

Prologue

GROWING A FAMILY PHILANTHROPY: 1957 TO 2008

Sooner Rather Than Later

The S. D. Bechtel, Jr. Foundation Spend-down Journey

This narrative summarizes the evolution and work of the Foundation across five decades of grantmaking, culminating with the decision to spend down all assets. It is a prelude to the series of essays chronicling the Foundation's concluding years, 2009 to 2020.



Prologue | A half-century of public good

Stephen D. Bechtel, Jr. established the Foundation in 1957 as a commitment to the prosperity he envisioned for California.

Beginning with a handful of grants for education and local community projects, the Foundation would evolve over five decades to become a sizable, regionally-focused charitable organization. By the 2000s, it was awarding funds in multiple issue areas, including significant support for direct services, research, and capital projects. The practices, experience, and leadership developed across these years would in turn inform the grantmaking program emphases and approaches employed as the Foundation moved to spend down all assets.

Guided by Mr. Bechtel's interests and donations, and with oversight by family members, the Foundation's grantmaking was inherently flexible. This philanthropy was responsive and timely in addressing newfound needs and opportunities. As grantmaking grew, questions about near- and long-term impact increasingly galvanized internal discussions. Mr. Bechtel and the board considered and, in early 2009, adopted a spend-down model – deciding that the Foundation would invest its resources for the betterment of California sooner rather than later.

This prologue to the spend-down years begins with background information on Mr. Bechtel. It then charts the growth of the Foundation's grantmaking and endowment through 2008, and reports on the considerations and process that led to the spend-down decision. An appendix overviews the Foundation's interests and activities by decade.

Stephen D. Bechtel, Jr.

BUSINESSMAN AND PHILANTHROPIST

Foundation board member John Weiser prepared this personal reflection on Mr. Bechtel and his approach to leadership.

Since 1980, it has been my privilege to work with Stephen D. Bechtel, Jr. – one of the outstanding businessmen of his generation. I worked with him at the Bechtel Group, a global engineering construction company, which he led for some 30 years. In my time at the company, I found Steve’s management style to be straightforward: He planned carefully and built a strong organization by choosing good people, giving them clear assignments, and monitoring their performance; he did not micromanage. During his tenure as CEO, the Bechtel Group was independently ranked at the top of its industry numerous times.

Having served on the board of the S. D. Bechtel, Jr. Foundation since 2008, I have watched Steve bring the same disciplined approach to his philanthropy.

Steve knew that he would have a substantial estate and he intended to leave the bulk of it to charity. Long a champion of character development in young people, math and science education, and environmental conservation, Steve had a firm sense of his giving priorities. He also understood that in order to give well, the Foundation would need to perform with the same high expectations that guided his commercial enterprise.

In his daughter Laurie, Steve found a first-rate leader to serve as the Foundation’s president and encouraged her to recruit a top-flight staff. He also assembled a Board of Directors representing a variety of professional backgrounds and expertise, and he encouraged directors to speak their minds and bring their collective wisdom to the enterprise of philanthropy.

Among those board members was Betty, Steve’s wife and life-long partner. She often added her sharp insight and broad background to the board’s dialogue and was an early advocate for giving away the Foundation’s resources sooner than later. She guided grantmaking to Bay Area nonprofits supporting underserved youth, arts and civic organizations, and initiatives advancing health care for the elderly. She also worked to cultivate a commitment to giving among younger generations of the Bechtel family.



With the support of Laurie, Betty, and the rest of the board, Steve imbued in the Foundation his personal commitment to excellence, hunger for learning, and methodical approach to planning. He encouraged staff to do in-depth research, consult with independent experts, and bring well-reasoned recommendations to the board. Through that process, staff, board members, and Steve developed an understanding of the feasibility and potential impact of the Foundation’s grants, the strengths and needs of supported organizations, and the circumstances that made a risk worth taking.

Impressively, the approach Steve brought to the Foundation has deepened even as the organization steadily grew its staff and grantmaking volume.

In business and philanthropy, Mr. Bechtel has strived for excellence and integrity. His commitment – and the hard-won results of Foundation grantees – have made serving on the Foundation board an exhilarating journey.

JOHN WEISER, BOARD MEMBER

John Weiser joined the Board of Directors of the S. D. Bechtel, Jr. Foundation in 2008. He served as director and general counsel of Bechtel Group, Inc., and as president of Bechtel Enterprises, Inc., in the 1980s and 1990s.

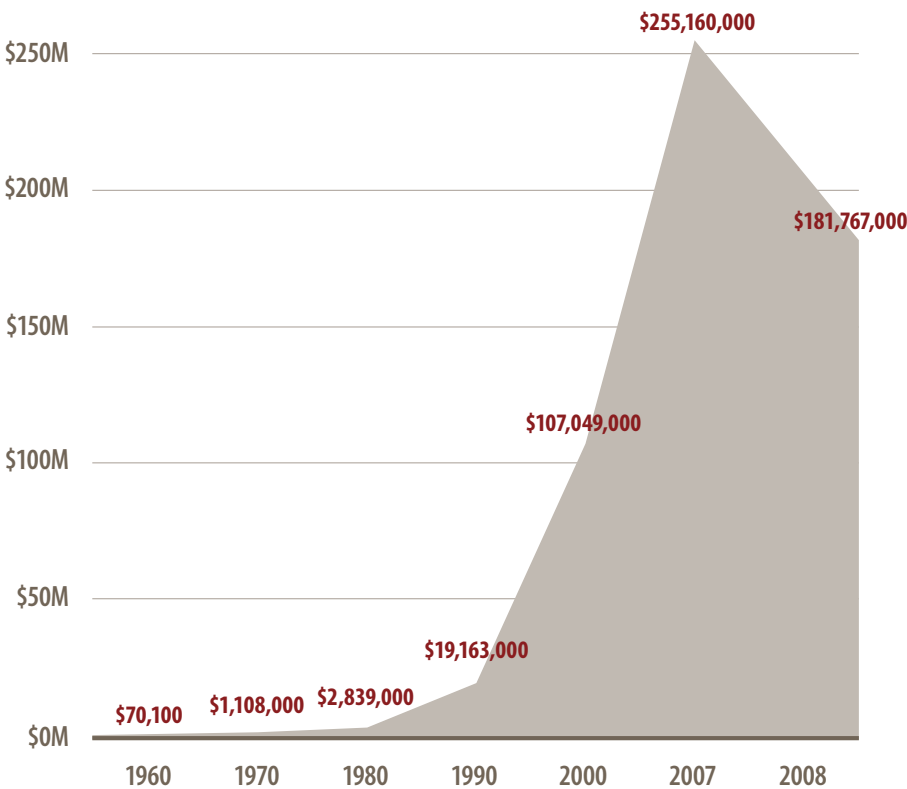
Decades of growth

The nature of the Foundation’s evolution is familiar to those who study family philanthropy.

Mr. Bechtel’s priorities and giving fueled the Foundation’s development. The enterprise started small and supported local efforts near to the donor’s home and heart. Early grants focused on Bay Area institutions, including support for secondary and postsecondary schools, hospitals, museums, science centers, and community organizations. The Foundation and its work built slowly and steadily until the 1980s and 1990s, when its endowment grew sizably and grants began supporting more regional and national efforts. Mr. Bechtel contributed significant additional dollars to the endowment starting in the 1990s and continuing into the new century. Throughout the 1990s, the Foundation remained responsive to local needs, but grew increasingly focused on areas of special interest to Mr. Bechtel and the board, including the Boy Scouts of America, science and engineering education, and environmental conservation. In the early 2000s, the Foundation deepened its investments in these areas with bigger grants to a larger portfolio of grantees. It also expanded its grantmaking to include new priorities such as Alzheimer’s research.

The endowment stood at more than \$107 million as the Foundation entered the 2000s, and exceeded \$255 million by 2007 and the onset of the Great Recession. In 2008, the Foundation awarded nearly \$36 million in grants, even as dramatic declines in financial markets began taking a toll on the Foundation’s assets. By the end of 2008, the endowment had declined to less than \$182 million. That year saw Mr. Bechtel and other Foundation leaders deliberate about and ultimately choose to spend down all assets of this family philanthropy.

ENDOWMENT SNAPSHOT



The spend-down decision

Board consideration

Over the course of three meetings in 2008, the Foundation Board of Directors began actively considering the spend-down model and debated several important questions:

- Over time, would the Foundation become increasingly more likely to drift from its original purpose, particularly after Mr. Bechtel stepped away from the organization?
- If the Foundation were to live in perpetuity, would it stay relevant to future generations?
- Could significant investments in the near term deliver greater impact than smaller investments spread over a longer-time horizon?
- Were the Foundation to spend down, how would its grantmaking strategy need to evolve?

In considering these questions, board members expressed optimism that the Foundation could continue being impactful even after Mr. Bechtel stepped away, but they were concerned that a family foundation operating in perpetuity could at some point depart from the founder's ideas. Board members also suspected that the Foundation could have greater impact with its grantmaking if it opted to give more than the mandated annual 5% of its endowment. At the same time, they acknowledged that in order to significantly increase grantmaking and spend down, the Foundation would need to identify projects capable of putting major grant dollars to work.

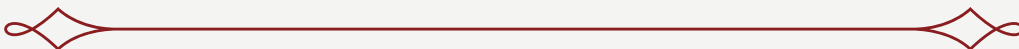
In a letter to board members, Mr. Bechtel articulated his commitment to address a few big issues and stated his concern about whether future Foundation leaders would stay true to his intent. That letter helped bring clarity to the board's discussions. Here is an excerpt:

Each of my children and grandchildren has their own charitable foundation from which they each can select charitable needs as they see fit . . . I prefer that they each use their own foundations to support causes they think are most important, rather than being saddled with trying to manage my foundation.

Non-family administrators in the longer-term future are much less likely to be able to interpret and convert my interests into long-term future goals and interests responsive to the needs of their time.

In the near term it is difficult, if not impossible, for the leadership of the S. D. Bechtel, Jr. Foundation to determine the highest priority charitable needs out in the long-term future.

I believe it is more important for the Foundation to focus on the contributions that we see as the highest priority near-term charitable needs, and let future generations of charitable contributors determine, in the future, the greatest needs of their time.



At the board's final 2008 meeting in November, Mr. Bechtel said that he was leaning toward spending down the Foundation's assets. He felt that grantmaking should prioritize the following four primary focus areas:

1. California water
2. K-6/8 math and science education
3. General character-building through organizations such as the Boy Scouts of America
4. Engineering and science professions, including the welfare of the professions and educational preparation for them in K-6

Mr. Bechtel emphasized his preference for focusing the Foundation's grantmaking as opposed to awarding small grants for small causes, though he noted that there would be occasional exceptions for local causes of personal interest and concern.



Lauren B. Dachs, Foundation president, and Stephen D. Bechtel, Jr. visit the grounds of a Foundation grantee, The Presidio of San Francisco.

Staff consideration

The sentiments of the board corresponded to an increasing awareness among staff that the volume and nature of grants was dictating the Foundation's agenda, rather than the other way around.

In 2008, the Foundation board reviewed and approved at least 30 grants at its three regular meetings; the median dollar amount was \$277,000. In addition, staff considered and approved hundreds of smaller grants, including more than 100 that each awarded \$10,000 or less. Many of these grants supported Bay Area nonprofits and often funded direct services. A small staff making a big number of small grants had scant time to pursue larger aims.



We used to sit at the table and make decisions together. The grants were quite a bit smaller. We had a lot of discrete and separate programs.

– SUSAN HARVEY, EDUCATION PROGRAM DIRECTOR



I was not able to focus much on the connective tissue between things ... about how our grants could work together as an integrated portfolio. We were making good individual grants, but primarily thinking a grant and a year at a time.

– ALLISON HARVEY TURNER, ENVIRONMENT PROGRAM DIRECTOR



It felt like we were scrambling all the time to just process so many grants, especially in so many divergent, unconnected areas. And I didn't always have a good rationale for our directions. For example, 'why should we not do Alzheimer's research anymore?' I recall thinking, 'maybe there is a better way.'

– LAUREN B. DACHS, PRESIDENT

Decision point

A confluence of interests and circumstances entered into the Foundation's decision to spend down. The board's action was taken on February 19, 2009. Ultimately, the decision hinged on two factors:

- **The belief that timely, large-scale action was needed to create solutions for education and environment in California.** The state faced critical challenges that the Foundation board viewed as requiring significant resources and imaginative solutions, calling for investment sooner rather than later. President Lauren B. Dachs (Laurie) recalled the board dialogue as follows: "We realized that being able to invest more money, making much larger grants, given the complexity of what we were trying to do, could make a big difference. If we want to work on education or water management systems, we can't be playing on the periphery. We really need to jump in and jump in big time, both with bandwidth in terms of staff resources and dollars."
- **A preference for decision-making by current Foundation leaders.** Discussions by the board, including its Bechtel family members, often involved a philosophical question: How well could the founder, or anyone, predict the future? As noted earlier, Mr. Bechtel believed that it made more sense to focus Foundation dollars on near-term charitable needs, and to let future generations of charitable contributors address the needs of their times. This perspective aligned with his long-held conviction that endowment building was not a preferred mode of philanthropic activity. (Throughout its history, the Foundation has typically avoided or declined grant requests to support endowments.)

Two additional contextual factors contributed to the above decision. Internally, it was not clear who would lead the Foundation following Laurie Dachs's retirement at some point in the future. Discussions had taken place involving many members of the extended Bechtel family, but no clear path to third-generation leadership of the Foundation had yet emerged.

Externally, consideration of the spend-down model was taking place at a time of economic tumult. The Great Recession began in December 2007, with 2008 marred by the worst contraction in U.S. gross domestic product since the Great Depression. The limitations inherent in a perpetual endowment with a 5% annual spending policy were acutely felt by Foundation leaders at a time of sharp increase in social needs as well as severe declines in private giving to nonprofits.

In some ways, the decision to spend down was a culmination of several decades of grantmaking that preceded it. In other ways, it was a decision shaped by the context of the times. And, while Mr. Bechtel believed that future generations would be better equipped to address the needs of their era, choosing to spend down was also decidedly forward-looking. By acknowledging the need for major investments in education and environment, the Foundation chose to focus its grantmaking on programs that, if successful, would pay the greatest dividends for the citizens of tomorrow.

How much time is the right time?

The Foundation board considered multiple time frames and end dates as it deliberated on the spend-down decision. Program Director Allison Harvey Turner recalled, “I remember at one point there were scenarios that were hugely different – whether five years or 30 years. It was a whole range of scenarios.” In his November 2008 message to the board, Mr. Bechtel indicated that he “felt that the spend-down [approach] was probably best, though it was of no difference whether it was over eight years or ten years.”

The board initially chose an eight-year span for spending down Foundation assets, naming 2016 as the concluding year.

“Go do it.”

Laurie Dachs recalled how the Bechtel engineering approach to addressing large, often unprecedented projects permeated the Foundation mindset at this time. Once a decision had been made, no matter how large or complicated the task, the Bechtel way was, “Go do it. Just do it,” she stated. “I don’t remember there being angst. It just wasn’t yet well defined, and I remember people being enthusiastic about the idea that this would give us an opportunity to do things differently.”

Program Director Susan Harvey added, “I do remember thinking that we have got to get to work, we have really got to start moving. This is not a whole lot of time for this work to be done.”

Appendix: A family philanthropy decades in the making

THE LATE 1950s AND 1960s

Grantmaking: The Foundation’s earliest grantmaking featured support for schools in California, including Robert Louis Stephenson School, Santa Catalina School, The Orme School, University of the Pacific, and The Athenian School. Support for secondary and postsecondary institutions would continue to play a prominent role in the Foundation’s grantmaking in the years to come. Some of the first grants also included support for the Boy Scouts of America and The Nature Conservancy.

Organization: Articles of Incorporation were filed on December 19, 1957, establishing a general charitable foundation organized exclusively for “religious, charitable, scientific, literary, educational, or community chest purposes.” The Articles established three board member seats, filled by S. D. Bechtel, Jr., R. L. Sims, and Michael L. Mellor. In 1959, Elizabeth Hogan Bechtel replaced Michael Mellor and in 1965, A. Barlow Ferguson replaced R. L. Sims. The Foundation’s application for 501(c)(3) tax exemption was granted by the IRS on October 13, 1959.

Noteworthy: In 1957, the Foundation was started with a gift of \$28,000. With repeated contributions and return on invested assets, the Foundation’s endowment multiplied in subsequent years.

Endowment size 1969: \$1,108,000

THE 1970s

Grantmaking: The Foundation provided support for higher education, making sizable grants to Stanford University, UC Berkeley, and the California Institute of Technology. The Foundation also began supporting hospitals, museums, science centers, and other Bay Area community organizations in earnest. More than \$4 million in total grant dollars were approved in this decade.

Organization: The Board of Directors was unchanged during this period, comprising S. D. Bechtel, Jr., Elizabeth Hogan Bechtel, and A. Barlow Ferguson. (This board composition would continue until the early 1990s.) Directors met annually, and minutes were brief.

Endowment size 1979: \$2,839,000

THE 1980s

Grantmaking: Environmental grantmaking took on increasing importance in the 1980s, with five-figure gifts to Audubon, The Nature Conservancy, and the California Waterfowl Association, setting a course for support that would expand steadily in the decades to come. The Foundation also elevated its support for education by introducing grants to institutions and research organizations outside California, such as Purdue University, the University of Colorado, and the National Academy of Sciences. More than \$6 million in grants were approved during the decade. As total dollars went up, individual grants remained small – 83% were \$5,000 or less; just 6% reached \$50,000. Amidst this high volume of small grants, the Foundation supported engineering scholarships and pledged \$1 million to the National Academy of Engineering.

Organization: Annual meetings took place each December through 1987, with additional meetings convened occasionally to attend to financial or organizational matters. In 1988, the board began to more fully articulate its purpose and rethink its structure.

- *A “Statement of Policy” was issued.* The statement favored the use of matching gifts and seed money; support for programs that encourage excellence in performance, accomplishment, or leadership; activities of special interest to Mr. Bechtel – the Boy Scouts of America, engineering education and practice, primary and secondary science education, and conservation for birds, waterfowl, trout, and their habitat; and domestic programs (rather than international/global grantmaking). The statement also emphasized that grants should not support tenured or contract employment positions or endowments.
- *The Foundation’s bylaws were amended.* The amendment stipulated that at least two of the three directors be descendants of Mr. Bechtel or spouses of descendants – solidifying the importance that the Foundation be overseen by family members.

Endowment size 1989: \$19,163,000

THE 1990s

Grantmaking: The Foundation's largest grants in the 1990s involved capital projects at major universities and secondary schools. Investments in youth development increased, including several awards to the Boy Scouts of America. The board approved about \$25 million in grants in this decade. While total grant dollars grew fourfold compared with the 1980s, the typical grant size remained modest with 73% of grants awarding \$5,000 or less and 8% awarding at least \$50,000.

Organization: The Foundation evolved in many dimensions over this decade:

- *Board size, composition, and practice.* When board member A. Barlow Ferguson died, his seat was filled by Riley Bechtel in 1992, followed by Lawrence T. Rossi in 1993, and then by Nonie Ramsay in 1994. The board expanded to four seats when Lauren B. Dachs (Laurie), a daughter of Mr. Bechtel, joined in April 1996. The board began meeting more frequently and by the late 1990s was convening three times per year. Board minutes indicate that meetings became increasingly substantive. Discussions often involved the Foundation's financial holdings, its grantmaking strategy, and progress of its grantees. Grantee guests often attended.
- *Grantmaking priorities.* In 1995, the board issued another "Statement of Policy" to further clarify the Foundation's grantmaking criteria. Building on the 1988 statement, it prioritized solicitations originating through personal contact or individualized letter over requests arriving via form letter, grants supporting specific programs or facilities rather than general operations, and funding for organizations in which Bechtel family members were involved or that served communities where family members resided. The policy restated a list of Mr. Bechtel's interest areas (e.g., the Boy Scouts of America, science and engineering education, and conservation). It also directed that "grants should not be for less than \$1,000."
- *Leadership.* In 1998, Laurie became executive director of the Foundation.

Noteworthy: In 1994, Mr. Bechtel made the first of several annual gifts to endow foundations established for each of his five children.

Endowment size 1999: \$107,049,000

2000 to 2007

Grantmaking: The Foundation significantly increased its number of grants and grantee organizations in this era. Headed by several grants to the Boy Scouts of America, a youth development portfolio emerged. Investments in health increased substantially through capital grants for hospitals and through support for Alzheimer's research. In 2002, the Foundation provided seed support for the California Conservation Fund, a charitable operating foundation established by Mr. Bechtel to support waterfowl habitat in California. In total, during this period the Foundation approved more than 1,400 awards to about 400 organizations, totaling about \$48 million. The Foundation also began making a greater number of larger grants. The five largest awards during this period were at least \$1 million; prior to the turn of the century, the Foundation had made only four such gifts. Now, 12% of grants were for at least \$50,000. While the percentage of grants involving \$5,000 or less dropped to 42%, the increase in number of total grants meant that Foundation staff continued to steward a large number of small grants.

Organization: At a March 2000 board meeting, Mr. Bechtel reiterated familiar themes: his preference for supporting engineering and science education, conservation, and youth education/character development; his preference for supporting programs where the Foundation could provide leadership or incent additional giving through challenge grants; and his dislike of supporting endowments and general operating grants. As grantmaking grew during this era, the board expanded to seven members. By 2005, Alan Dachs, Deborah Duncan, and Jude Laspa had joined as directors.

Noteworthy: The first quarter of 2001 was the worst for financial markets since 1974, with double-digit declines in the major stock indices. Despite market losses, the Foundation made grant distributions in 2001 and 2002 in excess of the 5% required minimum payout – awarding more than \$5 million and \$4 million, respectively.

Endowment size 2007: \$255,160,000

2008

Grantmaking: The board approved 343 grants totaling nearly \$36 million. The largest volume of approved grant dollars went to STEM education (more than \$7 million) and environment (more than \$6.5 million). The Foundation also supported a range of additional interests that had grown in prior years – general education, youth development, school-based health centers, preventive healthcare, research into Alzheimer’s disease, social services, civic and cultural organizations, and more. More than \$12 million was committed to capital projects in 2008, representing about a third of all grantmaking for that year. A large number of modest-sized grant awards illustrated a deep commitment to the San Francisco Bay Area and the broader Northern California region.

Organization: The Foundation had a total of nine staff, including four program officers. All but two staff members reported to its president, Laurie Dachs.

Noteworthy: The Foundation’s board and staff tackled the topic of spend down in this year. It was also a year of economic crisis in U.S. markets amidst a worsening Great Recession.

Endowment size 2008: \$181,767,000

2009

The Foundation board decided to spend down all assets.



ABOUT THIS SERIES

Sooner Rather Than Later: The S. D. Bechtel, Jr. Foundation Spend-down Journey

In 2009, following five decades of Foundation growth and impact, the Board of Directors for this family philanthropy chose to spend down all assets. In the words of its founder, this decision reflected a commitment to finding lasting solutions to California’s critical challenges “sooner rather than later.” The spend-down horizon was initially set for eight years and then adjusted to establish 2020 as the Foundation’s end date. The Foundation is documenting its journey to inform the interests and practices of other philanthropies that are considering or conducting a spend down.

PROLOGUE | GROWING A FAMILY PHILANTHROPY: 1957 TO 2008

An overview of the Foundation and its program activities prior to the spend-down decision, including the factors and process leading to that decision.

CHAPTER 1 | SETTING THE COURSE: 2009 TO 2013

A chronicle of the activation of spend-down practices, including the “strategic refresh” that would guide Foundation program investments through its conclusion.

CHAPTER 2 | WORKING WITH THE END IN MIND: 2014 TO 2017

A description of the ramp up and adaption of the Foundation’s major program investments and initiatives during its spend-down years.

CHAPTER 3 | REACHING CONCLUSION: 2018 TO 2020

A narrative of the decisions and approaches to securing gains from Foundation programs and amplifying impact in the Foundation’s final years.

EPILOGUE: REFLECTIONS ON THE JOURNEY

A collection of observations on Foundation practices, strategies, outcomes, and lessons with high relevance to grantmakers, nonprofits, and policymakers.

Access the series, and other resources about spend downs and exits, at sdbjrfoundation.org.

A VISION FOR CALIFORNIA

The S. D. Bechtel, Jr. Foundation and the Stephen Bechtel Fund envision a productive, vibrant, and sustainable California that is a model of success and a source of innovation.

A COMMITMENT TO NOW

California faces many critical challenges, which require resources and imaginative solutions.

In response to this reality, the Board of Directors decided to invest all the Foundation's assets by 2020. This decision reflects a commitment to identifying lasting solutions for education and the environment sooner, rather than later. The Foundation also invests in building the capacity and resiliency of grantee organizations to leave them positioned to carry on the work of furthering a successful California for decades to come.

P.O. Box 193809
San Francisco, CA 94119-3809

(415) 284-8675

www.sdbjrfoundation.org