their foundations' final sunsets, these foundation leaders further supported staff transitions by providing and encouraging more flexible schedules, elevated job titles, impassioned references, and secondments to mission-aligned organizations.
- Some foundations also incorporated career-transition preparation into their performance-management practices. The Bechtel Foundation, for example, made planning for employees' careers beyond the foundation a part of its formal performance review process to ensure employees were working toward their larger professional goals beyond the foundation's lifespan.

4. Adopting flexible staffing models.

Given the dynamic and, at times, unpredictable nature of spend-down planning, many informants relied on external consultants to provide supplemental staff capacity as the foundation neared the end of its lifespan. Sometimes this was required to fill a gap left when a staff member departed earlier than expected, while other times it was in response to the growing and shrinking of different types of tasks as the foundation closed out its grantmaking and operations. The Beldon Fund, for example, placed a senior consultant on retainer to fill gaps as needed. The Edna McConnell Clark Foundation, on the other hand, seconded several Bridgespan Consulting staff members to assist with the creation of its successor organization, Blue Meridian Partners, allowing most of the foundation's program staff to continue supporting its grantees until that work was completed.

Supporting Staff: What Didn't Work

Offering support without considering sustainability.

An informant regretted that their foundation's one-year fellowship program, which subsidized the salary and benefits of departing staff members who moved to organizations with similar interests, did not lead to more permanent jobs. The interviewee noted that the foundation had not accounted for the fact that the fellowship's host organization could not sustain the positions beyond the fellowship's single year, and instead the foundation only focused on the short-term goal of finding a landing place for departing staff members. Ultimately, this created even more career disruption and volatility for staff members. Our informant suggested that any programs intended to transition staff members to new roles must be designed and implemented with long-term vision and intentions in mind.

PORTFOLIO

How Spend-Down Foundations Manage Their Assets

Given the many complex considerations that go into managing a foundation's financial assets, we did not explore investment strategies in depth with interviewees. However, our conversations did surface several creative strategies spend-down foundation leaders use to manage the inherent unpredictability of spending down and deploying excess assets at the time of sunset. Some of these strategies included:

1. The transfer of assets to a spin-off entity
2. Strategic grantmaking to intermediary funders
3. Revisiting impact goals
4. Engaging in frequent financial scenario planning while working to maximize liquidity

Managing Assets: What Worked

1. Spinning off another grantmaking entity.

To create a platform that would enable it and other donors to achieve greater impact at scale, the Edna McConnell Clark Foundation (EMCF) established and spun off Blue Meridian Partners (BM), another grantmaking entity still in existence today. Initially, EMCF established what would become Blue Meridian as a single-member LLC, with EMCF as the single member holder. During this phase, BM also opened a donor-advised fund for which it was the sole donor advisor. Through the donor-advised fund, BM was able to receive tax-deductible capital through its building and growth phases. Then, BM ultimately established itself as an independent 501(c)(3) and extended a management contract to EMCF while the foundation wound down its final grantmaking. At this point, many of the operations and finance staff members from EMCF transferred their employment to BM.

2. Strategically granting to intermediary funds.

Given the difficulty of liquidating assets in a way that is financially responsible, predictable, and exactly in line with a foundation's spend-down timeline, foundations often found themselves with reserve funds at the end of the spend-down lifecycle. Granting to well-aligned intermediary grantmaking organizations can be a strategic way to solve for the uncertainty of asset liquidation and avoid having to retain the internal capacity to manage final grants, while still ensuring maximum funding to the movements the foundation supports. When pursuing this type of strategy, it is crucial to partner with a trusted and aligned intermediary whose grantmaking furthers the foundation's goals. A foundation should start this identification and vetting process several years before its final sunset.

3. Realistically revisiting impact goals.
Interviewees recommended that a spend-down foundation evaluate its programs on a regular cadence and emphasized that it should not be afraid to make course corrections and/or refine its grantmaking focus throughout the spend-down process. Taking realistic stock of the foundation's remaining resources and its most important desired outcomes can help the foundation maximize its impact leading up to its sunset. For example, the Beldon Fund employed external evaluators to assess its programs and organizational capacity, which helped the fund reduce its number of programs and focus more on its desired outcomes going into its final years.

4. Scenario planning and maximizing liquidity.
Several of the spend-down foundation leaders we spoke with mentioned that their foundations engaged in frequent financial scenario planning while also pursuing maximum liquidity as they neared their final spend-down dates. Scenario planning provided added security by allowing foundations to budget their final years according to different budget scenarios. Meanwhile, liquidating investments several years before the final sunset date allowed program staff to budget their final grantmaking with a higher level of certainty. Foundations also put aside funds to plan for anticipated and unanticipated expenses that could arise after the end of their grantmaking, including communications work, conducting a final evaluation, filing a final Form 990, and completing a final auditing of accounts. The Beldon Fund transferred funds to the Tides Foundation to cover these contingencies, while another foundation set up an escrow account with a nonprofit beneficiary to take remaining funds.

CONCLUSION

Thoughtfully and intentionally planning the many aspects of a foundation's spend-down process well in advance will greatly benefit its staff, grantee partners, and the field at large. By employing the strategies described here, spend-down foundations can ensure their impact lasts beyond their limited life and seeds catalytic transformation in the field. The recommendations above are only a starting point, and the world of spend-down foundations continues to evolve as more funders embrace the imperative of asset redistribution.

Many thanks to the spend-down foundation leaders who graciously shared their time and wisdom with the Arabella team. They include Laurie Dachs, Bechtel Foundation; Anita Nager, Beldon Fund; Keiki Kehoe and Ann Krumboltz, Brainerd Foundation; Chuck Harris, Edna McConnell Clark Foundation; and June Wilson, Quixote Foundation.

APPENDIX A: Spend-Down Considerations

Supporting Grantees

- Early on, determine the final funding timeline for each grantee and whether the foundation will standardize or customize final grant timelines. Communicate grantees' individualized timelines to them as far in advance as possible before the final grant—several years is ideal.
- Work with grantees to understand what kinds of non-monetary supports they would find most helpful to build their internal infrastructure, diversify revenue, and build financial sustainability ahead of the spend-down. Be responsive and flexible in offering capacity-building supports, which may range from bringing in individualized consultants to facilitating peer-learning communities.
- Consider disbursing final grants as multiyear grants and allowing grantees to help determine the timing and distribution of the payments.
- Consider creative grant structures, especially for strongly aligned organizations with whom the foundation has a close relationship.

Supporting Staff

- Communicate clearly and often with staff members about the status of the spend-down and its implications for programs and operations. Forecast the foundation's staffing needs early on and communicate individualized timelines with each staff member at least 18 months before their planned end date.
- Budget for staff retention packages early, with at least six months' worth of salary recommended as a bonus for staying in their respective role until the position's termination date.
- Regularly solicit staff input on how they plan to transition after the foundation sunsets and what kind of support they will need. Partner with staff in preparing for their next step in their career after the foundation sunsets by funding the career-development supports (e.g., career counseling services, trainings, secondments) staff members are most interested in.
- Consider using outside consulting support to add flexibility and fill unexpected gaps in organizational capacity toward the end of the foundation's spend-down.

Supporting the Field

- Engage in one-on-one and small-group conversations with other donors to activate their funding for the causes the foundation cares about, with a particular emphasis on individual donors who might be newer to these movements.
- Consider establishing formalized pathways for donor education, such as learning cohorts or giving circles, that would enable the foundation to harness staff members' knowledge to drive resources to its grantee partners and other well-aligned movement partners.
- Assess the learning needs of peer foundations and the field and design all spend-down documentation and communications with these audiences in mind.

Managing Assets

- Consider which of the foundation's existing programs could attract and sustain the support needed from other donors to become its own entity.
- Engage in frequent financial scenario planning and consider ways to reserve funds to cover final operations costs.
- When sourcing an investment partner, look for a firm that is both mission-aligned and brings a vision to ensure the necessary liquidity in line with the foundation's spend-down timeline.

APPENDIX B: Additional Spend-Down Foundation Reading

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Where others see challenge, we see change.

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