



COUNCIL *on* FOUNDATIONS



Expanding Research and Analysis for Community Foundations: *Field-Wide Survey*

Prepared for

**Community Foundations
Leadership Team of COF**

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A Field-Wide Survey on Expanding Research and Analysis for Community Foundations

The purpose of the study is to explore the level of interest in the field in new ways of collecting and analyzing data about community foundation finances and operations. In addition, to explore the potential benefits, economic model, required capabilities for an entity that could provide new data collection and analysis services.

Study Activities – February-March 2005

- Field-wide survey of Community Foundation CEOs and CFOs, with 246 respondents
- 18 Interviews with members of the Community Foundations Leadership Team of COF, COF committee leaders, and other organizations providing services to the Community Foundation field, including:
 - COF Research and Constituency Services
 - Community Foundations of America
 - Foundation Center
 - Foundation Strategy Group
 - Guidestar
 - National Center for Charitable Statistics
- Presentation of findings to the Community Foundations Leadership Team

Agenda

I. Survey Participation

II. Economic Circumstances of Community Foundations

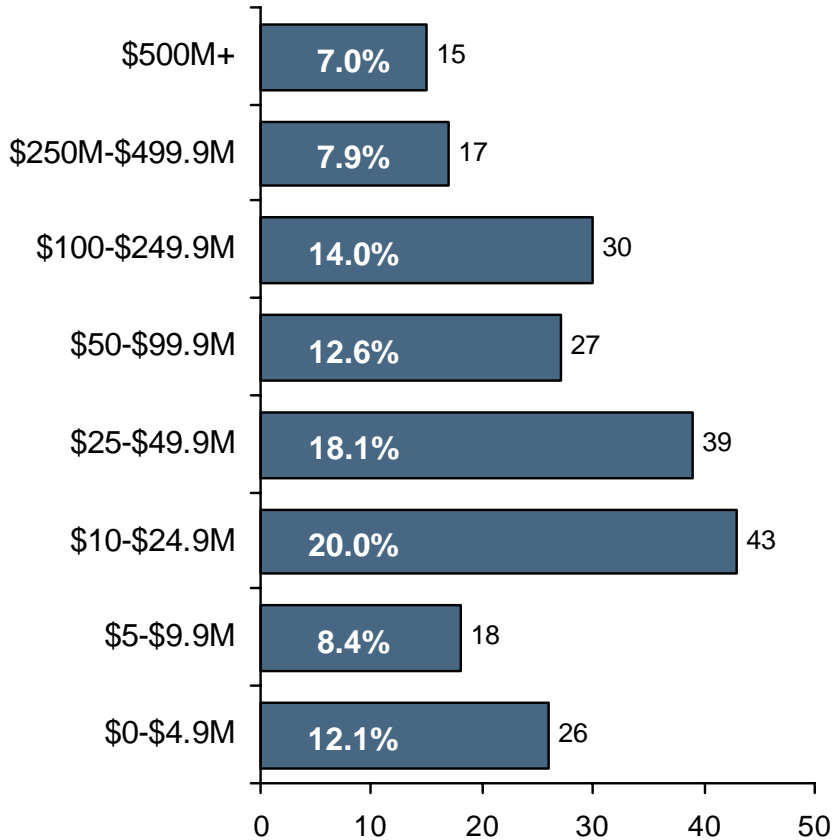
III. Utilization of Cost-Revenue Analysis Tools

IV. Preferences for Research and Analysis

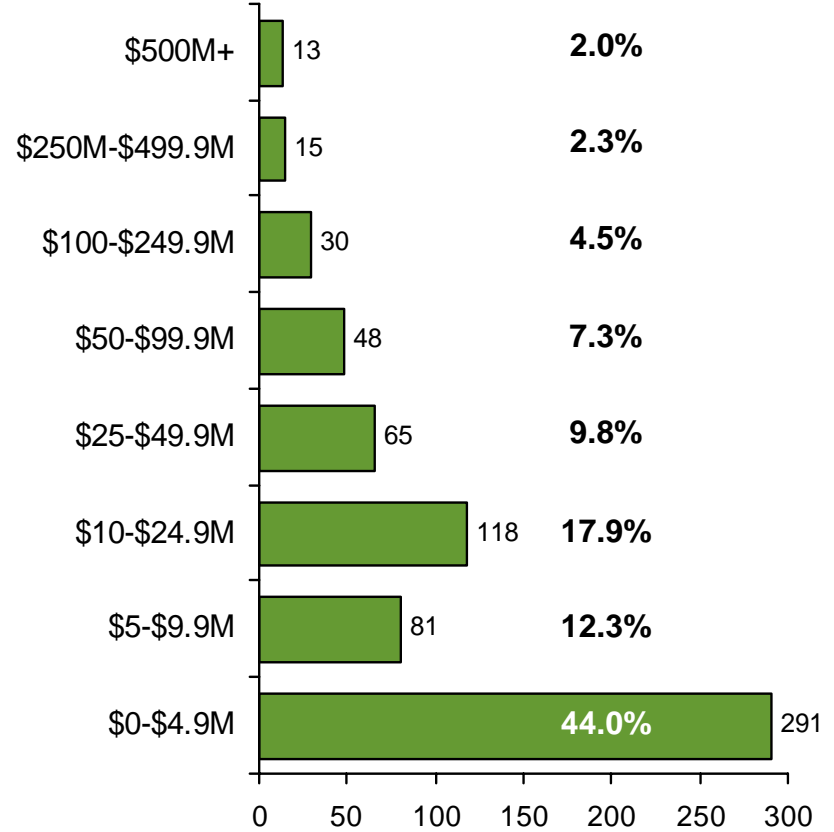
V. Implications for Provision of New Services

Staff Responded from 215 of 482 COF Member Community Foundations Surveyed – A 45% Response Rate

Asset Size of Survey Respondents' Foundations
N=215 Unique Foundations



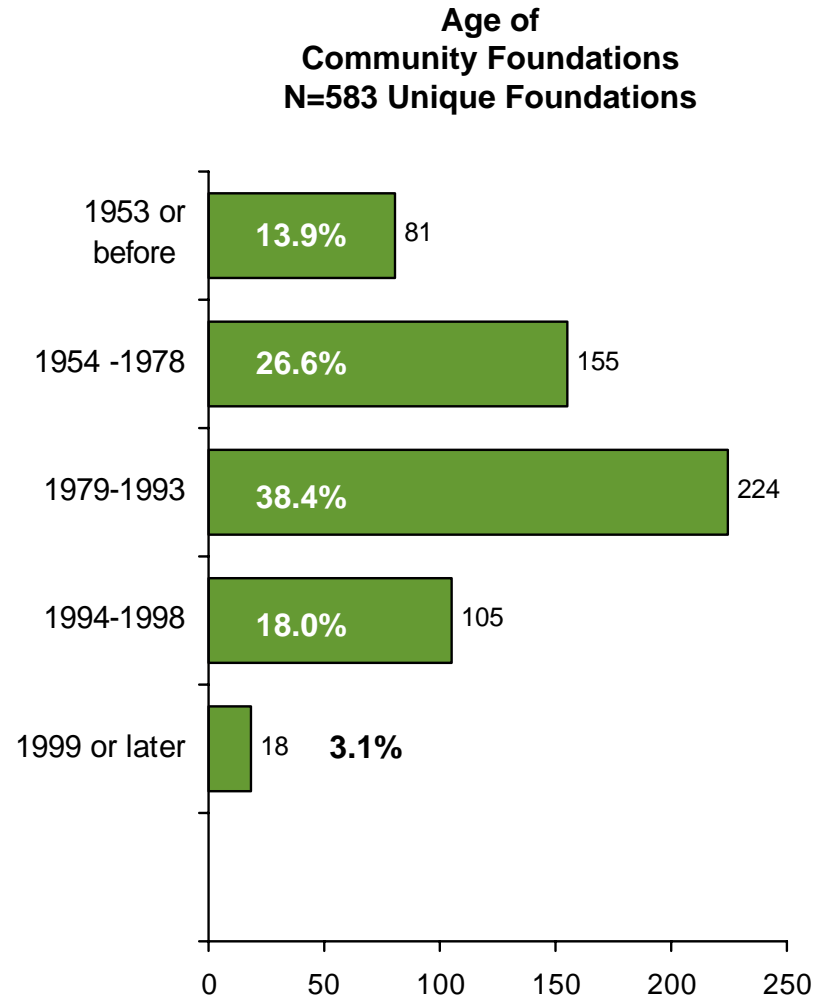
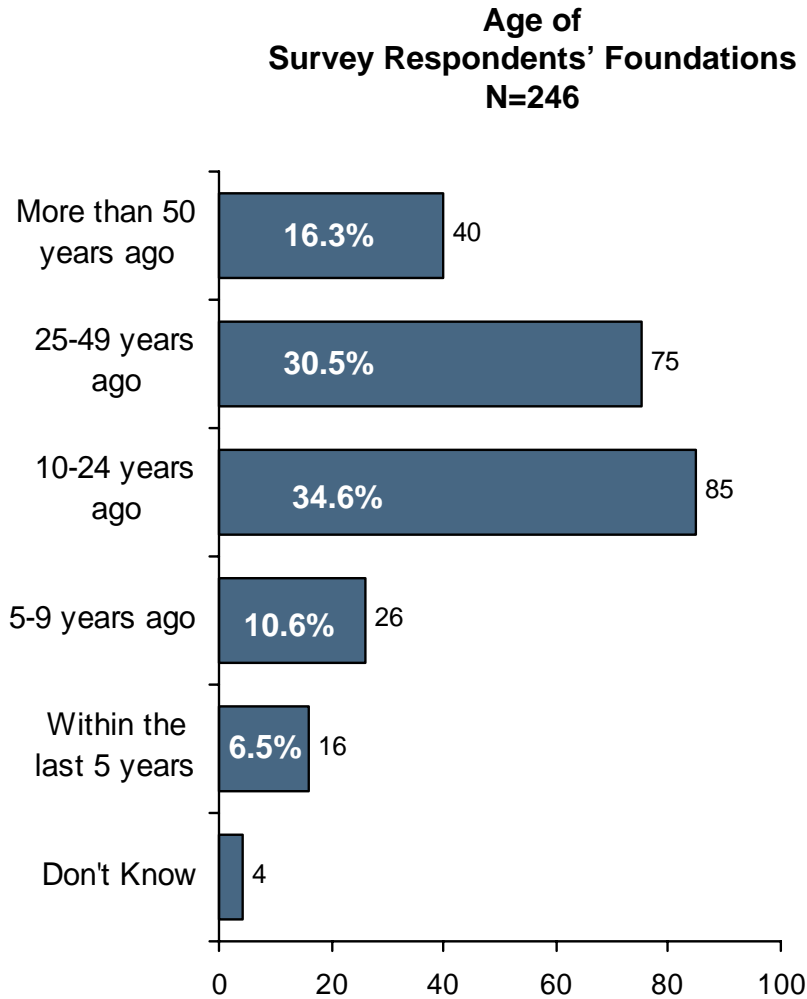
Asset Size of Community Foundations
N=661 Unique Foundations



246 individuals responded, primarily CEOs and CFOs, representing the full range of CFs by asset size, although larger foundations are over-represented

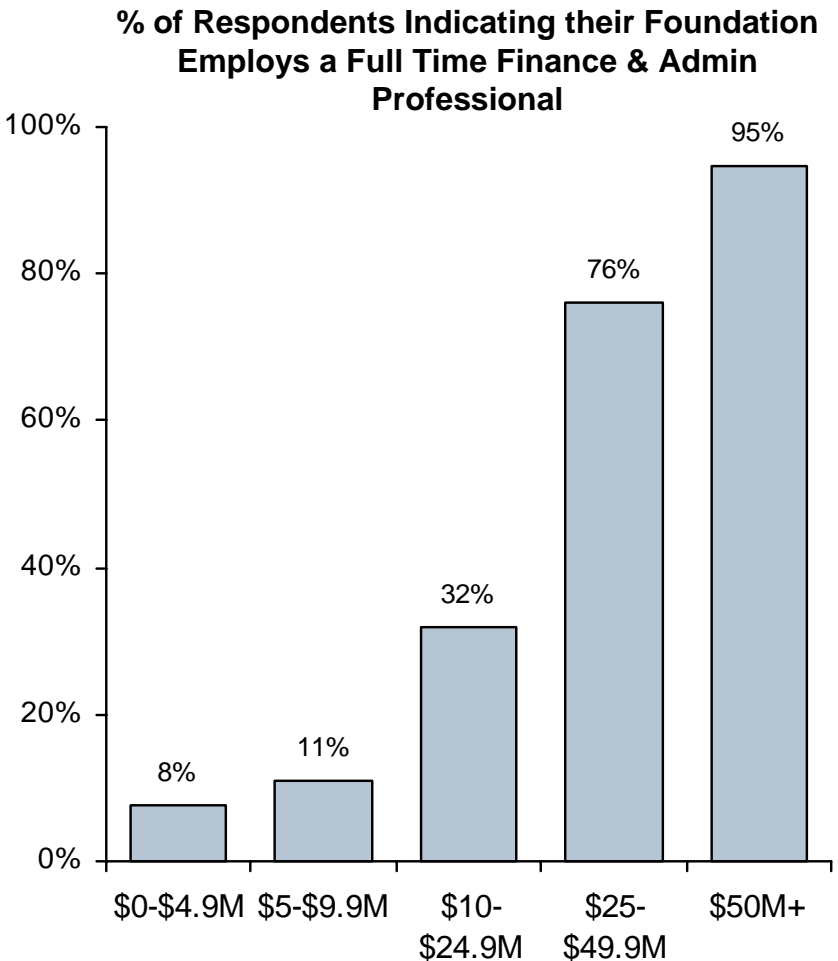
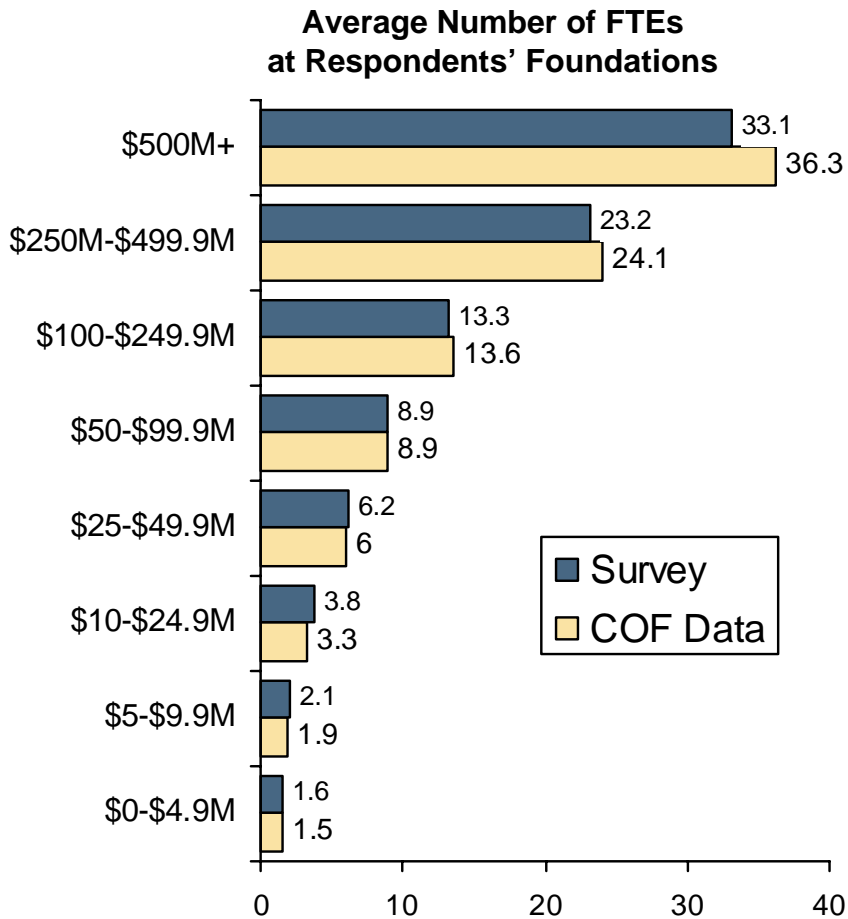
Source: February 2005 Survey of CF CEOs and CFOs, Sponsored by the COF Community Foundations Leadership Team, Conducted by FSG. Distribution of 661 Community Foundations provided by COF Research – Note: Respondents asset characterizations are more current than COF data on distribution of CFs by assets size

The Age of Responding Foundations Closely Mirrors the Age of Community Foundations as a Whole



Source: February 2005 Survey of CF CEOs and CFOs, Sponsored by the COF Community Foundations Leadership Team, Conducted by FSG. Distribution of 583 Community Foundations provided by COF Research

Staff Capacity of Responding Foundations Varies with Asset Size and Closely Parallels COF Data

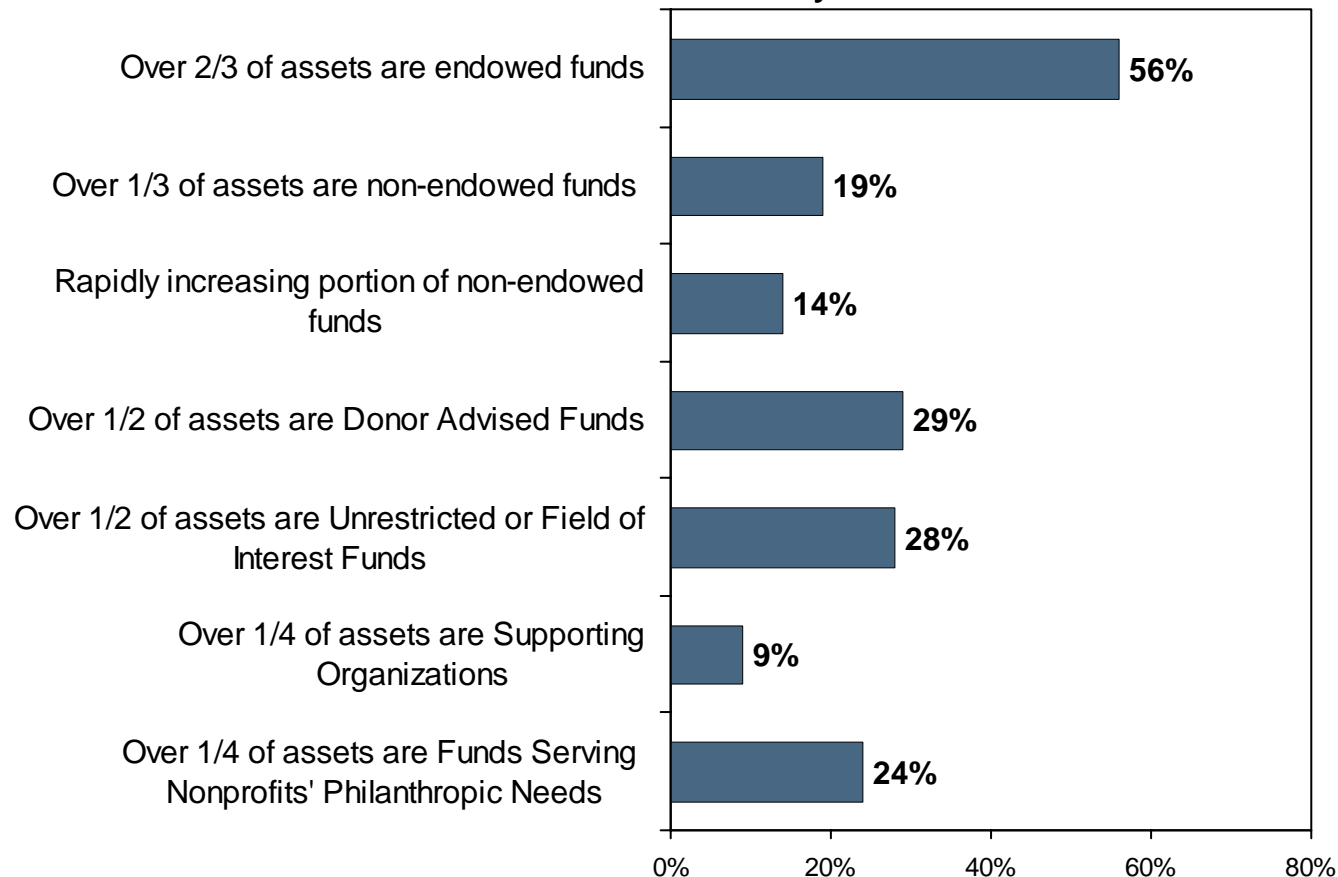


A majority of responding foundations with over \$25M in assets have dedicated staff focused on finance and administrative issues

Source: February 2005 Survey of CF CEOs and CFOs, Sponsored by the COF Community Foundations Leadership Team, Conducted by FSG. Distribution of 295 Community Foundations provided by COF Research

Respondents Indicate a Wide Range of Asset Characteristics

COF/FSG 2005 Survey of Community Foundation CEOs and CFOs – 246 Respondents
Please characterize the asset mix of your foundation...?



The asset mix of a community foundation tends to be a major determinant of its economic model

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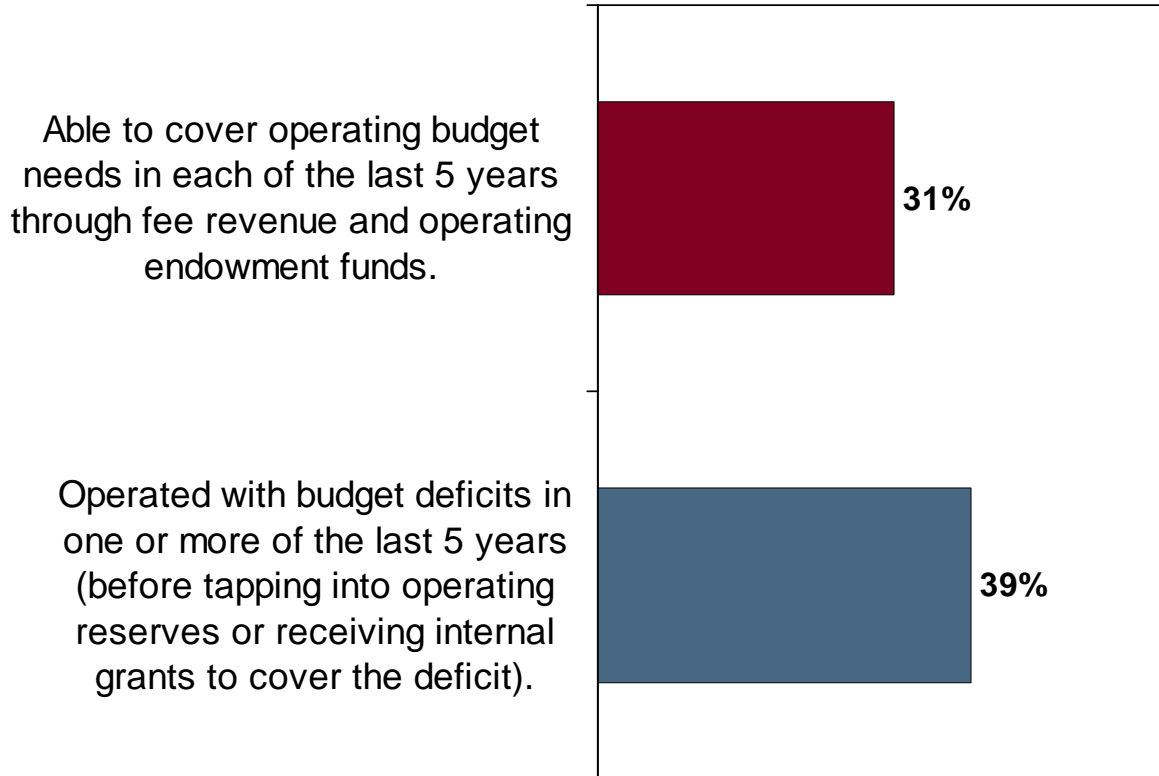
III. Utilization of Cost-Revenue Analysis Tools

IV. Preferences for Research and Analysis

V. Implications for Provision of New Services

Only 31% Report an Ability to Sustain Operations through Fee Revenue and Operating Endowments in Each of the Last Five Years

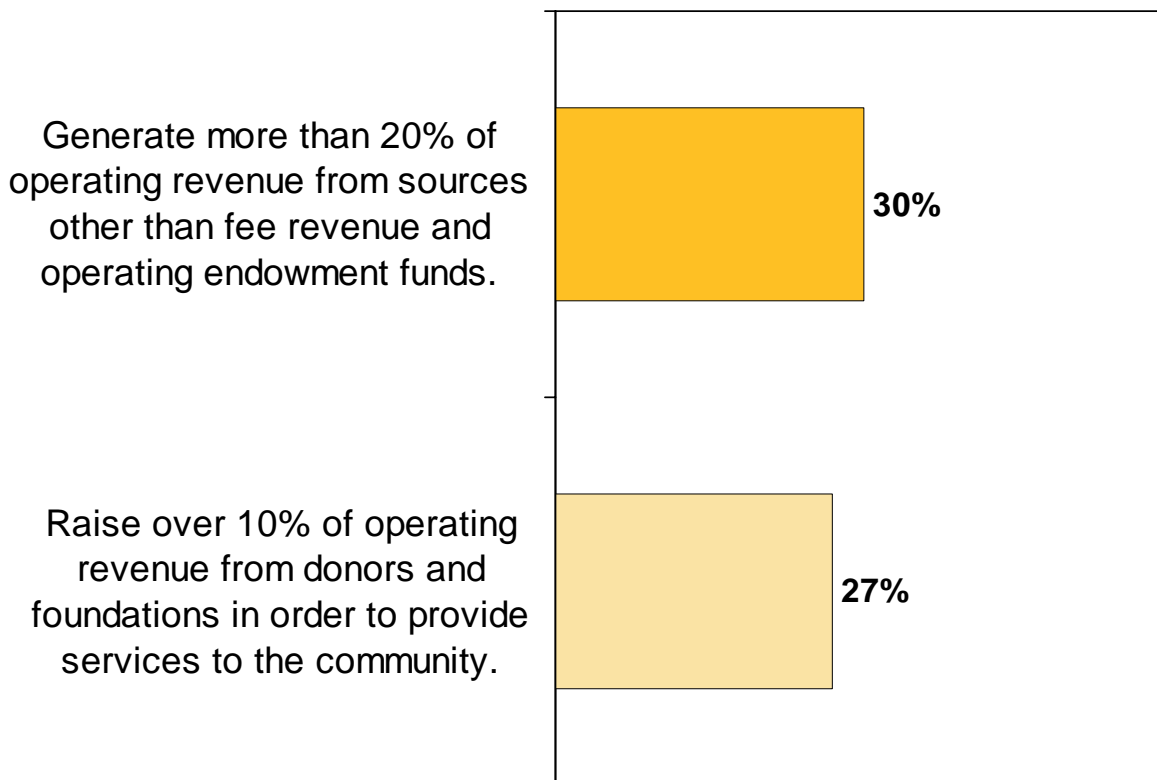
COF/FSG 2005 Survey of Community Foundation CEOs and CFOs – 246 Respondents
Which statements accurately characterize the finances of your foundation?...



39% of respondents have faced budget deficits during the last 5 years

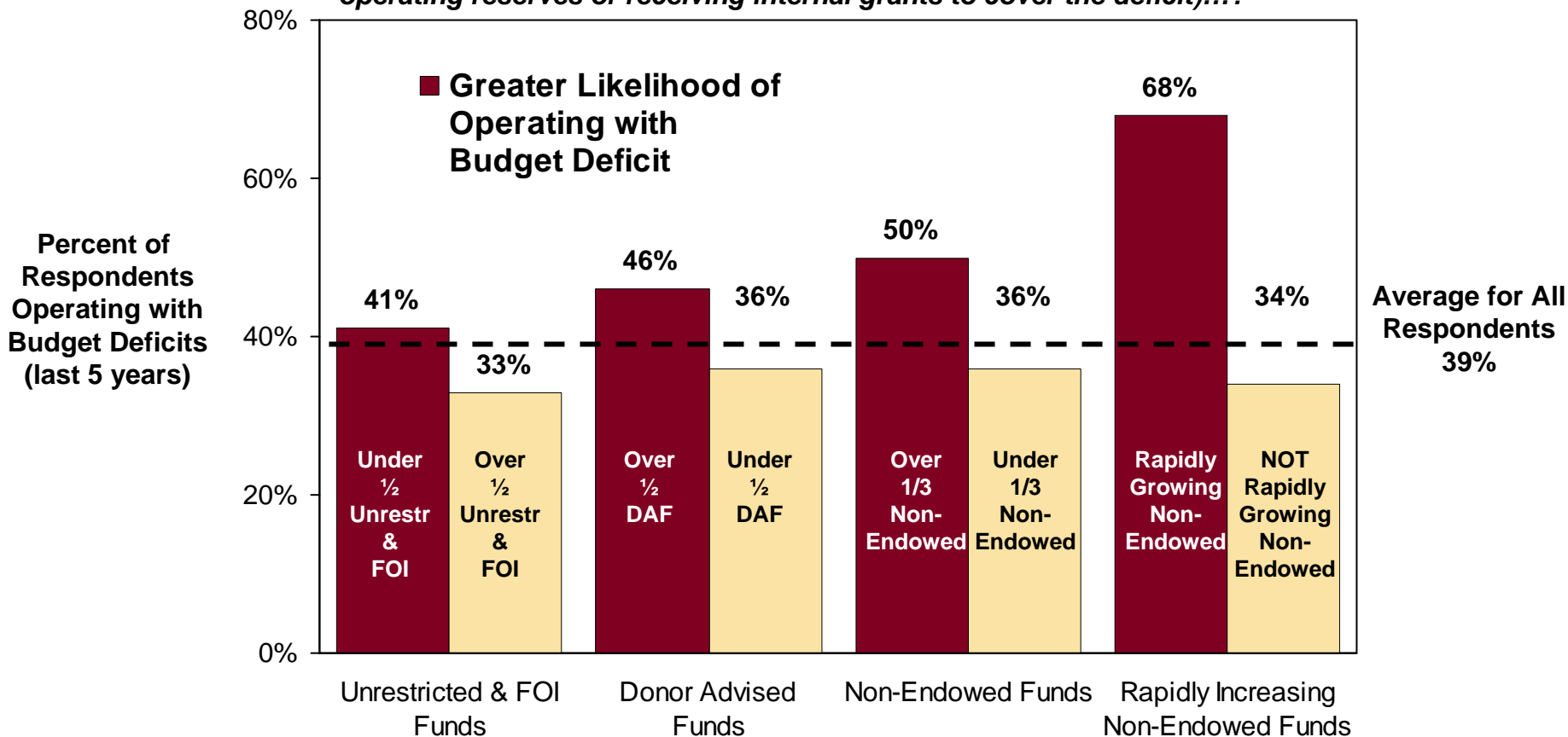
Almost 1/3 of Respondents Rely on “Alternative” Sources of Revenue for More Than 20% of Their Operating Budget

COF/FSG 2005 Survey of Community Foundation CEOs and CFOs – 246 Respondents
Which statements accurately characterize the finances of your foundation?...



Foundations with Large Percentages of DAFs or Non-Endowed Funds Have Experienced Greater Difficulty Covering Operating Expenses

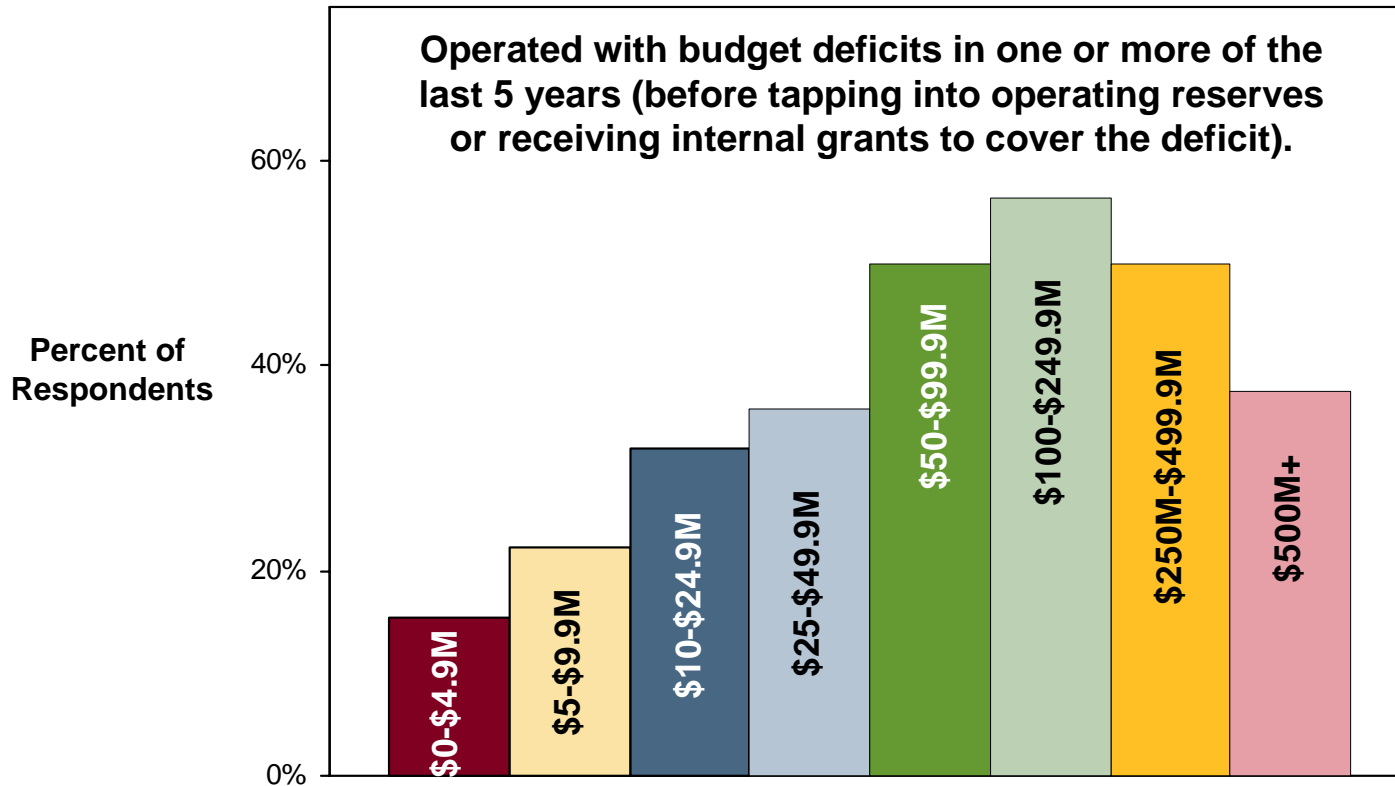
COF/FSG 2005 Survey of Community Foundation CEOs and CFOs – 246 Respondents
Operated with budget deficits in one or more of the last 5 years (before tapping into operating reserves or receiving internal grants to cover the deficit)...?



Over 2/3 of respondent foundations with rapidly increasing portions of non-endowed funds have experienced budget deficits in the last 5 years

Responses Demonstrate that Sustainability Challenges Persist As Community Foundations Grow in Scale

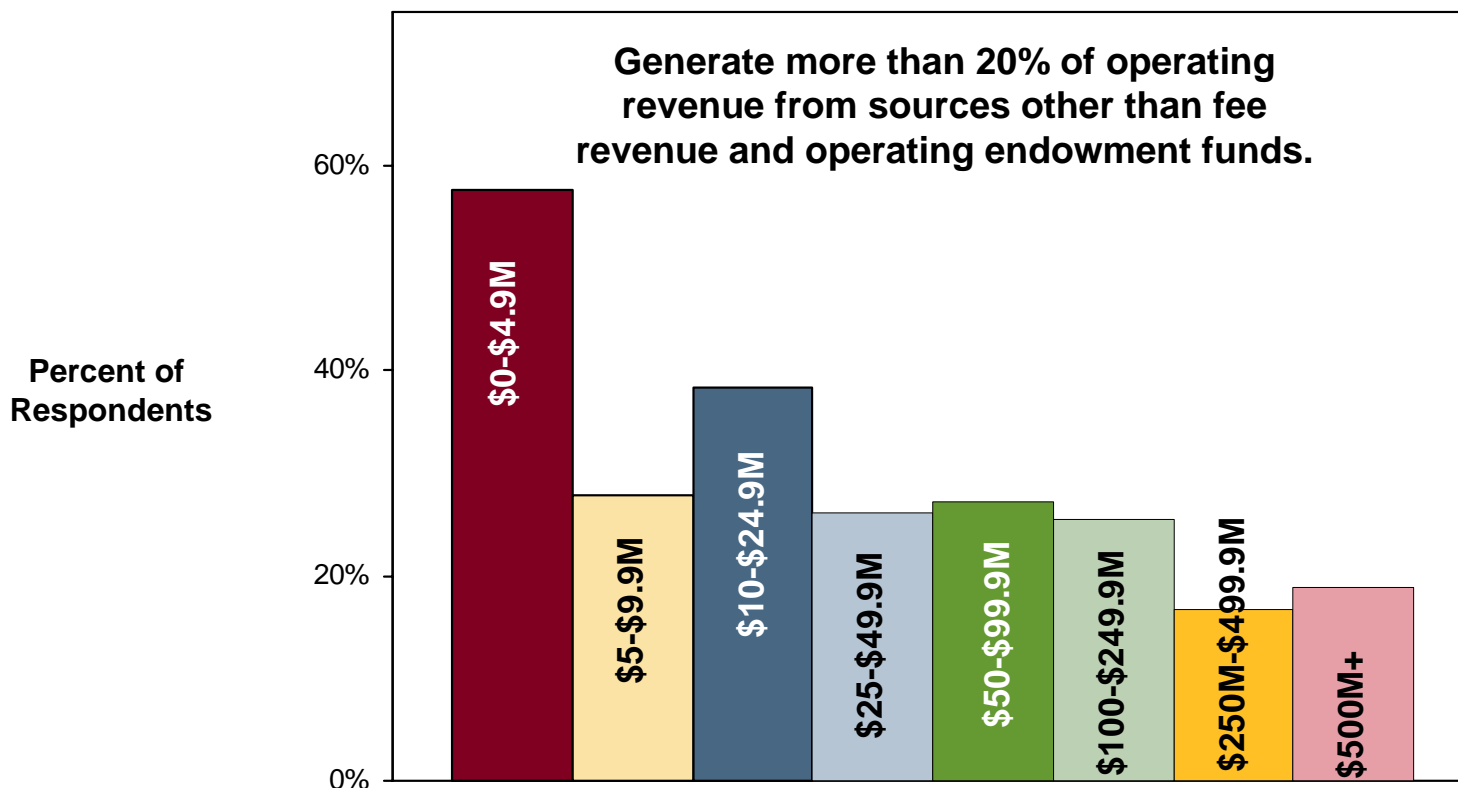
COF/FSG 2005 Survey of Community Foundation CEOs and CFOs – 246 Respondents



The trend begins to reverse as assets grow beyond \$250M

Smaller CFs Are More Likely to Generate Revenue from Sources Other Than Fees, Including Donors and Other Foundations

COF/FSG 2005 Survey of Community Foundation CEOs and CFOs – 246 Respondents



Unlike foundations with a broader base of assets, the operating model of the smallest foundations may be unable to sustain operations on fees alone

Survey Respondents Indicated a Wide Variety of Financial or Performance Related Issues that their Foundations Face

- **Achieving financial sustainability**
 - Determining costs by product / service
 - Identifying optimal fee schedules
 - Selecting cost-effective menus of services that satisfy donors
 - Securing alternative revenue sources
- **Managing growth**, both in assets and geographic scope
- **Improving efficiency**
 - Improving efficiency of in-house efforts as well as investigating outsourcing
- **Developing appropriate staffing structure**
 - Staff compensation models
 - Staff structure
- **Increasing investment performance**
- **Increasing community leadership** activities, and finding ways to fund these efforts
- **Measuring and improving development efforts**
- **Improving infrastructure**, including accounting/bookkeeping processes and adding technology

New research and analysis can address these issues directly or inform dialogue about strategic and operating choices

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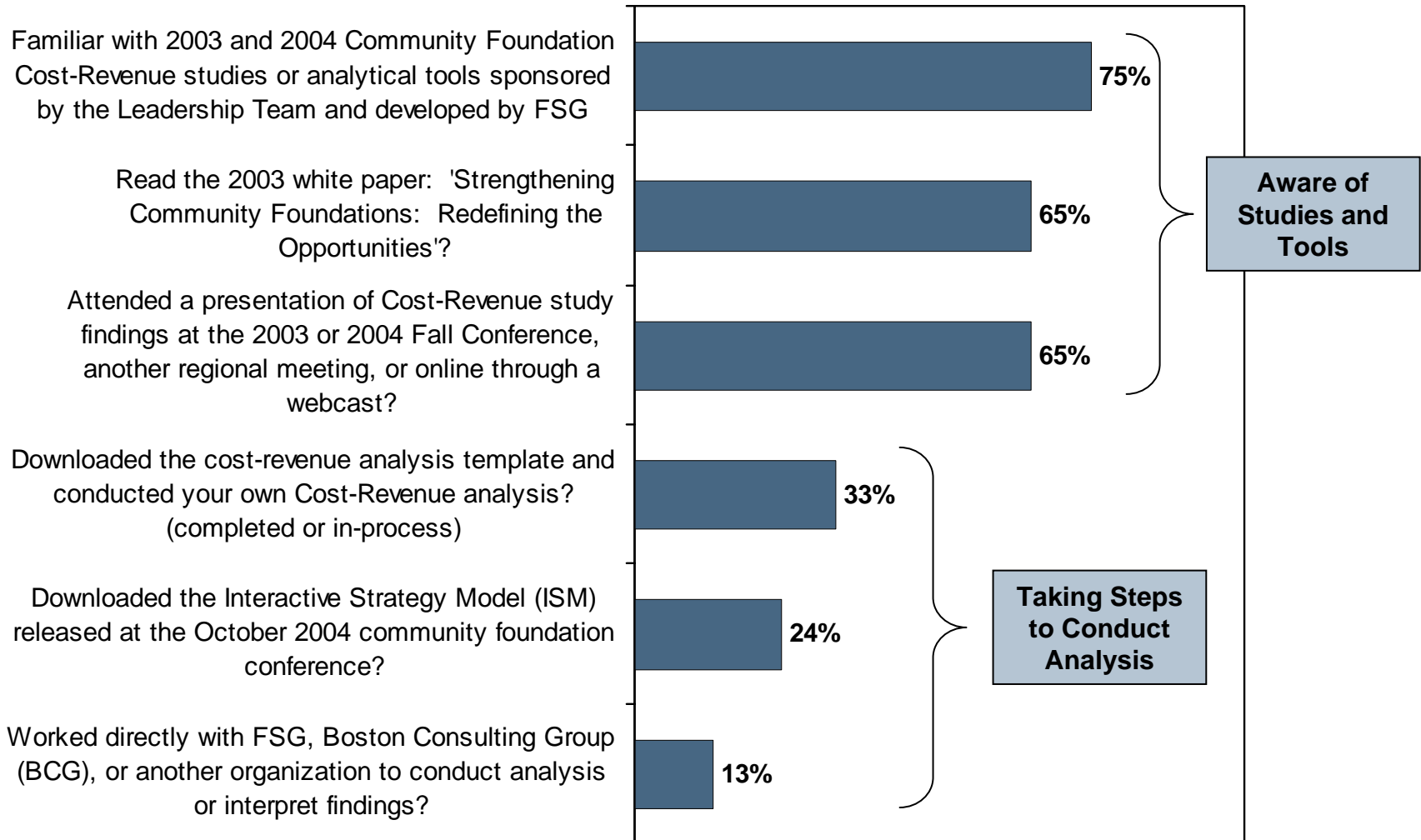
III. Utilization of Cost-Revenue Analysis Tools

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3/4 of Respondents Are Familiar with the Cost-Revenue Study and at Least 1/3 Have Taken Steps to Conduct an Analysis

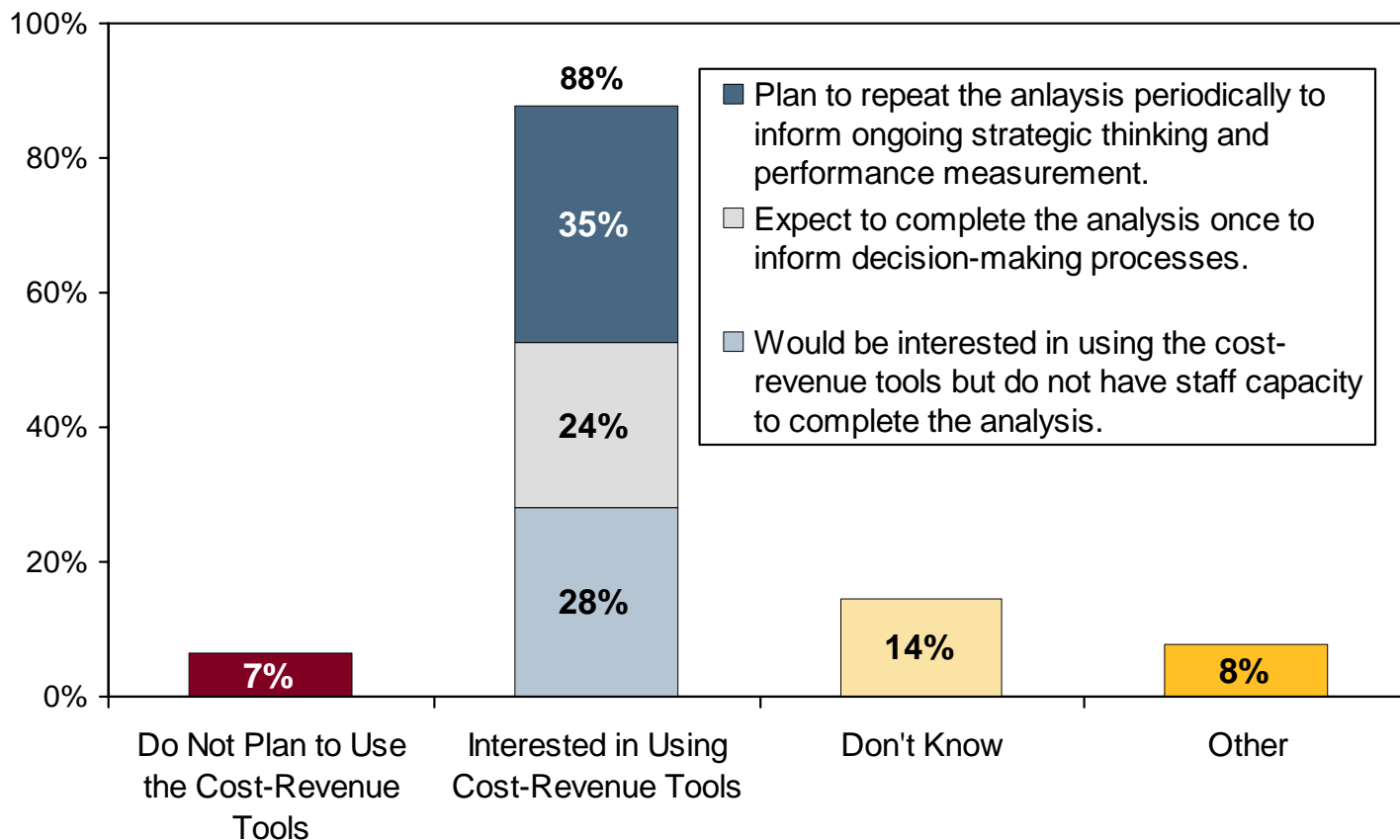
COF/FSG 2005 Survey of Community Foundation CEOs and CFOs – 246 Respondents
Are/ Have you or other staff at your Foundation...?



Of the Respondents Familiar with the Cost-Revenue Study, 88% Are Interested in Applying the Tools at Their Foundation

COF/FSG 2005 Survey of Community Foundation CEOs and CFOs –
181 Respondents Familiar with Cost-Revenue Studies or Tools

Of those familiar with cost-revenue study: *How do you plan to use the cost-revenue tools in the future?...*



Among those interested in using the cost-revenue tools to conduct analysis at their foundation, 1/3 do not have the staff capacity to do so

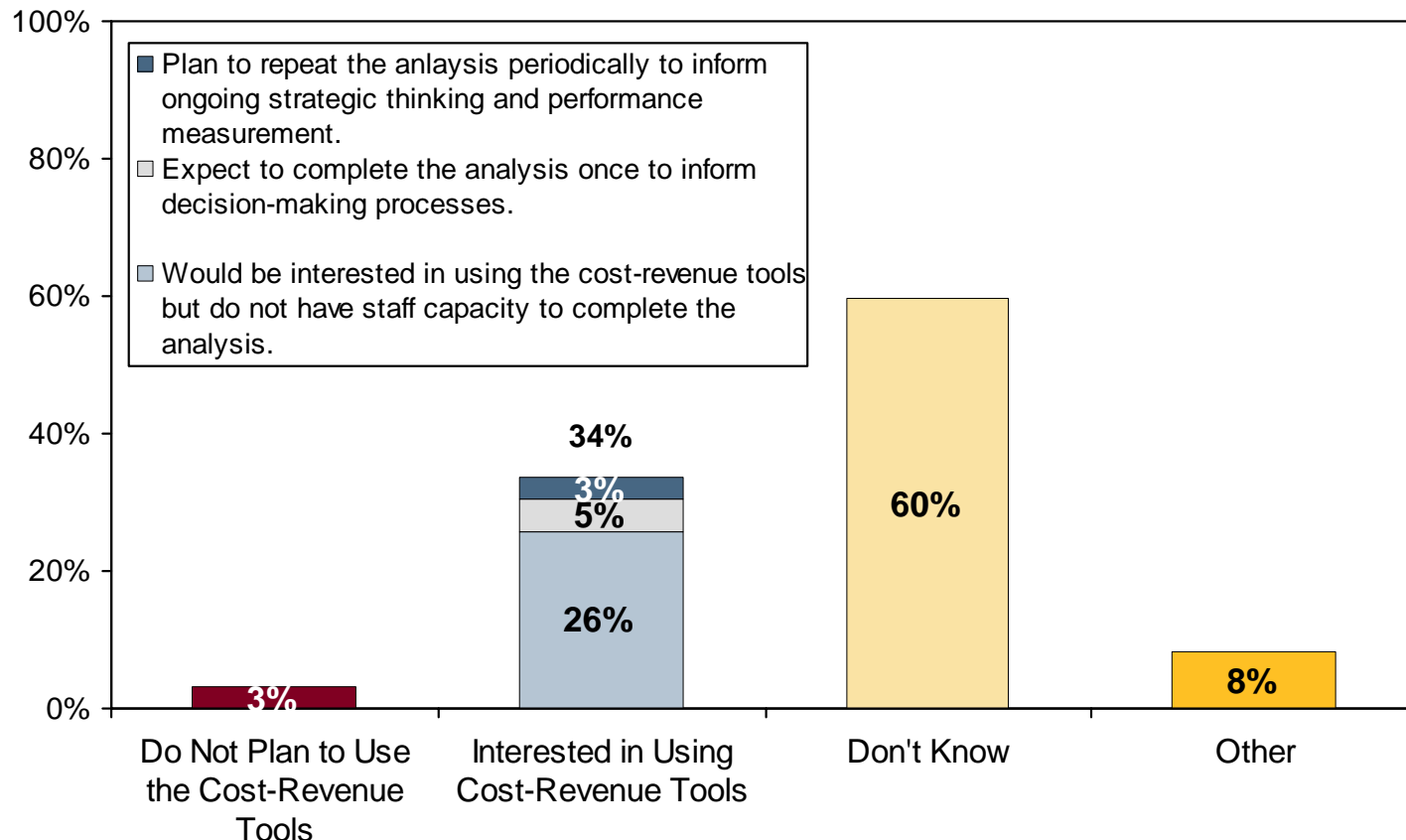
Note: Respondents were able to indicate more than one response

Source: February 2005 Survey of CF CEOs and CFOs, Sponsored by the COF Community Foundations Leadership Team, Conducted by FSG

Respondents Require Familiarity with Cost-Revenue Study Before Evaluating How They Plan to Use the Corresponding Tools

COF/FSG 2005 Survey of Community Foundation CEOs and CFOs –
62 Respondents Familiar with Cost-Revenue Studies or Tools

Of those NOT familiar with cost-revenue study: *How do you plan to use the cost-revenue tools in the future?...*



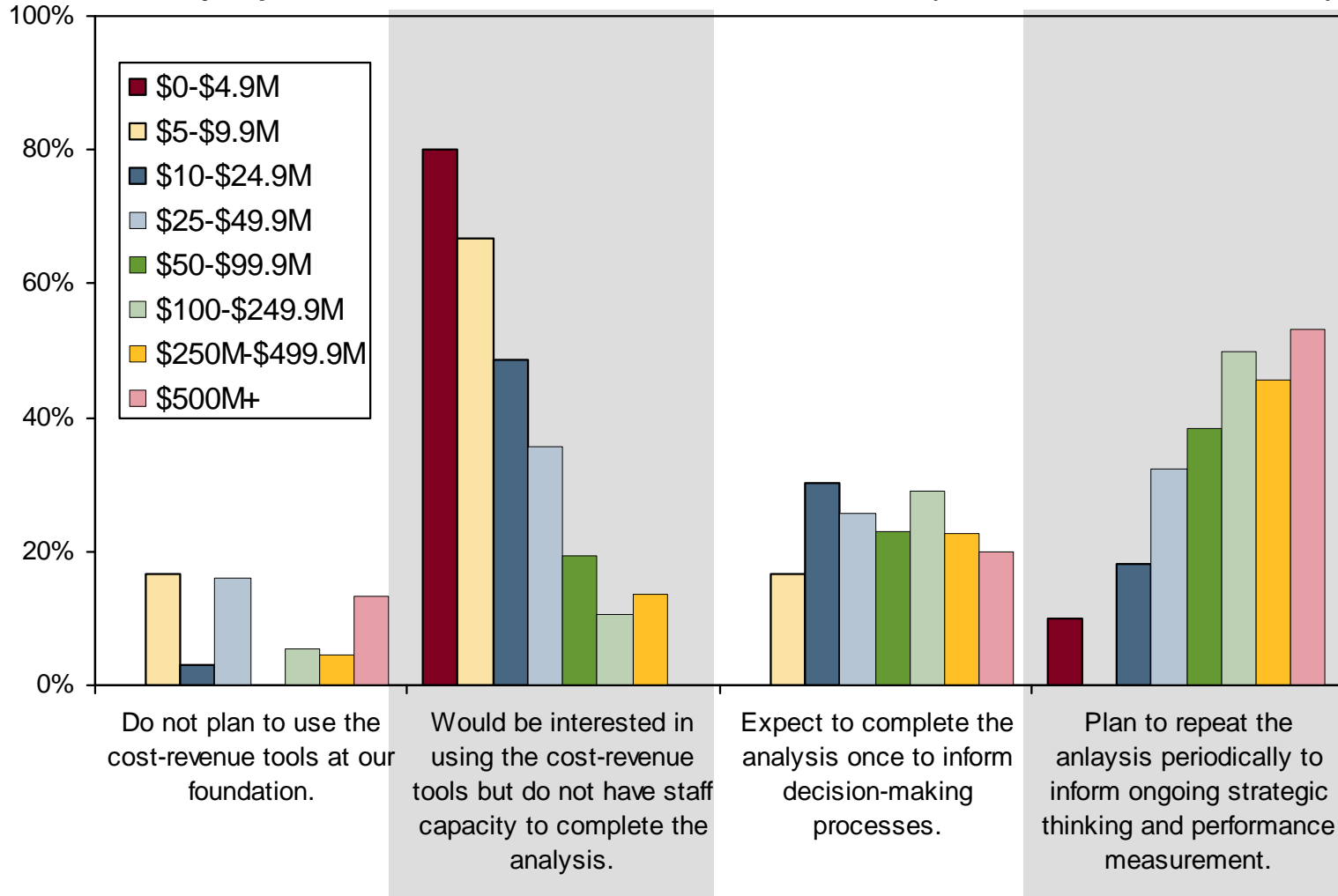
There are potential opportunities to reach out to a portion of the field to build greater awareness of cost-revenue study findings and tools available

Note: Respondents were able to indicate more than one response

Source: February 2005 Survey of CF CEOs and CFOs, Sponsored by the COF Community Foundations Leadership Team, Conducted by FSG

Larger CFs Expect to Use Cost-Revenue Tools on a Continual Basis, While Smaller CFs Have Interest but Limited Capacity to Conduct Analysis

COF/FSG 2005 Survey of Community Foundation CEOs and CFOs – 181 Respondents
 How do you plan to use the cost-revenue tools in the future?...*(Of Those Familiar with Tools)*



Agenda

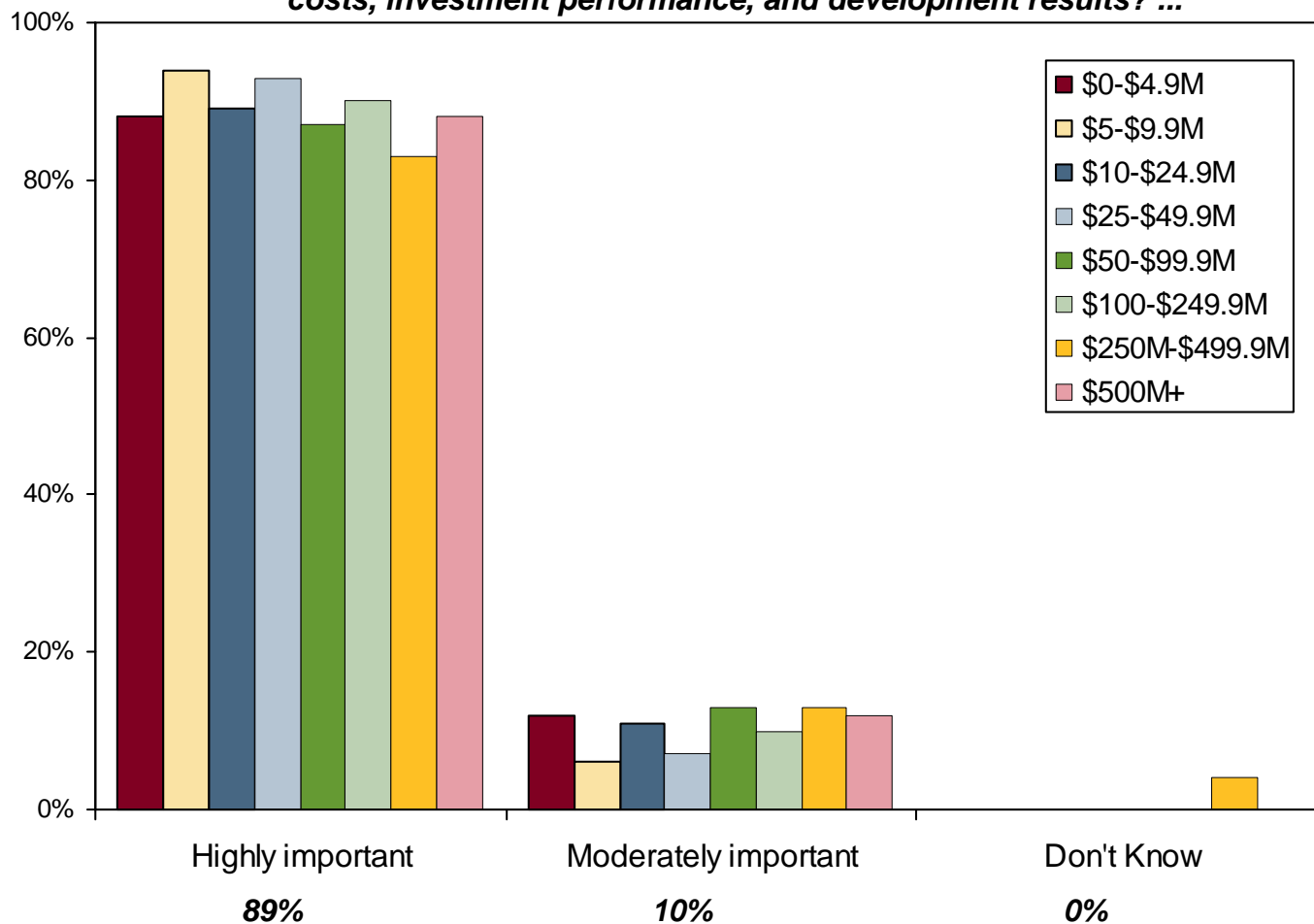
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- II. **Economic Circumstances of Community Foundations**
- III. **Utilization of Cost-Revenue Analysis Tools**
- IV. **Preferences for Research and Analysis**
- V. **Implications for Provision of New Services**

COF Leadership Team Members Underscore the Widely Perceived Need for Improved Research and Analysis

- **A significant volume of data is currently gathered** through surveys and list serves – **but the field needs more structured knowledge management, aggregation, and analysis of existing information**
 - *“Surveys [by various organizations and volunteer groups] need to be revisited and restructured...there’s so much there without anything really being interpreted, just spit back at you... no analysis of the trends, limiting the value of the data.”*
 - *“If we could eliminate the duplication of requests for data that would be a godsend.”*
- **Increased accessibility to current data** is required to ensure value of data collection efforts – much of the available survey data is not up-to-date or is perceived to be inaccessible
 - *“The surveys that exist are somewhat helpful, but not timely enough to use with our Board.”*
- **Data validation is critical** to a reliable database that would be more useful than what exists today
 - *“A lot of data I don’t put a lot of store in; respondents may not understand data validity issues.”*
- **While there is a consistent need for basic data, many Foundations have need for specific, detailed comparative data periodically** to answer questions as they emerge
 - *“We would not use a lot of comparative data every year – for us it would be better to pay for access as needed. This would open it up for us to ask the Board for \$3-5K periodically...Could also have some quid pro quo for some aggregate data that you could get for free if you entered detailed data.”*
- **Greater access to current field-specific data could yield greater insight and innovation**
 - *“If you have analytical tools and greater data access you’ve created the possibility for new research – you can create competition for good research around answering major questions. The data could stimulate new findings and intellectual dialogue.”*

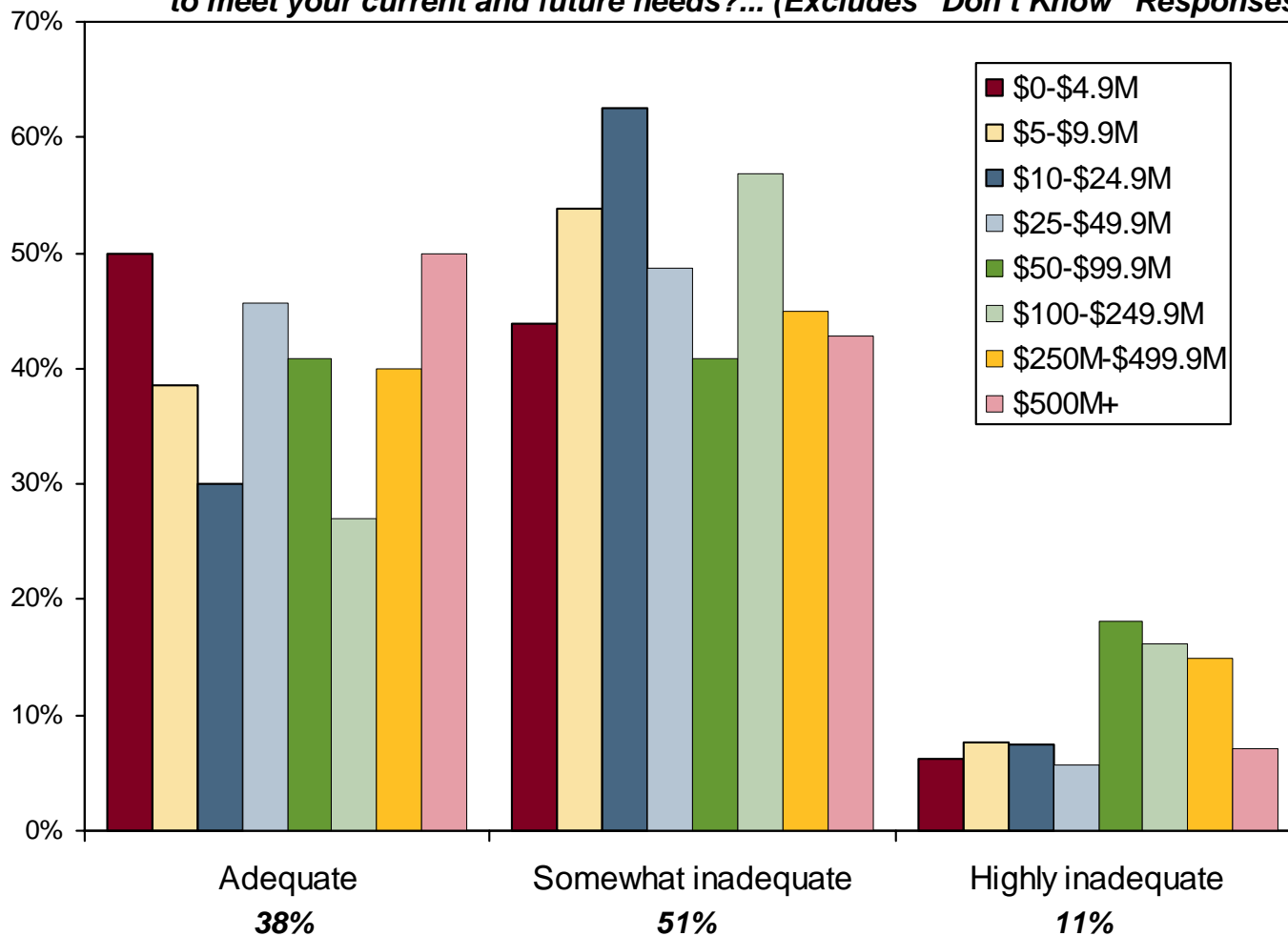
Foundations of All Sizes View a Better Understanding of Costs, Investment Performance, and Development Results as an Important Priority

COF/FSG 2005 Survey of Community Foundation CEOs and CFOs – 241 Respondents
In your view, how important is it for community foundations to better understand their costs, investment performance, and development results? ...



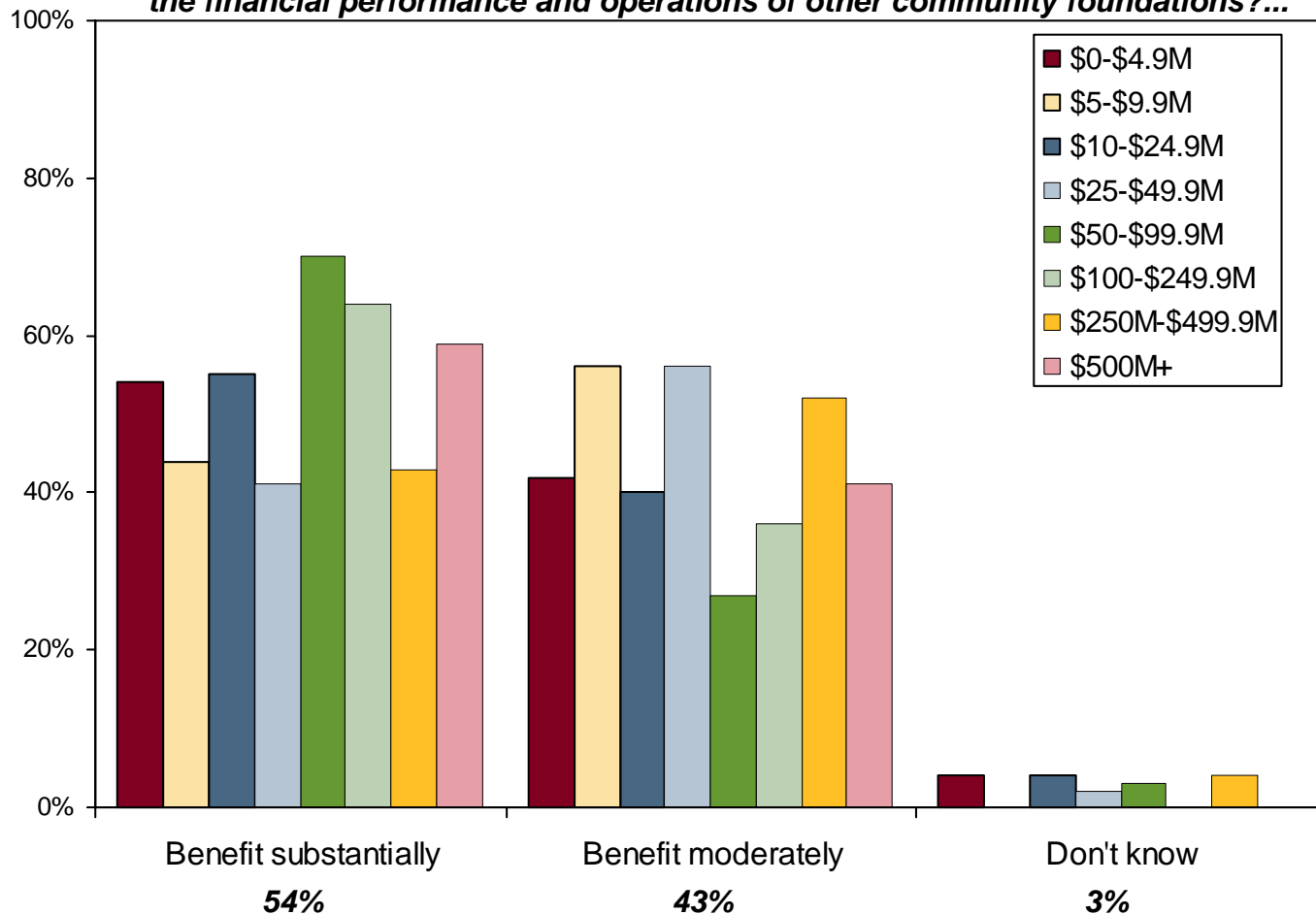
The Majority of Respondents View Currently Available Financial and Operations Data as Inadequate to Meet Their Needs

COF/FSG 2005 Survey of Community Foundation CEOs and CFOs – 241 Respondents
Is the financial and operations data currently being collected within the field adequate to meet your current and future needs?... (Excludes "Don't Know" Responses)



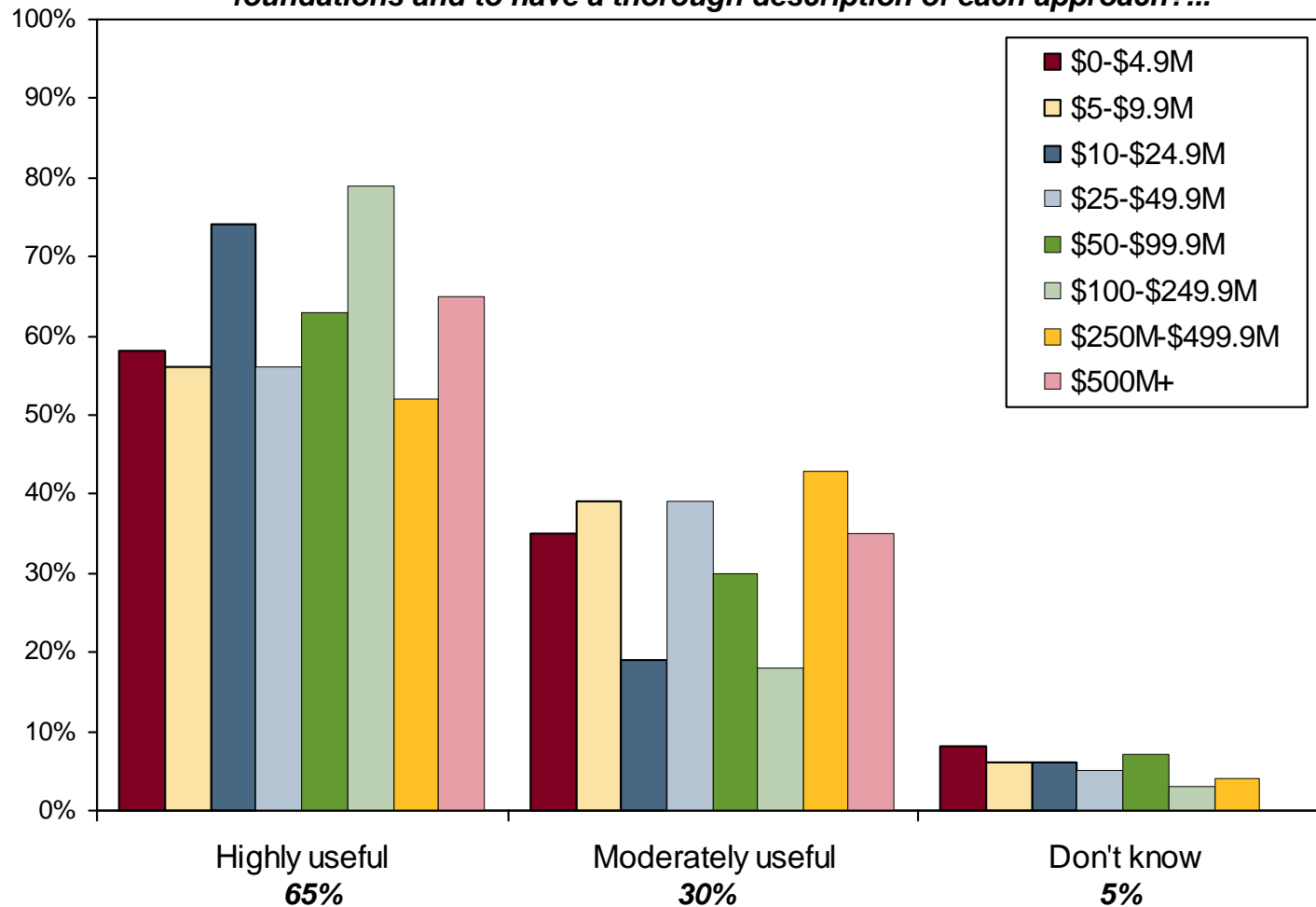
Almost All CFs, Regardless of Size, Expect Moderate or Substantial Benefit from a Better Understanding of their Peers' Performance

COF/FSG 2005 Survey of Community Foundation CEOs and CFOs – 241 Respondents
To what extent would your foundation benefit from a more complete understanding of the financial performance and operations of other community foundations?...



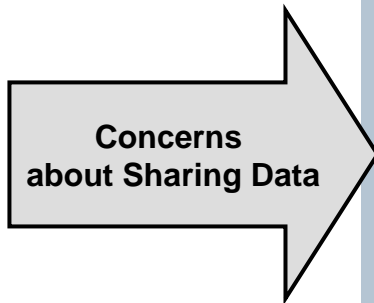
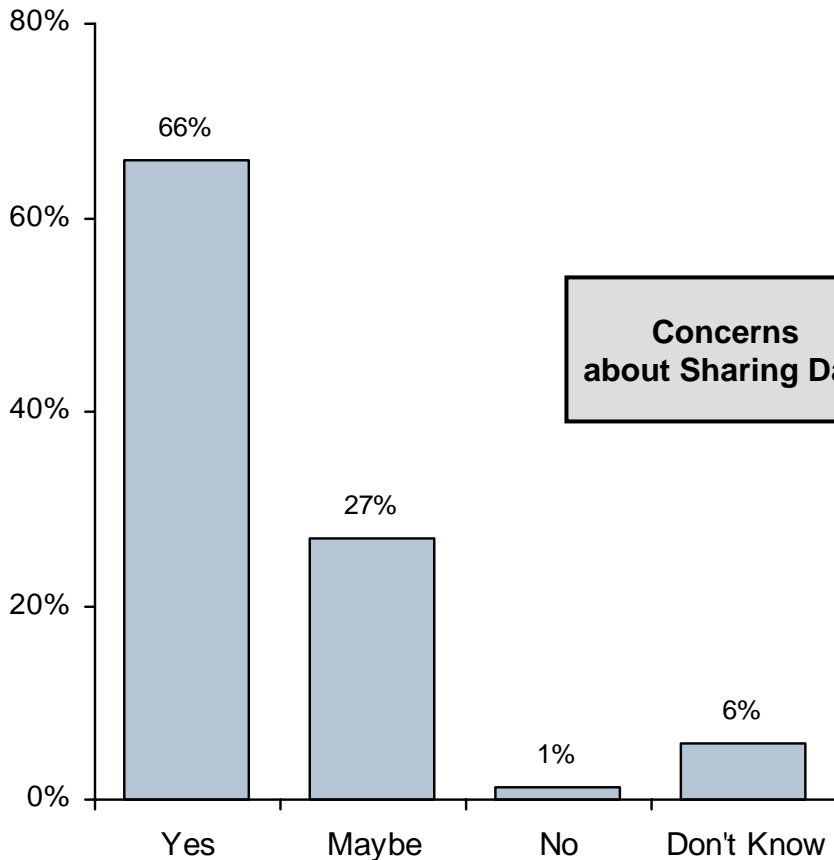
The Majority of CFs Would Find Knowledge of Model Practices Used By Other Community Foundations To Be Highly Useful

COF/FSG 2005 Survey of Community Foundation CEOs and CFOs – 241 Respondents
How useful would it be to know of model practices employed by other community foundations and to have a thorough description of each approach?...



Virtually All Respondents Are Willing to Consider Contributing Data to a Centralized Database

If a central database were created for the field to collect and make available detailed financial and operating data, would you be willing to contribute your foundation's data?...



Concerns about Sharing Data

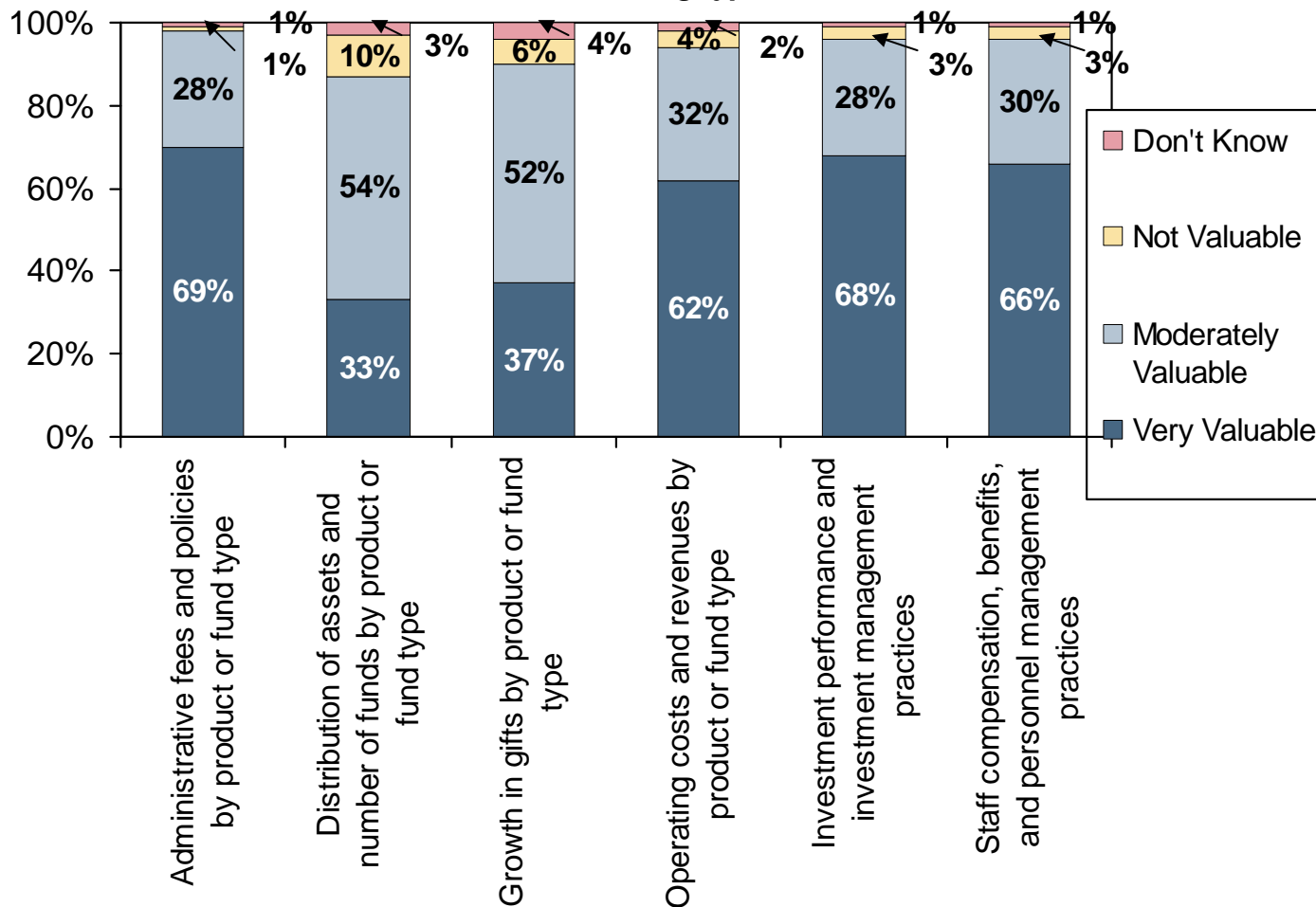
If you have reservations about contributing your foundation's data to a field-wide database, what would alleviate your concerns?...

- **Staff Capacity** – *“The only concern I would have is the time and staff to submit the data.”* – Foundation with assets of \$0-4.9M
- **Appropriate Use & Confidentiality** – *“Assurance that, to the degree possible, the information provided will not be used in a negative way against our foundation.”* – Foundation with assets of \$100-249.9M
- **Relevance of Findings to Smaller Foundations** – *“Our foundation is so small that much of the data pertinent to 'best practices' would not apply to our small foundation. Our budget is so limited, we cannot apply a lot of good practices we would like to.”* – Foundation with assets of \$0-4.9M
- **New Insights** – *“I have no reservations about contributing data. I do have reservations about the usefulness of a data bank, once developed. We already know that certain funds do not cover their costs and we make value judgments if they are worth taking as loss-leaders. You don't need to do all this to inform me, for example, that scholarships are expensive.”* – Foundation with assets of \$100-249.9M

Excluding time constraints, concerns about contributing data can be addressed

Respondents View All Categories of Comparative Data as Valuable – Especially Fees, Cost, Investment Performance, and Compensation

COF/FSG 2005 Survey of Community Foundation CEOs and CFOs – 237 Respondents
 How valuable would it be to have access to data from a wide range of community foundations about the following types of information...?



Source: February 2005 Survey of CF CEOs and CFOs, Sponsored by the COF Community Foundations Leadership Team, Conducted by FSG

Beyond the Categories of Data Included in the Survey, CFs Highlighted Additional Areas where Comparative Information Would be Useful

Alternative Revenue Sources

- “Comparisons of **sources of revenue and the related staffing models** “ – Foundation with assets of \$100-249.9M
- “How other community foundations support their budgets in addition to fees?” – Foundation with assets of \$50-99.9M

Staff Data

- “**Compare salaries of employees based on types of work products and complexity of total organization** instead of comparing us all based on the total assets as it is done now” – Foundation with assets of \$25-49.9M
- “**Staff size in relation to services provided.** Always looking for ways to work smarter to meet donors' desires and nonprofits' needs.” – Foundation with assets of \$10-24.9M

Investment Data

- “**Investment policies** overall” – Foundation with assets of \$0-4.9M
- “**Investment mix and returns**” – Foundation with assets of \$100-249.9M
- “**Fees charged by investment managers**” – Foundation with assets of \$10-24.9M

Competitor Data

- “**Administrative fees and policies of competitors** by product or fund type” – Foundation with assets of \$250-499.9M
- “Up to date market survey of **commercial Donor Advised fees of competitors**” – Foundation with assets of \$10-24.9M

Development and Marketing Data

- “**Percentage of funds spent on marketing/communications** ” – Foundation with assets of \$25-49.9M
- “**Cost of raising gifts** by type” – Foundation with assets of \$0-4.9M

To Ensure Comparability of Data Across CFs, Respondents Suggest a Variety of Peer Group Classifications

“The data is only really valuable in many instances if it is related to some key characteristics - % of assets that are discretionary, % of assets that are donor advised, etc. In short, we need to be able to compare apples with apples to the degree possible.”

- **Asset size and number of funds by product or fund type**
 - *“Size & number of funds by fund type. This is a meaningful way to measure how comparable another foundation is to ours. Total asset size is only a rough guide--assets under management, number of funds, and special community project support can all create great variation in operating expense.”* – Foundation with assets of \$50-99.9M
- **Growth rate**
 - *“We want to be able to compare ourselves to foundations who are growing at a comparable rate. Comparisons based on asset size are worthless.”* – Foundation with assets of \$25-49.9M
- **Foundation structure and policies**
 - *“The complexity of the organizations. For example, we'd like to know how many supporting orgs or affiliated funds there may be”* – Foundation with assets of \$100-249.9M
 - *“The level of service provided by each community foundation per fund type. For example, some CFs staff the selection of scholarship recipients. Others rely on third parties and thus can administer less expensively.”* – Foundation with assets of \$50-99.9M
- **Type of region served**
 - *“Ask foundations to classify themselves as 'rural' or urban”* – Foundation with assets of \$10-24.9M
 - *“Some information (especially for compensation/benefits) can vary dramatically by region”* – Foundation with assets of \$250-499.9M

CFs Are Interested in Analysis that Informs Operating Model Decisions, Performance Measurement, and Cost-Effective Strategies

Operating Model Tradeoffs

- *“Ultimately I’m hoping further research can provide **tools for Boards to use in understanding the elements of the business model and how to poise a CF for success...** What would be really helpful is to know the things we’ll encounter down the road as we grow and face new decisions about staffing, technology, value-added services, and community leadership investments.”* – Foundation with assets of \$5-\$9.9M

Key Performance Indicators

- *“Trustees here have tossed around the 'key ratio' discussion. **Could captured data be used to show industry-wide and longitudinal ratios and key indicators?** Not to suggest there are optimum ratios, but relatives are good.”* – Foundation with assets of \$10-24.9M
- *“**What are the meaningful ratios by which CFs should be measuring themselves?** Among new foundations, well-established foundations?”* – Foundation with assets of \$0-4.9M
- Indicators suggested by respondents: spending rates, market value of assets, grants committed and grants paid, administrative expenses, gifts, investment return, number of staff by function, operating expenses as a percent of assets, grants as percent of assets, staff costs as percentage of grants paid, number of gifts/grants/funds handled by each type of FTE, expenses as % of revenue, % of operating costs to asset base, transaction costs, average size of new and old funds

Cost-Effective Strategies

- *“**Innovative things done to cut costs**”* – Foundation with assets of \$50-99.9M
- *“**Strategies and options to share back office support operations (staff, functions, technology, etc.) with other foundations**”* – Foundation with assets of \$10-24.9M

In Addition to Addressing the Need for More Performance-Related Data, Respondents Identified Key Research Questions for the Field

- **Identifying future strategic shifts for the sector** (e.g., What is the next Fidelity?)
- **Improving efficiency**
 - Costs and benefits of adding technology enhancements
- **Developing appropriate staffing structure and staff benefits**
 - Possibility of pooling health insurance and other benefits across CFs
- **Increasing investment performance** and determining the appropriate investment management model (e.g., in house, outsourced, possible community foundation-focused investment management organization)
- **Anticipating tax and legal changes** faced by the field

Agenda

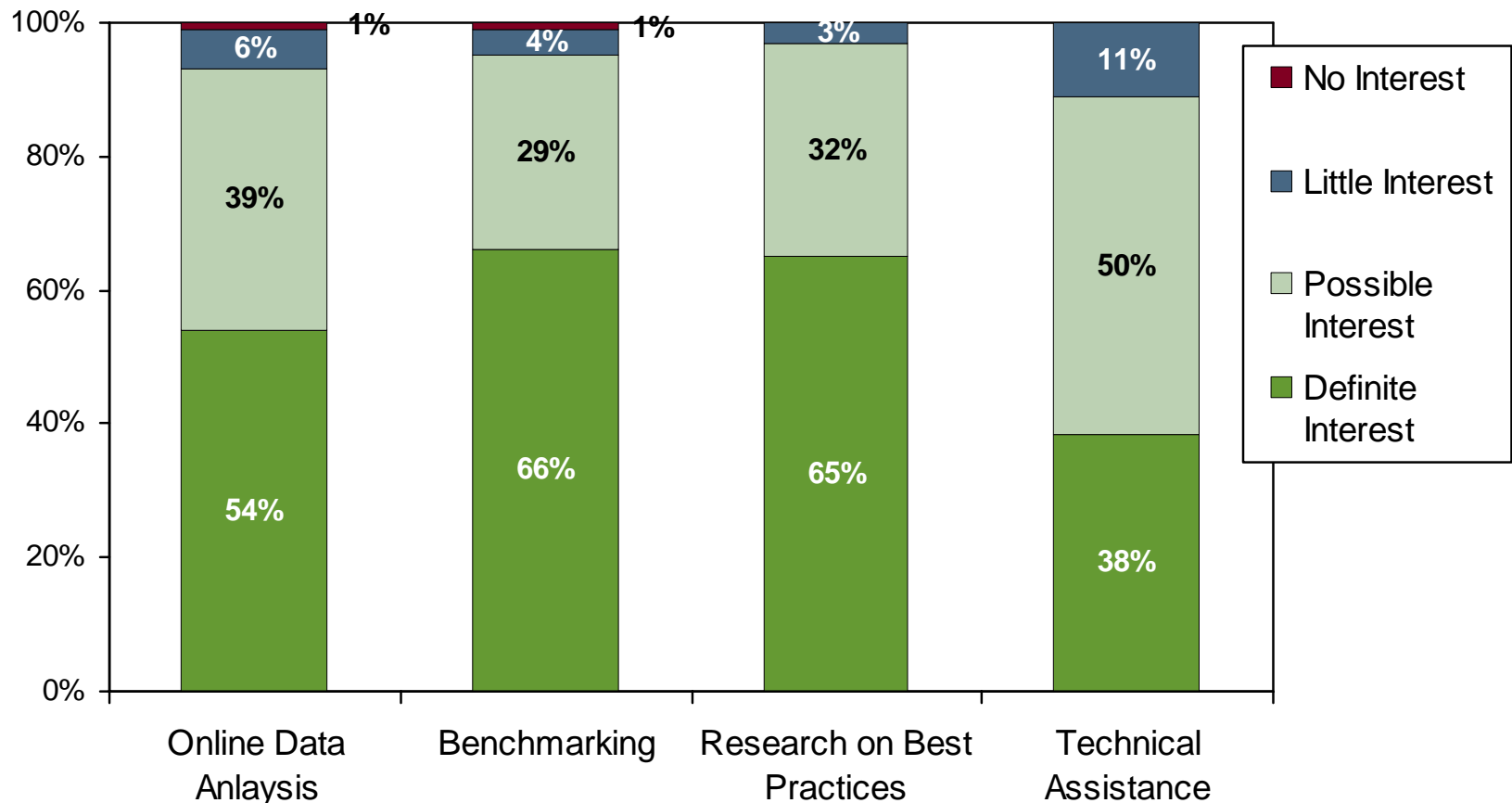
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The Survey Asked Respondents to Consider Four Different Service Offerings Focused on Improving Decision-Making Resources and Economic Sustainability

Service Offering	Description
Online Data Analysis	An online tool that allowed you to generate comparative financial and operating data for a self-selected set of other community foundations
Benchmarking	Access to annual studies on select financial data, breaking out different data profiles for specific areas, like fees, compensation, gift processing costs, or types of technology investments
Research on Best Practices	Detailed examples of cost-effective processes, information about the impact of technology adoption, or descriptions of innovative revenue-generation strategies. Would include 'how to' manuals for replication
Technical Assistance	Customized support to help you apply cost-revenue tools at your foundation and develop a comparison set of appropriate peers

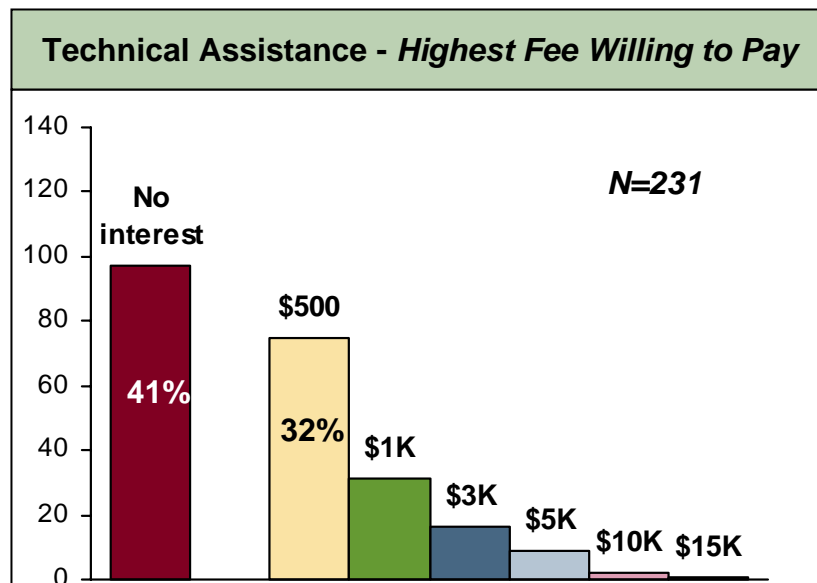
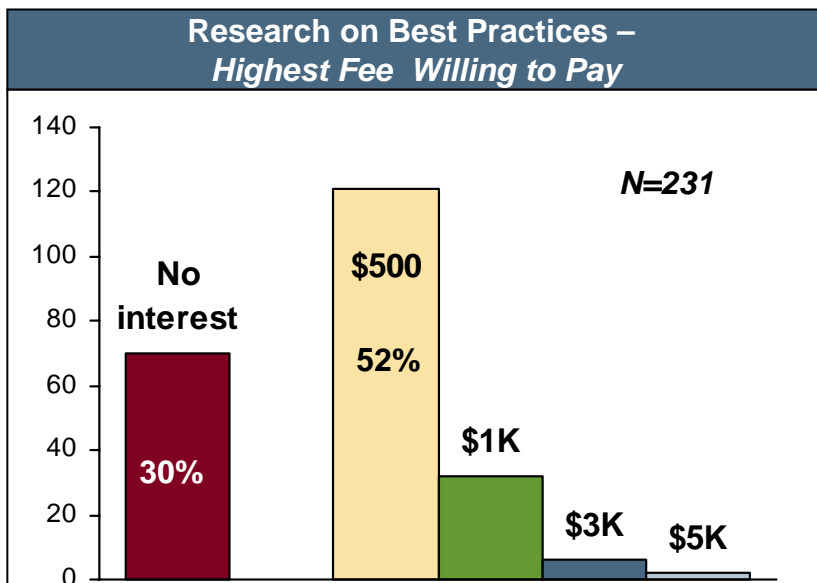
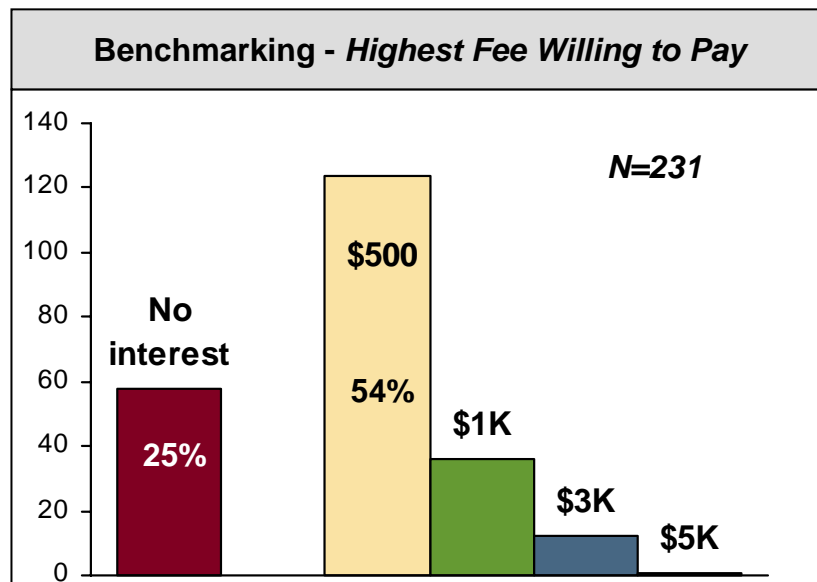
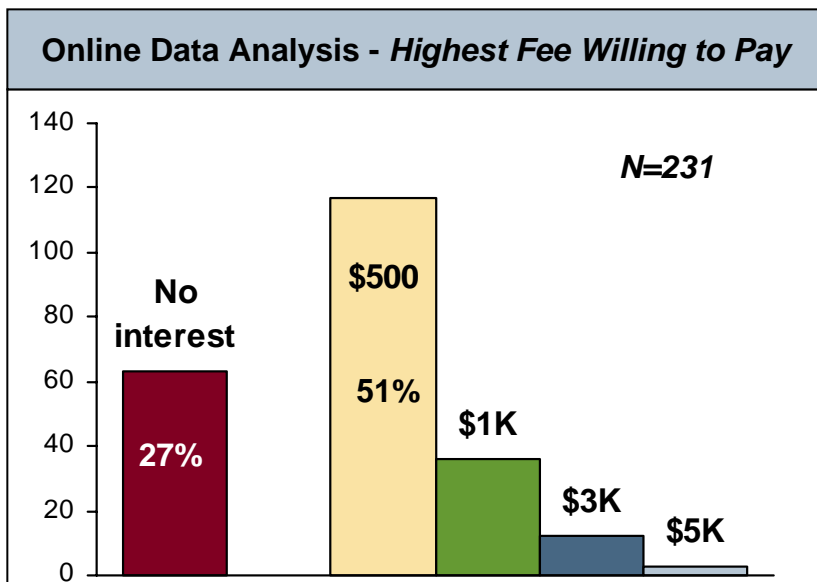
The Vast Majority of Respondents Expressed Definite or Possible Interest in Each of the Four Service Offerings

COF/FSG 2005 Survey of Community Foundation CEOs and CFOs – 235 Respondents
What is your level of interest in each of the following services?...



Respondents indicate the lowest level of interest in technical assistance to help apply cost-revenue tools

\$500 Is the Highest Fee Most Are Willing to Pay for Each Service



To Supplement Fees Respondents Suggested Building Services into COF Member Benefits, or Assistance from Private Foundations and RAGs

Other than subscriptions or fees paid by individual community foundations, what alternative means of covering the cost of these types of services would you suggest?...

Increase in Annual Membership Fees Based on Asset Size

- *“Although I think all of these ideas are excellent, most of the smaller community foundations would be hard-pressed to pay for these services. But I understand they are expensive to provide! I guess the only solution lies in **increased annual fees based on asset size and the hope that the costs would be scalable over all member organizations** and our mutual desire to receive comparable, accurate data.”* – Foundation with assets of \$10-24.9M
- *“Covered by dues paid to COF. **In order for this information to be helpful, we would want to include as many Foundations as possible.** Some could not pay for the service, but we don't want to exclude their data.”* – Foundation with assets of \$100-249.9M
- *“... We will need to self-fund this and could use a way of selling it that works. I'd suggest trying **a fee based on asset size**, e.g., 1 basis point for a \$100,000,000 foundation would yield \$10,000. Most of us are accustomed to thinking that way anyway.”* – Foundation with assets of \$100-249M

Fundraising for Initial Costs

- *“**Shared grant from national funders who have a priority in advancing philanthropy capacity** - New Ventures, Pew, Ford, Gates. The grant would be great to provide an incentive to assist smaller foundations.”* – Foundation with assets of \$10-24.9M
- *“**Big grants from other COF member foundations! Grow into underwriting these costs as a component to COF membership and make a CF member benefit.**”* – Foundation with assets of \$10-24.9M

Tap Into Resources of Regional Partnerships, RAGs

- *“We have a consortium of community foundations in WV, perhaps we could **purchase services through this organization and all share.**”* – Foundation with assets of \$10-24.9M

Tapping Multiple Sources of Income Would Be Necessary to Provide a Sustainable Level of Services

Adding up revenues from the annual fees that foundations indicated a willingness to pay might cover the cost of 2-4 FTE's

- This would be sufficient to cover incremental costs for an existing organization to add these services on, but insufficient to create a free-standing organization
- Larger foundations would need to pay somewhat higher fees on a sliding scale to increase the weighted average
- Substantial additional funding would be required to set up the database and services initially, and to provide supplemental support in the early years of operation
 - National foundations that support the growth of community foundations might be willing to help cover the initial costs

The survey results suggest that there is a strong interest and a moderate willingness to pay, which may be sufficient to establish a research center if outside support can be obtained

A Phased Approach Would Be Necessary to Test Assumptions and Provide Proof of Concept

- **Concept requires a phased approach**
 - First step is determining process for developing a centralized database that can better fulfill the field's knowledge management needs
 - Explore private foundation funding for initial development stages but design services to be supportable through ongoing fees generated from the field, including fees for more complex research and analysis
 - Construct a prioritization process for information gathered
 - *“To some extent, you’ll need to sort out the difference between what people really need to know in the future, versus what’s nice to know or nice to talk about.”*
 - Pilot approach with a set of representative community foundations before implementing a field-wide solution
 - Select at least two small peer groups of foundations of similar size and asset mix – to generate comparable data and demonstrate value of analytics focused on an appropriate peer set
- **Proving the concept in a pilot requires the field to structure an appropriate partnership that benefits from the differentiated entities able to serve the field**
 - COF's greatest strength in providing services is its ability to disseminate information – a partnership may be required to efficiently deliver new services focused on research and analysis