



Donors use charity to push free-market policies in states

Nonprofit group lets donors fly 'totally under the radar'

By: Paula Abowd – February 14, 2013

In 2009, a network of online media outlets began popping up in state capitals across the nation, each covering the news from a clearly conservative point of view. What wasn't so clear was how they were funded.

“The source is 100 percent anonymous,” said Michael Moroney, a spokesman for the Franklin Center for Government and Public Integrity, the think tank that created the outlets.

In fact, 95 percent of Franklin's revenue in 2011 came from a charity called Donors Trust, according to Internal Revenue Service records.

Conservative foundations and individuals use Donors Trust to pass money to a vast network of think tanks and media outlets that push free-market ideology in the states — \$86 million in 2011 alone. The arrangement obscures the identity of the donors wishing to keep their charitable giving private, especially “gifts funding sensitive or controversial issues,” according to the group's website.

The \$6.3 million donation to the Franklin Center was the second-largest gift made in 2011 by the group, a tax-exempt “public charity” that takes tax-deductible donations from donors “dedicated to the ideals of limited government, personal responsibility, and free enterprise,” according to its website.

Donors Trust includes 193 contributors, the majority of whom are individuals. “A lot of donors are flying totally under the radar,” says president and CEO Whitney Ball.

Donor-advised fund

Since its founding in 1999, Donors Trust and its affiliated organization, Donors Capital Fund, have distributed nearly \$400 million, becoming major vehicles for tax-exempt giving from wealthy conservatives such as billionaire industrialist Charles Koch.

Koch is among an exclusive pool of donors who have used Donors Trust as a “pass-through,” says Marcus Owens, the former director of the IRS Exempt Organizations Division, now in private legal practice. “It obscures the source of the money. It becomes a grant from Donors Trust, not a grant from the Koch brothers.”

Ball helped found Donors Trust in 1999 as a “donor-advised” fund. Donors can open an account and protect their identity from the public and even the recipient of their grants.

In addition, donor-advised funds offer contributors an extra level of control over where their money ends up, which seeks to remedy what Ball sees as the tendency for foundation money to “drift left.”

This was a chief concern of Daniel Searle, the late philanthropist and pharmaceutical executive who was one of Donors Trust’s early board members.

In 1998, with help from Donors Trust co-founder and board chairman Kim Dennis, Searle established an endowment called the Searle Freedom Trust, now worth \$114 million, which has in turn given generously to Donors Trust.

‘Great guys’

The Searle Freedom Trust is one of dozens of conservative foundations that have given tens of millions of dollars to Donors Trust from 2001 to 2011. Among the group’s donors is the Knowledge and Progress Fund, a Wichita, Kan.-based foundation run by Charles Koch.

The foundation gave almost \$8 million to Donors Trust between 2005 and 2011.

Where those funds ended up is a mystery, though some Donors Trust recipients, including the Mercatus Center and the Institute for Humane Studies based at George Mason University in Virginia, have also received major funding from foundations set up by Charles Koch and brother David.

Nearly half of the revenue for David Koch’s Americans for Prosperity Foundation came from Donors Trust in 2010, in the form of \$7.6 million in grants.

Representatives for the Koch foundations did not return calls for comment.

Before Donors Trust, Ball was the director of development for the libertarian Cato Institute, which Charles Koch was instrumental in founding.

“We think they’re great guys,” she says of the Kochs, “but if they weren’t around, we’d still be successful.”

At a private Koch fundraising meeting in the summer of 2010, Donors Trust hosted cocktails and dessert for what Ball called a “target-rich environment” of wealthy donors.

Several wealthy conservatives who have attended Koch fundraising parties have Donors Trust accounts, including Amway co-founder and longtime booster of conservative causes Richard DeVos; hedge fund billionaire Paul Singer; and Philip Anschutz, owner of the conservative Examiner newspapers.

Dozens of other major conservative philanthropies have Donors Trust accounts, including the Lynde and Harry Bradley Foundation, the John M. Olin Foundation and the Coors family's Castle Rock Foundation, according to IRS records.

Money in the states

For a decade, Donors Trust has bolstered the efforts of D.C.-based conservative think tanks, including Cato, the Heritage Foundation and the American Enterprise Institute — whose president, Arthur C. Brooks, is on the Donors Trust board.

In recent years, it has taken a strong interest in the states, funding state-level think tanks and three national umbrella organizations that coordinate their activities: the American Legislative Exchange Council, the State Policy Network (SPN), and the Franklin Center.

“Gridlock” at the federal level of government means donors see “a better opportunity to make a difference in the states,” says Ball, who sits on the board of the State Policy Network.

SPN has become a major recipient of Donors Trust money — receiving \$10 million in the past five years.

In 2011, the nearly \$2 million in grants from Donors Trust made up about 40 percent of SPN's revenue for the year, according to tax records obtained by the Center.

In the past five years, Donors Trust money has gone to at least 51 state-level think tanks affiliated with SPN, located in nearly every state. Last year, SPN used the money to incubate think tanks in Arkansas, Rhode Island and Florida, where it hosted its yearly gathering in November.

One workshop touted privatization of state and local government services. Another featured anti-tax crusader Grover Norquist. A third focused on how “property rights and markets provide the best way to protect the environment.”

SPN also sponsors the American Legislative Exchange Council, another D.C.-based clearinghouse for state-level policymaking that gets support directly from Donors Trust.

A laboratory for corporate-friendly laws in the states, ALEC hosts closed-door meetings where corporate lobbyists and state legislators meet to hammer out free-market legislation.

Ten state-level think tanks got a total of \$200,000 from Donors Trust to attend ALEC meetings in 2011 including the Michigan-based Mackinac Center and the Arizona-based Goldwater Institute, which introduced a raft of anti-union model bills at ALEC's spring 2012 conference.

The Mackinac Center has gotten \$2.4 million from Donors Trust since 2008, according to the Bridge Project, a liberal think tank.

One Donors Trust grant to Mackinac Center was earmarked for “statehouse reporting” efforts. Mackinac put the money toward a media machine of blogs and research studies making the case for the state’s new “right-to-work” law.

The Mackinac Center works closely with other Donors Trust recipients, including the Franklin Center, which counts Mackinac’s “media” outlets in Michigan as affiliates.

The Franklin Center, Mackinac and another major recipient of Donors Trust cash, Americans for Prosperity, co-hosted a day-long training for “citizen watchdogs” featuring speakers on “school choice” and “union reform” from the Mackinac Center and Republican state Rep. Tom McMillin, who is also an ALEC member.

Against the tide

The California-based Tides Foundation, which Ball calls the “ideological opposite” of Donors Trust, also operates donor-advised funds.

In 2011, Tides raised \$91 million and made \$96 million in grants, including \$26 million to overseas recipients.

Tides gives grants to the American Civil Liberties Union Foundation and liberal groups like the Center for American Progress and the National Resources Defense Council.

Since 2010, the foundation has received \$10 million from George Soros’ Foundation to Promote an Open Society, which has assets of \$2.2 billion. Tides has assets of \$142 million, and the Donors Trust funds have combined assets of \$62 million.

The Center for Public Integrity has received funding from Soros’ Open Society Foundations and the Tides Foundation.

Soros’ foundation listed the specific recipient of its grants to Tides, including its largest gift, a \$1 million grant for school nutrition programs. The largest foundations contributing to Donors Trust do not identify the ultimate recipient of their funds, records show.

Donor-advised funds offer private foundations created by wealthy individuals several tax advantages and a degree of anonymity, but there are also advantages for recipients.

The Franklin Center, for example, maintains a tax-exemption as a “publicly supported” entity.

If the organization were perennially accepting 95 percent of its funding from a handful of wealthy donors “it would not count as public support” and could jeopardize its tax status, Owens said.

Though its donors remain anonymous, the Franklin Center touts “transparency, accountability, and fiscal responsibility as its watchwords.”

Franklin has numerous ties to the Koch-connected Americans for Prosperity like board member Rudie Martinson, a former assistant state director for AFP's North Dakota's chapter, and Franklin's vice president of strategic initiatives, Erik Telford, who was director of membership and online strategy at AFP for four years.

One of Franklin's state-based blogs, New Jersey Watchdog, also received \$50,000 from AFP in 2011, according to IRS records.

In 2011 alone, Donors Trust helped the Franklin Center expand by funding state-based reporting projects in Illinois, Iowa, Missouri, Nebraska, Nevada, Ohio and Virginia.

Recurring themes on the Franklin Center blogs include "union bosses," "Marxian" senators and the perils of renewable energy.

Franklin has noted that its journalists' work had landed on major networks from Fox to MSNBC. The details of several stories offered by the Franklin-funded outlets have been called into question, however.

One report from a New Mexico affiliate housed at a free-market think tank also funded by Donors Trust garnered national attention when it reported that millions of dollars in federal stimulus money had been allocated to non-existent congressional districts.

The government database on stimulus spending had indeed listed non-existent districts as receiving funds, but the Associated Press reported that the problem was due to data errors and that "phantom congressional districts" are being used as a phantom issue to suggest that stimulus money has been misspent."

When asked to comment on the criticism, Franklin Center spokesman Moroney said: "Franklin Center adheres to the highest degree of journalistic integrity and we stand by our Watchdog.org reporting 100 percent. In this case, the Associated Press had it wrong."