

Philanthropic Partnering

Leveraging Your Donor Advised Funds for Community Benefit



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Summary

Community foundations have become experts at identifying important community needs, vetting the charitable organizations which effectively address those needs, and providing grants to those charities. Yet with rare exceptions, the financial support that a community foundation can provide will fall short of the amount needed to adequately address the problem.

At the same time, donor advised funds are often the fastest-growing asset category in most community foundations. Advisors to those funds often come to the foundation knowing the organizations they wish to support. Those donor advised grants may or may not coincide with the issues supported by the community foundation's other funds.

If donor advisors can come alongside the unrestricted grantmaking of a community foundation, more resources can be applied to implement solutions. But how can a community foundation build these philanthropic partnerships? The question, then, is this: ***What can be done to more closely align grants from donor advised funds with the community needs identified in a community foundation's unrestricted grantmaking program?***

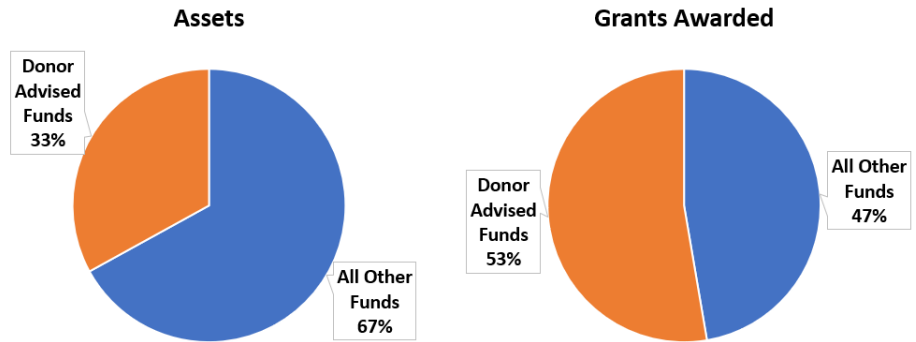
The Importance of Donor Advised Funds

According to national data, donor advised funds comprise a significant portion of all grantmaking by community foundations.

Donor advised funds made up 33% of the assets and 57% of the grantmaking in 2016 at the 850 community foundations across the country. Data from other sources, such as the 2017 Donor Advised Fund report from the National Philanthropic Trust, provide additional evidence that the importance of donor advised funds at community foundations is likely to continue in the future.¹

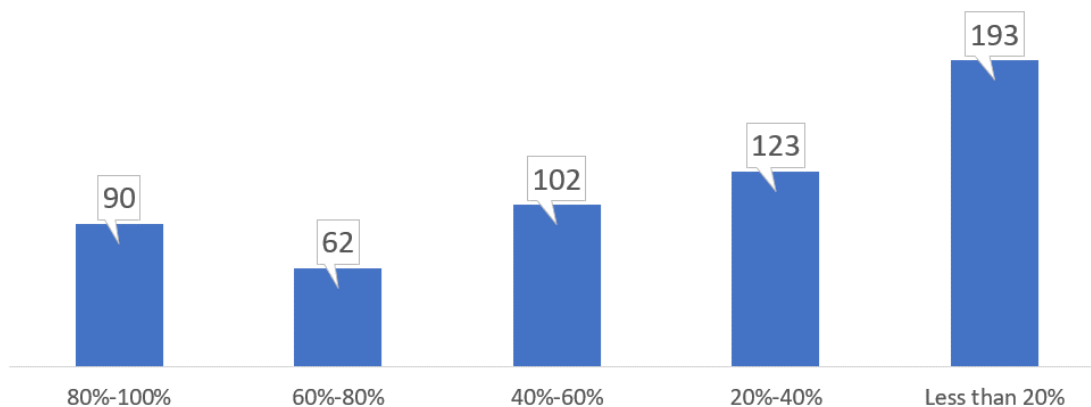
The Importance of Donor Advised Funds at Community Foundations

All 850 Community Foundations in U.S.



Percent of Total Grantmaking from Donor Advised Funds

520 Community Foundations with More than \$10 Million in Assets



¹ 2017 Donor Advised Fund Report, National Philanthropic Trust, available at <https://www.nptrust.org/daf-report/>

For many community foundations, grantmaking from donor advised funds makes up a significant portion of their annual grantmaking. Looking at 2016 data for the 520 community foundations with assets in 2016 in excess of \$10 million, for 90 community foundations (17%) grants from donor advised funds made up more than 80% of their grantmaking. For nearly half of community foundations (254 out of 520), grants from donor advised funds made up more than 40% of total grantmaking.

This trend is likely to continue. While all community foundations received \$10.4 billion in gifts in 2016, \$6.0 billion (58%) of that amount represented gifts to donor advised funds. At the end of 2016, community foundations managed around 70,000 donor advised funds with collective assets in 2016 of about \$30.1 billion.

At the Community Foundation Research and Training Institute, we reached out to over 80 community foundations with a significant amount of donor advised funds. We targeted community foundations with assets between \$50 million and \$200 million, with donor advised funds at least 25% of all of their grantmaking. This report presents the results of that survey.

The Need for Philanthropic Partnerships

For many community foundations – particularly those less than 20 years old – their unrestricted endowment makes up only a small portion of their assets. While almost all community foundations accept grant requests from local charitable organizations, most of those grant requests cannot be fulfilled due to funding limitations.

Grants from donor advised funds can help fill those unmet needs. A local after-school program, for example, may need \$10,000 to upgrade their computer systems. While \$5,000 might be awarded from a community foundation's unrestricted endowment, donor advised funds could make up the \$5,000 shortfall.

But for many community foundations, coordinating grantmaking from donor advised funds can be a challenge. Most donors already have charities in mind when they create their fund: Their church, for example, or the annual fund drive at their alma mater.

This comment from one community foundation leader was typical of many responses:

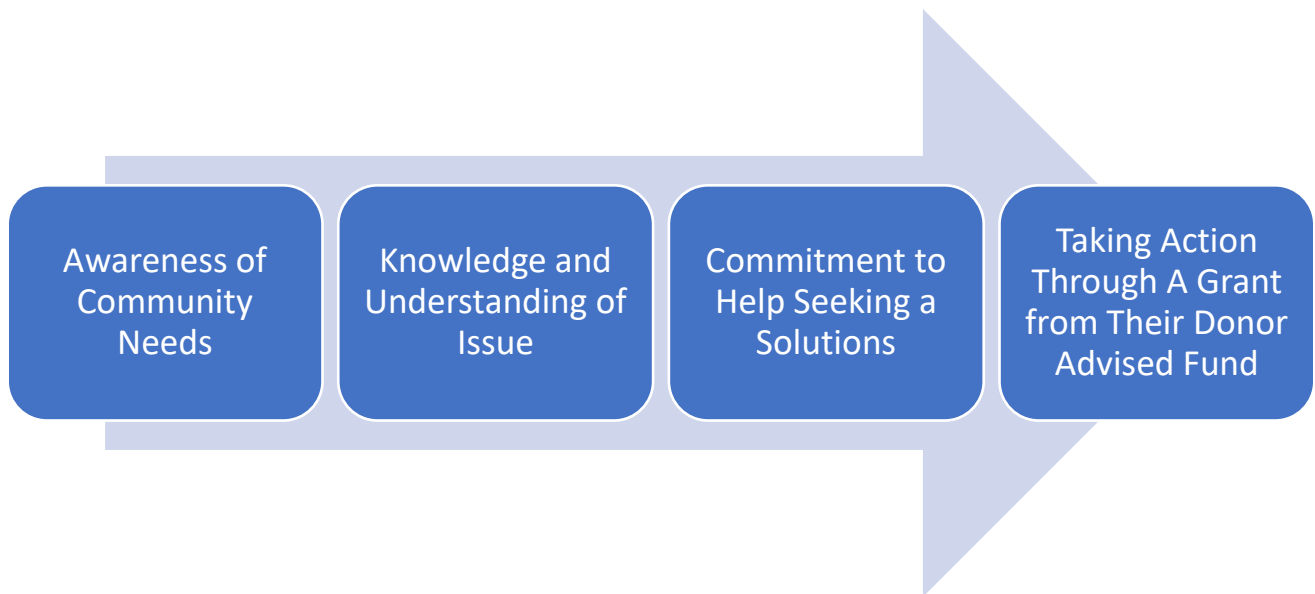
We have not had much success in this area. Most of our Donor Advisors do their own thing. Occasionally I'll have a donor ask for some guidance on where to give, but they really don't rely on us too much for that.

But the fact is that much of the future growth for community foundations will come through donor advised funds. And for those foundations that have positioned themselves as strong community leaders, participation from donor advised funds in selected initiatives may be critical for success.

Strengthening the Philanthropic Partnership

The challenge of developing a closer partnership with donor advised fundholders is in many ways like any attempt at a call to action. The targeted partner needs to go through four basic steps. These include becoming **aware** of the community need, increasing their **knowledge and understanding** of the issue, developing a **commitment to help** seek a solution, and then **taking action** through a grant from their donor advised fund.

Figure 1: Steps Needed for Partnering with Donor Advised Funds



Community foundations have developed a variety of methods to help move donors through this cycle. In our survey of community foundations, we found at least four strategies to help community foundations more closely align grants from donor advised funds with their own grantmaking priorities.

These include:

1. Awareness of Unmet Needs;
2. Shared Decision-Making;
3. Identification of Community Needs; and,
4. Incentives with Matching Funds.

Awareness of Unmet Needs

Perhaps the most common strategy in partnering with donor advisors is to share identified community needs with those donors. Some donors appreciate the fact that the community foundation digs deep into the effectiveness of local charities before awarding a grant. As one community foundation leader said:

We work very hard and, I think, we do a very good job promoting our unrestricted grants which opens the door for other givers. We like to think of ourselves as a catalyst granter and we hope the fact that we have invested in a project gives it the “Good Housekeeping Seal of Approval.”

Awareness of charities selected for support by the community foundation can come through a variety of avenues. With some community foundations, this comes through **mailings or other marketing material**. This material will often include a description of the project, and the amount of the unmet need.

To ease the steps involved, community foundations often make it as easy as possible for a donor to recommend a charitable grant in the targeted areas. This can come in the form a **donor grant request form**, with the targeted areas already listed in the form.

One community foundation leader described this strategy:

We have not had a mechanism to reach out to our DAF advisors to let them know of arising needs in the community. However, this fall that will change. We revised our website and will be adding a "Needs Catalog" feature. Part of this "Needs Catalog" will highlight what the nonprofit has requested from us during our community grant round, how much we will be able to fund and the balance of the need. It is our hope that additional information and knowledge about the current needs and projects in the community will result in greater participation by our DAFs.

Several community foundations indicated that they wanted to make it as easy as possible for a donor advisor to recommend a grant to a targeted area. They were **seeking a one-click solution**, so that when a donor receives an email they can add their grant to the targeted area with a few simple clicks of a mouse.

Finding this one-click solution has been a challenge for some community foundations. As one leader said:

We would love to have a communications and operations system that synched with each other, so we can email our clients about grants we're making, then invite them to participate but to be effective I think there needs to be a one-click solution (i.e., “click here” to donate button). We don't have that type of donor connectivity available to us at the moment.

One community foundation has inserted an interesting option in their donor recommendation process. A donor advisor, as part of their grant recommendation process, can **access online the foundation's grants platform** to view a grant application from a local charity. This can give the donor advisor a great deal of information that can be used to make their funding decision.

Community foundations report a range of success – or lack thereof – for their efforts. Typically, donors are slow to respond at first, but then participate more actively as they warm to the idea. In addition, even in the best outcomes, only a portion of the donor advisors respond favorably. Community foundations also reported that their awareness efforts may not have been successful at first, but the ability to generate grants from donor advised funds grew over time.

As was described by a community foundation president:

We spent a great deal of time talking with our donors over the past few years to really identify those who would be willing or open to being part of [our unrestricted grantmaking process]. We now have 3-4 donors who come alongside us and provide help. Our committee meets and makes our selections. In that same week, we meet with those donors and review applications with them in the areas that they are passionate about. Donor #1 gave an additional five grants for \$17,500, donor #2 gave an additional three grants for \$15,000, and Donor #3 gave an additional 5 grants for \$25,000.

Shared Decision-Making

Some community foundations go further and **build close relationships between their donor advisors and their distributions committee**. This could involve inviting donor advisors to sit in on deliberations of the distributions committee; in other instances, the donor advisors were appointed as formal members of the committee.

One leader said:

We see a lot of partnerships between our DAFs and our annual grants recipients. There is overlap with a Grants Committee and some of bigger DAFs who get excited when they interview folks as Grant Committee members.

Regardless of the level of involvement, all community foundations found higher donor advisor participation when the donor advisors visited the charities. Even if a donor advisor does not attend meetings of the distribution committee (either as a member or an observer), they can greatly benefit from participating in site visits at local charitable organizations. Being able to observe staff and clients at, say, a homeless shelter or after-school program might be the motivation needed for a donor advisor to financially support those charities.

But this strategy – particularly making a donor advisor a member of a distributions committee -- comes with a caution. Most community foundations will strive for diversity in the makeup of their distributions committee: Diversification by age, race, gender, country of origin, income levels, and other factors. In short, the goal of the membership of the distributions committee is to reflect the community that it serves. If donor advisors are perceived as having excessive

influence on the decisions of a distribution committee, such a strategy could undermine the public perception of the fairness and impartiality of the distributions committee.

Identification of Community Needs

Some community foundations have had success with implementing a more formal community needs assessment process. This strategy goes beyond reactive grantmaking (where charities request funding, and the community foundation reacts). Rather, this is a more proactive approach – seeking out the most compelling community needs.

In a typical community needs assessment process, the community foundation convenes a group of knowledgeable, diverse – and impartial – community leaders. They examine the current situation in their area, identify key trends, and look for solutions to address community problems.

One community foundation stated:

We are in the process of conducting a community needs assessment which will be used in part to identify where philanthropy can have the biggest impact in our region and approach donors about funding programs and services to address those needs

The creation of this type of community needs assessment can be a powerful tool in moving donor advisors to action in partnering alongside a foundation's grantmaking program. The needs are identified in a systematic manner, and the potential solutions are developed either using existing charities or creating a new, innovative way to address the need.

And, of course, this strategy can be even more effective if donor advisors serve alongside other community leaders in helping to identify and address those needs.

Incentives with Matching Funds

Everybody loves a bargain, and in philanthropy matching funds often provide an incentive for donors to give. As your unrestricted endowment works more closely with donor advisors, there are two matching formulas that could be successful.

The first is to use your unrestricted grantmaking as a match for a donor advised fund grant. In this example, the donor is offered matching money if they would make a grant to a new organization or increase a grant to an existing organization. "We noticed you made a \$500 grant last year to the local animal shelter", you might say. "If you increase your grant this year to \$1,000, we'll match your \$500 increase with \$500 of our own". That may be enough to get a donor off the fence – while providing greater help to the animal shelter, as well.

The alternative is to ask the donor advisor to provide the matching grant. In the example above, the after-school program needed \$10,000 for a new computer system. “We believe they need the new computer system, but we can only afford a grant of \$5,000,” you might say. “Would you match our grant with \$5,000 from your donor advised fund, so that we can fully fund the project”?

Matching funds will only work if the donor advisor already has an interest in the targeted charity or cause. In addition, this strategy should be used with caution, as some of your donor advisors may resent feeling pressured to support a particular charity. As with other strategies, this one comes back to the key message: Know your donors.

Two Alternative Viewpoints

While many community foundations expressed a desire to partner more closely with donor advised funds, in our research we heard at least two alternative viewpoints which argued against this strategy.

The first alternative viewpoint could be characterized simply as saying **there’s nothing wrong with donor choices**. Don’t waste your time and energy, this argument goes, trying to convince donors otherwise.

In this line of reasoning, the community foundation plays a key role in confirming that the charities selected by the donor advisors pass the due diligence tests. A community foundation can confirm that the charity is in compliance with IRS regulations, and that they know of no instances of fraud. As was expressed earlier, this “Good Housekeeping Seal of Approval” is an important part of the services provided by a community foundation.

Donors come to community foundations with causes they are already passionate about. Parents of a mentally disabled child, for example, may have a passion for financially assisting organizations that help children with their disability. Why try to convince them otherwise?

One community foundation leader stated:

Donors can be fiercely independent. They may be offended if we try to second-guess their grantmaking decisions.

A second alternative viewpoint says that community foundations shouldn’t be in the business of offering “retail” donor advised funds – funds which provide transactional services serving donor wishes. Rather, a community foundation should be a community change agent to improve the delivery of services to targeted populations.

A community foundation focuses in on only the most innovative – and effective – community needs. Donors can come alongside the community foundation in addressing those needs, if they wish. Otherwise, they might be better off creating their fund at an alternative institution, such as a commercial donor advised fund.

This viewpoint was expressed as follows:

(Our community foundation operates) as an investment bank for the nonprofit sector, and our role is to bring capital to innovation and creativity. Our DAF holders are not typically “donors,” but investors in community initiatives – some held at the Foundation, some not. Homeless system design, affordable housing, social enterprise, social justice, college access, and the launch of a regional land trust by the Foundation are just a few of the initiatives that are either supported or driven by our fund holders.

Community foundation business models have been moving away from retail philanthropy for several years. In the future community foundations have to have a value proposition beyond the instruments we offer. We’ve been at this since 2010 and today are focused on strategic philanthropy for families that are looking for ways to make a difference and want to move the needle on positive social change.

Viewing donor advised funds in this way can come with a price: Namely, slower overall asset growth. But this strategy also raises the visibility of the community foundation as a trusted community leader.

Look for Key Transition Points

Whether you actively seek to partner with your donor advisors or not, it’s a good idea to keep your eyes open for key transition points in the lives of your donor advisors. These transition points may provide an opportunity to more closely align grantmaking from a donor advised fund with your unrestricted grantmaking.

One of these transition points would be signs of donor fatigue. Donor fatigue would present itself when the donor advisors just don’t feel the same passion and energy that they did in the past when they made a grant.

I can recall meeting with a widow who was the advisor on a large fund. This widow loved being active in the community, but was also well known as a generous donor. Over time, she tired of requests for funding every time she went to an event. She chose to convert her fund to an unrestricted endowment. Now, whenever she is approached she simply says, “Contact the Community Foundation” ... and she goes on enjoying the event.

Other transition points to be alert for might be a period of extended travel, where the donor advisors might want to delegate the advising process. Another transition might be when the donor advisors move into nursing home, or their health prevents them from actively requesting grants.

The key transition, of course, is the death of donor advisors, Your fund agreement should be very clear the steps to be taken at this point. Your agreement might call for some or all of the fund to

become an unrestricted or field of interest fund. (Some community foundations even require this.)

If successor advisors – often the children of the donor – are named, this also presents a partnering opportunity. Children who are successor advisors are often not located in the same community as their parents – and they will need education on your community’s needs. Providing good customer service at this point will go a long way in developing philanthropic partnerships with successor advisors.

One community foundation leader put it this way:

I’ve come to take a longer view on donors supporting the Community Foundation’s unrestricted program. During their lifetime, it isn’t surprising to me that donors want to continue controlling who they support. We have started to more proactively offer our grantmaking information to assist with donor’s decision-making, but it seems to very much remain the donors determining their own charities. Our hope is that great service and stewardship of DAFs during their lifetimes demonstrates our worthiness for directing grantmaking when they have passed and can no longer give input. We’ve had quite a bit of success filling the planned giving pipeline, but it will be a while before these gifts really begin to flow.

The Bottom Line: Know your Donor Advisors

As with any meaningful relationship, philanthropic partnerships with donor advised funds comes down to one key observation: Know your donor advisors. What are their charitable dreams? What causes are they passionate about? Do they feel strongly about a single issue, or are they open to suggestions for their charitable giving?

It’s likely that your portfolio of donor advised funds will include a mix of those who those who already have a clear understanding where their grantmaking will go, and those are open to suggestions for their charitable giving. If you try to persuade those in the first group to alter their grantmaking, you risk anger and frustration on the part of your donor. But if you fail to approach those in the second group, you’ve missed an opportunity to be more effective in your targeted grantmaking to address pressing community needs.

You can be a better steward of your community’s assets if you know and understand your donor advisors.