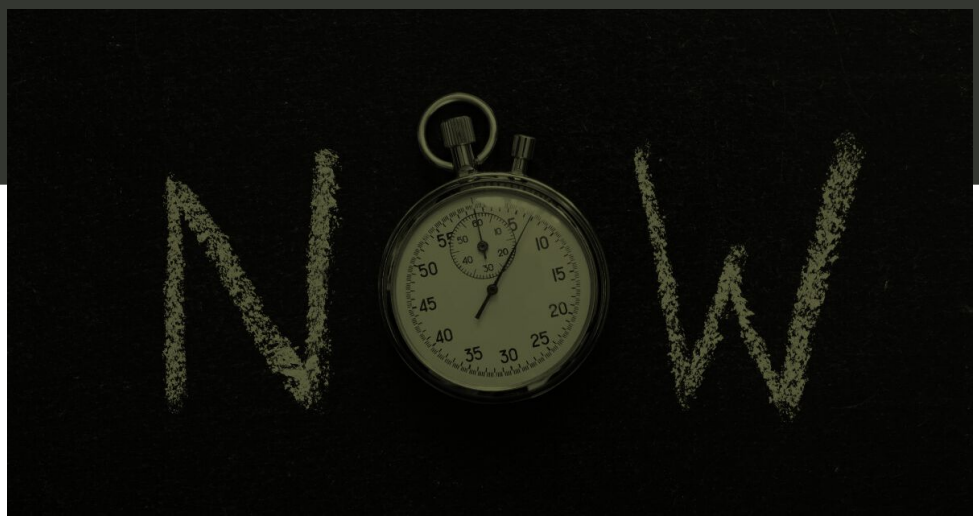
NONPROFITS: FUNDRAISING & DEVELOPMENT

Funders Must Step Up - Right Now!

03.16.20 | Linda J. Rosenthal, JD



"Funders," writes nonprofit blogger Vu Le, "this is the rainy day you have been saving up for."

Recently, we wrote about Mr. Le's earlier plea for America's foundations to step up their payouts beyond the "five percent rule" in the federal tax code. In an article last summer, he characterized it as a moral imperative: *The ethical argument for foundations to increase their annual payout rate beyond 5%* (August 4, 2019).

This morning, it's a five-alarm-fire message: "Foundations, I am begging you, if there was ever a time for you to increase your payout rate and get more money out the door, this is it." He urges foundations (and all donors) *not* to take the position many of them did in the financial crash of 2008; that is, cutting back on grants to reflect their own market losses.

The caution in pushing money out of the door immediately may be well-meaning; that is, these foundation boards are thinking "… of the future crises that humanity will face, and [they] want to be adequately resourced to handle them …. [so that] when society needs the funding the most, it is there."

Society needs the funding now.

Funders Should Act Now

Voices from around the nonprofit sector have been echoing this sentiment in the last several days.

For instance, on Wednesday, March 11, 2020, Ethan McCoy of the Center for Effective Philanthropy (CEP) *Funders, the Time is Now to Talk Recession-Planning with Grantees*. His already urgent message that nonprofits should step up planning step for a predicted economic downturn later in

the year was supplanted by the immediacy of a global economic collapse right now from coronavirus-19. He urges foundations, which "have the unique potential to be a countercyclical force in a downturn," to reach into their endowments and "help offset reductions in individual contributions, government grants, or other earned revenue that a grantee may be experiencing."

The boards of foundations "should be talking now about increasing payout and should take the long view on their endowment values." He cautions against the historical model that "[g]ivers tend to retrench when nonprofits retrench, essentially forfeiting one of their most powerful potential roles out of worry that they won't be able to claw their way back to the same endowment or asset levels afterward…."

Even earlier last week, on Monday, March 9th, Antony Bugg-Levine, CEO of Nonprofit Finance Fund posted in the Chronicle of Philanthropy a "must-read column for foundation leaders": *6 Steps for Grant Makers to Take to Ensure Nonprofits Recover from Coronavirus Spread*.

While direct funding to support coronavirus response and research is needed, writes Mr. Bugg-Levine, "donors need to act now to ensure [that the nation's nonprofit] organizations can not only help us through the crisis but also be in a position to rebuild our communities in the future." Examples of how nonprofits survived economic displacement from earlier crises including the 2008-9 financial crash and the 9/11 terror attack "provide limited lessons" but now "… service and revenue disruptions could persist much longer and cover entire regions."

In particular, social service organizations will be hard-hit and "half of these organizations have three months or less of cash in hand to cover expenses." Many programs get funding only after showing proof of service to beneficiaries, which will drop off as voluntary or mandatory orders of social distancing are put into place. Other organizations "will face increases in demand for services without the accompanying revenue that for-profit businesses can charge." And many groups are not equipped or amenable to remote work.

The bottom line is that the nonprofit sector is facing an immediate, "existential threat."

Six steps for donors to take right now:

- **Check in with your grantees.** "Listen to them and thank them…."; build mutual trust and respect.
- **Provide unrestricted funding and remove restrictions on existing grants.** "Your grantees will know better than you what the community needs in this dynamic situation."
- **Pay full costs.** The "starvation cycle" has been responsible for creating the situation that so many organizations have inadequate operating reserves. Now is the time to "upend this dynamic."
- **Suspend reporting requirements and evaluative site visits.** "By all means, contact … and support them, but don't tie them up with information demands that serve "your compliance rules rather than their community."
- **Maintain funding levels.** Give more than the 5% even though the stock market is tumbling.
- **Mobilize recovery grants.** For instance, post-2001, major NY foundations joined corporate grant makers to set up the New York Recovery Fund that gave immediate, critical grants to

nonprofits.

A Foundation Letter Exemplar

An excellent example of a foundation communication to its grantees is the Barr Foundation's (Boston) letter on Friday, March 13th. In A Message to Our Grantees on COVID-19, the key point is they are "extending support and flexibility." They are "fully cognizant of the major implications that COVID-19 is having" on their grantees, including the staff teams and the beneficiaries they serve, adding that they are only starting to understand the longer-term implications."

To that end, the Barr Foundation's board has (so far) committed to several steps:

- Welcoming "a conversation about revisiting … grant objectives, timelines, and terms" so grantees "can focus on more emergent needs at this time." That includes "exploring alternatives" including delay or postponements.
- Flexibility "with deadlines for grant reports or other deliverables" and considering alternative reporting formats.
- Releasing grant payments "timely."
- Entertaining "requests to augment or accelerate approved grant payments."
- Working with grantees to "explore implications" of having to postpone events or large meetings, "including how Barr funds allocated for those purposes can be used.

Rapid Response

In *Coronavirus 'Rapid Response' Funds Proliferate as Threat Grows* (March 12, 2020), Dan Parks wrote in the Chronicle of Philanthropy last Thursday about encouraging efforts as of that date to meet the sector's urgent needs. Particularly in the Pacific Northwest, which has experienced the earliest impact of this coronavirus pandemic, foundations and others "have started setting up 'rapid response' funds to help nonprofits deal with the fallout from the coronavirus."

For instance, the Seattle Foundation created a fund including "philanthropy, government, and business partners" for "one-time operating grants" for local groups working with communities that are "disproportionately impacted" by the pandemic and the economic slow-down. Similarly, the Silicon Valley Community Foundation has asked its donors to support its Bay Area response fund and the Center for Disaster Philanthropy is accepting donations for "its response fund to support preparedness, containment, response, and recovery activities for those affected and for the responders."

Mr. Parks also reports that a "coalition of 35 national nonprofits and charity advocacy groups sent a letter to Congress urging lawmakers to include nonprofits in any stimulus package enacted in response to the coronavirus outbreak" and to "provide increased funding to help nonprofits like food banks and shelters where the demand for services may increase." Tim Delaney, CEO of the National Council of Nonprofits, adds that "[m]ost nonprofits don't have endowments or even large rainy-day funds to tap," but, "[t]oo often,legislation turns an inadvertent blind eye to nonprofits, not factoring in that they cannot tap certain tax credits or deductions."

That letter also includes a call to Congress to enact a “temporary universal deduction” for any taxpayer giving “to nonprofits responding to, or suffering from, the coronavirus.”

Conclusion

Foundations in the United States must heed this call for immediate and creative action. Individual donors can play a big part, too, as can the massive donor-advised funds that have billions of dollars at their disposal. We’ll write more about that in coming posts.

We’re also stepping up the posting of information, opinion, and advice from around the nonprofit sector on our Twitter feed; see @forpurposelaw. Check in there for continuing updates.