

## **Industrialist's Donation Will Grow From Trickle to Tidal Wave**

By Debra Erdley

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When the late industrialist William Dietrich donated \$470.6 million to 15 colleges and charities, including record-setting gifts to Carnegie Mellon University and the University of Pittsburgh, his philanthropy last year drew widespread publicity and praise.

CMU, which received \$265 million, named its College of Humanities for Dietrich's mother. Pitt, bequeathed \$125 million, named its School of Arts and Sciences for Dietrich's father.

But it could be years before Dietrich's beneficiaries can spend gobs of his cash.

Dietrich, 73, who died on Oct. 11, wanted it that way.

Rather than simply award money, Dietrich employed an obscure section of the U.S. tax code -- Section 509(a)(1) -- to structure a foundation that will annually dribble out 3 percent of the industrialist's donations. That's 2 percentage points less than the 5 percent distribution the Internal Revenue Service demands of most foundations.

Even then, Dietrich's beneficiaries will not be able to touch the bulk of the distributions for years. Dietrich ordered payments to flow into each recipient's endowment -- and those funds have their own annual distribution caps. For universities, the cap is about 5 percent a year, experts say.

So, for every \$1 million donated by Dietrich to his foundation, the university endowment would receive \$30,000. The university endowment would yield about \$1,500 for operations.

"That's terrible," said Aaron Dorfman, executive director of the Committee for Responsive Philanthropy in Washington. "Mr. Dietrich and his heirs received a substantial tax advantage. And when you have such a slow rate of actual distribution, society is not benefiting."

"The 5 percent rates required of private foundations is low. But this makes that look generous."

... Janne Gallagher, general counsel and vice president of the Council on Foundations, said the theory is that payout requirements for organizations like the Dietrich Foundation are unnecessary because the organizations that are supported by it can appoint or remove trustees. Grefenstette said Dietrich expressly structured his foundation to require the 3 percent distribution level.

Mark J. Laskow, who will chair the board of the Dietrich Foundation, said he anticipates no problems.

"The people on the board can all do the math and see where this is going. I'm sure there are department heads at the institutions who would like it all now, but the institutions were briefed on this. This is the essence of long-term thinking," Laskow said.

Dorfman conceded there may be benefits from the Dietrich Foundation setup.

"But there are real needs that must be addressed now. Our treasury has been deprived of hundreds of millions in tax revenue. And now society has to wait decades and decades to see that given out to actual charitable causes. ...This slow rate of distribution is not benefiting anyone except the legacy of Mr. Dietrich," Dorfman said. "Someday there will be a foundation with billions of dollars in it and his name on it."

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