Doing More with Less in Times of Challenge

A Meaningful Middle Donor Issue Brief

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The speed and severity of immediate and likely federal budget cuts and concurrent reduction in the size of the federal workforce present a "Black Swan" moment for much of the US social sector—with ramifications spanning from local food pantries to medical care to international development and more. While the situation and end state remain fluid, it's clear that "business as usual" for both social sector organizations and the donors and philanthropies that support them is insufficient looking forward.

Private donors simply cannot "fill the gaps" left by a retrenchment in government funding, despite calls for donors to step into the breach. **Frequent current questions include:**

How much more and for how long can our private foundation give, without jeopardizing our stated goal of "perpetuity?"

How are other donors responding and supporting grantees?

How can we all do more with less?

What else do organizations need apart from more cash?

This paper provides responses and examples of ways that funders, including those we've dubbed ***"Meaningful Middle"*** *donors, can support organizations through tumultuous times. While none are panaceas, we offer a suite of "beyond the checkbook" methods for leveraging philanthropic capital in periods of stress when more needs to be accomplished with less.*

#1 DOING MORE AS A PERPETUITY

For some funders, this is the catalytic event fast forwarding considerations of “sunsetting” or strategically spending down the foundation’s corpus. Accomplishing this, however, typically requires filing of amendments to certain governing documents, board resolutions, IRS notification, and more. Many of the 63% of private foundations with stated intent to give in perpetuity aren’t ready to sunset yet.

These funders face an age-old dilemma: spend more to increase community impact today or preserve the portfolio for more impact tomorrow. The following case illustrates potential solutions for funders who want to deploy more now without risking the goal of perpetuity.

For many funders, distributing more is an option. A foundation can make an outsized distribution today without sacrificing its long-term impact—if it stays disciplined in the future.

Consider a $10 million private foundation invested 70/30 (stocks/bonds) that distributes its minimum 5% required distribution each year. Over 30 years, the foundation would grow to $14.8 million in typical markets after distributing $12 million cumulatively in today’s dollars. But what if the foundation board decides to triple its grants and withdraw $1.5 million this year, an extra $1 million on top of the 5% planned distribution, before returning to the regular 5% spend rate next year?

How might accelerating spending impact a foundation over 30 years?

$10 million foundation invested
70% stocks/30% bonds

PORTFOLIO VALUE
NOMINAL, USD MILLIONS

$14.8
spend 5% MRD

$13.4
spend extra
$1 million in year 1

CUMULATIVE DISTRIBUTIONS
INFLATION-ADJUSTED, USD MILLIONS

$12.0
spend 5% MRD

$11.9
spend extra
$1 million in year 1

Based on Bernstein’s estimates of the range of returns for the applicable capital markets over the period analyzed. Reflects AB’s estimates and the capital market conditions as of December 31, 2024. Data do not represent past performance and are not a promise of actual results or a range of future results.

Source: AllianceBernstein (AB)

In 30 years, the foundation would grow to a median value of $13.4 million. Even after making the outsized distribution, the portfolio value ends up 33% higher than today. More surprising? With $11.9 million of cumulative inflation-adjusted distributions, the initial $1.5 million withdrawal has a very small impact on total spending over three decades.

Here we've assumed the foundation maintains a 5% grantmaking rate starting next year, but a foundation that's acutely concerned about long-term viability could be more austere. How? If a foundation distributes more than the mandated 5%, the surplus can be carried forward and applied to reduce future distribution requirements for up to five additional tax years. The foundation could accelerate funding today and reduce or even eliminate distributions during the next few years, allowing the corpus to fully recover.

There are other strategies for funders to consider. Recoverable grants provide critical capital while recycling recovered funds for future grantmaking. Recoverable grants are "grants to qualifying organizations, typically from a donor-advised fund (DAF) or foundation, that allow for the recovery of granted capital—provided the organization achieves certain pre-set objectives. Such trigger events or objectives are typically spelled out in a nonbinding agreement, along with the timing of the recovery and the interest rate (which can be as low as 0%)."[1]

In good times, recoverable grants supply high-performing organizations with additional working capital to help tackle major investments in their systems and programming. In challenging times, recoverable grants can provide organizations with capital needed to effectively implement a plan to re-establish balance between revenues and programs. Ideally the organization hits the stated targets for recovery and the donor recovers all or most of the funds granted, which are then available to reallocate to other grantees. The alternative scenario is that grant funds are not repaid, simply turning the recoverable grant into a "traditional" grant.

Let's revisit our $10 million private foundation example. The extra $1 million could be distributed today as a recoverable grant. If the grant were repaid after five years, the foundation's corpus would have grown to $10.69 million, only $68,000 less than had the foundation granted the minimum 5% each year. Importantly, the foundation was able to immediately deploy three times the required minimum, and after five years have nearly the same amount to support other causes.

By implementing this strategy across multiple grantees over time, a carefully structured recoverable grant portfolio effectively extends the donor's impact as measured by additional dollars able to be deployed over time, relative to traditional grants.

Finally, foundation managers shouldn't ignore the benefit of tax management. Even though the 1.39% tax rate on a foundation's net investment income (including realized capital gains) is low, the tax dollars paid can add up.

> *Foundations can reduce the 1.39% excise tax on net investment income by harvesting capital losses to offset net realized gains, and by making grants of appreciated securities in-kind, rather than selling them to raise the cash.*

#2 COLLECTIVE ACTION

Can we achieve more scope and speed together? Below are ideas and resources for collective action.

SPECIAL PURPOSE POOLED FUNDS

There are ways to rapidly spin up pooled funds amongst several donors to provide bridge or emergency funding at scale to help larger numbers of grantee organizations weather the storm. While the proverbial "plumbing" of these special purpose funds often looks the same as a "normal" philanthropic pooled fund or donor collaborative, what's most important is to optimize governance and decision-making of the fund for speed and agility to ensure that funds can flow immediately to prospective grantees before they need to turn the lights out. Such funds have been assembled historically to good effect across a variety of sectors globally during periods of unexpected macro shocks. They have helped finance everything from continued programming to legal support to the hardening of security infrastructure in more oppressive contexts.

By pooling philanthropic capital, a communal fund can achieve more to support an entire sector or part of a social change ecosystem in a way no single donor could achieve individually. Thus, special purpose funds are especially fit for purpose in situations where a donor aspires to help larger social sector ***ecosystems*** survive short-term crises beyond the survival of a ***single organization or grantee***.

Essential to the success of these funds is lightweight or "minimum viable" reporting and due diligence at a time when organizations do not have the bandwidth to fill out onerous grant applications or prepare extensive reporting to satisfy donors. "Good enough" will need to be a risk worth taking for those interested in standing up a rapid response fund, but history has proven those risks to be modest or nonexistent in most cases. Put another way, trust-based grantmaking is essential for the efficacy of a special purpose or rapid response fund.

EMERGENCY CREDIT FACILITIES

A similar logic applies to exploring crowding in peer donors and impact investors who are perhaps more comfortable than traditional commercial lenders with extending flexible credit and therefore needed liquidity to nonprofits to navigate challenging periods. Bringing together multiple lenders into a single credit facility may also help to de-risk the venture for each individual lender. As with recoverable grants, a significant strategic advantage is the potential for a fixed amount of capital to support multiple organizations over the medium term; as initial debt is repaid, it can be lent again to additional nonprofits and partners.

Of course, important challenges to a joint credit facility that should be explored include:

1. Structuring and monitoring the debt will likely require the assistance of a specialized loan expert. Community Development Financial Institutions (CDFIs) are good resources for such expertise.
2. These loans may not count toward charitable disbursement minimums, unless ultimately converted to grants as part of debt forgiveness.
3. Debt on the balance sheet may create complexity depending on the structure of the philanthropic entity. Legal and/or tax guidance is advisable.

Sector Advocacy and Resources

"How can I stay abreast of legislative proposals potentially impacting nonprofits and philanthropy?"

- **National Council on Nonprofits**: Regularly updated list of Executive Orders affecting nonprofits.
- **House Budget Resolution**: Recommends levels and amounts for FY2025-FY2034
- **Community Impact Coalition**: American Society of Association Executives (ASAE) initiative dedicated to educating the 119th Congress about the social and economic benefits of associations, charities, and other tax-exempt organizations.
- **Charitable Giving Coalition**: Dedicated to preserving the charitable tax deduction
- **United Philanthropy Forum**: Host of 'Foundations on the Hill' and other public policy and advocacy events and resources for philanthropic initiatives.
- **Philanthropy's Meaningful Middle**: Bernstein resource (developed with Geneva Global) outlining philanthropic practices donors are using that go beyond cash giving, helping you meet organizations where they're at.

#3 RELATIONAL CAPITAL AND NEW SKILL SETS

Many nonprofit boards and executive teams find themselves today with needs for certain skill sets and expertise that may not have been prioritized or even considered historically. Corporate restructuring, mergers & acquisitions, crisis communications...the list goes on. This stands in stark contrast to the commercial sector, where M&A is an extremely commonplace occurrence in situations where macro shocks force a winnowing of a sector or field. The complexities of nonprofit M&A are myriad but include:

Inconsistent M&A familiarity across nonprofit leaders and boards.

Lack of financial incentive to consider M&A even in "normal" times. No one becomes wealthy upon the acquisition of their nonprofit and their "exit," as there's no equity to be valued and paid for!

Regulatory complexities, including considerations around maintaining charitable status in scenarios where a commercial entity may be considering absorbing or acquiring a tax-exempt organization.

Donors who have created wealth through commercial transactions are uniquely equipped to leverage their commercial acumen or contacts to support the facilitation of intentional and thoughtful nonprofit restructuring. As downsizing and mergers inevitably pick up, many organizations will struggle to optimally structure and execute these transactions. There is an enormous opportunity to help organizations access expert advisory services from financial modeling to board and executive coaching and guidance before, during, and after transactions. Perhaps financing exit packages for key executives will help facilitate nonprofit mergers where there is otherwise little to no financial rationale for current leaders to step down. A small number of specialized philanthropies with a focus on encouraging greater nonprofit M&A do exist (such as Lodestar Foundation and Open Road Alliance), but this remains a fundamentally underexplored domain ripe for Meaningful Middle donor creativity.

CLOSING

Challenging times call for ambitious and novel problem solving. While donors can't rewind the clock to a period of relative calm, they do have a suite of tools and strategies to provide resources, advice, and support to organizations navigating turbulent waters.

Grantmaking will always be a core tool in that toolbox, but the additional strategies profiled above serve as powerful complements. By uniquely blending grantmaking alongside other forms of financial and non-financial support, donors can make an outsized contribution to helping organizations emerge healthy, stable, and impactful.

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[1] Golla, Clare. [Recoverable Grants: The Gifts That Keep on Giving.](#) | Bernstein.com

Questions?

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