

CHAIRMAN'S STATEMENT – 2021

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.

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. His life was spent providing capital to people with good ideas and the ability to execute them.

Charles McCune also 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. He left us a legacy less of what to do, and more of how to do it. As those who knew him will attest, his style of dealing with people and with challenges would be described as purposeful, simple, and direct. The Foundation he created continues to provide capital to people with good ideas and the ability to execute them.

In the McCune Foundation's establishing document Mr. McCune required that all the assets of the Foundation be paid out in grants by October 16, 2029, and the Foundation cease operation on that date. The 2016 Chairman's Statement gave a history of the major decisions the Distribution Committee has made to meet this requirement. Our commitment to the Sunset Strategy was made fully apparent in 2017. While our work continues in Education, Health and Human Services, Humanities and Economic Development, we no longer organize our grantmaking around these categories. Now, our Sunset Grants deal with Big Ideas, Sunset Clusters, Concept Testing, Readiness and Ending Well with each being described in the Annual Report.

In 2021 the Distribution Committee approved 138 new and conditional grants totaling \$38,279,015. The 2021 Annual Report lists these grants. Over 49% of all our grants made this year were dedicated to the Sunset Strategy but, more importantly, over 87% of all dollars granted were dedicated to the Sunset. The spending rate this year was 12.58% of invested assets.

It is worth highlighting that the Foundation continued its COVID-19 Special Relief grants program by making thirty-three grants totaling \$4,232,000. This brings the total effort by the Foundation since the beginning of the pandemic to ninety grants totaling \$12,467,000. Staff is now finding that all grant requests reflect the impact of COVID so, while we are still dealing with the pandemic, it is unlikely that we will segregate this category going forward.

Originally, one of the Distribution Committee's goals was to create a "Constant Stream" grants budget to keep our staffing requirements steady throughout the Spend Down.

2018's Chairman's Statement explained how the strong investment markets are forcing us to break from this plan and adopt a gentle parabolic curve instead of the "Constant Stream." This trend continues into 2021-22 with an anticipated Grants Budget of \$48,000,000.

Capitalization

These Chairman's Statements have chronicled the many decisions and strategies we have developed, from large to small, to create our Sunset Strategy as it stands now. We started with "support non-profits in Southwestern Pennsylvania" to "leave things better than we found them" to "be transformational to organizations" and so on. Being transformational lived in our Big Ideas, which we originally thought would be the primary tool to meet the spend down requirements. Previous Chairman's Statements have described that we took a hiatus after our first three Big Idea grants to evaluate the concept. The primary lesson we learned was that Big Ideas would most likely be generated by large, asset-heavy organizations. It was apparent that we needed to develop an additional strategy for the Spend Down that would allow us to engage the breadth of the Foundation's historic partners. The result was our "Cluster" approach, which looked for common needs among organizations with similar missions. This search for commonality coincided with our introduction to a new way of looking at supporting non-profit financial health - Capitalization.

Capitalization has always been an element of the work of all foundations. It began to be a strong focus for the McCune Foundation when staff attended a Grantmakers for the Arts presentation on capitalization in 2014. What was learned was compelling because it presented a new way of thinking how to best engage a wide range of organizations and create a better framework and strategies to support their capacity and financial health. A year later the Foundation partnered with other funders to launch the Arts Capitalization Pilot. This Pilot showed us how the same principles, applied to different organizations, could strengthen each of them. From there this thinking has been integrated into much of our grantmaking by Readiness Grants, Ending Well Grants, and Sunset Grants dedicated to capitalization.

The original presentation in 2014 was developed by Rebecca Thomas, who was, at that time, at the Nonprofit Finance Fund. Their thinking, put simply, runs like this. Non-profits range from those that run yearly deficits, to those that break even, to those that consistently have surpluses due to strong business models. There are also those that have an abundance of assets, in the form of land, buildings or a special collection that may, or may not, run surpluses. Each of these have different capital needs and identifying where those needs are is critical to success. Non-profits that run yearly deficits benefit from capital that eliminates their debts or pays bills, but capital is best spent improving their business models. Non-profits that break-even can benefit from capital that manages their cash flow, cushions setbacks, or allows them to pursue revenue opportunities. Non-profits that run annual surpluses benefit from capital that allows them to pursue new strategies that allow for growth and building assets for long-term risk taking. Non-profits heavy with physical assets benefit from capital that helps them preserve those assets or capital that

allows them to invest in innovation to their business model. These are several of the many ways a Capitalization framework can be applied to non-profits.

Capitalization done properly requires a great deal of focused work. To be successful, our staff must listen, question, analyze, plan and test to a level similar to our work on the Big Ideas. The target of each investment requires the same institutional buy-in as Big Ideas and the resulting grant can be as transformational. While the benefit of such an investment is not as explicitly transformational to the community, it will allow the organization to continue to provide quality services with even greater impact to that community hopefully for many years.

This year the McCune Foundation's focus on Capitalization resulted in 28 Capitalization grants totaling almost \$13 million. While these grants are not listed as a separate category in the Annual Report, the purposes for each grant give an indication if the target was capitalization. There are two grants that demonstrate the concept and confirm this Foundation's commitment to capitalization. The first is a \$3,150,000 grant to the Pittsburgh Community Broadcasting Corporation to endow a fund intended to boost its fundraising efforts and membership revenues. The other grant is to The Phipps Conservatory and Botanical Gardens for \$3,000,000 to create a hybrid New Exhibit Fund to provide flexible capital to support special exhibits and programming that will hopefully increase attendance and revenue.

Soon after our initial forays into Capitalization, it became apparent that many organizations need to develop clearer policies around reserve funds or to bolster their capacity in endowment management. Staff now works hard with applicants to be sure that clear policies around reserve funds and endowments are in place before a grant is approved. Also, the Foundation engaged Kevin Gieder and John O'Halloran to develop an educational curriculum and series around investment management. For efficiency's sake this was originally to be presented in groups, but COVID has forced Kevin and John to work with organizations one-on-one for the past two years.

Last year the Foundation re-engaged Rebecca Thomas and Associates to interview ten capitalization grant recipients. Their charge was to determine what progress can be attributed to the grant, if the organization has a new approach to managing and governing for financial health, if the grant affected their approach to COVID and if new sources of funding had been leveraged by the grant. While the responses were mostly positive, there was unevenness in some grantees progress toward sustainability. We have more work to do to strengthen this program by improving our communications, providing additional resources for leadership and financial capacity development, and addressing the tension between stewarding the newly gained funds and putting them to work to benefit the organization and the people it serves.

As appropriate as Capitalization is for sunset foundations like McCune, it creates its own tension for us. The McCune Foundation has always tried not to be prescriptive. We support people that have good ideas and the ability to execute them. We do not develop

good ideas ourselves and find people to execute them. Successful programs come when organizations are in the driver's seat and have the capacity to execute. That is why our program officers are generalists. Capitalization done well means looking deeper into an organization and being sure an ethos exists where a Capitalization grant will be very effective. It would be easy to become prescriptive in this work. Avoiding it will require identifying when to encourage a full and deep capitalization strategy versus identifying one or two areas where financial health can be improved. We may speak more on this in the future.

At some point every grantmaker wonders when a grant should be denied because the applicant either does not generate enough funds to be successful or it has such an overabundance of funds that a grant would be meaningless. Capitalization answers this dilemma. Every non-profit is worthy of a grant if the funds are properly applied. Our mission statement charges us with improving the lives of the people of Southwestern Pennsylvania. One way to achieve this by assuring the area's non-profits are well capitalized so they can continue providing quality services to current and future generations.

Farewell

When Jim McDonald joined the Distribution Committee over six years ago, he brought a lifetime's experience of grantmaking with him. During those years it has been rare when he did not know someone at our site visits and rarer still when he was unfamiliar with a grant applicant and its programs. This has made him an invaluable member of our committee and we regret that his term is ending.

I learned something important while working with Jim that is worth mentioning. Early on it was clear to me that effective and committed grantmakers always bring either a critical mind or a kind heart to the work. Put simply, hearts are motivated by seeing the faces of the people being served by an organization while minds explore the organization's operations. Jim brings **both** his heart and his mind to our work. This is a very rare gift, and we are grateful that he shared it with us.

Michael M. Edwards
Chairman