

Ensuring sustainable community foundations

Marion Webster
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ENSURING SUSTAINABLE COMMUNITY FOUNDATIONS

- using the USA experience to assist in developing a strategy and a range of tools that will help community foundations in Australia and the United Kingdom achieve sustainability through local philanthropy.

Marion Webster
2003 Senior International Fellow
Centre on Philanthropy and Civil Society
City University of New York
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1 OVERVIEW

1.1 Common objectives

While the community foundation movement in the USA is the most developed in the world, internationally, as in the USA, it is accepted that the role of community foundations is to promote civil society, build positive social capital and improve the quality of life in communities through building local philanthropy.

In order to successfully achieve these objectives, community foundations everywhere recognise that they must achieve sustainability through local financial support and through the involvement of their local community constituency and ultimately through the development of a permanent pool of unrestricted funds. To not achieve sustainability over time leaves a community foundation particularly vulnerable and unlikely to succeed in the long term.

The role a community foundation plays in a community is central to improving the well being of that community, particularly in under-developed countries and small rural communities. It places enormous responsibility and pressure on the foundation and its founders to succeed. Therefore establishing a community foundation is not something that should be entered into lightly without careful research as to its ability to achieve long-term sustainability.

1.2 Serving the community or serving the donor?

While there may be common objectives, community foundations often describe their focus and the approach they take to achieve sustainability in different ways.

This is especially apparent in the USA where, between a donor-focused approach taken by some community foundations and a community focus taken by others, there are any number of variations.

For example, at one end of what is really a continuum, Peter Hero, President of the Community Foundation Silicon Valley Foundation, believes that while community building is the goal, the customer is the donor (via public benefit corporations). “We serve the community *only* if we serve the donor well,”¹ he says.

Bob Edgar, Director, Donor Resources, New York Community Trust (NYCT), takes a middle approach, believing that the NYCT serves both the community of New York City and its donors equally,² while Emmett Carson, President and CEO of the Minneapolis Foundation believes there currently is a crisis in the community foundation movement (brought on by the emergence and huge asset growth of the commercial gift funds) and that this crisis is forcing traditional community foundations to re-evaluate their purpose and function. He states:

*At the heart of the crisis lies a choice between two different approaches – one that focuses on catering to the donors’ needs, the other that focuses on the community need ...The mission of the community-focused community foundation is to build unrestricted assets, and the customer is the community as a whole rather than individual donors.*³

Whichever way a community foundation chooses to describe and position itself in this debate, there is general agreement within the movement (both in the USA and elsewhere) on the following issues.

- To ultimately be sustainable, the goal of a community foundation must be to build a significant pool of “unrestricted funds which pour grant dollars into the community, stimulate great ideas, excite the donors and serve the community”.⁴
- A community foundation is the vehicle *through which people give*, rather than *to which people give*.

¹ “Community Foundation Silicon Valley: Evolving infrastructure to meet strategic needs”, Stanford Graduate School of Business, Case # PM-49, version (A) 02/27/03, p5.

² Bob Edgar, conversation with the author, 4 November 2003.

³ Emmett Carson, “A Crisis of Identity for Community Foundations” in *The State of Philanthropy 2002*, National Committee for Responsive Philanthropy, Washington 2002, p7.

⁴ Peter Hero, *op cit*, p5.

- Charitable organizations (grant recipients) are also the vehicles not the clients of a community foundation.
- The success of a community foundation will be determined by its ability to establish trusting relationships with both the foundation's donors and the community it serves.
- A progressive community foundation is increasingly recognizing, capitalising on, and utilising the knowledge it has within and around it. Katherine Fulton and Andrew Blau state that community foundations "are turning themselves into knowledge hubs about the non-profit issues and social concerns of their communities".⁵

1.3 Traditional measures of success

While successful community foundation development in the USA and elsewhere traditionally has been measured in terms of the size of a foundation's permanent endowment and the dollar value of its grantmaking, it is now accepted that these should not be the only measurements of success.

Having said that, endowment size and grantmaking should never be dismissed. Both are critical because:

- The development of a locally raised permanent endowment is what distinguishes a community foundation from other service providers and is what ultimately gives a community foundation its credibility.
- Over time, as the permanent funds under management grow, fees earned will also grow, thus providing a community foundation with predictable funds to support core and infrastructure costs.

A minimum endowment size is also important for independence. In the USA it is agreed that the minimum funds required under management to enable a community foundation to reach

⁵ Katherine Fulton and Andrew Blau, "Trends in Philanthropy Today" in *Discovering Philanthropy in the 21st Century*, working paper, June 2003, p7.

sustainability and not be dependent on external funding for its core and infrastructure costs is US\$25 million in assets and at least a seven year lead time.⁶ There is no reason to believe that the local equivalent wouldn't/doesn't apply in both the UK and Australia. The Melbourne Community Foundation in Australia has recently arrived at this conclusion.

Given the need for this minimum level of funding for sustainability is accepted, there has been much discussion in both the USA (and in the UK, and sure to follow in Australia) whether or not a large number of the community foundations already established in small, especially rural, communities can ever hope to achieve sustainability and/or survive. If this is true, it is anticipated that a 'shakeout' in the community foundation movement is inevitable over the next few years in all countries where they currently exist, unless of course the minimum funds threshold is achieved, which for many may be impossible given the funding 'pot' available in local communities.

The failure of some community foundations to survive will unfortunately lead to a loss of credibility for the whole community foundation concept at both a local and a national level. The risk of setting the movement back for many years in the communities in which they fail is real and should be now considered before the establishment process begins.

The need to develop a permanent endowment does not, however, negate the important role that 'in/out' flow-through and donor advised funds can play for a community foundation, particularly in terms of providing community visibility, community benefit and a perception of size.

⁶ "Regionally Based Services to Community Foundations 2002-3", Forum of Regional Associations of Grantmakers, p4.

1.4 Competing against commercial charitable gift funds

While endowment size and grantmaking value are obviously critical, it is also important to recognise other factors that can be used to measure community foundation success.

This is especially so because, since the emergence in the 1990s of commercial charitable gift funds in the USA (and certainly in Australia and, as far as can be determined, in the UK as well), the need to differentiate between commercial funds and community foundations has become increasingly important.

In the USA, companies establishing these charitable gift funds have positioned themselves to capture charitable funds resulting from the estimated US\$42 trillion of funds from the current intergenerational transfer of wealth. Unlike community foundations, the motivation for these companies is purely commercial.

Community foundations cannot compete with commercial funds where the customer is the individual donor who opens a charitable account and the company's mission is to serve that customer's needs in a way that will profit the company. On the whole, these commercial gift funds provide more options for investing a donor's gift (they are investment companies), as well as financial management systems including online tools, telecommunications, and customer service departments that are integrated with the core investment business of the company.

In addition, as James Smith, Nielsen Professor of Philanthropy, Georgetown University Washington Public Policy Unit, argues, the greater emphasis on donor advised funds in the USA, particularly those managed by the commercial gift funds, places more emphasis on the donors' desires rather than on the public good. This, he says, actually leads to the greater privatisation of philanthropy, and that this is not always in the interest of the common good.⁷

⁷ James Allen Smith, conversation with Senior Fellows, 23 October 2003.

Further, it can be argued that an emphasis on donor advised funds can lead to a greater 'conservatising' of philanthropy, as donors giving to donor advised funds often act independently of advice on community need, tend not to give collaboratively with other donors and are less likely to engage with the grant recipient. They tend to give to higher profile, more visible established charitable organizations. As Dorothy Reynolds says, "relationships with them become transactional rather than transformational".⁸

The point of differentiation of the community foundation's focus on, and knowledge of, community and the other measures of success thus becomes central.

The community-focused community foundation, with the customer being the community as a whole rather than individual donor, must be best placed to capitalise on this difference. However, it must never be overlooked that underlying the community foundation's success will always be "the desire to give your donors the gift of being able to give responsibly and effectively".⁹

1.5 Other factors of success

To summarise, as the mission of community foundations is not to generate commercial gain through grantmaking, their success cannot and should not be measured solely in dollar terms.

Other factors to be considered should also include:

- The number of positive relationships a community foundation has with donors who initially establish donor advised funds that can eventually be converted into unrestricted funds, either during the lifetime of the donor or when they die.
- The level of trust a community foundation establishes with both its donors and its grantees.

⁸ Dorothy Reynolds, conversation with Senior Fellows, 31 October 2003.

⁹ *Ibid.*

- The level of connectedness a community foundation has with its community through a Board that is reflective of the makeup of the community and a CEO and staff who champion the community's needs.
- The ability of a community foundation to identify and clearly articulate the range of issues in the community it seeks to support.
- The degree to which a community foundation can add value to a donor's distributions through the foundation's knowledge of community, research capabilities and staff expertise.
- Evidence of a community foundation's leadership and public convening role, as well as its ability to challenge its community's issues and needs.
- The level to which a community foundation can build knowledge as a resource, increase participation and look at issues of social justice and democracy, through collaboration and partnering with other organizations that will assist it accelerate progress towards the foundation's mission.
- The level to which a community foundation can meaningfully carry out its mission. The mission will inevitably be linked to bringing about positive social change within its community.

Having positioned itself somewhere on this continuum, a community foundation will develop its own unique local identity determined by external factors such as the demographic makeup of the community, the history of philanthropy in the community, the current culture of giving, the identified and emerging community needs as well as the nature of the other local charitable organizations.

Internally, the identity and style of the community foundation itself will be determined by its history, its age and particularly by the board, its CEO and staff. The makeup and mix of the foundation's funds as well as the characteristics of its donor base will all affect how its stakeholder communities view the community foundation.

2 THE USA EXPERIENCE – LESSONS FOR THE UK AND AUSTRALIA

2.1 United States of America

The first community foundation in the USA was established in Cleveland, Ohio, in 1914. By 2001, 602 community foundations with total assets exceeding US\$30 billion reported grant activity. They vary in size from the New York Community Trust, with assets of US\$2.5 billion, to small community foundations in communities with as few as 50,000 people.

Figure 1: USA Community Foundations: asset range, 2001¹⁰

Asset range (\$US)	Number of foundations
\$1 billion+	4
\$250 million - \$1 billion	25
\$50 million - \$ 250 million	79
\$10 million - \$50 million	169
\$1 million - \$10 million	222
Under \$1 million	103
Total	602

The downturn in the USA economy has had a significant impact on community foundation asset growth. The biggest losses in total assets reported in 2001 were in the largest community foundations. For example, those community foundations with assets over US\$50 million declined 2% between 2000 and 2001, whereas those with less than US\$10 million experienced an overall 6.6% gain in their asset value.

The economic downturn has also affected levels of giving. While overall community foundation giving increased by 11% in 2001 to \$2.4 billion, this actually followed a 17% rise in 2000. This percentage increase was 13.6% higher among the larger community

¹⁰ The Foundation Center, *Foundation Yearbook 2003*, p69.

foundations, i.e. those making grants of over US\$10 million, whereas those making grants between US\$1-\$10 million increased by 6.4%.

Figure 2: USA Community Foundations: total giving range 2001¹¹

Total giving range (\$US)	Number of foundations	Total giving (\$US'000)
\$100 million +	1	\$ 126,622
\$25 million - \$100 million	27	\$1,217,718
\$10 million - \$ 25 million	22	\$ 335,095
\$1 million - \$10 million	184	\$ 624.303
\$100,000 - \$1 million	229	\$ 94,050
Under \$100,000	139	\$ 5,417
Total	602	\$2,403,204

As with assets and giving, new gifts received by community foundations have also been affected by the economic conditions prevailing in the USA. While new gifts to community foundations in 2001 more than doubled those received in 1995 they nevertheless were 17% below 2000 receipts. This ended nine consecutive years of double digit growth in gifts received by community foundations and represented the first decrease in new gifts since 1988.

2.1.1 Maintaining trust

Despite the fact that both private and community foundations in the USA have seen rapid growth during the 1990s, there is increased questioning and reflection about the role philanthropy can and does play within American society.

¹¹ *Foundation Yearbook: Facts and Figures on Private and Community Foundations, Foundation Today Series 2003 edition*, The Foundation Center, p68.

As James Smith has indicated,¹² there is now general acknowledgement that the philanthropic sector in the USA cannot and does not effect substantive change, as its resources are insufficient to change the situation of the disadvantaged.

Additionally, it has been demonstrated that philanthropy in the USA is not the leader of social movements, social change and risk taking that many have thought. According to James Smith, on average philanthropic funding lags behind the emergence of social issues by 5-6 years.¹³

In addition, Emmett Carson maintains that the sector has an increasing image problem. This has resulted from increasing lack of trust following a number of recent scandals and from the failure of foundations to be sufficiently publicly accountable. He says that it is not enough to say you didn't break the law; you must also be able to say you didn't break the public's trust.¹⁴

As a result there is an increasing acknowledgement in the USA that the philanthropic sector as a whole must start to set better standards, show leadership – particularly on accountability – and set standards through self-regulation. It is anticipated that this leadership, if it is to come, will emerge from within the sector rather than from the umbrella membership organizations, as they tend to act as barometers and not as leaders.

2.1.2 Attracting high worth individuals

While overall investment performance and giving to community foundations by donors in the USA has been affected by the country's economic recession, the number of individuals with large amounts of investable assets nonetheless continues to steadily grow each year across all demographics.

¹² James A. Smith, *op cit*.

¹³ *ibid*.

¹⁴ Emmett Carson, lecture to Senior Fellows, 22 October 2003.

According to research commissioned by Community Foundation of America's National Marketing Action Team¹⁵, regardless of age, gender, ethnicity and source of wealth, high net worth individuals in the USA share some common characteristics and values, including:

- Support of multiple charitable interests.
In 2000 more than 50% of high net worth individuals dedicated their time or money to five or more different causes.
- Family involvement valued.
As well as being active in teaching family values to their children, the vast majority of pentamillionaires (97%) report being concerned that their children will not be spoiled by the family's money and possessions. Over 60% take specific steps to educate their children about their relative wealth.
- Financial security is related to both psychological comfort and material wealth.
While it is accepted that asset size alone does not provide an overall sense of 'security', there is little doubt that the higher the net worth of an individual, the greater that individual feels that retained wealth is linked to feelings of financial and other security. This is especially true for high net worth females. In spite of these feelings, "high net worth individuals who have held their wealth for over 10 years are more likely to feel an obligation to give back to their communities than the newly wealthy".¹⁶
- Acceptance of risk.
While high net worth individuals remain most comfortable in taking financial risks and are almost twice as likely to have started their own businesses, there has been a shift --- primarily due to the 'shifting economy' -- to greater prudence by this group, with over 17% now devoting their investments to hedge funds, managed futures and private equity. There is a view that this trend will continue.
- Frequent and fluent users of technology.
High net worth individuals are the most prevalent and habitual users of the internet. Online penetration is 80%, compared to 56% of the general community. They view

¹⁵ "High Net Worth Individuals: Giving Back to the Community", in Community Foundation R&D Incubator, 2002, pp2-16.

¹⁶ *ibid*, p4.

the web as an important interface with service providers, especially from wealth management-related providers.

- Demand for customisation and personalised service.

Because of their privileged position, high net worth individuals expect high quality service, customised to their personal, cultural and lifestyle preferences.

- Increased awareness of giving options.

Most high net worth individuals are privy to social needs, are aware of giving options and various financial services available to them.

- Uses of professional advisors.

75% of high net worth individuals have at least one wealth management advisor and are likely to use specialist advisors for different types of services. They also maintain regular contact with their professional advisors – respondents claiming to be ‘highly satisfied’ with their primary financial advisor report up to 14 contacts within each six-month period.

In addition to understanding the ‘overarching’ characteristics and values held by high net worth individuals (which anecdotally are no different from those in the UK and Australia), some understanding of demographic differences and trends within the group is also useful:

- Age.

While 64% of high net worth individuals currently are 55-years-old and above, the age spectrum of wealthy individuals is broadening as the largest intergenerational transfer of wealth in USA history, currently taking place “ will result in a group of high net worth individuals that encompasses members of the World War II generation, Baby Boomers, and Generation X and Y, all endowed with different senses of family, civic responsibility and giving values ...[become] prime targets for philanthropic organizations and commercial companies alike”.¹⁷

- Gender.

While men may still be the primary wealth holders in the USA, women now represent nearly half of all investors with US\$100,000 or more investable assets. Not only is this shift rapidly increasing, but, more and more in wealthy households it

¹⁷ *Ibid*, p8.

is women who not only are interested in making charitable donations but also make charitable giving decisions. Again, anecdotal evidence suggests similar patterns in both Australia and the UK.

- **Ethnicity.**

While average high net worth individuals in the USA currently are Caucasian, there is significant growth in wealth (and charitable giving) among Latino, African-American, Asian-American and other 'communities of colour'. Cultural imperatives (for example Indian Americans giving to honour future generation and Asian-Americans giving out of a sense of duty and obligation to family) may be different but evidence suggests that 'local giving' is a priority among these groups.

Armed with these research findings, the task facing community foundations in the USA is to identify the current and potential high worth individuals in their local community, understand their values and motivations and develop services that will attract them to community foundations over other forms of giving.

The goal should that high net worth individuals understand the unique value offered by community foundations over other charitable options, that community foundations are viewed as the best possible 'knowledge resource' for individuals interested in giving back and staying involved, and that professional advisors recognise that the involvement of community foundations, rather than compete, will actually enhance the high worth individual/professional advisor relationship.

2.2 United Kingdom

While individual giving in the USA remains consistently around 2% of gross domestic product (GDP), in the UK it has yet to reach 1%.¹⁸ Just as individual giving is 'less developed' in the UK than in the USA, so too is the community foundation movement which

¹⁸ "Generosity vs Altruism: Philanthropy and Charity in the UK and USA", Karen Wright, Department of Social Policy, London School of Economics, undated, p1.

in the UK (England, Scotland, Northern Ireland, Wales, with total population of 60 million) is relatively new.

The first community foundation, Dacorum, was established in 1976, followed by the Community Foundation of Northern Ireland in 1979. There are currently 61 community foundations in the UK, the largest, the Community Foundation Serving Tyne and Wear and Northumberland, has UK£22 million¹⁹ in assets. There are an additional 33 community foundations in the UK each with assets over UK £50,000, while the remaining 27 each have less than UK£50,000. In 2001-2002 community foundations in the UK had a total asset base of UK£90 million and distributed a total of UK£28 million. A significant part of this UK£28 million was, however, was flow-through money from government programs.²⁰

While attitudes towards individual philanthropy are slowly moving closer to those held in the USA, significant cultural differences continue to inhibit the development of giving in the UK. Theresa Lloyd, Director of Philanthropy UK, summarises these differences as:

- Tax and government responsibility.
... antagonism towards the notion of the welfare state is less marked in the UK than in the US... Generations brought up in the UK's welfare democracy regard access to basic services not as a matter of charity but as a matter of rights – rights reinforced by government. This attitude affects not only recipients but also givers...
- Planned giving.
... in the US, donors are able to enhance the effectiveness and significance of their donations of capital through schemes that are not available in the UK.
- Community.
... much US giving is linked to community ... people feel that excellent local services reflect on their own success ... community links are reinforced by

¹⁹ At time of writing US\$1 = UK £0.59

²⁰ Community Foundation Network (UK), 2002 annual report.

very large commitments to religious causes, with which Americans publicly identify. In the UK these feelings of are not so strongly held.

- Volunteer activities and leadership.
... volunteer activity, particularly board membership, is of huge importance for giving among the wealthy in the US... in recent US research 57% of donations went to causes with which the donor was associated ... in the UK fewer than 33% give over 80% of their donations to causes with which they are associated.
- Being an immigrant society.
... there are few families in the US who do not claim at least one immigrant great grandparent ... often from societies with a strong history of tithing. This feeds a strong theme in the USA of 'gratitude' and "giving back to a society that gave refuge and economic opportunity" that is not nearly as strong in the UK.
- Philanthropy as a characteristic of the elite.
...in the US, philanthropy is linked to the nature of upper class culture ... the USA MAY lack the class distinctions and social traditions that persist in the UK, but in the US philanthropy becomes a mark of class status that contributes to defining the culture and boundaries of elite life. This is not the case in the UK where the extent to which elite philanthropy opens doors to the highest levels of British society is limited.
- Public celebration of wealth and philanthropy.
... wealth, wealth creation and philanthropy are celebrated in the US. In the UK scepticism greets such celebrations ... it is therefore harder to identify and celebrate role models [in the UK] who could be part of a strategy to encourage major philanthropy.²¹

²¹ Theresa Lloyd, "A Different Culture of Giving", in *Alliance*, Vol 8, #3, Sept 2003.

2.3 Australia

Little comprehensive statistical information on giving in Australia is available. Best estimates indicate that about 2000 trusts and foundations exist, with total assets of around A\$10 billion.²² Annual distributions are assumed to be around A\$1 billion.²³

In Australia, population 20 million, there are 17 known community foundations. The largest and the first one, the Melbourne Community Foundation, was established in 1997. It has assets of A\$13 million and, between 1997 and 2002, it distributed in excess of A\$1 million. There may be one or two other community foundations that have assets exceeding A\$100,000, but the remainder are at the very beginning stages of their development.

Differences affecting the development of a culture of giving in Australia fall somewhere between those encouraging it in the USA and inhibiting it in the UK. While none should be used as an 'excuse' to inhibit efforts to develop a culture of philanthropy in Australia (or in the UK for that matter), it is nevertheless important to acknowledge their existence, if only to help develop ways to address them.

Australia's long history of being a leader in welfare democracy, while recently declining, means the attitude that the government is responsible for charitable support through taxation is similar to that held in the UK. On the other hand, Australians, not being burdened with the UK's entrenched class system, feel less antagonism/scepticism to any sense of elitism gained through giving. This, unfortunately, is too often modified by the country's pervasive belief that it is an egalitarian society, which manifests itself in the so-called 'tall poppy syndrome', which decries any personal or public acknowledgement (let alone celebration) of individual giving. Unlike the UK where it is hard to identify who has given, in Australia those who have given, even when known, are rarely willing to publicly

²² At time of writing US\$1.00 = A\$1.40

²³ "Giving in Australia: overview", Philanthropy Australia, p1-5, www.philanthropy.org.au, sighted 7 November 2003.

exhort others to do so, not through a sense of modesty or security but rather a reluctance to be accused of 'trying to be different'.

Also, Australia is not as overtly religious as the USA where individual and community morality is often related to belief in God,²⁴ nor does it value individual effort in the same way as Americans. Rather, Australians identify more closely with the European tradition of collectivism rather than the USA's individualism.

While these inhibiting attitudes are slowly changing in Australia, the pace is slow and might require a generational change before being overcome, if at all.

²⁴ "US verses us' in "A Nation Apart: A survey of America", *The Economist*, 11-14 Nov 2003.

3 ENDOWMENT BUILDING

The approach a community foundation takes to endowment building will be dependent on what it has identified as its core business and where it wants to be in ten years time.

If it is taken as a given that a community foundation must aim to accumulate adequate permanent funds over time to become sustainable, it will also be true that the means it employs to achieve this will vary.

Whatever the approach, it is absolutely clear that building endowment is a very long-term proposition. According to Dorothy Reynolds, Bob Edgar and a number of other USA community foundation experts,²⁵ the extraordinary success experienced by a large number of community foundations in the USA is as much because they have been around for a long time as it is to there being any magic techniques for building endowment in the USA that are not available in Australia or the United Kingdom. As Bob Edgar says: “It is a long term argument to convince your community that the community foundation needs permanent funds to become a long term local asset for the community”.²⁶

While there may be some dispute over this observation from those attempting in other parts of the world to build and make community foundations sustainable in cultures with less established traditions of giving and less advantageous tax incentives for giving, the “there’s nothing unique about the American environment for giving” view nonetheless is widely held in the USA.

It is assumed that endowment building will take place within agreed upon strategic, business and marketing plans that focus on the community foundation’s potential donor population rather than the general public.

²⁵ Dorothy Reynolds, *op cit.*

²⁶ Bob Edgar, *op cit.*

3.1 Defining core business

For community foundations that have identified their core business as primarily being community leader, convener and knowledge builder, the community foundation's core business may be to attract funds through the development of field-of-interest funds established around identified community issues.

On the other hand, if a community foundation sees its core business as providing services to donors in an effort to assist them become more effective grantmakers, it will take a different approach, most likely one that focuses on the establishment of donor-advised funds.

3.2 Creating a culture of giving

Whatever the approach taken, in an effort to maximise opportunities for achieving sustainability through endowment building, community foundations must work in their local communities to build a culture of giving and position themselves to become the trusted and obvious choice for those in the community wishing to assist build local philanthropy.

Even in the USA where there is a 'mature' community foundation network, let alone in Australia and the UK, the concept of a community foundation is little known or understood. Thus, in addition to the challenges outlined in the previous paragraph, the task also becomes to raise the profile of community foundations amongst relevant community stakeholders. It is generally accepted in the USA that community foundations do not need to be a household name, but rather they need to be readily recognized and considered the first port of call for potential philanthropic donors and their financial advisers.

This can be done in a variety of ways, including:

- Ensuring the community foundation is open, publicly accountable and transparent in all its operations.

According to the Foundation Center, 80% of community foundations in the USA published annual reports in 2002 compared to less than 50% of private foundations.²⁷ In addition, community foundations are much more likely than private foundations to use websites as a mechanism not only for providing information, but also for purposes of accountability.

- Articulating clearly the mission of the community foundation and the areas of community interest the foundation seeks to pursue.
- Building a board and appointing a CEO and staff that is reflective of the makeup of the community in which the community foundation operates.
- Ensuring visibility for the community foundation to relevant community stakeholders.
- Clearly articulating the tax environment in which philanthropic giving takes place, as well as how potential donors to community foundations can derive most tax benefit from their giving.

3.3 General operating support

When looking at the best means to raise endowment, it is useful to separate monies required to support infrastructure costs for the community foundation's operations from those required to build a permanent pool of funds for community benefit.

The sources of funds for each purpose may be different, as may be the means by which funds for each is raised. In a study funded by the Charles Stewart Mott Foundation for the Forum of Regional Associations of Grantmakers, one of the three major themes identified

²⁷ Foundation Yearbook, *op cit.*

as having a bearing on all other community foundation needs was the need to raise general operating support:

Having sufficient funds to staff and operate the foundation and invest in future capacity building was cited almost unanimously as one of the key challenges facing community foundation.²⁸

For newer and smaller community foundations this challenge was frequently expressed as the need for sustainability. In order to develop they need to be able to convince their local community and their potential donors that they will be around for the long term and that an investment in *their* community foundation's operating costs is a good one.

Even when there is a basic level of sustainability, there continues to be constant tension between investing in the community foundation's own infrastructure and meeting the needs and expectations of its donors and the community. Despite its size, Lorie A. Slutsky, President and CEO of the New York Community Trust, cites this issue as a continuing tension for them, particularly since the downturn of the economic market.²⁹

It is generally accepted in the USA that the most likely sources of funds for infrastructure costs, above those earned as fees on endowment, are from individual board members, corporations and/or additional fees earned from contracted services. Of course the ideal source –often cited as the desire for a 'fairy godmother' – is an individual donor who has a real commitment to the development of local philanthropy and to the community foundation and who is prepared to underwrite infrastructure costs for a five-year period. Sufficient examples of such individual generosity exist to make exploring this option worthwhile.

However, the most likely source of infrastructure funds is usually corporations that identify with the need to 'invest' in the community foundation 'product' over sufficient time to allow the model to develop as a source of new philanthropic funds in the corporation's

²⁸ "Regionally Based Services to Community Foundations 2002-3", *op cit*, p4.

²⁹ Lorie Slutsky, conversation with the author, 4 Nov 2003.

community. Board members, with business relationships in the community, are seen as the single most important component in attracting funds for infrastructure costs.

In addition, board members themselves are identified as a source of funds for infrastructure costs, as they more than anyone understand the need for these funds and the difficulties that exist in attracting it.

Increasingly, community foundations are raising additional funds to support infrastructure costs through providing contracted services to small private foundations that do not have any research capacity, as well as to some donors who have established donor advised funds within commercial charitable gift funds.

3.4 The business of endowment building

3.4.1 Working with individuals/families

Targeting potential individual/family donors is not just about pursuing high-potential prospective donors. It is also about fulfilling the need of an individual to make a positive difference in his or her local community, while at the same time supporting their personal philanthropic interests and possibly those of their families.

To become the trusted vehicle for individuals to address their philanthropic desires, community foundations must ensure they prove themselves suitable. Community foundations have the following features that position them extremely well to take on this role. They have:

- Knowledge of community issues, opportunities and resources.
- Flexible purpose and the ability to direct community resources to the areas of greatest community need.
- Personalised donor services and the ability to tailor customised giving options tailored to each donor's interests and financial circumstances.

- Capability to allow donors to remain involved in recommending distributions from their funds.
- Focus on generating long-term community capital through endowment building.
- Ability to allow donors to leave a legacy to the foundation through their will.
- A position as a low cost, simple alternative to creating a private foundation.³⁰

According to Dorothy Reynolds, if a community foundation is serious about building endowment, “it must go after the big gifts while also accepting and being grateful for the small ones”. She goes on to state that the big gifts come from people’s assets while the small ones come from income.³¹ This goes some way to account for the time it takes, usually up to two years, to procure a large gift.

The three best ways to target potential individual/family donors are through community foundation board members, existing donors and professional advisers.

3.4.2 The role of the board in building endowment

The importance of the role of the board in endowment building is so often cited as the single most important factor in determining success for a community foundation. Apart from their legal and fiduciary responsibilities, individual board members are the main ambassadors for any community foundation and they should accept this as a core responsibility/function of their role.

The best board members are chosen for their close connectedness with and networks in their community, either at a business or community level. Those with business connections are the people best placed to provide a community foundation’s introductions to prospective donors and professional advisers. They can provide an excellent networking body to position their community foundation as the giving choice among high net worth individuals.

³⁰ “High Net Worth Individuals: Giving Back to the Community”, *op cit*, p14.

³¹ Dorothy Reynolds, *op cit*.

In addition, board members are a source of funds themselves, not only for funds established during a board member's lifetime, but particularly through bequests. Bob Edgar has studied the permanent unrestricted funds that have come to the New York Community Trust (NYCT) through bequests. He estimates that of NYCT's permanent funds, 60%-70% have come either from previous board members or from individuals with no family.³²

UK experience supports this view. In the "Time for Growth" project, a three-year challenge grant from the Esmee Fairburn Foundation for ten selected UK community foundations to assist them build their endowments, the role and commitment of the board was cited as the most important factor in achieving success in endowment building.

The "Time for Growth" participating foundations identified the importance of the role of the board as:

- Having a clear understanding of their role as fundraisers.
- Developing ownership of the community foundation's funds development strategy.
- Assisting recruit additional board members to assist with funds development as appropriate.
- Connecting to those with assets or access to assets.
- Participating in board retreats to set community foundation strategy.
- Hosting lunches/dinners/events as appropriate.
- Enjoying and celebrating the benefits and rewards from successes.³³

In the USA it is continually stressed that boards must be given time to fully understand the complexities of the community foundation model, must be given the necessary tools to become effective community foundation board members and must be encouraged to use their own expertise to advance the work of the foundation.

Ellen Bryson, Director, Governing Board programs, Council on Foundations, states that the Chair is the most important person in setting a culture for the board and providing board

³² Bob Edgar, *op cit.*

³³ Time for Growth annual review meeting, attended by the author, London July 2003.

members with leadership on all areas of strategy.³⁴ Equally important is the working relationship between the Chair and the CEO. They must work effectively as a team, and have regular and open communication if the foundation is to be successful in carrying out its mission.

She also states that one of the challenges for a board, particularly in the early stage of community foundation development and endowment building, is the boundary between the traditional role of the board (strategic direction and policy) and that of the CEO (day-to-day management).

Experience has shown that there will be an inevitable overlap as the CEO will be unable on his/her own to fulfil all aspects of the foundation's operations. She believes that it is in this 'dynamic grey area' that much creative endowment building occurs as board members take on roles and use their expertise. She stresses, however, that there must be policy and protocols in place that allow the board to work in 'this space'.³⁵

In the USA, it is generally agreed that there must be rewards for the often considerable, voluntary effort made by board members. The rewards are seen to include connection with grant recipients through site visits and interaction with donors, as well as being part of a team that is assisting build positive and lasting change in their local community. Ellen Bryson says that the Council on Foundation's research has indicated that board members particularly appreciate the value of board retreats and the opportunity these provide for them to demonstrate their expertise. They also value highly the importance of socialising as a board and of being thanked both by the Chair as well as by the CEO.³⁶

³⁴ Ellen Bryson, Director, Governing Board Programs, Council on Foundations, Council on Foundations Conference Baltimore, October 2003.

³⁵ Ibid.

³⁶ Ibid.

3.4.3 Working with existing donors

Existing donors and word of mouth are another excellent way of building endowment. According to Hilary Gilbert, Director of the Derbyshire Community Foundation in the UK, one of the key lessons learnt in the “Time for Growth” program is that “people give to people” and that prospective donors respond best to an approach from peers, i.e. board members or other donors.³⁷

One of the ways to achieve ‘peer approach’ is by creating a forum that enables donors and potential donors to meet and share their motives for giving and their giving practice. This provides potential donors not only with an opportunity to be inspired by existing donors, but also to learn a little about areas of community need.

3.4.4 Working with professional advisers

In the USA, building endowment through building relationships and working with professional advisers is seen as the single most important factor in growing community foundations.

In acknowledging the importance of working with professional advisers, many community foundation staff, particularly in the early stages of their foundation’s development, devote much of their time to meeting and building relationships with this group.

For example, in the first years of the Community Foundation Silicon Valley’s development, CEO Peter Hero held monthly “tuna fish lunches” with professional advisers. He said that while these lunches were often tedious and that the “tuna fish” theme was a novelty, he felt there really was no alternative if he was to meet a full range of advisers and leave an impression with them.

³⁷ Time for Growth annual review meeting, *op cit*.

As it turned out, over time a number of advisers referred their clients to the foundation. In fact, many of Community Foundation Silicon Valley's largest gifts have come from people that Peter Hero never met, but who were referred to the foundation by lawyers and other professional advisers who had met and developed a relationship with Hero during these lunches.

As Peter Hero says, "professional advisers are the wholesalers of community foundation services".³⁸ To support this view, Dorothy Reynolds states that the Columbus Community Foundation, which has US\$700 million under management and operates in a catchment area of 1.4 million people, has received the majority of its funds through professional advisers.³⁹ Many other community foundations report similar outcomes.

Community foundations in the UK are also recognising the importance of working with professional advisers. Community Foundation Network (CFN), the umbrella membership association for community foundations, has identified assisting local community foundations develop printed material and establish relationships with local professional advisers as a centrepiece of their activities.⁴⁰ In addition, the Giving Campaign, a government-supported program established in the UK to encourage giving, has prepared high quality material that targets professional advisers. CFN and the Giving Campaign are working together to distribute this material at a local level through community foundations.

The key to working with professional advisers is to establish a relationship of trust and assure the professional adviser that working with the community foundation will add value to his/her professional services and help satisfy client needs in a way that is not competitive with the services that the adviser provides.

A number of strategies for working with professional advisers have proved successful.

³⁸ Peter Hero, Conversation with Senior Fellows, 29 October 2003.

³⁹ Dorothy Reynolds, *op cit*.

⁴⁰ Confidential CFN Strategic Development Plan, prepared while the author was locum director, January-October 2003.

These include:

- Creating and implementing a marketing plan specifically directed to developing relationships with professional advisers.
- Establishing an advisory committee of local professional advisers that will help the community foundation understand and connect with the professional adviser audience.
- Developing appropriate literature such as leaflets, articles, newsletters and information packs.
- Creating a space on the community foundation's website specifically for professional advisers.
- Hosting regular seminars and briefings that introduce professional advisers to a community foundation's features and benefits and to the value of referring charitable clients to a community foundation (as Peter Hero did in the early stages of development of the Community Foundation Silicon Valley).
- Leveraging existing adviser networks by identifying local chapters of professional adviser associations and running education seminars with them.
- Providing regular follow up.
- Developing a clear and concise process for working with professional advisers that makes obvious the benefits to the adviser, the client, the community foundation and the community.

However, with the current shifts in the economy, changing demographics, and the massive transfer of wealth expected over the next two decades, community foundations in the USA are being forced to review their relationships with professional advisers and to re-position themselves in this increasingly competitive market.

The emergence and rapid growth of commercial charitable gift funds has also further challenged the market position of community foundations. In addition, many lawyers and financial advisers who once referred their clients to community foundations are now working for companies that have established internal charitable funds.

The challenge for community foundations is to find new ways of working with professional advisers and commercial charitable gift funds. In achieving this objective, it is important to separate commercial fund companies from broking firms.

Several professional advisers who spoke at the Community Foundation Conference in Baltimore in November 2003 stressed that companies with commercial charitable funds will always be competitors to community foundations.⁴¹ In spite of this, they pointed out that broking firms are always looking for ways to create new markets for their advisers to work with clients. As the report on high net worth individuals states: “advisers are under increasing pressure to serve as a single point of contact, a factor which may determine their viability in this competitive market”.⁴²

By building relationships with professional advisers and assuring them that community foundations, with their knowledge of and connection to community, are the trusted and ideal vehicle for achieving their client’s charitable goals, community foundations can fill a niche that adds value to every member of the giving chain – the professional adviser, the client, the community foundation and the community itself.

In those situations where legal and accounting firms have established their own charitable funds, community foundations are developing new ways of collaborating. In these cases the professional adviser brings the donor to the table, as they have always done, and the community foundation takes on the trustee role, i.e. it ‘owns’ the money.

However, in this ‘new’ model, the professional adviser’s firm retains responsibility for investing the money, thereby retaining the fee for the funds investment and overall responsibility for the client. Of course the investment policies and principles for funds management must be agreed upon, and must reflect those of the community foundation

⁴¹ Jonathan Ackerman and Vernon Marrow, “Professional Advisors Metamorphoses” session, 20 October 2003.

⁴² “High Net Worth Individuals: Giving Back to the Community”, *op cit*, p20.

because the board of the community foundation, as trustee, has legal and fiduciary responsibility for the funds.

This new method of doing business with broking firms is becoming increasingly popular in the USA. A group of community foundations, supported by the Council on Foundations, is currently working with Merrill Lynch to develop this arrangement with community foundations across the country. To date, 42 community foundations have established this collaborative relationship with Merrill Lynch. In the early stages of the project, this is made up of 24 active funds established at fourteen community foundations with a further fifteen pending. The average fund size to date is US\$290,000.⁴³

Similarly, the Community Foundation in Scotland in the UK is establishing a comparable relationship with a number of broking firms.

3.4.5 Bequests

Bequests are the major source of raising permanent unrestricted funds for community foundations in the USA.

The NYCT Trust estimates that 70-75% of its unrestricted funds comes from bequests.

The main sources of bequests in the USA come from donor advised funds already held within a community foundation.⁴⁴ These are converted to unrestricted funds at the time of death or through professional advisers. In addition, a large number of bequests come through professional advisers who have existing relationships with a community foundation. In the case of bequests that come through professional advisers, it is often the case that the donor has never had any contact with the recipient community foundation.

⁴³ Carla Dearing, Carolyn Heine and Michael Marsicano, "Growing Community Philanthropy by Partnering with Financial Institutions" session, Council on Foundations conference, October 2003.

⁴⁴ Bob Edgar, *op cit*.

Many community foundations in the USA have established what are called “legacy societies”. These are people prepared to be identified, during their lifetimes, as having named the community foundation in their wills.

“Legacy societies” are easy and inexpensive to establish, and can be promoted along with other community foundation options for giving. The secret to their success is based on continuous promotion and communication that stresses a potential donor’s ability to “leave a lasting legacy”. This message can be easily included on all community foundation written material and publications, and the message can be communicated to all, not just the wealthy. Many community foundations have found that they have the greatest success in attracting bequests from people of average wealth.⁴⁵ In addition, existing donors are prime targets as potential “legacy society” members.

The ability to excite the board about the value of giving through a bequest will be an important factor in the success of a “legacy society”. Board members feel much more comfortable talking to people about bequests than asking for money and in many cases board members themselves have already named the community foundation in their will and are therefore very comfortable to talk about their experiences.

A number of issues have been identified as critical to the success of “legacy societies”.⁴⁶

These include:

- Identifying the “legacy society” as an important part of the community foundation’s core activities.
- Giving it a name, such as “Community Builders”, that gives the program prominence within the foundation and publicly.
- Keeping the message about “leaving a lasting legacy” simple. A message often used is “look after your family and friends, then think of your community and its future”.

⁴⁵ Susan DameGreene, Mary Ellis Peterson et al, “Leaving Your Legacy: Ideas for Starting and Growing your Legacy Society” session, Council on Foundations conference, October 2003

⁴⁶ *ibid.*

- Ensuring that the process for a potential donor to name the community foundation of their choice in their will is easy. Most community foundations have template wording for inclusion in wills and/or simple forms that on completion become codicils or promissory notes to a will.
- Acknowledging that everyone is a prospect for membership.
- Acknowledging and thanking those who belong to the 'society'.
As one community foundation staff member said: "treat them like family, only better".⁴⁷ This 'better treatment' can include a range of small gifts that acknowledge membership (tie pins, ties, umbrellas etc), an annual dinner, names on a visible plaque etc. Most community foundations with "legacy societies" find that 30-40% seek to be publicly recognised.⁴⁸
- Cultivating those with bequests to increase their legacy.
- Promoting the program through professional advisers.

In the USA, it has been demonstrated many times that once the community foundation is in a person's will, the 'donor' will inevitably increase the bequest, particularly if they are appropriately thanked and acknowledged. Some estimate that those who are well thanked will double or treble their gift.⁴⁹

3.4.6 Community convening and leadership

The importance of the role of a community foundation as a community leader and convener should not be underestimated as a tool for raising endowment.

This is a viable way for a community foundation to make a substantial and visible impact on its community without spending much money. It is also an excellent way to introduce and recruit a diverse range of community members who can then become involved with the foundation in number of ways, including setting up funds.

⁴⁷ Susan DameGreene et al, *op cit*.

⁴⁸ Ibid.

⁴⁹ Ibid.

There are many examples of community foundation successes in this area. In an effort to gain visibility in its early years of operation, as well as to raise money for a particular identified community need, the Community Foundation Silicon Valley worked collaboratively with local academic institutions to establish a research capacity that identified and evaluated a range of needs in the community.⁵⁰

The first project was the “children’s report card” which evaluated the status of children in a county in California – their safety, education, health and other relevant measures. The study revealed that the county’s immunization rate was lowest in California. The community foundation brought in government agencies, corporations, schools, churches and other relevant groups. Immunisation became a priority, and 18 months later the county had the highest immunisation rate in the state.

This program, while having far reaching results, cost the foundation very little, but placed the organization at the centre of community activity and involvement, bringing all the relevant groups together.

The New York Community Trust (NYCT) uses another approach to play the role of community leader. In an effort to position itself as the place people come when they want to solve problems, the NYCT identifies areas of community need and convenes community meetings around them, bringing together relevant community organizations, community leaders and potential donors. Issues are discussed and ways to assist solve them agreed. A “membership fund” is then established whereby NYCT puts forward a modest amount of money and requests that others involved put in a similar amount.

Working in this way, NYCT acts as a convenor, getting people around the table to discuss an issue. It makes a number of small, carefully considered grants, which gives NYCT credibility with potential donors and it leads to visibility in the community.⁵¹

⁵⁰ “Community Foundation Silicon Valley”, *op cit*, p11.

⁵¹ Bob Edgar, *op cit*.

3.4.7 Agency endowments

Many community foundations market their services to charitable organizations. The advantages of strategic alliances with community foundations for charitable organizations include:

- The fact that funds are invested in a large pool of charitable funds for community benefit.
- The charitable organization is relieved of the burden of funds management and investment.
- The funds invested in the community foundation will no longer appear on the books of the charitable organization as the community foundation takes over trusteeship.
- The charitable organization can benefit from a close relationship with the community foundation and community foundation donors.

The advantage for the community foundation of accepting agency endowments from charitable organizations is that the funds invested by the charitable organization create a perception that the community foundation's endowment may be larger than it actually is.

There are, however, a number of community foundations that will not take on agency endowments. The reasons for this decision include:

- Lack of certainty as to whether or not the board of a charitable organization can legally hand over trusteeship of its funds for investment in a community foundation.
- The feeling by some community foundations that the funds of charitable organizations are better invested in investment products that are specifically structured to serve charitable organizations.
- There is a potential conflict of interest, as the charitable organization might well also be a grant recipient of the community foundation.

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