



COMMUNITY FOUNDATION USE OF DAFs IN CALIFORNIA: PAYOUTS, FLOW RATES, AND INACTIVITY POLICIES

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NOVEMBER 2023

Donor-advised funds (DAFs) have emerged as a popular philanthropic tool, providing donors with flexibility, ease of use, and accessibility in their charitable giving. Prior research on DAF trends tend to find average payout rates above 20 percent, while median payout rates are typically around 13 percent (Heist and Vance-McMullen, 2019).¹ For example, the 2022 National Philanthropic Trust annual report on DAFs found the average DAF payout rate to be 27.3 percent in 2021, with a total of almost \$46 billion being granted to charities that year.²

In California, the use of DAFs has garnered attention due to limited available data on the subject. However, a new analysis of data from twenty-two of the largest community foundations in the state sheds light on the widespread adoption and diverse practices of DAF usage. This report analyzes the findings of this analysis to provide valuable insights into the landscape of community foundation use of DAFs in California.

Using the latest available data (fiscal years 2021 and 2022) on 990 filings, we examined twenty-two large community foundations in California, which collectively represent over 90 percent of all community foundation assets in the state. Among

1 Heist, H. D., and Danielle Vance-McMullen. "Understanding Donor-Advised Funds: How Grants Flow During Recessions." *Nonprofit and Voluntary Sector Quarterly* 48, no. 5 (2019), 1066-1093.

2 The 2022 DAF Report. National Philanthropic Trust, December 22, 2022. <https://www.nptrust.org/reports/daf-report/>.

these foundations, the number of DAF accounts exceeded 6,600, with \$16.7 billion of assets. This substantial figure indicates DAFs have become a popular and significant mechanism for charitable giving and fund management among private foundations in California.

THE IMPACT OF DONOR-ADVISED FUNDS AT COMMUNITY FOUNDATIONS

Charitable donors Thurman and Eileen White, originally from Oklahoma, exemplify how DAFs can foster positive change in communities. Through their DAF, they made substantial investments in Raising A Reader, an organization dedicated to promoting childhood literacy and instilling a love for reading at an early age.³ By partnering with the Silicon Valley Community Foundation, the couple successfully introduced Raising A Reader's programs to Oklahoma City public schools, benefiting 1,100 children from pre-K to second grade.

In a different domain, the San Francisco Foundation witnessed the profound impact of Kathryn Riddell's philanthropy.⁴ Prior to her passing, she established a DAF account with the foundation to provide Bay Area children with opportunities to engage in environmental education programs. Her vision now empowers over 7,200 students annually, allowing them to experience the wonders of nature through outdoor activities and educational initiatives.

The Sacramento Region Community Foundation experienced the heartwarming story of Nancy Fisher. Inspired by the plight of homeless seniors, she established a DAF in memory of her late husband.⁵ Through her DAF, Fisher now supports organizations dedicated to enhancing the comfort, health, and safety of the elderly, championing a cause often overlooked in society. Thanks to the Nancy and Hank Fisher Senior Initiatives, funds have been granted to several organizations that provide specialized services for seniors, who might otherwise not have access to such specialized care.

These examples highlight the versatility and positive influence DAFs can have in making a difference in diverse areas of need. They enable individuals with philanthropic aspirations to contribute significantly to causes they deeply care about, leaving a lasting legacy for generations to come. These stories serve as inspiring models for leveraging DAFs to create a meaningful impact and bring about positive change in our communities.

3 "SVCF DAF Creates Exponential Impact in Donor's Home State and Beyond." Silicon Valley Community Foundation (blog). January 4, 2022. <https://www.siliconvalleycf.org/about/news-media/blog/svcf-daf-creates-exponential-impact-donors-home-state-and-beyond>.

4 "The Donor Experience." The San Francisco Foundation. Last modified March 21, 2022. <https://sff.org/make-an-impact/donor-experience/>.

5 "Nancy and Hank Fisher Senior Initiatives Fund." Sacramento Region Community Foundation - Sacramento Region Community Foundation. <https://www.sacregcf.org/donors/partnering-with-us/fundholder-stories-fund-list/nancy-and-hank-fisher-senior-initiatives-fund/>.

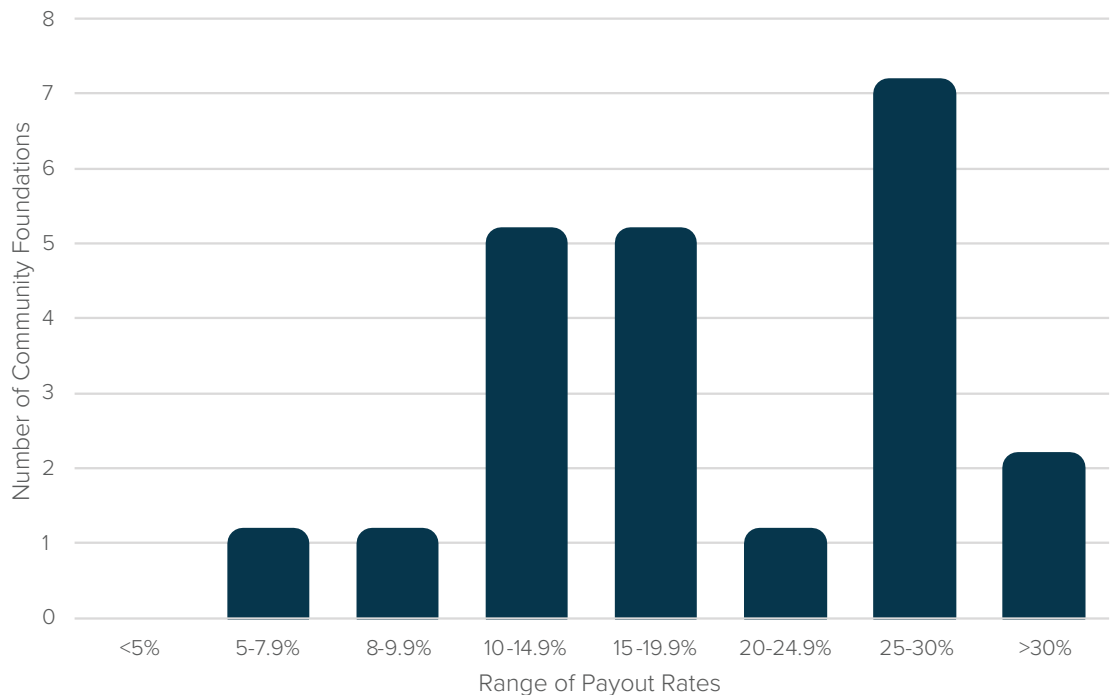
DONOR-ADVISED FUND PAYOUT RATES

One crucial aspect of DAFs is their payout rate, the percentage of DAF assets granted to charitable causes annually. According to the latest data on assets and grants collected from the twenty-two community foundations in California, the average DAF payout rate was 22.1 percent in 2021, with a median payout rate of 19 percent. These figures demonstrate a commitment to regular and generous giving through DAFs in the state.

While the average and median payout rates provide a general overview, the analysis also revealed substantial variability in DAF payout rates among the community foundations. Some foundations exhibited exceptionally high payout rates, reaching up to 70 percent, and showcasing a proactive approach to distributing funds. Conversely, other foundations have payout rates as low as 7 percent, suggesting a use of DAFs as endowment accounts, supporting long-term giving and continued grantmaking.

Figure 1 below shows the distribution of average DAF payout rates among the twenty-two community foundations analyzed. The data reveal a large share of community foundations reported average DAF payout rates between 10 percent and 30 percent. Meanwhile, over 90 percent—or twenty of the twenty-two community foundations—had average DAF payout rates above 10 percent. None of the twenty-two community foundations had DAF payout rates below 5 percent, which is the required annual payout rate for private foundations.

Fig. 1: Distribution of Average DAF Payout Rate

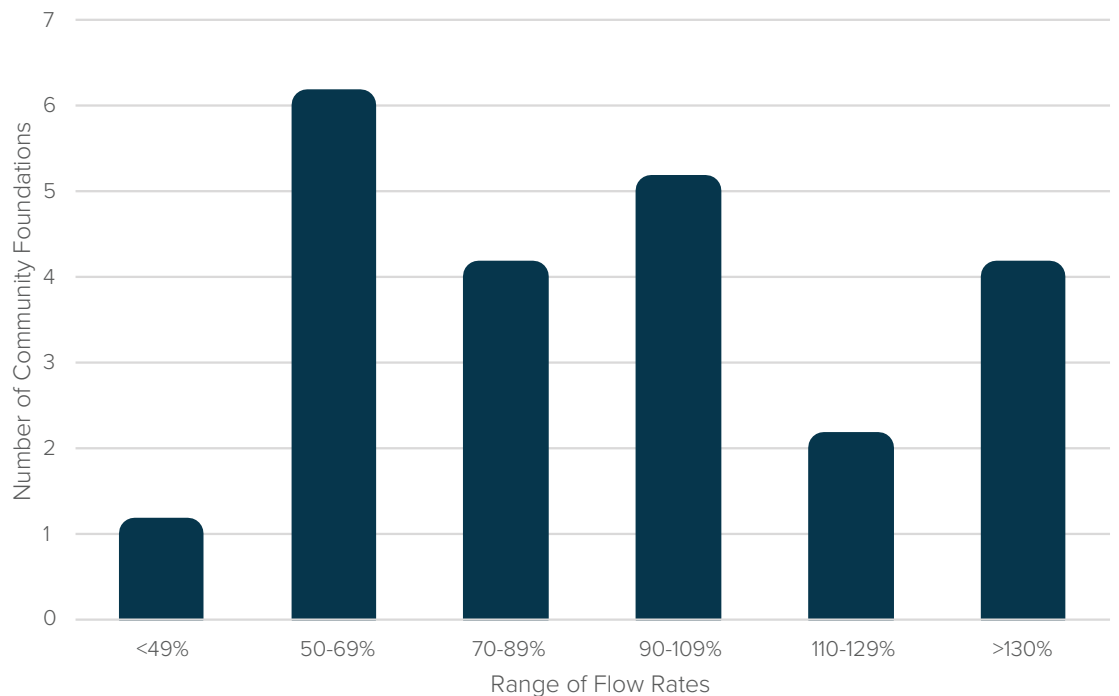


FY2021 and FY2022 data from 22 large community foundations.

Source: Most recently available IRS Form 990s.

Another way to measure payout activity is to review the flow rate of DAF funds among the sample of community foundations. The flow rate is the proportion of grants being paid out by DAF accounts compared to the contributions they receive. Among the sample of twenty-two foundations, the median flow rate was 90 percent, indicating the value of DAF grants paid out was 90 percent of the contributions made to DAFs in the same year. For the full sample of foundation grants and contributions, the pooled flow rate was 96 percent with \$4.72 billion in contributions to DAF accounts and \$4.54 billion in grants made by DAF accounts, representing an almost dollar-for-dollar flow rate. Figure 2 below shows the distribution of flow rates.

Fig. 2: Distribution of DAF Flow Rates



FY2021 and FY2022 data from 22 large community foundations.

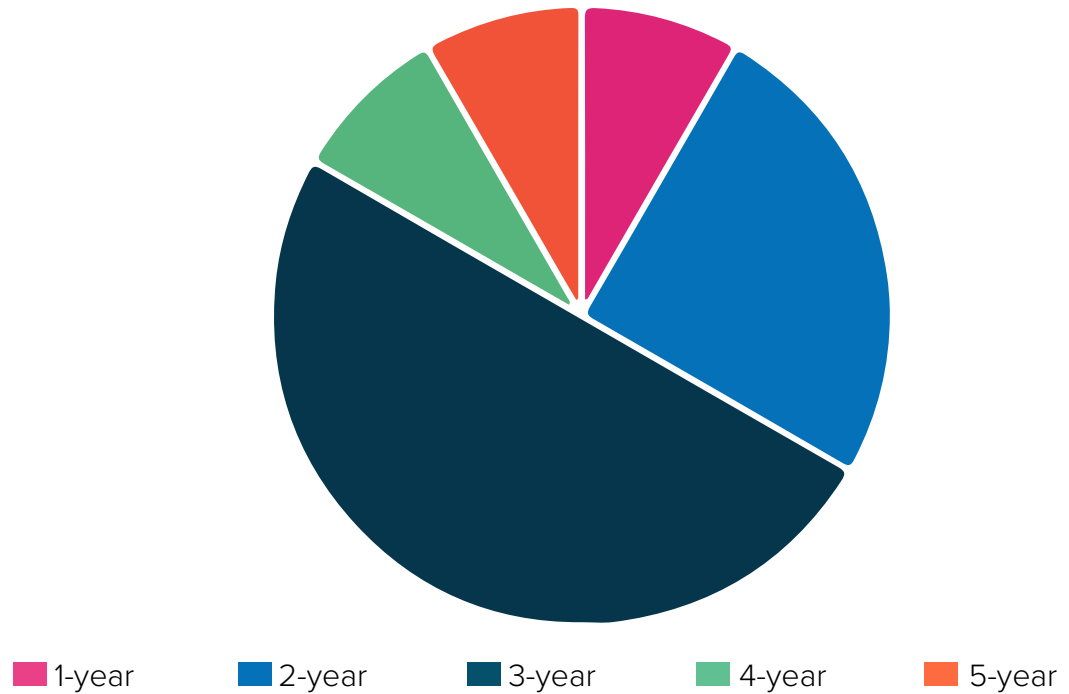
Source: Most recently available IRS Form 990s.

DONOR-ADVISED FUND INACTIVITY POLICIES

To maintain the effectiveness of DAFs, it is essential to consider issues of inactivity. The analysis explored the practices of community foundations concerning DAF accounts that remained dormant for extended periods. Among the foundations that listed their DAF inactivity policies on their websites or responded when asked about their policies, a few distinct approaches emerged. Of the fourteen foundations that responded or publicly listed their policies, 86 percent—or twelve of the fourteen—enforced stringent and well-defined inactivity policies. Only two foundations noted they didn't have an inactivity policy because DAF account payout rates consistently exceed 5 percent. One of those foundations noted it recommends grantmaking of at least 5 percent and is currently looking to establish an inactivity policy in keeping with voluntary industry standards.

1. **Time frames for Inactivity:** One foundation (8 percent) labeled an account inactive if it fails to make a grant after one year, while three foundations (25 percent) made this distinction after two years, six foundations (50 percent) made this distinction after three years, one (8 percent) after four years, and one (8 percent) after five years. This range of time frames (see Fig. 3) highlights the diverse strategies employed by foundations to encourage timely and purposeful grantmaking.

Fig. 3: DAF Inactivity Timeframes



Data from 12 large community foundations.

Source: Foundation websites and responses to Philanthropy Roundtable inquiries.

2. **Remedies for Inactivity:** Inactive accounts spur criticisms of DAFs, but the study unveiled various remedies adopted by foundations to handle such situations.
 - Five foundations made grants on behalf of inactive account holders, ensuring the funds were directed to deserving causes consistent with the donor's intent or prior giving patterns.
 - Two foundations moved the funds to the foundation endowment, preserving the charitable intent but redirecting the assets to support the foundation's long-term sustainability.
 - Five foundations opted to terminate or close the account if inactivity persisted, streamlining their operations, and reallocating the funds to active philanthropic efforts.

COMMUNITY FOUNDATION DONORS ENGAGE IN REGULAR AND GENEROUS GIVING THROUGH DAFs

The data collected from twenty-two major community foundations in California provides valuable insights into the landscape of DAFs in the state. Reviewing the substantial payout rates and flow trends of DAFs at the largest community foundations in California, we can observe how DAFs have become a prominent vehicle for charitable giving among community foundations. The variability in payout rates underscores the diverse approaches taken by foundations in managing their philanthropic assets. Furthermore, the analysis sheds light on how foundations address DAF inactivity, with a range of time frames and remedies aimed at ensuring effective and impactful grantmaking.

As the philanthropic landscape continues to evolve, understanding the dynamics of DAF usage becomes increasingly critical. This analysis serves as a stepping stone for further exploration and encourages ongoing research into grantmaking trends, inactivity policies, and self-regulating industry standards of DAF account activities.



ABOUT THE AUTHOR

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Jack Salmon is the director of Policy Research at Philanthropy Roundtable. In Jack's current role, he supports the Policy and Government Affairs team with research, commentary and analysis on issues facing the charitable sector and philanthropic freedom. His research and commentary have been featured in a variety of outlets, including The Hill, Business Insider, RealClearPolicy and National Review.

Prior to joining the Roundtable, Jack served as program manager and researcher at the Mercatus Center at George Mason University, where he oversaw policy relating to budgets, taxation, institutions and economic growth. Originally from the U.K., Jack graduated from King's College London in 2015 with a Master of Arts in political economy.

ABOUT PHILANTHROPY ROUNDTABLE

Philanthropy Roundtable is a nonprofit organization dedicated to building and sustaining a vibrant American philanthropic movement that strengthens our free society. To achieve this vision, the Roundtable pursues a mission to foster excellence in philanthropy, protect philanthropic freedom and help donors to advance liberty, opportunity and personal responsibility.

