Enhancing Foundations and Community Philanthropy
Statewide Satellite Town Meeting, June 28, 2004.
Panel Questions and Answers

1. How does a community determine whether a certified or qualified foundation investment objective that is right for them? Or is the investment performance of the regional foundation a critical factor in choosing affiliation?

Yes, investment policies, philosophies, investment managers, and track records are among the important factors to consider in choosing affiliation with a qualified community foundation (QCF). Investment policies, objectives, investment manager selection criteria, and performance are likely to vary across QFCs. Some QFCs may require affiliate accounts (deposits) to become part of the QFC's investment pool or portfolio to be managed by the investment managers previously selected by the QFC's Board Investment Committee. Other QFC's may be more flexible in (1) allowing preferred financial institutions of the local affiliate to be considered for the QFC's accepted list of investment managers if they meet the QFC's eligibility criteria, or (2) allowing local affiliate boards to direct the QFC's to invest the local affiliate's funds to local or regional institutions preferred by the local affiliate. CVC is aware of one case where a nationally certified community foundation in another state accesses an electronic marketing network that allows FDIC insured financial institutions in the state or designated region to bid on the investments.

2. How do we prevent community conflicts between Community Foundations or their Affiliates and existing foundations like schools, hospitals, or churches or nonprofits that conduct annual fund raising drives? In some cases, one entity may sabotage the other or "bad mouth" the idea of a community-wide foundation?

One cannot necessarily prevent all conflicts. In theory, community foundations generally focus on building endowments, generating bequests, and supporting other local nonprofit groups. Since 85% percent of the population contribute to worthy causes while they are alive but only 6% of the population provide bequests to worthy causes at the time of their death, having an institution that specializes in building endowments may significantly increase local philanthropy outcomes on behalf of all local nonprofits.

The statistics imply that Iowa communities and Iowans can do a much better job in attracting donors than has been the case in recent years. Two goals of CVC's wealth transfer study, Iowa's state incentives and the philanthropy educational programs are to increase discussion about philanthropy and to encourage local collaboration and coordination so as to increase the overall level of giving for local initiatives that are determined to be worthwhile. Competitive pressures may be lessened to the extent that the overall "philanthropic pie" can be increased. It just does not make sense and it is often counter productive for several local nonprofits and foundations to make contact with the same local donors without coordinating their efforts. If local leaders and citizen begin to realize that annual giving and

giving through wills and bequests can both be increased with better coordination, then donors are more likely to donate instead of being turned off by the competition.

In addition, what if there is improved money management that can increase net returns? What if ongoing programs can eventually be funded from permanent endowment earnings? What if critical projects can be funded to stimulate economic growth and community vitality? If local leaders and participants can begin to see the positive benefits of working together, perhaps the competitive pressures will subside in many local communities.

Increasingly, much of the wealth passes to heirs and philanthropic initiatives outside of the local community. More people might consider donating to worthy local community projects that are critical for creating new engines of growth and enhancing quality of life, if they are made aware of the local opportunities and mechanisms to do so. But in many cases they are not. Bequests and endowments can provide mechanisms to sustain worthy community projects into perpetuity. Donors want to make a difference and not all donors want to give to the same causes. Therefore a well coordinated effort to provide local financial managers and estate planning advisors with information about the full range of local worthy causes and critical community projects that are accepting local donations is more likely to generate results compared to an uncoordinated approach in which several worthy causes individually contact the same donors in a competitive manner.

3. How can we avoid the conflict as existing or new foundations attempt to raise endowments?

Creating a countywide philanthropic resource handbook for attorneys, accountants, bank trust officers, and financial advisors involved in estate planning can lead to greater cooperation. Providing an annual luncheon with awards for best practices can re-enforce collaboration, innovative ideas, and recognize efforts to encourage all entities to work together toward the same community improvement goals.

The designated qualified community foundations and affiliates that serve a countywide purpose under HF2302 may provide an opportunity for all other eligible nonprofits and organizations in a non-gambling county to apply for and receive access to the additional gambling funds made available to the county--a minimum of $50,000 to $60,000 annually starting in fall 2005. Access to the additional revenue sources for critical local projects and worthy causes may likely encourage greater cooperation among local nonprofits and the designated countywide qualified or affiliate community foundation that will serve as a potential new source of revenue.

Using some of the gambling revenues to support local community philanthropy improvement plans or to provide local incentives and matching gifts to local endowments designated for various existing foundations and nonprofits can demonstrate the usefulness of working together and avoiding conflict.

4. Is there a minimum size for a community foundation?

The Endow Iowa law required a minimum board committee of five people representative of the area to be served for purposes of establishing an affiliate community foundation. As an affiliate community foundation, the board committee is free to focus on fund raising and allocating funds to meet local priorities. The accounting, auditing, IRS filings, legal, and marketing services are provided by the qualified (certified) community foundation that serves as the host. Forming an affiliate community foundation may be accomplished in a matter of days or weeks depending on the number of host community foundations contacted for consideration and the complexity of the affiliate agreements evaluated.

The process of creating a certified community foundation can take 6 to 24 months. The minimum incremental costs are likely to be $10,000 to $15,000 based on two recent CVC projects. The National Council on Foundations has established the standards used in accordance with Endow Iowa legislation and HF2302 Iowa gambling revenue distributions. The standards are seven pages long and may be accessed by the CVC or Endow Iowa website. A three-ring notebook of policies, procedures, and performance is submitted to the Iowa Department of Economic Development for consideration and approval. All qualified community foundations in accordance with Iowa law are listed on the Endow Iowa web site. As of June 28, 2004, 13 Iowa community foundations have been certified by IDED and the Endow Iowa website maintains the official list of qualified community foundations.

Some members of the Iowa Council of Foundations cite speakers from National Council on Foundation workshops who suggest the threshold economies of size for a community foundation would be one that manages a $15 million to $25 million portfolio and serves an area with a population of 100,000 to 250,000 people. The assumed institutional structure may likely include full costs for facilities, operations, management, as well as a complement of professional staff for donor relations, data base management, professional investment, fund raising, and project management.

In contrast, community-oriented foundations in rural communities often operate without facilities and rely on volunteers instead of paid professional staff. While rural foundations are likely to perform at much lower costs of operation, they are also more likely to place investments locally and may be less likely to use the range of investment instruments used by larger community foundations. Local volunteers may also be less familiar with the full range of issues that may develop. Therefore a comparison of net returns is not possible without access to detailed information.

While threshold economies of size may exist, CVC is not aware of any detailed economies of size studies that have been conducted on the full range of institutional variations found in Iowa. Therefore at this time, CVC cannot draw any general conclusions about the relative size of net returns by size of foundation portfolio.

5. It seems like a lot of work to go through if our community wants to develop a new community foundation and without our separate foundations won't we loose our identity and purpose?

Affiliation with a qualified community foundation (QCF) can be accomplished in a matter of days or weeks. New or existing foundation entities that become affiliated with a host QCF may name their affiliate entity or donor advised fund as they see fit or as appropriate to preserve identity and purpose without reference to the name or location of the host qualified community foundation. Therefore the affiliate can be created without loss of local community identity.

CVC believes that for most rural communities, it will be worth the time and effort to establish an affiliate entity within the county for purposes of becoming eligible for receiving HF2302 gambling revenues that will be annually distributed starting in fall of 2005.

6. What fees will a qualified foundation collect from its affiliates?

Fees may vary depending on the qualified community foundation. Representatives of the Iowa Council of Foundations suggest that the fees will likely range between 1% and 2% of endowment fund balances with slightly higher rates for non-endowment accounts. Currently, one must contact each foundation to examine its fee structure. In some cases, the community foundation fee covers all costs related to investing the account as part of the community foundation portfolio, in other cases there may be additional fees charged by financial institutions for specific investment instruments that are used. Therefore it is important to examine the fee structures and policies before affiliation.

7. Fees of 1 to 2 % seem excessive, should we try to keep our foundation locally managed and avoid the charges?

Investment decision based on economics alone would compare (1) the net returns after all expenses generated by the locally managed foundation and (2) the net returns after fees provided by qualified community foundation being considered. However, two additional considerations include whether or not there is local interest in accessing Endow Iowa incentives and HF2302 gambling revenues. Both require a minimum of establishing an affiliation with a qualified community foundation. Some fees associated with the required deposits in a qualified community foundation or affiliate will not be avoidable if local leaders and citizens decide to access Endow Iowa incentives or gambling revenue distributions.

Investment returns after costs may not be the only criteria desired by local leaders and citizens in evaluating the affiliation question. Level of risk and value of services potentially provided by the external entities compared to what otherwise would be provided locally may be a consideration.

Local economic multipliers are likely to be higher for locally invested funds compared to externally managed funds. However if the local fund managers invest the funds in the same national investment instruments using strategies similar to qualified community foundations, the local economic multipliers will be small. On the other hand if the funds are invested in local firms in addition to be managed locally, then the economic multipliers would be higher. However, the investment returns may not be as high as found in national markets.

8. Is it necessary to be involved with a foundation to get gambling funds?

Yes. However, only one qualified community foundation or affiliate will likely be accepted by state agencies to receive gambling revenues for local distribution purposes. This entity can be designed to provide broad access to all other foundations, nonprofits, and organizations that serve eligible purposes. As such the entity may represent a new local funding agency for all worthy projects and causes. On the other hand the designated countywide qualified community foundation or affiliate could potentially be designed to fund its own projects and endowments as desired by the entity's board. Therefore, access to gambling revenues by an eligible countywide affiliate or qualified community foundation does not guarantee access to the funds by all nonprofits or worthy causes in the county.

9. Will a foundation or affiliate that receives the gambling revenues be able to keep the funds for its own projects?

Yes depending on how the administrative rules are written. The potential for perceived conflicts of interest are likely to occur, unless extra care is used in setting up the countywide procedures for considering external and internal requests for projects and endowment funding requests. One approach for avoiding this issue would be for the designated countywide affiliate or QCF to fund none of its own projects. A second approach would be for the designated affiliate or QCF to designate a review committee that is devoid of potential conflicts of interest to evaluate and rank all projects and make recommendations to the full board. A third approach is for the designated affiliate or QCF board to forge ahead and make decisions as it sees fit.

10. Please explain the difference between the purpose of the Endow Iowa incentives and the gambling revenues? Do they both need a countywide foundation? Can the same foundation be eligible for both? Can they both be organized under an affiliate of a certified community foundation?

The Endow Iowa legislation was passed by the 2003 General Assembly and included two programs designed as incentives for philanthropy. The first Endow Iowa program implemented was a state tax credit. Donors (individuals and corporations) of eligible investments could apply on a first come first serve basis for a 20% state of Iowa tax credit for donations to permanent endowments after January 1, 2003. All

of the tax credits, except for those reserved for use with matching grants have been used up. The donor applies to the Iowa Department of Economic Development (IDED) and receives a letter of approval that the donation has been made to a qualified community foundation (which means an IDED approved certified community foundation or an affiliate of an IDED approved certified community foundation.) The donation deposit must be placed with a certified community foundation. The list of IDED approved certified community foundations and the amount of tax credits and applications for tax credits can be found on the IDED Endow Iowa web site: http://www.iowasmartidea.com/endowiowa/

The second Endow Iowa program was a matching grant program of up to $25,000 per community. The funding made available is sufficient to serve about 6 communities. Again the eligible applicants can only be qualified community foundations (QCF) or QCF affiliates. The grant and match deposits must be placed with a certified community foundation. The Iowa Council of Foundations has been selected by IDED to manage the matching grant program.

The gambling revenue bill HF2302 was approved by the 2004 General Assembly and will provide 1/2 of 1 percent of state gaming revenues split equally (about $50,000 to 60,000) to each county without a gambling entity. That means about 85 to 90 counties. To be eligible to receive these funds there must be a qualified community foundation in the county (which means an IDED approved certified community foundation or an affiliate of an IDED approved certified community foundation.) These funds are required to be allocated 75 percent to nonprofits and charities serving the county and 25 percent to endowments serving the county.

The bill language doesn't speak to how the county or the state will decide among multiple entities competing for this county entity status or if one entity that represents a single community within the county can accept the funds and make the allocation decisions on behalf of the rest of the county. The administrative rules developed during the spring of 2005 will likely address the county designation process. To review the bill language, look at the HF2302 excerpts on the CVC web site under community foundation information.
http://www.cvcia.org/content/communityfoundation/index.html

11. What is meant by patriotic organization in the gambling bill?

The administrative rules process will potentially clarify the definition more fully. Some discussion suggests that groups such as Veterans of Foreign Wars, Daughters of the Revolution, and other groups that promote patriotism would potentially qualify for receiving funds.

12. If we affiliate with a large foundation and that foundation invests primarily in stocks and equities and if they do not have large dividends, how will there be any annual returns generated for distribution to worthy causes?

Some Iowa community foundations have reported annual returns of 8.5 to 9.5 for portfolio investments during the past year. However the performance during the past three years has typically been lower due to the downturn in the stock markets. The annual fee is deducted from the gross return on an endowment before any annual disbursements are made to the beneficiary. The disbursement policy of the community foundation may typically state that 4 percent or 5 percent of the fund balance will be annually disbursed on a specified date. If the net return after fees is less than the specified disbursement rate, then the community foundation policy will likely specify that a smaller amount will be paid and perhaps the policy will also indicate how the smaller payment will be calculated.

13. Would our community be further ahead to simply hire a professional fund raising firm and put our financial resources there, than to go through the expense and committee work of developing a foundation?

Given the current context of decisions, it may not be a wise use of time and resources for smaller rural communities to create new qualified community foundations except under some very unique circumstances. However if your county is a non gambling county, it may be very prudent for a countywide committee to spend a few days (weeks) time to create a countywide affiliate account with one of the qualified community foundations. This will potentially allow the nonprofits and eligible groups in your county to access the $50,000 to $60,000 in annual gambling funds that will be reserved for use in your county. The Department of Revenue has already begun the collection of these gambling revenues for distribution beginning in the fall of 2005.

In most cases for rural communities, it would be less prudent from a cost-risk-return perspective for rural community leaders to allocate a lot of time and effort to apply for the Endow Iowa tax credit and matching grant programs unless there are additional funds and incentives allocated in the future.

14. What factors should you consider when joining another county with equal sharing of funds?

The designated gambling revenues to be made available for each county without a gambling license under HF2302 are reserved for each county and are to be used for eligible charitable and endowment purposes in the designated counties. Affiliation with a qualified community foundation that happens to be located in another county has no impact on the availability of funds reserved for the designated county.

15. Who decides which organization in the county will receive and distribute the gambling money?

The rules established by the Iowa Department of Economic Development and Department of Revenue and Finance will undoubtedly create rules for selection and approval of affiliates and qualified community foundations that apply to become the

countywide entity designated to receive and distribute the future gambling money. While no administrative rules have been written yet, IDED representatives stated publicly on the first ISUE satellite program that it is the agency intent to only approve one countywide entity from each county.

16. For a group that wants to create an affiliate foundation are there any drafts of trust documents or nonprofit corporation articles that people can look at?

CVC has placed drafts of Sample Affiliate Policies and Guidelines and Sample Affiliate Donor Fund Agreement forms on the CVC website under Community Foundation Information: www.cvcia.org . Qualified community foundations will likely be happy to provide a copy of their sample forms upon request.

CVC will provide one copy of a typical community foundation's articles and bylaws. CVC will also copy for cost a 3-ringed notebook used in one application for approval for the Endow Iowa qualified community foundation designation based on the National Council on Foundations certification standards.

17. Do County Supervisors control the gambling revenue in each county?

No. There is no reference to County Supervisors in HF2302 which describes how the gambling revenues are to be distributed.

18. What should be done if a county already has 6 to 10 foundations?

Administrative Rules have not been drafted yet. However, several options would appear to be possible depending on the objectives and preferences of local participants. One of the existing entities could be selected and modified if needed to serve the broad multiple purposes and countywide mission of a community foundation. The 6 to 10 existing entities might form a new entity to serve the broad multiple purposes and countywide mission with representatives from each existing foundation. Third, a broader more inclusive group of diverse community interests may form a new entity to serve the broad multiple purposes and countywide mission so as to avoid the perception of exclusive distribution to existing foundation entities.

CVC also recommends that some resources be set aside for purposes of developing and implementing local philanthropy improvement plans that invest in training and tools for tapping into the transfer of wealth that is occurring in rural counties. Attracting donors for hometown legacies can create or sustain new engines of economic growth and vitality for local communities.

19. What if more than one foundation in a county wants to be the recipient of the gambling revenues?

While no administrative rules have been written yet, IDED representatives stated publicly on the first satellite program that it is the agency intent to only approve one

countywide entity from each county. One suggestion was to return the applications and request that the multiply entities to arrive at a mutually agreeable solution before the county's application will be reconsidered.

20. How does an existing foundation become a qualified foundation?

The board and officers of an existing community foundation must review and implement the policies and activities outlined on seven pages of national certification standards adopted by the National Council on Foundations. Second, the community foundation must apply and provide a 3 ring notebook addressing performance consistent with the standards to the Iowa Department of Economic Development for approval. For specific details of the national standards and application process see the Endow Iowa website: www.iowasmartidea.com/endowiowa .

21. How many qualified community foundations are there in Iowa?

As of June 28, 2004 there were 13 qualified community foundations that have been approved by the Iowa Department of Economic Development and which are eligible to host affiliate accounts for purposes of receiving deposits for Endow Iowa incentives. The Endow Iowa website will updated to maintain the public list of approved qualified community foundations as additional applications are approved: www.iowasmartidea.com/endowiowa .

22. What Factors should be considered when considering affiliation with a qualified community foundation?

Several factors recommended by CVC include: (1) Compatibility of Mission, Culture, and Region, (2) Financial Returns, Security, & Track Record, (3) Investment Policy, Risks, Fees and Charges, (4) Review of Affiliation Agreement, (5) Scope of Services and Training, (6) Access to Expertise for Fund Raising, Marketing, and Management, and (7) Procedures for Portability of Endowments.

23. Are there any examples of small communities of less than 5000 that have been successful in philanthropy?

While it does not currently have a qualified community foundation approved by IDED, the community of Manning Iowa with a population of 1,500 people has four foundations that have played unique and instrumental roles in revitalizing the community's main street, economic development, historic preservation, health care and education. The Manning leaders made a presentation about the accomplishments and purposes of their foundations at the March 29, 2004 Statewide Community Foundation and Philanthropy Academy and the power point presentation is available on the CVC Website: www.cvcia.org .

24. What relationship if any does community foundations have with "Leave a Legacy"?

LEAVE A LEGACY™ is a national initiative sponsored in Iowa by a coalition of community-based programs throughout the state as an ongoing educational campaign to encourage residents of Iowa and bordering communities to plan estate gifts to nonprofit organizations in their wills or other estate planning instruments. The LEAVE A LEGACY™ Iowa network is organized and directed by county and regional steering committees and a statewide board of directors. The mission of the Iowa chapter is to preserve and improve the quality of life in our communities sustained by people, programs and services of charitable non-profit organizations. For more information see the Iowa Council of Foundations website: www.iowacounciloffoundations.org and click on priorities.

25. Explain the tax credits allowable annually for corporations or individuals towards local affiliates or qualified community foundations.

The Endow Iowa tax credit program is designed to issue a tax credit to individuals providing a permanent endowment gift to a qualified community foundation organized or operating within the State of Iowa. The awarded tax credit is equal to 20% of the qualifying gift subject to the availability of Endow Iowa tax credit appropriations. No single taxpayer may receive more than one hundred thousand dollars in Endow Iowa tax credit. Any tax credit awarded in excess of an individual's tax liability for the current tax year may be credited to the individual's future tax liability for the following 5 years or until depleted, whichever occurs first. A tax credit shall not be carried back to a tax year prior to the tax year in which the individual claims the tax credit. Awarded tax credits are not transferable.

26. Our county does not have a community foundation; we understand that one model would be to have a local board establish an affiliate fund with a qualified community foundation via an ISU Foundation County Extension Account. Please explain how this might work?

If no other entity wishes to take the lead in establishing a countywide affiliate of a qualified community foundation for purposes of accessing the HF2302 gambling revenues reserved for the county, CVC will ask the local County Extension Office to take the lead in establishing countywide board for purposes of establishing an affiliate account with a qualified community foundation of the local board's choosing. One option for doing so may be to use an existing county extension account through the ISU Foundation. While the ISU Foundation is not a qualified community foundation, a local committee that manages a particular county extension account may decide to affiliate with a qualified community foundation that allows donor directed investments. It should be pointed out that not all qualified community foundations allow donor directed investments.

27. Will the presentations be made available on the CVC web site?

Yes, www.cvcia.org and click on "Foundation Academy Presentations."