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THE EDGE

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LUNCHEON KEYNOTE: LUCY BERNHOLZ, PH.D.

THE EDGE OF CHANGE: PHILANTHROPY ENTERS THE 21ST CENTURY

Lucy Bernholz, Ph.D., is founder and president of Blueprint R & D, a strategy consulting firm specializing in program research and design for philanthropic foundations. She has worked as a program officer and consultant to foundations for 11 years. As a community foundation program officer she was responsible for grant programs in the arts and humanities, community development, education, environment, health, historic preservation, and human services. As a consultant, she has developed grant programs in the arts, education, youth and community development, and the environment, and has published numerous articles on philanthropy, and has edited collections and scholarly journals. She currently serves on the Working Group of the Nonprofit Studies Center at the University of Southern California, on the advisory board of SmarterOrg, and on the board of directors of CompuMentor. She holds a B. A. from Yale University and a M. A. and Ph.D. from Stanford University.

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BERNHOLZ: Thanks to all of you in Seattle for having me here. It's a delight to be here.

When I was asked to do this I looked at the conference draft brochure and thought about a lot of things and kept trying to think, how am I going to weave this theme of the edge or blurring things into this talk which is actually drawn from a book that's just about to be released? How do I make that meld perfectly with this?

The one I had the toughest time with was the crossing discipline question. Then it occurred to me that we just had a classics professor sing rock and roll, and I'm a historian claiming to talk to you about the future, so hopefully that's crossed enough boundaries.

The book that I've just written, and a lot of the research that Blueprint does comes from our interactions with foundations. We work directly with grantmakers all the time and associations of grantmakers. What we try to do is step back and try to put some context around what you folks do every day.

A couple of years ago we undertook the beginning of a research project that really had a very basic question: What is going to change about philanthropy and grantmaking over the next 10 or 15 years? That work has led to several deeper investigations. Today I want to give you an overview of those, the big answers to that question.

There are three hugely significant "blurrings" or changes happening in philanthropy today. One is that some old distinctions between individual giving and institutional giving are blurring, need to be blurred, and need to be recognized as having blurred.

Let me give you a couple examples of what I mean. One is, if you take the list of the top 100 foundations by gifts in the U.S., and you take the list of the top 100 individual donors by giving, and you meld those lists, you bump out 20 foundations with 20 people. On the scale of giving, there's really a blurring of size.

The other thing that's happening is the use of different kinds of giving vehicles and the presence of living donors on their foundation boards. That is not going to change and it's not going to go away. It's going to become increasingly preeminent and common and a lot of the practices of institutional philanthropy, particularly foundation philanthropy, are starting to feel the effects of those changes. I'll talk about that a little bit more in a minute.

The other major change in philanthropy right now is that a lot of the market pressures on philanthropy have become so great that it's very appropriate now to look at philanthropy and realize that it is an industry with only two products, and in fact it actually always has been.

Those two products are financial asset management tools, of which foundations are a type. They were once the most prominent type, but they are increasingly less prominent. The other product is advisory services, whether it be peer-to-peer, whether it be through an affinity group, whether it be through the Rockefeller Philanthropy Advisors, whether it be on a consultant-by-consultant basis.

There are two products in philanthropy: there are places to put your money; and there are people and ways to learn about how to do it. And they've typically come packaged in the form of staffed foundations, community foundations, operating foundations. Ten years ago we got charitable gift funds. What's happening is the lines of those packages, the bundles that we're used to, are breaking down.

Third, the last thing that's changing is the regulatory scene. I'm definitely not going to try to do performance dance of the changes in the regulatory scene, but I will make this available online for people who want it.

So those are the three major changes: the two products; the blurring of individuals and institution; and the regulatory front.

The three sources of those changes are market pressures, the regulatory structure and demographics.

These are three graphs done by Global Business Network that were predicting the rate of growth for philanthropic giving decade by decade and comparing the 1980s to the 1990s to the whatever you call the 2000s. The oughts. I ought to know that. *[Laughter]* Sorry.

What they found was the cumulative amount, individual and institutional giving in the eighties, was about $1.3 trillion in American philanthropy. In the nineties, including the big boom years, there was $1.7 trillion. At the height of the boom, GBN took that set of trends and projected forward in a straight linear projection including the boom, what would happen in the next ten years if things were going as well as they were going in 1999.

Now how are things going for you relative to 1999? *[Laughter]* Okay, I'm going to get to that. But if they had kept going the way they were going in 1999, the oughts, the decade from 2001 to 2010 would have had a total cumulative individual and institutional amount of $2.2 trillion.

Along came 2000 and we decided that the best case scenario wasn't the only one we needed. So they came up with two others. They came up with one that just projected the trend before the bubble of the nineties. It went back to the typical rate of growth from the eighties and before, and that led to a decade worth of giving from 2001 to 2010 of $1.6 trillion.

Then they decided to look at a worst case scenario, which is if the bottom really falls out. In other words, giving just plummets 5 percent each year for the next ten years. This has never happened, in fact nothing like this has ever happened in American philanthropy. But if that were to happen, the decade's cumulative amount would still be $1.7 trillion.

The base has gotten so huge, that even in that worst case scenario, and some of us feel like this bottoming out may in fact be happening, we're still looking at a decade's worth of giving that will be at least as big as the decade we just experienced. That's all people, all institutions and all issues. That's not funding in the arts, in case you were wondering.

Where is that money? This is where we get to the question of the blurring lines between individuals and institutions. Let me tell you where that money is. There are six million charitable bequests. There are 150,000 charitable trusts. There are 70,000-plus donor-advised funds. There are 61,000 foundations. And then there's a whole bunch of other things – direct gifts to charities, charitable gift annuities, donated assets, real estate, etc.

Notice where foundations fall on that list. This is a bellwether year, this is the first year since they were introduced in the commercial sector, that donor-advised funds have outnumbered foundations. Right now there are more than 70,000 donor-advised funds. They've just surpassed foundations in number. I think that's a bellwether indicator for where philanthropic assets are going to be held going forward.

This is the picture that really is worth a thousand words. If you can picture a spider's web and in the middle of it is a donor. Around the edges of it are things like donor-advised funds, alma mater endowment funds, private bank charitable trusts, the family checkbook, the corporate giving committee, the giving circle, the private foundation board, charitable remainder unitrusts, in other words all those financial asset management vehicles that that donor is using to manage their philanthropy.

It makes the money either hard or easy to find, depending on where you're looking. If you can get to the center of that network you might be able to access all of those resources. But if you're coming in from one side, if you're only dealing with the private foundation side or if you're only dealing with somebody's donor-advised funds, it's a lot harder to know, and it's a lot harder to help that person use their philanthropic resources effectively.

What we need to be thinking about as a field is not the edges of that network, but the center of this giving portfolio, the donor. Because when push comes to shove, to paraphrase Sarah, let not the gold and silver come between us. It doesn't matter where the money comes from. The donor here is connected to all of those pots of money and they're going to manage their giving from all of those pots.

The other thing we're seeing that's really potentially important about this reality is that some of these folks in the middle of this picture are attempting to become strategic comparison shoppers. They want to know, what bang am I getting for my private foundation that I'm not getting from my donor-advised fund, if I'm actually doing all my giving based on what I learn from the community foundation program officer?

Now you know all about administrative costs and all about Sarbanes-Oxley and all about HR 7. If that set of questions becomes more and more prominent for the folks who are behind that $1.7 trillion worth of giving, there are some interesting questions to be answered by foundations.

The other big source of change that cannot be ignored and in my opinion has been ignored far too long by organized philanthropy is the fact that it's a regulated industry. That's it folks. It exists at the whim of the tax laws. And the tax laws are going through some big changes. If the repeal of the estate tax stays on the books, there is change a comin'. We might just kiss a couple billion of that $1.7 trillion away. It might not come to philanthropy. It's that simple.

The other major regulatory change is going to the question of donor intent. The big issues for philanthropy as a whole, and not just foundations, are questions like pay out rate, administrative expenses, which are all being attended to in HR 7.

Historically, whenever we enter a period of big public budget deficits, there's a sudden renewed interest in the laws about nonprofit endowments. Guess what we're experiencing right now? A period of huge public budget deficits.

What's interesting about what's going on now is that the conversation – just like a lot of other things, has devolved from federal level to the state level and the local level – the conversations about property taxes held by nonprofits mean an awful lot to things to the Catholic church and the local university.

Questions about state taxes of nonprofits are a huge issue and for the most part organized philanthropy is prepared to have this conversation with regulators at the federal level. But they're certainly not prepared at the state level. The Sarbanes-Oxley reform which is, as you probably know, the sort of regulatory response to the scandal to Enron, to WorldCom, to greed, does have some implications for nonprofits and who serves on nonprofit boards. It may have some implications for foundations. It points the finger at this question of who's making the decisions, who's running the show, and who's watching over those people.

I mentioned the question of donor intent. There has been for about 10 years, a lot of IRS interest in donor-advised funds both commercial and nonprofit. In other words, the pressure points are everywhere. To think that the regulatory structure that has guided philanthropy to date is not going to change is really shortsighted.

The other thing that's pushing this has been a steady sea change in the way the general media has looked at philanthropy.

If you remember back to 1999, 2000, it was what I had come to call the Age of Celebrity Philanthropy. You couldn't pick up *Business Week*, *Entertainment Weekly, Forbes, People, Harvard Business Review, Time, Newsweek* any of those things and not see an article about some fabulously generous living donor, from Ted Turner to Bill Gates to whoever.

For the most part, while there might have been some criticism in the article, there was generally this very celebratory celebrity nature to its tone. On September 11, 2001 *The New York Times* headlines were about things that had happened on September 10th. On September 12, 2001 it was extraordinary that there was a New York Times. On September 14, 2001 this headline ran "After the Attacks, Charity: A Range of Donors Helps Those in the Rescue Effort." A positive story about the diversity of people, the diversity of sources, the diversity of responses, and the diversity of to whom they were reaching out after the World Trade Center attacks.

That was September 14th. September 15, 2001, *The New York Times*: "After the Attacks, the Profiteers: a Tragedy Spawns Charity Fraud." And it has been straight downhill ever since.

The third major source of change on philanthropy over the next 25 to 50 years, and it will not just be a source of change around philanthropy, it's going to get us all everywhere, are the changing demographics in the U.S. and globally. I'm not talking just about the number of places like my home state of California where there is no longer a single majority racial group population, which will become increasingly common and is very significant.

The least attended to, most significant demographic trend underway is the fact that we're all getting older. America is now older than ever before and younger than it will be for the foreseeable future. For those of you who fund arts in the schools, arts and youth development, arts in juvenile detention centers, arts in anything having to do with young people, young performers, this is a big deal. Because it's very hard to pass a school bond in a place where the population is increasingly older.

It also means that the demands on public services for things like Medicare, long-term healthcare, and assisted living services, are going to become an increasing part of the budget. So where your foundations or your giving priorities fit and where you think about arts in that larger stream of public life and who attends the things you care about and who you're trying to reach, that whole mix in which we've been so used to including this enormous population of young people, is going to change.

On the other side of the equation, the folks with the money, a lot of the people behind that $1.7 trillion are getting involved in organized philanthropy at a younger and younger age, which is partly why we have what's known as living donors. Maybe it's entirely why we have what's known as living donors.

They're interested in a wider range of products. Unlike John D. Rockefeller their choice isn't just, give it all to the University of Chicago, or create a foundation, or both. Their choice is all of those things on that network, all of those tools. Many of them, like I said, are using all of them. And they're looking for impact.

They're looking to be involved and they're looking for impact, which goes back to the way that comparison shopping phenomenon and the questions about, if I work with an advisor or if I join a giving circle, I can learn a lot about giving that way. Even if I keep my philanthropic money divided among these many pots, I don't need anything else, I can take what I've learned there and use it over here. Finding efficient ways to engage donors in learning activities so that you're thinking about the donor and their ability to give, rather than organizing by type of giving vehicle, is really the opportunity before us.

The question is, with all this change, this incredible fragmentation of giving vehicles, the regulatory changes, the impact on public sector priorities as the population gets older, what do you do? What does it mean? What does it mean for arts grantmakers?

The thing that we've concluded in looking at that giving portfolio and looking at philanthropy in general is that its greatest potential for impact is if you can figure out ways to aggregate, if you can figure out ways to come together. Because you've all experienced being a little bit of money against a whole big problem.

As I found out in the most recent *GIA Arts Funding Trends* book, you folks cumulatively are now bigger than the NEA. There are places where aggregating private resources leads to a bigger pile than public resources. Figuring out how to do it across type so that the boundary of, I'm a foundation president or staff person, versus you're an individual giver, isn't the end of the conversation, is one of the most critical things to have happen if you're going to try to move resources to the art and cultural traditions that you care about.

The nice thing about that, and for those of you who've been doing this for a long time, you've been told to collaborate and told to do joint funding. As a friend of mine who's a program officer in health in San Francisco says, if I had a dime for every failed collaborative funding effort I was a part of, I could start my own foundation.

It's hard to collaborate, it's hard to come together, it's hard to aggregate when the thing you've got to all put in the same place is the money. But that's not what you have to all put in the same place. What you have to all put together, what you have to align and bring together is what you know about working with artists, what you know about supporting organizations, what you know about using arts to invigorate students' learning.

All of that's stuff that you guys know because of your mezzanine level seat at what's been going on in the arts for five minutes or fifteen years, however long you've been doing this. It's very useful information to those hundreds of thousands of people behind that $1.7 trillion, the individual givers, particularly the 20 of them who are bigger than any of your institutions, or more generous.

On that note I wanted to end with some prompting questions and then I hope we can have a conversation for a few minutes about what's next for you. What does all of this mean for you as staff people from individual foundations?

One of the interesting things about foundations is that they have an incredible ability to guide their future within this industrial picture of philanthropy that's really not used very often. There's nothing to stop you from colluding. It doesn't work so well for the Baby Bells, but it's okay for you guys. In fact none of you is going to accomplish your mission without working with the others.

Finding ways to align and finding ways to collude, sharing knowledge across type, reaching out to donor advisers, reaching out to individuals, thinking about revenue streams or interest in performing arts as opposed to thinking about, are you a private foundation or a community foundation, is critical to thinking about how you can aggregate and align and direct these resources.

What's next for you? I feel like here in the land of Microsoft it's appropriate to end by asking you, what will you do differently today? Will you partner with individuals? How do you do that from the vantage point of an institutional program officer at a foundation trying to work with individual donors?

Can you help those individual donors learn how to work with artists? Take advantage of all that you've learned or are learning? Can you seek new alliances between the arts? Beyond schools? Beyond community development? How do you address the aging issue? Where is the arts in the world of the aging? Where are the aging in the world of the arts?

Will you find ways to make it safe for others to take risks? Those of you who have found ways to support individual artists, found ways to support cultural traditions that are marginalized, found ways to reach out and really invigorate the arts, we need you to help the others who have those pots of money. They have the resources, they want to be part of this, but they don't know where to turn to learn how to do it.

So as in the inimitable words of Microsoft, what will you do differently today? Thank you. *[Applause]*

MORGAN: I'm Gayle Morgan from the Cary Trust in New York. When you talk about so many failures of collaboration and yet the need to collude, could you elaborate a little bit on the difference between colluding and collaborating? *[Laughter]*

BERNHOLZ: Colluding sounds better. No.... A lot of times funder collaboratives come together and when they fall apart, they fall apart because there was a lot of talk about the large interests, the big picture area of interest is arts programs for the elderly, but the people who come to the table are often foundations and they all have to deal with the idiosyncrasies of their boards and their guidelines and their timetables. These are very real restraints, I'm not trying to minimize them, they're very real.

How many of you have sat at tables trying to have those conversations and that's where it falls apart? You just can't come together because of all that stuff? Oh come on, now I know you're lying. One. There's one person, the rest of you have never had that experience.

Colluding has to do with the strategies you're after. Not worrying about the money, in fact not even necessarily just sitting down with your peers.

Here's another question that gets to this issue of collusion. How many of you as foundation grantmakers have tried to figure out a quote/unquote "exit strategy"? *[Laughter]* Now we're talking. How many of you have one? And does your exit strategy include, Oh well the nonprofit arts organization that I care about or the commission composition program that we started, the public sector will carry it on, other funders will carry it on, or the individual donors will carry it on? How many of you, some mix of that is the answer to your exit strategy?

Those folks that you're hoping to carry those programs on, are you sitting with them at the beginning when you start the thing? When you do the research into why you need a new composition commission program or a new fund for community artists or a new program for arts in marginalized communities, are you inviting those people, first of all the artists, the people you're talking about, and the people with the resources that you hope are going to be your exit strategy because you work at a foundation and you've got five years and out?

But you don't want your investment to go away in five years, so where are those people at the beginning? Because how successful have you been in engaging them at the end. *[Laughter]* Not very. It's hard. That's the kind of collusion I'm talking about. I'm talking about the strategy, the research, the background, the problem identification, the initiative development, involving folks who you need to carry on your work from the beginning.

Thank you for the question. Yes?

OBER: My name is Gayle Ober I'm from St. Paul, Minnesota. I'm a trustee of a relatively small family foundation. You asked the question earlier about do we try to work with people who have donor-advised funds?

We have found that they don't want to necessarily be found. They like being part of a donor-advised fund so they don't have to have a way of accepting proposals, they simply say we fund what we want to fund, and we don't want to be at the table. They don't join our regional association of grantmakers. They don't want to be known.

BERNHOLZ: There's a lot of that. There's a learning curve and there's a difference in what people are trying to sell to them. A lot of folks I've heard, a lot of individual donors that I've worked with either through something like SVP or who are working with a Schwab or a community foundation, are very clear that they're using that vehicle at least in part to keep information away from them.

But there's two kinds of information. There's solicitations, and there's information about their areas of interest. What's happening as evidenced by the attitudes, not of individual donor advisors, but the attitudes of the folks who sell them the donor-advised fund, is that information that will help them contextualize what they're doing, that is clearly not a solicitation, that doesn't cost anything. The hesitancy to join regional associations, there's a lot of reasons for that, but one of them is the cost for the value-added. For an individual donor.

We need to understand donor-advised funds much better before we'll be able to figure out how to do this. One of the first things to understand about them besides the fact that they now outnumber foundations, is that many of them are larger than your foundations. Those folks are not setting up donor-advised funds to pass through $300 million. It's essentially an endowed vehicle and there's going to be a long time for that money to come to a community.

It's not easy. What's easy, ha, ha, is collaborating with your peers, is coming together with people whose job descriptions match yours. But you know where you fit in that pie of revenue to the nonprofit sector. You sit in the under 10 percent slice. And that $1.7 trillion, the other 90 percent of it, has a lot to learn from you and a lot you can learn and gain by working with it.

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