

## **Chairman's Report**

The McCune Foundation will be going out of business on **October 16, 2029**.

While many readers of this report already know that, it is worth saying bluntly so everyone, those familiar with the Foundation and those new to it, understand what we at the Foundation are facing and have been working on for more than a decade.

The McCune Foundation was established in 1979 by the Will of Charles L. McCune. The donor, a Director of The Union National Bank of Pittsburgh for 56 years, served as its President from 1945 until 1972, and then as Chairman of the Board until his death. During his life, Charles McCune gave generously to charitable organizations, mostly in the Pittsburgh area, while seeking no public recognition of his philanthropy. He established the Foundation in memory of his parents, Janet Lockhart McCune and John Robison McCune.

In his Will, Charles McCune restricted the Foundation's existence to fifty years from the date of his death – thus **October 16, 2029**. It is not known why he did this. There has been much speculation and all of it could be right or all of it could be wrong. Those of us responsible for meeting this deadline, the Distribution Committee and Staff, put that speculation aside over six years ago and began implementing a process that will meet this termination date.

It must be inserted here that this process forces the Distribution Committee to take a long view on the organizations and communities that the Foundation serves. While it would be easy to continue our work as it had been done for the first thirty years, the Committee developed a commitment to position those organizations and communities so that they can thrive after support from Foundation ceases. There will be more on this later in this report. The result is a series of decisions and steps we have taken that can be best described in phases.

### **Phase One**

This phase began in 2011 and ran through 2015. Its major components were adoption of a "Constant Stream" spending plan, large distributions to seven community foundations around the country, the initiation of the Big Idea grants category, the adoption of "Granny's Rules", and the creation of a new Mission Statement.

Charles McCune's Will provided a spending formula that would spend down all the foundation's assets by **October 2029**. When twenty years remained the Foundation was required to distribute 1/N of the assets, with N being the number of years remaining. This would create very large grant budgets in the last four years that would require increased staffing and then their immediate termination. The Distribution Committee decided to implement a "Constant Stream" plan that would level the grant and operating budgets for each of the remaining years with adjustments for variations of the assets. While that meant somewhat less dollars granted overall, the Committee felt the sacrifice would be warranted by more thoughtful, and steady, grant making.

In 2012, the Distribution Committee authorized grants totaling 20% of the Foundation's current assets to seven community foundations throughout the country. Up to that time the Foundation had made approximately 20% of its annual distributions to organizations in those regions through our Regional and Matching Grants Programs. These programs were terminated in the expectation that the community foundations will continue fulfilling our mission in their respective areas. The Foundation now devotes 100% of its work to organizations located in, and doing business in, the twenty-six counties comprising western Pennsylvania.

Also in 2012, the Foundation made the first of three grants in our Big Ideas grant category. These grants are designed to be transformative and change the vector of the grantee in both direction and velocity. Moreover, these grants had impact beyond the organization - thus strengthening a larger community. While these grants could be seen to further the Foundation's legacy, the Foundation, as a quiet donor, prefers that they be seen as the community and region's legacy. The three grants were to Carnegie Mellon University for their Innovation Ecosystem Strategic Initiative, Innovation Works to create the Riverfront Ventures Fund and Bridgeway Capital to create the Emerging Opportunities Fund. An interesting commonality in all three grants is that, if the funded program is successful, the expended funds will be replenished, thus creating a "living endowment."

In 2014 the Distribution Committee affirmed three simple principles to direct our work over the remaining years. They are called Granny's Rules.

1. Leave it better than we found it.
2. Finish well the things we start.
3. Do not start things we cannot finish well.

As simple as these rules are, there has been some confusion around them. The way they play out are that the Foundation wants to leave Southwestern Pennsylvania better that it was in 1979, that we want to see the work we have been doing with specific organizations through to completion and we do not want

to start work that we cannot finish by **October 2029**. To further refine this, Staff looked at the 945 organizations in Pennsylvania that the McCune Foundation has engaged with since 1979 and pulled out the top 130 grant recipients, based on total dollars. While these organizations represent only 14% of the total organizations, they represent 73% of the total dollars granted. These are the organizations the Foundation knows best and will be focusing on in the remaining years. However, not all organizations on this list will be guaranteed further engagements.

Also in 2014, the Distribution Committee adopted a new mission statement:

*The McCune Foundation supports non-profit organizations that advance the quality of life for the people of Southwestern Pennsylvania by fostering community vitality and economic growth to improve the region for current and future generations.*

This mission statement retains most of the elements of its predecessor so the foundation continues to work in Education, Health and Human Services, Humanities and Civic. However, it does set our focus on southwestern Pennsylvania and encourages us to make grants that will have impact beyond **2029**.

There is a theme that runs through these five actions that needs to be clearly stated. The Distribution Committee's goal is to create, through its grant making, a legacy that serves southwestern Pennsylvania long after the McCune Foundation is gone. While Granny's Rules tell us to complete our work, creating a legacy means we have to do that work in a different manner. This means fewer, larger grants to a limited number of organizations for a limited number of purposes. The result is that many proposals that would have been approved in the past may not receive approval in the future.

### **Phase Two**

While the multi-year payments were being made on the three Big Idea grants, the Distribution Committee and Staff took a two-year hiatus from Big Ideas to measure the success of the three grants and to test the possibility of more. It became obvious to Staff that future Big Idea grants would be harder to identify and would mostly likely come from research hospitals and universities. This would diminish resources for other educational programs and healthcare providers and almost eliminate grants to the other traditional grant categories of the Foundation - Human Services, Humanities and Civic. A strategy needed to be developed that would bring aspects of Big Ideas to small and mid-size organizations.

In 2015, the Foundation adopted the term “Sunset Strategy” to describe our spend down and developed a new grant category called “Clusters.” A Cluster refers to a set of grants to multiple organizations working in a similar space with similar needs and opportunities. Like the Big Idea grants, each grant would be self-sustaining, but Cluster grants can either be focused on organizational or community transformation. Cluster grants can be for any of the following purposes:

1. A significant leave-behind that transforms an organization’s ability to meet its mission.
2. An initiative that positions the organization, and region, to be more competitive.
3. A project that addresses critical community issues in a timely way and has the ability to leverage additional resources.
4. A project that increases the capacity of existing operations and/or programming in a way that is sustainable to the organization after the McCune Foundation investment has run its course.

Clusters already identified include Downtown Arts, Educational Opportunity, Public Amenities and Human Services. The list of Clusters may increase or be refined as our experiences with them grow. It is expected that the final list of Clusters will allow most of the 130 organizations on the Foundation’s list to be engaged at some point. It must be understood that engagements within each Cluster will be made independently from the others and that the full scope of each Cluster will only be revealed when our work within them is finished. Finally, being on the list of 130 organizations does not guarantee a grant will be made.

### **Phase Three**

This phase is undefined and probably represents the adaptations required as each year toward **2029** goes by. We will continue to learn from the Big Idea and Cluster grants. Our traditional grants will continue but quickly be reduced until they represent less than 10% of our total grants. Most of these traditional grants will be used to position organizations so they can qualify for a Sunset grant. We expect that there will be several shocks to the non-profit sector during our remaining time and that short-term needs will have to be addressed. With twelve years remaining, we are at an unusual moment. **October 16, 2029** is now in sight, but much can happen between now and then that will disturb the best of plans.

### **2016 Summary**

In 2016 the McCune Foundation made 132 grants totaling \$27,499,927. This is a spending rate of 8.4% and two more grants than were made in 2015. The Education Program awarded 20 grants totaling \$4,770,000. The Human Services Program awarded 38 grants totaling \$6,258,950. The Humanities Program

awarded 31 grants totaling \$3,674,050. Finally, The Civic Program awarded 37 grants totaling \$12,796,927. The details of each category and all grants are given in the Annual Report found on the Financials tab.

### **Farewells and a Welcome**

In September, Ron Davenport, Jr. rotated off the Distribution Committee after five years of service. As a member of the first class of Community Members on the Committee, Ron demonstrated the ability to blend his understanding of the people and needs of Southwestern Pennsylvania with the history and mission of the McCune Foundation. Ron was one of those committee members who spoke only when he had something important to say and often forced us to test the unconventional. These are rare qualities and he will be greatly missed.

At the end of September, Henry S. Beukema retired as the McCune Foundation's Executive Director – a position he had held since coming to the Foundation in 1992. He brought with him organizational experience from his service in the Navy, administrative experience from his time in the Chancellor's office at the University of Pittsburgh and twelve years of grantmaking experience at a major family foundation in Pittsburgh. Henry restructured a confused community development program and we can now point to many successful projects around Pittsburgh that the Foundation participated in. Henry took a foundation known mostly for its grants in support of capital campaigns and turned it into one with many diversified programs, including capacity building and organizational development in non-profits. He also led the Foundation as it developed a focus on programs designed to improve business expansion and economic vitality in the technology and biomedical sectors.

This is a list of some of what Henry did as Executive Director. It is important to highlight how he did it. Working much in the style of Charles McCune, Henry has a style of dealing with people, and with challenges, which would be described as purposeful, simple, and direct. Henry also shared Mr. McCune's devotion to southwestern Pennsylvania. Many friendships grew from his interaction with grant seekers. Henry worked hard with staff to properly train them and many of his Program Officers have gone on to leadership positions at other foundations. Finally, Henry had an innate understanding of how an executive director can support a governing board in order to get their best effort. The Second Era at the McCune Foundation is over.

The Third Era is beginning as we welcome Laurel S. Randi as the McCune Foundation's new Executive Director. Laurel came to the Foundation in 2006 after working for over nine years at The Pittsburgh Project. While her specialty at the Foundation is in Community Development, Laurel has been trained as a generalist, like all our Program Officers. Henry and Laurel have worked for six months to ensure that the transition in leadership will be a smooth one. Laurel

has been instrumental in developing the Sunset Strategy and is perfectly situated to lead the Foundation to its termination in **2029**.

Michael M. Edwards  
Chair – Distribution Committee