Spring 2010

GG+A Quarterly Review

Philanthropic News & Analysis

Managing and Building Endowment Through the Economic Recovery

As the world economy recovers from one of the most difficult periods of the past century, nonprofit institutions are still reeling from precipitous drops in the value of their endowments in the last two years. Across virtually all sectors, nonprofit institutions experienced unprecedented declines in both endowment income and new gifts to endowment.

According to a recent survey of members of the Association of Art Museum Directors, 79 percent of respondents report a decrease in endowment income for 2009 and 34 percent report a decrease in gifts to endowment ("State of North America's Art Museums Survey," March 19). On the healthcare front, 78 percent of members of the Association for Healthcare Philanthropy responding to its recent survey cite decreases in investment income in 2009 and 45 percent of respondents report declines in unrestricted gifts last year ("The Effect of the Economic Recession on Healthcare Philanthropy," December 2009).

The 1,215 members of the National Association of Independent Schools (NAIS) report that average endowment per student dropped 23 percent in the last two years (NAIS Facts at a Glance, 2009). University endowments lost an average of 18.7 percent in fiscal 2009, the worst returns since the Great Depression, according to a study by NACUBO (National Association of College and University Business Officers) and Commonfund, a nonprofit organization that manages university investments. In the UK, universities and colleges took an even greater hit, with income from endowments and investments dropping by 32 percent ("British

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Legislative Issues Impact Philanthropy

Pending and newly adopted legislation at state and national levels could have major implications for charitable giving. A sampling of current legislative issues follows.

Proposals Affect Tax Breaks

Two proposals by the Obama administration would increase the after-tax cost of making a charitable donation by almost 20 percent starting next year ("Budget Plan Revives President's Call for New Charitable-Deduction Limit," by Suzanne Perry, *The Chronicle of Philanthropy*, February 1). President Barack Obama has renewed his proposal to cap the value of charitable deductions for wealthy taxpayers in the fiscal 2011 budget plan. The proposal would limit the tax break for itemized deductions, including gifts to charity, to 28 percent for couples earning $250,000 or individuals earning $200,000. The president has paired the deduction limit with a proposal to end tax cuts for wealthy Americans that were enacted during the Bush administration.

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Endowment Slump Outstrips U.S. Percentage Losses," by Melanie Newman, *The Times Higher Education*, April 13).

As predicted, private gifts to American colleges dropped sharply in 2009, by nearly 12 percent in the aggregate, according to the annual Voluntary Support of Education survey conducted by the Council for Aid to Education. The survey reports that higher education institutions raised an estimated $27.85 billion in gifts in fiscal year 2009 compared to $31.6 billion in fiscal 2008, the biggest drop in four decades. (See related story, p. 7.)

Despite these declines, colleges and universities are being questioned about whether they spend enough of their endowments for society's benefit to justify their tax-exempt status. In a January 27 statement, Senator Charles E. Grassley again raised the possibility of requiring universities to have the same payout rate as foundations. He noted, "Since these organizations are allowed to accumulate money tax-free for their charitable purposes, they should have to spend at least a small amount fulfilling that purpose." Charles Reed, chancellor of the **California State University** system, is encouraging institutions to use endowments to keep enrollment of Pell Grant students at a 15 percent threshold or lose their tax exemptions ("Why the Endowment Debate Matters Now More than Ever," by Goldie Blumenstyk, *The Chronicle of Higher Education*, March 7).

Struggling to offset dips in available investment income, many nonprofits have been forced to make cost-saving adjustments, including hiring freezes, program and service reductions, and fee increases.

In this issue of the *Grenzebach Glier Quarterly Review*, interviewees from educational, cultural, healthcare, and other nonprofit institutions report how their endowments weathered the storm, how conversations about endowment gifts are progressing, and how lessons learned during this period may affect future fundraising strategies.

Options Broaden for Managing Endowment Spending

Nonprofit institutions reeling from investment losses received some relief as state laws were modified to provide them with more flexibility to tap into endowments severely shaken by the market. The laws, which are modeled on the Uniform Prudent Management of Institutional Funds Act (UPMIFA) and have been passed by 47 states, replace strict rules that had prohibited nonprofit groups from taking money from endowments with market values below the original or "historical" value of the gifts in the fund. The act includes provisions to allow charities in difficult circumstances to dip into "underwater" endowments (funds worth less than the value of original gifts). (See sidebar, p. 3.)

Faced with a broader range of options for managing endowment funds, institutions chose to respond to the new legislation in a variety of ways, making endowment

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An international leader in philanthropic management consulting, Grenzebach Glier and Associates (GG+A) has more than 45 years of experience with educational, cultural, medical, and other nonprofit institutions. The goal of the *Review* is to provide timely information about issues and events that are relevant to philanthropy.

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management decisions to match their particular long-term goals.

A survey of 184 higher education institutions in states that adopted UPMIFA found that the legislation enables institutions to manage endowment spending more effectively during challenging economic times. Thirty-one percent of responding institutions were continuing endowment distributions in keeping with their normal spending rule, 27 percent were suspending distributions from underwater funds, and 25 percent were continuing distributions at a reduced rate ("Management of Underwater Endowments Under UPMIFA," Association of Governing Boards, NACUBO, and Commonfund Institute, June 2009).

Because the State of New York has yet to adopt UPMIFA legislation, Bob O'Connor, vice president for institutional advancement for **Hobart and William Smith Colleges,** notes, "We cannot spend from any accounts that drop below book value." The *Campaign for the Colleges* was publicly announced in September 2006, and fundraising increased significantly at that point. By 2008 the Colleges' endowment had grown to $185 million, only to drop to $141 million in 2009. "We've redirected resources internally, which has helped mitigate any concern from donors."

Columbia University pursued a more proactive approach to gain permission from donors to spend from endowment funds that dropped below historical value. In the midst of *The Columbia Campaign*, a $4 billion initiative, "We undertook a serious effort to approach donors about revising their gift agreements, and we changed the language of agreements going forward," says Daniel Baker, executive director of university donor relations and stewardship. The task required discussions with several hundred donors in the final weeks of fiscal 2009. "Because we had been in constant communication with donors over the past several years, and they saw how well we treated their funds and treated them, the conversations went smoothly."

Before the downturn, Columbia established an Office of Endowment Compliance, recognizing that "we needed a centralized resource to support the schools and departments in the administration of their endowments in accordance with the specific terms of each endowment," relates Jackie Erickson, director of the office. Her first assignments were to create a database and website of terms and restrictions for all university endowments. Working closely with general counsel and development staff, Erickson revised gift agreement templates that "would allow us, consistent with

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UPMIFA Resources

Uniform Law Commission/ Uniform Management of Institutional Funds Act

www.upmifa.org

A summary of the act, an UPMIFA/ UMIFA comparison chart, and an enactment map.

Council for Advancement and Support of Education (CASE)

www.case.org

An overview of UMIFA/UPMIFA spending policies and information on underwater endowments, including articles/white papers; lists of states that have enacted UPMIFA, UMIFA, or neither; and spending policies from institutions in each category. Available to members only.

National Association of College and University Business Officers (NACUBO)

www.nacubo.org

Listing of major UPMIFA provisions and its status in each state, as well as links to legislative summary, text, and annotated text.

Association of Governing Boards

www.agb.org

Links to the March/April 2009 survey report, "Management of Underwater Endowments Under UPMIFA," related *Trusteeship* articles, and a list of states that have enacted UPMIFA, UMIFA, or neither.

National Association of Independent Schools (NAIS)

www.nais.org

Web page on "UPMIFA and UMIFA: Endowment Laws and Independent Schools" includes detailed article with practical examples, a list of differences between UPMIFA and UMIFA, and frequently asked questions. Available to members only.

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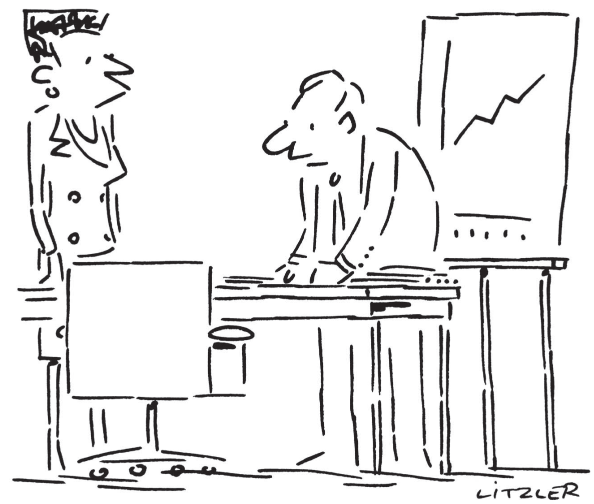
New York state law, to obtain donor and trustee approval to spend from underwater endowments."

The Metropolitan Opera unleashed $22 million from its restricted endowment in early 2009 by asking donors to lift restrictions on how their contributions could be spent. The company then used about a third of that money to help pay for operating expenses ("Met Opera Moved Millions From Endowment in 2009," by Erica Orden, *The Wall Street Journal*, April 28).

Although UPMIFA legislation has been enacted in Wisconsin, **Ripon College** does not draw from underwater funds and is unlikely to change that policy. "We lost about 15 percent on our endowment from July 2008 to July 2009," says Mary deRegnier, vice president for finance and interim vice president for development. "When the market started going down, we worked with our board to determine that we would use cash reserves to fund current operations rather than spend from underwater funds."

Ripon College maneuvered through difficult financial times nearly a decade ago, and drew on that experience to guide its recent actions. "We have been looking at our cost structure for some time; we are very lean and efficient at this point," says deRegnier.



"A HUNDRED DOLLARS WAS A LOT OF MONEY. THEN IT WASN'T. NOW IT IS AGAIN."

The board of trustees of **St. Cloud State University Foundation** in Minnesota is adjusting its policies and practices to conform with UPMIFA. "There's a tension between the legal aspects of UPMIFA and the accounting treatment under UPMIFA, which requires boards to pay more attention to how distributions are made from their endowments and is causing development officers to take greater care in donor conversations leading up to a gift," says Craig Wruck, vice president for university advancement.

St. Cloud State took a novel approach to dealing with its underwater endowments. "We asked a particularly generous donor to make a sizeable current contribution instead of using distributions from underwater funds. Essentially the donor allowed us to make up the missed endowment distributions," explains Wruck. The donor made a challenge gift, "which prompted deep conversations with other endowment donors to encourage them to make new current contributions."

Jeff Newton, vice president for resource development at **Massachusetts Institute of Technology (MIT)**, says the new legislation "allows us to treat young endowments and more mature endowments in the same way." MIT's endowment value dropped 17.1 percent in fiscal 2009, even though it received $143 million in new endowment gifts and transfers.

At the **University of Iowa Foundation**, an attorney was hired several years ago to help navigate the host of charitable organization laws and regulations, including UPMIFA. "We are more focused on the legal aspects of fundraising than ever before," says Flynn Andrizzi, senior vice president of development and a member of the foundation's Gift Acceptance Donor Intent Compliance Committee. "The committee comes into play when questions are raised on gifts made years ago – if gifts outlive intent or were initially defined too narrowly. We study a gift agreement, get a legal opinion from our attorney, and take appropriate next steps," explains Andrizzi.

Despite a 26 percent decline in the value of its endowment in 2008, **The Children's Museum of Indianapolis** did not need to liquidate investments whose value had declined during the most challenging periods of the market. Philip C. Genetos, partner in Ice Miller LLP, board vice chair, and then chair of the museum's investment committee, worked with members of a museumwide task force to make tactical, multi-year decisions about spending limits, prioritizing mission-based programs and use of endowment funds. "The fixed income portfolio of our endowment did so well that it needed to be trimmed under a rebalancing strategy. That portfolio provided the funding for our endowment draws, so we did not need to pull money from underwater funds."

As the economic situation deteriorated, board members at the **Indiana University Foundation** launched into action, forming a Spending Policy Review Group. The group has analyzed thousands of algorithms for various "what if" scenarios for endowment spending, explains Jim Perin, senior vice president and chief financial officer. "We are looking for the balance between serving the short-term needs of the institution and determining when the purchasing power of invested assets that were depressed during the downturn will be restored."

Strategies to Keep Institutions on Course

Throughout the last 18 to 24 months, development officers continued to

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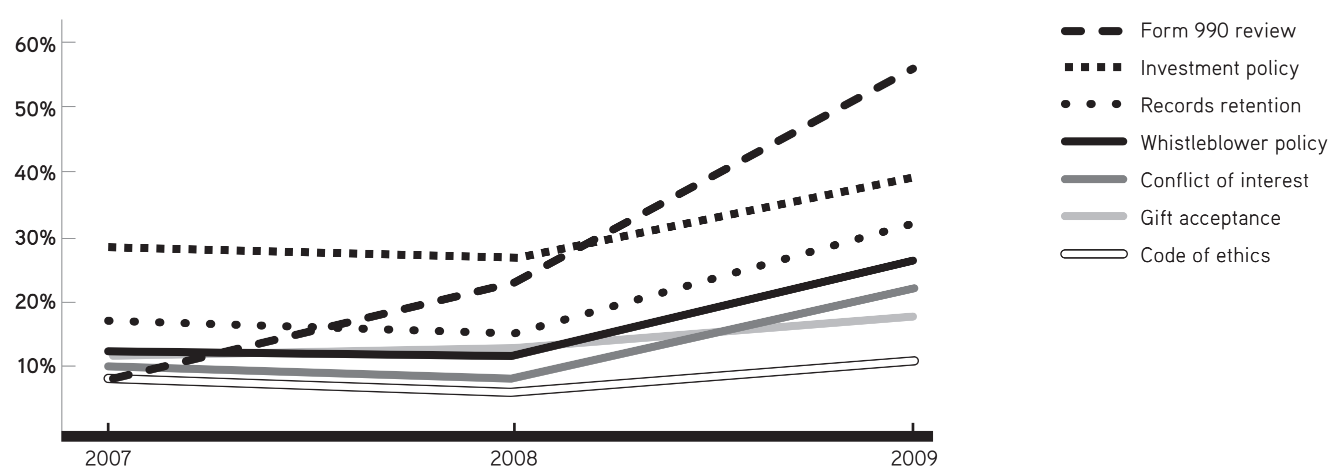
Nonprofits Review Governance Policies

Which board governance policy changes have you made?*



** Respondents were able to select more than one answer.*
Source: 2009 National Board Governance Survey for Not-for-Profit Organizations

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solicit endowment gifts, realizing that many donors could not make multi-year commitments. For the most part, donors not only understood the challenges of managing institutional endowments, but supported the strategies institutions employed throughout the downturn.

Before the 2008 recession, The Children's Museum of Indianapolis had intentionally reduced its annual endowment draw to five percent, according to Jeff Patchen, president and chief executive officer. When the financial markets collapsed, a Museum Recession Task Force was created to review the future of the endowment and work with major donors to preserve multi-year commitments. "Our goal was to create a three-year operating and financial plan that would minimize impact on the visitor experience and staffing while assuming little or no endowment growth," says Patchen.

By year-end 2008, the public phase of the museum's campaign had reached 94 percent of its $74 million goal, and a $1.5 million challenge grant from the Kresge Foundation helped push it over the top. "The grant helped us build the bottom of the giving pyramid with $100, $250, and $500 donors," says Patchen. "We increased the percentage of those donors in our giving pool by more than 50 percent."

The **Franklin W. Olin College of Engineering** found itself revisiting its institutional financial model. The college opened in 2002 with a generous grant from the F. W. Olin Foundation to provide a high-quality education at little or no cost. Its model worked well until the economic crisis sent its endowment spiraling downward. "When our endowment dropped 23 percent, it was no longer feasible to offer full-tuition scholarships," says Tom Krimmel, vice president for development, family and alumni relations. "Beginning with the entering class in fall 2010, the board voted to eliminate full-tuition scholarships and offer half-tuition scholarships."

> "There is a sense of urgency about the increased need for private funding."
>
> Tom Krimmel

"With only four graduated classes, we can't count on our alumni to make up that difference," Krimmel explains. He hopes to leverage an extraordinarily high participation rate in Olin's annual fund – 87 percent of alumni and 84 percent of parents – to jump start the college's first fundraising campaign. Some parents and board members have already made lead gifts. "There is a sense of urgency about the increased need for private funding," he notes, citing two recent gifts designated for current operations.

Just days before the collapse of the financial markets in October 2008, MIT launched its $500 million *Campaign for Students*. Newton reports that donors who were uncomfortable last year about making large commitments that required multi-year payments are beginning discussions again, but "it will take another year of market stability before we see a real return to larger commitments," says Newton. "We've encouraged donors who can't make a large gift at this moment to consider one-time expendable gifts. That's kept donors engaged, and it has opened the door for larger, endowment-focused gifts in the future."

Gifts to endowed funds at Hobart and William Smith Colleges remained "relatively constant" over the last 18 months. "Several new realized bequests helped establish new

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Endowment Gifts to Education Decline

Fiscal years 2008 and 2009 have proven challenging for building private support for endowments at higher education institutions and independent schools. The 2009 decline in charitable contributions to colleges and universities was the steepest in recent history, according to the Voluntary Support of Education survey by the Council for Aid to Education. The charts below demonstrate the decline in endowment giving in four categories: liberal arts colleges, public research universities and private research universities, and independent schools.

Highlights include:

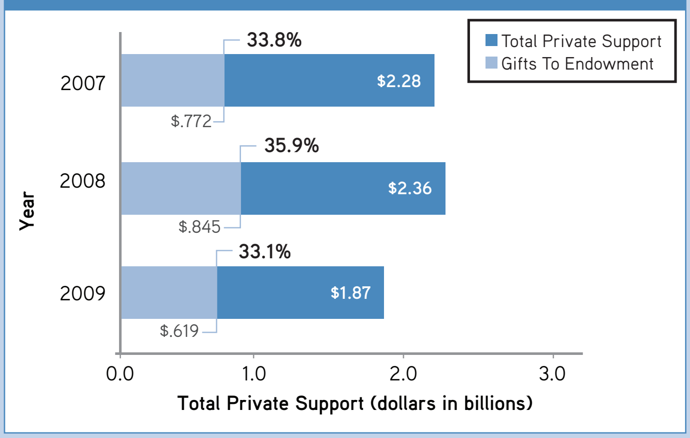
• Private research universities experienced the greatest decline in total dollars given to endowment from 2008 to 2009 dropping from $4.83 billion to $3.61 billion, followed by public research universities dropping from $4.0 billion to $2.86 billion and liberal arts colleges declining from $845 million to $619 million.

• Total giving to endowment at independent schools dropped from $411 million to $368 million, while the percentage of total private support directed to endowment rose slightly from 33.0 percent in 2008 to 33.8 percent in 2009.

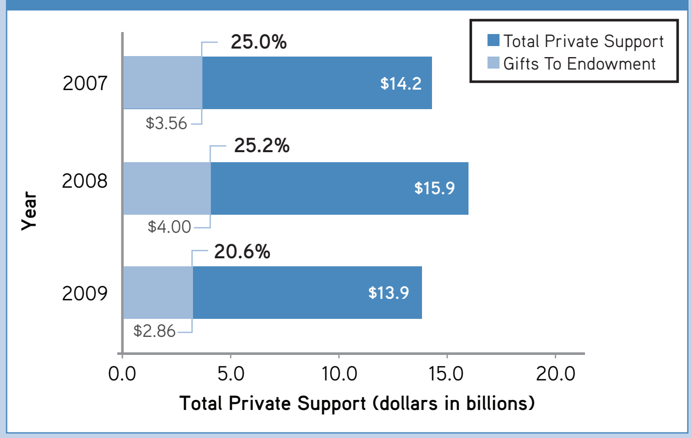
• Public research universities experienced the biggest drop in the percentage of total private support directed to endowment from 25.0 percent in 2007 to 20.6 percent in 2009.

Percentage of Private Support Directed to Endowment

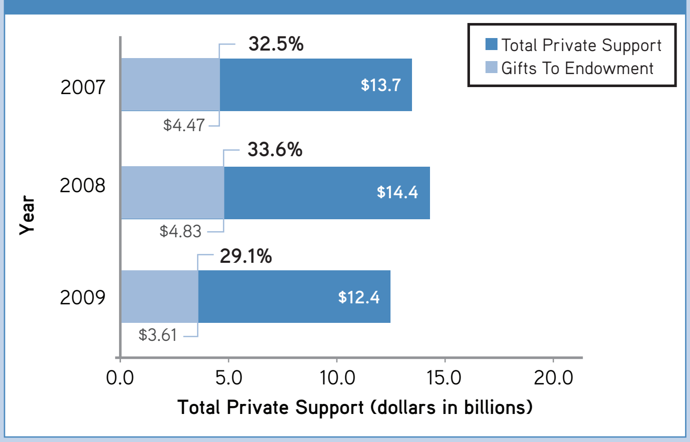
Liberal Arts Colleges



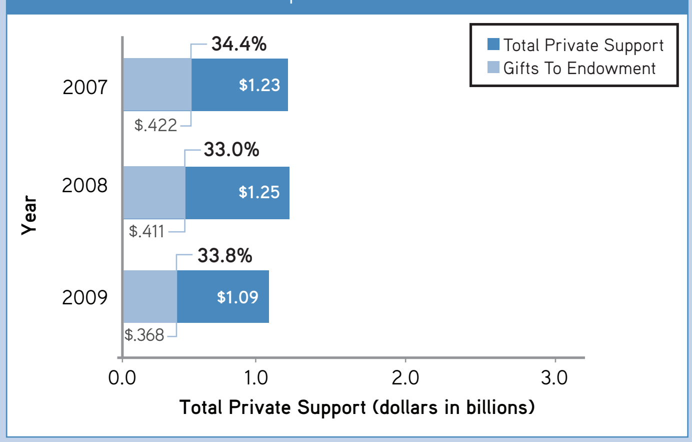
Public Research Universities



Private Research Universities



Independent Schools



Note: Figures represent cash received.
Source: Council for the Aid to Education, Voluntary Support to Education, 2009

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endowed chairs and scholarships," O'Connor says. "When the Colleges reached the $160 million campaign goal in fall 2009, the board approved an extension with a $200 million goal, "a strong statement that in this time of uncertainty we must move forward," O'Connor adds.

> "If our donors learned anything in the last 18 months, they have learned we are all about relationships, not transactions."
>
> Daniel Baker

Reaching that mark will require multiple strategies, including current-use named scholarships. "Previously, we required a $100,000 baseline gift to endow a need-based scholarship, which would generate $5,000 per year. We have identified individuals who want to help, but can't jump in with $100,000 gifts," he says. "We are now asking for commitments of $5,000 per year for four years, which will allow us to upgrade many annual fund donors to a new category of leadership donors, who we can then steward in the next few years."

At St. Cloud State, Wruck finds his staff sometimes reversing the order of solicitations. "First we have a conversation about a charitable bequest to endow a project or program, then we pursue a conversation about a current contribution to put the project to work now – opposite the way it used to be," says Wruck, who believes that "this is a heyday for testamentary gifts."

The philanthropic approach of the **University of Iowa Hospitals and Clinics** has not changed, as "we continue to rely on individual and corporate donations for large capital projects just as we have done in the past," explains Ken Kates, chief executive officer of University of Iowa Hospitals and Clinics and associate vice president of UI Health Care. "We are encouraged that fundraising has remained effective with many generous donors in this challenging philanthropic climate."

What has changed is the growing demand for capital projects. Kates notes that he is constantly reviewing priorities and that "in response to ongoing demand for services and increased volumes, we will be adding hospital beds and are planning to expand our University of Iowa Children's Hospital."

Strengthening Donor Connections

Delivering bad news is never pleasant, but those institutions that communicated regularly with donors prior to the downturn have found it much easier to approach difficult conversations.

As Olin assessed its endowment income declines and considered how to stay true to its mission of offering full-tuition scholarships to all students, the college stepped up communications with constituents. "We involved parents, students, faculty and staff members, and alumni in town meetings and call-in sessions with the president," recalls Krimmel. "We heard a wide range of viewpoints, but in the end the reality was in the numbers: we needed to add a tuition revenue stream and more fundraising revenue to the existing endowment revenue."

Like many other institutions, some of Columbia's endowments were newly established when the market dropped. "We were sensitive to the fact that these donors had just made the biggest gifts in their philanthropic careers and, due to market conditions, had to watch them dip below the water line," says Baker, who worked closely with a team that included investment managers, finance staff, and legal counsel and helped them understand the importance of keeping donors informed. "We issue an annual report on overall endowment performance, then donors receive individual reports on all their funds with information on gifts made during the year, appreciation, amount distributed, and new market value." In addition, donors received economic updates from the university president throughout 2008 and 2009. "If our donors learned anything in the last 18 months, they have learned we are about relationships, not transactions," Baker adds.

Increasingly, Wruck sees the role of development officers evolving into negotiators who must manage institutional expectations while encouraging donors to consider new options and to stretch financially. St. Cloud State is looking at changing the interval for endowment reports from annually to twice each year, but Wruck admits, "You run the risk of starting to treat donors too much like shareholders. We're devoting much more time to explaining to donors the ins-and-outs of investments and educating them that, because of the perpetual time horizon and risk profile, endowments are very different from the personal investment portfolio."

Mark Gearan, president of Hobart and William Smith Colleges, attests that "donor access to financial information goes with the decade-long evolution of greater transparency and accountability in higher education." He believes institutions have had to relearn the importance of communication with donors. "I've spent a lot more time on the road this year engaging donors and building relationships."

> "I've spent a lot more time on the road this year engaging donors and building relationships."
>
> Mark Gearan

He has used the reality of the recession to drive continued donor support. "We need to keep endowment front and center," says Gearan. "The economy allows us to go right at the argument and to honor our pledge to provide access to students, which is mission central."

Conversations flowed more easily with MIT donors when front-line fundraisers were encouraged "to go out and have a conversation with prospects without discussing a gift," says Newton. At the same time, MIT centralized and standardized reporting on endowments, sending "anyone with an endowed fund a report from a senior member of the administration. Many donors were pleased with how their endowment had grown in the last few difficult years."

Heightened donor interest may have contributed to a record number of people attending MIT-related events in the last 18 months. "When major banks were collapsing, institutions like MIT, which have been around for a very long time, gave alumni reassurance and an important connection," claims Newton.

How institutions thank donors has also changed with the economy. At the end of The Children's Museum campaign, Patchen and his staff discussed the possibility of hosting a large gala, but decided on smaller demonstrations of appreciation. "From simple letters to small group meetings to a thank-you wall in our new Welcome Center, we will acknowledge donors," he says. Patchen also plans to court younger museum members, typically families with their first child, who may have greater capacity to give in the future.

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Reaching Internal Constituents

Throughout the economic crisis, donors expected development officers and institutional leaders to be well versed in market trends and well informed about endowment performance. For many institutions, meeting those expectations required additional internal coordination and collaboration.

Hobart and William Smith Colleges has become far more proficient in managing and delivering information about the endowment, a strategy that O'Connor says, "adds to investor confidence as we have conversations on Main Street or Wall Street. If we are unable to answer the tough financial questions, we will lose our credibility."

Andrizzi agrees, "We've tried to educate our development officers to understand the endowment, and we've done a much better job communicating internally about market performance. Our heightened internal communication ensures that we have more ambassadors to speak to our best donors on a more personal level."

For donors unable to make endowment gifts recently, Andrizzi has taken additional steps to keep them on the radar, creating a position for an associate vice president for donor relations and stewardship events. "We do not want to neglect donors just because they cannot make gifts right now. We must keep the portfolio of every development officer populated with stewardship-type donors."

The Indiana University Foundation's staff also spent "lots of time talking to deans and business officers to help them understand the status of the endowment," says Perin.

"A large part of my role in the last 18 months was helping senior administrators, financial officers, deans, and development officers throughout schools and departments at IU understand the long-term consequences of the downturn," says Perin. "We have 6,000 endowment accounts with different restrictions. We developed reports that project distribution over four years so everyone could plan accordingly." ❖

Endowment Management in a Recession: Lessons Learned

"We must be entrepreneurial in raising funds for endowment. Don't always follow tried and true formulas."
Tom Krimmel

"It is much easier now to engage in open conversations with donors about university finances and the endowment without fear of diminishing their charitable interest or losing a gift."
Craig Wruck

"Development staff members need formalized training annually about the endowment. It is good practice for board members, finance staff, and development officers to be better educated about the endowment."
Mary deRegnier

"Don't allow expectations to get ahead of reality when it comes to endowment. Everyone is breathing a sigh of relief even though it will take a lot longer to recover. We must understand the long tail of the economic downturn."
Jim Perin

"How an institution responds to this challenge is a test of leadership, individually and collectively. We must remind ourselves that difficult times present opportunities to make a difference."
Mark Gearan

"Institutions must have a long-term diversified investment strategy, a long-term spending plan, and a commitment to intermediate-term fundraising that can provide cushions when the market is not doing well."
Philip Genetos

Legislative Issues Impact Philanthropy

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That means the top tax bracket could rise to 39.6 percent next year, up from 35 percent now.

New Form 990 Leads to Governance Changes

As a result of the new IRS Form 990 requirements, nonprofit organizations are now required to disclose a great deal of information regarding their governance policies, practices, and procedures. This has led many organizations to review and reassess their approach to governance, with an eye toward creating greater transparency, according to the 2009 National Board Governance Survey for Not-for-profit Organizations. According to the survey, organizations report having made a number of policy changes in 2009, such as requiring the board and/or one of its committees to review the Form 990 before it is filed with the IRS (55 percent of boards) as well as adopting investment (39 percent), record-retention (32 percent), and whistleblower policies (26 percent). (See chart, p. 5.)

In addition, information on executive compensation packages, supplemental executive retirement plans, total cash compensation, base and variable pay, and perks is now public record through Form 990 filings. Nearly three-quarters of organizations now have formal policies in place to review executive compensation, the survey reports. ❖

Taxing Charitable Organizations

Plagued by budget shortfalls and decreasing revenues, many states are looking to eliminate tax exemptions for nonprofits as part of their budget-balancing plans. A sampling of state activities follows:

• Pennsylvania state legislators introduced bills that would allow towns and counties to tax large nonprofits at 25 to 50 percent of their buildings' assessed values ("Cities Seek Boost from Nonprofits," by Tim Puko, *Pittsburgh Tribune-Review*, January 13). Late last year Pittsburgh Mayor Luke Ravenstahl proposed a one percent tax on student tuition at Pittsburgh colleges and universities if they did not pay upwards of $5 million annually. The mayor withdrew the proposal for the tax in December after all Pittsburgh colleges and universities agreed to step up voluntary payments to the city ("More Cities Look to Universities to Share Costs Amid Recession," by Tracy Jan, *The Boston Globe*, April 10).

• According to *The Boston Globe* article, a city panel in Boston is finalizing a plan to ask nonprofits to increase their voluntary annual payments gradually to 25 percent of what they would owe in taxes. The proposal would raise such total payments to Boston to $20.9 million per year.

• A plan that would require nonprofits, including private colleges, to pay property taxes is on the drawing board in the New York Senate ("Must Nonprofits Pay?", by James Odato, *The Times-Union*, March 17).

• The Rhode Island General Assembly is considering a plan to strip tax-exempt status from approximately 6,000 organizations. Hospitals, mental health centers, private universities, YMCAs, and even parent-teacher associations would no longer be exempt from paying seven percent sales tax ("Nonprofits Could Be Subject to Sales Tax," by Steve Peoples, *Providence Journal-Bulletin*, March 25).

• *The Baltimore Sun* is calling on **The Johns Hopkins University** and other nonprofit institutions in Baltimore to start making "substantial and permanent PILOTS (payments in lieu of tax)." They suggest the institutions pay a tenth of the $120 million that city officials estimate is lost because nonprofit buildings are tax-exempt ("Time for Nonprofits to Pay Into Their City," by Jay Hancock, April 18).

International Initiatives Address Charitable Giving

Throughout the world, institutions and governments continue to grapple with the effects of the recession, in many cases implementing policy and tax changes to help boost philanthropy. Recent international initiatives include the following:

Australia

New legislation for private philanthropic trust funds went into effect in 2009. A minimum of five percent of the value of each fund or $11,000 must be distributed each year, whichever is greater, and trustees must prepare a formal investment strategy. According to Philanthropy Australia, some 800 funds have been created since a tax-effective structure for private philanthropy was established in 2001 ("Clouds Lift on Philanthropy Rules," by John Kavanagh, *Sydney Morning Herald*, December 16, 2009).

Canada

While the number of tax filers who claim charitable deductions has dropped in the last decade from 30 percent to just 24 percent, tax policy changes have created a more favorable treatment for big gifts, including higher contribution limits, direct designation rules for registered retirement funds and life insurance, and the elimination of capital gains on donations of public securities and related assets. A new study by the C.D. Howe Institute notes that donations by Canadians soared from $3.6 billion in 1996 to $8.65 billion in 2007 ("New Tax Breaks Could Give Charities a Big Boost," by Don Cayo, *The Vancouver Sun*, September 22, 2009).

China

A controversy over a relief fund established after the 2008 earthquake by a Chinese actress has highlighted the need for stronger laws to regulate China's charity system. Efforts should be made to improve the framework of laws and rules on charity and provide more detailed provisions on charitable giving, according to Chen Tao, professor at the **China Youth University for Political Sciences**. "It's good to see citizens join the supervision of charity efforts, but the core issue is to improve the system," he adds ("Call for Improvement to Charity Donation Laws," *The Financial Times Limited (China)*, March 29).

Russia

President Dmitri A. Medvedev called for tax incentives and other measures to assist Russia's beleaguered nonprofit groups, which have come under government pressure in recent years. Medvedev has loosened the bureaucratic requirements that nonprofit groups face and has indicated that government will revamp tax and other laws to promote a tradition of giving ("Russian Leader Expresses Support for Nonprofits," by Clifford J. Levy, *The New York Times*, November 24, 2009).

United Kingdom

A new report, "Gift Aid Donor Research: Exploring Options for Reforming Higher-Rate Relief," published in late 2009, considers three possible scenarios for Gift Aid Reform in the UK. The study looked at the effects of redirecting rebates from higher-rate taxpaying donors to charities, but with some tax retained by the government, and two different flat Gift Aid rates to cover donations by all taxpayers ("The Latest Gift Aid Research Should Be Treated with Care," by David Ainsworth, *Third Sector*, January 19). One major problem cited is that the research does not detail how large-scale donors would respond to a reduction in tax incentives.

One in four large UK charities could face serious financial problems next year when numerous service contracts between charities and public sector agencies end, according to research published by the UK Charity Commission. "We want trustees to channel their formidable energy into doing all they can to protect the valuable work of their charity. Our research shows that the financial recovery for charities may lag behind that of other sectors," says Dame Suzi Leather, the commission's chair ("Government Cutbacks Would Wipe Out 25% of Charities" by Sarah Cassidy, *The Independent*, March 24).❖

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