

# SUNSETTING

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A Framework for  
Foundation Life  
as well as Death

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By Francie Ostrower



THE ASPEN INSTITUTE  
PROGRAM ON PHILANTHROPY  
& SOCIAL INNOVATION

**Sunsetting: A Framework for Foundation Life as Well as Death**

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Executive Summary

“The prospect of a hanging does concentrate the mind.” This comment was made by the trustee of a foundation whose donor made the atypical decision to spend all the foundation’s funds, rather than continue in perpetuity. It is a decision made by only a small percentage – between 8 to 10 percent – of foundations.<sup>1</sup> Like the other trustees, donors, and foundation staff in this study, the trustee quoted felt that the decision to terminate had significant, but sometimes unforeseen, consequences for foundation operations. Although the merits of perpetuity have been debated for hundreds of years, we know relatively little about the impact of choosing limited life. This paper represents one effort to help fill that gap, including an assessment of sunseting from the perspective not only of the foundation but of its grantees.

The paper contends when approached in a strategic fashion, sunseting offers a distinct approach to philanthropy with certain benefits and characteristics. This conclusion is developed through an analysis of four sunseting foundations. The foundations share certain characteristics of sunseting foundations more broadly, but they were not chosen because they are typical. They were selected because each, in its own way, takes a planned and deliberative approach to sunseting.

When asked what advice he might have for donors and trustees considering sunset, one trustee said, “first of all, come up with a very good game plan.” Based on the four cases analyzed in this study, along with the author’s other research on sunseting, the paper proposes a framework that outlines the components of such a plan. It proposes that a “good game plan” – or a strategic approach to sunseting – is one in which donors and trustees address the following elements in a way that is consistent with their own values and circumstances:

*Motivations for Sunseting:* Why did the donor and/or trustees decide the foundation should sunset? Original reasons often evolve and/or expand over time. Motivations are key because they set the parameters for other decisions.

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<sup>1</sup> Francie Ostrower *Limited Life Foundations: Motivations, Experience, and Strategies*, Washington, DC: Urban Institute. 2009, p. 2.

*Sunsetting framework:* What overall approach will guide the foundation’s sunsetting plan, and why? For instance, will the foundation spend down its assets systematically during its life, or take another approach?

*Sustainability:* What part of its work does the foundation care about perpetuating after its own life? How can it help to promote that sustainability?

*Timing of termination:* How long should the foundation endure, and why? How much flexibility should be incorporated?

*Closing the foundation:* What are the tasks, both broad and specific, that must be planned when it comes to actually closing the foundation as an organization, including the consequences for grantees?

Donors and trustees have different options within each of these areas, but it is important that decisions made within each area align with one another, the donor’s and/or trustees’ values and motivations, and the foundation’s particular circumstances. This paper examines these foundations through the lens of this framework, describing how they addressed these various issues, the challenges they faced, and how these were handled. It also considers the implications of sunsetting for our broader understanding of philanthropy and foundations. A different companion and more practically-oriented paper applies the framework to develop a decision-making guide for donors and trustees interested in considering and/or implementing their own strategic sunset plan (see Francie Ostrower, *Foundation Sunset: A Decision-Making Guide*. Washington, DC: Aspen Institute 2011). For purposes of brevity, in the remainder of this paper when we say “sunsetting foundations” we mean foundations that take a strategic approach to sunsetting.<sup>2</sup>

Sunsetting foundations prompt us to revisit our conception of what a foundation is. As students of organizations have frequently observed, over time established organizations tend to take on independent identities and lives. Those associated with sunsetting foundations, however, view foundations as *vehicles*, and are not invested in creating independent identities for them. From this perspective, the paper contends, sunsetting offers one approach to avoiding “goal displacement,” whereby organizations shift from being a means to an end, focusing on their own survival even at the risk of drifting from their original mission. While goal displacement has been extensively studied in other types of nonprofits,<sup>3</sup> it is not typically discussed in relation to foundations. Perhaps this is because the process of goal displacement is so often set in motion

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by a nonprofit's need to obtain funds or legitimacy from outside parties, while foundations are seemingly free from such constraints. Yet foundations are distinctive in that perpetuity itself is so generally incorporated as a goal – and thus there is always the risk that preservation of assets will become the overriding concern. Sunsetting foundations provide donors with the advantages of an organizational structure for giving (e.g., staff, longer-term projects), but their limited life heightens the likelihood that they will remain an expression of the donor's personal values. If individual giving represents a highly personal method of philanthropy, and perpetual foundations represent the opposite pole of institutionalized giving, sunset foundations offer a form that stands in-between.

A paradoxical finding is that limited life foundations are greatly preoccupied with sustainability. They do not seek to sustain their own organizational structure, but they are deeply concerned about sustaining their values and purposes. To do this however, they must rely on external people and organizations, and this can have profound consequences for the nature of their philanthropy and relationship with grantees. An overarching argument of this paper is that sunsetting, when combined with a specific philanthropic purpose, can undermine conventional grantee-grantor power relationships in favor of a more partnership-oriented approach that promotes grantee independence.

A set of commonalities do indeed emerge across these four foundations – which are different in many ways, such as programmatic focus, ideological orientation, geographical location (though two are in the same city). Among the most striking commonalities are:

- A high level of focus
- Long-term funding for a common set of grantees/purposes
- Grantmaking heavily oriented toward operating support and strengthening the capacity of a set of organizations and/or people to carry on their work
- A high level of attention to donor intent

These commonalities are related in that the donor's intentions are translated into a foundation focus, and guide the foundation's search for grantees (and partners) with whom the foundation seeks to work and strengthen so as to be in a position to carry on those intentions after the foundation's demise. In short, these four foundations and their approaches to sunsetting provide us with portraits of the possibilities that sunsetting offers as a framework for foundation life as well as death.

In summary, sunsetting is not a panacea, and this paper does not propose that all foundations should limit their lifespan. Yet neither is this paper neutral. Rather, it argues that sunsetting, when tied to a clear purpose, does offer a highly compelling philanthropic option that opens up different ways of thinking about and structuring foundations. In particular, it offers

comparatively smaller and midsize foundations such as those in this study, the option of functioning like much larger foundations during the period of their lives. These cases make clear that while sunseting has often been associated with conservative foundations, it is by no means inherently connected to any ideological view. The experiences of sunseting foundations may be quite relevant for perpetual foundations in dealing with one of their biggest challenges – namely how to effectively construct and exit from their own time-limited programs. In short sunseting warrants exploration for what it has to offer for how foundations live, as well as how they end.

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### Introduction

“The prospect of a hanging does concentrate the mind.” This comment was made by the trustee of a foundation whose donor made the atypical decision to spend all the foundation’s funds, rather than continue in perpetuity. It is a decision made by only a small percentage – between 8 to 10 percent – of foundations.<sup>1</sup> Like the other trustees, donors, and foundation staff in this study, the trustee quoted felt that the decision to terminate had significant, but sometimes unforeseen, consequences for foundation operations. Although the merits of perpetuity have been debated for hundreds of years, we know relatively little about the impact of choosing limited life. This paper represents one effort to help fill that gap, including an assessment of sunseting from the perspective not only of the foundation but of its grantees.

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### **The Case Studies**

The four foundations in this study are the Mary Flagler Cary Trust (the Cary Trust), the Beldon Fund, the Jacobs Family Foundation, and the Pear Foundation. The first three are the foundations' real names, while the fourth is a pseudonym. The Cary Trust and the Beldon Fund closed during the course of this study, providing an opportunity to document the final stages of the sunseting process and to hear foundation and grantee perspectives about the entirety of their relationship. The Jacobs Family Foundation does not have a firm end date, but will terminate with the second generation (i.e., the donor's children), and the Pear Foundation will close in seven years.

The paper relies primarily on personal interviews conducted by the author between 2008 and 2010, supplemented by archival materials (board minutes, internal memos, annual reports, and other documentation, such as one donor's will and another donor's statement of intent, provided by the foundations). In all, the author conducted interviews with 60 trustees, staff, the donor (in the case of Beldon, the sole foundation with a living donor) and grantees (and in the case of Jacobs, community residents). The Pear Foundation has not yet spoken with its grantees about termination plans, and its grantees were not interviewed. Multiple interviews were conducted with some individuals to track developments over time. While three of the four foundations are identified, the identities of all grantees have been kept strictly confidential.

### **The Mary Flagler Cary Charitable Trust**

“If you don't have the discipline of a date certain [for closing], you have in mind a set of long-terms operations of a foundation and you're not thinking of a date at which you have to account for results...It's a discipline, so you think in terms of things that you can complete by a certain date. It's a big psychological difference. Foundations that go on in perpetuity don't have that.” Cary trustees, such as the one just quoted, felt that sunseting promoted a sense of discipline and focus. The substance of that focus was rooted in the donor's testamentary wishes. Explained one trustee, “A testamentary trust is very personal...It's to pursue what the donor felt was important...I look at the will from time to time, even though I know very well what it says.”

Mary Flagler Cary, an heiress to the Standard Oil fortune, died in 1967. Her husband pre-deceased her (they had no children), and, after a set of specific bequests, Mrs. Cary left her residual estate in trust for philanthropic purposes. In 1968, according to her will, the Mary Flagler Cary Charitable Trust was established with initial assets of \$72,482,155. Mrs. Cary's

will directed that Trust funds were to be paid “upon, or prior to, the expiration of fifty (50) years.”<sup>5</sup> Her will does not explain her reasons, but reportedly, Mrs. Cary made this provision because she was “not enamored of perpetuity” and was concerned about the potential for foundations to drift away from donor intent over time. Indeed, she apparently leaned toward a shorter timeframe but was advised that might not leave adequate time to accomplish her purposes.

Mrs. Cary’s will named the four original trustees, and left them wide latitude and discretion over grants. Using this latitude, trustees sought “to honor Mrs. Cary’s wishes and at the same time respond to new societal and cultural needs which the Trustees believe she would have supported.” In doing so, they observed that the Trust’s 50 year lifespan “imparts a sense of urgency in using the Trust’s resources to establish a lasting legacy.”<sup>6</sup>

The will left trustees with two overall purposes. First, they were charged with overseeing the donation of certain property, including family collections (of music, graphic arts, playing cards) and “Cannoo Hills” (an 1,800 acre property near Millbrook, New York) to public or charitable institutions for preservation. The transfer of the collections required care, but was comparatively straightforward. Making provisions for the land proved to be a more complex and long-term endeavor. In 1971, the Trust transferred ownership of the land to the New York Botanical Garden, to create the Mary Flagler Cary Arboretum “as a center for ecological research, and the application of knowledge of plants and ecological principles to pressing problems of environmental quality.”<sup>7</sup> The Trust was deeply involved in developing and supporting the Arboretum, which later became the Institute of Ecosystem Studies (and was renamed the Cary Institute of Ecosystem Studies in 2008). Throughout its life, the Trust gave its largest grants to IES, and at termination, over 60 percent of the Trust’s assets went to the Institute for an endowment.<sup>8</sup> One trustee explained, “The will says that I love my land and do not want it developed. We are concerned with the will of the donor.”

In addition to transferring property, trustees were also charged with charitable grantmaking. By the mid-1970s trustees felt their grantmaking was too fragmented and diffuse, and concluded that “the Trust can be most effective if its grants are restricted to a few well-

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<sup>5</sup> Last Will and Testament of Mary Flagler Cary, March 22, 1962, p. 12. Unless otherwise indicated (as here) all quotes in the text are from personal interviews.

<sup>6</sup> *Mary Flagler Cary Charitable Trust Twenty-Year Report 1968-1988*, p. 29.

<sup>7</sup> *Mary Flagler Cary Charitable Trust Five-Year Report, July 1, 1968-June 30, 1973*, p. 3.

<sup>8</sup> The Institute of Ecosystem Studies received 56 percent of the Trust’s total grant funds. See Heidi Waleson, *A Trust Fulfilled: Four Decades of Grantmaking by the Mary Flagler Cary Charitable Trust*. 2009, p. 99. This report was commissioned and published by the Cary Charitable Trust and provides a detailed history of its grantmaking.

defined areas of interest.”<sup>9</sup> In 1975, following the death of one of the original trustees, the other trustees invited Edward A. (Ned) Ames to become the managing trustee (a full-time position that included the duties of trustee, top staff member, and program officer). Trustees narrowed the Trust’s scope and created a more formal grantmaking structure. The Trust selected conservation and music, two fields of interest to the donor. In conservation, the Trust targeted coastal preservation, primarily on the Eastern Shore of Virginia. In music, it focused on small and innovative contemporary music groups in New York City, supporting performance, composition, and recording, as well as community schools and youth orchestras and choruses. The Trust continued to support these areas, along with the Institute for Ecosystem Studies, until it closed. When asked if he had any advice for foundations planning to terminate, one grantee succinctly replied, “Study the Cary Trust! Focus priorities, and really know the parts of the field you’re setting out to help.”

In 2009, after 41 years, and nine years prior to the fifty-year limitation, the Trust made its final grants. Thirteen months later, following the completion of considerable administrative work the approval of the Surrogate’s Court of the State of New York, the Trust officially terminated. During its lifetime, it had overseen the disposition of major collections and properties that the donor wanted safeguarded for charitable purposes, and made grants of \$334,245,969.<sup>10</sup>

### *Sunsetting Approach and Grantmaking*

“We are not really spending down. We are holding the principal, and at the end we will distribute it,” explained one Cary trustee. The Cary Trust regularly made grants in excess of the legally required five percent of assets (7 percent or more was not atypical).<sup>11</sup> However, as this quote reflects, the Trust’s strategy for dispensing its assets was to guard principal, make annual grants primarily from income, and give the assets to a set of long-term grantees as endowments at termination. Over half of that principal was being guarded for transfer as endowment to the Institute for Ecosystem Studies. This decision reflected trustees’ assessment of the best route for achieving sustainability for the Trust’s purposes. One trustee explained, “if you’re concerned about whether an organization will survive in the future, you should give an endowment.” Trustees did consider and reject an alternative, spend down approach. A trustee who characterized grantee impact as their “core” concern for termination explained,

Just making larger grants for ongoing operations of the grantees is not compelling, because once you stop doing it, then what do you do? And what do the grantees do? Suppose we didn’t hold on to the principal, but increased the grant size – And then you

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<sup>9</sup> *Mary Flagler Cary Charitable Trust Three-Year Report, July 1, 1973-June 30, 1976*, p. 2..

<sup>10</sup> Waleson, op. cit., p. 88.

<sup>11</sup> Waleson op. cit., p. 7.

stop, but the charitable institutions become twice as dependent on us. You boost them to a larger level, and then you reduce the underpinnings.

Finally, trustees rejected the option of spending down by increasing their number of grantees because it would dilute the Trust's focus, which they viewed as key to achieving impact.

During its life the Trust made annual grants for general operations and tried to help build and strengthen grantee organizations to a point where they could receive and independently manage an endowment. Recall that the Trust actually helped to create the organization that would eventually receive the bulk of its assets. The Trust developed long-term relationships with grantees, believing that, "to have a real impact, you can't just come in and get out. You have to stay, and take some responsibility."

Grantees' accounts are consistent with those of foundation trustees and staff, and confirm the foundation's history of trying to strengthen the organizational health of organizations whose work they valued. For instance, the director of one small grantee described how the Trust helped them to stabilize organizational finances by introducing them to the idea of a cash reserve fund, and then offering them a matching grant to build one. The executive explained, "this got us thinking less about what's going to happen in the next three months, and thinking more about the next three years. It gave us a longer line of vision." Another recalled how the Trust helped them strengthen their financial accounting. For another grantee, knowing that the Trust would close created "an urgency on our part, and on theirs, to really set this program apart, and set it up for the future without the Cary Trust, and in a way that's a blessing." Another grantee also commented on how Cary worked with them and others as follows:

The organization was able to mature and be more comprehensive. It's kind of like growing up. Your parents... won't be around forever... So, you don't just want to give a lot of money to your children, but to make sure they're great citizens.. Cary helped the children mature, and they can live now without them.

Grantees repeatedly commented on the Cary Trust's high degree of focus and consistency. One said, "there was really no mission drift at all" and attributed this to the fact that Cary always planned to sunset. He said:

They were focused in, had a date certain that everything was going to be completed, that was going to be the end of the foundation, and they wanted the foundation's work to endure long after the Cary Trust dissolved. And I would say that helped us all to kind of focus on the permanent impact of what we were doing, for our good, and for theirs... Sometimes foundations will be on this program one year, and another emphasis next year ... Cary never lost its focus because it knew it had that date certain ... You never had to worry about, what seminar has [Cary staff] been to this year? What's the flavor of the month? Foundations can tend to do that.

Keep in mind when considering these positive statements that not only were grantees assured of confidentiality, but they were interviewed *after* Cary had made its final grants, and there was no question of additional funding.

Grantees consistently emphasized the value of the Trust's consistent and long-term provision of general operating funds, noting that such funding was becoming increasingly difficult to obtain from foundations. One grantee observed, "They were not our largest donor, but they were consistent and predictable, and that's tremendous." Another observed,

It may sounds trite, but I really view Cary Trust as part of the family, part of the ecosystem in which we live... They were able to communicate to us what the reality was, what was on their mind, and what they needed us to do, in a way that said they trust us, they want us to succeed, and want us to be healthy, and they'll help us to the best of their abilities.

Grantees characterized Cary Trust and its staff for being actively engaged and supportive, without being intrusive or "micromanagers." When asked if she would described Cary as an actively engaged funder, an executive at one grantee organization said, "If active means attentive to the end result, and really interested in seeing that their funding is part of a coherent strategy -- yes. But if it means micromanaging, completely the opposite. That's a great combination if you can find it, and that combination will be dearly missed." Several saw Cary's approach as counter to what they perceive as the recent trend for foundations to increasingly impose their own agendas on grantees. One contrasted Cary Trust staff's approach with "the prevailing attitude [that] has clearly been, 'We're foundations and we know what our goals are, and you're going to be instruments for us to achieve them, and we're going to tell you what to do, and you will hire consultants to tell us whether you've been doing it, and we're going to make you write really long reports at the end...[Cary staff] is so *not* that.'" Said another, "I can't think of a foundation that I would feel is more of a partner than Cary." Many Cary Trust grantees said they thought very highly of their program officer, developed longstanding and positive relationships with him or her, and that contributed to their overall praise for the organization.

### *Termination Planning*

In 1997, trustees decided to conclude the Trust's grantmaking in 2009, nine years prior to the 50 year limit. A fundamental reason was that, as confirmed by an external evaluation, the Trust had accomplished most of its purposes. As one trustee explained, "There's a cost to operating the Trust, so if there is a cost, and the purposes are accomplished, you might as well pay out the principal to the recipients." He elaborated, "The organizations are ready... so we should just give them the capital. There are risks involved in managing pools of capitals that are significant. It is better to let grantees do it."<sup>12</sup> The decision illustrates well how the sunseting

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<sup>12</sup> A related issue had to do with the Trust's major commitment to the Institute for Ecosystem Studies (IES). The Trust realized that its practice of giving IES 5 percent annual increases would eventually leave no funds for music or

foundation is viewed as a vehicle, so that once its purposes are concluded there is no rationale for its continued existence.

Another factor in the decision was that given their ages, it was unlikely trustees would remain in office for the full 50 years, and it seemed questionable to bring on a new board just prior to termination. In particular, Ned Ames, the Trust's full-time manager and sole trustee with a connection to the original board appointed by Mrs. Cary was at a point where he was ready to step aside. The departure of Ames and other trustees would leave the Trust "in new hands with no connection to the original people who knew the donor. Is that a good idea? No."

In 2005, the Trustees embarked on strategic planning for the Trust's final years and put in place a proposed schedule of major events leading to a 2009 termination. A fellow trustee praised the managing trustee's "meticulous" approach, and advises that when sunsetting, it is critical to "Decide what you're going to do, set up a schedule, [and] make sure your records are in good shape." Cary Trust's proposed termination schedule in 2005 made provision for making final grants (discussed below), but also for such items as disposition of Trust documents and records, finding a site to deposit Trust archives, collecting final grant reports, preparation of final accounting, creating an escrow account, final payroll, and vacating the office.

In 2005 as well, the Trustees made key planning decisions about the investment of the Trust's endowment. They decided to reduce investment in equities to zero by 2008.<sup>13</sup> Since the Trust would be closing and paying its final commitments, it had to convert all assets into cash to guard their safety and availability. An unanticipated consequence of the decision to terminate early was that the Trust ended all of its investments in equities just days before the stock market plummeted in 2008. Indeed, at a time when foundation endowments were in severe decline, the Trust found itself with more assets at closing than initially anticipated.

As sunsetting foundations approach their termination, the issue of retaining staff who know they will be out of work becomes a consideration. In the case of Cary Trust's managing trustee, closing early solved, rather than created an issue of retention, since he was ready to retire. The other program officer as well was approaching retirement, leaving two office staff who would be seeking other employment. Trustees decided to craft a severance package for employees based on years of service, along with a staying bonus. However, for one staff member it was the work to be done at the foundation's closing that provided a major incentive for staying. As a result of the Cary Trust's strategy of guarding principal, there were many large grants to be made during its closing years, which as staff noted, meant "it was an exciting time."

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conservation. Trustees felt it was hard to justify freezing the increases while holding principal intended for IES. However, were the Trust were to give IES its intended endowment, the greatly reduced value of the Trust's endowment would throw continued operations into question. "The Decision to Terminate," Edward A. Ames. July 1, 2008.

<sup>13</sup> Regular Meeting of Trustees of Charitable Trust under the Will of Mary Flagler Cary, Deceased. August 23, 2006, p. 4.

Considerable work remained to be done after the Trust made its final grants and even after it closed its office. As a Trust, the surrogate court had to be petitioned to release trustees from their obligations, the Attorney General had to review Trust transactions, and endorse the petition. There was considerable administrative work to do over the year after the final grants were made. As one trustee cautioned, it is key to retain documents for this purpose. Accounts needed to be audited, and a final Form 990PF filed. The Trust had to set up an escrow account to set aside funds to cover anticipated and potentially unanticipated expenses that might arise in the future. The Trust did this, and selected a beneficiary (the Pierpont Morgan Library) to receive the balance of any remaining funds in support of the Mary Flagler Cary Music collection established by the donor.<sup>14</sup>

### *Final Grants*

Trustees started planning for final grants in 2005. The Trust wanted to give substantial advance notice to its grantees. A key strategy was to structure many closing grants as matching endowment gifts, and it wanted to give grantees adequate time to raise a match. It also wanted to give several years advance notice to those grantees that would not be receiving a matching grant that they would receive a final operating grant in 2008, to allow them time to plan accordingly. Another consideration for trustees was to make some final grants that would honor Mary Flagler Cary and her work by name.

One important component of planning included evaluating grantees' organizational health and sustainability, to determine which grantees to select for final endowment grants.<sup>15</sup> As foundation and grantees alike emphasized, the Trust traditionally had exercised careful oversight of its grants – but it would not be there to do this for its final grants. One challenge the Trust faced was that it wanted to plan its final grants several years in advance, but that meant allocating funds before knowing the exact value of the Trust's assets at termination. Without that knowledge, trustees did not feel able to commit a specific dollar amount. With the assistance of legal counsel, the Trust developed language to be used when offering matching grants, whereby grantees would be informed of the amount the Trust generally intended to give, but with the qualification that the exact amount would depend on the value of Trust assets at that time.<sup>16</sup> With that, the Trust used projections to estimate what its remaining assets would be, subtracted the amount reserved for the Institute for Ecosystem Studies, and then allocated the remainder for conservation and music.

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<sup>14</sup> Mary Flagler Cary Charitable Trust, 2009 Form 990-PF. p. 20.

<sup>15</sup> Nonetheless, as the Cary experience illustrates, organizations do change over the years, and in a few cases, leadership transitions and difficulties raised questions the Trust had to address before finalizing those gifts.

<sup>16</sup> Minutes, Special Meeting of Trustees of Charitable Trust under the Will of Mary Flagler Cary, Deceased. July 21 and 22, 2005. Pp. 6-7.

The Trust's closing grants went overwhelmingly to organizations with whom it had long relationships, a consideration in selecting final grantees. For instance, in the conservation field, the Trust's largest closing grant went to the Nature Conservancy, a grantee for 39 years, as a match to create the Mary Flagler Cary Endowment for the Virginia Coast Reserve.<sup>17</sup> In music, where there were a larger number of grantee organizations, over 90 percent of the organizations receiving matching closing grants had been grantees for 10 or more years, and half had been grantees for 20 years or more.<sup>18</sup> Cary also made unrestricted closing grants to many of these same organizations, as well some others.

One interesting issue that arose for the Cary Trust in its music program stemmed from its commitment to supporting many small and innovative groups that had "no permanence that you'd want to endow." Here, where the Trust could not endow individual organizations, it made grants to a set of public charities that could continue the Trust's legacy of work in these fields for some period of time. For instance, a grant to one intermediary organization was to be used to support small music ensembles and commission new works. Another large donation went to an individual organization, but for the creation of a rehearsal space that would be available more broadly to the types of small organizations that Cary had supported during its lifetime.

The 2008 decline in the market, however, posed a serious challenge to the Cary Trust's intention of focusing parting gifts around matching grants for endowments. One trustee recalled, "The unanticipated event that occurred was the economic collapse. We had planned to hold capital for grantees and then turn it over as endowment... We told 35 to 40 organizations that we'll give you endowment grants if you match it 1 to 1... But the world has fallen apart economically and the nonprofit sector is very affected. We were concerned that they couldn't make the match. But in fact, they mostly did." The decline in the market also raised questions about the rationale for leaving an endowment, particularly to their smaller grantees: "For small organizations ... you could go bust while having an endowment that you couldn't touch." In response the Trust renegotiated its agreement with some such grantees to make part of their gifts for cash reserves that could be tapped for current use.

For many grantees, the timing and structure of Cary's termination magnified the impact of their closing gifts. Because Cary wound up with a higher amount of assets than predicted, many grantees received closing gifts amounts in excess of what they had expected, in the form of unrestricted closing grants in addition to their endowment grant at an economic time when it was greatly needed. Furthermore, the size of the closing gift and the impact brought about through the match resulted in an impact that many described as having an impact far beyond their individual gifts received from Cary over the years. With funds from a special reserve for remaining assets above what was anticipated the Trust also provided closing gifts to

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<sup>17</sup> Waleson, op. cit. p. 82

<sup>18</sup> Calculated from tables in Waleson, op. cit. pp. 91-93.

organizations it had endowed in its earlier years, and that had been important to meeting its fundamental purposes.<sup>19</sup>

*Exiting: The Grantees' Perspective*

Grantees overwhelmingly praised the way that the Trust handled its closing. They commented on the clarity of the Trust's communications about what they would receive, the advance notice, and the Trust's willingness to be flexible in negotiating the terms of parting gifts to accommodate grantee needs. In cases where the grantee could not raise the full match for the closing gift, the Trust matched the portion that they had raised. Even a grantee who expressed disappointment that his organization was not selected for an endowment grant, feels that the Trust handled its closing "very well [with] long-term notification, and constant reminders."

Many grantees noted that the nature and size of the matching endowment or cash reserve gift they received had a substantial impact on their organization. One described the Trust's parting gift as "Huge and transformational. [It opened] a whole different dialogue that I'm still trying to manage at the board level about how one thinks about oneself, and one's business model." Another said it was "the greatest thing they could have done for us" and explained "We really can be a better business because of it...The major accomplishment of this organization in the past two years was to raise that challenge...Monetarily, but also emotionally and psychologically, I think it had great influence. Another grantee said that without the matching challenge from Cary, they would not have been able to raise their current endowment fund, which will wind up giving them more annually than Cary's annual operating grant.

Many grantees expressed sadness and ambivalence about the Trust's termination and the consequences for the field, including several who recognized that they were better off financially as a consequence. One reflected, "Would I rather have [their closing gift] now or \$10,000 in the future? I guess it all developed in the right way and for a good purpose. We hate to see them go. They were such a good citizen of the funding world. They made the world and New York better by virtue of what they did with a relatively small corpus to work with. They stretched their dollar by virtue of their taste." And another said,

I will miss not just their annual funding but the collaboration and partnership we had around this very special place. When you work with someone for so long with this continuity of purpose ... It's very hard to walk away and say 'Everything's going to be fine' ... Everything might be fine. Still, at least personally speaking, I miss that interaction and that collaboration, with that kind of partner.

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<sup>19</sup> Waleson, op. cit. p. 83

## The Beldon Fund

“In 1998...the Beldon Fund will be profoundly transformed,” wrote the Beldon Fund’s creator John R. Hunting. Hunting, son of a founder of Steelcase Corporation had created the Beldon Fund in the 1970s. But in 1998, when Steelcase went public, he was able to bring the foundation assets from \$10 million to over \$100 million. At that time, he also announced, “I have decided that the foundation should fully pay out over the next ten years.”<sup>20</sup> Hunting stood by his decision, and reflecting back, says “I think I did the right thing.” The Fund approved its final grants in 2008, and closed its doors in New York City in 2009. During its lifetime, Beldon sought to build a societal consensus for achieving a healthy planet.

John Hunting laid out the reasons for his decision for sunseting at the same time he announced his decision, which was based on personal, philosophical, and strategic considerations. He wanted to see the results of his philanthropy; felt that today’s donors should solve today’s problems; and believed that “in too many instances, foundations are eventually ‘captured’ by trustees who do not follow the original donor’s intent.” Furthermore, and in what he characterized as the most important reason, Hunting linked his timeframe to his philanthropic focus on the environment: “Given all the environmental problems besieging our planet today, how can I not give away all of the foundation’s assets in the very near future?”<sup>21</sup> Hunting has no children and thus the question of future family involvement was not a consideration.

Trustees (including Hunting) and staff reported that another rationale for sunseting emerged after the initial decision. Over time, they concluded that the decision to sunset by spending down was permitting Beldon to have the impact and visibility of a foundation many times its size. Without the need to preserve endowment in perpetuity, the Beldon Fund could spend a great deal more each year. As one staff member explained, had they been a perpetual foundation, “We would have been able to spend \$3 to 4 million instead of \$14 to \$15 million. So we were spending at the rate of a much larger organization, and thus had the influence of a larger foundation. So you can play with the big boys.” A trustee observed that as a perpetual foundation, “we would have been a small potatoes funder.” Reflecting back, Hunting says that he would add this reason to his original list.

The character of the Beldon Fund and its approach to sunseting was deeply influenced by the presence of a living donor. Staff and trustees viewed the Beldon Fund as the expression of the donor’s interests and values. One trustee said, “We did good work...and really achieved what John Hunting wanted to do, and that was very important. If you’re going to represent an individual’s philanthropy, you have to pay attention to what that person wants.” One staff

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<sup>20</sup> Beldon Fund President’s Report, 1997.

<sup>21</sup> President’s Report. 1997.

member felt Hunting's presence produced an even greater sense of urgency to accomplish goals over the ten year period because "we want to walk out of here making the donor feel proud."

The Beldon Fund's ten year timeline was the shortest of any in this study. Hunting opted for ten years based on his age and sense of urgency with regard to environmental problem. Many felt the timeline was adequate, but some trustees and staff believed it was too short. One such trustee recalled that a couple of them would periodically suggest he reconsider sunsetting, but Hunting had clear reasons for his decision and stuck with them, and "we all accepted that."

### *Sunseting Framework and Grantmaking*

The Beldon Fund chose to sunset by spending down, and tried to come as close as possible to "zeroing out" by termination. It was this decision that accounted for Beldon's ability to spend so much more each year than a perpetual foundation of its size. As referred to above, Beldon trustees, staff, and a number of grantees believed that the ability to make large, multiyear grants heightened the foundation's ability to be a leader in its field, attract other foundations as co-funders, and attract strong staff. One trustee linked the advantages of the spend down decision to Beldon's size, when he said "If you're a huge foundation and can give away those huge gifts with just your five percent – you want those folks to stay around... Given the assets Beldon had, committing to the spend down let them leverage their assets more." Another cited the ability to hire a strong staff as a benefit of having additional funds available, so that "we had a cadre of people the morning after saying to grantees 'How is it going? What do you need to make this work?'" Some grantees also commented on the impact derived from Beldon's ability to make larger grants by terminating, such as one who said, "They weren't that big of a foundation, so being able to give larger amounts with that kind of focus, it probably had more of an impact than if they had been slowly giving out \$25,000 grants."

As this last quote reflects, Beldon's strategy was not simply to spend a lot of money, but to do so in a focused and strategic fashion. Trustees and staff widely felt that Beldon funded too many programs in its first few years. Some trustees and staff believe that here a longer timeline than ten years might have helped. One trustee feels that even a 15 year timeline would have relieved some of the pressure and allowed a more thoughtful process at the outset. Others noted that it took the foundation a few years to hire and build a staff appropriate to its plans. One interviewee suggests that foundations might wait a few years to get on their feet prior to selecting a termination date.

By 2003, and informed by the results of an external evaluation, the Fund had narrowed its scope to two major programs, both oriented toward building support for environmental advocacy. The programs were:<sup>22</sup>

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<sup>22</sup> Quoted descriptions of programs are Beldon Fund guidelines, p. 1 in the Board Book for June 11, 2003.

- Human Health and the Environment, which “seeks to add new, powerful voices to promote a national consensus on the environment and to activate the public on issues that matter to people in a deeply personal and potent way.” A key area within this field was the impact of toxic chemicals on human health.
- Key States, which “focuses on particular states where the power of a growing, energized consensus for environmental protection can be organized and brought to bear on public policy and policy makers.” The Fund selected a group of five states in which they saw strong support for environmental concerns, but where environmental advocacy was under-funded and weak.

Beldon also established a Discretionary Fund to respond to emerging opportunities that were consistent with its core mission but did not fall under one of the above areas.

Beldon’s initially planned trajectory for spending down was a bell curve, with the heaviest spending during its middle years. One trustee explained, “that bell curve of spending reflected they were ramping up in terms of expertise, and getting their sea legs. The ramp up was, ok, now we get what we’re doing and these strategies work - now we’ll start really pumping money. The downside of the bell curve is doing an exit strategy that isn’t destabilizing to people.” As discussed below, however, Beldon’s investments yielded more money than anticipated, and thus the foundation was able to maintain higher giving at the end, resulting in a spending pattern more akin to “a mesa with a gentle downward in the last year.”

The ten year timeline influenced the Fund’s choice of focus. So too did the federal policy climate, at the time, which Beldon trustees and staff perceived as unreceptive to the environmental reforms the foundation hoped to achieve. One consequence of having a ten-year framework is that the Beldon Fund could not assume that the policy climate would change during its lifetime. Taken together, this contributed to Beldon’s decision to focus on the state level. Likewise, Beldon pulled back from its initial funding in the global warming area, because “we decided that even though it is the most important issue, given the timing, it would be problematic for us to do anything impactful.” A ten-year termination date reinforced Beldon’s commitment to stick with its focus areas. As one staff member put it, “we didn’t have the luxury of saying, ‘OK, the states program isn’t working – we’ll do oceans.” The Fund did commission external evaluations to help assess progress and make “mid-course corrections” to strengthen programs and operations within its focus areas. One trustee strongly believes that sunseting helped keep Beldon focused and avoid “the complacency that comes with long life and nice endowments.” For him, “the danger of big foundations that don’t have a term is they can become caught up in their own survival. That’s not what it should be about.”

The Beldon Fund’s approach to grantmaking was deeply influenced by its desire to create structures that would have sustainability beyond its lifetime. Trustees and staff believed that the way to do so was to provide large, ongoing funding to strengthen the capacity and infrastructure of organizations and the environmental movement more broadly, to enable them to be more

effective advocates for policy change. That included making investments in building collaborative networks among environmental organizations, and between health and environmental organizations. One staff member recalled, “We said, ‘We’re here for 10 years... We’re not here to work on an issue, but to work on your capacity to work on issues’... We believed issues come and go. Missing was the foundational capacity to be muscular advocates.” One trustee explained,

Beldon was very deliberate and thoughtful about not just making program-related grants to advance a strategy, but also to build the capacity, and assist with the development capabilities of the grantees. There were a set of enhancement grants that may not typically be made by a foundation, that were made, because we understood that we were going out of business and needed these organizations to be able to thrive after we were gone.

Another emphasized Beldon’s focus and long-term commitment:

The advantages [of sunseting] were staying committed and true to a strategic approach... We worked with a bunch of players, stayed with them, and were free in providing technical assistance to those players. We didn’t say ‘We’ll only fund you for three years.’ We knew we were getting into things that were developing, and we stuck with them.

Grantees’ comments mirror those of trustees and staff. They too characterized Beldon’s approach as a mix of long-term funding, general operating support, and investment in developing collaborative networks. One grantee reflected

Beldon was a huge part of our growth... By giving general operating support it allowed us to do things we needed to do to build, expand, and grow... If you’re young, and have a few grants of good size, it lets you start good programs, which in turn helps you raise money because you can show you’ve done good work. That’s what they did

Several grantees praised Beldon’s approach to fostering collaboration. One said “Beldon had the patience to let us do trial and error. Funders are often impatient. You can’t want collaboration tomorrow.” Others credited Beldon with playing an important role in bringing together health and environmental organizations on issues of common concern. Several believed that Beldon’s investment in building up the environmental movement’s infrastructure in their state directly contributed to policy victories in their states. One such grantee described the initial state of affairs in her state as “grim,” and praised Beldon for giving them “time to think.” She said,

They asked us a tough question, which is what do you need to do to win, because you’re not winning here? Which is valuable in and of itself. Then [they gave] the time to figure it out. Then they funded you to do what you needed to do. Then you start winning. They should take a lot of credit for it.

Grantees also praised the Fund as a strong advocate in the field and as an actively engaged, but not intrusive donor. One grantee characterized Beldon staff as, “Not heavy-handed. Helpful-handed. We became colleagues and friends in the process.” Another said, “I felt like a partner...I could call my program officer and ask for ideas. We’re still in touch.” Although another grantee does not feel that a grantor-grantee relationship can ever be fully collegial due to the imbalance of power, with Beldon it was “as collegial and open as it gets.” One described a Beldon staff member he worked with as “a cheerleader” who was not only a funder but also a strategist and fundraiser for the organization. Keep in mind when considering these comments, that in addition to being guaranteed confidentiality, grantees were interviewed after Beldon closed its door and no longer represented a potential source of funds.

Part of Beldon’s strategy was to help grantees improve their fundraising ability and to try and bring new funders into the field, who they hoped would be a source of funds after the foundation terminated. Grantees widely reported that Beldon helped with their fundraising, and engaged other foundations. Reports about the sustainability of these gains and their ability to replace the gap left by Beldon’s closure were more mixed. For instance, one grantee said they had no trouble replacing Beldon’s funding and that this was due largely to Beldon’s introducing them to other foundations. By contrast, another said Beldon helped them attract additional support with a challenge grant, but once the grant ended, so did the other support. Another grantee reported that her organization is doing well, but “there are groups that have closed their doors, or are on the verge of it because they couldn’t replace the funding.” Many grantees emphasized how unusual it was for a funder to provide support for general operations at Beldon’s level. For instance, one readily replaced the amount of funding provided by Beldon, but has found it more challenging to raise general operating support. Interviewees also pointed out that Beldon had terminated during a recession, heightening the challenge of raising funds. One foundation executive who said her institution’s giving had been influenced by Beldon also said it had terminated one such program in light of the recession. Others perceive that while there are new national funders coming into the environmental area, they are focused on the national, rather than the state level, making it more difficult to fill the gap left by Beldon’s closure.

### *Termination and Planning*

Given Beldon’s goal of coming as close to “zeroing out” as possible, investment strategy, financial projections, and long term budgeting became a major focus. For instance, a report to the board’s finance committee in 2003 outlines five different spend-down scenarios for 2004-2009, based on different rates of growth.<sup>23</sup> In annual “true-ups” staff would review projected and annual expenditures and returns and adjust financial plans accordingly. In later years, these projections were conducted even more frequently. The foundation wanted to make multiyear

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<sup>23</sup> October 9, 2003 memo from Azade Ardali in Board Meeting book.

grants, so they needed the ability to project how much money would be available over multiple years. One staff member recalled, “Day to day, and year to year, to the end, we thought and planned. Everything revolved around our investments,” adding, “We were always in motion... It made the investment people crazy!”

Staff commented that investment models appropriate for a perpetual foundation were not right for them. One believes “the biggest impediment [to spending down] is the financial planning tool to help people do it.” As part of its communications, Beldon commissioned a report about its spend down approach, including their financial planning tool.<sup>24</sup> As a spend down, Beldon took into account the fact that it would not have the opportunity to earn back money that it lost in investments. Thus, “our investment strategy had to become more like your 65 year old grandmother’s, even though our grants were edgy.” As the foundation approached termination it moved out of equities, protecting its assets during the 2008 stock market decline. Indeed, the Fund found itself with more money than anticipated at termination.<sup>25</sup>

In 2006 and after, the foundation increasingly turned its attention increasingly to planning for its final years in the areas of program, communications, evaluation, and administration. A schedule of work outlined tasks to be done through 2009 in preparation for termination.<sup>26</sup> The foundation started to actively encourage grantees to think about, and plan for the foundation’s closure. Beldon’s final grants, while sometimes bigger in size, were similar to the multiyear general support grants it had made throughout its life. When asked whether Beldon had ever considered making endowment grants at the end, one trustee said “No, and personally I think that’s not a good use of dollars, because it takes so much money to build an endowment that is significant enough to keep you going.” Another trustee said that making endowment gifts “would have been completely contrary to Beldon’s core mission.” By all accounts, John Hunting was not interested in making gifts to perpetuate his name, and memorial gifts were not a part of the foundation’s closing grants.

One of the challenges that Beldon faced was devising a plan for handling expected and unexpected expenses that might arise following the Fund’s closing, as well as disposing of any remaining assets. They decided to transfer the Fund’s remaining assets to the Tides Foundation, a public charity and former recipient of Beldon Fund grants. Assets were transferred with the agreement that Tides would hold a portion of the funds in reserve for a period of time, to cover specific contingencies. Funds were set aside for other activities, including the cost of

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<sup>24</sup> *Giving While Living: The Beldon Fund Spend-Out Story*, 2009. As noted above, the document is available at [http://www.beldon.org/beldonfund\\_1.pdf](http://www.beldon.org/beldonfund_1.pdf) (accessed November 4, 2010).

<sup>25</sup> The Beldon Fund considered how it would handle lower than expected returns, but did not focus on the potential for earning more money than expected. Accordingly, the report commissioned by Beldon advises sunset foundations to plan for best-case, as well as worst-case scenarios.

<sup>26</sup> Board book for November 13-14, 2006.

communications work about Beldon's spend down, and conducting an evaluation of Beldon's work several years following closure.

Beldon wanted to leave behind a record of its grantmaking, and, reflecting John Hunting's strong support for spending down, to document that experience for other foundations and donors. Thus communications was also one important part of their planning. Not wanting staff to be distracted from programmatic issues, the Fund hired an "embedded writer" in 2007 to come and document their story. The foundation arranged to transfer its archives to a university, and left behind a website that documents its work and experiences. One trustee observed, that "both John and the two senior staff people did a lot of speaking road shows. That was all very intentional because they wanted to promote the giving while living concept." One staff member explained that "part of leaving behind the mission is making the case for spending out."

In the administrative area, there were numerous issues to be addressed such as payment of final taxes, termination schedules and retention packages for staff, disposition of files, and the logistics of closing down. For instance, final reports had to be collected, foundation furniture and art work had to be donated to nonprofits, and provisions needed to be made for reviewing the final audit, compiling final financial and tax filings, and filing request for permission to dissolve with the Attorney General in Michigan (where it was incorporated) and filing the appropriate dissolution paperwork in New York (where it was located and registered as a foreign corporation). Prior to closing, the Fund pre-purchased Directors and Officers liability for three years after closure. One person said, "It's astonishing how many little details there are." To assist in these tasks, the foundation retained a dissolution administrator, and one interviewee commented on the importance of retaining an accountant and an attorney for tasks after final grants have been made, and after staff is terminated. Funds were set aside for these final closeout activities. At official termination, remaining funds were transferred to the Tides Foundation.

With a ten-year termination timeline, and a staff that would need to find other jobs, attracting and retaining staff was a subject considered by Beldon staff and board. According to staff, there were financial and non-financial incentives to join, and stay, with Beldon. For instance, despite friends' warnings, one staff member left a secure position because Beldon offered more responsibility, more freedom, and a higher salary, and "it's been so much fun working with a living donor who's a sweetheart of all sweethearts." Another said, "the work environment was wonderful... Good pay. Great benefits... People recognized and appreciated good work. John. The board." Another said "it's been riotously fun" and reflected that such experiences "do not come along often and don't last forever."

The foundation produced a workplan for its final two years, and determined how to staff termination activities. Each staff member was given a unique termination date, based on the foundation's needs, and was informed at least 18 months prior to that date. The foundation provided staff with funds for professional development and outplacement services and made it

clear that they would understand if staff decided to leave early. Some did leave early, while others stayed until their termination date. Shortly before the foundation closed, the executive director took another position, and Beldon's Director of Programs stepped into that role in 2009. The board offered a retention bonus to staff they sought to retain if they stayed until their termination date. A senior consultant was placed on retainer in the event that a staff member left earlier than anticipated and a replacement was needed. Given the termination plan, one approach the Fund adopted was to couple staff with the use of consultants who could be gradually phased out as they approached the end date. Still for staff, as for grantees, the fact that Beldon's closure coincided with a recession augmented a difficult situation, and toward the end "finding ways to keep morale going" proved to be one of the challenges.

### *Exit: Grantees' Perspective*

Grantees credited Beldon with being extremely clear about its termination plans and giving advance warning of what grantees could expect. For instance, one grantee said, "I remember them telling us over and over, and giving us warning. Yes, they spoke with us and helped us get funding." Another said, "They were really on top of it...It was clear with Beldon, and that was good. 'We'll be supporting you and we're going out of business. There are foundations, and they fund you seven years and then shift, and haven't told you.'" According to another, "Beldon did it the right way. I never hear anything bad about their exit approach. Everyone knew and were prepared for it. People will say, 'We have a problem because Beldon has gone away, but they never say anything negative about Beldon's approach.'"<sup>27</sup>

Reflecting grantees' positive estimation of Beldon and its style were regrets expressed over its departure, including by some who felt that Beldon had made the right decision by spending down. Grantees pointed out that when Beldon closed, they lost staff that served as advocates for their organization in the field. For one, the clear advantage of Beldon's spend out was that given its size, spending out more money in a focused way enhanced the foundation's impact. On the other hand, when asked about the disadvantage, she said, "They're no longer here. I think that actually is the biggest one."

### **The Jacobs Family Foundation**

When Jacobs Engineering became a public company, its founder, Joseph (Joe) Jacobs found himself a very wealthy man. One of his daughters recalls, "He and Mom went and examined their values in terms of what it meant. He came back in a few weeks and said... 'We'll give it away.' We were excited, and said, 'Can we help?' In 1988, Jacobs and his family created the Jacobs Family Foundation. Jacobs intended the foundation to sunset from its creation. His

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<sup>27</sup> Based on results from an external evaluation, the Foundation has concluded that it that it could have been clearer with another group, namely grant applicants, by clearly communicating a cutoff date for accepting letters of inquiry.

decision reflected his concern that as they age, foundations drift away from the donor's values and how the money was made. And, he said, "I don't want a bunch of bureaucrats running my foundation," recalls his daughter. According to family members, foundation staff, and community residents, Jacobs' entrepreneurial outlook and values deeply infuse the Foundation's culture. As one staff member said, "All the work we're doing, which is very risk-taking and entrepreneurial is in his spirit. He'd say, 'The greatest charity is giving somebody a job.'"

In 2004, Joe Jacobs died. To help carry on his values, newcomers to the Foundation and JCNI staff read his autobiography and watches videos of his talks. The Foundation board includes his wife, two daughters, a son-in-law, and his grandson. In 2003, the board added a formal sunset clause to the bylaws. It does not specify a termination date but calls for the foundation's dissolution with the end of Joe Jacob's daughters' generation in accordance with the donor's wishes.<sup>28</sup>

The Foundation receives funds from a family trust and individual members of the Jacobs family, and at the end of 2009 had net assets of \$23,528,353.<sup>29</sup> The Foundation's "sister organization" an operating foundation created by Jacobs in 1995, called the Jacobs Center for Neighborhood Innovation (JCNI), had net assets of \$122,716,411, but – and this is significant to the foundation's sunseting plans – close to half of that amount is invested in partnerships that will not liquidate until 2023.<sup>30</sup> JCNI is also a sunseting foundation. The Foundation makes its largest grants to JCNI, and the two organizations share a board and senior staff. The story of the Foundation's work and sunset is intimately connected to JCNI and its activities. Trustees and staff currently plan for the foundations to sunset around 2030, although the Jacobs Family Foundation may sunset earlier. Reflecting the way that interviewees themselves spoke about the two foundations, this discussion will not always distinguish between activities carried out directly by the Jacobs Family Foundation or by JCNI.

Donor intent drove the decision to sunset, but over time, other reasons emerged. Trustees and staff came to feel that sunseting allowed the Foundation to have a greater impact and openness to experimentation. One family member explained, "When we got into it, we realized that the impact will be greater. We can take more risks." Likewise, a staff member said the ability to "use 100 percent of what we have to build community change, and not think we should

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<sup>28</sup> "The Corporation should wind up its affairs and commence dissolution proceedings no later than the date of the first to occur of the death, permanent and total disability, resignation or removal from office as a Director of the last survivor of Dr. and Mrs. Jacobs and such other members of the Board of Directors, namely [names his two daughters and son-in-law] or a determination by such survivor that he or she is no longer able to participate in the management of the Corporation as a Director." Amended and Restated Bylaws of Jacobs Family Foundation, July 2008, 2.4. The Bylaw may be amended by a unanimous vote of the Directors of the Corporation.

<sup>29</sup> Jacobs Family Foundation, Inc., Financial Statements Years Ended June 30, 2009 and 2008.

<sup>30</sup> Jacobs Center for Neighborhood Innovation Consolidated Financial Statements. Years Ended June 30, 2009 and 2008.

only use five percent of that potential – that opened up the door to an incredible amount of capacity for a small foundation.”

As one trustee put it, for trustees and staff, sunseting creates a sense of urgency and focus. One trustee referred to a saying heard more than once during this study when he cited, “a great quote about knowing you’ll be hanged on the morrow concentrates the mind.” Another believes, that “limited life makes you focus more. Limited life means there will be a judgment day. Perpetual life foundations don’t have to do that.” For one staff member,

When you have a short lifecycle, you have an incredible sense of urgency in what you accomplish...I tell people now who ask that even if you don’t have a sunset I would recommend thinking like you do. Even if you plan to go on in the future, setting up fast, flexible decision-making focusing on exit strategies, focusing on sustainability, in a way that people really, really no longer need you...It helped us think about how people develop the power to solve their own problems.

A staff member at another foundation in the San Diego area that was interviewed for this study about the Jacob Family Foundation’s work, replied to a question about whether a perpetual foundation could do what the Jacobs Foundation is doing as follows:

There’s a different mindset...The one that is not going to be here is much more likely to think in terms of getting something done in the period of their existence, something specific. There’s a lot less of that kind of thinking where you’re sort of a bureaucracy that just chews up money...Could one do the same as the other? Of course. But I think it’s a lot less likely.

Initially, the Jacobs family faced considerable challenges in finding a philanthropic purpose that the conservative donor and his liberal children could rally behind. Still, all family members shared a desire to find alternatives to traditional philanthropic causes and models: “Philosophically, we came at our philanthropy differently than others. My sisters and I are liberal compared to my parents and [Jacobs’ son-in-law]. First, we agreed that philanthropy is not doing a good job in solving society’s problems. Throwing money is not the solution. We wanted to experiment. Taking risks was a value from the beginning.”

Starting with a more traditional grantmaking approach, the Foundation moved to investment in nonprofit capacity-building (the reason for the creation of JCNI), and ultimately decided that it had to work directly with individual community residents so that they could “own their own change.” Furthermore, the Foundation decided it could not achieve its goals simply through grantmaking to nonprofits, and became involved in creating social enterprises, using the entirety of its assets (e.g., as collateral for loans). According to its mission statement, “The Jacobs Family Foundation (JFF) explores new philanthropic roles and relationships for strengthening under-invested neighborhoods by making grants and other investments that

support innovative, practical strategies for community change.”<sup>31</sup> The Foundation views its work as situated at the intersection of community building, neighborhood revitalization, social enterprise, and asset creation.

In 1998, the Jacobs Family Foundation moved its headquarters to San Diego’s Diamond Neighborhoods, a culturally diverse and under-invested community with a high percentage of low income residents, where it focuses its attention and resources. As one trustee explains, the Foundation’s leadership said, “Let’s be microscopic in our geography, in order to be comprehensive in our philanthropy.” Jacobs bought the site of an abandoned factory for approximately \$4 million, and the Foundation hired a community organizer to who started going door-to-door speaking with residents about what they wanted to see happen in their neighborhood, and then hired and trained community residents to canvass other residents. Commenting on the approach Jacobs took an interviewee associated with one community organization said, the Jacobs Foundation’s impact on the community has been, “Huge. And part of that is because of the way they came to the community... They may knock on your door, but they ask to come in... They wait for you to invite them in, and that’s a big difference. They never come in with their own agenda.”

Out of this process, came a cultural and commercial center called Market Creek Plaza, which was completed in 2005, and anchored by the supermarket so many community residents had said the neighborhood needed. Throughout the process, as is characteristic of the Foundation’s approach, resident-led teams were created to oversee all aspects of the process. In order to develop the property in a way that permitted for resident leadership, the foundation initially used its portfolio as collateral for loans (later putting together a package of financing with low-interest program-related investments from other foundations, and a New Markets Tax Credit loan).<sup>32</sup> Market Creek Plaza exemplifies the Foundation's approach:

The foundation's entrepreneurial spirit goes beyond the traditional grant-making model of the philanthropic world and into the corporate concept of leverage. The foundation's entire asset base is used as a means of leveraging funds and technical assistance for partners and grant recipients. Through matching grants and capital guarantees, JFF's assets are used to draw others to invest in the community.<sup>33</sup>

Furthermore, as one staff member recalls, at the time the foundation was created, foundations generally saw their exit strategy for a successful project as trying to leverage into large scale

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<sup>31</sup> <http://www.jacobsfamilyfoundation.org/about.htm>

<sup>32</sup> Jennifer Vanica, “Building Stronger Communities through Diverse Partnerships and Resident-Driven Change.” Manuscript n.d.

<sup>33</sup> Guidelines, Jacobs Family Foundation <http://www.jacobsfamilyfoundation.org/how.htm>. Accessed November 12, 2010.

government support. In the wake of welfare reform, however, they concluded that was not the way to sustain change and focused instead on “leveraging into the private sector and civic involvement in a way that could be self-perpetuating.”

The spirit of entrepreneurialism that infuses the foundation’s culture and its rejection of traditional grantor-grantee relationships are key to its sunset strategy. Sunsetting has focused foundation staff and trustees on finding ways to have an impact and leave behind sustainable structures to outlive the foundation. Said one, “Just by virtue of thinking about sunsetting, and knowing you have one lifetime to make a difference, it makes you think profoundly about what you want to leave behind. It made us realize that we are not in the business of making grants, but of changing some human condition. Figuring how to do that opened up our ability to think differently about all the tools we had at our disposal to have that kind of impact.”

### *Sunsetting Framework*

The Jacobs Family Foundation (and JCNI) plans to sunset by using their assets to create a series of economic and social enterprises that will pass into residents’ hands. One staff member explained, “Joe’s genius was to translate the sunset plan into, ‘I think the community should own this.’” Jacobs’ sunsetting framework is guided by a deep concern for sustainability of the community in which it works. The goal is to develop a 60-acre mixed-use site that will be planned, built, and ultimately owned by the residents of the Diamond neighborhood. In keeping with the Foundation’s philosophy, they seek to do this not by giving away their assets, but by enabling residents to become investors in the market. Expressing a common view, one staff member believes that “giving people things can unintentionally disempower them.” Instead, “We want people to have control of assets they can use to leverage future change. But it’s really important in our philosophic framework that they have to have skin in the game and have figured it out with all the complexity and muck of the free market system.”

A major step toward that goal occurred in 2006, when the Foundation obtained permission from the State of California for an innovative Community Development Initial Public Offering. This CD-IPO allowed community residents to become stockholders in the company that owns Market Creek Plaza. Shares were \$10, with a minimum investment of \$200. Residents could invest up to 10% of annual income or net worth, up to a maximum of \$10,000. When the public offering closed in October, 415 residents had invested \$500,000.<sup>34</sup> One resident involved recalled, “We came up with a strategy with the Jacobs team... We reached out to people who had never invested before.” In 2018, residents, along with a resident-led community foundation the Jacobs Foundation helped to start, will have the option of buying out

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<sup>34</sup> Jennifer Vanica, “Building Stronger Communities through Diverse Partnerships and Resident-Driven Change.” Manuscript . n.d.

JCNI, currently the majority shareholder. According to one resident, “We actually need to buy the shares to feel that ownership.”

The Foundation’s community development and sunset strategies also comprise developing community leadership, associations, and civic organizations that will live on after the foundation’s lifetime. Toward that end, the foundation has engaged in a multi-faceted approach that includes the type of economic development described above, but also grantmaking, providing loans, and other assistance to help create and develop a series of “sustaining structures” of various types. For instance, the foundation has focused on building the capacity of local community organizations through grants, loan guarantees, and provision of technical and support services (e.g., developing payroll and accounting systems). One such structure is the Neighborhood Unity Foundation (NUF), a resident-led community foundation, initially funded through a matching grant by the Jacob’s Foundation, intended over time to increasingly take on functions performed by the Foundation. The creation of NUF, as with Market Creek Plaza and all facets of the Foundation’s work, were guided by teams of residents. The creation of these teams itself is a vehicle for producing associational structures that can provide leadership beyond the life of the foundation.

The Foundation also makes grants and provides technical assistance to help build the capacity of local nonprofit organizations. Staff at one such organization, described the importance of the foundation’s financial and technical assistance, and the way in which the Foundation works with residents and organizations, saying they had a huge impact, but “not a big footprint. They didn’t take you over. They were just kind of partners with you.” The organization was always aware of the Foundation’s plan to close, and it has worked with the organization to build its strength so as to make the Foundation’s support increasingly less important. Here, a key factor was that the Foundation offered not only money but a team of staff to provide technical assistance: “They’ve been preparing us for a really long time... With everybody on board knowing this would all sunset...we went on and have been dwindling the support over the years.” Additionally, the foundation helped them find other funders and the organization has continued to raise funds and meet its budget even as the Jacobs Foundation has decreased its support.

In its grantmaking, the foundation also tries to avoid patterns that create dependency and disempowerment. One staff member described how, early on, they sought to avoid foundation patterns of centralized control over resources and “giving them out in small amounts and not really focused on long-term capacity building. Ultimately it disempowers people in that you’ve set up a dependency...by virtue of them having to ask for money. Part of our movement to being hands on was to be close enough so people didn’t have to ask us.” And indeed, one grantee recalls that after their first grant, “I have never asked them for anything... The beauty of this was that when they signed on to be partners, they said, ‘We’ll be at the table with you.’”

Foundation staff, trustees, and residents believe that their plan to sunset and leave ownership in the community has promoted greater resident engagement. For instance, one resident said, “You get more buy in from the residents because eventually this will belong to them. I think a lot more residents are involved than you would normally have because of the trust they feel, and that Jacobs is leaving this and sunsetting. As a resident, I’m always...honored to say ‘Market Creek Plaza I own’.” Another said a benefit of Jacobs’ plan to sunset and leave the assets for the community is, “We as residents will know that we can do this ourselves.”

### *Sunset Planning, Timeline, and Challenges*

As noted, the Jacobs Family Foundation and JCNI’s goal is the development of The Village at Market Creek, a 60-acre mixed-use site with homes, jobs and community services that is planned, built, and owned by the residents of Diamond. Its strategy is to create new structures as the Foundation itself spends down that will sustain and support the ongoing well-being of The Village and its residents. As noted, one important part of that work, Market Creek Plaza has been built, but by all accounts, a great deal remains to be done. Summarizing where they are in their trajectory, one trustee said, “we’re at the end of the beginning.” The Foundation’s planning includes components addressed to organization and program (to develop resident capacity to develop and sustain The Village), social enterprise and community ownership, development (for the commercial, cultural and residential projects of The Village), and finances (for the resources needed to bring The Village to fruition). For Jacobs, planning for what it wants to accomplish and planning for sunset are deeply interconnected, and it is therefore difficult to separate the Foundation’s planning for community development from its sunsetting plan.

Initially, the Foundation planned to sunset around 2020. For several reasons, the Foundation concluded that was too soon. One reason is that they concluded that the scope of the work planned simply could not be accomplished in that amount of time. Although the Foundation does not necessarily plan to continue until the entire Village is done, its aim is to continue until enough of it has been completed to be sustained on its own. Another reason has to do with nature of its investments. Joe Jacobs left investments in a partnership that are not expected to liquidate prior to 2023 – after the originally anticipated sunset date. As one trustee put it, millions of dollars will be coming in, “just at the point when the foundations would be thinking about winding down.” Furthermore, the economic downturn in 2008 led to losses that require the foundation to continue to update and adjust its projections. In light of these developments, trustees praised the flexibility that Joe Jacobs left with respect to foundation timeline. Furthermore, one emphasized that the Foundation cannot think in terms of an exact termination date because of their sunsetting approach of “setting up structures and organizations and people to take over our work, so this will happen gradually over time.”

As trustees and staff emphasize, the problem is that considerable resources will be coming later, but are needed now for the community development work to be done prior to

closure. Almost half of JCNI's assets will be unavailable until the partnerships are liquidated, and another substantial portion is invested in land and infrastructure that is not yet earning funds. At the same time, the Foundation's portfolio is tied up in loan guarantees.<sup>35</sup> They refer to this current period as "the hard middle." Partnership has been an important strategy for the Foundation in the past, but in response to the "hard middle" it will considerably expand its efforts to create additional partnerships to help finance and continue its work.

Furthermore, as JCNI and the Foundation re-finance out of their investments, and since, if all goes as planned, residents and the community foundation will eventually purchase JCNI's stock, the Foundation will need to make plans for what to do with those assets, a subject that is being spoken about but has not yet been decided.

Another key challenge relates to building up community leadership to sustain The Village and to take on many of the functions currently performed by the Foundation and JCNI that will still be needed after they are gone (grantmaking, coordinating among resident teams, and between resident teams and developers, etc). Some new organizations have already been created and are starting to assume such roles (such as the community foundation) but other mechanisms will be needed, as well as mechanisms to take on JCNI's coordinating role. JCNI employs many people from the community, but one part of planning is to bring more community residents into leadership positions. Staff discussed working on plans to create fellowships, mentorships, and other opportunities to bring residents into leadership organizations in JCNI and other organizations. One trustee says human resources will be "a vast challenge and will be acute right at 2025. We have over 100 employees. How do you phase it out in a comprehensive way, and not lose the input you're having, and transitioning the work to residents?"

The Jacobs Family Foundation has extended its timeline for sunset but remains committed to closing. Given the magnitude of what it hopes to yet accomplish, planning for sunset remains a central and important component of its work, as it adjusts financial projections, thinks about how to invest its final money, and continues to work toward bringing up structures that can sustain the work of community development after its demise.

### **The Pear Foundation<sup>36</sup>**

Businessman Samuel Pear created the Pear Foundation as a conduit for his and his wife's donations and endowed it more substantially through his estate after his death in the 1990s. The value of the foundation's assets have varied (due to market conditions and an additional bequest following the death of Pear's widow), but at their peak were between \$35 and \$45 million. Pear left no directives about foundation longevity. About a decade after his death, "as we saw others

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<sup>35</sup> *President's Report, Ownership of a Village: A Framework for the Jacobs Sunset*, December 2008, p. 23

<sup>36</sup> To preserve this foundation's confidentiality, a pseudonym is used for its name and that of its donor, and specific dates and details (e.g., the exact creation date) are omitted.

slip away from donor intent” the foundation’s trustees (his wife, children and a family advisor) made the decision to sunset. One of his children recalls, “The foundation is very much geared to carrying out the creator’s wishes. We have seen foundations drift as they get farther away from the creator. The world changes, the creations, ideas of the creator are not taken as seriously. This is understandable, because they didn’t know the creator. To avoid that, we decided to spend out.” The foundation will terminate in seven years.

Pear left a statement for trustees that outlines his philanthropic interests and values. It also identifies organizations that are “illustrative of the programs in which I believe.” Pear’s statement reflects his belief in the importance of education, the value of free enterprise and his conservative political outlook. Pear also made it clear that he was leaving his trustees flexibility, explaining that his statement “is intended only as an expression of my current interest and not as a rigid guideline...it is up to the Trustees to choose how the funds of the Foundation are to be spent.” He also expresses trust that his successors will use the funds wisely and in a manner that accomplishes purposes of interest to him. Pear’s statement is read at an annual meeting of the trustees, and serves, as one put it, as their “lodestar.” To further assist them in remaining true to donor intent, the foundation engaged an outside facilitator to review the foundation at one point and help them focus on areas “where we could make an impact and be in accordance with his desires.”

The donor’s expression of values and interests combined with flexibility was to prove important to the foundation in refining its grant strategy. After some years, the foundation decided that they had been funding too many things. They decided to adopt a targeted focus on education, while gradually pulling back from some of the more ideologically-oriented concerns that they felt had little chance of being achieved. As one interviewee explained, moreover, the “laser like focus” is critical to making the spend down process manageable for a foundation with minimal staff.

A primary consequence of the foundation’s plan to terminate is that it has felt free to make grants far in excess of the required 5 percent. It is not uncommon for their grants alone to exceed 15 or 20 percent of the value of foundation assets. A few years ago, the foundation commissioned a series of estimates about how long it would take them to spend out at their current level, and concluded that the results were consistent with their timeline. At the same time, one trustee noted that they did need to remain vigilant about not feeling pressured to spend. The foundation anticipates terminating through continued spending down, but may also be in a position to make “a huge investment in some really spectacular organization” the year before closing. The final exit strategy will partly depend on the extent to which other foundations have stepped in to fund the types of educational issues of interest to Pear. However, they do not plan to make gifts for endowment, which they view as inconsistent with Pear Foundation’s approach.

The Pear Foundation’s rationale for sunsetting was squarely centered on preservation of donor intent. Trustees and staff also identified another consequence of sunsetting, related to their

ability to spend more, because they do not have to preserve assets in perpetuity. These include a focused sense of purpose and an ability to exercise greater leadership than would be open to a perpetual foundation of comparable size. Indeed, one trustee says that “the smaller the foundation, the more I’d encourage spend out...Many foundations are set up without a purpose, or with a very general purpose. That’s more amenable to unlimited life. If you focus, and you worry about straying from that focus, as have [two foundations] I think that really argues for limiting life.” Another said his conviction that they made the right decision to terminate has “become even stronger. In other foundations, the endowments are primary. They are not optimizing the impact they could have. They’re accumulating.” Likewise, one interviewee believes that foundations focused on perpetuity tend to miss opportunities because they are too cautious – while also acknowledging that spend down foundations have less opportunity to correct their mistakes.

In keeping with the donor’s preferences, the foundation funds general operations. It has tried to help develop grantees’ capacity so that they will be able to sustain themselves after Pear’s termination (e.g., by helping one group of grantees improve their ability to raise funds). Although grantees know “vaguely” that the foundation will terminate, they have not yet had discussions with them (and were not interviewed for this study). The foundation anticipates discussing termination plans with grantees three years prior to closing. Another important strategy for the foundation has been trying to engage other foundations as partners and funders of the type of educational projects they endorse. Here too, interviewees felt the foundation was able to exercise greater leadership, and be heard in a way disproportionate to its size, because of its ability to spend more. The foundation has minimal staff, and given staff’s age, staff retention and termination is not an issue – indeed the foundation adjusted its timeline to coincide with planned retirements. The foundation’s director “knew they would terminate when I took the job... If I were 40 or 30 it might have made a difference. ...At my age, it fit perfectly. The foundation plans to focus on logistics of termination approximately one year prior to closing.

## **Conclusion and Implications**

Does sunseting actually impact the way that foundations carry out their philanthropy? For the foundations in this study, it did. It created a sense of focus and urgency to create things that would endure beyond their lifetime. More generally, it impacted how these foundations thought about themselves, their philanthropy, and their relationships with grantees. The desire for sustainability, coupled with the fact that the foundation itself would end, promoted a style of philanthropy heavily invested in strengthening grantee organizations, since they would be the key to sustainability.

All four foundations chose a focus rooted in the donor’s intentions, stuck with it, and provided long-term operating support to a core group of grantees. They were not simply interested in particular individual projects, but in supporting the grantees’ health as organizations. Likewise, they were not interested, as some grantees put it, in looking for the next

“flavor of the month,” but in strengthening things in which they already had an interest, or helped to create. When difficulties arose, the foundations tried to work with grantees to try and correct problems. It is not that they never dropped a program or grantee – but there was a strong incentive for them to try and find a solution prior to exiting. As one interviewee put it, when time is limited, you do not have the luxury to simply change course. Likewise, these foundations tended to view problems as something that they had a personal stake and responsibility in correcting, rather than simply as grantees’ problems. In short, sunseting created an incentive for these foundations to stay the course, and thus, ironically to become some of grantees’ longest and most stable funders.

Sunseting foundations need their grantees to be successful if they are to attain sustainability beyond their lifetime. This approach serves to undermine conventional grantee-grantor relationships of dependency, in favor of a more partnership-oriented approach in which each party is more acutely aware that the other has something it needs. And indeed grantees repeatedly characterized their relationships with these foundations as unusually respectful, open, and partnership-like. They contrasted these sunsets’ approach with current trends for foundations to design their own initiatives, and then see grantees as “instruments” for carrying these out. For sunseting foundations, it is the foundation itself that is the instrument. By definition, the foundation is temporary, and trustees and staff are not concerned with developing its independent identity. They select grantees whose values they share and whose work they believe is worthy of support, and then they invest in strengthening grantees’ ability to carry it out over the longer term. In conventional philanthropy, foundations may give an organization just enough to complete a project, but not a level of support that will truly leave the grantee in a stronger and more independent position. Sunseting gives a foundation a strong incentive to do just that, as each of these foundations tried to do in various ways.

This study’s conclusion is not that these four cases should be generalized to sunseting foundations in general. Rather, they permit us to distill the possibilities that a strategic approach to sunseting can offer. As outlined in the introduction, this paper proposes a framework for such an approach, that consists of four elements:

- *Motivations for Sunseting*
- *Sunseting Framework*
- *Sustainability*
- *Timing of termination*
- *Closing the foundation*

A strategic approach to sunseting is one in which donors and trustees achieve clarity on each of these components in a way that is consistent with the other elements, and with the motivations for sunseting and the foundation’s own circumstances. Within this framework foundations have numerous other decisions and options about how to handle these. As we have seen, all four foundations in the study address these issues, but not necessarily in the same

fashion. The reasons that a foundation decides to sunset will set an important groundwork for which options are more or less appropriate for it. (These issues are discussed in detail in the practice-oriented guide that is a companion to this paper).

It is possible that different options would be relevant for larger sunsetting foundations, an issue for future research. The study's results also have implications for perpetual foundations, especially those with multiple programs. Here they offer a model that foundations may wish to apply so as to think about individual programs as "miniature sunsets" that have a distinct beginning, middle, and end. To quote again from one interviewee, "Even if you don't have a sunset I would recommend thinking like you do. Even if you plan to go on in the future, setting up fast, flexible decision-making focusing on exit strategies, focusing on sustainability, in a way that people really, really no longer need you...It helped us think about how people develop the power to solve their own problems." Applying a sunset perspective to individual programs could paradoxically also help perpetual foundations incorporate a longer-term view, if they commit not only to exit at a certain date, but also to stay involved until that date.

In conclusion, we return to the observation made at the outset: Sunsetting foundations are of interest not only for what they can teach about how foundations can end – they also provide valuable insights about how foundations can live.