



# The Future of Community Foundations: The Next Decade

*Prepared for*

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Foundation**

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## **Many Community Foundations Operate Under A Set of Six Prevailing Myths**

- 1. Community Foundations have a sustainable economic model**
- 2. The more we grow the easier it will be to balance our budget**
- 3. Any fund is a good fund – regardless of size, type or customization**
- 4. Community Foundations can only be compared by asset size**
- 5. Community Foundation success depends on growing Donor Advised Funds (DAFs)**
- 6. Community Foundations can compete with commercial gift funds by offering donor advice and better service**

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## FSG's Research Disproves these Prevailing Myths

1. Community Foundations have a sustainable economic model
  - **There is a fundamental mismatch between CF costs and revenues**
  - **69% of CFs cannot cover costs from traditional fees alone**
  - **39% of CFs had a deficit -- after all sources of income -- in at least one of the last five years**
  
2. The more we grow the easier it will be to balance our budget
  - **The likelihood of a deficit increases with size up to \$250 million in assets**
  
3. Any fund is a good fund – regardless of size, type or customization
  - **At least 2/3 of all funds typically cost more than the revenues they generate**
  - **Funds that are unimportant to the foundation's mission are often subsidized by scarce operating dollars**
  - **Account customization, product variations, discounted fees, and small funds are the major factors behind excessive costs**

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## FSG's Research Disproves these Prevailing Myths

4. Community Foundations can only be compared by asset size
  - **CFs perform a similar set of 87 basic activities**
  - **Similarities are driven more by product mix rather than asset size**
  - **Small foundations may be more cost efficient than large ones**
  
5. Community Foundation success depends on growing Donor Advised Funds (DAFs)
  - **There are many different models for CF success**
  - **The likelihood of a deficit increases with the percent and growth rate of DAFs**
  
6. Community Foundations can compete with commercial gift funds by offering donor advice and better service
  - **Donors are price sensitive – they rarely want and are even more rarely willing to pay for philanthropic advice**
  - **Commercial funds have an overwhelming competitive advantage on cost, technology and marketing – which most CFs cannot match**

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## **New Trends Portend Increasing Pressures on Community Foundation Sustainability**

- **Lower tax rates**
- **Rising interest rates**
- **More competition**
- **Greater reliance on technology**
- **Expanding social needs**

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## **The Impact of These Trends Will Drive Continued Change in the Field**

### **Competition will drive differentiation**

- Community foundations will increasingly specialize in order to compete in their local markets and demonstrate their value

### **Slower growth will drive efficiency and, in some instances, consolidation**

- Fewer new community foundations will be started
- Cost pressures may drive smaller foundations to partner with each other or larger foundations
- Sharing the most efficient practices will be essential

***Smaller foundations may be more dependent on national services  
because they cannot afford to offer them on their own***

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## **The Drive for Efficiency Will Encourage Consolidation, Yet Be Offset by the Advantages of Local Relationships**

**Community foundations would gain efficiency benefits from nationalizing ...**

- Investment management of pooled funds
- DAF administration, grant processing and back office support
- Marketing research & materials

**... But there are also strong reasons to keep these activities local**

- Investment links to trustee banks
- Local investment advisors who refer donors
- Building close relationships with donors
- Leveraging knowledge of the nonprofit community
- Local donor development activities
- Targeted marketing materials that appeal to local constituencies

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## Three Value Propositions for Community Foundations Have Emerged offering Different Degrees of Comparative Advantage

<u>Value Propositions</u>	<u>CF's Comparative Advantage</u>	<u>State of the Field</u>
<ul style="list-style-type: none"> <li>● Efficient vehicle for implementing charity</li> </ul>	<ul style="list-style-type: none"> <li>● <b>Low</b></li> </ul>	<ul style="list-style-type: none"> <li>● Significant area of investment and progress</li> </ul>
<ul style="list-style-type: none"> <li>● Knowledgeable advisor in guiding donor contributions</li> </ul>	<ul style="list-style-type: none"> <li>● <b>Medium</b></li> </ul>	<ul style="list-style-type: none"> <li>● Receiving more attention recently but still a low area of CF investment</li> <li>● Broad donor willingness to pay remains questionable</li> </ul>
<ul style="list-style-type: none"> <li>● Change agent in the community (<i>i.e.</i>, community leadership)</li> </ul>	<ul style="list-style-type: none"> <li>● <b>High</b></li> </ul>	<ul style="list-style-type: none"> <li>● Underinvested in to date</li> <li>● Constrained by the existing revenue model</li> </ul>



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## **CFs Will Need to Tap into Alternative Sources of Revenue to Subsidize Community Leadership Activities**

- **Community Leadership Contributions**
- **Alternative Fee Structures**
- **Endowed Operating Funds**
- **Self Administered Grants**
- **Grants from Others**

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## The Most Profound Shift in the CF Field Over the Next Decade May Be a Consequence of the Greater Emphasis on Community Leadership

### From 2005

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- Small area of CF investment
  - 0-10% of costs
- Supported by fee-based revenue streams
- Extension of unrestricted grantmaking
- Intentionally non-competitive with local nonprofits
- Limited source of CF differentiation

### To 2015

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- Significant area of investment
  - 10-25% of costs
- Self-funded by operating contributions
- Discrete and often not dependent on grantmaking activity
- Supporting, but also raising funds alongside local nonprofits
- Primary source of CF differentiation

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# Question and Answer Discussion

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## Achieving Community Impact

<b>Non-Grantmaking Initiatives</b>	<ul style="list-style-type: none"><li>• Engaging donors</li><li>• Building knowledge of social issues and local nonprofits</li><li>• Capacity building for nonprofits</li><li>• Social investing</li></ul>
<b>Influencing Public Policy</b>	<ul style="list-style-type: none"><li>• Educating citizens and legislators</li><li>• Polling and research reports</li><li>• Influencing legislation</li><li>• Working with policy makers behind the scenes</li></ul>
<b>Strategic Communications</b>	<ul style="list-style-type: none"><li>• Using communications tools to achieve program goals</li></ul>

***Community Foundations can create value  
in many ways beyond their grantmaking***

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## **More Involved Donors Want Opportunities for Leadership and The Ability to Set a Larger Agenda**

### **More Engaged Donors' Needs**

- **Leadership opportunities in priority interest areas**
- **Matching funds for signature projects**
- **Opportunities to come to the table with others working for common goals**
- **Participation in setting the agenda for the community**

***Personalizing relationships, the ultimate goal of tailored offerings,  
leads to stronger and better defined donor interaction***

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## **Meaningful Volunteer Opportunities Are A Key Way to Provide Value to Current and Prospective Donors**

- **Allows donors to meet others with similar interests**
- **Builds a donors' level of knowledge about and commitment to philanthropy**
- **Creates opportunities for Foundation staff to collaborate with local leaders**
- **Enables the Foundation to capitalize on the knowledge in the community, aligning the interests of volunteers and the Foundation**
- **Connects most engaged donors with the resources of the Foundation**

***Unlike most nonprofit organizations, community foundations rarely involve donors as volunteers***

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## Baton Rouge’s Philanthropic Development Committee Incubates New Ideas To Advance the Practice of Local Leaders



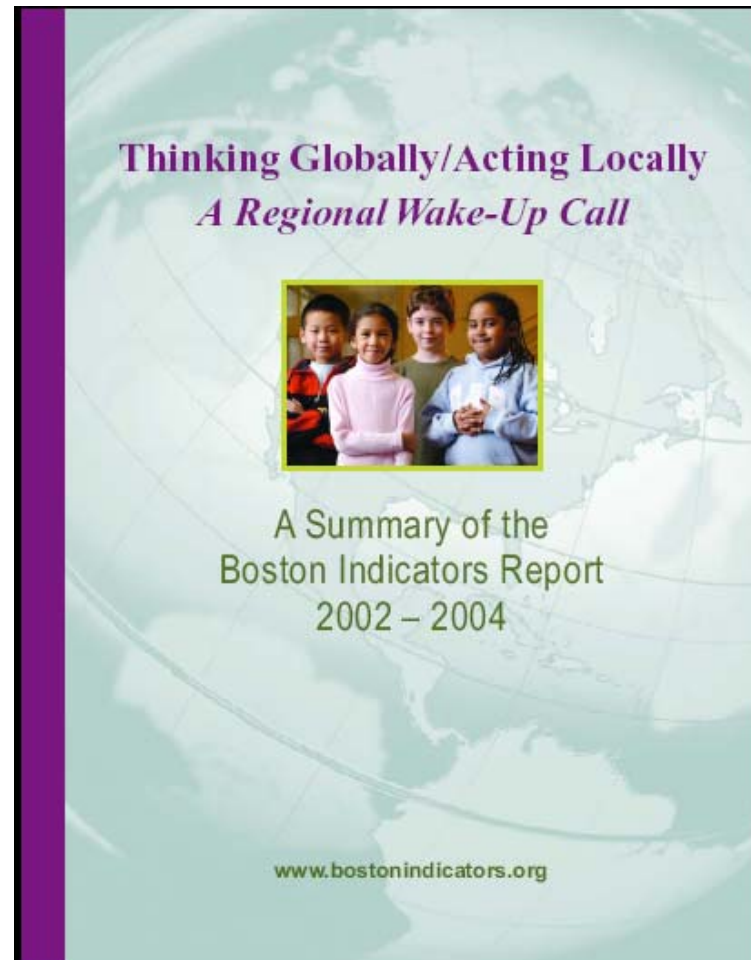
***“Leadership for us is expressed by people who come up with great ideas and have the energy to make it happen.***

***We incubate leadership ideas, and chase the best ones.”***

*--John Davies, Baton Rouge Area Foundation*

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## Community Foundations Can Conduct Thorough Research on All Aspects of the Region's Well-Being



***Knight Foundation's indicators project  
has brought similar knowledge into its communities***



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## **Community Foundations Are Creating Online Resources about Local Nonprofits to Assist, Inform and Connect Their Donors**

- Kansas City maintains “Donors’ Edge” -- an online database of more than 500 local nonprofit organizations that offers performance assessments on program impact, management, governance, and financial soundness
- Arizona developed Dot.Che, a searchable database of nonprofits, now used by Triangle and several other community foundations
  - This permits customized email lists to donors based on their interests, and instant donor profiles
  - Donors have used the facility for several million dollars of online donations directly to nonprofits
  - This also serves as a peer-to-peer communication tool for donors – organizing them around issues, and issuing challenge grants to each other

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## Hartford's Non-Profit Support Program Improves Its Grantees' Performance and Resonates Well With Donors

### Non-Profit Support Program

#### Technical Assistance

- Organizational assessments and technical assistance grants to identify capability needs and gaps

#### Knowledge Sharing

- Newsletter and peer support

#### Learning Opportunities

- Non-profit financial management and mini-MBA educational series

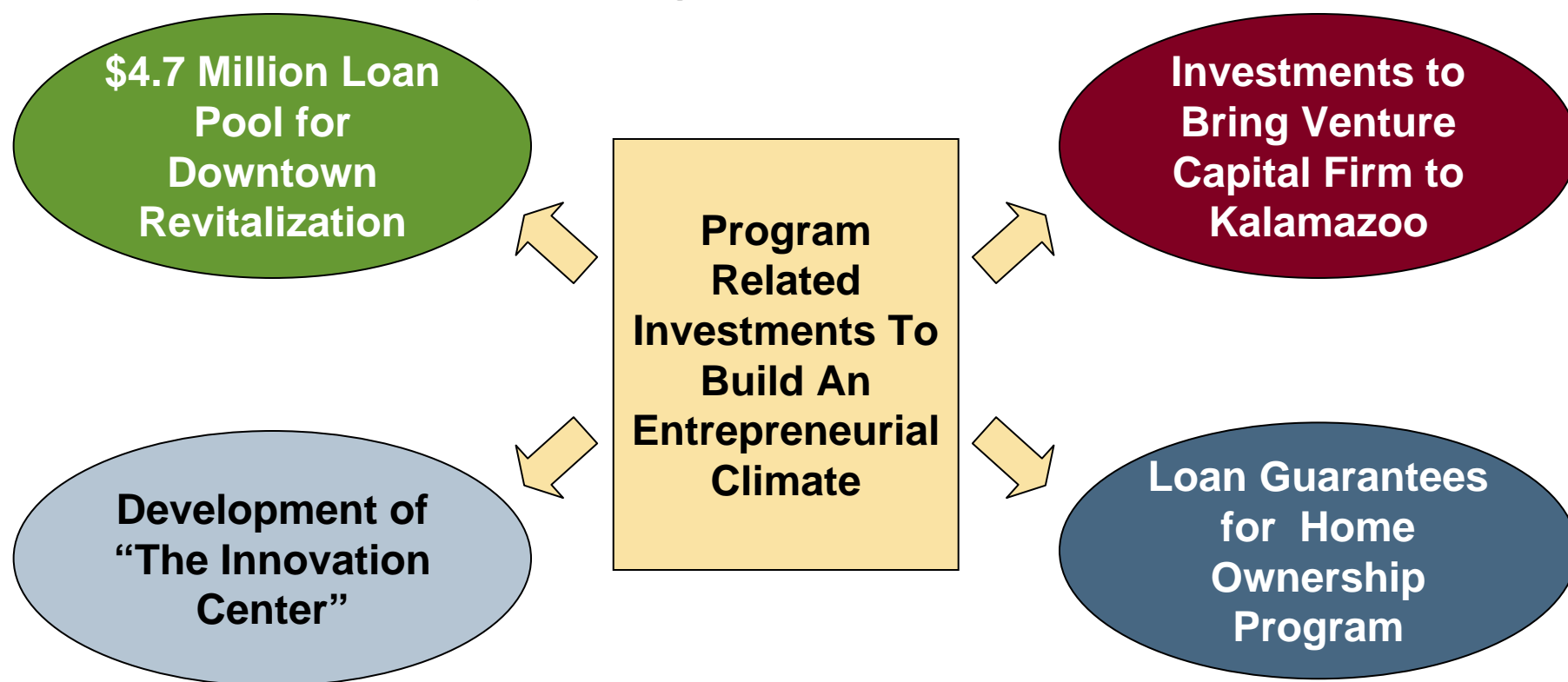
#### Loans

- Low-interest loans of up to \$75,000

***“In conversations with donors, the fact that we have a well developed program that helps ensure the non-profit sector is well-managed resonates well.”***

***--Michael Bangser, The Hartford Foundation for Charitable Giving***

## Kalamazoo's Program Related Investments Revitalize the Community and Regenerate the Circle of Wealth



*"We see part of our role as finding non-traditional ways to build up the community, to have a long-term effect."*

***Kalamazoo now has 11% of its unrestricted endowment assets in mission-related investments***

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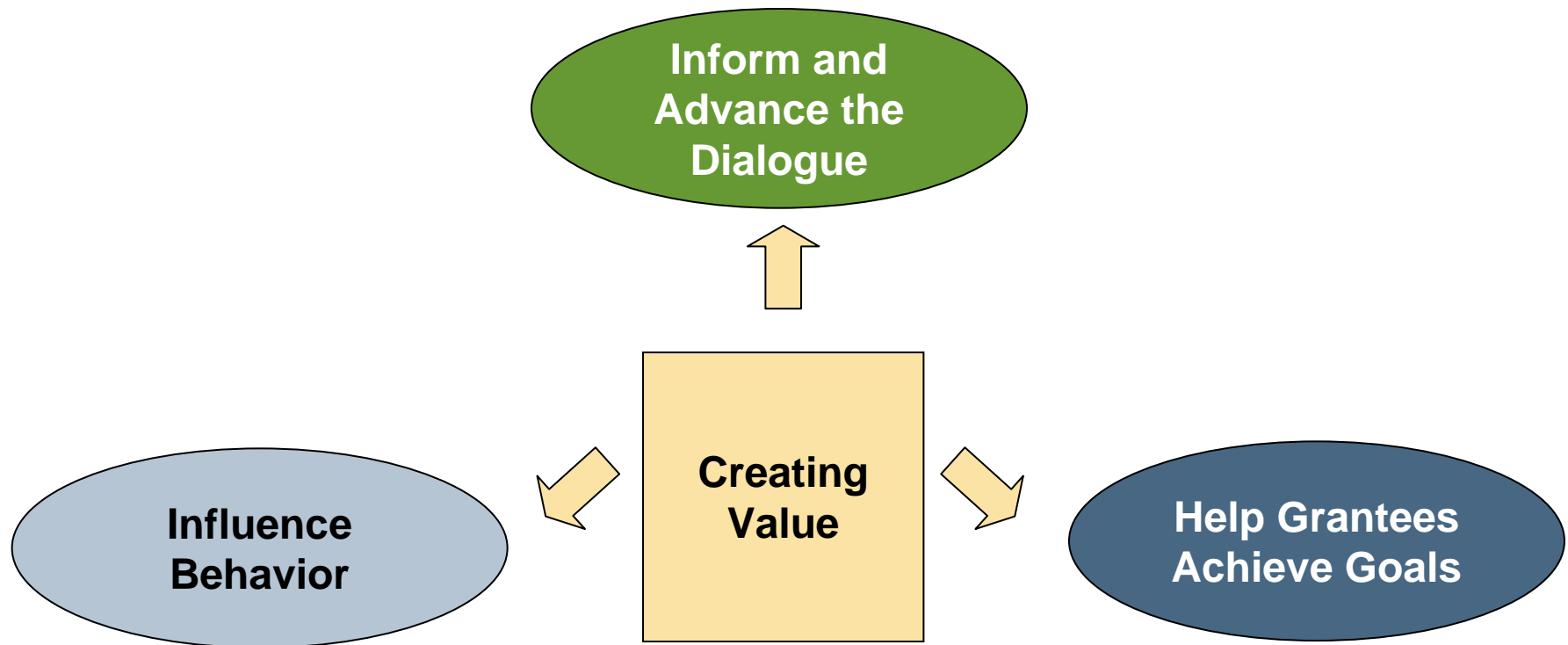
## **As a Public Charity, Community Foundations Are Legally Permitted to Take an Active Hand in Influencing Legislation and Political Policies**

- The New Hampshire Community Foundation has led statewide efforts to influence policy and legislation – despite a political environment that was hostile to activist intervention
  - Negotiating the deregulation of public utilities
  - Leading the development of a long range plan for the state's transportation system
  - Changing the state's laws and stance governing how it treats alcohol, tobacco and drug abuse
  - Drafting legislation that governs conflicts of interest among nonprofit Trustees
  - Creating programs that in five years doubled the protected land in the entire state

***One public charity spent \$90k in lobbying fees to pass a \$4 million bill***

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## Foundations Are Increasingly Using Communications to Achieve Changes in Awareness, Attitude, and Behavior that Advance Goals



***“We’re using the power of communications to accomplish our social goals, just like any corporation uses advertising to accomplish its economic goals.”***

– Stuart Schear, Robert Wood Johnson

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## The Potential of Community Foundations Has Only Begun to Be Seen

There are many different models for success

- Building unrestricted endowment and charging a 1% fee is not the answer for every community foundation
- Foundations are learning from each other about alternative sources of revenue, ways to increase efficiency, and strategies for creating impact
- Foundations must be more selective about which products they offer

The competitive advantage of community foundations lies in their ability to

- Engage donors in their work
- Achieve impact in their communities
- Create value in ways that only community foundations are positioned to achieve

***Ultimately, a Community Foundation's success  
will depend on its strategic focus and operational alignment***

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# Question and Answer Discussion

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# Background Data

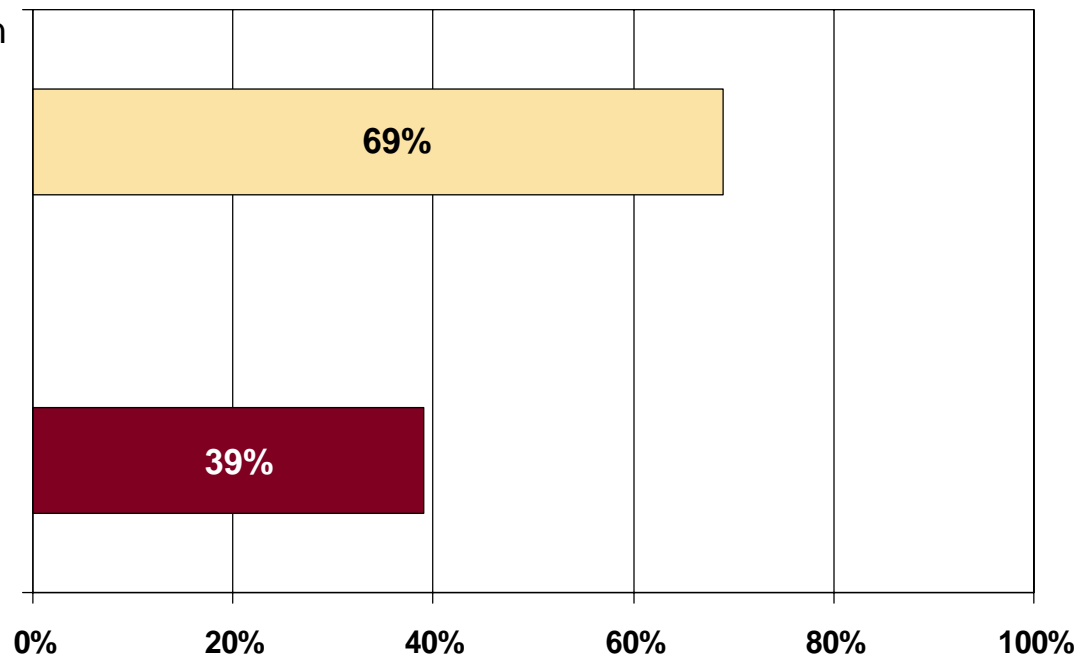


# Recent FSG Research Has Found Serious Challenges to Community Foundation Sustainability

COF/FSG 2005 Survey of Community Foundation CEOs and CFOs – 246 Respondents  
*Which statements accurately characterize the finances of your foundation?...*

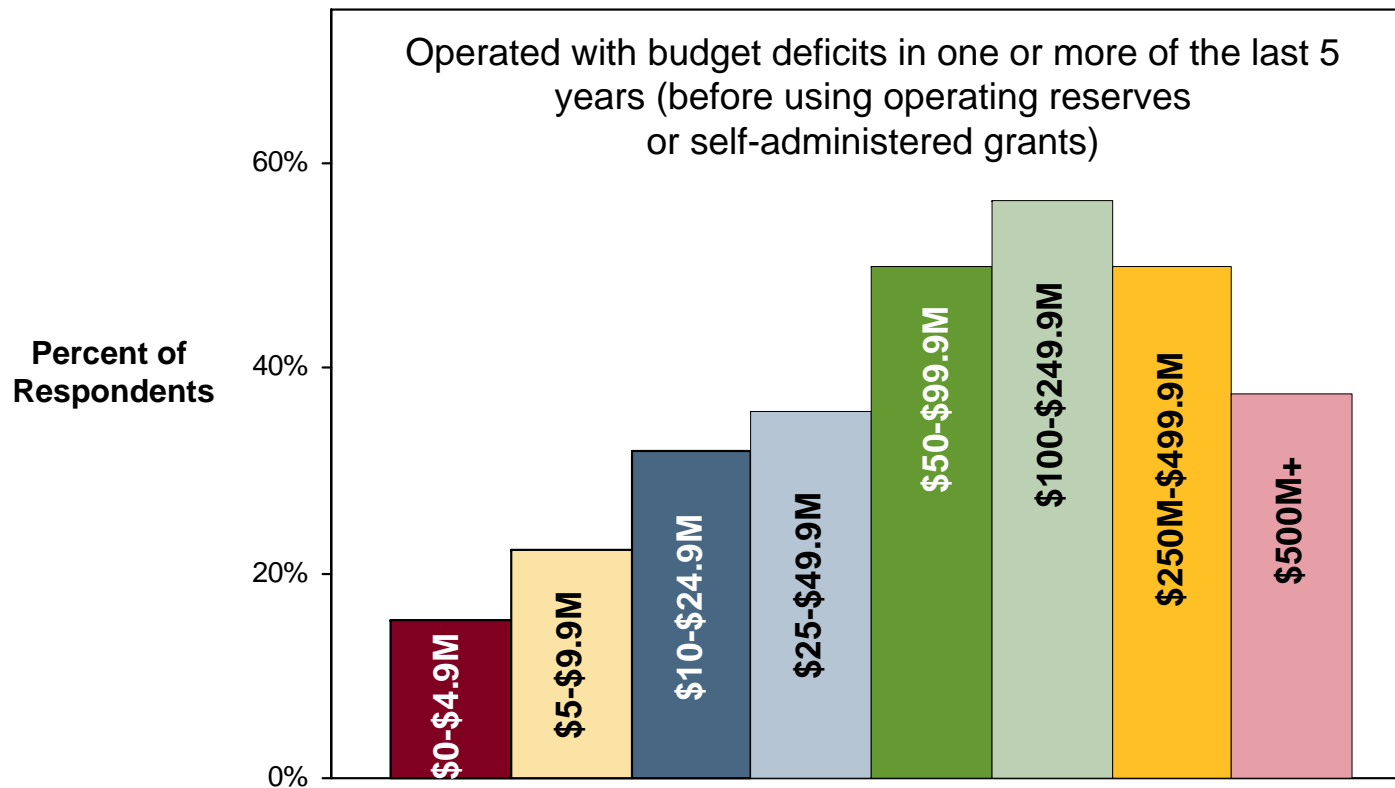
**Unable to cover operating costs** in each of the last five years **from traditional revenue sources** (*i.e.*, fees and operating endowments alone)

**Operated with a budget deficit** in at least one of the last five years **after all sources of revenue** (excluding operating reserves and self-administered grants)



## The Frequency of Budget Deficits Tends to Increase as Foundations Grow in Assets Up to \$250 Million

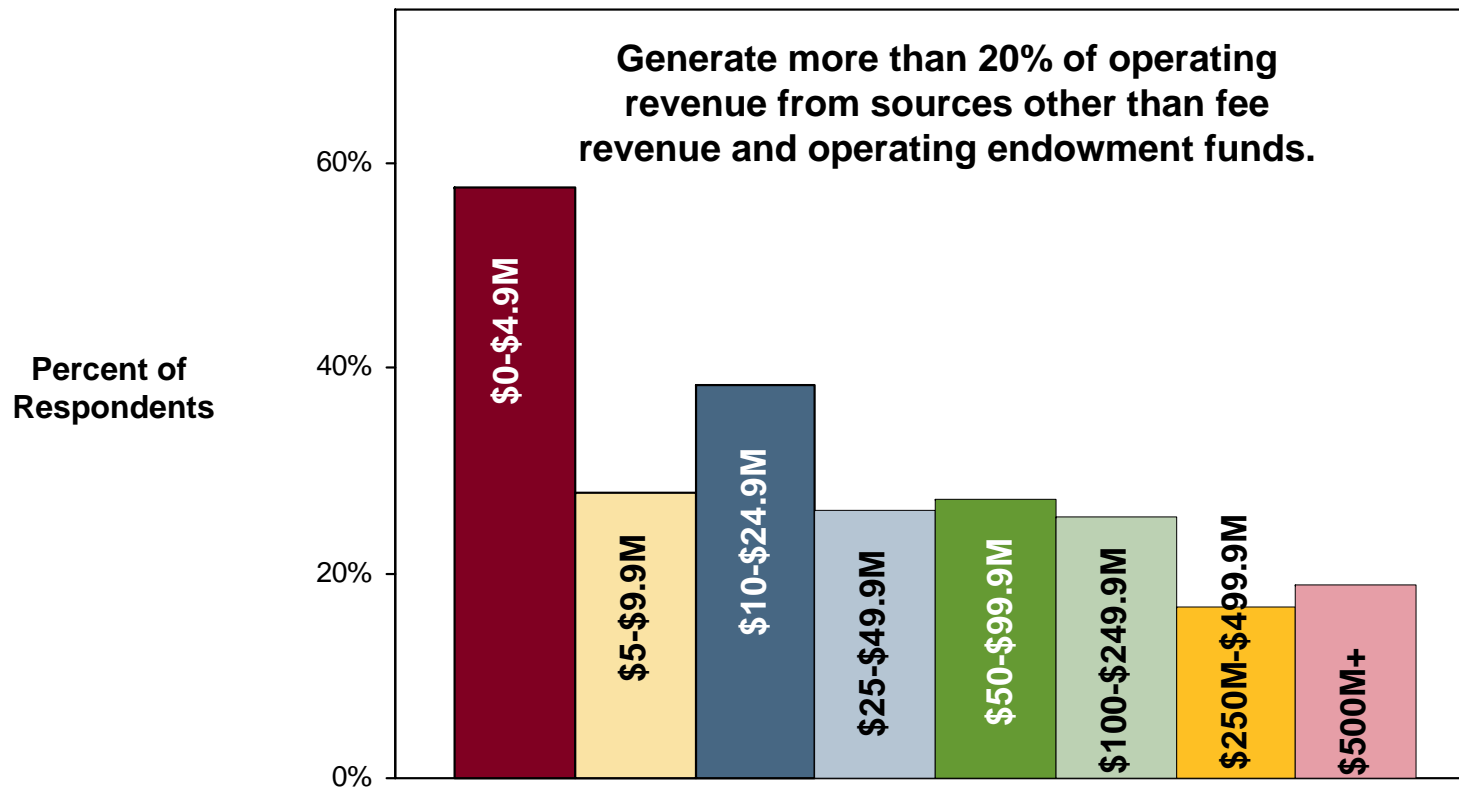
COF/FSG 2005 Survey of Community Foundation CEOs and CFOs – 246 Respondents



***The costs of growth frequently exceed the increase in fees – for many small foundations, things may get worse before they get better***

# Smaller CFs Are More Likely to Generate Revenue from Sources Other Than Fees, Including Donors and Other Foundations

COF/FSG 2005 Survey of Community Foundation CEOs and CFOs – 246 Respondents



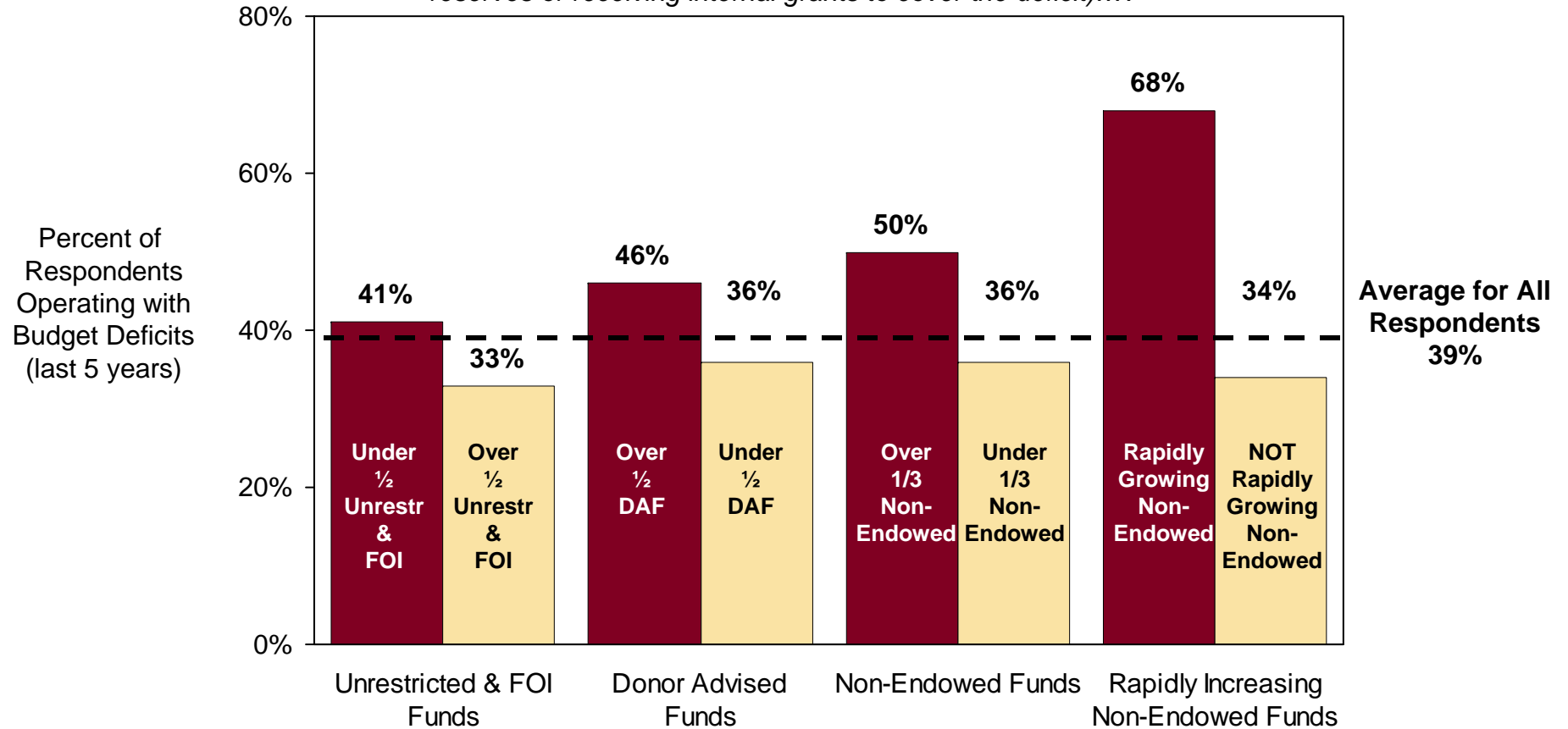
***Unlike foundations with a broader base of assets, the operating model of the smallest foundations may be unable to sustain operations on fees alone***

Source: February 2005 Survey of CF CEOs and CFOs, Sponsored by the COF Community Foundations Leadership Team, Conducted by FSG

Knight Foundation – 7/7/05 - MRK

# Foundations with Large Percentages of DAFs or Non-Endowed Funds Experience Greater Difficulty Covering Operating Expenses

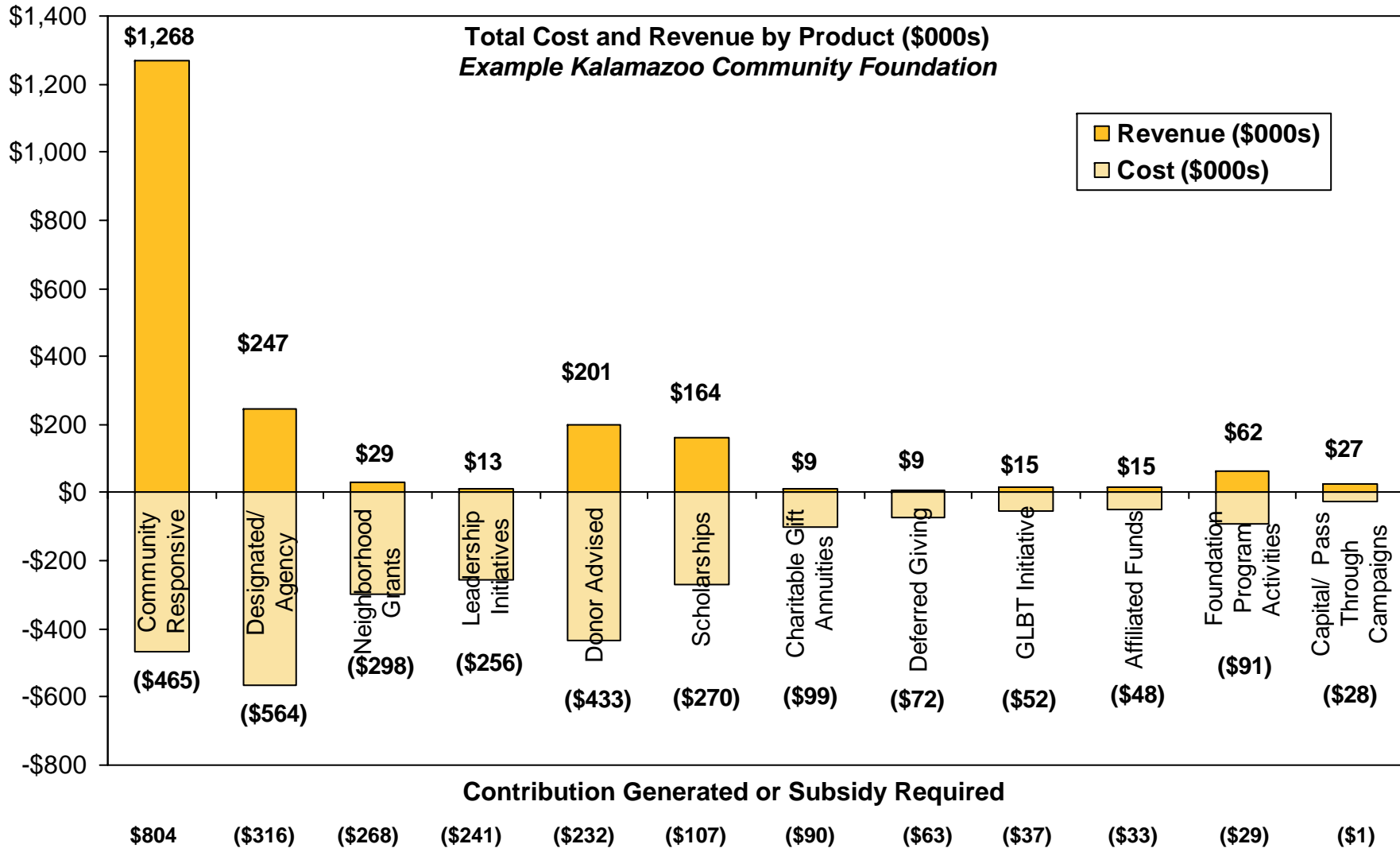
COF/FSG 2005 Survey of Community Foundation CEOs and CFOs – 246 Respondents  
*Operated with budget deficits in one or more of the last 5 years (before tapping into operating reserves or receiving internal grants to cover the deficit)...?*



***Over 2/3 of respondent foundations with rapidly increasing portions of non-endowed funds have experienced budget deficits in the last 5 years***

Source: February 2005 Survey of CF CEOs and CFOs, Sponsored by the COF Community Foundations Leadership Team, Conducted by FSG

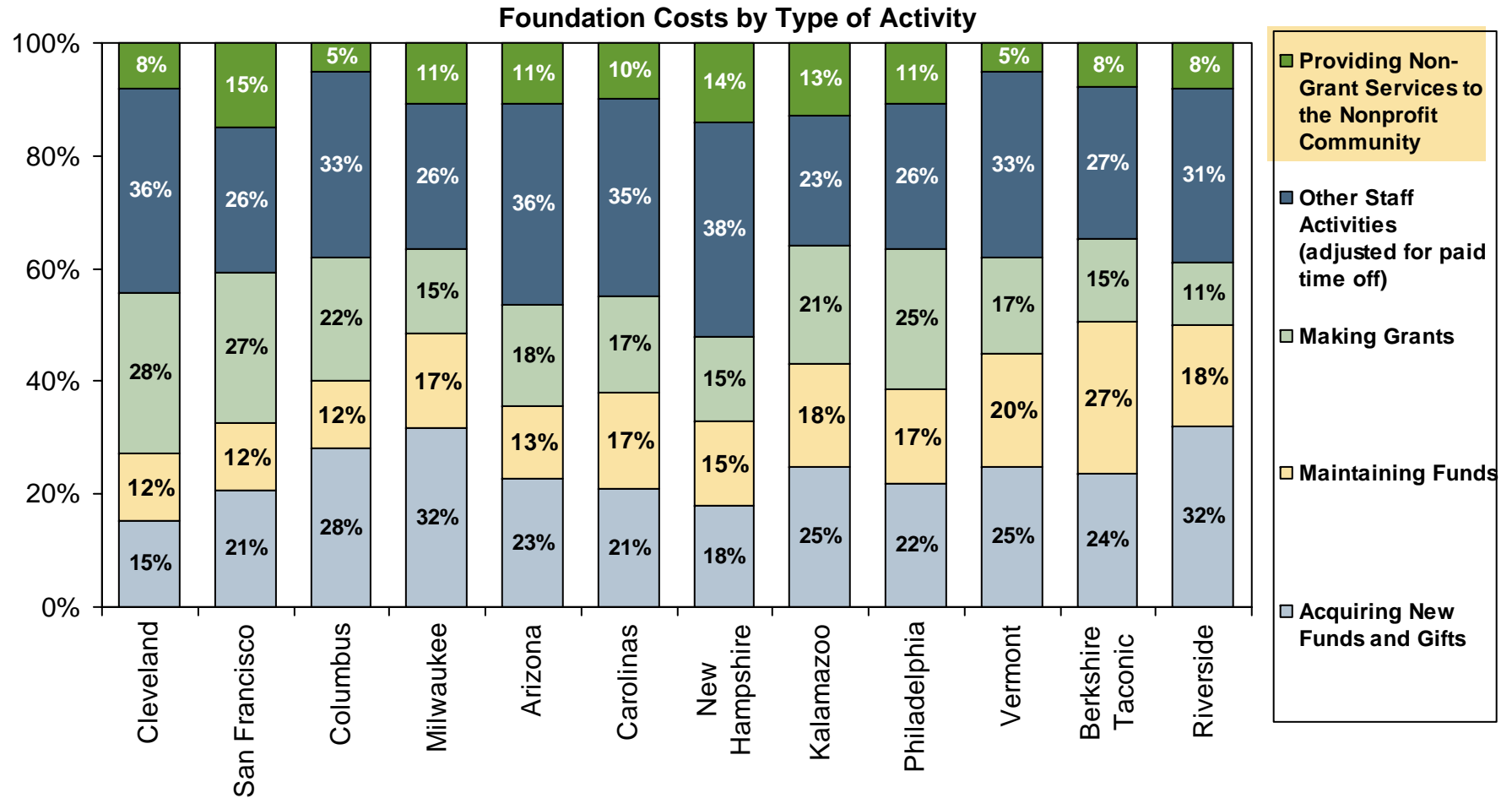
# For Each Foundation, Analysis of Cost and Revenue by Product Reveals Which Products Generate a Contribution or Require a Subsidy



Note: Revenue includes Administrative Fee Revenue (including 1% fee for Community Responsive funds), Operating Fund, Interest Earned on Checking, Grants and Sponsorships, and Spendable Gifts – Does not Include Internal Grants for Neighborhood Grants Program, GLBT, and dues for COF, CFA & CMF (\$61,942)

Source: FSG Analysis of Kalamazoo Community Foundation Staff Surveys and Operating Expenses – 2002 Data

# Community Foundations Currently Devote Limited Resources to Community Leadership Outside of Making Grants

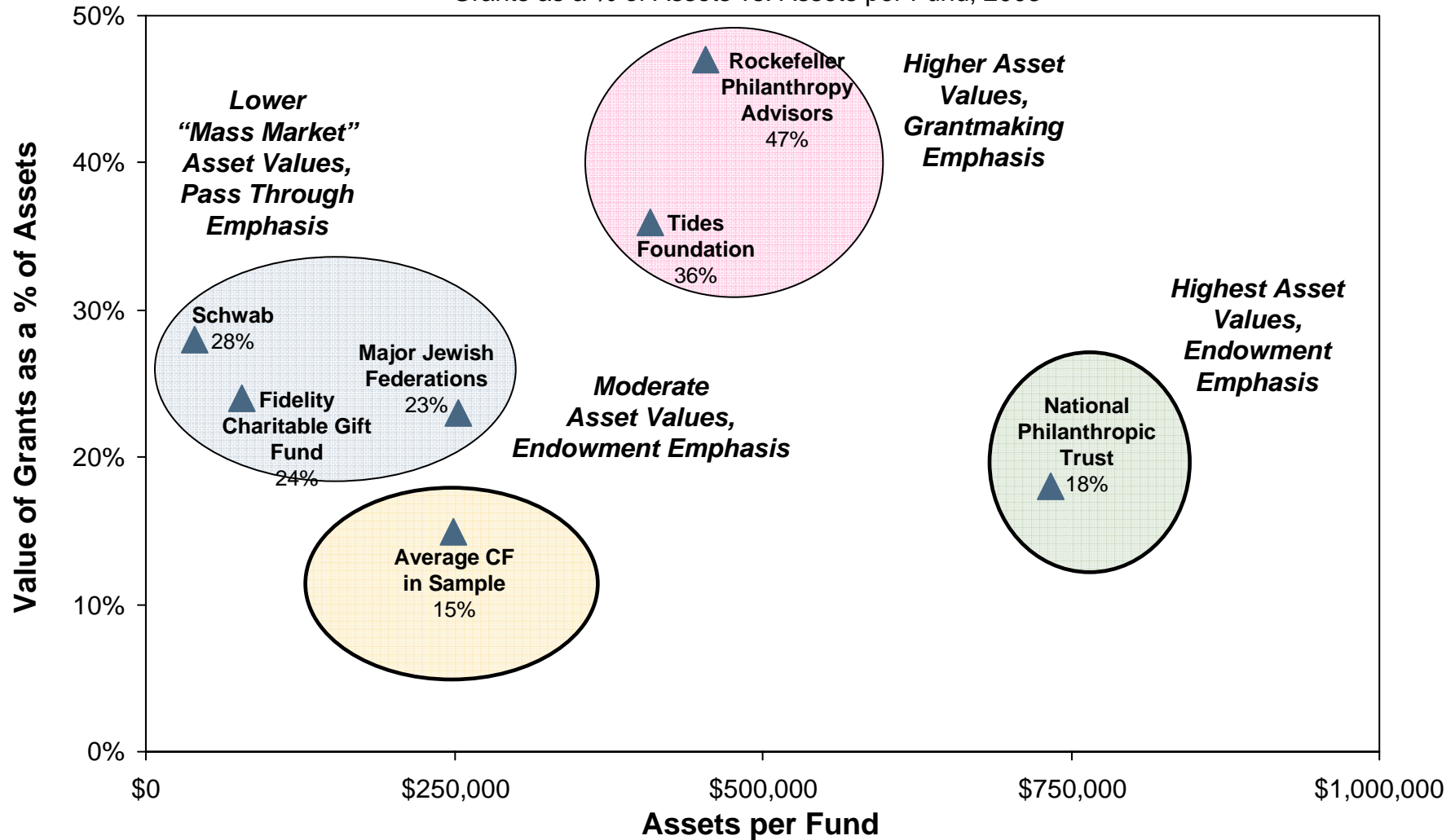


Note: *Providing Non-Grant Services to the Community* includes holding and attending events or convening constituencies in the community, defining and participating in community initiatives, conducting or producing research, providing capacity building services to nonprofit agencies, supporting endowment building efforts of nonprofit agencies, providing fundraising or fiscal agent services, participating in philanthropic associations/organizations/board committees, including attending and presenting at conferences

Source: FSG analysis

# The Beginnings of Differentiation Based on Serving Unique Donor Segments Is in Evidence Today

Community Foundation Products and Donor-Advised Fund Alternatives  
Grants as a % of Assets vs. Assets per Fund, 2003



Source: FSG analysis; organization 990-PFs; Chronicle of Philanthropy Survey of Donor-Advised Funds, May 2004