

# Growing Smarter

*Achieving Sustainability in  
Emerging Community Foundations*

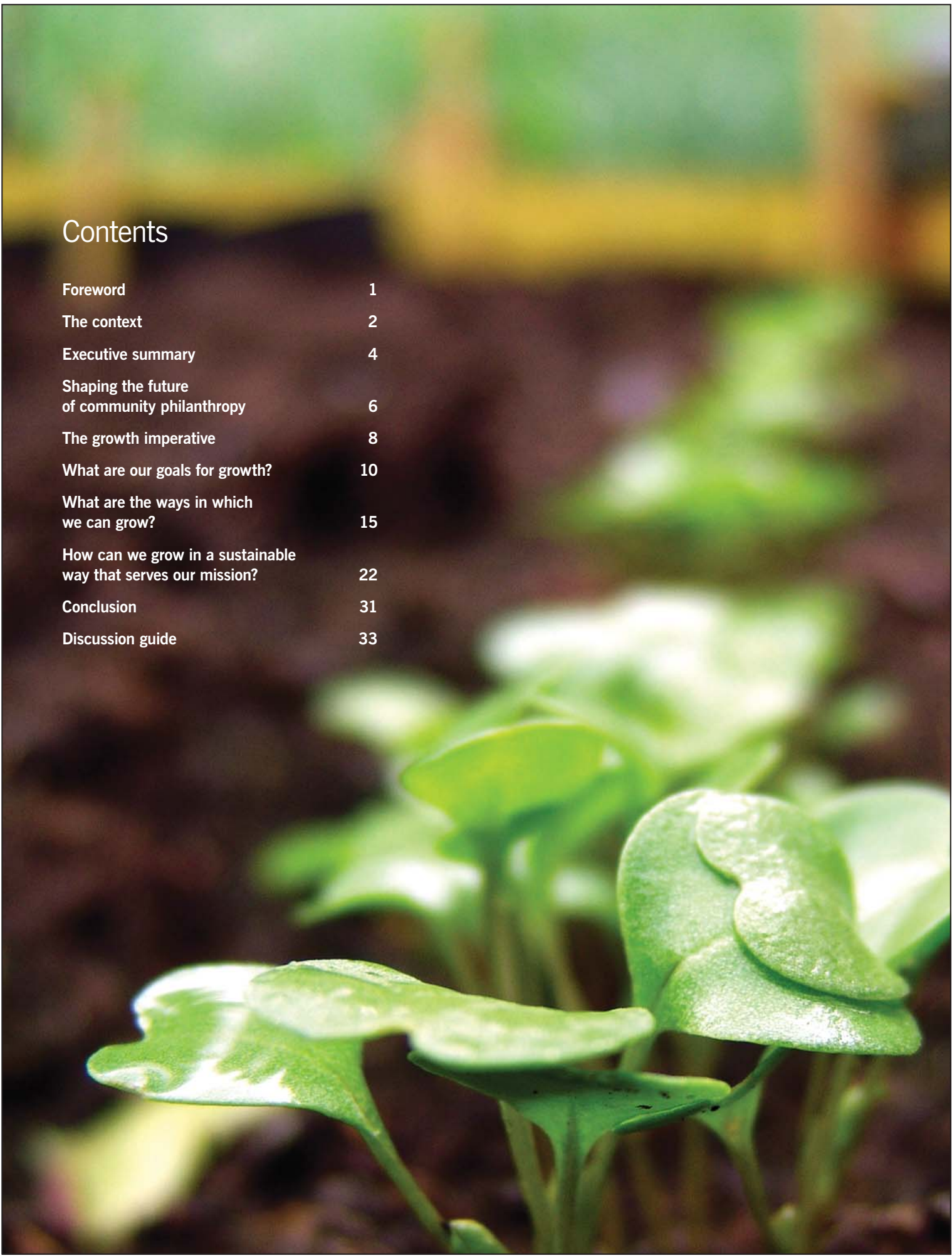
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**FSG**  SOCIAL IMPACT ADVISORS



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# Foreword

With a mandate to expand opportunity for the people of California, The James Irvine Foundation recognizes the importance of fostering and sustaining a strong network of community foundations across our state. These community foundations serve as valued partners for us as a private foundation, by regranting Irvine funds within their local communities, by stimulating local charitable giving to address community needs and by educating and engaging donors and local leaders about the importance of effective and strategic philanthropy. Over the past decade, Irvine has had the privilege of supporting many of the state's new and emerging community foundations, and through this report, we seek to share what we have learned from those experiences.

FSG Social Impact Advisors also recognizes the innovations and opportunities that community foundations bring to the field of philanthropy. Over the past seven years, FSG has worked with dozens of community foundations of all sizes to develop program strategies, evaluate impact, engage donors, improve operations and strengthen community leadership. This year, in collaboration with the Community Foundations Leadership Team of the Council on Foundations, FSG launched Community Foundation Insights as a specialized division that offers participating community foundations online access to current data on the finances and best practices of their peers.

FSG's work has demonstrated that community foundations cannot fulfill their leadership potential without a sound economic base, and that many of the traditional assumptions that have long guided the field no longer hold true. Community foundations today must understand the financial drivers behind their operations if they are to make the difficult strategic choices necessary to achieve sustainability and create social impact. This project brings forward a deeper level of knowledge regarding sustainability as it relates to emerging community foundations.

In publishing this research, The James Irvine Foundation and FSG Social Impact Advisors hope to draw attention to the unique opportunities and challenges faced by emerging community foundations and to share practical approaches to achieving sustainable growth.



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*September 2007*

# The context

This paper was written for and about emerging community foundations. *Emerging* refers to young community foundations that are experiencing—or are poised to experience—a high rate of growth. Emerging community foundations make up a high percentage of the community foundation field. This paper can also provide valuable lessons for community foundations of virtually *any size* that are undergoing a significant increase in scale of assets, operations or operating costs.



Since 1995, The James Irvine Foundation has directly supported 16 growing community foundations in California by helping them assume greater local leadership, expand donor support and serve as catalysts for positive change in their communities.

**Community Foundations Initiative I** was conducted from 1995 to 2003. It involved support for the development of seven small and mid-size community foundations (with 2002 assets ranging from \$25 million to \$127 million). The initiative totaled \$11.7 million in Irvine investment.

**Community Foundations Initiative II** launched in 2005. It involves support for the development of nine small community foundations (with 2005 assets ranging from \$3 million to \$17 million). This initiative is expected to span a five-year period and include up to \$10 million in total Irvine investment.

This report highlights experiences from the nine emerging community foundations engaged in Irvine's Community Foundations Initiative II (CFI II), as well as insights drawn from interviews with 15 fast-growing U.S. community foundations.

Most CFI II participants started the initiative with fewer than two full-time staff and less than \$10 million in assets. Interview subjects represented fast-growing foundations in the next stage of development, with assets of \$10 million to \$200 million.

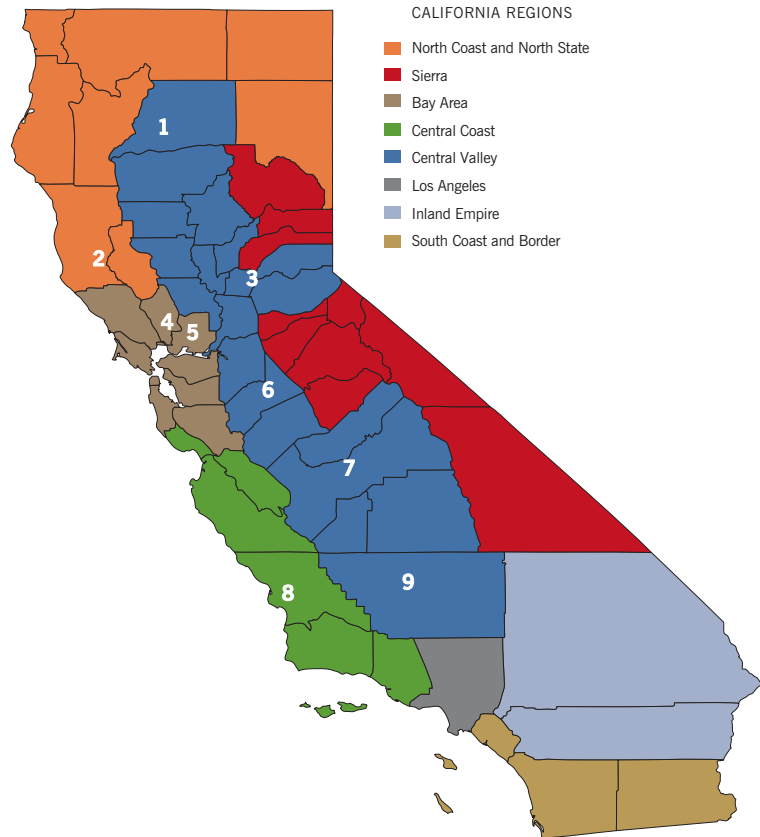
In publishing this research, the Irvine Foundation hopes to draw attention to the unique opportunities and challenges faced by emerging community foundations and to share practical approaches to achieving sustainable growth.

## RESEARCH PARTICIPANTS

This report highlights experiences from the nine emerging community foundations engaged in Irvine's Community Foundations Initiative II, as well as insights drawn from interviews with 15 fast-growing U.S. community foundations.

### Community Foundations Initiative II Sites

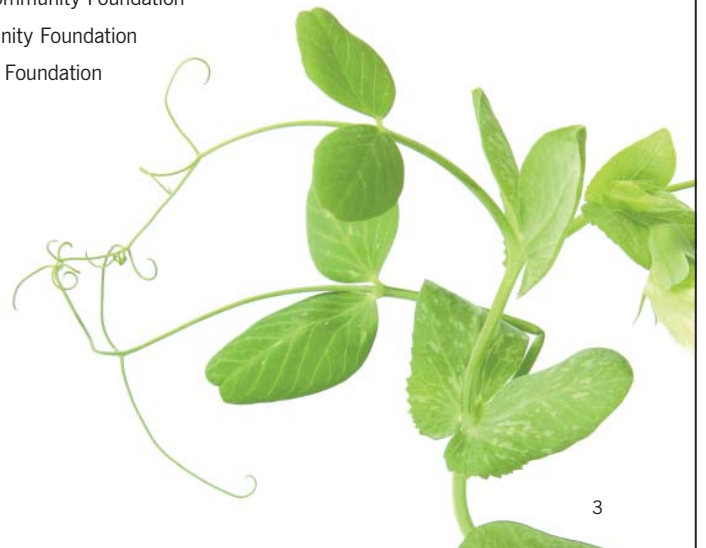
- 1**  
Shasta Regional Community Foundation  
*Redding, California*
- 2**  
The Community Foundation of Mendocino County  
*Ukiah, California*
- 3**  
Placer Community Foundation  
*Auburn, California*
- 4**  
Napa Valley Community Foundation  
*Napa, California*
- 5**  
Solano Community Foundation  
*Fairfield, California*
- 6**  
Stanislaus Community Foundation  
*Modesto, California*
- 7**  
Fresno Regional Foundation  
*Fresno, California*
- 8**  
San Luis Obispo County Community Foundation  
*San Luis Obispo, California*
- 9**  
Kern Community Foundation  
*Bakersfield, California*



### Interview Participants

- Arkansas Community Foundation
- Community Foundation of the Great River Bend
- The Community Foundation of Harrisonburg and Rockingham County
- The Community Foundation of Lorain County
- Community Foundation of New Jersey
- Community Foundation of the Ozarks
- The Community Foundation Serving Boulder County
- The Erie Community Foundation
- Greater Green Bay Community Foundation

- Greater Houston Community Foundation
- The Harrison County Community Foundation
- Henry County Community Foundation, Inc.
- Northern Virginia Community Foundation
- The Omaha Community Foundation
- Triangle Community Foundation





## Executive summary

Most U.S. community foundations are like entrepreneurs in any dynamic industry. They face challenges in balancing their ambitious goals for community impact, growth and sustainability. The path to sustainability is not built on growth alone, but on defining desirable patterns of growth and asking thoughtful questions about the implications of choices being made.

More than 50 percent of community foundations in the U.S. are less than 10 years old; two-thirds have less than \$25 million in assets. Conventional wisdom suggests that these foundations adopt the “traditional model” of their larger and older peers, and that the deficits of their early years will disappear as they grow their asset size. New research suggests that this is a false assumption. Unless emerging community foundations make well-informed and intentional choices about their approach to growth, deficits may actually worsen as they increase assets.

Fortunately, these emerging community foundations are not limited to the traditional model. They have the ability to adapt more quickly, move more nimbly and innovate more freely than their more established peers. The choices they make today have the potential to dramatically change how their foundations grow and evolve in the future. Many are already discovering innovative models for growth that align community impact with financial sustainability.

For many emerging community foundations, the drive to grow is defined purely and succinctly in terms of asset size. By this measure, even the smallest community foundations have proven adept at growth: Between 1995 and 2005, foundations with assets less than \$5 million experienced a remarkable average annual asset growth of 20 percent. Yet all assets are

not equal when it comes to sustainability— not every fund is a good fund. And some questions are more strategic than others when it comes to planning for growth. The path to sustainability is not built on growth alone, but on defining desirable patterns of growth and asking ever-more thoughtful questions about the implications of the choices being made.

**All assets are not equal when it comes to sustainability. And some questions are more strategic than others when it comes to planning for growth.**

As community foundations begin to develop a more nuanced understanding of growth and its effects, the planning question that their boards and staff confront changes from “How fast can we grow?” to “How can we grow in a sustainable way that serves our mission?” The answer requires a carefully coordinated set of activities that enables the foundation to serve its community, engage donors and become sustainable while it grows.

## Three approaches to growth

When it comes to growth, there is no single “right” solution that applies to all community foundations. The experiences of today’s community foundations, as well as related research, point to three prevailing approaches that lead to sustainable patterns of growth. These approaches can be characterized as *controlled*, *engaged* and *leveraged*.

**The controlled approach** is characterized by a “we don’t spend money we don’t have” mindset. It emphasizes the need for organizational stability and independence, and for closely managing expansion and corresponding operating costs.

**The engaged approach** is described by a “let’s get everyone involved” mindset. It emphasizes the importance of building relationships, and of being relevant to a broad set of community stakeholders. It often involves foundations taking an activist approach and addressing local needs in ways that rely on community involvement and collaboration.

**The leveraged approach** takes a “we need to expand our reach” mindset. It emphasizes broadening a community foundation’s reach through partnerships. One type of leverage taps the power of regional affiliates to cover broad geographic territories, access local knowledge and cultivate new donor relationships. A second, less intensive form employs matching-fund strategies as well as partnerships with other regional funders.

Achieving sustainability with any of these three approaches depends on a thorough understanding of a community foundation’s underlying economics. The operating model of a community foundation depends on the interplay of four key economic drivers, each of which can be altered by the decisions of board and staff. These four drivers are:

- Setting clear product and fund *priorities* for development
- Aligning *pricing* with cost drivers and donor incentives
- Achieving consistent *revenue* by diversifying sources
- Managing the *cost* base

Most emerging foundations can achieve sustainability more intentionally once these four drivers are understood and aligned with a *controlled*, *engaged* or *leveraged* approach to growth, in pursuit of their mission and goals. Each approach requires fiscal discipline, but such discipline need not limit community impact. In fact, it can expand it. Over the long term, a community foundation will achieve greater impact when its choices are economically sound, and its strategies are carefully aligned with a realistic plan for sustainability.

Achieving sustainability with any of these three approaches depends on a thorough understanding of a community foundation’s underlying economics.

# Shaping the future of community philanthropy

Emerging community foundations face unique opportunities and challenges. Distinctively different from larger, more established foundations, they have the ability to adapt more quickly, move more nimbly and innovate more freely. As they grow and develop, their prevalence will shape the future of community philanthropy.

Most U.S. community foundations today are part of a new generation. Over the last 20 years, the field has exploded in two ways: in the sheer volume of assets directed to community philanthropy, and in the number of organizations serving local communities. More than 50 percent of community foundations are less than 10 years old and two-thirds have less than \$25 million in assets. As they grow, the experiences of these developing organizations will shape the future of community philanthropy in the United States.

Emerging community foundations are like entrepreneurs in a dynamic growth industry. They start with a vision and a set of services designed to meet a genuine need. From there, they scramble to make things work, finding success when energetic leadership and hard work are combined with a dose of good fortune.

Like entrepreneurs in any dynamic field, community foundations must weather a number of challenges as they develop and grow. Emerging organizations may find it difficult to anticipate and plan for the future. Many, with limited resources and fiscal uncertainty, operate with a “shoestring mentality” that challenges their effectiveness. While building credibility with donors and the community is a priority, their track record is not yet established. Given scarce resources and ambitious expectations, small community foundations have difficulties reconciling their aspirations with the realities of their operating budgets. They need to offer a meaningful level of

**Best of all for young foundations, choices made in the present have the potential to dramatically change how the organization works in the future.**

service to the community, but first, they need to generate an asset base capable of supporting operations. This appears to many as a classic and sometimes daunting “which comes first?” dilemma.

While smaller and newer community foundations may sometimes look at their larger and more established colleagues with awe and envy, these emerging organizations have a unique set of opportunities that are unavailable to their more mature peers. Young community foundations have greater freedom to explore innovative operating models and experiment with new ideas. Donor and community expectations have not been formed, and the organization’s own policies have not been firmly set. In contrast, more mature foundations have a long legacy of traditions, policies and practices that resist major changes, even as the community’s needs may be shifting. A young organization’s processes and operations have not yet been built around a defined asset mix or set of services. Although





## sus·tain·a·bil·i·ty

*Having the resources that enable a community foundation to advance its mission today, while also enhancing its ability to do so in the future.*

the existing funds held by a more mature foundation are certainly valuable assets, they also represent an established set of obligations which make it difficult to be nimble.

Best of all for young foundations, choices made in the present have the potential to dramatically change how the organization works in the future. Understanding the impact of current-day decisions on future sustainability can help foundations be more strategic as they work to engage donors, balance asset composition, manage revenue sources and engage members of the community. Today's decisions will shape how the foundation operates in the present, but they will also set the stage for the foundation's pattern of growth. Will the foundation build its future on providing excellent donor service or high-impact initiatives? Will it evolve as a builder of community through nonprofit endowments or through unrestricted grantmaking? Will it tackle controversial, high-profile issues or quietly support proven programs? In 20 years, will it be going strong — or still be struggling to define its priorities and cover the current year's operating costs?

The answers to all of these questions — and more — lie in the choices made today.

**Today's decisions will shape how the foundation operates in the present, but they will also set the stage for the foundation's pattern of growth.**

# The growth imperative

For any emerging community foundation, growth alone is not enough.

Emerging community foundations are propelled forward by a vision of serving their communities, and also by the drive to grow — which they generally see as an essential and urgent need. Many define the growth imperative purely and succinctly in terms of asset size. Given current shifts in the priorities of donors and the perceptions of community foundation leaders, some are reconsidering this imperative. Still, the notion that any asset growth equals success continues to prevail as conventional, but not valid, wisdom.

Entrepreneurial civic leaders typically fuel the growth of emerging community foundations, investing both their resources and energy in building the organization from the ground up. Regardless of the foundation's first steps, early leaders typically start with the question “How fast can we grow?” and set an asset goal for \$5 million, \$10 million or even \$50 million.

Why do they set asset goals? Community foundation leaders cite three obvious reasons:

- More assets typically generate more fees.
- More assets typically generate more distributions for community grants.
- The greater the asset base, the greater the foundation's operating efficiencies and community influence.

The case is clear: foundations need to grow assets in order to expand their capabilities, reach and value in the community. But when it comes to sustainability, all assets are not equal.

## GROWTH PROFILE: SAN LUIS OBISPO COUNTY COMMUNITY FOUNDATION

### A GROWING REALIZATION

**Beginning:** Founded in 1998; board members raised funds for foundation operations in the early years.

**Challenge:** Once the foundation reached \$20 million in assets, a high percentage of which were endowed, the board expected the organization would be self-sustaining. When board members realized that revenue produced by these assets did not cover operating costs, they sought new ways to improve the organization's sustainability.

**Turning point:** The foundation examined its economics on a product-by-product basis to understand the sustainability implications of current patterns of growth. As a result, the foundation decided to prioritize some products more than others, even beyond its initial endowment emphasis. The foundation also changed its pricing structure for some funds and decided to increase its stability by raising an operating endowment.

One aspect of sustainability is the ability to cover costs with recurring sources of revenue

“We want to cover the majority of operating costs through fee revenue and distributions from an operating endowment. We don’t want to raise funds for operations year to year.”

San Luis Obispo County  
Community Foundation

“For us, sustainability means not being grant dependent. We want to reach a size such that our fees, service revenue and operating endowment distributions cover our costs.”

Shasta Regional Community  
Foundation

“We’ve always thought that if our fees covered our costs we would be sustainable. Building an operating endowment has not been a big push for us.”

Kern Community Foundation

Community foundation assets must be measured in terms beyond mere dollars.

A sustainability assessment looks at four key economic elements:

- Asset composition in terms of types and size of funds (also called products)
- The cost vs. revenue picture for each product
- The diversity and stability of revenue sources
- The organization’s cost structure

While most community foundations see the inherent importance of growing assets, these four elements are the most significant factors in defining the future sustainability of the organization.

Experience shows that while achieving an asset-based goal represents an important milestone, it does not always take the organization to a new level of operations, or represent a self-sustaining model. In the words of the CEO of Stanislaus Community Foundation, “We have realized that meeting our \$10 million goal does not automatically solve our problems.”

Once the first asset goal is reached, organizations feel the need to set another one. And the next one may not ensure sustainability either. Thus, the most common question “How fast can we grow?” can be misleading. As community foundations begin to develop a more nuanced understanding of growth and its effects, three increasingly strategic questions surface:

- **What are our goals for growth?**
- **What are the ways in which we can grow?**
- **How can we grow in a sustainable way that serves our mission?**

In the sections that follow, these questions are addressed using results of field-wide research, interviews with fast-growing innovative community foundations around the country, and the results of sustainability work with the nine emerging California community foundations engaged in Irvine’s Community Foundations Initiative II.

As community foundations begin to develop a more nuanced understanding of growth and its effects, three increasingly strategic questions surface.

# What are our goals for growth?

While predicting the pace of growth may consume the board and staff of emerging community foundations, it is a relatively unimportant question when compared to other needs. In fact, a focus on rapid growth can undermine a foundation’s longer term sustainability. Community foundations with a strategic approach to growth define success in ways beyond growing the asset base.

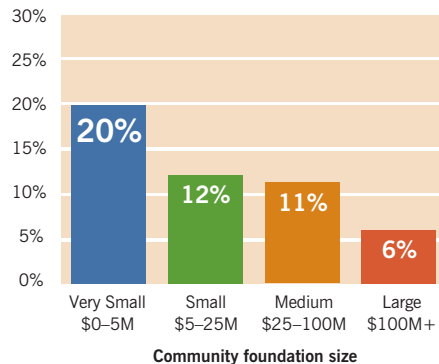
Most active small community foundations can expect rapid growth if past trends in the field are indicative of the future. Between 1995 and 2005, foundations with assets less than \$5 million experienced an average annual asset growth of 20 percent in constant dollars. In contrast, foundations in the \$5 million to \$100 million range grew an average of 11 to 12 percent annually. The largest foundations grew at an annual rate of 6 percent.

During this period of rapid growth, it took a community foundation an average of 12.6 years to reach \$5 million in assets, another 6.4 years to reach \$25 million and an additional 3.8 years to reach \$50 million.

Although this question — “How fast can we grow?” — may keep young community foundation CEOs up at night, it is not the most important question to ask. Reaching the next asset milestone does not translate to a secure future or a sustainable operating model. Reaching it by a self-imposed deadline does not add value either. In fact, a focus on rapid growth can undermine the organization’s longer term success.

During the years 2000-2005, community foundations of all sizes experienced operating deficits. Contrary to conventional wisdom, larger foundations — organizations with between \$100 million and \$250 million in assets — reported operating budget deficits more often than organizations of any other size. Organizations in the \$25 million to \$500 million range were more likely than smaller foundations to experience a gap between operating revenues and costs.

**ANNUAL GROWTH RATE OF ASSETS, 1995-2005**  
(CONSTANT DOLLARS)



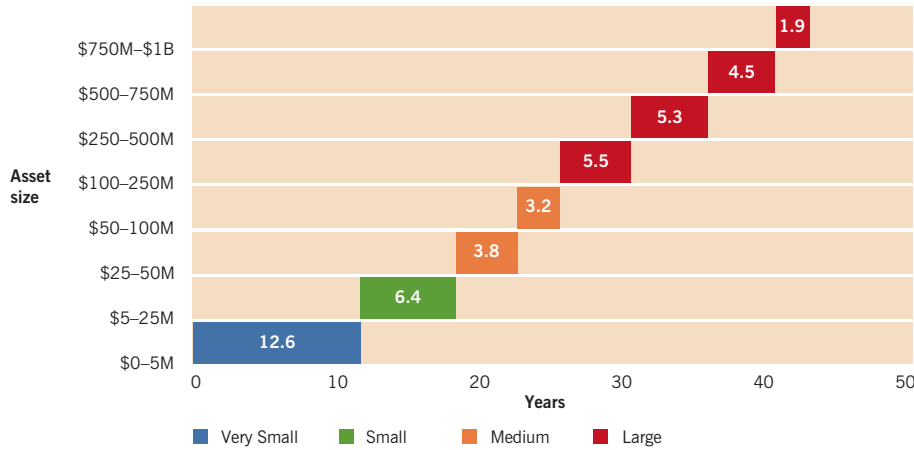
**Annual growth of assets has been more rapid for smaller community foundations**

As community foundations grow larger, it is difficult to maintain high rates of growth.

*Note: Size classification is based on asset values in 1995. Growth rate adjusted using Bureau of Labor Statistics Consumer Price Index change from 1995-2005.*

*Source: FSG analysis of Columbus Foundation Survey of Community Foundations*

**AVERAGE YEARS SPENT AT EACH STAGE OF GROWTH**



Community foundations can expect to spend different amounts of time at each stage of growth

Very small foundations experience a challenging start-up phase and build momentum as they grow.

*Note: The analysis is based on data from the 1995-2005 Columbus Foundation database. FSG calculated the average number of years that any foundation remained within the asset boundaries of each growth stage, including foundations that both entered and exited growth stages during this period (excluding 213 foundations that did not change growth stages).*

*Source: FSG analysis of Columbus Foundation Survey of Community Foundations*

For foundations of any size, rapid, unplanned growth can create problems. Adding funds and assets indiscriminately can weaken the organization’s overall economic picture. Growth in operating expenses can outpace the growth of fee revenue. Costs increase to serve the growing number of funds and to meet the demands of an expanding organization, such as new staff roles, upgrades in technology and expanding infrastructure.

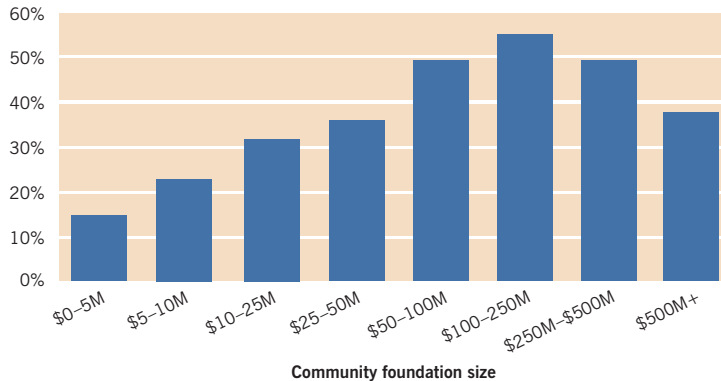
Compounding this challenge, new foundations often rely on a traditional fee structure that is not designed to cover the full costs of today’s operations. If a community foundation’s fee structure does not support existing charitable funds, adding more of those funds will weaken overall economics rather than increase sustainability.

**COMMUNITY FOUNDATIONS OPERATING WITH BUDGET DEFICITS IN ONE OR MORE OF THE LAST FIVE YEARS**

(BEFORE USING OPERATING RESERVES OR SELF-ADMINISTERED GRANTS)

**Larger asset size does not eliminate operating deficits**

Analysis shows that foundation size is not directly related to fiscal sustainability.



*Source: February 2005 survey of community foundation CEOs and CFOs (246 respondents), sponsored by the Council on Foundations Community Foundations Leadership Team and conducted by FSG*

## Projecting trends

In 2005, FSG worked closely with three emerging California community foundations. The team examined the economics and growth patterns of each organization to understand trends, cost drivers and revenue structure.

In each case, FSG and the community foundation projected future growth trends, anticipating the type of funds that were likely to contribute to fee revenue over the next five years.

The results of this analysis were surprising. Across the three foundations, continued growth following historical patterns does not lead to increased sustainability. Few funds at the foundations could cover their own costs. All foundations were supporting a wide number of small active funds, and the forecasting exercise predicted continued proliferation of these high cost, low revenue funds. As a result, anticipated growth of operating costs outpaced the growth in fee revenues. Each foundation faced an imperative to change its fund acceptance priorities, or fundamentally change its cost and revenue structures to build a stronger base for sustainable growth.

Making such strategic choices about the future can help put emerging community foundations on a path to sustainability. Each foundation must make choices that strike a balance between long-term economic sustainability and the level and depth of service offered in pursuit of its mission.

In other words, its economic model must match the role it seeks to play in the community. Sustainability is key to this equation: foundations must be able to manage

resources effectively over the long term to accomplish their missions. Successful growth therefore combines vision with the ability to weigh opportunities carefully, based on a clear understanding of the economic drivers of sustainability.

The path toward sustainability depends on defining desirable patterns of growth and asking

ever-more thoughtful questions about the implications of the choices being made. Sticking to the asset-based paradigm of success is like being on a constant treadmill toward an ever-changing goal.

Thus, rather than asking “How fast can we grow?”, a better question to pose is “What are our goals for growth?” Instead of setting purely asset-based goals, community foundations are beginning to define success in different ways. One element of success is saying “no” when saying “yes” would undermine the desired pattern of growth. For example, The Community Foundation of Mendocino County accepted slower organizational growth to keep pace with asset building. Given limited staffing, it also said “no” to some community activities. That is not to say that “no” is an easy answer to give for many emerging community foundations.

“The biggest challenge we face is saying ‘no’ and when and how to make those decisions,” said the CEO of Fresno Regional Foundation.

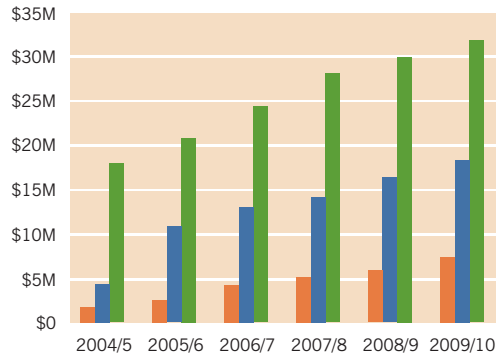
The path toward sustainability depends on defining desirable patterns of growth and asking ever-more thoughtful questions about the implications of the choices being made.

# The growth paradox

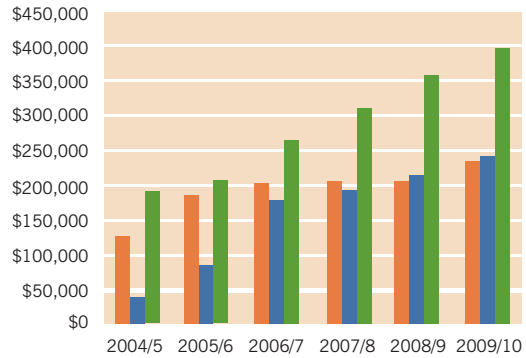
Analysis of data from San Luis Obispo County Community Foundation, Kern Community Foundation and Shasta Regional Community Foundation shows that some asset growth can have a negative impact on financial sustainability.

If all three foundations continued their current growth pattern, assets and fee revenue would grow.

**PROJECTED GROWTH IN ASSETS**



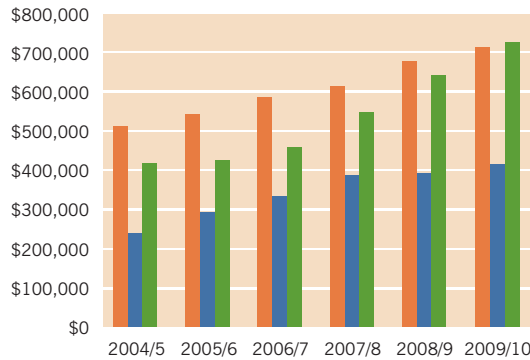
**PROJECTED FEE AND SERVICE REVENUE**



■ Shasta  
■ Kern  
■ San Luis Obispo

Despite the growth of assets and fees, however, costs would increase faster, ultimately decreasing sustainability.

**PROJECTED GROWTH IN COSTS**



**PROJECTED OPERATING DEFICITS**



Source: FSG analysis of financial data provided by San Luis Obispo County Community Foundation, Kern Community Foundation, and Shasta Regional Community Foundation

## Defining goals

In defining growth goals beyond asset size, community foundations are articulating success in diverse ways.

**Increasing the reach of grantmaking.** “The grants help people understand what a community foundation is all about,” said the president of Community Foundation of the Ozarks. “We focus on making a lot of small grants, because in Seymour, Missouri, a \$500 grant makes the front page of the weekly paper. A \$500 or \$1000 grant goes a lot further in these communities in terms of recognition or publicity.”


**Expanding the influence over grantmaking.** “We have very little in discretionary dollars,” said the president and CEO of Community Foundation of Lorain County. “We have focused on working with donors to do competitive grantmaking, and our donor advisors fund more than half of our competitive grants.”

**Building community referral networks.** “Almost 80 percent of our new accounts come to us by way of referral: from professional advisors, current donors and board members,” said the president and CEO of Omaha Community Foundation. “This is an important number for us that gives us focus around where to spend our time.”

**Growing community awareness and involvement.** “We pay a lot of attention to spreading our money around and thinking about the number of community members we touch,” said the executive director of The Harrison County Community Foundation. “If we go three weeks without being in the newspaper, we get concerned, and I spend a lot of my time at meetings and trying to make the foundation relevant to individuals.”

**Improving the proportion of costs supported by fees.** “Over time we want to increase the fees we are earning and diminish sponsorships and fundraising,” said the president of the Community Foundation Serving Boulder County. “We are at 72 percent and have increased that proportion every year.”

**Encouraging local philanthropy outside the foundation.** “We took it as our mission to expand the pool of long-term philanthropic assets for our community and did not care if they were assets of the community foundation,” said the CEO of Triangle Community Foundation.



Rather than asking “*How fast can we grow?*”, a better question to pose is “*What are our goals for growth?*”



# What are the ways in which we can grow?

The experiences of nine emerging California foundations and 15 of their peers in the United States suggest that no single “right” model for growth exists. The growth patterns of these foundations, however, reveal three prevailing approaches to achieving growth.

“What are the ways in which we can grow?” is the most fundamental question emerging community foundations face.

The Irvine initiative and related research clearly confirmed that no single “right” model for growth exists. Each individual community foundation’s values, community context, planning practices and organizational flexibility influence growth strategies and patterns. The attitudes, decisions and experiences of today’s community foundations point to three prevailing approaches which illustrate how emerging foundations achieve growth. These approaches can be characterized as controlled, engaged and leveraged.

In reviewing each approach it is important to understand:

- These approaches and the attitudes behind them can shift over time — particularly through changes in staff leadership and board membership.
- No single approach leads to the greatest success in building assets and contributing to the community — each has been demonstrated to support growth.
- The approaches are not mutually exclusive — one may simply be more dominant than the others in a given community foundation.

The approaches and illustrative examples of community foundation decisions and strategies described below present a set of choices for young and emerging foundations. These choices provide a glimpse of what the future might hold — depending on the strengths, attitude and approach of an individual foundation.

Each individual community foundation’s values, community context, planning practices and organizational flexibility influence growth strategies and patterns.

## Controlled approach: “We don’t spend money we don’t have.”

Community foundations with a controlled approach emphasize the need for organizational stability and independence, closely managing their expansion and corresponding operating costs. The CEO of The Community Foundation of the Great River Bend in Iowa captures the mindset: “Our staff and board had a philosophy: don’t spend money you don’t have.” Greater Green Bay Community Foundation decisions illustrate the “controlled” approach (see summary on page 16).

### CONTROLLED APPROACH

**Beginning:** In 1991, founders committed funds for five years of staffing and worked to build an operating endowment.

**Challenge:** Once the community foundation reached \$25 million, founders expected to keep operating costs below 1 percent of the asset base.

**Turning point:** Ken Strmiska, hired in 1998 to lead growth, focused on increasing community visibility and relationships: developing nonprofit endowments and supporting fundraising campaigns on a fee-for-service basis. Local leaders saw the community foundation as a relevant and positive force. Rather than pursuing

development of less restricted funds, the foundation worked through nonprofits to achieve a deeper understanding of the community, partner with individual donors and build relationships with professional advisors.

**Successful strategies:** To limit costs, the foundation shared staff, scholarship administration and administrative resources with other community foundations in the region. Streamlined grantmaking processes and strategic technology investments minimized demands on staff, and office space came as a partial contribution. “I don’t think it’s true that you only get to sustainability when you hit \$250 million,” said Strmiska. “You can’t ever think it’s about the dollar value of your assets. It requires a lot of tough love.”

To stay controlled, many community foundations limit their scope of services and activities. In its early years, San Luis Obispo County Community Foundation chose to concentrate on building endowed funds and preserving the spending power of the foundation’s assets through investments. Only after reaching the \$20 million mark did the board consider a next phase of community leadership activities. The Community Foundation of Mendocino County placed a deliberate emphasis on limiting the scope of services and activities to operate within a tight staffing model. Sharing learnings with emerging community foundations, the CEO of Greater Houston Community Foundation in Texas describes the foundation’s journey toward financial recovery through discipline. “We had a growing deficit and had to rein in some of our services and get hands around our financials. For four-plus years we were very focused on growth and management of our deficit and revenues and took our deficit down from \$800,000 to \$0. Now we are adding some activities back in, but sustainably or through a strategic decision to invest more.”

To stay controlled, many community foundations limit their scope of services and activities.

The controlled approach also emphasizes cost management and the creative use of multiple tactics. Kern Community Foundation partnered with the California Community Foundation for administrative support, outsourcing certain aspects of their operations. Some community foundations adopt and adhere to set policies in order to manage growth. These could include imposing a spending limit as a percent of assets, or defining a broader set of objectives around the escalation of costs over time.

To expand operations, controlled community foundations tend to build operating endowments or special funds designated to support key activities — making sure that each new investment in services has a corresponding funding source. The Community Foundation of Mendocino County placed a deliberate emphasis on building an administrative fund. It preserved the corpus of that fund by allocating only the interest from the fund to operating costs. For the CEO of Omaha Community Foundation, the priority was on fundraising for marketing.

“When I came in, I went out and raised pledges to create a \$1.5 million marketing budget — this was key to be able to tell our story,” he said. “For smaller community foundations that are strapped, it’s imperative that they develop a strategy that allows them some resources to do effective marketing.”

Along with the benefits, there are trade-offs to focusing on controlled growth. Controlled growth requires disciplined decision making and comfort with saying “no.” One consequence may be slower overall asset growth in the short term. Strict spending limits may reduce investments in community leadership and curtail the marketing activities that spark asset development. A narrower scope of accepted funds (product types or sizes) also means saying “no” more often. Controlled community foundations, however, consider the difficult decisions they need to make worthwhile, leading their organization to long-term stability and success.

“Our philosophy caused us to do things that were painful at the time, but worked out well in the long term. Looking back we are happy that we are independent and can do what is best for the community,” said the CEO of Community Foundation of the Great River Bend.

Controlled growth requires disciplined decision-making and comfort with saying “no.”

## Engaged approach: “Let’s get everyone involved.”

The engaged approach emphasizes the importance of building relationships and being relevant to a broad set of community stakeholders. Oftentimes, the community foundation takes an activist approach and addresses local needs in a way that relies on community involvement and collaboration, significantly tailoring the organization and its services to local community needs.

“Growth is a function of your name in the community as well as how effective you are,” said the CEO of Northern Virginia Community Foundation in Virginia. “We have to be more to the community so that the community will be more to us.”

Decisions made by The Community Foundation Serving Boulder County in Colorado illustrate the engaged approach and some of its trade-offs (see summary on page 19).

Engaged foundations emphasize using community involvement to expand their reach and impact, without necessarily expanding operations or staff. “We focus on helping anyone in our county to be a philanthropist,” said the CEO of Community Foundation of Lorain County in Ohio. This community foundation created a model that allows 26 public school districts and some private schools to establish endowment funds with direct deposit for school employees.

Engaged foundations emphasize using community involvement to expand their reach and impact, without necessarily expanding operations or staff.

“There are at least 2,000 people who support the school endowment funds from their paycheck, including some lunch service staff and janitors that give \$0.50 a paycheck, but it adds up and everyone gets to participate. Each school manages the work for us and then sends us a check once a month, and we hold \$11 million in 90 school endowment funds.”

Emerging community foundations have also designed products and funds to engage the local community in philanthropy. Both Kern Community Foundation and Shasta Regional Community Foundation run a Grants Advisory Board for Youth program, a “youth-to-youth” program that allows local teenagers to make decisions awarding grants in the community. It offers local teens a meaningful experience in philanthropy, encourages decision-making, promotes civic participation and distributes resources to local youth groups and youth-serving organizations. While such programs successfully engage residents, encourage future giving and create opportunities for visibility, these benefits must be weighed against the cost of activities that generate neither revenue nor donors in the short term.

Emerging community foundations are also growing the pool of foundation ambassadors by including other community members in grantmaking decisions. Shasta Regional Community Foundation, The Community Foundation of Mendocino County and Napa Valley Community Foundation include regional advisors and program committees in reviewing applications and awarding grants.

Trade-offs to focusing on engaged growth exist too. Engaged growth requires skill in building relationships and proficiency in managing complex initiatives and community expectations. In more than one case, a community foundation expressed the need to ensure that nonprofits feel like partners, not competition. One possible consequence of creative growth strategies is the potential for hallmark projects to overshadow the foundation itself, as nearly happened with the Millennium Trust at The Community Foundation Serving Boulder County. “The Millennium Trust was a turning point for us,” said CEO Josie Heath. “But after some people confused us with the Trust, we needed to work hard to build our reputation beyond that one initiative.”

Juggling multiple initiatives and revenue models can be a challenge. Each adds complexity and requires significant staff and volunteer management. For cash-strapped community foundations, extensive community engagement requires mobilizing a significant number of pro-bono and volunteer resources. Along with managing complex initiatives, engaged growth may require managing community expectations, a potentially difficult but also rewarding process. “In a fragmented county, we focused on being a neutral, convening source,” said the CEO of Community Foundation of Lorain County. “However, we’ve had to overcome the expectation that money will follow. We’ve done so by being a problem solver; there are a lot of collaborators you can pull together to do problem solving and you can build up your reputation by being honest and showing respect.”

Engaged growth requires skill in building relationships and proficiency in managing complex initiatives and community expectations.

For cash-strapped community foundations, extensive community engagement requires mobilizing a significant number of pro-bono and volunteer resources.

## ENGAGED APPROACH

**Beginning:** Founded in 1991 by a group of civic leaders.

**Challenge:** The foundation was growing slowly, primarily through the acquisition of Charitable Remainder Trusts.

**Turning point:** In 1994, the board asked two strategic questions: Should we be an affiliate of a larger community foundation? Or, should we increase our activity and expand our presence?

**Successful strategies:** Initially hesitant, the board ultimately decided to adopt a stronger and more activist stance in the community. “We heard from donors that when you don’t get involved, we don’t want to be involved with you,” said CEO Josie Heath. Several creative and proactive approaches have generated sustainable growth.

**Nonprofits:** The foundation decided to re-invent itself, first focusing on good relationships with local nonprofits. “We needed to convince the nonprofit community that we were not competition,” said Heath. “We needed to recognize the entrepreneurial spirit of nonprofits and give technical assistance to them in a way that enhanced their mission.” Despite limited resources, the foundation conducted nonprofit workshops and created awards for entrepreneurial nonprofits.

**Culture of giving:** In 1999 the foundation asked donors to commemorate the new millennium and confirm their belief in the future by donating their last hour of 1999 income to the Millennium Trust. The campaign mobilized volunteers, engaged a local newspaper and generated a series of stories on individual donors, eventually raising \$1.8 million.

“The Millennium Trust was a seminal point for us,” said Heath. “It raised our visibility, helped show that everyone can be a philanthropist and each year donors to the Trust were chosen to help with the distributions,” said Heath.

Most recently, the foundation launched an effort to build the culture of giving in the community. In response to research that revealed a lack of understanding about local needs, the foundation launched [cultureofgiving.org](http://cultureofgiving.org), a website that connects individual donors with local nonprofits.

**Expenses and endowment:** The foundation’s growth has not only been engaged but also sustainable. The foundation covers expenses through a combination of fees and sponsorships. Through one program, businesses sponsor foundation activities with annual contributions of \$25,000, \$15,000 or \$10,000. “Over time we wanted to increase the fees and diminish sponsor fundraising,” said Heath. “We cover 72 percent of expenses with fees and have increased that proportion every year.”

The foundation also raised unrestricted money by launching the “15 For Ever” campaign. “This year was our 15th anniversary,” said Heath. “As a part of trying to increase unrestricted dollars, we decided to be “15 For Ever” and raised \$300,000 so that 15 fifteen-year-olds can give out \$15,000 forever in our community.”

As a result of these and other efforts, foundation assets have grown from \$8 million in 2000 to \$31 million in 2005. The foundation has granted over \$13 million to its local community. The growth supports the organization’s mission and fits with its “engaged” approach, including a focus on building relationships and engaging community members in philanthropy.

## Leveraged approach: “We need to expand our reach.”

The leveraged approach emphasizes broadening the community foundation’s reach through partnerships and requires tremendous organizational and fiscal discipline. Decisions made by Community Foundation of the Ozarks in Missouri illustrate the leveraged approach and some of its trade-offs (see summary on page 21).

### **Geographic Affiliates**

One type of leverage taps the power of regional affiliates to cover broad geographic territories, access local knowledge and cultivate new donor relationships. Because this approach requires considerable investments of time, particularly at the outset, partnerships with private foundations can provide significant outside funding and instrumental support in building a successful affiliate model.

In California, several community foundations have created funding partnerships with private foundations. Shasta Regional Community Foundation, covering more than 10,000 square miles in northern California’s Shasta and Siskiyou counties, has maintained a local presence and dedicated staff in both counties with the support of the private McConnell Foundation. Shasta re-grants more than \$550,000 per year in the remote areas of the counties it serves. On behalf of The California Wellness Foundation, Kern Community Foundation is re-granting \$190,000 over three years to improve the health of underprivileged residents in rural Kern County.

Arkansas Community Foundation has received similar support from Rockefeller Foundation. “Our community foundation was nominally statewide, covering 75 counties, in a medium-size state, based in Little Rock, and not well known,” said the CEO of Arkansas

Community Foundation. “I saw two ways we could grow. First was the affiliate model — there was enough resistance in Arkansas, a perception that everything goes to Little Rock, that this was a good idea. Second, we needed to be known to professional advisors — we could not afford to buy general public awareness. So I put together a proposal for Rockefeller Foundation and we put together a capacity grant for four years

for \$500,000 and hired a chief development officer and an Arkansas traveler for our affiliate program and materials to supplement those positions. At the end of the program we had doubled our assets to \$30 million.”

**Employing matching and challenge fund strategies and funding partnerships with other regional funders is another, less intensive way to expand philanthropic resources through leverage.**

### **Matching Funds**

Employing matching and challenge fund strategies and funding partnerships with other regional funders is another, less intensive way to expand philanthropic resources through leverage.

The Lilly Endowment was instrumental in helping one Indiana community foundation build its unrestricted fund. “When Lilly Endowment said they’d give us a match for our operating fund, it was extremely successful,” said the CEO of Henry County Community Foundation. “Donors love matching funds! For a while, they would call and say, ‘Do you have matching funds going on now? If not, would you call and let me know when you do?’ Eventually we realized that we needed to branch out beyond funding from Lilly to meet

### LEVERAGED APPROACH

**Beginning:** Founded in 1973 as a volunteer organization in Springfield, Missouri. Between 1988 and 1999 the foundation grew from \$1 million to \$25 million in assets with a good reputation in Springfield. “We have an interesting culture since we are located in a small metropolitan area and a sparsely populated region,” said former board member and current president Gary Funk. “We were Springfield-centered and needed to develop a more sophisticated regionalized approach.”

**Turning point:** New Ventures in Philanthropy program, a multi-partner effort to promote rural philanthropy, uncovered opportunities. “We realized that there are tremendous opportunities for a regional approach,” said Funk. “In any metropolitan area you have a number of communities looking for philanthropic dollars—in small communities you don’t have that kind of competition.”

**Successful strategies:** A grant from New Ventures in Philanthropy program allowed the foundation to partner with councils of government and make contacts with rural community leaders throughout the state. As a result, the foundation established smaller affiliate community foundations in rural areas. “We don’t go out and solicit,

we go into the community when someone has requested that we come,” said Funk. “We work with a small group of people who have some credibility with the community, then expand to a larger group before we go public. The more organic and locally driven the ownership, the better.”

In supporting its affiliates, the foundation handles technical and administrative work, supports board and donor development and provides peer networking opportunities through web conferences, seminars and regional cluster meetings. A regional office and local partnerships support de-centralized governance. “We live a double life. We are a civic player in Springfield and as an organization we focus on developing other community foundations,” said Funk. “The key for us has been a tremendous staff that is very dedicated. They are former educators with strong follow-through and willingness to get in and help.”

The investment in affiliates has produced strong growth and increased sustainability. “We are at \$127 million in assets—\$46 million is in regional/affiliate foundations, the rest is primarily in metropolitan Springfield,” said Funk. “In 1999 less than 1 percent of assets were regional so we’ve experienced a lot of growth and those trends are continuing.”

donor expectations, and we had three or four donors provide matching funds to help with meeting our unrestricted fundraising goal.”

At another community foundation in Indiana, leaders employed a match of their own to grow the permanent endowment. “The flow of unrestricted money from our local casino has allowed us to steal a concept from Lilly,” said the CEO of The Harrison County Community Foundation. “We match all contributions from the public into the foundation.”

Along with the benefits, trade-offs to focusing on leveraged growth must be considered. Leveraged growth requires significant investment and discipline. Affiliates have the potential to multiply growth opportunities, but come with the likelihood of significant financial and staff requirements — possibly diverting resources away from other priorities. “The affiliate model works if we collect all the fees from the funds held by our affiliates,” said the CEO of Arkansas Community Foundation. “They are an engine for our growth, but if you don’t have the capacity to service them, it’s a drain on credibility and resources. Affiliates in and of themselves are not revenue generators, they are loss leaders for a long time.”

# How can we grow in a sustainable way that serves our mission?

Controlled, engaged and leveraged growth that is also sustainable requires informed decision making and active management of community foundation economic drivers.

Many community foundations welcome any and all donors and any and all funds. While this is consistent with a mission to advance philanthropy and serve donors, an open door policy can pose challenges. If the policy reflects a lack of understanding of the economic implications of all funds, it may ultimately undermine the community foundation's long-term ability to serve its community.

The first step on the path to increased sustainability and impact is mastering an understanding of the community foundation's economics. The economics for larger community foundations were investigated extensively by FSG and reported in the 2003 white paper, "*Strengthening Community Foundations — Redefining the Opportunities*" (for an electronic copy, visit [www.cfinsights.org](http://www.cfinsights.org)). Work with Irvine's Community Foundations Initiative II cohort of nine small California community foundations has led FSG to confirm lessons from the earlier investigation and to refine those lessons for small and emerging community foundations.

Given the far-reaching consequences of decisions made by these organizations today, this work has the potential to change the course of future organizational growth and social impact.

Key strategic decisions currently undertaken by community foundation board and staff include:

- Setting clear product and fund *priorities* for development
- Aligning *pricing* with cost drivers and donor incentives
- Achieving consistent *revenue* by diversifying sources
- Managing the *cost* base

The first step on the path to increased sustainability and impact is mastering an understanding of the community foundation's economics.





## Setting clear priorities for product and fund development

In each community foundation, some products generate more revenues than costs. Others generate more costs than revenues. Understanding the economic profile of each product — both revenues and costs — is an essential first step to determining priorities for development efforts. When the costs of maintaining a fund exceed the revenue it produces, the foundation is providing a subsidy to sustain that fund. In many cases, these subsidies are implicit and therefore invisible to board and staff. When financial analysis uncovers these implicit subsidies and makes them explicit, the information can help frame choices that will improve the foundation’s economic future and its ability to serve the community over the long term.

Understanding the economic profile of each product—both revenues and costs—is an essential first step to determining priorities for development efforts.

Donor behavior and fund economics can vary significantly for endowed versus non-endowed funds. In most cases, community foundations charge a fixed percentage-of-assets fee on both. Because endowed funds are usually designed to grow in value over time, many community foundations establish fixed spending policies to preserve the purchasing power of the fund. Non-endowed funds are different. In most cases, donors have the flexibility to spend the entire balance, often with unpredictable timing. Because this kind of giving has grown faster than endowed giving for most community foundations over the last decade, the distinction is particularly important for small and emerging community foundations.

The conclusion based on these observations is not that community foundations should avoid non-endowed funds. Rather, they should price them in accordance with their economics and the foundation’s mission-driven priorities.

For Kern Community Foundation, it was of paramount importance to the executive director and board to welcome both endowed and non-endowed funds. To ensure uniform sustainability, the foundation and FSG developed different pricing models based on the underlying donor behaviors unique to each kind of fund. The community foundation now charges an annualized 2 percent fee on the first \$1 million of endowed assets. For non-endowed funds, it charges an annualized 2 percent fee on the combination of asset balance and grants made. A fee on both assets and grants better captures the costs and covers the activity level of non-endowed funds.

FUND	AVERAGE ASSETS	ANNUAL GRANTS	FEE
Endowed	\$500,000	\$25,000	2% of assets = \$10,000
Non-endowed	\$500,000	\$100,000	2% of assets and grants = \$12,000
Non-endowed	\$500,000	\$250,000	2% of assets and grants = \$15,000

### Capturing and recovering real costs

Kern Community Foundation fee structure illustration

Community foundations can prioritize growth in product areas with strong economics or a strong connection to their mission. In an effort to focus on supporting its mission “to assist donors in building an enduring source of charitable funds to meet the changing needs and interests of the community,” San Luis Obispo County Community Foundation focused on building endowed funds from its inception in 1998. By 2006, nearly 92 percent of \$26.5 million in assets were in endowed funds.

At the same time, community foundations can elect to eliminate services; every community foundation need not offer every product. In 2006, Shasta Regional Community Foundation made a significant decision to transition its Center for Nonprofit Resources services, including a library, workshops and consultant referral service, to another

organization in the community. After years of providing services through the Center to the nonprofit community, the foundation conducted a thoughtful investigation into nonprofit needs and usage patterns at the center. This assessment, combined with an economic analysis, led to the conclusion that Center activities no longer fit with the community foundation’s focus. Because Shasta Regional Community Foundation originally spun out of the Center

for Nonprofit Resources, this decision demonstrated great courage and commitment to sustainability.

A community foundation that is more selective in accepting funds may grow its overall assets more slowly, but its focus on sustainable growth and mission-driven priorities offers future benefits. By growing a strong base of products that generates a financial contribution to the organization, the foundation has the flexibility to serve its community in other ways. Surplus income from its products provides additional services and allows it to meet other community needs.

As they work to align fund policies and pricing with priorities, community foundations should begin by examining the internal economics of their funds.

## Aligning pricing with cost drivers and donor incentives

Small and emerging community foundations have an opportunity to better align fund pricing and priorities, and even to break out of the traditional community foundation mold entirely.

As they work to align fund policies and pricing with priorities, community foundations should begin by examining the internal economics of their funds. With different economics, the cost-to-serve for each fund may be unrelated to its size and fee revenue. It’s not uncommon for a few large funds to generate revenues sufficient to cover the costs of operating many smaller funds and support community services such as workshops, promoting philanthropy or offering assistance to nonprofits.

Emerging community foundations often accept small funds for two reasons: so donors of any financial ability can participate in community philanthropy, and so targeted donors can “try out” the organization. Foundations frequently cultivate small funds with such donors in the hopes of receiving a larger gift or bequest in the future. In the present, however, they must be aware of the investment required to administer a large number of small funds. The graphic on the facing page shows that, in some cases, it may take a six-figure future gift to compensate for the costs of servicing a small donor advised fund for 15 years.

## SMALL GIFTS, BIG IMPLICATIONS

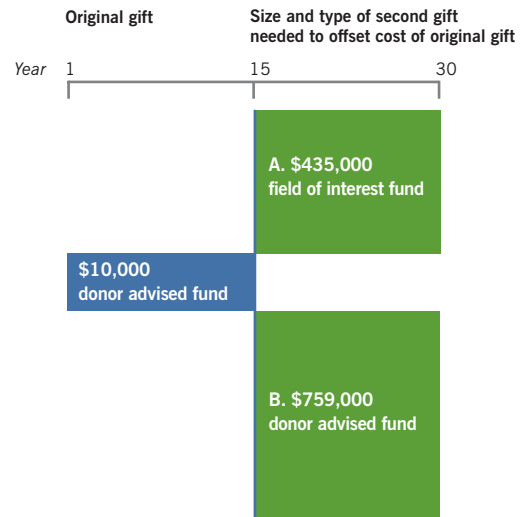
Emerging community foundations are faced with a perplexing question: “Is it worth taking on a small donor advised fund in hopes that the donor will make a major gift later?” Knowing the break-even reality of accepting a small gift can guide you in answering this question for your organization.

### Here’s a scenario that can help.

Let’s assume you set up a new donor advised fund today in the amount of **\$10,000** to be spent down over 15 years. Based on analysis of actual community foundation experience, the cost of maintaining this fund is over \$2,000 per year — a total of nearly **\$31,000** over the fund’s 15-year life.

*What size and type of new gift would you need to offset this cost?* Let’s assume that you receive a new gift at the time the donor advised fund is spent down (the beginning of year 16), and that you are looking at a 15-year investment horizon (carrying you to year 30) for this new gift to “pay back” the total \$31,000 cost of managing the original donor advised fund. You would need one of the following:

- A. A new field of interest fund gift (i.e., a largely unrestricted gift that requires less donor-specific interaction and accounting) in the amount of **\$435,000** to cover the cost of the original donor advised fund.
- B. A new donor advised fund gift in the amount of **\$759,000** to cover the cost of the original donor advised fund.



*Note: Calculations based on 9% investment return, 15% payout rate from a donor advised (DAF) fund, 5% payout rate from a field of interest (FOI) fund, and 3% discount rate. Figures are rounded to the nearest thousand. All fees and product administration costs are the average of the three foundations studied.*

*Source: FSG analysis of financial data provided by San Luis Obispo County Community Foundation, Kern Community Foundation, and Shasta Regional Community Foundation.*

As for encouraging broad participation, one must ask if establishing a small individual fund is the best way to foster community philanthropy. In some cases the answer is yes: donors will gain confidence in the community foundation, grow their funds and leave bequests that yield significant grants for the community. Other options to engage donors do exist, however, and may not carry the administrative burden of many individual funds. By offering products that are tailored to smaller donations, community foundations can explore creative ways to engage donors with more limited philanthropic resources. Both San Luis Obispo County Community Foundation and Kern Community Foundation have extremely active Women’s and Girls’ Funds — essentially field of interest funds — which involve a large number of donors in the community. Because this approach involves pooled funds, advisory committees and administrative work, costs must be considered too. With reasonable efficiencies, it should be more cost-effective than managing multiple small funds, and provide the added benefits of bringing people together and encouraging community philanthropy.

Beyond grantmaking, community foundations can also engage donors in directly supporting the work of the community foundation. For example, Baton Rouge Area Foundation funds 15 percent of its operational budget through memberships which start at \$100.

**In addition to reviewing internal cost considerations, community foundations must consider the perspectives and needs of donors.**

While some community foundations have adapted the traditional community foundation model, others have chosen to break away from it.

In addition to reviewing internal cost considerations, community foundations must consider the perspectives and needs of donors. They can design policies and fees to encourage desired donor behaviors. For example, community foundations can offer the most attractive pricing for products most aligned with the mission. For non-priority funds that do not cover their costs, they can consider raising fund minimums or establishing minimum fees for products so they can be self-sustaining. Both San Luis Obispo County Community Foundation and Shasta Regional Community Foundation charge a higher fee (3 percent of assets) for scholarship funds to cover the staff support they require. Solano Community Foundation charges between 5 percent and 7 percent per year for all non-permanent funds, depending on the amount in the fund and level of activity.

While some community foundations have adapted the traditional community foundation model, others have chosen to break away from it. Napa Valley Community Foundation is trying to strike a different partnership with donors based on shared interest in community impact and the idea that donors would like to leverage their resources (see summary on page 27). Given the diversity of communities served by small and emerging community foundations today, and the need for them to differentiate the value they provide from competitors, new economic models and partnerships will continue to emerge.

### Achieving consistent revenues by diversifying sources

A new mindset about revenue beyond asset-based fees leads to more stable and diversified revenue models.

Another driver of sustainability relies on developing diverse, reliable sources of operating revenue in addition to administrative fees. While many mature community foundations expect fee revenue to cover more than 90 percent, if not 100 percent, of operating costs, emerging foundations typically cover a smaller percentage of their costs with fee revenues. Start-up operating expenses vastly exceed the fees that a young foundation's asset base can reasonably generate, so it needs to make up the difference with alternative sources of revenue. For foundations in the Irvine CFI II cohort, fees covered an average of only 36 percent of operating costs, requiring a creative approach to funding the remaining costs. This is typical among smaller community foundations, who are investing in operations in anticipation of future assets generating more substantial fees. Creativity and measured risk-taking, as well as developing a new mindset about revenue beyond asset-based fees, lead to more stable and diversified revenue models. Both are critical to successful growth.

A necessity for many emerging foundations working to cover operating expenses, diversification over the long term also helps stabilize the economic model in the face of market downturns. Without this diversification, community foundations' operating revenues are highly susceptible to changes in asset values. It requires years of healthy budget surpluses or generous donor contributions to build an operating reserve that can be drawn upon in times of market volatility.

Across the field, community foundations use a variety of tactics to cultivate different types of revenue, including building administrative endowments or funds, attracting donations and sponsorships and offering value-added services for a fee.

**BREAKING THE MOLD**

**Beginning:** Since 1994 the Napa Valley Community Foundation has distributed over \$10 million in grants, mostly through its donor advised funds.

**Challenge:** A local catalytic event, a major flood, caused foundation leaders to recognize that they had a unique opportunity to make a big difference in the recovery process. Their asset composition, however, made it difficult to act. “We had to go to each of our donors and lost a lot of time and could have helped more people if we had more money,” said CEO Terence Mulligan.

**Turning point:** New thinking in the field on sustainability, impact and the strength in numbers (as exemplified by Warren Buffet’s gift to the Bill and Melinda Gates Foundation) led the CEO to a profound re-examination of the foundation’s model. “A year ago I would have said we were a philanthropic bank and our account holders work with us because of economies of scale and because our professional staff can assist when donors need help with grant distributions,” said Mulligan. “Today I would describe it as a magic gear box that can take a little bit of money and turn it into a lot of impact—donors can work together and leverage and multiply the impact, share risk and connect with one another.”

Staff and board members also transformed the way they thought about sustainability. “I used to think that if I would get to \$50 million and 2 percent fees, that would be great,” said Mulligan. “I used to think our revenues were a pie chart of one color comprised of fees from donor advised funds, but now I understand that cost can grow faster than revenues and the pie should have at least three or four colors if we are going to be sustainable.”

**The new model:** The community foundation has found a different way to work with donors in partnership to serve the community. “In the last year the foundation has focused on developing a new business model. In our new business all of our donors are asked to give 5 percent of their donor advised fund assets every year to a Community Impact Fund (CIF),” said Mulligan.

The foundation has created multiple funds to address pressing community issues and meet donor interests including a Disaster Relief CIF, an Arts CIF and three

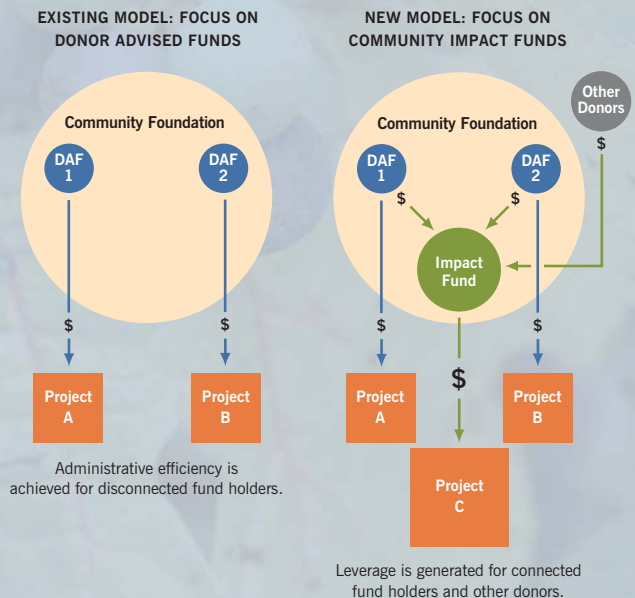
geographically based CIFs. The foundation market-tested the new model with key donors and made modifications to the requested allocation and to the fee model, charging a 10 percent annual administrative fee on CIF funds to support the work.

**Early reactions:** “I think we can succeed because there is a philanthropic tradition in our community and people are willing to pay a premium to locals—as long as we can provide value,” said Mulligan. “The donors who have said yes so far are people who know us and love us—6 of 10 key donors said yes. We’ve also tested our model with two new donors—one said yes, one said no.”

As a community foundation we need to find a way to be a strategic facilitator rather than just a fund administrator,” said Mulligan. “We believe there is strength in numbers—that by working together, we can help more people more quickly than any one donor acting alone. We multiply the impact of individual givers, pooling resources for the common good in our Community Impact Funds.”

**Contrasting models**

Leverage and expert management yield greater impact



To diversify revenues away from fees on funds, many community foundations build an operating endowment or establish an administrative fund. For example, The Community Foundation of Mendocino County has used its growing investment income from an administrative fund to offset operating expenses. Gifts from individual donors seeded the fund. San Luis Obispo County Community Foundation is launching a campaign to build an operating endowment to meet its need for future investments in services.

Nontraditional contributions can make a significant difference for community foundation operations. Support from corporate partnerships, such as donations of office space, can also help close the gap between costs and revenue. They also build valuable relationships with key stakeholders. Northern Virginia Community Foundation recently received support from Booz Allen Hamilton. The firm provided office space, access to technology and gave the community foundation a \$125,000 grant to fund two staff positions shared with another nonprofit. Many community foundations in the Irvine CFI II cohort occupy premises where rent is donated or subsidized.

Nontraditional contributions can make a significant difference for community foundation operations.

Community foundations are also relying on alternative fee structures for new kinds of services. Some foundations have raised or restructured fees for higher-value services to engaged donors. Others provide administrative services to private foundations as a fee-for-service arrangement, or offer re-granting services for private foundations interested in local philanthropy. In California, Shasta Regional Community Foundation's partnership with the McConnell Foundation and Kern Community Foundation's partnership with The California Wellness Foundation involve re-granting private foundation dollars in local communities. The fees for these arrangements are typically significantly higher than for individual funds because of the higher complexity and sophistication of the service provided by the community foundation. For example, re-granting may require the set-up and facilitation of local advisory grantmaking committees as well as investments in research to determine local needs and the best opportunities for impact. The private foundation is often investing not only in an individual project, but also in the capacity of the local community foundation as a potential long-term partner in the region.

Additionally, some foundations are being more explicit with donors about the need for revenues to grow community leadership activities or promote philanthropy more broadly. For some foundations, this simply means reframing the administrative fee as a contribution to the community foundation, explicitly recognizing that the donor is supporting more than just transactions and administrative activities through the fees assessed on a fund. Other foundations are more directly raising fees or generating operating contributions to support community leadership activities, raise funds that address critical community needs or promote local philanthropy.

Some foundations are being more explicit with donors about the need for revenues to grow community leadership activities or promote philanthropy more broadly.

Increasingly, innovative community foundations see these less traditional revenue sources not just as a stop-gap during the early stages of development as the foundation builds assets and fees, but as a means of diversifying and stabilizing the revenue base as the foundation matures and expands its work.

## Maintaining controlled costs for sustainable growth

Small and emerging community foundations also find creative ways to manage the cost base including hiring versatile staff, using volunteer energy and in some cases outsourcing administrative tasks.

The largest expense for most community foundations is staff: salaries, benefits and overhead. At emerging community foundations, creative solutions have helped control staff costs. Most staff members wear multiple hats, and “hybrid” jobs are common, such as a staff member who focuses on serving existing donors, leading the foundation’s marketing and administering scholarship programs.

Small community foundations also use contract resources. Both The Community Foundation of Mendocino County and Shasta Regional Community Foundation contract part-time financial service professionals who essentially play a chief financial officer role at the organization. One of the hardest decisions for a young or emerging community foundation is when to invest in specialized staff and resources and what kind of expertise to hire.

The board members at emerging community foundations also play a critical role — fulfilling governance duties of fiduciary responsibility and strategy oversight, and contributing individual skills and expertise as ambassadors for the foundation in the community. At Placer Community Foundation, volunteer energy provided the impetus for forming the foundation. At the urging of local community volunteers, the organization underwent a conversion from private foundation to community foundation status in 2005. Board members graciously stepped up and did the hard work of learning about the role of a community foundation. They committed to promoting new types of charitable giving across their county and growing more permanent philanthropic resources. The individuals on the board have dedicated their time on a weekly basis to lay a foundation for success — setting up policies and procedures, meeting with community members and tapping into new networks — all as volunteers.

At Shasta Regional Community Foundation, board members are contributing their professional skills to the formation of a Real Estate Foundation. Board expertise on private and commercial property, law and investments is being leveraged to create a new capability at the organization and a new stream of revenue.

Outsourcing is a new practice for community foundations in general. Still, the entrepreneurial spirit of today’s emerging community foundations prompts them to explore different models. Kern Community Foundation partnered with the California Community Foundation for administrative support, outsourcing certain aspects of its operations. The foundation benefits from the California Community Foundation’s investment expertise and streamlined administrative and reporting processes, and it provides local donors with the assurance that as a relatively young organization, the foundation has the support of a stable partner.

**The largest expense for most community foundations is staff: salaries, benefits and overhead. At emerging community foundations, creative solutions have helped control staff costs.**



## Managing growth and sustainability requires strong board leadership

Emerging community foundations have an opportunity to learn from their peers and shift from unplanned growth to controlled, engaged and leveraged growth that is sustainable. The boards of emerging community foundations play two particularly important roles: supporting their organization with hands-on help, and fulfilling their stewardship responsibilities to guide the organization on a strong path to growth.

All of the community foundations interviewed emphasized the importance of board contributions and guidance. Board members are instrumental in helping the organizations develop plans and see them through. Many board members also put in volunteer time, actively raise funds and are highly visible in the community, both guiding and supporting staff efforts in many ways. These roles are critical for all community foundations, but particularly important for the entrepreneurial, emerging foundations that are striving to expand resources and demonstrate value to the community. As an illustration, in Iowa, the board has contributed in a variety of important ways.

“Our board has been active in our success,” said Susan Skora, president and CEO of the Community Foundation of the Great River Bend. “In the beginning, all board members did fundraising for operations. Last year, our board said we want to be more intentional with some of our grants. Our strategic plan was probably our biggest breakthrough. We now have buy-in from the board and they are working to make things happen.”

Leadership is a critical component in success. “The majority of this is about having the right staff and board leadership,” said Hans Dekker, president of Community Foundation of New Jersey. “If you don’t have the right leadership on both board and staff, you won’t succeed.”

In fulfilling their responsibility as stewards of the foundation’s mission and resources, board members have a tremendously important role to play in guiding organizations on a path to controlled, engaged or leveraged growth that is sustainable. Boards can begin by defining goals that extend beyond asset targets. Boards can follow through by asking questions and helping the organization determine its approach to growth and by actively engaging on sustainability issues.

### The board role in guiding community foundations to increased sustainability and impact

Develop an understanding of the foundation’s economic picture.	Determine development priorities for each product.	Align pricing, incentives and acceptance policies with priority products.	Review the foundation’s economic profile annually.
Key elements of the picture include asset composition by product, product-specific costs and revenues, and past growth trends.	Promote products that provide the most value to the community and that the foundation can support economically.	Participate actively in communicating changes to donors and the community.	The economics of emerging community foundations change rapidly. An annual review does not necessitate annual changes; it does help ensure the foundation is moving in the direction of its goals and priorities.





## Conclusion

Growth alone does not ensure sustainability, and no single approach to growth is right for all community foundations.

Each community foundation must chart its own course, aligning a clear mission and goals with a solid economic model, creating value for the community today in ways that also contribute to long-term sustainability tomorrow. Foundation boards and CEOs must make a consistent set of decisions about their foundation's operations, role in the community and approach to growth that will enable the foundation to become and remain sustainable as it grows, rather than hoping for sustainability at some future moment. The innovations that emerging foundations bring to this challenge are already reshaping community philanthropy. Over time, they will enable community foundations of all sizes to achieve greater success and social impact in their communities.

As they grow, emerging community foundations are finding new ways to align income and mission that go well beyond the traditional community foundation model. Research clearly shows that the traditional community foundation model, to which so many emerging community foundations aspire, is not a reliable path to sustainability. While there is no single approach to growth that is right for all community foundations, achieving sustainable growth and impact depends on clear priorities, coherent pricing, consistent revenues and controlled costs, all grounded in the community foundation's mission.

Simply put, the most important question facing emerging community foundations is, "How can we achieve our mission in a sustainable way?" Research indicates the easy answer of "more growth" is not enough. It is a false hope to assume that deficits will disappear when a given threshold of asset size is crossed.

**The boards of emerging community foundations play two particularly important roles: supporting their organization with hands-on help, and fulfilling their stewardship responsibilities to guide the organization on a strong path to sustainable growth.**



### Tools for Sustainability Analysis

In response to the needs of the field and under the guidance of the Council on Foundations Community Foundations Leadership Team, FSG Social Impact Advisors created a new division called Community Foundation Insights (CFI). Community Foundation Insights serves as a centralized resource for data and tools that enable community foundations to analyze their own information and compare themselves to self-selected peers. To learn more about Community Foundation Insights, visit [www.cfinsights.org](http://www.cfinsights.org).

Successful and sustainable growth combines vision, planning and strategic flexibility with an understanding of the economic drivers behind the community foundation's operations. Over the long term, all community foundations best serve their communities when the asset-building strategy is carefully aligned with a realistic plan for sustainability, allowing them to make economically sound choices. Leaders of emerging community foundations hold the key to laying the groundwork for sustainable impact.

To help board members at small and emerging community foundations begin this process, FSG has developed a set of discussion questions based on the content of this white paper. Community foundation leaders can also access a variety of tools designed to analyze community foundation economics and uncover drivers of sustainability at [www.cfinsights.org](http://www.cfinsights.org).

The opportunity for shaping the future of community philanthropy lies in emerging community foundations breaking the mold, sharing their ideas and success stories with colleagues across the field and finding new ways to balance economic sustainability with donor engagement and service to the community. The lessons they learn have the potential to alter the landscape of community philanthropy, fostering new forms of civic leadership, increasing the vitality of community foundations and creating greater social impact.

Over the long term, all community foundations best serve their communities when the asset-building strategy is carefully aligned with a realistic plan for sustainability, allowing them to make economically sound choices.

# Discussion Guide

This straightforward but thought-provoking tool was created for community foundation board meetings. Managing growth and sustainability at today's community foundations requires strong board leadership. This guide features a series of questions related to growth and sustainability for emerging community foundations.

## Perspectives on the growth of the community foundation

How has the community foundation changed over time? What is different about our philanthropic activities today compared to when we first began?

Looking back, what were some of the most important decisions made by the foundation early in its development that led us on our current path to growth?

How should our community foundation define success beyond asset growth?

How would we articulate our approach to growth over the next five years — what are our values and what is our mindset or approach?

What critical decisions on growth and sustainability are we facing today?

These questions are designed to draw community foundation leaders into deeper inquiry, dialogue and analysis based on the full meaning and implications of *Growing Smarter*.

## Active approaches to managing sustainability

How does our community foundation define sustainability?

How sustainable is our community foundation today? Where do we want to be in five years?

Is the gap between our income and expenses growing or narrowing? What type of recurring budget challenges do we face?

In the next five years, where do we want to be in terms of income and expenses?

What are the economics of the funds or products we offer, and which should we prioritize for growth based on balancing mission and sustainability?

Is our pricing structure aligned with our cost base and with incentives for donors?

What is the mix of revenues at our community foundation? What are our largest revenue sources and how stable or predictable are they?

How much of our operating costs are covered by administrative fees from donor funds? What other sources of revenue does the foundation rely on and how have these sources of revenue been cultivated?

How has our cost base changed in recent years? Where have we gained efficiencies?

What new investments should we make in the foundation's infrastructure and staff and what is the anticipated benefit or return of those investments?

How actively has the board engaged in guiding the foundation on a path to sustainability?

Does the board understand the drivers of the foundation's economics? Has the board discussed product priorities, pricing and policies? Is the board monitoring progress toward sustainability?

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