



65 ST. CLAIR AVENUE EAST, SUITE 700 | TORONTO ON M4T 2Y3

T: 416.597.2293 F: 416.597.2294 | 1.800.263.1178

65, AVENUE ST. CLAIR EST, BUREAU 700 | TORONTO (ON) M4T 2Y3

TÉL. 416.597.2293 FAX. 416.597.2294 | 1.800.263.1178

Consultation: Boosting charitable spending in our communities

Recommendations submitted by Imagine Canada

2021

Since Budget 2021 committed the Department of Finance to a review and potential increase to the disbursement quota, it has become clear that the charitable and nonprofit sector's expectations of the foundation community are impacted by changing political, ethical, and socio-economic considerations. Particularly given the context of COVID-19, anticipated effects of climate change, questions about what constitutes a just funding environment, and the current unprecedented intergenerational transfer of wealth, the disbursement quota is at the centre of a critical debate about what constitutes undue accumulation by charities, and the appropriate timing of the release of funds by foundations.

Due in part to the longstanding lack of sustained and substantial engagement between the federal government and the country's charitable and nonprofit sector, Canada is relatively behind other jurisdictions in the space it provides for critical examination of issues surrounding the DQ. It is therefore our hope that this dialogue continues past this consultation period, and be supported in an open and inclusive manner by legal scholarship, the federal government, the foundation community itself, and sector intermediaries. Sector confidence in its own funding environment could reasonably be viewed as a prerequisite for public confidence and trust in charities and nonprofits, which is essential to our sector's overall sustainability.

In 2019, foundations disbursed funds totalling approximately \$7 billion, equivalent to roughly 2.2% of total sector revenues. While this is a small figure compared with government grants, social enterprise activity, or even donations from the public, foundations carry important influence in that they are a part of the charitable sector, are able to fundraise and issue charitable donations tax receipt, and tend to set funding priorities and programmatic norms for operating charities.

Imagine Canada's contribution to this consultation will include concrete recommendations and offer other considerations. Our recommendations are informed by our analysis of T3010 data from 2008-2019. Much of this analysis focuses on foundations with complete reporting of line 5900 data over seven year sequences. This allowed us to accurately account for foundations' ability to roll excess disbursements forward up to five years and/or over-contribute in the following year to cover any disbursement shortfall.

Please be in touch with inquiries on our methodology or other details.

Summary of recommendations:

1. Implement a scaled disbursement quota designed to infuse new funds and reflect the different realities of the foundation community. Assign a graduated range of percentages to foundations based on their inclusion in categories as determined by asset size and designation. For example, the minimum threshold of 3.5% could be maintained for smaller organizations (those under \$1 million in assets) and range upwards in the area of 7% and beyond for larger organizations.
2. Commit to a mandated review of the disbursement quota at five year intervals. Proactively engage the sector in the review, and seek the perspectives of organizations outside the legal and foundation communities (i.e. grantees and potential grantees).
3. a) Allocate funding to a coalition of charitable sector organizations and expertise for education and guidance to foundations in accessing new communities within the scope of their charitable purpose and in developing equitable granting practices; and

b) Apply an equity principle to transparency & accountability measures applied through the T3010 process. Ask foundations how they intend to apply considerations of equity to their disbursements.
4. Commit resources to identifying the causes of T3010 completion errors. From there, appropriate expectations across asset size classes, as well as adequate reporting enforcement & education mechanisms can be developed.
5. Implement transparency and accountability measures through the T3010, with varied expectations across scaled categories (a range of simplified-to-detailed T3010 forms to complement a graduated scale DQ regime), leading to enhanced clarity of donor advised funds, and greater accountability to the public of the foundation's accumulation and disbursement strategies.

6. Ground the periodic review of the disbursement quota and evolution of the regulatory regime in the principle of 'intergenerational justice' -- that the current generation is due some decision-making authority over the timing of the release of funds for public benefit.

We have organized our submission into themes that reflect the framing of the consultation and ground our recommendations in appropriate, data-informed context.

Field growth and compliance at the current 3.5% quota

From 2008 to 2019, total foundation assets have almost tripled, going from \$39.5 billion to \$116 billion in constant 2019 dollar terms. This growth has not been equally distributed. While the overall number of public foundations are on the decline, the growth of the private foundation community in terms of organizations created has been significant over the time period reviewed (from roughly 4,800 in 2008 to 6,100 in 2019). Overall, public and private foundations have seen broadly similar levels of growth (if MasterCard Foundation is excluded), and small foundations have grown much more slowly than larger foundations.

If MasterCard Foundation is excluded from our analysis, over half the increase in assets held by foundations from 2008 to 2019 was in the form of charitable donations, and much of it appears to be associated with intergenerational wealth transfer. Just under a quarter of total 2019 private foundation assets are held by foundations that did not exist in 2008 and are the result of new donations.

Our analysis indicates that approximately 19% of foundations are currently disbursing less than 3.5% (put another way, nearly a fifth of foundations are not meeting the current quota). While this is a significant number of foundations, the financial impact is comparatively modest, totalling approximately \$79 million (nearly three quarters of which is ascribable to one foundation). Smaller foundations with assets less than \$1 million are substantially more likely to be non-compliant than are larger foundations. Two thirds of non-compliant foundations with assets between \$75,000 and \$250,000 would be encroaching on capital if disbursing at 3.5%.

While there are cases in the dataset of foundations not disbursing at the current DQ despite evidence of ability to comply, these finding may suggest that on the whole noncompliance tends

to be due to smaller asset size and possibly diminished capacity. This may include inability to secure accounting support, locate eligible grantees, or disburse without encroaching on capital to a degree restricted by legal trust agreement obligations.

A scaled approach to maximize new giving

Based on our analysis, we estimate that the following commonly suggested potential levels would result in the following additional new charitable expenditures. For 2019, we believe additional contributions from private foundations at these levels would have been as follows:

- \$478.6 million (or \$195.1 million if we exclude MasterCard Foundation) at 5%;
- \$1.3 billion (\$.6 billion if we exclude MasterCard Foundation) at 7.5%, and
- \$2.1 billion (\$1.1 billion if we exclude MasterCard Foundation) at 10%.

For public foundations, these figures are:

- \$64.8 million at 5%
- \$266 million at 7.5%
- \$519.3 million at 10%.

These are low-bound estimates based on sequences of T3010 returns that are sufficiently complete to accurately account for the rolling forward of contribution excesses across years. This analysis excludes the funds currently held in noncompliance. If, as speculated above, the noncompliance rate is higher than what the T3010 data can tell us, these amounts would be higher given there is adequate enforcement to accompany a DQ increase.

It is noted above that the compliance data demonstrates smaller private foundations are most likely to be noncompliant, and that this suggests an issue with capacity. An increase to one measure of the DQ applied to all will likely have a differential impact on asset size class, with larger foundations most likely to achieve sustainability over the long term. While an encroachment on capital can be compensated through increased and successful fundraising, again the ability to fundraise increases with scale and accompanying resources.

We have not undertaken an analysis of what smaller foundations tend to fund vs larger foundations, what their geographic spread is, or what demographics would be impacted should

smaller foundations spend down at a faster rate. Would donors be incentivized to give to larger foundations as a result of the real or perceived sustainability issues of comparatively smaller foundations?

These questions point to the challenge of the DQ as a one-size-fits-all tool applied to increasingly varied institutions and contexts. A graduated scale approach is superior to a set DQ applied to all in that it is more likely to ensure that accumulation beyond capital is released to operating charities in a manner that ensures the regime does not favour organizations with the largest assets.

Given this data (the relatively small amount of new funds released at 5%, evidently low levels of noncompliance, the concentration of disbursements at the DQ level despite ability), the surrounding context of 10 years of net field and asset growth due to both strong investment market performance and high levels of donations, and given current pandemic circumstances, we support an aggregate increase of the disbursement quota and differentially tiered across a scale. To ensure any changes fairly account for differences in financial capacity related to size and organizational form, a new DQ regime could assign quotas to categories as determined by asset size and designation (whether the foundation is public or private).

We recommend that the federal government:

1. Implement a scaled disbursement quota designed to infuse new funds and reflect the different realities of the foundation community. Assign different percentages to foundations based on their inclusion in categories as determined by asset size class and designation.

We believe the minimum threshold of 3.5% could be maintained for smaller foundations (those under \$1 million in assets) and increase to 7% and higher for the largest foundations. The categories we have presented in our appended graphs offer a view into net income depletion and other dimensions at varying intervals, and could be used as a basis for formulating a graduated scale approach. However, final categories and thresholds would need to be carefully chosen. The most challenging aspect of the process would be determining the appropriate asset size categories and thresholds between these bounds.

Anti-avoidance provisions would need to be identified to support compliance in accordance with the asset category. A 'coming into force' date would consider the increased capacity required to meet new DQ levels for some categories.

To our knowledge, no one is certain how many legal trust agreements are active and how many charitable organizations would be vulnerable to the potential legal quagmire presented by changes to the Income Tax Act that would require increased spending. For those who are prevented from increasing their disbursements to comply with the Income Tax Act in this way, we suggest an option to appeal to the Minister of Finance for a delay to comply with the new quota while appropriate agreement variations are made.

Ensuring the sector's sustainability through periodic review of the DQ

In assessing potential adjustment to the DQ and other regulatory mechanisms, policymakers should consider several factors that are themselves subject to variable conditions. The sustainability of the sector is dependent on giving trends, the quality of its relationship with governments, tax policy, public trust and confidence, socio-economic trends and environmental pressures linked to demand for programs and services, market performance, a skilled labour force and available volunteers, and a host of additional factors that impact the operating environment of charities and nonprofits (while nonprofits are not often grantees of foundations, funding relationship do exist, and they consist of half the sector). The extent to which capital is encroached upon in the institutional philanthropic sector to meet the DQ, the impact of this encroachment on donor incentive, the resulting impact on net asset accumulation over time and therefore the total amount available to the sector from foundations, should be considered and monitored on a regular basis and inform the suggested periodic review of the disbursement quota. The amount available to the sector from foundations should be held in perspective relative to the overall funding environment and sustainability factors listed above.

For these reasons, we recommend that the Department of Finance:

2. Commit to a mandated review of the disbursement quota at five year intervals.
Proactively engage the sector in the review, and seek the perspectives of organizations outside the legal and foundation communities (i.e. grantees and potential grantees).

In addition to the T3010 amendments suggested further on in this submission, the periodic review - and those interested in monitoring sector sustainability - would benefit from a better understanding of the nature of investments held by foundations. We suggest a reformed T3010 request information relative to the generally accepted asset classes of investments that are held by an organization, and what the rate of return is for these assets. As is also noted below, implementing a range of simplified to detailed T3010 forms would complement a graduated scale DQ regime, and details regarding investment classes would be requested from those categories with relatively higher assets.

Direction of funds to equity-seeking communities

A sample from 2015 of private foundation disbursements ([Snapshot of Foundation Giving in 2015](#)) showed funds tend to be directed towards charities with mission areas in education & research (over 30% of total disbursements) and health (at 17%). The remaining half covers other mission areas including social services (12%) arts & culture (6%), and religion (6%).

Recent research, including [Unfunded: Black communities overlooked by Canadian philanthropy](#) document the extent to which some communities have historically been underserved by philanthropy. As is well known, an increase to the DQ will not necessarily affect the direction of funds sufficient to target priority needs in the sector within the context of the pandemic, and indeed many of those requiring increased support are both qualified and non-qualified donees.

A repatterning of foundation giving to groups currently underserved by registered charities requires both shifts in sector awareness & culture and changes to both legislation and regulation. We support the adoption of Bill S-222 “The Effective and Accountable Charities Act” which would see changes to the Income Tax Act to better enable granting to non-qualified donees where appropriate. Absent this bill coming into force, qualified donee reform should be considered to expand eligibility of Indigenous groups beyond governing bodies, among other considerations.

We recommend that the federal government:

3. a) Allocate funding to a coalition of charitable sector organizations and expertise

for education and guidance to foundations in accessing new communities within the scope of their charitable purpose and in developing equitable granting practices;

Such a program, designed and executed by sector organizations centering equity-seeking expertise and experience, might support the accessibility of a foundation's profile, communications and availability to either a broader or more targeted base of potential donees (some private foundations currently lack a website or available contact information). Of course, an increase to the disbursement quota will expedite the need for operating charities to be able to reach foundations so that the funds can be adequately disbursed. Identifying and advising on standards regarding the reasonable ability of potential grantees to locate foundations, understand who they are and what they grant to, could be considered within this proposed program. Grantors and grantees would also benefit from advice to foundations on engaging with new and equity seeking communities, and best practices in equitable granting.

The Charities Directorate has no means of enforcing direction over a foundation's spending. The underlying policy purpose of CRA and the Directorate is to ensure that the public and potential donors are informed about a given foundation's endeavours.

In light of this and our submission's broader emphasis on accountability & transparency, we recommend that Canada Revenue Agency and the Department of Finance:

- b) Apply an equity principle to transparency & accountability measures applied through the T3010 process. Ask foundations how they intend to apply considerations of equity to their disbursements.

Transparency and accountability to build trust and reliable data

The consultation paper requested input on the tools that are or should be available to the Canada Revenue Agency to enforce the DQ rules, including the creation of intermediate sanctions or other penalties. While our analysis suggests that factors other than financial ability are present where we see noncompliance, the current quality of the T3010 dataset prevents sufficient understanding of the source of completion errors. For instance, line 5900 pertains to assets not used in charitable programming and is key to enforcement of the DQ, but is incomplete in the majority of cases. We need to understand the cause of this and whether trends exist across asset size or other variables that would help with decisions around either

heightened enforcement, education or support. It may, for instance, be fitting to expect varying levels of information from organizations across the tiered categories of a new scaled DQ approach, and the T3010 form could be constructed to reflect different expectations across these tiers.

To gain a more complete understanding of the problems associated with incomplete or incorrect T3010 data, we recommend that the Government of Canada:

4. Commit resources to identifying the causes of T3010 completion errors. From there, appropriate expectations across asset size classes, as well as adequate reporting enforcement & education mechanisms can be developed.

Also at issue is anxiety over perceived wealth accumulation by particularly private foundations. The data shows many foundations regard the DQ as a target for good governance, rather than a floor or minimum. This clustering around the 3.5%, and the gap between what many *can* disburse without encroaching on capital and what they *do* disburse, raises questions about fair accumulation of the proceeds of tax-receipted dollars intended for public benefit. The diversity of asset sizes renders this issue challenging to regulate, even within class or category configurations.

Asking foundations to articulate their disbursement and accumulation strategies relative to charitable purpose could advance the field in a positive direction and account for complexity in size, mission areas and sustainability goals. The T3010 could request - with as much precision as possible - information on: i) how the past year's disbursements advanced a charity's purpose; and ii) what the organization's accumulation strategy is relative to charitable purpose for the next 10 years and beyond.

This consultation has also raised questions regarding the state of available information on donor advised funds (DAF), the lack of which contributes to suspicions regarding the extent of ongoing donor control, the rate of DAF disbursements, and the role these funds play in the furtherance of the sponsoring organization's charitable purpose. To enhance transparency and accountability, the T3010 should ask trustees about the number of individual DAFs sponsored, the funds contained within them, whether a portion of that is being disbursed currently, and their link to the organization's disbursement and accumulation strategy.

We recommend that the CRA:

5. Implement transparency and accountability measures through the T3010, with varied expectations across scaled categories (a range of simplified-to-detailed T3010 forms to complement a graduated scale DQ regime), leading to enhanced clarity of donor advised funds, and greater accountability to the public of the foundation's accumulation and disbursement strategies.

Decisions regarding capital encroachment and perpetuity

How might the principle of 'intergenerational justice' (the concept of fairness and equity between generations on social and economic bases) apply to the practice of wealth accumulation and perpetuity in this current context? The current demands on the charitable sector (not limited to climate change, the COVID-19 pandemic, and the opioid crisis) were not foreseen by donors 50 or 100 years ago. At the same time, there is now evidence in the T3010 dataset of unprecedented wealth transfer – nearly a tripling of foundation assets within a ten-year timespan. The principle of intergenerational justice could aid in exploring whether current and future generations bear some decision-making authority over the timing of funds disbursed for public benefit.

It is arguable that certain contexts require increased spending from foundations, and intergenerational justice could provide a principled basis for discussion between federal and provincial counterparts as environmental, health and socio-economic events occur.

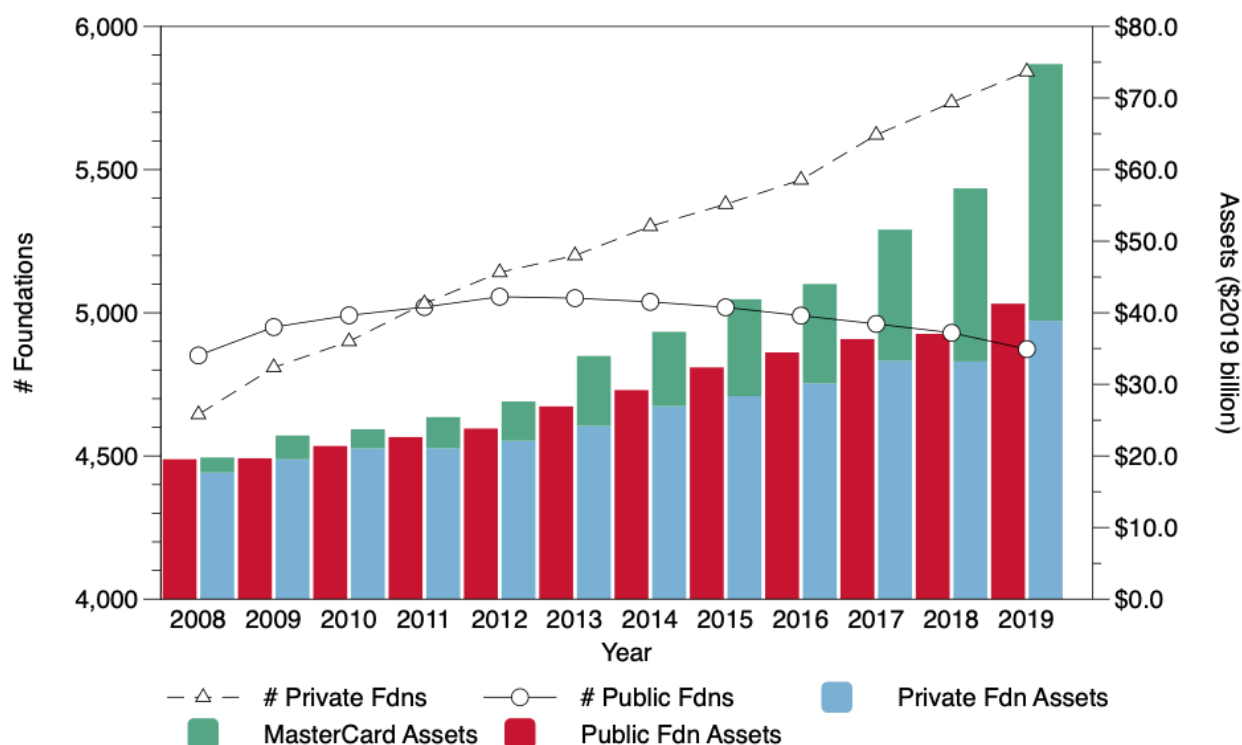
We recommend that the Department of Finance and Canada Revenue Agency:

6. Ground the periodic review of the disbursement quota and evolution of the regulatory regime in the principle of 'intergenerational justice' -- that the current generation is due some decision-making authority over the timing of the release of funds for public benefit.

APPENDIX A – SUPPORTING ANALYSES

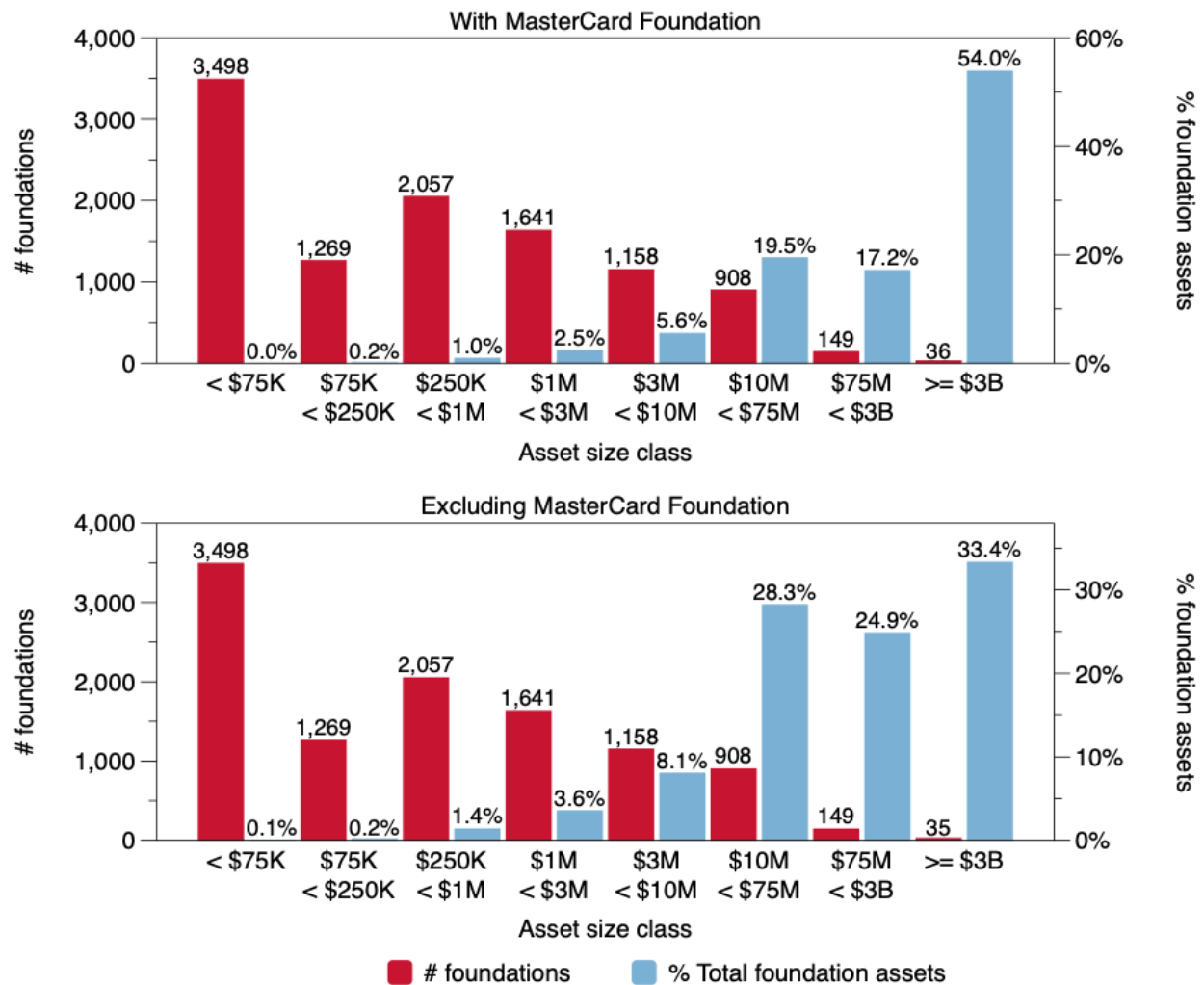
From 2008 to 2019, the number of private foundations has increased steadily from roughly 4,650 to 5,850 (Figure 1). Public foundations increased to about 5,050 in 2013 but their numbers have now fallen back to approximately the same level as in 2008. In constant 2019 dollar terms, the assets of public foundations have more than doubled (from \$19.5 to \$41.3 billion), while private foundation assets have nearly quadrupled (from \$19.8 to \$74.7 billion). However, almost two thirds of the increase in private foundation assets is due to the growth of MasterCard Foundation (from \$2.1 to \$35.9 billion). If MasterCard Foundation is excluded from the calculations, public and private foundation assets have seen very similar growth trajectories.

Figure 1: Number of foundations and total assets by designation, 2008 – 2019 (\$2019).



Assets are highly concentrated among a small number of foundations. As of 2019, just 36 foundations account for over half of the total value of assets. If MasterCard Foundation is excluded, the 35 remaining foundations still account for a third of the remaining asset value (Figure 2). About 1.7% of foundations have assets of \$75 million or more, but account for either 71% or 56% of total assets (depending on whether MasterCard Foundation is included in the calculations). At the other end of the size spectrum, about two thirds of foundations have total assets less than \$1 million, accounting for 1.2% or 1.7% of total assets.

Figure 2: Distribution of foundations and total assets by asset size class, 2019.

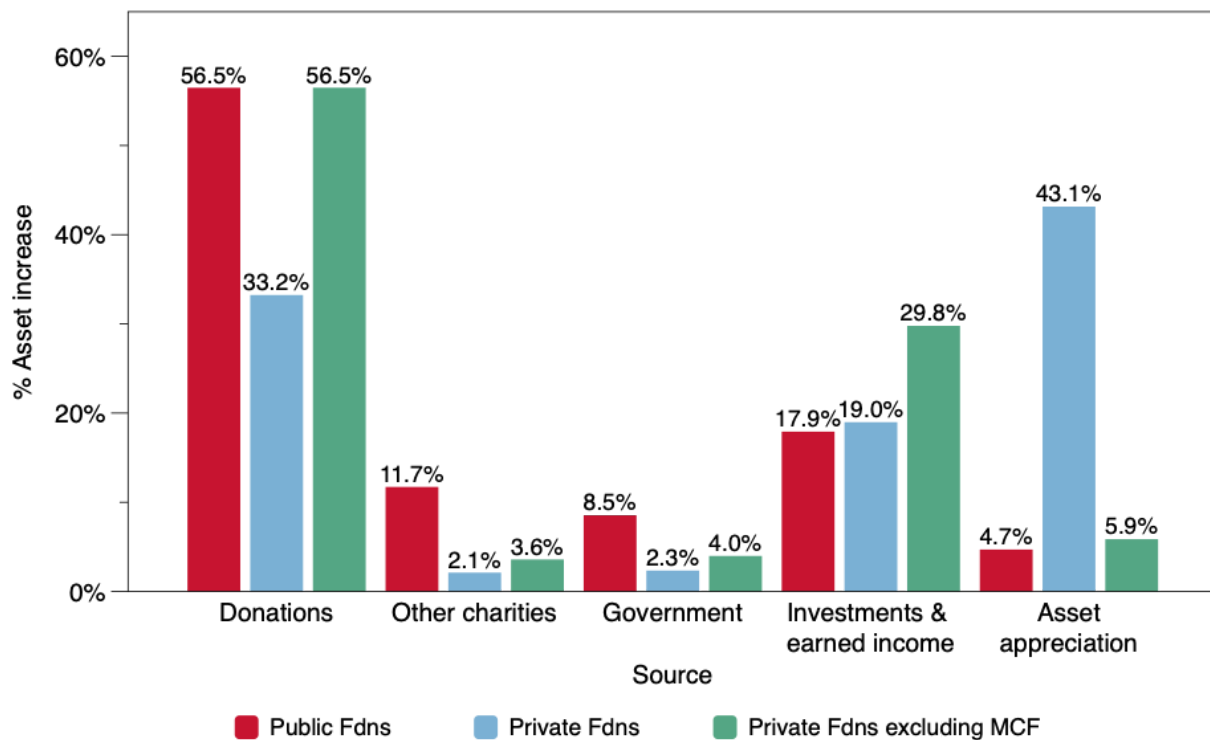


Donations have played a very significant role driving the increase in foundation assets, accounting for over half of the increase for both public and private foundations if MasterCard Foundation is excluded from our calculations (Figure 3). Revenues from investments and earned income¹ play a larger role for private foundations but remain significant for public foundations.

¹ Both investment income and net proceeds from the disposition of assets.

Revenues from other charities and government play a significantly larger role among public foundations than private foundations.

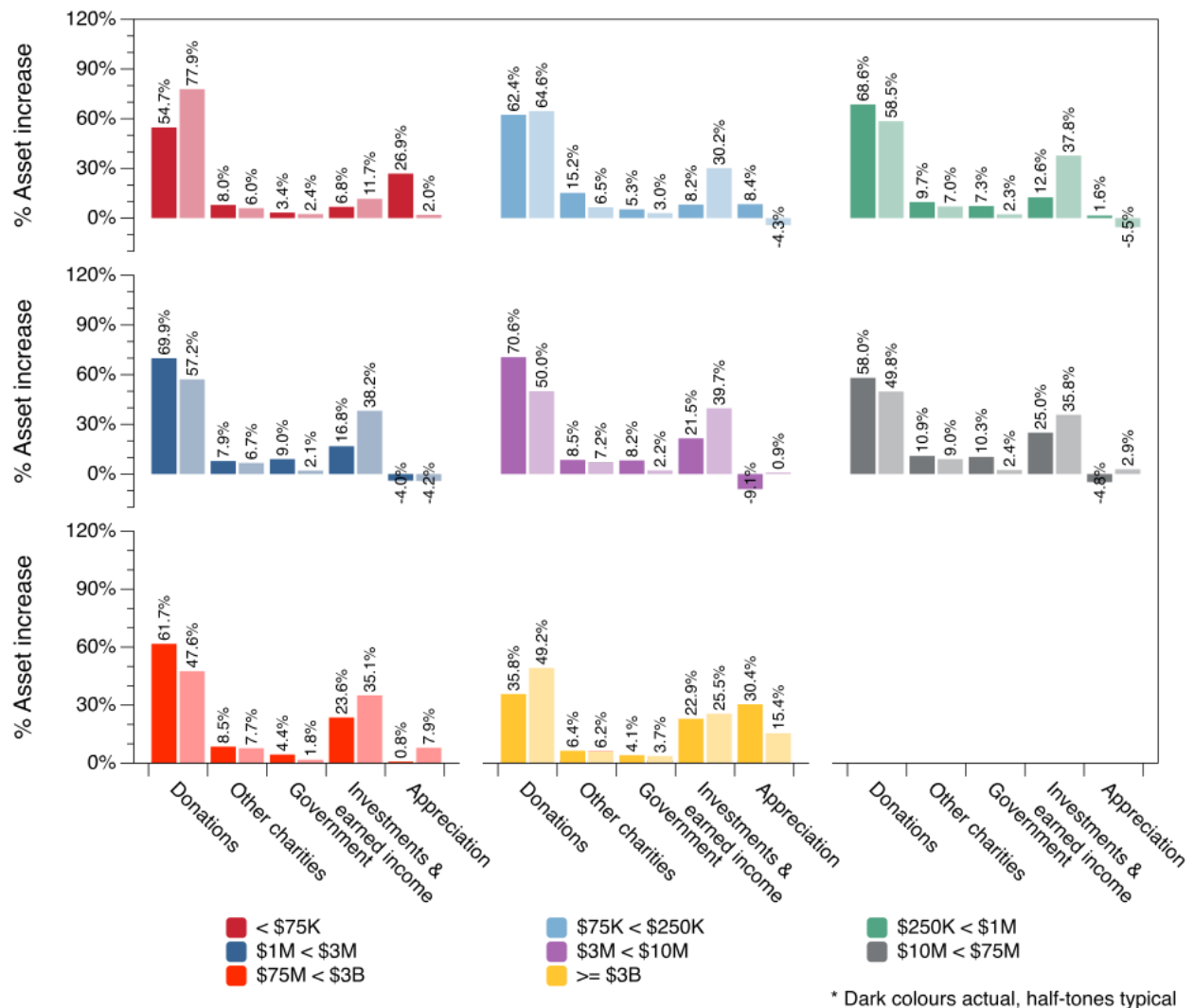
Figure 3: Drivers of increase in asset value by designation, 2008 – 2019.



Looking at the drivers of asset growth by asset size class, the central importance of donations is even clearer (Figure 4). In broad strokes, donations are more important among smaller foundations while the role of investments and earned income increases with foundation size, as does appreciation of assets.²

² In this analysis, typical figures are the averages within the class – the close congruence with the absolute figures indicates that the absolutes are not being driven by a small number of foundations in any given class.

Figure 4: Absolute and typical drivers of asset value by asset size class, 2008 – 2019.³



In addition to varying by foundation size, the drivers of asset growth also vary according to what foundations do.⁴ In general terms, donations are key for grantmaking foundations, fundraising

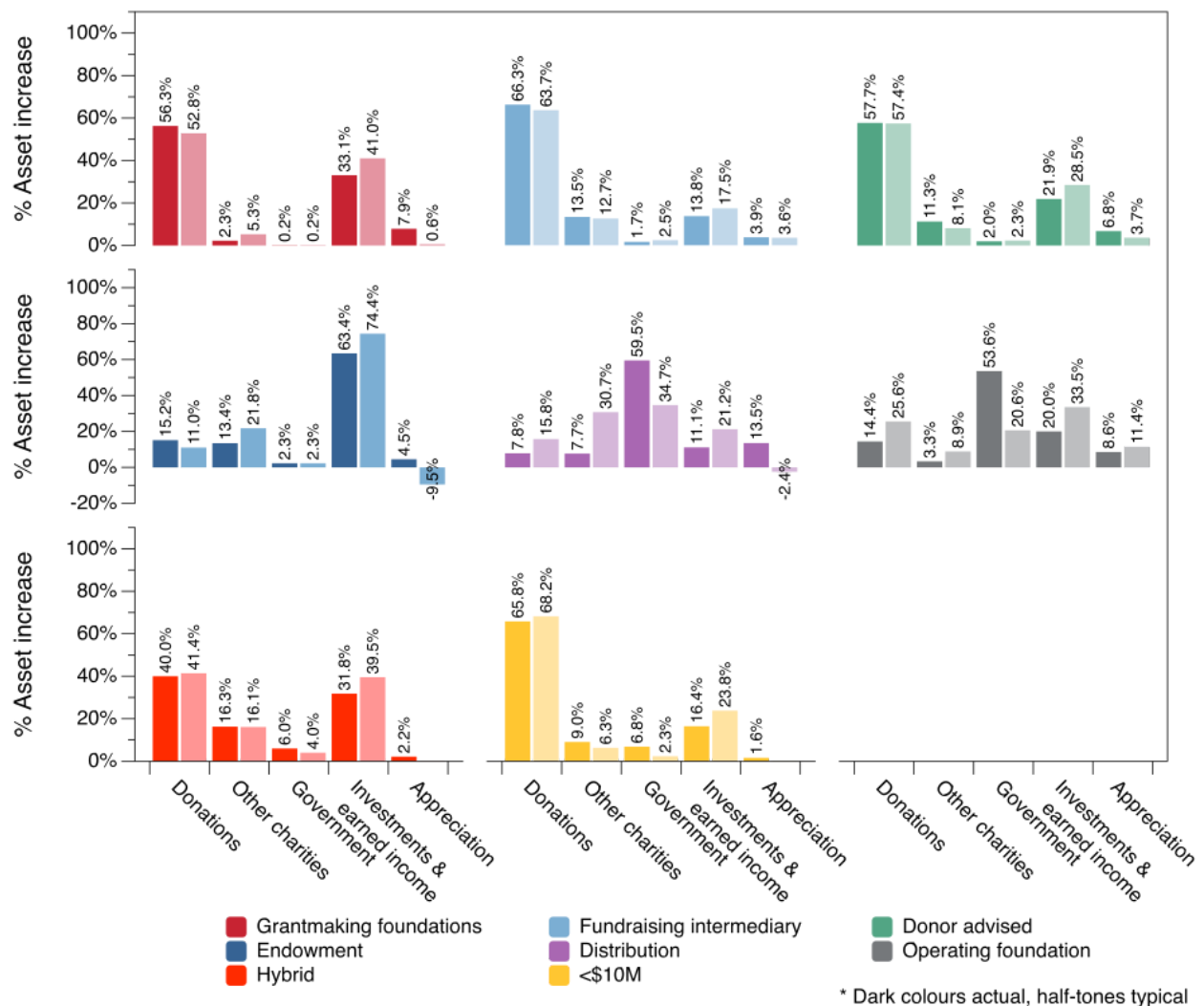
³ Absolute figures exclude MasterCard Foundations while typical figures include it.

⁴ For this analysis we assigned all foundations with peak assets of \$10 million or more to a functional class based on their patterns of grantmaking, level of direct charitable activity, key sources of revenue, fundraising activity, paid staff complements, and board composition. For more detail on these behavioural types and the criteria, please see Appendix B.

intermediaries, and donor advised foundations (Figure 5).⁵ Investments and earned income are a central driver for endowments and significant for both grantmaking foundations and donor advised foundations. Transfers from other foundations are most significant for fundraising intermediaries, endowments, and donor advised foundations. Our understanding of this is not comprehensive, but where we have data this appears to mainly reflect philanthropic giving from private foundations.

⁵ Note that this category is not exclusively Donor Advised Funds (DAFs). Please see Appendix B for more details.

Figure 5: Absolute and typical drivers of asset value by foundation behavioural type, 2008 – 2019.⁶

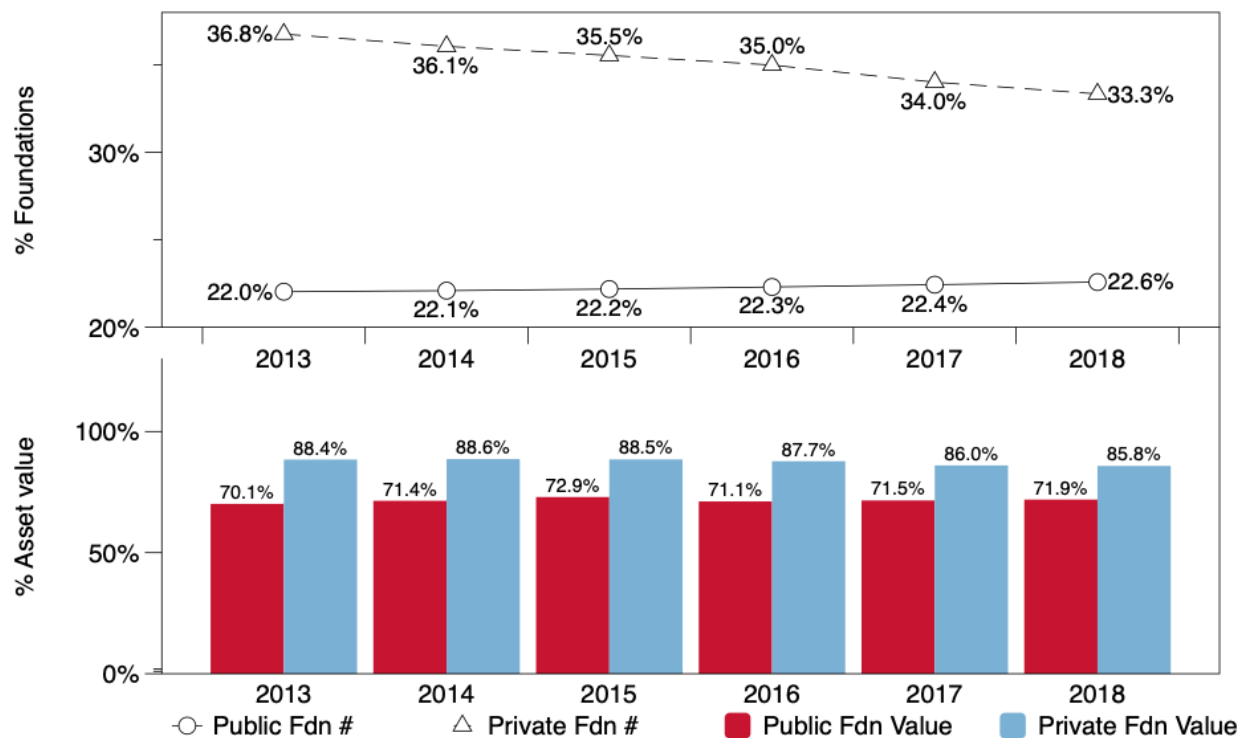


Accurate information about the value of assets not used in charitable activities is key to determining whether foundations are meeting their disbursement quota and to predicting the extra amounts disbursed at various higher levels. Most of our analyses are based on those

⁶ Again, absolute figures exclude MasterCard Foundations while typical figures include it.

foundations reporting complete seven-year sequences of line 5900 data.⁷ While this data is complete for only a minority of foundations, they account for a significant majority of the value of assets, particularly for private foundations (Figure 6). For example, the 33.3% of private foundations that report complete seven-year line 5900 sequences around the 2018 reporting year account for 85.8% of total 2018 private foundation assets.

Figure 6: Presence of complete 7-year line 5900 sequences, percentage of foundations and total asset value by designation, 2013 – 2018 reference years.



Looking at disbursements⁸ as a percentage of line 5900 for those foundations with complete seven-year sequences, we see a tendency for disbursements to cluster around the 3.5% level

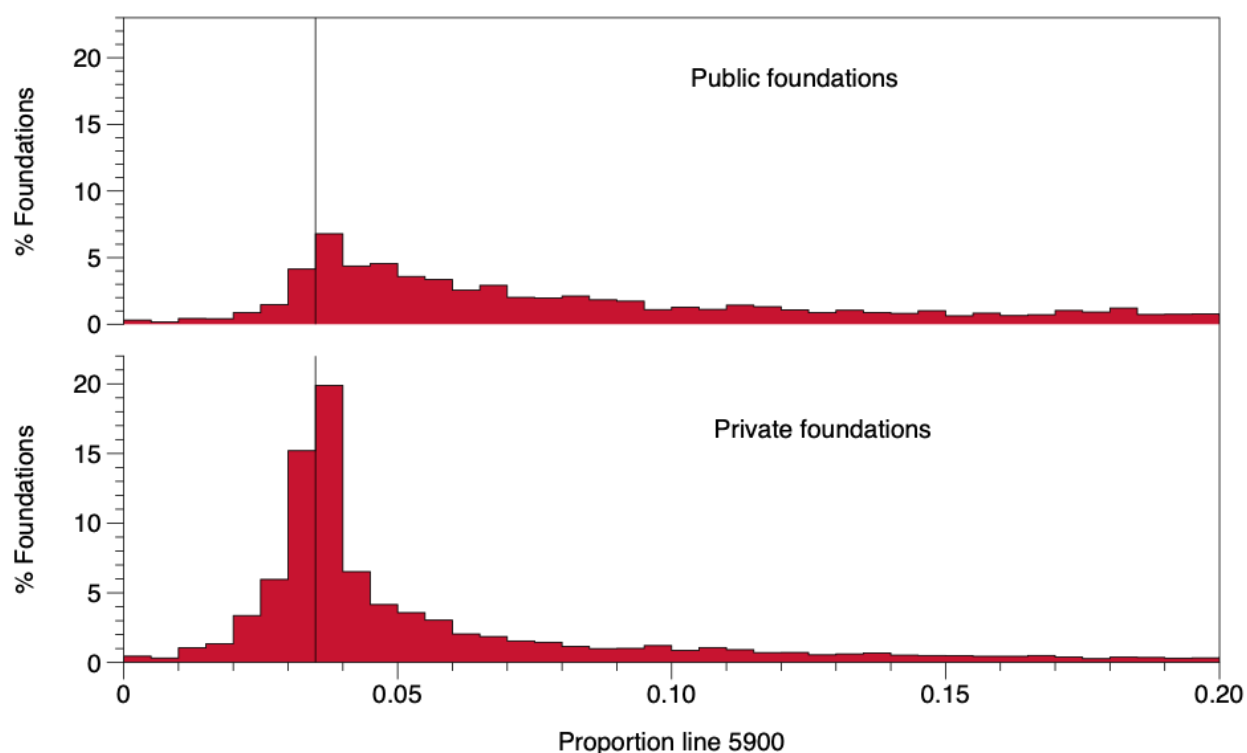
⁷ This accounts for the ability to roll disbursement surpluses forward up to five years and/or to over-contribute in the year following a disbursement shortfall.

⁸ Lines 5000 and 5050.

(Figure 7).⁹ This tendency is significantly more pronounced among private foundations than public foundations. A significant fraction of private foundations appear to be contributing below the 3.5% threshold. This appears largely to be driven by smaller foundations (see Figure 8, below). It should also be noted that a significant number of foundations, particularly private foundations, appear to be contributing so closely below the 3.5% threshold that we believe they may be rolling over-contributions forward more than the five years permitted (i.e., they may be using a running balance of contributions rather than excluding over-contributions more than five years old).

⁹ The percentage is computed by dividing the seven year rolling sum of line 5900 by the seven year rolling sum of disbursements. This method takes into account the effects of rolling forward disbursement surpluses and/or over contributing in the year following a shortfall. Visualizations include one datapoint for every complete seven year sequence reported (i.e., if a foundation's line 5900 data is complete from 2008 to 2019, this would result in six datapoints).

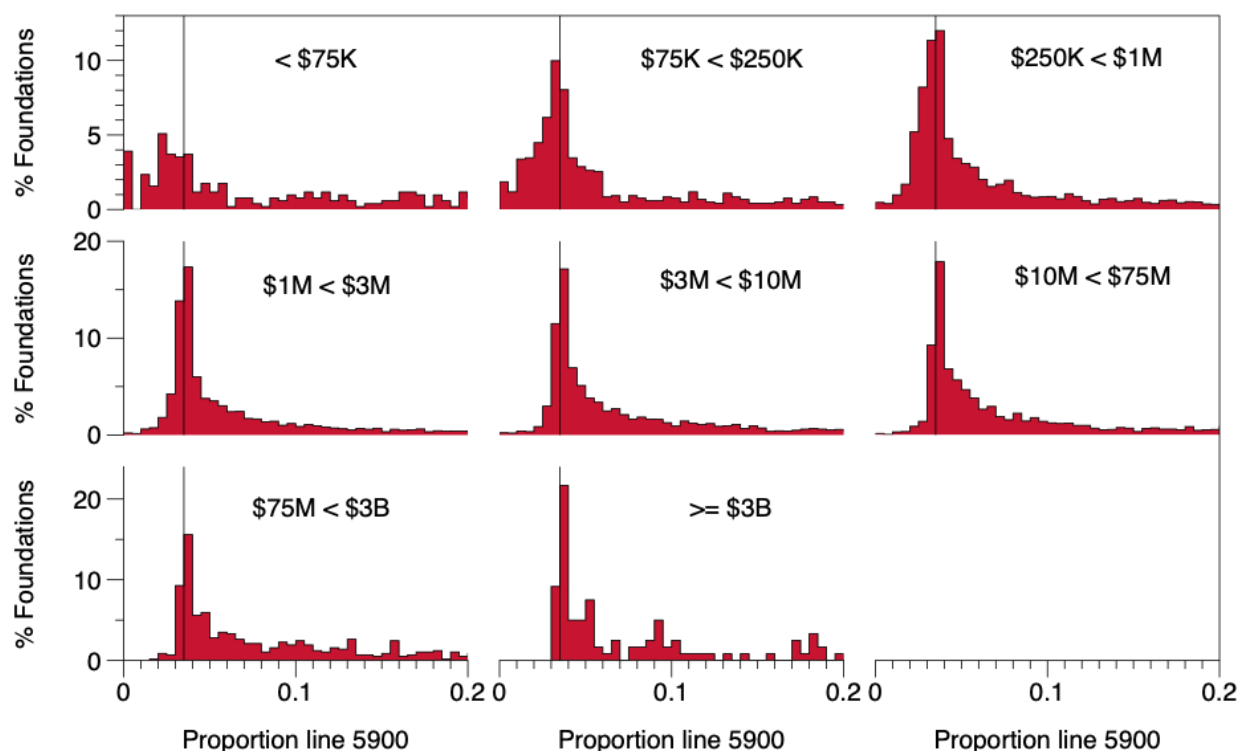
Figure 7: Disbursements as a percentage of line 5900, 2013 – 2018 reference years, foundations with complete line 5900 sequences, by designation.¹⁰



Examining disbursements by asset size class, smaller foundations are more likely to be contributing below the 3.5% threshold (and to be contributing significantly less than 3.5%) than larger foundations (Figure 8). For context, over a quarter of foundations with assets between \$75,000 and \$1,000,000 contributed below the 3.5% threshold in 2018 (see Figure 17 below). The percentages of larger foundations disbursing below the 3.5% threshold are much smaller.

¹⁰ Excludes foundations with <\$25,000 in assets not used in charitable activity.

Figure 8: Disbursements as a percentage of line 5900, 2013 – 2018 reference years, foundations with complete line 5900 sequences, by asset size class.¹¹

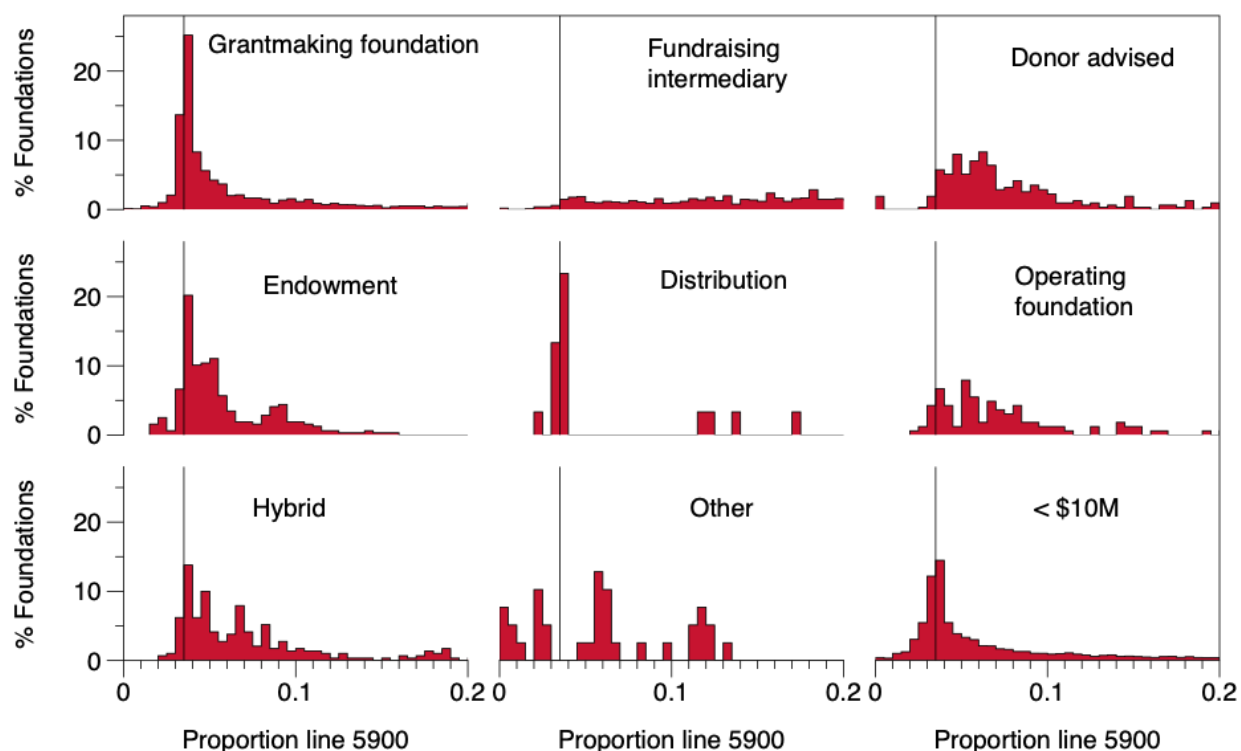


The likelihood of contributing below the 3.5% threshold also varies according to what foundations do. Grantmaking foundations, endowments and distributions are more likely to be contributing below the 3.5% threshold, as are foundations with peak assets of less than \$10 million (Figure 9).¹² Fundraising intermediaries, foundations with a significant donor advised component and operating foundations are less likely to be contributing below the 3.5% threshold.

¹¹ Excludes foundations with <\$25,000 in assets not used in charitable activity.

¹² While foundations with peak assets less than \$10 million were not assigned a behavioural type, they are likely dominated by grantmaking foundations and fundraising intermediaries.

Figure 9: Disbursements as a percentage of line 5900, 2013 – 2018 reference years, foundations with complete line 5900 sequences, by foundation behavioural type.¹³



Below we show actual disbursements for public and private foundations (\$2019 constant) supplemented with calculations of what “extra” disbursements would have occurred if the disbursement quota had been set at each of 5%, 7.5%, and 10% (Figure 10).¹⁴ These calculations are based on foundations reporting a complete seven-year line 5900 sequence around reference year 2018; as such, they should be quite reliable estimates of extra spending.

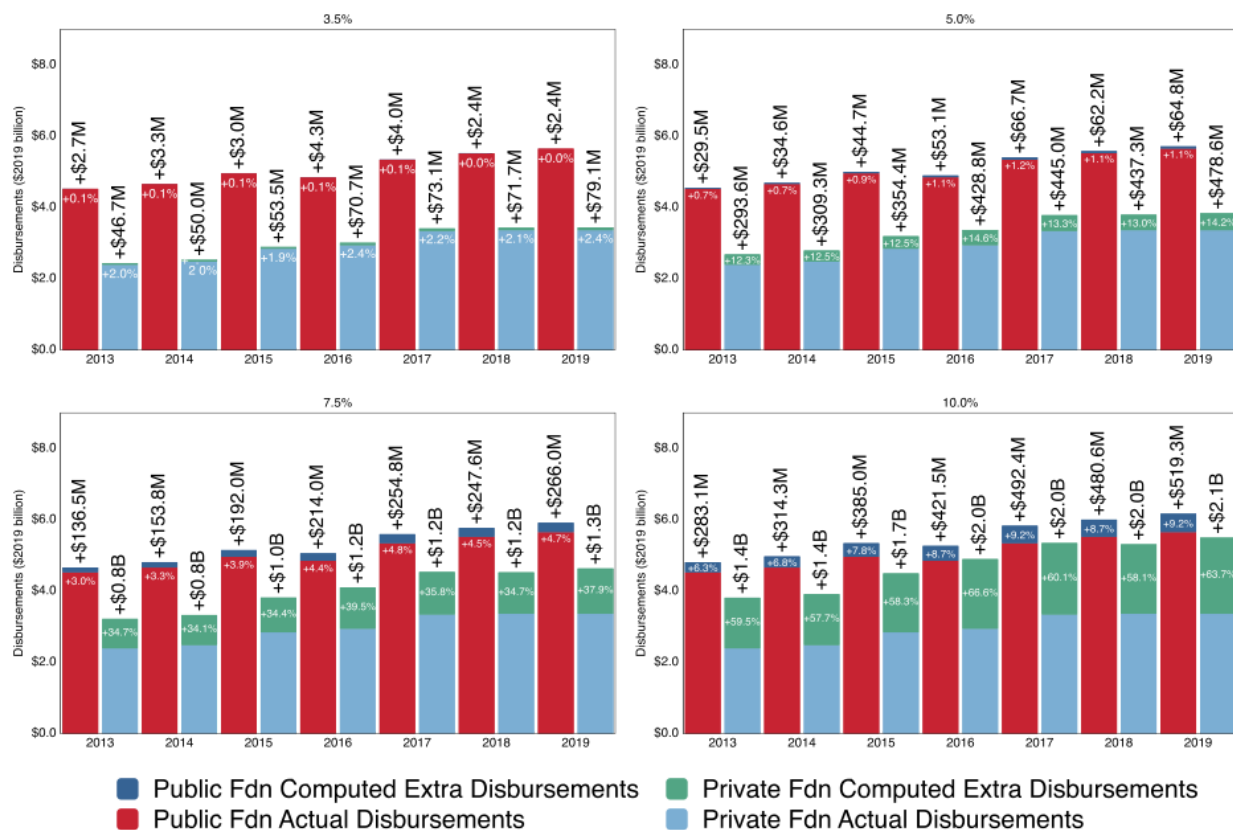
Annual extra disbursements were calculated by multiplying the seven year sum of line 5900 for each foundation by the given threshold and comparing this to actual disbursements over the

¹³ Excludes foundations with <\$25,000 in assets not used in charitable activity.

¹⁴ The 3.5% figures highlight the impact of current under-contributions. Calculations for higher thresholds also include this 3.5% under-contribution.

period. If the calculated amount at a given threshold was in excess of actual disbursements for the period, the excess was allocated across years, prorated to actual disbursements (e.g., if 20% of the value of actual disbursements for the seven years occurred in 2016, 20% of any extra spending was also allocated to 2016).¹⁵ Given the methodology used, these figures should be treated as a conservative lower-bound estimate of extra giving.

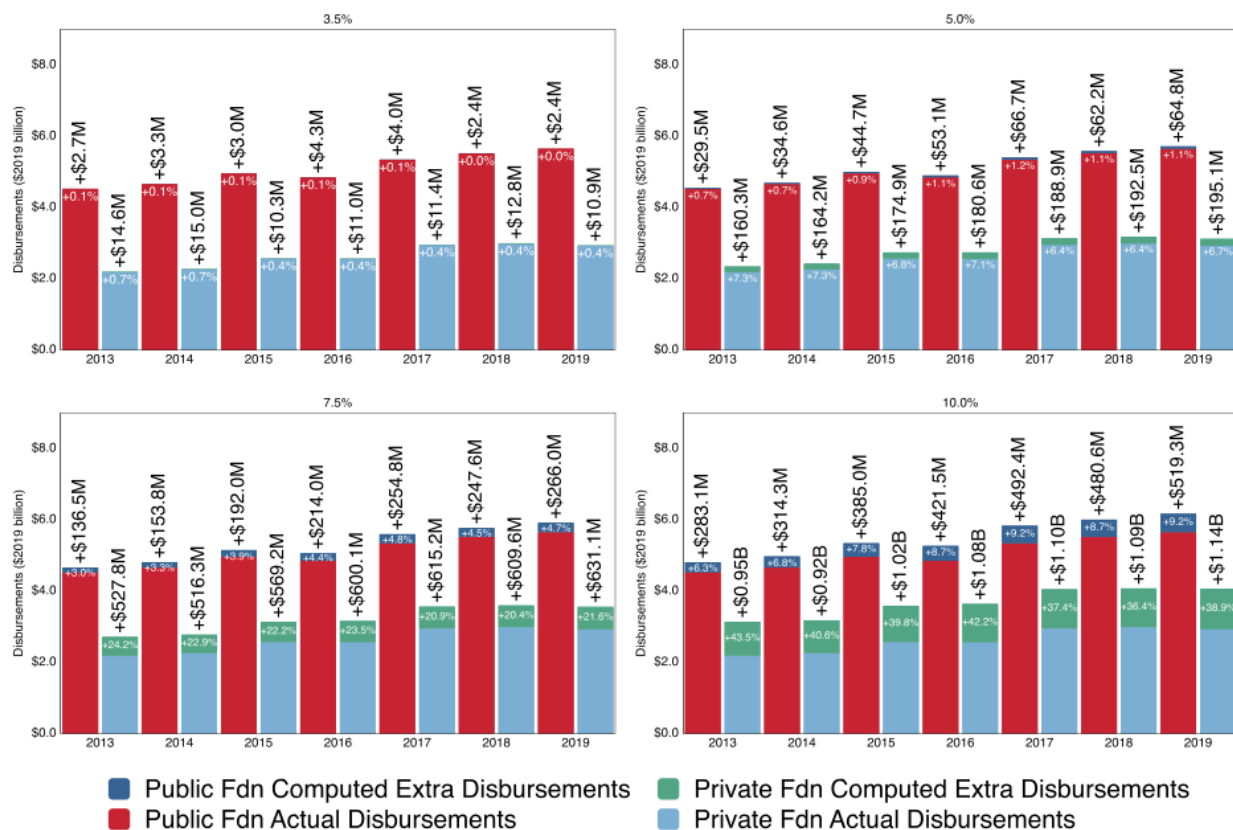
Figure 10: Actual and computed extra disbursements at various disbursement levels, constant \$2019, 2013 – 2018, foundations with complete line 5900 sequences, by designation.



¹⁵ We acknowledge that this may have the effect of over-smoothing year over year changes when foundations experience significant periodic increases in assets, but we saw little other empirical basis for allocating extra disbursements.

Below we present the same analyses (with the same assumptions and methodology) as in Figure 10, excluding MasterCard Foundation (Figure 11). As the difference between the two sets of figures shows, how MasterCard Foundation's assets are treated has a significant impact on total calculated disbursements.

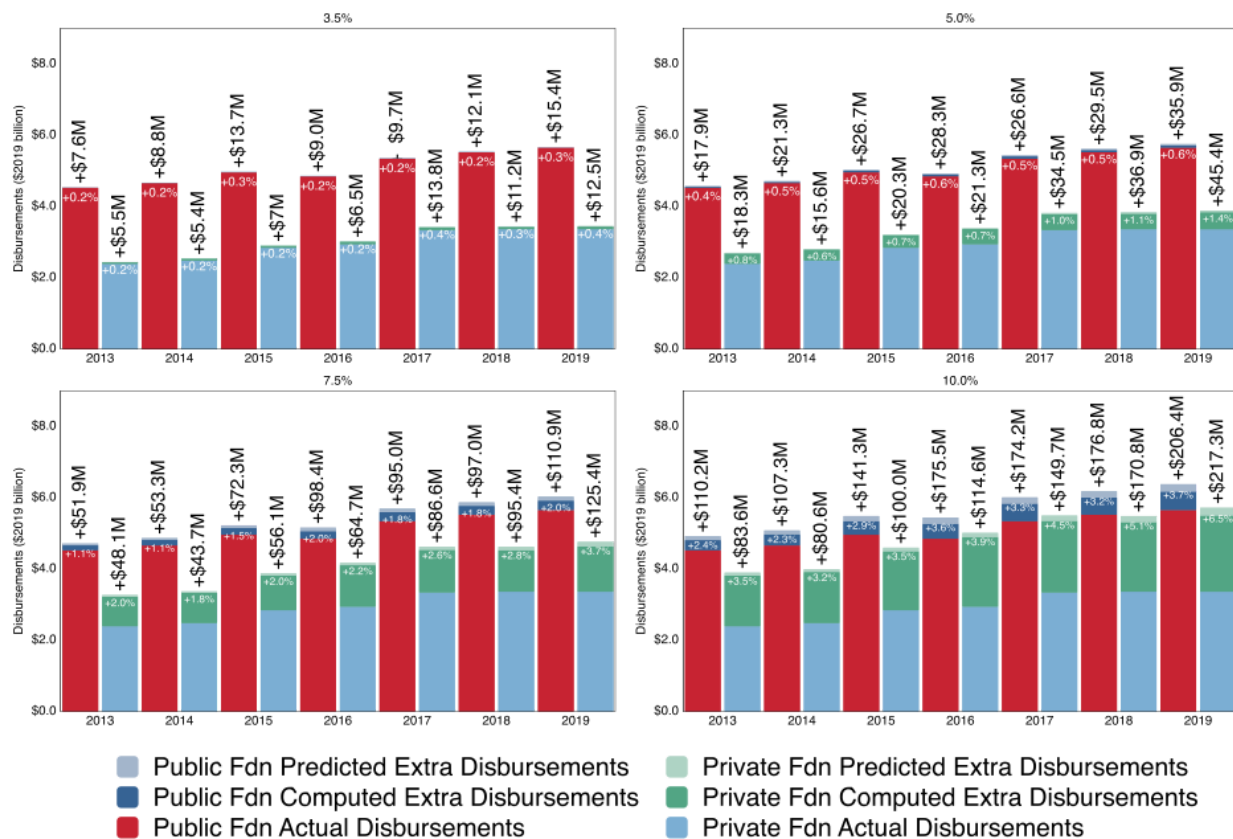
Figure 11: Actual and computed extra disbursements at various disbursement levels, constant \$2019, 2013 – 2018, foundations with complete line 5900 sequences, by designation – excluding MasterCard Foundation.



The next presentation extends our analysis of foundations reporting complete seven-year line 5900 sequences to compute estimated extra disbursements for foundations with *incomplete* line 5900 sequences (Figure 12). Where line 5900 values were missing, we imputed them in two stages; first we used a predictive model to assess the likelihood that the missing value was not

zero and then we imputed the value of line 5900 based on the typical ratio between line 5900 and total assets for foundations with complete line 5900 sequences, accounting for variations by asset size class and designation. Annual extra disbursements were calculated by multiplying the reported or imputed line 5900 value by the given threshold and comparing it to actual disbursements.¹⁶ Each year was dealt with separately and there was no attempt to account for shifting disbursement surpluses between years. The total value of extra giving predicted at each threshold should be computed by adding these values with the values from Figure 10.

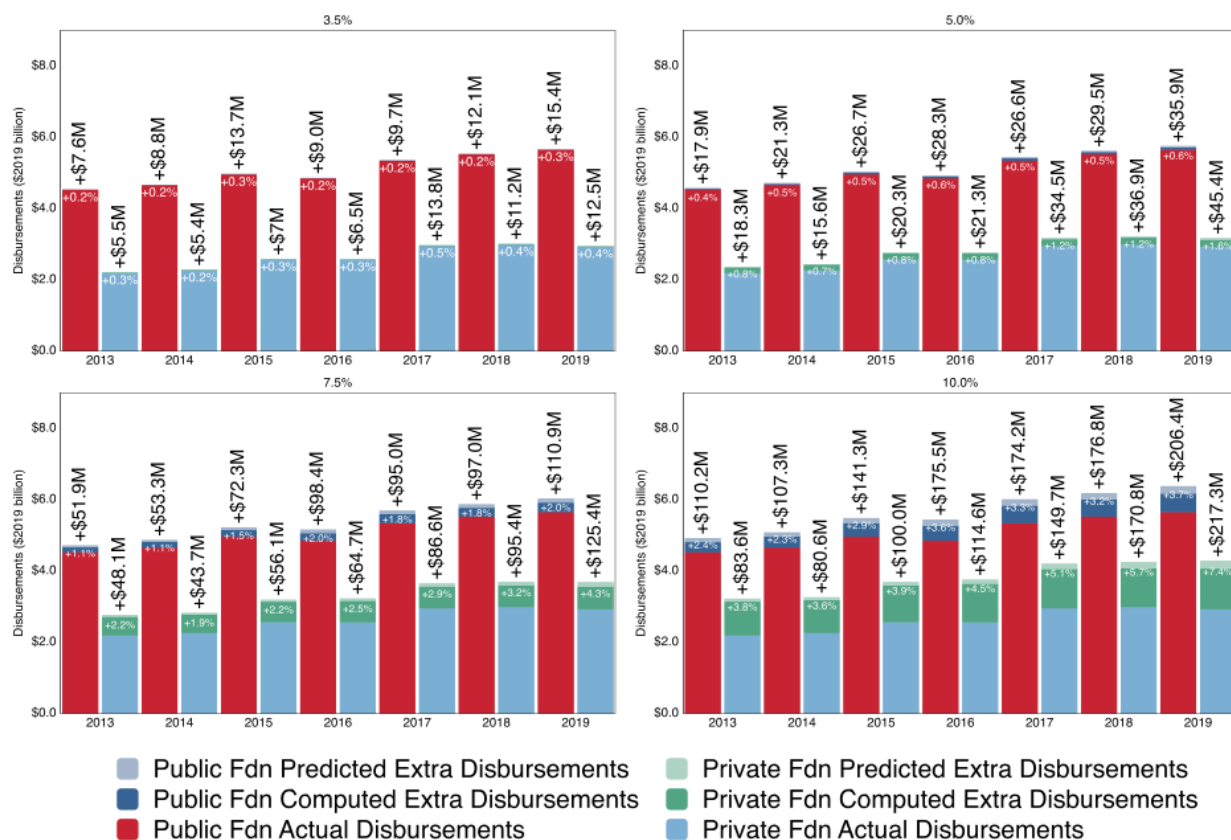
Figure 12: Predicted extra disbursements in addition to computed extra and known disbursements at various disbursement levels, constant \$2019, 2013 – 2018, by designation.



¹⁶ Again the 3.5% figures highlight the effect of current under-contributions and estimates for higher thresholds include this under-contribution.

Below, we present the same analyses, using the scenario excluding MasterCard foundation depicted in Figure 11 as our baseline. The total value of extra giving predicted at each threshold should be computed by adding these values with the values from Figure 11.

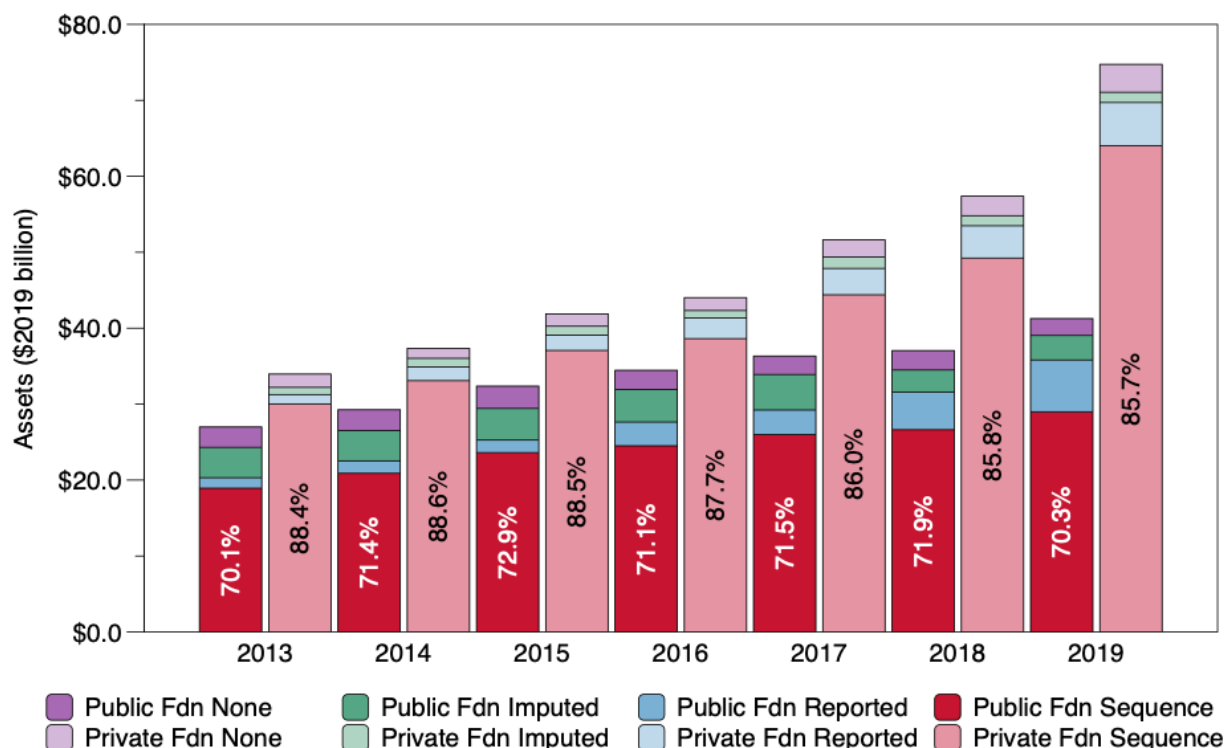
Figure 13: Predicted extra disbursements in addition to computed extra and known disbursements at various disbursement levels, constant \$2019, 2013 – 2018, by designation – excluding MasterCard Foundation.



As we noted previously, while a minority of foundations report complete line 5900 sequences, collectively they account for the bulk of total foundation assets. Incomplete line 5900 reporting (labelled “Reported” below) and imputed line 5900 values account for the bulk of the rest (Figure 14). Only a small portion of total assets is associated with foundations where line 5900 is

believed to be zero. The dark bars below show coverage for public foundations while the half tone bars show coverage for private foundations.

Figure 14: Asset coverage by line 5900 status, 2013 – 2019, constant \$2019, by designation – excluding MasterCard Foundation.

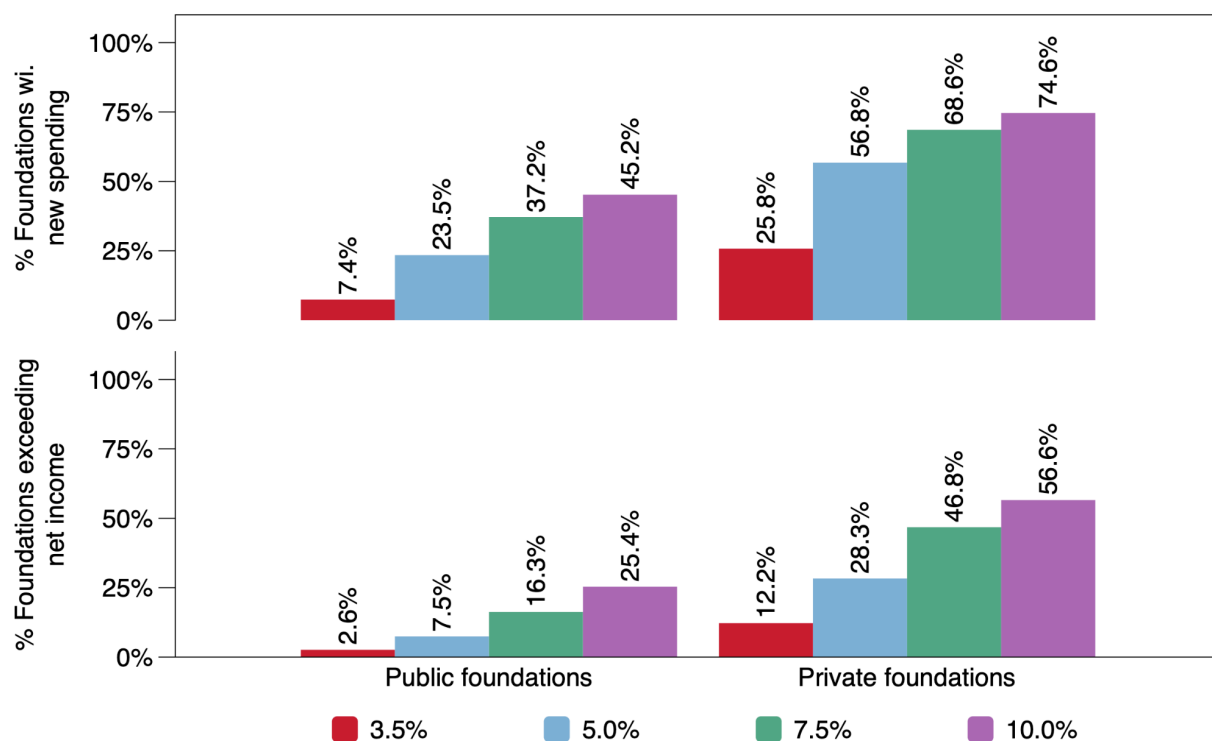


Our final set of analyses give some insight into how sustainable increased disbursements might be. Looking at foundations reporting complete line 5900 sequences around reference year 2018, the top set of bars shows the percentages of public and private foundations that would have disbursed extra funds beyond their current levels at each of 5%, 7.5%, and 10% in 2018 (Figure 15).¹⁷ The bottom figures are the percentages of foundations where the increased

¹⁷ Again, the 3.5% figures highlight the impact of current levels of under-contribution. The figures for higher thresholds include this under-contribution (i.e., increasing the quota to 5% would require 16.1% of currently compliant public foundations [23.5% - 7.4%] to disburse additional funds).

disbursements would have exceeded their net income for the year (e.g., 7.5% of public foundations would have experienced a net income deficit at a 5% quota).

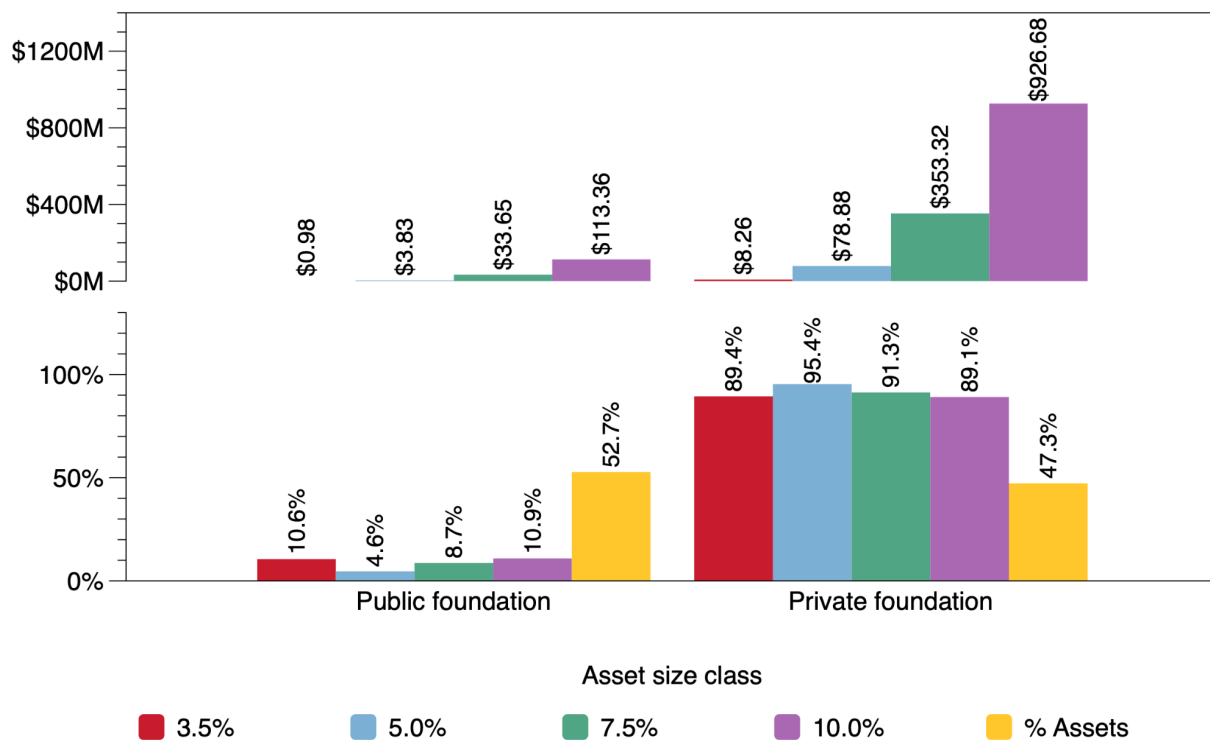
Figure 15: Percentage of foundations engaging in new spending at various disbursement levels and percentage of foundations where new spending would exceed net income, foundations with complete line 5900 sequences, by designation, 2018.



The top bars show the amounts by which increased disbursements would have exceeded net income at various disbursement levels (Figure 16). The lower bars show how the net income deficit would be distributed by designation. For reference, the yellow bar shows the distribution of total assets by designation (excluding MasterCard Foundation). These figures indicate that any net income deficits would primarily be borne by private foundations.

Looking at the source for predicted extra disbursements, excluding MasterCard Foundation (ref. Figure 11), about 10% of the extra disbursements from public foundations would come from net income deficits at a 7.5% quota - rising to about 24% at a 10% quota. Among private foundations, these percentages are even higher; 24% would come from net income deficits at a 7.5% quota and 46% at a 10% quota.

Figure 16: Distribution and total levels of net income depletion at various disbursement levels, \$2019 constant, foundations with complete line 5900 sequences, by designation, 2018.¹⁸

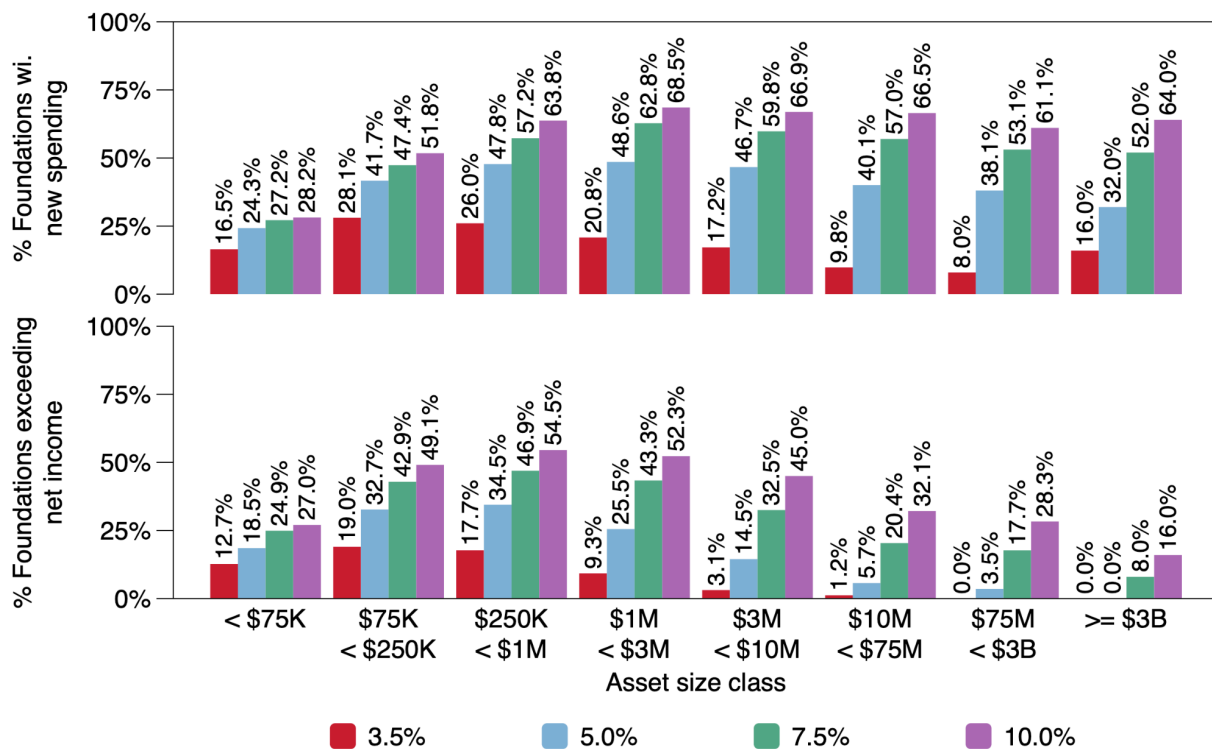


Again, the top set of bars show the percentages of foundations that would disburse extra funds at various levels while the lower bars show the percentages of foundations that would experience net income deficits as a result (Figure 17). Overall, the incidence of increased

¹⁸ Distribution of total assets excludes MasterCard Foundation. Note that MasterCard Foundation would not experience a net income deficit if contributing at forecast levels.

spending at 3.5% (i.e., current under-spending) is relatively high among small foundations, as are the percentages that would experience a net income deficit - we believe this shows that under-spending among small foundations is primarily due to financial pressures. Above \$1 million in assets, while the percentages of foundations that would see new spending at various thresholds remain fairly consistent, the percentages that would experience net income deficits drops steadily. We interpret this to mean that the financial pressures associated with higher disbursements would be higher among medium sized foundations.

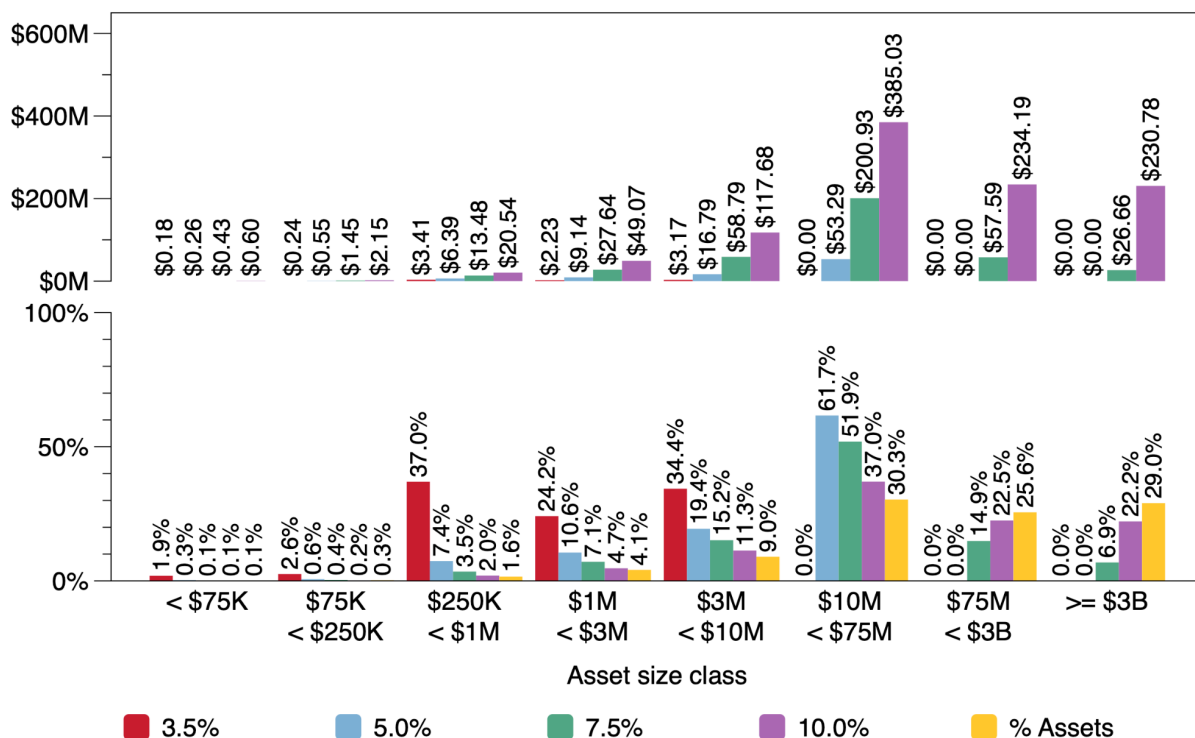
Figure 17: Percentage of foundations engaging in new spending at various disbursement levels and percentage of foundations where new spending would exceed net income, foundations with complete line 5900 sequences, by asset size class, 2018.



The top bars show the amounts by which increased disbursements would have exceeded net income at various disbursement levels while the lower bars show the distributions of the net

income deficit and total assets (excluding MasterCard Foundation) by asset size class (Figure 18). These figures indicate that any net income deficits at lower thresholds would disproportionately be borne by smaller foundations. For example, at 5% foundations with assets between \$10 and \$75 million would contribute 61.7% of new disbursements, even though they account for 30.3% of total assets.

Figure 18: Distribution and total levels of net income depletion at various disbursement levels, \$2019 constant, foundations with complete line 5900 sequences, by asset size class, 2018.¹⁹

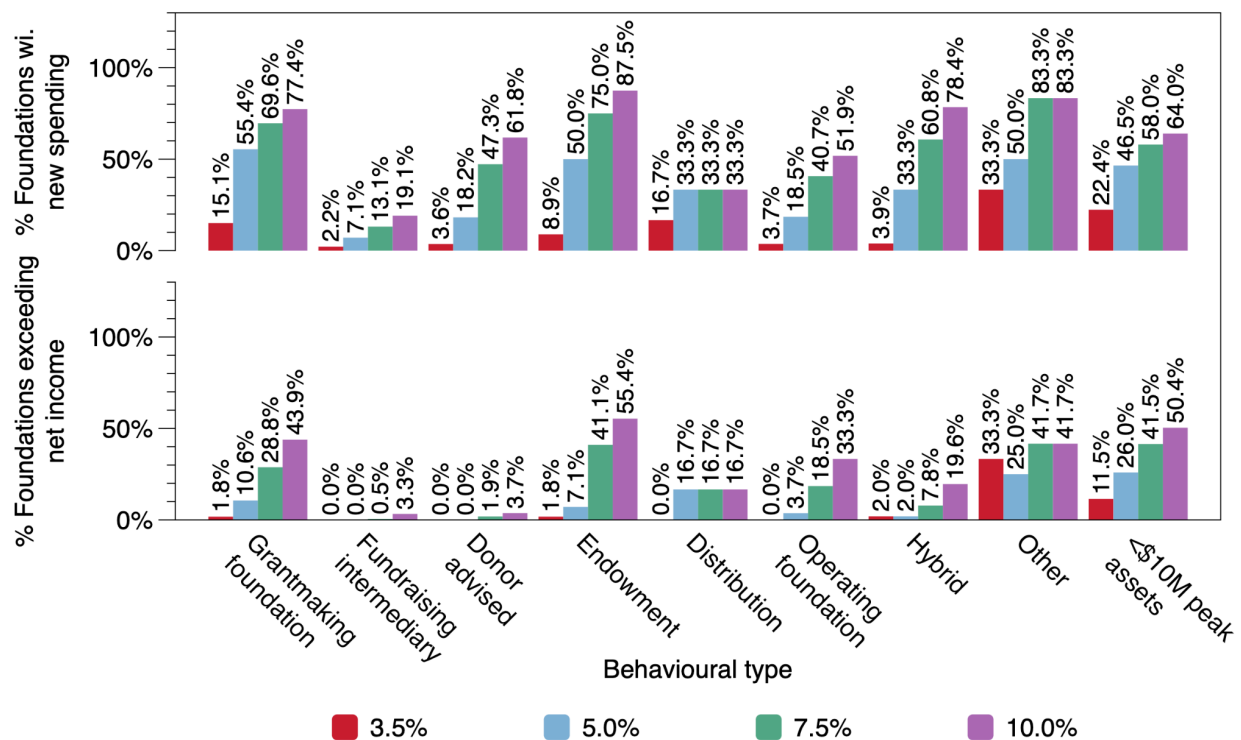


Higher quotas are most likely to drive increased disbursements among foundations that are more dependent on investment income such as endowments and grantmaking foundations (Figure 19). These same foundation types are most likely to experience net income deficits with

¹⁹ Distribution of total assets excludes MasterCard Foundation. Note that MasterCard Foundation would not experience a net income deficit if contributing at forecast levels.

higher disbursements. Higher thresholds are comparatively unlikely to drive increased disbursements among fundraising intermediaries. Fundraising intermediaries and foundations with significant donor-advised components are markedly less likely to experience net income deficits with higher disbursements.

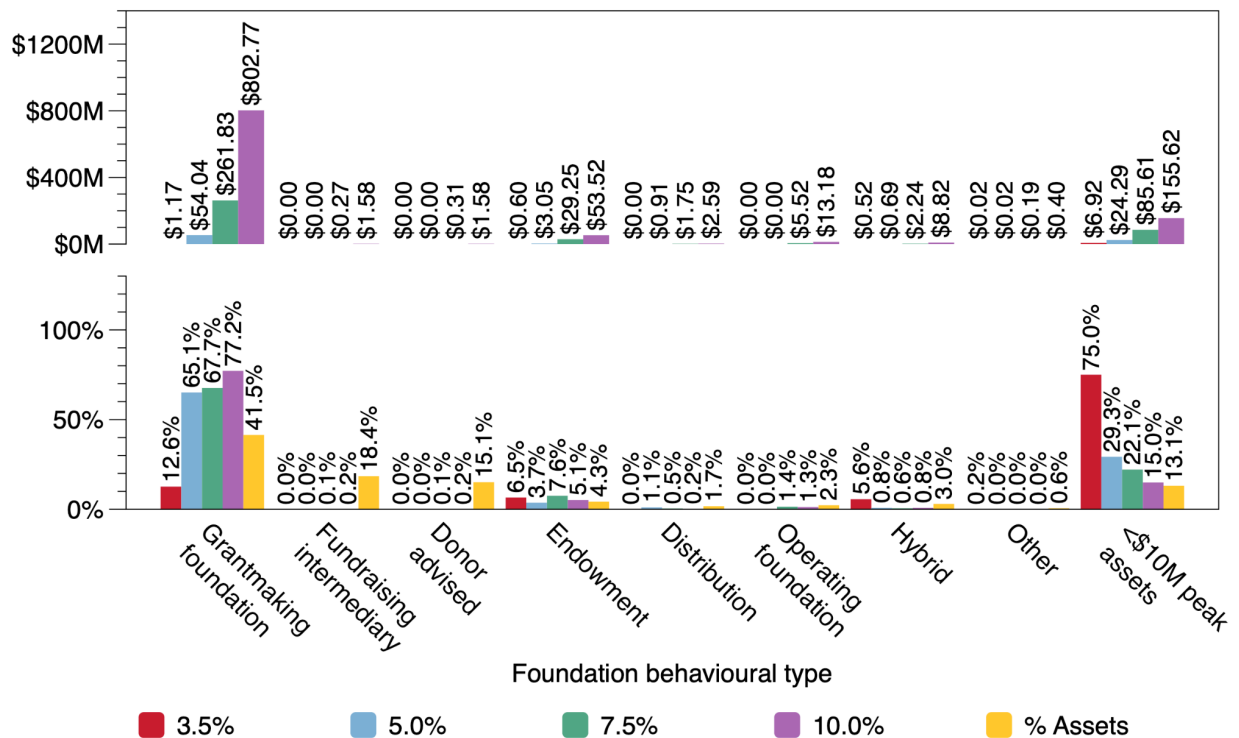
Figure 19: Percentage of foundations engaging in new spending at various disbursement levels and percentage of foundations where new spending would exceed net income, foundations with complete line 5900 sequences, by foundation behavioural type, 2018.



The top bars show the amounts by which increased disbursements would have exceeded net income at various disbursement levels while the lower bars show the distributions of the net income deficit and total assets (excluding MasterCard Foundation) by what foundations do

(Figure 20). Overwhelmingly, these data show that grantmaking foundations and to some extent endowments would incur the net income deficits underwriting increased disbursements.

Figure 20: Distribution and total levels of net income depletion at various disbursement levels, \$2019 constant, foundations with complete line 5900 sequences, by foundation type, 2018.²⁰



²⁰ Distribution of total assets excludes MasterCard Foundation. Note that MasterCard Foundation would not experience a net income deficit if contributing at forecast levels.

APPENDIX B – PROVISIONAL FOUNDATION BEHAVIOURAL TYPES

All foundations with peak assets of \$10 million or more (\$2019 constant) between 2008 and 2019 were assessed and assigned to one of eight functional types. These are as follows:

Grantmaking foundations

- revenues from donations, disposition of assets & investment income
- usually no fundraising activity
- usually few paid staff
- almost always private foundations
- examples: family foundations, corporate foundations

Fundraising intermediaries

- bulk of revenues from donations, fundraising & other charities
- many fundraising methods and/or significant fundraising expenses reported
- commonly many paid staff
- almost exclusively public foundations
- examples: Hospital, College/University foundations, corporate foundations, United Ways, etc.

Donor advised foundations (including but not exclusively Donor-advised Funds)

- usually bulk of revenues from receipted donations with investment income & disposition of assets secondary
- usually small number of fundraising methods and/or modest expenses reported
- number of paid staff depends on sub-type
- most commonly public foundations
- examples: community foundations, fundraising, corporate, philanthropic advisories, financial firms
- *note that this type includes more than just DAFs – the determining criteria is that many people appear to be involved in making the donation decisions*

Endowments

- bulk of revenues from investment income & disposition of assets

- hold significant long-term investments
- no fundraising methods or fundraising expenses
- usually no paid staff
- usually public foundations
- examples: foundations focused on a single entity or cause, Hospitals, Universities/Colleges, locality focus

Distributions

- most commonly the bulk of revenues come from government
- not uncommon to report moderate number of fundraising methods, though expenditures tend to be low
- usually do not hold long-term assets
- moderately significant paid staff complements
- overwhelmingly public foundations

Operating foundations

- consistently spend more on charitable activities than disbursing gifts to qualified donees
- diverse funding profiles – higher reliance on investment income / disposition of assets than operating charities more broadly
- significant paid staff complements
- mainly public foundations
- includes foundations that work through agency agreements

Hybrid

- mixture of other forms

Other

- characteristics with no clear fit to any of the types or unable to determine

<\$10M in peak assets

- less than \$10 million in peak assets between 2008 and 2019 (2019 constant dollars) – these foundations were not assigned to a type