

BROWN

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The total return approach recognizes that there may be periods of time when the payout cannot be made from income alone. This concept recognizes the fact that stocks pay not only dividends, but also capital gains.

Spending capital gains allows a foundation to meet current payout requirements while preserving the long-term performance of those funds.

With a conservative investment philosophy, many foundation trustees believe that the legal payout should be made only from income. Problems with this approach began to surface in recent years as interest rates plummeted.

To meet the income payout as interest rates fell, trustees lowered the level of investments allocated to equities. Managers who have followed this scenario for some time now find themselves with very little, if any, equity investment — resulting in meager expectations of growth in the portfolio.

This reality, coupled with the expectation that long-term rates may go even lower in the next few years,

places the manager and the trustees in a no-win situation of being unable to meet the 5 percent payout rule from income, and unable to grow the funds.

A total return approach to spending would allow for spending not only income, but also capital gains.

In the decade of the 1990s, when returns are expected to be 9 percent to 10 percent, and 5 percent to 6 percent on bonds, an income-only spender may see little growth in the value of these funds and a diminishing income.

A more balanced approach to investing with a total return spending policy provides a prudent alternative to meet the current needs while growing the funds for future spending.

For example, a conservative asset allocation of 40 percent stocks/60 percent bonds with historical rates of return should earn approximately 6.6 percent on average, thus meeting the 5 percent payout requirement and leaving 1.6 percent for management fees and value enhancements.

Even better, a mix of 60 percent stocks/40 percent bonds returning about 7.4 percent leaves more money for enhancing the fund's value. With superior investment management,

returns can exceed historical norms, strengthening the argument for this approach.

Just as the Prudent Man Statutes dealing with the investment of funds are being revised and new standards written, trustees must re-examine the prudence of their own investment management policies that allow spending to dictate asset allocation. A total rate of return spending policy is a more prudent strategy for meeting long-term performance goals of foundations.

This will require more patience from trustees of new foundations while capital gains reserves accumulate, but it should be an easier decision for trustees of existing foundations that have maintained a spending policy at or near the legal payout rule.

In established private foundations at which trustees have utilized equities, the decade of the 1980s enabled a considerable accumulation of capital gains above the original endowment.

To best carry out the donor's intentions for providing a fund for the perpetual support of the donor's interest, trustees must align their investment management and spending policies with the reality of today's investment world.

Letters

Junior League's aim is true

I want to thank you for the wonderful article on the Junior League. Thank you for taking the time to dispel misconceptions and to educate your readers about the true purpose of the Junior League.

It is an organization with which I am proud to have been associated for 16 years, and yet I still find it necessary to explain to the general public what the organization is and why I am a member. Some images are slow to die. Your article dealt that image of a "social organization" a strong blow. Thank you.

GINNY WOODRUFF

President

Junior League of Wilmington

The Philanthropy Journal welcomes letters dealing with its news, opinion pieces or other philanthropic issues.

Letters must be signed. Please include a daytime phone number.

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SMITH

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by all its members. It was an interesting concept, one I wish was shared by our policymakers.

Families who have one member of their mobile spinning off in prison are struggling in countless ways to regain their balance. Family literacy programs provide damage control. We help mothers stay in touch with their children through storytelling

and writing.

This is never easy in a prison setting, given the realities of incarceration and the fact that many women lose custody of their children or must contend with angry in-laws and relatives who try to sabotage the mothers' efforts to stay close to their children.

But the road is getting even steeper. As I drive through downtown Raleigh on my way to the prison, I pass the Capitol and legislative buildings and I am struck again by the

power of the angry voices and the silence surrounding the voices of the inmates I know.

I've met Rhoda, a 48-year-old woman with an associate degree in nursing, strong self-esteem and a 104-year sentence for armed robbery. She helps those who meet her realize how much they have in common, how far she has traveled with her pain and mistakes and how eager she is to share her inner wealth. Unless some governor is courageous and compassionate,

she'll spend 42 years on several acres of land tucked away in East Raleigh.

And there is Dreamer, who has discovered the transforming power of telling her story, her legacy of abuse, hoping her three children - who are all scattered in different directions - aren't doomed to repeat the life she has lived.

All of the women I have met know what hitting bottom means. As they slowly pull themselves up, they carry important lessons in hope and sur-

vival with them. Their single greatest wish is to pass these lessons on. And so they come to class to find the words and write the stories and hope someone will listen.

The voices I hear each week in the writing class haunt me. I have no medium capable of describing their beauty and depth. But the depression thickens and I feel as though I am coaxing a choir to sing in a cave. On the outside, the rocks are starting to slide and the singers are sure that no one will come to dig them out.

Ideas

Protecting the environment

New director aims to link industry, environment

Melinda E. Taylor is the new director of the southeastern regional headquarters in Raleigh of the Environmental Defense Fund. Taylor spoke recently with the Philanthropy Journal about the history of the EDF and some of its projects in North Carolina.

JOURNAL: What's the history of the Environmental Defense Fund?

TAYLOR: In 1967, four scientists who were concerned about the threat of DDT to bald eagle and osprey eggs, went to the Audubon Society for help. At the time, Audubon was a pretty hands-off organization, so the scientists started their own environmental organization to try and protect the birds. Now, EDF has 145 lawyers, scientists and economists on its staff, which makes EDF pretty unique. Our signature approach to issues is to combine those three areas of economics, science and law. The North Carolina office opened in 1987.

JOURNAL: Does this office focus primarily on the state, or on the region?

TAYLOR: The work here has evolved over time. When the office initially opened it was almost entirely a state focus, but our focus has somewhat broadened over time so that we're looking at issues that are significant regionally, as well as nationally.

JOURNAL: How does EDF compare to other major environmental groups?

TAYLOR: I think the different environmental groups stress different pieces of the overall pie of citizen participation and environmental activism versus working with businesses. I'm not sure that we differ all that much; it's really just more what each group brings to the table. The North Carolina Nature Conservancy, for example, is less activist-oriented and works more with corporations than does EDF, while the Sierra Club emphasizes grassroots activism, as does the North Carolina Wildlife Federation. We tend to be more effectively interactive with corporations, but we don't take any money from corporations. Really, it's just more of a difference in approach.

JOURNAL: How is EDF funded?

TAYLOR: Primarily, we're funded by membership and individual donors. Nationally, EDF has about 250,000 members, and here we have about 9,000. In North Carolina, we get a fair amount of foundation support. Z. Smith Reynolds and Mary Reynolds Babcock are our biggest foundation supporters. Nationally, less than 1 percent of EDF funds come from corporate giving.

JOURNAL: What are some of North Carolina's, and this region's, most pressing environmental problems?

TAYLOR: We have chosen to focus the programmatic work of NCEDF on ground-level ozone problems — especially the impact on the mountains; water quality and wetlands restoration, and toxic and solid waste.

Q & A

In the toxic and solid waste area, we are primarily focused right now on the Paper Task Force. NCEDF and EDF teamed up with NationsBank, Johnson & Johnson, McDonalds, The Prudential, Time Inc. and Duke University to inventory the amount of paper each uses. The companies have made a commitment to reduce paper use and to look at defining environmentally preferable paper that is recycled and non-bleached. The overall goal of the project is to create a demand for this environmentally preferable paper.

JOURNAL: Why is this project being done here, rather than through another of EDF's regional offices?

TAYLOR: North Carolina is a huge paper producer. Between 60 percent and 70 percent of the pulp wood in the United States comes from the Southeast.

JOURNAL: What about the red-cockaded woodpecker protection project? Why is it important?

TAYLOR: The project is to come up with a mechanism to give private landowners an incentive to protect the endangered red-cockaded woodpeckers on their property. The Endangered Species Act is all sticks and has not worked well with respect to private people, and many endangered species live on private property.

NCEDF decided to experiment with a mechanism to give landowners an incentive to do the right thing.

MELINDA E. TAYLOR



- Director and Senior Attorney, North Carolina Environmental Defense Fund.
- Director, toxics program, N.C. Environmental Defense Fund; has worked as attorney since 1986 on toxics, clean water, clean air and endangered species issues.
- Law degree, University of Texas at Austin, 1986.
- B.A., University of Texas at Austin, 1983. Graduated cum laude; Phi Beta Kappa.
- Past positions include deputy general counsel, National Audubon Society, Washington, D.C., and partner in law firm in Austin, Texas, that specializes in public interest representation in environmental matters.

In the voluntary land enrollment project, landowners will have their land managed in accordance with certain things we would dictate like prescribed burning, age management of trees and taking care of large tracts of land. In return, the private landowner would receive some sort of economic benefit, probably a mixture of direct cash payments and tax and regulatory relief.

JOURNAL: If it's successful in preserving the red-cockaded woodpecker, can this idea be used elsewhere, to protect other endangered species?

TAYLOR: Yes. Bruce Babbitt, secretary of the interior, has been very interested in this project. We need a success story to show that the

act can be responsive to private landowners.

JOURNAL: "Environmental Solutions that make economic sense." How does that statement guide NCEDF's actions?

TAYLOR: It's hard to encapsulate. Basically, we are constantly looking for that marriage of economics and environmental protection, and the places where you can get the biggest bang for your buck. Pollution prevention, for example, makes good economic sense for an industry, rather than spending money to reduce or control emissions later.

For information on Environmental Defense Fund, call (919) 821-7793.