

san diego  
**Grantmakers**  
Strengthening Philanthropy

**REAL COST.  
REAL OUTCOMES.  
@RealCostProject**

Nancy Jamison, President and CEO  
San Diego Grantmakers

# The Real Cost Project

## An Initiative of:



## By Funders, For Funders:



# Part of a National Movement

## □ **Overhead Myth**

[www.overheadmyth.com](http://www.overheadmyth.com)



## □ **Nonprofit Overhead Project**

[www.calnonprofits.org/programs/overhead](http://www.calnonprofits.org/programs/overhead)



## □ **Real Talk About Real Costs**

<http://donorsforum.typepad.com/realcosts/>



## □ **#OwnYourOwnCosts**

[www.councilofnonprofits.org/ownyourowncosts](http://www.councilofnonprofits.org/ownyourowncosts)



## □ **Is Grantmaking Getting Smarter?**

[www.geofunders.org/smarter-grantmaking/field-study](http://www.geofunders.org/smarter-grantmaking/field-study)



# What is Real Cost?

Simply put, “real cost” refers to all necessary costs for a nonprofit organization to deliver on its mission and to be sustainable over time.

Program Expenses

Operating Expenses

Working Capital

Fixed Assets

Reserves

Debt



# Phase 1: Real Cost Project Research



Statewide reach focusing on Southern and Northern California Grantmakers

In-depth interviews conducted

Qualitative approach spanning multiple funder types

Corporate

Family

Community

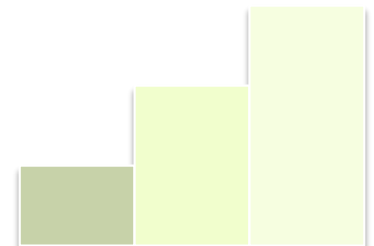
Giving Networks

Public Endowments

Individuals



Staff roles, including Board Members, Executive Directors, and Program Officers



Annual Budgets from \$400,000 to \$9 Billion

# What We've Learned So Far

## POLICY

- Lack of formal policies around overhead or indirect costs
- No standard definition of terms
- No shared or common language

## PEOPLE

- Discretion left to program, grants management, and/or financial staff
- Little or no formal training on determining full cost

## PRACTICE

- Practice driven by cultural norms and perceived 'best practices' in the field
- Radical differences in approach and practice

# Barriers to Change in Philanthropy

INSTITUTIONAL	CULTURAL	PRACTICAL
Program-focused mindset.	“Overhead is bad” mindset.	Lack of a shared language and common definitions.
Lack of collaboration and data sharing among funders.	Belief – especially among funder trustees – that nonprofits don’t know how to operate “like a business.”	Lack of established best practices and models for real cost funding.
Lack of authenticity and transparency between funders and grantees.	Resistance to re-examining and redefining impact and measuring effectiveness.	Lack of understanding of nonprofit financial management.
		Lack of skills and training around measuring and evaluating outcomes.

# A New Approach to Funding

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What are the  
outcomes?

What do those  
outcomes really  
cost?

What role do  
you want your  
money to play?

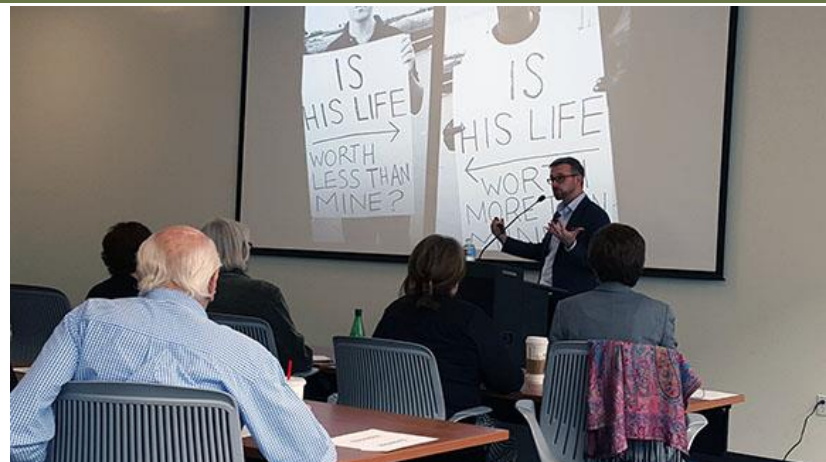
**WHAT WILL IT TAKE TO GET THERE?**



# Executive Leadership Session Discussion

## with Jacob Harold, CEO, Guidestar

- Can funders approach each grantee with a partnership mindset?
- Does real cost funding lead to fewer, larger nonprofits getting more funding because they have greater capacity to measure outcomes?



- We need a platform for sharing data, definitions, and policies about real cost funding and measurement.
- We need to think of nonprofits like businesses – businesses do not make decisions based on overhead rates, and nonprofits should not be forced to either. It discourages paying for talent and investing in infrastructure.

# What's Needed

- **Executive Buy-in:** Change happens at the top. Executives and boards of trustees must fully understand the issues and be prepared to implement changes.
- **Engage Grantees in a Real Cost Conversation:** Grantmakers need to examine their current practices – both formal and informal – and to engage in conversations with their grantees as to what it really takes to achieve their outcomes.
- **Training/Capacity Building/Resources:** For Grantmakers/ Nonprofit Leaders/Boards on the common definitions, templates, and toolkits of full cost funding, financial literacy and outcomes measurement.

# Real Cost Project: Phase 2

- Provide resources and tools to support real conversations among and between key stakeholders:
  - Foundation CEOs and trustees
  - Foundation program and grants administration staff
  - Grantmakers and nonprofit grantees
  
- Provide trainings to assess/evaluate nonprofit real costs for grantmakers and nonprofits
  
- Continue to cultivate and expand sector-level discussions about real cost funding
  - Conferences and convenings for funders
  - Support deeper discussion at philanthropy conferences
  - Collaborate with others engaged in this dialogue (e.g., Bridgespan, Ford, others)

# The REAL COST Project

Real Cost. Real Outcomes

A joint initiative of Northern California Grantmakers, San Diego Grantmakers and Southern California Grantmakers

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