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Conflict, Consensus, and Competence

Within weeks of the 2011 swearing-in of Scott Walker as governor of Wisconsin, his state fell into political pandemonium. Noisy protesters descended on the state capital, banging drums and roaring through bullhorns all day long, waving signs that compared Walker to Darth Vader and even Adolf Hitler. Both the rotunda and the grounds outside were occupied for weeks by camped-out activists. The effort was organized by public-employee unions.

The opponents gathered to denounce Walker's budget bill, which tried to close a \$3.6-billion budget gap by trimming the pension benefits and collective-bargaining powers of government workers. The political battle turned so spiteful that Democratic lawmakers went on the lam, fleeing to Illinois so that their own legislature would fail to achieve quorum. When it was all over, Walker and his budget bill had survived, but the costs of the battle were high.

Legislators of both parties faced recall attempts. There were lawsuits and counterlawsuits. Walker was forced to run again in a recall election, having to re-defeat the candidate he had beaten only 19 months earlier. By one estimate, the two sides spent more than \$60 million on this battle of wills.

Wisconsin was one of the first states to grapple with a serious problem that gravely threatens scores of states and municipalities: the inability of government to keep the budget-crushing promises it has made to public-sector workers and retirees. When Walker took on that dilemma



Intensely personal attacks on my philanthropy, wrote John Arnold, will not deter me.

frontally, public life in Wisconsin turned into a series of mad dashes from costly crisis to costly crisis. Would states like Illinois, Michigan, and California have to endure the same travails as Wisconsin in order to slay their gigantic pension dragons? Or could there be a smarter solution?

Laura and John Arnold, philanthropists based in Houston, have made it one of the highest priorities of their giving to help solve the pension crisis with as little collateral damage as possible. They agree with Governor Walker's premise that unsustainable public-pension growth is one of the gravest threats to governance today. "The economic and social costs of this looming crisis are potentially crippling to our nation," warns the Arnold Foundation website.

Despite the high stakes, though, the Arnolds believe states and municipalities can solve this problem without all the anguish Wisconsin recently went through. They have launched a major effort that provides research, technical advice, and political and communications support to government leaders who want to tame their pension and benefit budgets.

If the Arnolds succeed in this effort, they will demonstrate the tremendous potential of philanthropy to fix some of America's most vexing public-policy problems.

Their initial results are encouraging. On the same day that Scott Walker won his recall, two local elections in California quietly illustrated a less contentious way of achieving much the same result. With help from Laura and John Arnold and the Arnold Foundation, large majorities of voters in San Diego and San Jose, California, approved ballot measures to trim their pension commitments to municipal employees.

In San Diego, a city of 1.3 million residents, voters reacted against a system that had allowed librarians, for instance, to go into their golden years with annual pensions of \$227,000. To pay for these eye-popping expenses the city had been hoarding money by shutting down fire stations on a rotating basis. As an alternative, two thirds of voters opted to freeze pay and create a new retirement plan for city workers.

In San Jose, fully 69 percent of voters backed a plan to make municipal employees pay for more of their benefits. Studies had shown that every household in San Jose owed \$11,000 merely to cover the unfunded cost of public pensions. To allow taxpayers a bit of fiscal room so they could begin to grapple with unfunded obligations that had swelled to \$245 million (more than triple what they were just a decade earlier), current city workers were asked to cover a larger share of their own retirement costs.

Both of these referendums in California had hot detractors, but neither generated quite the meltdown that had resulted in Wisconsin. The major difference was that in the two California cities reformers managed to get Democrats involved in solving the problem, including San Jose Mayor Chuck Reed. "Insolvent retirement plans threaten to fiscally implode hundreds of municipal and state governments into irrelevance," wrote Sam Liccardo, then a member of San Jose's city council, now the mayor. "Although conservatives have long called for pension and arbitration reform, I supported these measures not in spite of my progressive views, but because of them. Progressive advocacy for affordable housing, environmental stewardship, marriage equality, and immigrant rights doesn't preclude the pragmatic pursuit of fiscal reform."

Helping politicians and voters understand the pension predicaments in San Diego and San Jose, and showing that the problem could be solved with firm action now, before deficits accumulated into a Detroit-style bankruptcy, was the work of an assortment of

nonprofits, including the California Foundation for Fiscal Responsibility, and California Pension Reform. And powering these groups were public-policy philanthropists. Though operating out of the limelight, on a mostly educational basis, these grantmakers gave crucial boosts to reform and innovation.

Laura and John Arnold, the husband-and-wife team from Texas, were two of the most important donors behind the successful pension reforms in San Diego and San Jose. “The Arnold Foundation really got us going,” says Marcia Fritz of the California Foundation for Fiscal Responsibility, which produced studies and hosted workshops for elected officials around the state. “It’s such a wonderful foundation. The grant gave us validity, let us perform the public education that needed to happen, and helped us fundraise with other potential supporters.”

Many philanthropists begin their major giving toward the end of their life. Not the Arnolds. In 2012, when he was just 38, John Arnold announced he was closing the hedge fund he created. Only people who wear numbers on their backs are supposed to retire so young, joked the *Houston Chronicle*. John said he was not actually retiring, just changing careers. With Laura, a former energy lawyer, he promised to work hard giving away a fortune estimated at more than \$3 billion.

“I was more excited by working at the foundation, coming up with effective ways of creating change and solving problems,” he explained. Many of the problems this young couple wants to solve are problems of public policy, in areas such as pensions, education, and criminal justice. “The mission is to change the country,” says Laura.

Change for the better will require improvements in public accountability, according to the Arnolds. Confronting today’s unsustainable commitments on public-employee benefits and pensions is their top current priority. This effort may not be glamorous, but governments won’t be stable in the future if it is left unsolved. Research done jointly by the Arnold Foundation and the Pew Center on the States finds that the total shortfall in unfunded benefits promised to government workers by states and cities is now approaching \$2 trillion.

The Arnolds hired economics Ph.D. Josh McGee to conduct background research on the pension mess. The foundation began to propose solutions, and educate the public. Separately, the Arnolds started the Action Now Initiative, a 501(c)(4) organization that funds local groups willing to advocate for measures like the San Diego and San Jose ballot initiatives.

The Arnolds have already tasted success not just in those two California cities, but also in Rhode Island, where Democratic state Treasurer (now Governor) Gina Raimondo pushed pension reform through the state legislature with a range of support from the Arnolds. They also aided the successful 2010 pension reform in Utah, and have joined forces with the field-general of that battle, former state senator Dan Liljenquist, sending him around the country under the aegis of the Action Now Initiative to share the lessons learned. The couple hope to repeat these successes in other jurisdictions, defusing public-pension bombs across the country well before they lead to political explosions like in Wisconsin or economic meltdowns as in Detroit.

Their campaign is difficult to pigeonhole politically. The Arnolds themselves have donated generously to Barack Obama. Yet the president of their foundation, Denis Calabrese, was chief-of-staff to former Congressman Dick Armey, a conservative and Tea Party favorite. With pension reform, they have adopted a cause that is frequently identified with Republicans. Yet they have demonstrated clear success in working with Democrats in a variety of cities and states.

However they are labeled, Laura and John Arnold have chosen to take on some of the most intractable problems facing America. Only time will tell if their accomplishments match their ambitions; many donors have failed at public-policy philanthropy. To date, though, the couple are showing a willingness to persevere even in the face of blowback.

In a 2014 *Chronicle of Philanthropy* article entitled “Attacks and Vitriol Will Not Deter Me From Supporting Fixes to Public Policy,” John Arnold reported that “In recent months, I have endured a number of intensely personal public attacks on my philanthropy—including lies... selective reporting...and juvenile insults.” These criticisms, he noted, “have the clear objective of intimidating me into standing down.” Saying “we will not be deterred,” however, he insisted that his foundation will continue to weigh in on public issues, as a balance to selfish special interests. Reforming or removing “policies that do not work for anyone other than the few who continue to gain from them at the expense of the rest of society” would be his public contribution as a philanthropist.

Policy Player Profile

TOM CARROLL

Thomas Carroll is a public-policy marathoner. At New York's Foundation for Opportunity in Education he helps connect donors with alternative schools, nonprofit reformers, and needy students. When New York passed a groundbreaking law in 1998 allowing a limited number of charter schools across the state, he knew the fight for education reform was just beginning.

He was right. As charter schools began to take root in central Brooklyn, Harlem, Albany, and Buffalo, policy battles increased. "There was political pushback from the teacher unions and local school boards that were affected."

The introduction of legislation to cap the growth of charter schools caused reformists to rally their troops. "It was the beginning of a more aggressive advocacy phase. Charter-school advocates had to create a permanent policy and political presence within New York. The value of relationships in politics is paramount. Someone who shows up on an issue for the first time and expects to compete against teacher unions or any organized lobby is at an extreme disadvantage."

"So once the charter-school law was adopted, we didn't pop champagne corks and think it was over, but rather set up a series of ongoing nonprofit organizations funded by donors to handle the intellectual, policy, advocacy, and political side of advancing charter schools. Some of the charter networks looked at politics with great disdain. But as they started to suffer some of the indignities of the political process, they became more active."

"Over the last 15 years, it has become much more of a fair policy fight. There is now a pretty substantial set of education-policy donors in the state that, depending on the year, can match or exceed what the teacher unions spend. Because of that, there are mature advocacy organizations, getting more sophisticated every year, working to make our state's education policy more innovative. Donors no longer view it as, 'Oh, we just have to do this for a couple of years and then we can move on.' They see that there has to be a permanent ongoing effort funded at a fairly substantial level."

"There needs to be a broad constituency behind education reform. In New York, charter schools came in under a Republican governor, and there

have been three Democratic governors since. We still had growth in charter schools, because great care was taken to make sure that the movement was perceived as a bipartisan effort benefitting children statewide.”

“For my current work on behalf of a tax credit for donations that allow children to attend a school of their choice, I’m pulling together a coalition that’s very broad. We have more than 80 community groups including the Brooklyn NAACP, the Urban League in Buffalo, the New York City Hispanic Chamber of Commerce, and more than 20 labor unions. The religious coalition includes the Catholic Church, Orthodox Jews, evangelical Christians, and Muslims. We joke when we have meetings that nobody is allowed to talk about any other issue, or the room could descend into a bar brawl. But this is one issue that everybody comes together on.” (In his 2015 State of the State Address, New York’s Democratic Governor Andrew Cuomo expressed support for Carroll’s education tax credit.)

It takes patient donors to build these kinds of coalitions. “Michael Bloomberg, as the largest philanthropist in New York City, used to annually convene New York’s top politics and policy donors, of both parties, and give them a little printed card of what he viewed as the top five priorities. Charter schools were always on the list. He would educate the donors that whenever you’re raising money for any politician in New York, you need to ask them about these five issues.”

“The biggest mistake donors make in this area is an assumption that politics is linear and predictable. Politics works in a zig-zaggy way. Donors, like all people, want instant gratification. We need patience. The charter-school law had three defeats before final approval. We’re now in a phase, with a New York City mayor who’s hostile to education reform, where a lot of political slugging is going to go on for a long time.”

“That means people have to make donations with more risk. Giving on the other side of the mayor is an uncomfortable place for a lot of business people in New York. In New York, 501(c)(4) donors can be publicly disclosed, unlike the rest of the country, so there are no quiet checks. It’s out in the open, so people have to get over being timid about controversy. They have to realize that’s the price of moving forward on reform.”

“On any public-policy issue where you have a well-financed, determined opponent with political capacity, 501(c)(3) charitable activities alone are simply not going to be enough. Donors who want to be successful policy advocates have to be willing to get engaged in politics, and be comfortable

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with a high level of uncertainty and risk. Some people just don't have the stomach for it."

"A tremendously high percentage of charitable giving on education reform currently goes to things like setting up charter schools or paying private-school tuitions for poor kids. A relatively small percentage goes to advocacy. I think the ratio needs to be rebalanced a bit. I think givers of charity should focus somewhat more on changing the policy environment in which district schools, charter schools, and private schools operate."

FRED KLIPSCH

“You know what’s unacceptable?” says Fred Klipsch. “It’s unacceptable that kids from poor families or living in the wrong zip codes don’t get educated. We’ve known about this problem for decades but we’ve decided not to talk much about it.”

Klipsch is an ideal figure to raise the volume on such conversations: His name is linked to the speaker company whose products are found in everything from miniature earbuds to massive home-theater systems. And his home state of Indiana has become a national leader in educational innovation partly because of the loud-and-clear messages that Klipsch has helped introduce into public discussions there.

Klipsch is quick to credit others for the Hoosier State’s successes—former governor Mitch Daniels and former superintendent of public instruction Tony Bennett in particular. But his steady encouragement and support of their work made a crucial difference. And he has devoted the final phase of his career to going beyond talking about the problem of education and actually doing something about it directly, as a public-policy philanthropist.

“I’m a product of public schools,” says Klipsch. “My dad worked in a factory. I went to grade school in the inner city of Indianapolis. I got a good education—this was back in the days when we made sure everybody got a good education.” He graduated from high school in 1959 and went on to Purdue University. “Sometime after that, we let the teacher unions hijack the schools and then take over the state legislature.”

For years, Klipsch paid far more attention to his businesses than to public policy. “I’ve been my own private equity firm for 50 years,” he says with a smile. He bought a handful of nursing homes in the 1970s, and later moved into health-care real estate. In 1989, he purchased a small speaker company owned by a second cousin in Arkansas. It already had the name Klipsch, but Fred moved the firm to Indianapolis and transformed it in just about every other way, pushing it to become the top-selling maker of high-performance speakers in the United States.

In the 1990s, a fellow Indiana businessman approached Klipsch about improving education. The late Pat Rooney ran the Golden Rule Insurance Company. As a philanthropist, he was tireless in creating scholarships to

help low-income students escape failing public schools and attend effective private ones. Klipsch agreed to get involved.

"We raised money and helped kids," says Klipsch. "That felt good." The Educational CHOICE Charitable Trust generated millions of dollars in donations and gave away thousands of annual tuition stipends. Over time, Klipsch succeeded Rooney as chairman of the group, which deliberately stayed out of politics. Over time, however, Klipsch began to sense that scholarships treated a symptom rather than offering a cure.

"I knew we weren't doing enough," he says. "Public education is a state-funded political monopoly. It costs the most and delivers the least. Our best students don't match up with the best students in other countries. Our average students are even worse off, on a relative basis. We've abandoned the concept that teachers are accountable and school boards are responsible. There's no competition."

In 2006, Klipsch became determined to introduce a bit of competition—through the arenas of politics and public policy. He started a pair of nonprofit groups, now called the Institute for Quality Education (concentrating on policy development) and Hoosiers for Quality Education (focused on politics and elections). Philanthropists who want to shake up dysfunctional public institutions and policies cannot ignore the rough and tumble of politics, Klipsch insists. "A policy arm without a political arm will fail," he says.

When Klipsch leapt into the politics of education in 2006, Democrats controlled Indiana's general assembly. Within four years, the GOP captured a majority—and later it went on to win a supermajority. Collaborating with Governor Daniels and Superintendent Bennett, Republicans then pushed through a series of major reforms, including merit pay for teachers, charter-school expansion, and tax credits for donors of scholarships. By 2014, Indiana was sponsoring the country's second-largest school voucher program, allowing nearly 20,000 students to attend private schools rather than failed public alternatives.

"You need to focus on politics, but you can't overlook policy," says Klipsch. Coming up with good ideas is essential. So is excellent communication. "We don't talk about 'reform,'" says Klipsch. "In the science of messaging, that's a negative word. Teachers hear it and think we want to put them out of their jobs. That's not the case. We try to promote what works, and we talk about providing a quality education."

That's what most teachers want as well, even if their union leaders make it appear otherwise."

After developing, marketing, and enacting new policy ideas, there comes the essential implementation. "Once policies are in place, you have to help with their execution," Klipsch notes. Just because a state sponsors vouchers doesn't mean that families will realize they're available—especially if officials aren't committed to a program's success. "So you may have to make sure families know that they're eligible to take advantage. You can't leave this up to the politicians. Once they enact a policy, they move on. The successful execution will come back to you."

It may seem like the struggle never ends—and that's correct, Klipsch warns. There's always a new challenge: "This effort will take a couple of decades, not a couple of years. It's a hard journey. You can't just wave a magic wand and solve all problems."

Klipsch continues to donate generously to the groups he oversees. He also seeks allies, fundraising among successful men and women who share the vision of Indiana as a blazer of new paths to educational excellence. "I go after major givers," he says. "Most of my donors are successful businessmen. About 60 percent of our budget comes from 20 to 25 individuals."

Motivating fellow donors, he says, involves repeating a version of the argument that inspired him to become a public-policy philanthropist. "Our society allows a lot of students not to get educated and says it's okay. But if you see a bus hit a lady in the street, and then walk around without helping her—maybe you bear some responsibility for her death," he says. "That's how we should think about public education. And those in a position to become philanthropists in this area need to become leaders. People say they can't do anything to fix public education, but that's just wrong."