



A program to keep rural elderly people safe in their homes "would have been lost" without a loan, said Ann Monroe, president of the Community Health Foundation.

Sharon Cantillon / Buffalo News

Foundations offer loans as a way to help nonprofits

Low-interest tool stretches use of money

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A \$650,000 check in 2008 from the Community Health Foundation of Western and Central New York for a new program to assist the frail elderly in Cattaraugus County came with a caveat: Trustees of the foundation wanted the money back, with interest.

A single grant of that size was beyond the capacity of the foundation, so trustees decided instead to make it a loan.

The money allowed Community Care of Western New York to launch a program that will keep more than 200 rural elderly people safely in their homes. Without it, the project probably would have stalled.

"It would not have opened without us, and what is a really promising model for elder care in a rural community would have been lost," said Ann Monroe, foundation president.

Increasingly, foundations in Western New York and across the country are turning to loans, loan guarantees and other measures as a way to aid needy nonprofit organizations without giving away the store.

The John R. Oishei Foundation, the area's largest private foundation, currently has more than \$12 million — nearly 4 percent of its \$280 million asset base — being used in this fashion. And at least two other local foundations, the Margaret L. Wendt Foundation and the Joy Family Foundation, have experimented with alternative financing.

Known as "program-related investments," or more popularly "PRIs," the loans and loan guarantees are serving a dual purpose for foundations hammered by stock market losses in 2008.

PRIs, like grants, put money toward projects that might not otherwise get off the ground.

But unlike grants, they also generate income with relatively small risk — research by FSG Social Impact Advisers in Boston found that 96 percent of foundation loans over the past 40 years had been repaid — allowing foundations potentially to fund other nonprofit work.

"Foundation endowments aren't as big as they used to be," noted Monroe. "That money gets to work more than once in a community."

"A terrific tool'

The Internal Revenue Service requires that private foundations annually pay out at least 5 percent of the market value of their assets, as averaged over a 12-month period. Most foundations adhere closely to the 5 percent minimum payout.

In a bull market, foundations usually are able to meet the IRS requirement through their earnings, while building larger endowments that can lead to more grantmaking.

However, when assets fall, in order to survive long term, foundations typically give less.

PRIs enable them to use more than 5 percent of their worth — something that watchdogs have been pushing the grantmaking community to do for years — without diminishing assets.

"Why devote only 5 percent and ignore the power of the other 95 percent?" said Aaron Dorfman, executive director of the National Committee for Responsive Philanthropy.

When done well, PRIs are "a terrific tool to accomplish important and legitimate charitable purposes," said Dorfman.

But PRIs require plenty of attention and shouldn't be approached casually, he added.

They also have added legal and administrative costs associated with them, said Robert D. Gioia, president of the Oishei Foundation, which has done about a dozen PRIs over the past five years.

"They're another tool in our basket of philanthropy," said Gioia.

Those PRIs have included outright loans to organizations such as the Buffalo Niagara Medical Campus, Upstate New York Transplant Services and Artspace Buffalo, the Main Street lofts project designed as affordable housing, work space and commercial space for local artists. They also have included loan guarantees for the Darwin Martin House and the Roycroft Campus in East Aurora.

"It enables us to be a lot more flexible, and in some cases, enables us to put more money to work in the community," said Gioia.

Meals on Wheels for Western New York approached Oishei trustees in 2008 about making a \$1.2 million grant toward the construction of a new commissary.

The foundation had provided operating money in the past for Meals on Wheels, which serves more than a million meals a year, and was sympathetic to the need.

But Oishei trustees were watching the stock market free fall take a huge chunk from the foundation's asset base, while also trying to accommodate a growing list of worthwhile projects in Western New York.

So they responded with another idea: Instead of a gift, what about a low-interest loan?

Oishei offered terms Meals on Wheels couldn't refuse — three years with no interest and an annual rate of 3 percent after that, payable over 10 years.

"It was obviously better than we could find at any financial institution," said Benjamin A. Gair III, Meals on Wheels chief executive officer.

Gair acknowledged that his agency would have preferred an outright grant, and he holds some hope that Oishei trustees might yet convert the loan to a grant.

But, he added, "without their investment, we couldn't have gotten this project done. That's the reality of it."

The \$7.5 million facility opened last September.

Taking a big plunge

Gioia said Meals on Wheels generates enough revenue to be able to repay the loan, whereas some nonprofit organizations aren't capable of creating revenue at all and thus wouldn't be good candidates for PRIs.

Community Care, which operates under the name HomeCare and Hospice in Olean, was on a tight deadline in 2008 when the foundation stepped in with the loan, which defers payments for 34 months and allows the agency seven years to repay, at 4 percent interest.

If the agency hadn't received the financing, it likely would have lost a \$500,000 federal grant and ended any hopes for creating a day center where nursing home-eligible senior citizens can receive medical care and other services, while still living full time at home.

"These are frail folks," said Carol Mahoney, chief executive officer of Community Care. "Everybody wants to be at home if they can be. That's the ideal place."

The Wendt Foundation took the biggest plunge so far, lending \$8 million toward the \$12 million restoration of the long-suffering southeast corner of Genesee and Oak streets.

The vacant buildings at that corner had become a "kind of symbol of Buffalo's decline," said Doug Swift, principal of Genesee Gateway LLC,

the development company that is partnering with the foundation on the effort.

The foundation recognized the importance of the block as an icon of Buffalo's history, said Swift.

The trustees also understood that reviving the corner, which serves as a primary entry point into downtown, provides an opportunity to showcase Buffalo's potential going forward, he said. Work is scheduled to be completed in August.

The Wendt Foundation, though, won't be repaid for years to come — one of the reasons why developers would not have been able to find conventional financing for the project, said Swift, who declined to specify the exact terms of the loan arrangement.

"They're allowing the building to mature and pay for itself over time," he said. "It's a calculated risk. We've got a good feel for the market, and the location is spectacular."

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