

BUILDING COMMUNITY FOUNDATIONS



Philanthropic
Ventures
Foundation

Bill Somerville
President

Grantmaking Consulting Program

BULLETIN 64 | MARCH 2005

Funded for 12 years by:
The David and Lucile
Packard Foundation

Donor Advised Funds

Community foundations are experiencing their most significant growth through donor advised funds. This brings to light effective procedures for dealing with donor advised funds.

- When donors establish a donor advised fund, three questions should be asked:
 - 1) Would the donors consider giving a percentage of the fund to build the foundation's unrestricted endowment? (The Editor recalls a donor who gave \$500,000 at a time to his donor advised fund, and designated that the community foundation keep 20% for its unrestricted giving.)
 - 2) What concerns and areas of interest are the donors interested in funding?
 - 3) Would the donors be comfortable if community foundation staff called outstanding funding opportunities in their area of interest to the donors' attention?
- The concept of donor advised endowments needs to be revisited. With a donor advised endowment the payout is usually 5%. Say a donor gives \$50,000, using the 5% payout, the donor gives out \$2,500 each year.

Question: Why limit the amount a donor can give out? The goal is to get the donor excited about grantmaking, to have the donor replenish the fund, and hopefully to include the community foundation in its estate planning. If a donor makes a \$50,000 gift, it is reasonable to assume that there could be another gift of \$50,000, particularly if the donor is excited about his/her giving. The endowment concept of limiting the payout is self-defeating unless considerable money is involved and the donor specifically wants an endowment and understands what it means. In other words, spend down donor advised funds by encouraging donors to give.



ABOUT
THE
EDITOR

Bill Somerville has been in non-profit and philanthropic work for 45 years. He was the director of a community foundation for 17 years, and in 1991 founded Philanthropic Ventures Foundation serving as President and Executive Director. PVF is a demonstration foundation practicing unique forms of grantmaking and conducting initiative philanthropy. Bill has consulted at over 285 community foundations in the United States, Canada, and abroad, on creative grantmaking and foundation operations. In addition to Building Community Foundations, he publishes Dialogue, a newsletter for development officers. His primary interest is in the creative and significant use of the philanthropic dollar.

(Donor Advised Funds, continued on page 2)

(Continued on page 3)

Executive Director

Program Officer

Chair Grants Committee

The procedures for setting up a donor advised fund vary considerably from public charity to public charity – anywhere from a five page contract to a one page letter agreement. Here is a sample donor advised fund agreement:

Sample Donor Advise Letter

Dear **(Donor)**:

It was a pleasure meeting with you today. I am writing to reflect our conversation regarding establishing a Donor Advised Fund with the Foundation.

You would like to establish a Donor Advised Fund to be known as the **(Specific Name Donor Requests)** Fund (“Fund”). Your primary funding interests are **(Specific Interests)** and you mentioned that you would welcome having me call outstanding programs in these areas to your attention.

We agreed that your primary geographic interest is **(Foundation’s Area)** but that you could recommend grants anywhere if that is your desire.

Your Fund will be held in a fixed income account. Any and all interest earned in conjunction with your Fund accrues to your Fund. We will give you quarterly financial reports on your account.

Our administrative fee is ___ % of gifts and thereafter ___ % per annum. With the DAF in place the donor makes recommendations to the foundation for giving to charitable causes. No giving is made from the fund without the donor’s recommendation. With your recommendations, the foundation takes care of issuing all grants. Our correspondence to the grantee indicates that the grant is made from your Fund and contains all specific terms of the grant agreement, particularly in the case of negotiated grants.

You may feel free to call on us to evaluate programs that you have funded or are considering funding.

Our Board has stated that the minimum grant that can be made from a Donor Advised Fund is \$200. The minimum to start such a Fund is \$5,000.

It would be delightful to work with you. If it is your decision to start a Fund, you merely need to send us a check.

Sincerely,

The basic goal in setting up a donor advised fund is to make it simple, to be responsive, and to expedite the process. The Editor will set up a donor advised fund on a telephone call and then send a confirmation letter.

Congressional Review of Donor Advised Funds

Congress is reviewing donor advise funds and may initiate new legislation to restrict their uses. One likely result may be new legislation that requires each donor advised fund to have an annual 5% payout. Other restrictions may follow, all of which will impose new administrative procedures, paper work, and policing upon public charities.

Comments on Board Retreat Consulting

PVF offers consulting services to community foundations (see program description on back page). PVF receives feedback, in the form of evaluations, on its consulting, with a particular appreciation for inspiring renewed creativity and enthusiasm by Foundation Staff and Board. The following responses were given by Board Members on the Evaluation Questionnaire:

Q: What is your frank assessment of the facilitation that you received?

“Excellent, eye-opening presentations. Fast paced and informative. Kept my attention throughout.”

“Good, creative, encouraging, new ideas, well presented.”

“Excellent – Focused – Open to participation – Energizing.”

“Wonderful. Bill Somerville was extremely motivating and had fabulous ideas.”

“I felt it was productive and inspiring. You are a marvel.””

“Wonderful – stimulating – exciting, opened up new ideas, especially in the scope of grantmaking.”

If your Foundation Board or Staff is interested in participating in PVF’s Grantmaking Consulting Program, contact Bill Somerville at bsomerville@venturesfoundation.org; or PVF (contact info on back page).

Gifts of Real Estate

A new trend is emerging wherein community foundations establish separate entitites to receive and handle gifts of real estate. Two such foundations are:

East Bay Community Foundation (www.eastbaycf.org)

Community Foundation of the Napa Valley (www.cfnv.org)

Feel free to contact them or visit their websites for more information.

BUILDING COMMUNITY FOUNDATIONS

Philanthropic Ventures Foundation
1222 Preservation Park Way
Oakland CA 94612-1201

NON PROFIT ORGANIZATION US POSTAGE PAID OAKLAND CA PERMIT No. 962

Grantmaking Consulting Services Offered by PVF

PVF has provided on-site consulting to over 285 community foundations throughout North America and abroad, working with staff, board members and the community to improve grantmaking and operations.

The PVF consultant's fee is paid for by the The David & Lucile Packard Foundation.

Participating community foundations pay \$500 and for travel, meals, and lodging.

This program is described at length on PVF's website, <http://www.venturesfoundation.org/consulting/>

For more information on consulting services, contact PVF President, Bill Somerville at:

510-645-1890 (TEL) 510-645-1892 (FAX)
BSOMERVILLE@VENTURESFOUNDATION.ORG

The consulting services offered include:

- **Board Retreats** - 1-2 day facilitation at Board Retreats. Work through issues facing foundations, including growth, community outreach, and grantmaking. Results of retreats included critique of foundation's work, new insights for change, and recommendations for the future.
- **Grantmaking Consultation** - Intensive 3-day on-site sessions focusing on analysis of foundation operations, grant making programs, public relations and internal procedures. Includes meetings with foundation Board, grants committee, Board chair, foundation staff, and executive director.
- **Program Officer Training** - 2-days of training for foundation personnel, involving problem solving, interaction of participants and exchange of ideas, accompanied by 500-page reference manual. Participants analyze actual grant requests, evaluate and make grantmaking decisions, and engage in role-playing.
- **Performance Review** - Intensive 4-day on-site review of all foundation operations, focusing on grantmaking, Board concerns, administration, staffing, development and fiscal health. Visit is followed by an extensive, written report on findings and recommendations, analagous to university or hospital accreditation process. The days are full and intense with the result being new enthusiasm, new expectations and new ideas.