

Big Foundations Spent Median of \$18-Million on Administrative Costs in 2005, Survey Shows

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Among the 20 foundations in The Chronicle's survey that awarded the most money in grants in 2005, the median dollar amount spent on the costs of operating their charitable programs was \$18.3-million, meaning half spent more and half spent less.

Federal law requires foundations to spend a minimum of 5 percent of their net investment assets annually on philanthropic efforts; the Internal Revenue Service allows them to include operating costs incurred in grant making or other charitable projects to meet that standard.

As a percentage of the total amount spent on charitable purposes, administrative costs were a median of 9 percent in 2005, the most recent year for which data were available.

The costs may include staff, executive, and board salaries, consultants' fees, rent, and charitable efforts the organizations operate themselves, such as research facilities.

A few expenses, such as investment management and brokerage fees, cannot be counted toward foundations' mandatory distributions.

In recent years, spending on overhead and similar expenses has come under scrutiny from members of Congress and the National Committee for Responsive Philanthropy, a watchdog group in Washington.

They have argued that foundations should exclude such costs when calculating the federal 5

percent.

"Foundations should be free to spend whatever they need to spend on those costs, but it shouldn't be considered as part of the payout," said Aaron Dorfman, executive director of the committee. "There should be an all-grants payout."

'Value Added'

Foundations, however, say Mr. Dorfman's idea is unreasonable. It would force them to cut back on operating costs so that the annual 5 percent payout doesn't erode their endowments. And such spending is essential to making their grants effective, they argue.

Sterling K. Speirn, chief executive of the W.K. Kellogg Foundation, in Battle Creek, Mich., said charitable administrative spending includes paying for the group's staff to meet face-to-face with people in the geographic regions it wants to help.

Last month, for example, several Kellogg staff members visited Montana to organize meetings with local residents and nonprofit leaders to discuss financial savings plans and how to apply for a federal tax credit program for poor people. That hands-on approach would not be possible without paying travel and lodging costs, Mr. Speirn said.

"The value added to me was the amazing conversations, networking, and stimulating community dialogue, but [it] would never show in the number of dollars moved to the project" in grants, he said.

In 2005, the Kellogg Foundaton spent \$65.4-million on administrative costs, while giving \$285.3-million to charity.

The administrative expenses accounted for almost 23 percent of how much it spent on charitable work.

Some large foundations, such as the William and Flora Hewlett Foundation, in Menlo Park, Calif., are able to keep their administrative costs much lower than their counterparts.

Hewlett spent \$17-million on charitable expenses two years ago, about 5 percent of its grant making.

Paul Brest, president of the fund, said it has a relatively small staff for a multibillion-dollar philanthropy, which helps to cut down on administrative spending. Hewlett has the equivalent of 41 full-time employees involved in carrying out its charitable programs, while Kellogg, for example, has 97.

However, Mr. Brest emphasized that measuring a foundation's spending on overhead and similar costs is not a good way to judge its effectiveness.

It would be like ranking mutual funds by the fees they charge their investors, not by the monetary returns they generate once those fees have been assessed, he said.

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