

Endowment




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Campaigns— Singular Fundraising Endeavors

How endowment campaigns are **unique** and can complement other fundraising efforts

BY LARRY KARNOFF, J.D., CFRE



“Approximately one-third of nonprofits function perpetually in the Zone of Insolvency, that is, they function in financial distress, and approximately 7 percent are completely insolvent.” Ron Mattocks wrote this in his book *Zone of Insolvency: How Nonprofits Avoid Hidden Liabilities and Build Financial Strength* (Wiley, 2008)—before the recession. Since then nonprofits have tightened their belts with staff layoffs, budget cuts, program cuts, hiring and salary freezes, just when communities needed them most.

Endowment Campaigns

However, many nonprofits began seeing this challenge as an opportunity. Some began rebuilding their endowments so they could guarantee the funds' long-term financial health. According to the New Orleans *Times-Picayune* ("Tulane Sets \$1 Billion Fundraising Goal," Sept. 13, 2009), Tulane University embarked on an endowment campaign, its largest to date, at the height of the recession. The university's administration and trustees made the strategic decision to rebuild Tulane's reserve while encouraging alumni to resume giving in order to take advantage of the eventual economic upswing.

Replenishing endowment funds does more than ensure that institutions continue to underwrite their endowments' purposes. Because the principal in an endowment fund is a long-term asset, it increases an organization's net worth and bolsters its credit-worthiness. As fundraisers, few of us consider the benefit of endowments to our organizations' credit rating. A survey of college investment officers by SEI, a provider of asset management, investment processing and investment operations solutions for institutional and personal wealth management (www.seic.com), showed that a majority of respondents were concerned their institutions' tight finances might put them at risk for a credit-rating downgrade. These investment officers are advising their boards and executive officers that raising endowment funds is as vital to the fiscal health of their organizations as diversifying their portfolios.

So how do you go about initiating an endowment campaign with the economic recovery progressing—albeit slowly?

Endowment Campaigns Are Not Capital Campaigns

While a capital campaign seeks immediate support for the specific goal of building facilities, an endowment campaign is, in effect, the starting point for an on-going endowment-building program. It is a marketing tactic to turn donors' attention to developing an organization's long-term viability.

With a specific goal, a set time frame and an organized game plan, an endowment campaign has many of the same structural attributes as a capital campaign. However, while a capital campaign has a financial goal primarily based upon

the cost of a facility's construction, an endowment campaign's goal is based on perceived future investment distribution requirements. As presented in an endowment campaign's case for support, the future needs may be operational (funds to support the general operations of the organization), capital (underwriting the maintenance of facilities), programmatic (scholarships or faculty chairs, for example) or unrestricted.

Even the types of gifts differ between the two. Capital campaigns seek immediate gifts or short-term pledges to pay for capital construction costs or to repay construction loans. Given the long-term nature of endowments, campaigns aimed at boosting their funds can rely more heavily on planned- and deferred-giving vehicles.

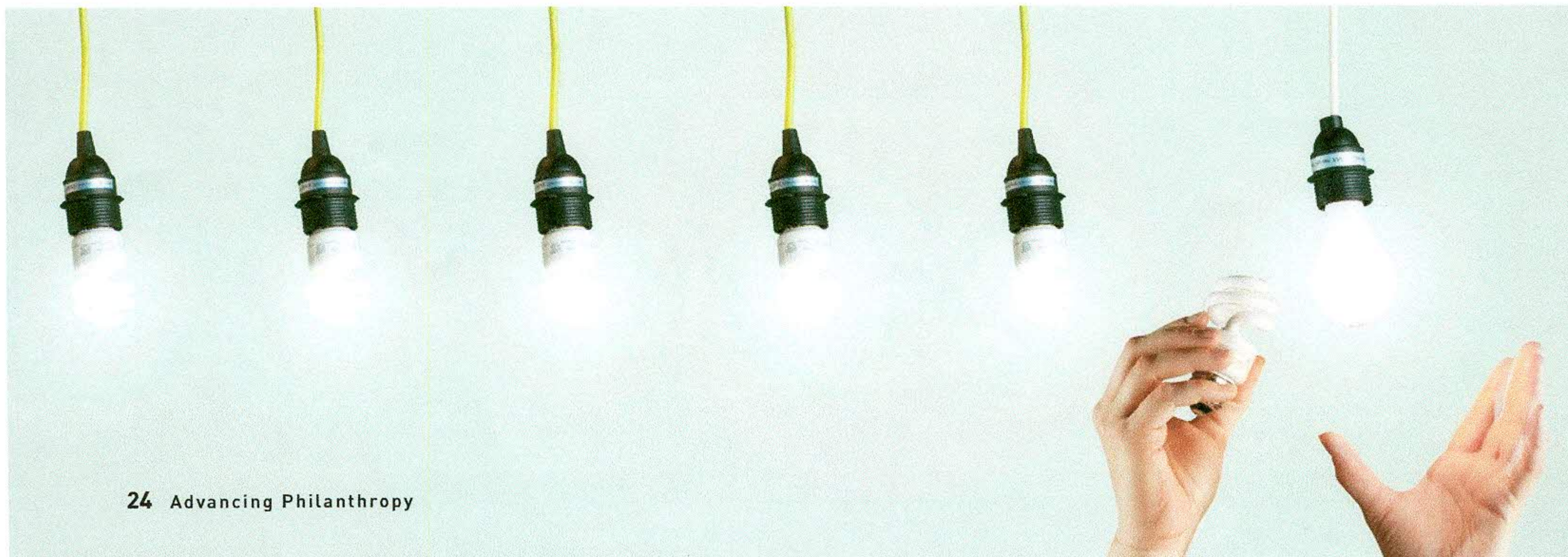
Another point underlies a distinct difference between capital and endowment campaigns: the use of volunteers. Because organizations in capital campaigns generally seek outright gifts or pledges—usually cash or securities—volunteer solicitors require no special training in the complex nature of planned gifts. Some volunteers may feel comfortable asking a friend to make a pledged gift that is similar to a gift they themselves have made to their organization's capital campaign, but they may not feel comfortable speaking to a friend about the tax consequences in creating a charitable remainder annuity trust.

Therefore, because of the technical nature of the gift options, endowment campaigns may rely more heavily on the expertise of professional staff. Volunteers are very effective advocates for your organization and can open doors for staff to meet with prospects, but it will be the trained staff members who close the deal on a planned- or deferred-endowment gift.

The final and most important distinction between a capital campaign and an endowment campaign is the type of prospects for each. An endowment campaign's prospect pool is limited. These donors are people who have established a long-term commitment to an organization and may have made gifts every year for many years. Because their gifts will be invested for the future growth, they will want more information about how their money will be invested and

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Operating Versus Capital Versus Endowment Challenges

BY JAMES A. LIST, ESQ.


While nonprofits recognize the increased competition for fundraising dollars, they often fail to recognize that competition is not simply from other nonprofits. Competition is also an internal issue. Does a donor's unrestricted check go into the operating fund, the new building capital campaign or the endowment fund? Usually the answer depends on how the organization resolves the internal competition issue, and that resolution ultimately may spell the difference in a charity's long-term survival.


The answer is not an easy one, because often nonprofits are engaged in all three forms of fundraising simultaneously. Annual giving campaigns typically are conducted to meet current budget and program goals and generally are targeted at the current fiscal year. Capital campaigns can be longer in duration and usually have a specific goal: build the new library, open the new hospital wing, or establish the new scholarship program.

Then there are endowment gifts, which generally require a commitment to do something in the future. Donors make a gift when a certain event occurs, such as the sale of their business, a retirement or even their death. As a result, most nonprofits are usually uncertain when such gifts will arrive. Furthermore, the amount of these gifts can vary substantially, particularly if they are tied to the value of a closely held business stock or public securities.

Many universities and hospitals build large endowments designed to provide a funding lifeline during economic downturns. Many endowments are established to distribute the income from their investments so that the principal is preserved for future years' support. Yet some of the largest and most established nonprofit organizations have insignificant endowments that provide no such benefit, which does not bode well if the current economic malaise continues.


Why do many nonprofits have difficulty building endowments? There are multiple reasons:


 **1. The fundraising challenge.** The most obvious reason is that some organizations are just not good at raising money, according to Peter V. Berns, CEO of The Arc (www.thearc.org) in Washington, D.C., an advocacy group for people with intellectual and developmental disabilities. If an organization is struggling to meet its operating budget, building an endowment takes on less importance. This is particularly true with small to midsize organizations, which lack the critical resources to acquire staff with sufficient fundraising expertise.

 **2. The right staff.** Competent fundraisers can raise money for annual campaigns, capital campaigns and endowments, but finding and paying the right people can be a major challenge. In addition, schools and hospitals have independent funding (tuition and fees, for example) and a longevity advantage that many nonprofits lack. Donors have con-



fidence that a long-established university or hospital will be in existence long after their lifetime. Unfortunately, they often do not feel the same way about their favorite charity.

 **3. Motivation.** Development directors and other executives often have performance goals and bonuses tied to current fundraising or capital-campaign goals. However, since endowment goals are long-term and uncertain, many organizations do not include endowment building in their employee performance plans or in the organization's strategic planning.

 **4. The right skills.** Endowment building also may require some different skill sets. Annual giving and capital campaign strategies and techniques—from year-end, direct-mail campaigns and golf tournaments to 5K runs, formal balls and memorial bricks—are well-established and have been improved with Internet tools. However, endowment building is very different. It is more personal and does not take place during the last-minute frenzy of a silent auction. Endowment building often requires multiple meetings over a period of time with donors and their advisers, who may include other family members. To effectively build an endowment, an organization's staff and executives must make a serious commitment to this goal.

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	Annual Giving Campaigns	Capital Campaigns	Endowment Building
Time Frame	Now	Now – 5 Years	20+ Years
Executive Motivation	Performance Goals	Performance Goals	Generally, No Goals
Board Motivation	Legacy	Legacy	Little Motivation
Tax Advantages	Instant	Instant-5 Years	Limited, next generation
Donor Control	Some	Limited	Lot of Control

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5. The donor dilemma. The most fertile pool for endowment donors is from an organization's existing donor pool, according to Bob Myers, CFRE, development specialist with Boy Scouts of America, National Council (www.scouting.org), in Texas. Yet some organizations are reluctant to ask these donors for endowment gifts because they fear that the future gift may affect current giving.

6. Continuity of the endowment effort. An organization must stay engaged with its endowment donors, which can be challenging when development staff changes or is reassigned. Myers suggests that the organization can use its volunteer base to bridge these transitions with its endowment donors.

7. Differing issues. Estate taxes, legacy and donor recognition, as well as control over the use of a gift, are endowment issues that must be addressed. This requires the person handling this task to be well-versed in topics such as gifting strategies; estate, gift and capital gains taxes; and, of course, psychology, since understanding a donor's motive for making the gift is crucial.

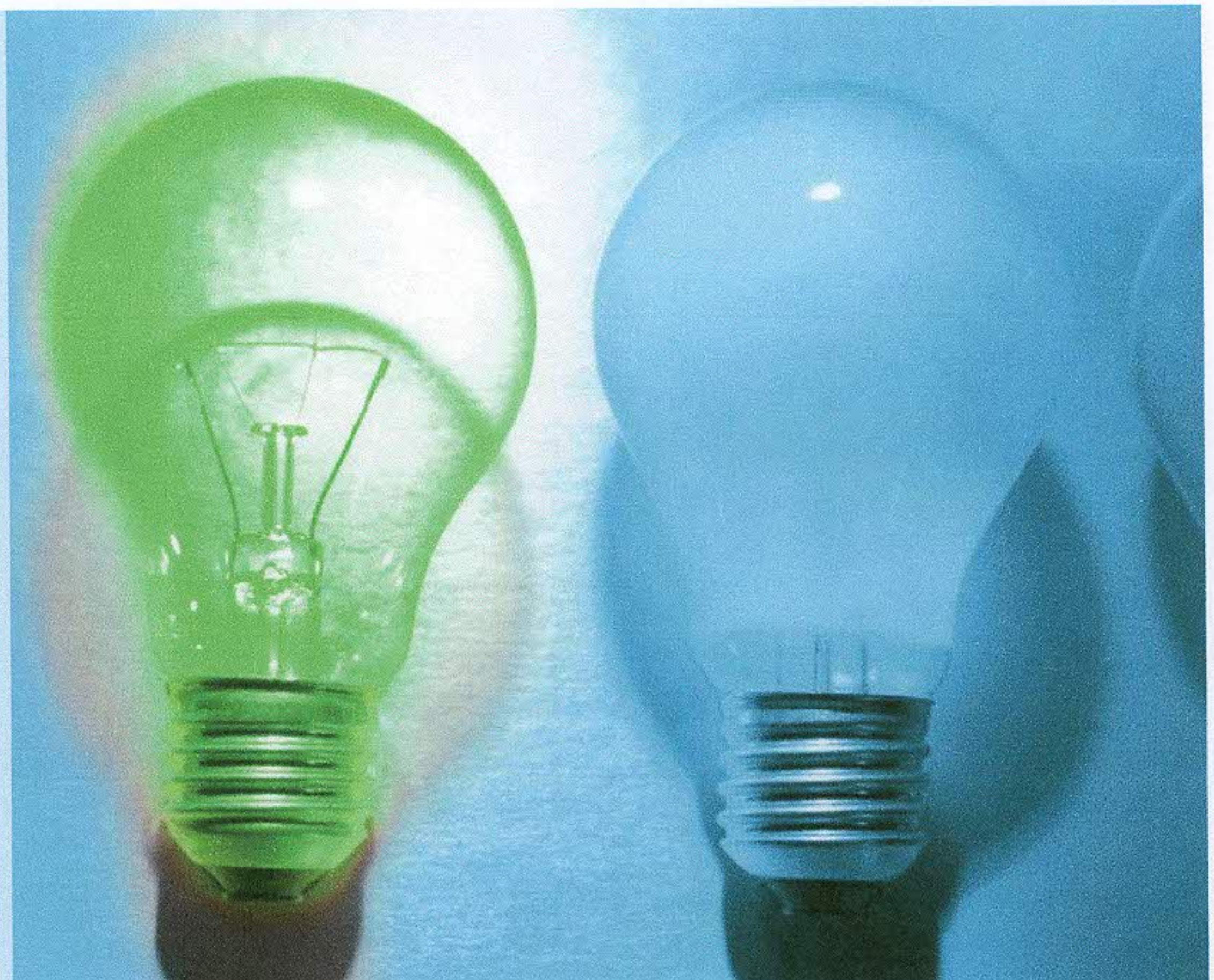
Once you start to build an endowment, the ability to grow the endowment is challenged by several factors. The most common of these is "raiding" an endowment. Suppose, for example, a church or synagogue obtains bids for a new facility. The members raise the necessary down payment and obtain financing for the balance. Then unforeseen circumstances occur—a crack is found in the foundation, there is an increase in water or sewer hook-up fees, or there is a dispute with a contractor. People rarely plan for these contingencies, and the endowment may be the only source of readily available, additional capital.

Once an endowment is raided for other purposes, it sets a precedent. Moreover, the endowment loses the earnings from the withdrawn funds. This impact can dilute the endowment, keeping it from fulfilling its stated purposes and resulting in a backlash from endowment donors.

Nonprofits can address these issues with specific actions and strategies. First and foremost, they should establish measurable executive and director/trustee goals. Endowment goals for management and directors/trustees cannot be measured by dollars, since the timing and amounts of these gifts are outside their control. Instead nonprofits should create goals based on commitments. For example, "In the next year, the development director will obtain commitments from five families to join the organization's legacy society."

It is also essential to establish clear and specific endowment goals. These goals could include:

- The amount of principal required in the endowment fund before funding programs;



- The permitted uses of income and principal from the endowment (there can be multiple uses, and you can establish sub-funds to support specific donor intents, such as a named scholarship);
- The establishment of an endowment fund investment policy, which determines whether the fund will be managed for aggressive or conservative growth and how the policy will affect the endowment missions and the acquisition of new endowment donors; and
- Protections from operating budget and capital campaign demands. (Endowment funds need to be kept separate from other organizational operating or capital demands unless supporting them is one of the stated policies of the endowment fund. Without assurances that the endowment will be used for its stated purposes, it is difficult to attract new endowment donors or new gifts from their families.)

Finally, endowment fundraising efforts should be separated from other fundraising activities. It is crucial that endowment gifts do not compromise other gifts from the same donors. Endowment efforts should take place at a different time of year, at locations other than the organization's traditional fundraising venues.

As an endowment builds and begins contributing to your organization's mission, it gains credibility with other donors. It then becomes easier for you to attract new donors as your nonprofit is recognized for its stability and sustainability. This, of course, is not an overnight process. Never underestimate the commitment necessary in creating a successful endowment, but the long-term results are well worth the effort.

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used. They want to know that their funds will be important and viable for years to come.

Few foundations provide endowed gifts, preferring to maintain control over their own invested funds. Corporations occasionally endow chairs or faculty positions when the opportunities match their business priorities. Small-gift donors are less likely to contribute to endowments unless their support is gradually cultivated. Major-gift donors are the only natural constituency of an endowment campaign.

Your Case for Support

In order to proceed with an endowment campaign, an organization should first assess its current position and its vision for its future growth. A SWOT (strengths, weaknesses, opportunities and threats) analysis will help the organization's leadership determine whether it is ready to embark on the expansion of its endowment. Some questions to address may include:

- What is our mission?
- What are the long-term needs of the community and our clients in light of our mission?
- What programs, services and facilities should we put in place to respond to those long-term needs?
- How much will those programs, services and facilities cost over their operational lifetimes?
- How will we pay for them in the short and long run?
- What external factors will help or hinder our long-term success?

Once the issues and costs are understood, an organization can begin to prepare a case for support, which is not the same as the case for an annual appeal or capital campaign. It is based on a vision of the future, both near and distant, and invites donors to participate in that future. Unlike a capital campaign's case for support, an endowment's case speaks to the long-range vision: How does the organization see its place in society in 10, 20 or 50 years? In addition, the case may be written for more financially astute readers, educating them on the investment goals and models, distribution options and financial management strategies. It can outline the various giving vehicles available to donors and the benefits offered by each.

Because the campaign's purpose is to initiate an ongoing endowment program, its short-term financial goals can be quite modest. However, the long-term goal must be significant enough to ensure the financial viability of the program. The relative costs of managing a charitable gift annuity fund or general endowment fund can be very steep if the value of the funds is small.

Board involvement includes approving the campaign, authorizing the establishment of the endowment fund, approving policies for the fund's operation and any planned-giving program, selecting an endowment investment management company and reviewing each of these components on a regular basis.

Marketing an endowment campaign is a two-track effort. The first track includes a public announcement of the long-term vision of the institution and how the leadership intends

to reach its goals through the creation or expansion of an endowment. The second track, often the more important, is prospect-focused. It speaks to major donors using language that is most likely to motivate them. Reminding donors that their endowed gifts will make a difference—not just today and tomorrow, but forever—may be a part of that discussion.

Patience and Stewardship

Because an endowment gift is often a donor's largest and most complex gift, a prospect may require a considerable amount of time to make a decision, and he or she may make a gift only after a personal relationship with the charity has been established or reinforced. You should expect that cultivation and closure will take longer than the cultivation and solicitation of donors for capital-campaign gifts.


Planned and deferred gifts make up a greater portion of total gifts. Because endowments are in perpetuity, most charities are comfortable offering donors the ability to use planned gifts to establish them. Charities might not receive the corpus of a donor's gift from a bequest or charitable gift annuity for many years; nevertheless, the charity has a reasonable expectation that it will receive some money when the gift matures.

From a stewardship perspective, planned gifts are a natural fit for endowments. The donors' obligation to send regular payments and the charity's duty to send annual tax forms ensures that the development department will maintain a long relationship with planned-giving donors. This holds true for bequest intention donors as well. Regular contact will reduce the likelihood that donors will remove the charity from their wills. More than stewardship obligations for annual fund gifts or capital-campaign donations, stewardship of endowment donors relies on accountability and recognition.

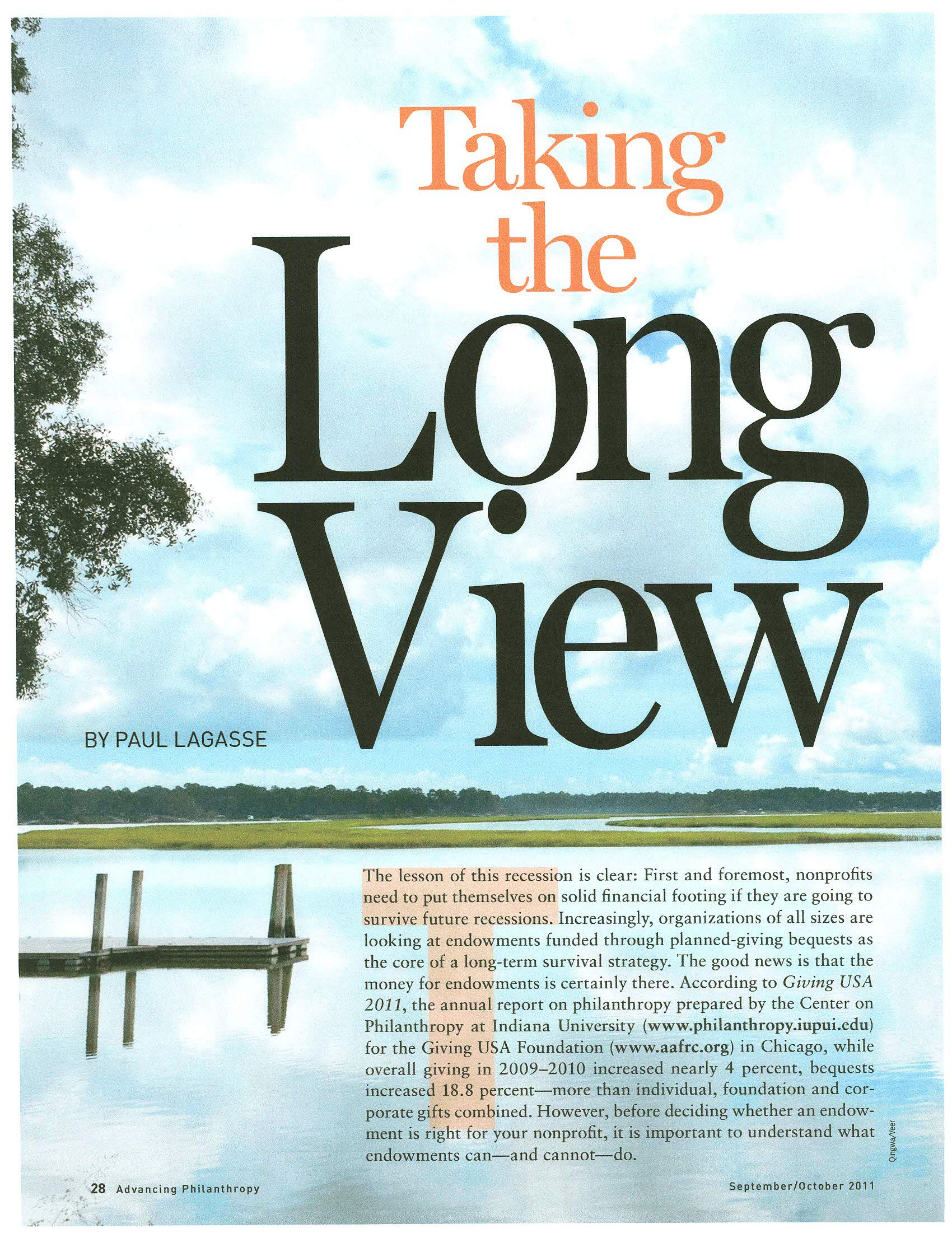
Success—an Ongoing Effort

How do you evaluate the success of an endowment campaign? You can consider whether it has met the financial goals approved by the board, raised awareness of the institution's need to build its endowment and generated enough new donors or encouraged sufficient existing donors to make endowed gifts.

However, the evaluation process does not stop at the development department's doorstep. Regular review of the investment strategy and results ensures that the endowed funds are performing up to institutional standards and the accounts are spinning off sufficient money to pay for the purposes for which they were established.

Through endowment campaigns and planned gifts, an organization can help ensure it does not fall into the "Zone of Insolvency" and continues to provide exceptional service, regardless of what the financial world brings. 

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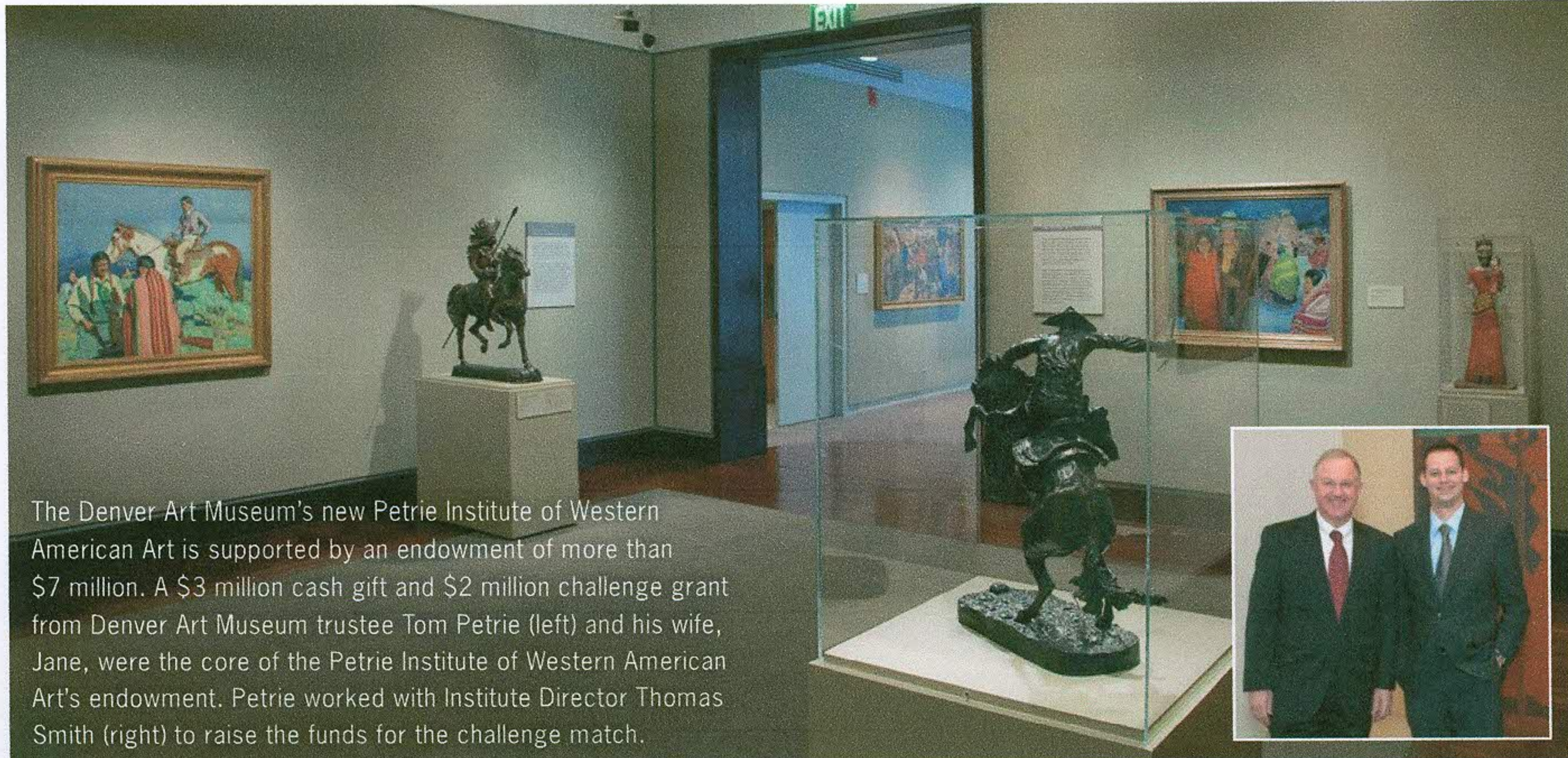
Taking the Long View

BY PAUL LAGASSE

The lesson of this recession is clear: First and foremost, nonprofits need to put themselves on solid financial footing if they are going to survive future recessions. Increasingly, organizations of all sizes are looking at endowments funded through planned-giving bequests as the core of a long-term survival strategy. The good news is that the money for endowments is certainly there. According to *Giving USA 2011*, the annual report on philanthropy prepared by the Center on Philanthropy at Indiana University (www.philanthropy.iupui.edu) for the Giving USA Foundation (www.aafrc.org) in Chicago, while overall giving in 2009–2010 increased nearly 4 percent, bequests increased 18.8 percent—more than individual, foundation and corporate gifts combined. However, before deciding whether an endowment is right for your nonprofit, it is important to understand what endowments can—and cannot—do.



How an endowment campaign can be an effective strategy
for ensuring the **long-term survival** of your nonprofit



Photos: Denver Art Museum

The Denver Art Museum's new Petrie Institute of Western American Art is supported by an endowment of more than \$7 million. A \$3 million cash gift and \$2 million challenge grant from Denver Art Museum trustee Tom Petrie (left) and his wife, Jane, were the core of the Petrie Institute of Western American Art's endowment. Petrie worked with Institute Director Thomas Smith (right) to raise the funds for the challenge match.

Trustee Opens Doors for Endowment Fundraising

Thanks to a dedicated trustee, the Denver Art Museum's (DAM) Petrie Institute of Western American Art (www.denverartmuseum.org) recently established an endowment that will allow it to focus on programs and scholarship at a time when many other organizations are forced to concentrate on simply surviving.

In 2001, the museum acquired an extensive collection of Western American art from William Harmsen, founder of Jolly Rancher (the candy company), and his wife, Dorothy. DAM established a Department of Western American Art to curate the Harmsen collection as well as other Western art in its possession. The new department's exhibits and publications were immediately popular and widely acclaimed, but they also began to strain the museum's budget and staff. The museum wanted the fledgling department to have a stable source of funding that would provide for collection development, programs and scholarship without diluting resources away from other program areas. The museum's leadership approached Tom Petrie, a trustee and vice chairman of Bank of America, and his wife, Jane, with a request to fund an endowment.

The Petries agreed to make a \$3 million cash gift and stipulated that the department (renamed the Petrie Institute of Western American Art) also raise an additional \$2 million, which they would then match. Over the next three-and-a-half years, Petrie worked closely with the institute's director, Peter Hassrick, and with Hassrick's successor, Thomas Smith, to raise the \$2 million to match the challenge.

The collaborative approach to fundraising worked well for

"You won't find a definition of the term in *Black's Law Dictionary*," says Kathryn Waller Miree, president of Kathryn W. Miree & Associates (www.kathrynmireeandassociates.com) in Birmingham, Ala. "People have a lot of different views of what endowments are. Just the word can set off a torrent of conflicting opinions and misunderstanding." Miree says that much of this concern has been fueled by recent headline-grabbing reports of steep declines in high-profile endowments and a feeling that organizations should not hoard assets when programs are going begging.

Smith, who joined the institute as director shortly after the endowment campaign began. "I've always believed that the best success comes from the peer-to-peer ask," he says. "Tom is very well-respected and has a great track record in the community. Most of the people we approached were contacts of his."

A key fundraising strategy they adopted was to seek out people who had not previously supported the museum. "We wanted to develop a whole new audience," Smith explains. "We also didn't want to be taking away resources from other departments or programs." Over the course of two years, Petrie and Smith were able to obtain endowment gifts from 48 donors ranging from \$15,000 to \$500,000.

During the fundraising stage, the institute continued to stage exhibitions and hold annual symposia. In 2009, it staged the first comprehensive retrospective of the work of painter and sculptor Charles Marion Russell and the following year exhibited the work of artist Charles Deas. Both shows received national critical and popular acclaim. Although it proved to be a challenge to raise funds for both programming and endowment simultaneously, it was a strategic necessity. "We wanted to have something to show people when we asked for their contributions," Smith explains. "It was easier to be able to point to our track record and say, 'We want to continue to do this.'"

At a ceremony at the museum this past February, Smith and Petrie announced that the institute had reached its endowment campaign goal. "One thing I've learned is how important it is to have trustees who are engaged in the process," says Smith. "It's difficult for fundraisers to get access to donors without their help. To be successful, it really comes down to how willing trustees are to help you."

"Endowment" is not just another way of saying "planned gift," Miree says. A planned gift is a way for donors to make a gift; an endowment is a way for a nonprofit to use a gift. Miree prefers to describe endowments as collectively invested individual funds established for an organization's long-term benefit. "If you're committed to an endowment, and if you want donors to get excited about it," she points out, "you have to translate that from a pool of unused money to actual hard results."

It is also crucial for executives, boards and donors to un-

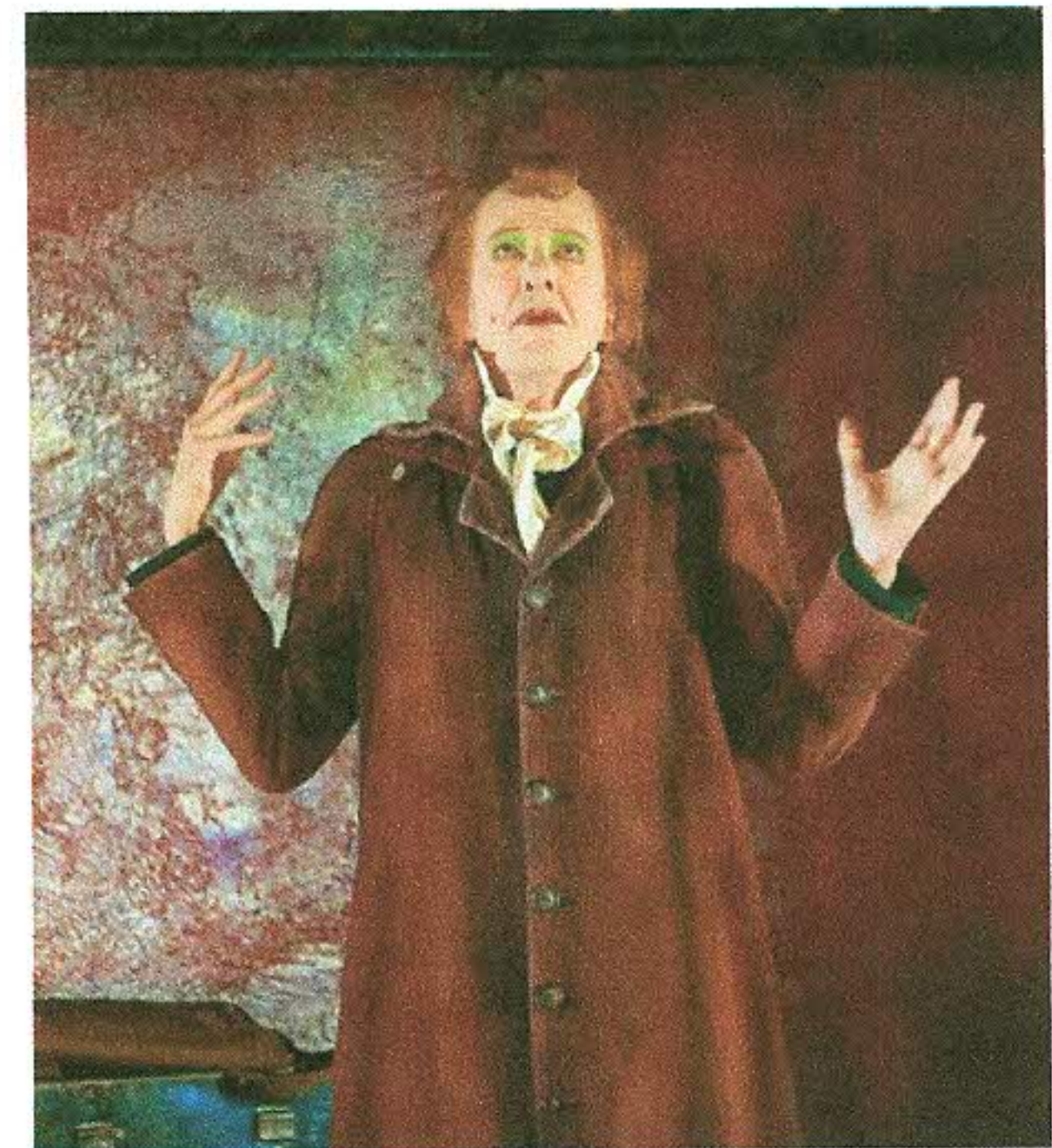
derstand the different types of endowments, especially now that many state attorneys general, following the lead of New York's, are requiring nonprofits to adhere to strict guidelines about how they can be spent. In her paper *From Theory to Practice: Three Successful Models to Build Endowment*, Miree identifies three types of endowments:

- **True endowments:** funds that have been permanently set aside to generate income. Donors direct how principal will be invested and how income will be spent. Donors may limit their use (a restricted gift) or leave spending discretion to the nonprofit (an unrestricted gift).
- **Quasi-endowments:** unrestricted bequests, planned gifts, surplus funds or asset sale funds that have been designated for long-term use by a board resolution and which the board may, at a later date, designate for non-endowment purposes.
- **Term endowments:** bequests in which the principal is restricted for a specific period and purpose, after which the board is free to use the principal or designate it as a quasi-endowment.

Miree says charities are increasingly recognizing that the long-term stability of their organization is a fiduciary responsibility. "An endowment has relevance for any nonprofit because it facilitates long-term vision and long-term opportunity," she says.

Robert I. Evans, founder and managing director of EHL Consulting Group (www.ehlconsulting.com), an endowment and capital campaign consultancy in Willow Grove, Pa., agrees. "If there's a lesson to be learned from the recession, it's that we need to be prepared for the next downturn in the economy," he says. "An endowment is forever. It's the safety net for the nonprofit." While fundraisers accept as conventional wisdom that donors prefer to support capital

The Diary of a Madman, starring Geoffrey Rush, was a highlight of the spring 2011 season at BAM, which aims to raise its endowment to \$110 million to support theater productions and other arts programming.



Stephanie Berger

projects with immediately visible returns rather than long-term, low-profile investments such as endowments, Evans points out that the recession has changed that. "Corporate and individual donors are starting to say, 'I'm not going to do bricks and mortar,'" he says. "That's a big shift."

Evans, who is on the *Giving USA* editorial review board, points to data in the 2011 report showing that the amount of money put into donor-advised funds increased dramatically in 2010, with the encouragement of philanthropic investment funds and charities. In real dollars, bequests totaled \$22.8 billion in 2010, representing 8 percent of total real-dollar gifts. "That's a very significant change over the last two to four years," Evans says. "Donors at all levels are warehousing money with the idea that they can probably do better than the conservative mandate of investing followed by organizations. Donors are ready to give, but they're trying to change how they give."



BAM's Next Stage campaign enables the arts organization to fund programs such as Dance Africa, which celebrates Africa and the diaspora through dance, visual arts and even an outdoor bazaar.

Julietta Cervantes

In Endowment Fundraising, Small Is Beautiful

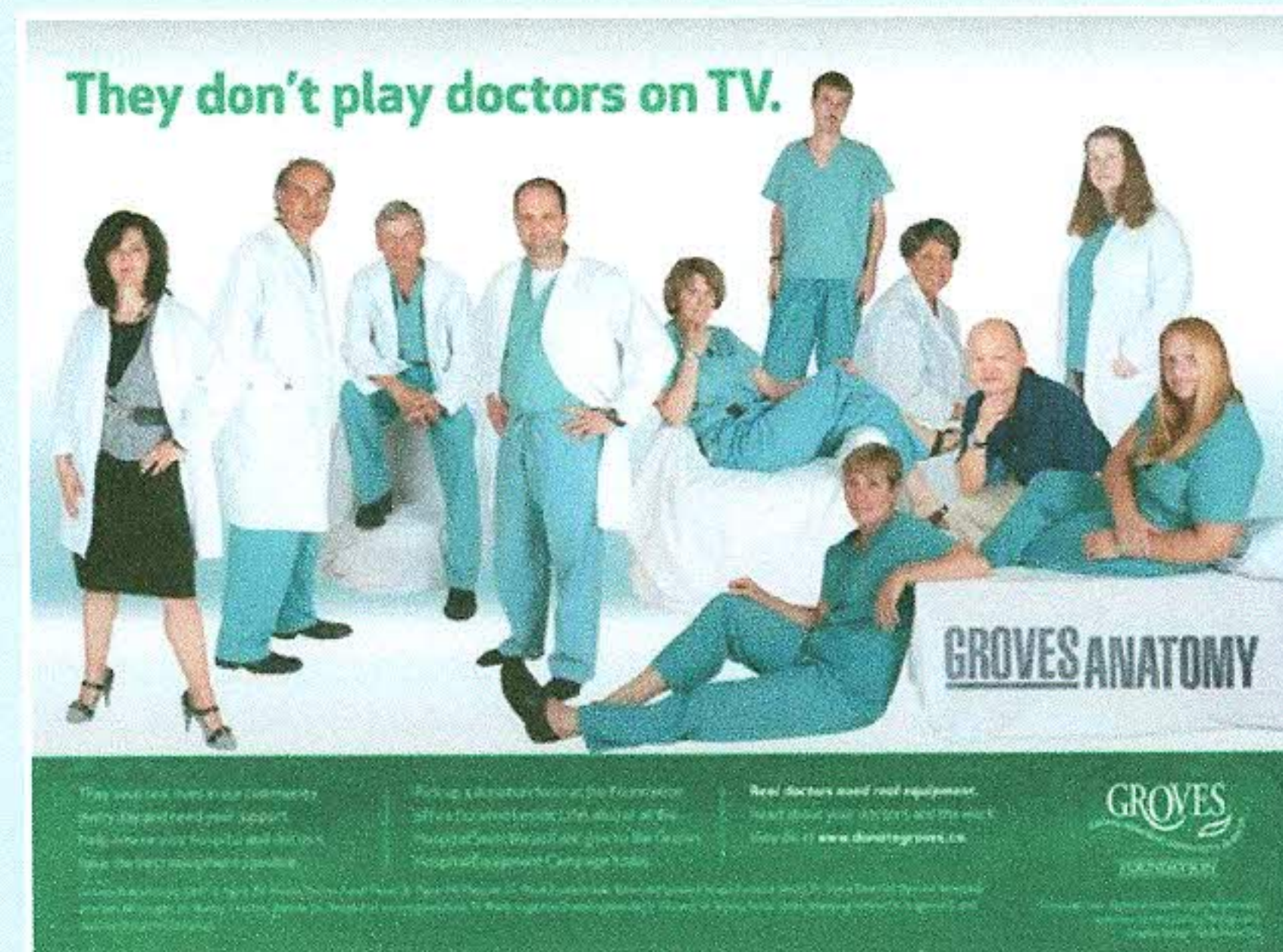
Endowments are common for large, well-established nonprofit hospitals, but even those that serve small or rural communities can benefit from them. The key, says Sherri Sutherland, executive director of Groves Hospital Foundation in Fergus, Ontario, is to play to your strengths.

Groves Hospital Foundation (www.grovesfoundation.org) was established in 2002 to support the Groves Memorial Community Hospital (GMCH) in rural Ontario, as part of a capital campaign that raised \$15 million in cash and pledges to construct a new hospital facility. The foundation then went on to raise money for a new oncology clinic, and in 2008 it launched a three-year, \$2.6 million capital campaign to purchase a CT (computed tomography) diagnostic scanner for the hospital and build the facility to house it. Despite the economic downturn, in mid-June the foundation announced that the campaign had reached its goal ahead of schedule. The foundation's success is all the more impressive when you consider that the hospital serves a largely rural population of 34,000 people in the quiet township of Centre Wellington, west of Toronto.

When Sutherland joined the foundation as executive director in 2008, one of her tasks was to work with the board to develop a strategic plan that included establishing an endowment. "We have two term endowments, one for palliative care and one for nursing education, but we had never really pushed endowment giving," Sutherland says. "We saw an endowment as an opportunity to provide sustainability for the foundation and, by extension, the hospital."

The plan calls for slow and steady endowment growth through planned giving of undesignated bequests. Sutherland notes that while the community is small and rural, it is also affluent, and the region is a popular retirement and tourist destination that boasts some of Canada's best fly fishing. "I think that's what makes it such a wonderful community," Sutherland says. "We have a lot of opportunity for endowment here. We see great potential."

Another strength that Sutherland is building on is the ven-



eration that the community feels for the hospital. Built on land deeded by the pioneering surgeon Dr. Abraham Groves, the 44-bed facility is also popular among medical students who come from surrounding medical schools to study there. "We have quite the proud medical heritage here," Sutherland says. "A lot of the bequests we've gotten are from people who we didn't know because they had a connection to the hospital."

Humor is another way to strengthen the connection between the community and GMCH, Sutherland has found. As part of GMCH's "Get Real" campaign for emergency and operating room equipment, the hospital's doctors, nurses, staff and even patients eagerly dress and pose for photos in the style of posters for hospital-themed television shows. This year's campaign, launched June 21, features posters based on *Grey's Anatomy* and *M*A*S*H*—complete with an appropriately dressed Cpl. Maxwell Klinger. As Sutherland points out, "Our Klinger is a well-respected physician with a great sense of team spirit!"

Although Sutherland has a small shop—aside from the volunteer, 10-member board, she and a part-time assistant are the foundation's only staff—she finds that it is not that difficult to build relationships with donors and prospects. "Small organizations are often much more connected to their donors," she says. "I can walk down the street and meet half of them or chat with them in the store. It's an opportunity that small shops can't afford to miss."

The skills needed to raise money for endowments are the same as those needed for any other kind of fundraising, Sutherland says, adding, "Sometimes we get wrapped up in the newest thing to do, but it's still all about building donor relationships." Sutherland and her board conduct annual "thank-a-thons" to call and thank individual donors for their gifts. At last year's event, for example, they contacted almost 400 donors. Despite such efforts, Sutherland says the lion's share of the credit for the foundation's success lies with the donors and volunteers. "This isn't my work," Sutherland says. "This is the community's work."

Making the Case for Endowment Campaigns

Evans and others agree that most nonprofits can best take advantage of this change in giving patterns by building an endowment component into their capital campaigns rather than by launching a dedicated endowment campaign. Given the amounts involved—for a small to midsize nonprofit, Evans says that the optimum size for an endowment is three to five times the organization’s annual budget—this may require a significant readjustment of your campaign strategy.

As with other types of fundraising, a clear case statement is crucial. Gregory C. Bobonich, J.D., CEO of Charlotte Community Foundation (www.charlottecommunityfoundation.org) in Punta Gorda, Fla., cautions that endowment campaign case statements differ from other types. “An endowment case statement has to offer a rationale that convinces donors that you’re going to be around years from now,” he says. “That sends a strong message to donors, but it also puts a tremendous responsibility on the organization.”

To sell that case statement, a nonprofit needs a top-notch solicitation team, Bobonich says. Endowment fundraising requires persistence; he recommends going into the field armed with multiple giving opportunities to improve your chances of appealing to a particular donor. Provide sufficient staff and resources to support fundraisers in the field and do not be afraid to rely on dedicated volunteers to help close deals.

Two crucial factors in a successful endowment campaign are a sufficient number of high-value prospects in the donor database in advance and sufficient time and staff resources to cultivate them. “Endowment giving appeals to a different kind of donor,” Bobonich explains. “You’re looking for people who are willing to make a leap of faith.” Since such donors are rarer, you need a large number of them at the outset to have a chance of success. Bobonich warns that you should not expect to convince more than one out of every three to five prospects. Furthermore, it can take from 16 months to two years of meetings, conversations and presentations to cultivate an endowment gift.

Such a commitment requires careful preparation well in advance of the endowment campaign, particularly for nonprofits that have smaller pools of donors to draw from. Yet with a sound fundraising strategy and savvy fundraisers, Bobonich says, the results can far outweigh the opportunity costs.

In 2008, the Brooklyn Academy of Music (www.bam.org) in New York launched a five-year fundraising campaign to raise \$300 million for programs, facilities and its endowment, which did not exist prior to 1992—more than 125 years after the institution was founded. As the BAM Next Stage campaign enters its final years, the endowment portion of the campaign has reached almost 75 percent of its \$110 million goal.

BAM factors in longevity of support, as well as giving capacity, when identifying prospects for the campaign. Matthew Bregman, BAM’s vice president of development, emphasizes that donors want to see that your organization has long-term stability and enormous staying power before

they are convinced to make such gifts. “You’re dealing with the most financially savvy subset of your donor and prospect base,” he says. “You can’t necessarily guess what a person’s attitude is going to be about endowments.”

The moment BAM launched that campaign, which was right in the middle of the economic downturn, was a challenging time. Nevertheless, because of the growth of the institution and its strong management, BAM has many maturing donors who are ready to make those kinds of donations. “Contributing to endowments is really for people who are enthusiastic about the organization,” Bregman says. “It’s unlikely they’re going to be driven by the case unless they already support or are familiar with the institution.

“I think it’s the most challenging type of campaign because it’s about deferred gratification. The case is not as obvious as saying, ‘If you give us \$2 million, we can build this building.’ It’s about getting donors to understand and invest in the long-term health and aspirations of the institution. They want to know that if they make a significant gift, something significant is going to happen. This could be three, four or five years down the road, but still they *will* see something from it.”

At the same time, donors need to feel assured about the long-term health of the endowment itself. Bregman notes that donors are less willing to support an endowment if they think there’s a possibility it will not be protected. “In the wake of the financial downturn, donors need to be confident that the endowment is well-managed,” he says. “They see organizations—rare exceptions, one hopes—get desperate and raid their endowments. Or they see endowments depleted by investment losses, which can have a negative impact on the operating budget if the organization is overly reliant on that endowment. A healthy balance between endowment income and annual fundraising is the key to stability.”

Nevertheless, such concerns, and others, actually may help open the doors to discussions about endowment and other planned gifts.

Invite Donors and Descendants to Participate

In her book *Nonprofit Essentials: Endowment Building* (Wiley, 2005), Diana S. Newman, CFRE, lists some of the most common reasons donors resist making endowment gifts, including:

- insufficient support for the cause
- lack of confidence in the organization, its leadership or its long-term future
- lack of immediate gratification
- concerns over future financial security
- loss of control over the gift

Newman, executive vice president of the Benefactor Group in Columbus, Ohio (www.benefactorgroup.com), says that many of these concerns can be addressed by encouraging donors to discuss gifts as part of broader estate and financial plans. “There’s a huge resistance on the part of donors to discuss money and death,” Newman says. “Instead you

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should talk to them about how they can invest in the future by leaving a legacy.” One way to do that, she explains, is to invite donors to work with the nonprofit to establish the most appropriate form of endowment for their planned gift. This approach boosts donors’ support, increases their confidence in the institution and gives them a stronger sense of financial security and control over their gift.

The Chicago Community Trust (www.cct.org) is using this technique to raise \$500 million in new endowments as part of a six-year campaign that will double the amount of money generated by the income from established gifts and increase the CCT’s current asset base by more than 60 percent. In 2010 the foundation gave away \$140 million to serve community needs, about \$35 million of which was at the direction of the CCT’s board. “As you can imagine, \$35 million is just a drop in the bucket to solve community problems,” says Jamie Phillippe, vice president of development and donor services at CCT. “We wanted to give more money away to the community and affect the need.” The campaign is scheduled to run through the end of CCT’s centennial year in 2015 and is already ahead of schedule, having raised \$170 million in new endowment funds.

CCT is seeking commitments primarily through estates, complete or partial conversion of family foundations into donor-advised endowed funds and, to a lesser extent, co-investment. Donor-advised endowment funds, which, unlike traditional donor-advised funds, cannot be spent down to zero, are appealing because they provide donors with a means of encouraging descendants to become involved in philanthropy. Last October, Marshall Field V and his wife, Jamee, announced their intention to convert their multimillion dollar private foundation to a donor-advised endowment fund and transfer it to CCT, in addition to leaving a significant portion of their estate to the foundation.

When discussing planned-giving options, Phillippe says, patience is vital. “When you talk to people about estate plans or converting a family foundation, it takes many conversations.” It is also imperative to clearly establish donor intent to prevent being trapped under the “dead hand of philanthropy”—gifts designated exclusively for needs that have since been resolved. For example, CCT was able to convert a fund endowed for the care and feeding of trolley horses to caring for animals that work with disabled children. “The guiding principle is to use it in a way that most closely aligns with the donor’s original intent,” Phillippe says.

You can avoid the dead hand—and boost lifetime giving—by finding ways for donors to see the impact of their gift in their lifetime, says Sophie W. Penney, Ph.D., director of development at Foxdale Village (www.foxdalevillage.org), a continuing care retirement community in State College, Pa. Prior to joining Foxdale, Penney was the director of development for the College of the Liberal Arts at Pennsylvania State University (www.psu.edu). While there she and her team employed a technique called “early activation” to spur contributions to endowment and current gifts.

“Early activation allows donors who create endowed funds with estate gifts to see the benefit of their giving in their lifetime,” Penney explains. “We ask them to annually donate the amount that would be spun off of the endowed fund.” For example, if a fund is endowed at \$100,000, the donor would pledge to give the institution \$5,000 per year for a fixed term, typically five years. In return, donors would have opportunities to meet with beneficiaries. Penney says that several donors who opted for early activation eventually started to make larger lifetime gifts. “We found that people would become even more excited about giving because they could see the impact of their gifts in their lifetime,” she says. “Some even paid the full estate gift in their lifetime, and some of that group made new estate commitments as well.”

Penney believes that early activation generates greater enthusiasm for endowment campaigns. “It’s much easier and heartwarming for donors to see the impact of endowment gifts,” she says. The secret, she points out, is to avoid using generalizations to pigeonhole donors. “If you have the right kinds of relationships with your donors and they’re willing to make a planned gift with early activation, they’ll come back and say, ‘I’d like to endow that fund now.’ It’s even more critical during downturns. If you maintain the relationships, when things turn around they will be there for you.”

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Resources

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Nonprofit Essentials: Endowment Building (The AFP/Wiley Fund Development Series) by Diana S. Newman, CFRE (Wiley, 2005), paperback, 239 pages (available in the AFP bookstore, www.afpnet.org)