affiliate funds

a rising practice in community philanthropy

broader base
raise visibility
extend impact
innovative ways
reach underserved
highlight need
build relationships
create identity
foster presence
increase giving
improve credibility

A JAMES IRVINE FOUNDATION REPORT

The Community Foundations Initiative

The Community Foundations Initiative (CFI) is a partnership between The James Irvine Foundation, a statewide private foundation, and seven California community foundations. Launched in 1995, the overall goals of this seven-year, $11 million dollar Initiative are:

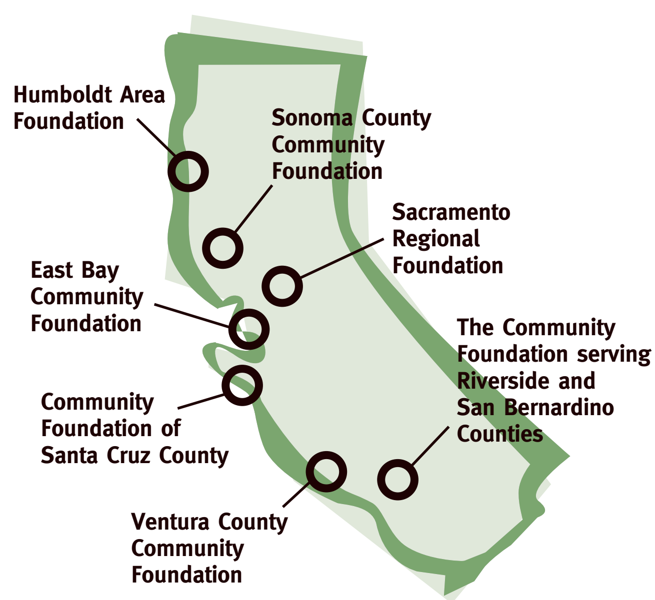
- To assist seven small/mid-size community foundations to increase their philanthropic capacity, leadership roles, and ability to serve as a catalyst for positive change in their communities.

- To develop community-based philanthropic partners with which The James Irvine Foundation can work to increase its effectiveness in those geographic areas served by CFI community foundations

CFI is based on the logic that if a community foundation successfully undertakes a visible, strategic project to address a priority community concern, it will raise awareness of its work and credibility among community leaders and organizations. With greater recognition and enhanced capacities, community foundations will be better able to identify and respond to local issues and concerns, as well as attract a new and more diverse pool of donors. For each community foundation participating in CFI, the Initiative directs attention and resources to both a community project and the community foundation's organizational development over a five-year period.

The Initiative was organized around the model of a "learning community" to ensure that experiences and lessons learned would regularly inform the work of CFI and that of the participating community foundations. Accordingly, technical assistance, learning opportunities and evaluation were built into the initiative as key resources.

The seven foundations supported by CFI are the following:



FOREWORD

The James Irvine Foundation seeks to improve the lives of California residents, families, and communities by strengthening the institutions that serve them. Community foundations have emerged as among the most promising of such institutions. Rooted in communities, focused on grassroots issues and concerns, these local philanthropies are in the perfect position to nurture a vibrant and effective nonprofit sector. The Irvine Foundation has long recognized and supported the important role and potential of community foundations throughout California. In 1995, the Foundation launched the Community Foundations Initiative (CFI), a multi-year $11 million effort to support and strengthen seven small and mid-sized community foundations across the state.

Under CFI, several of our community foundation partners have experimented with new approaches to encouraging philanthropy in their communities. One promising approach is the use of affiliates funds, a growing phenomenon not just among the CFI cohort but throughout the community foundation field. The experiences of several CFI foundations that have used affiliate funds, coupled with the recent research in the field, have provided us with good information and insights to begin exploring this growing practice.

This paper is intended to provide a framework for thinking about affiliate funds, both their benefits and costs. Community foundation executives, staff and board directors may wish to use this paper as they consider ways to expand local philanthropy in their communities.

Produced by Alan Pardini, a consultant to CFI and the League of California Community Foundations, the paper is the product of suggestions and input from multiple sources, most notably the staff of several CFI community foundations. Like any useful work in a rapidly growing and changing field, it will need to be regularly revisited and updated, taking into account the latest experiences and thinking. We welcome your thoughts and comments on both the paper and the issue in our collective effort to advance the missions of community foundations.

Dennis A. Collins

President & CEO ◆ *The James Irvine Foundation* ◆ *November 2000*

affiliate funds

A Rising Practice in Community Philanthropy

TABLE OF CONTENTS

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I. Introduction: Laying the Groundwork

today's healthy economic and social climate has spurred significant philanthropic growth, both in the field at large and in community foundations. Three primary factors are responsible: the ongoing and tremendous intergenerational transfer of wealth; favorable tax treatment; and a growing interest in community improvement and quality of life.

Community foundations offer donors an attractive vehicle for realizing their charitable interests, while providing desirable tax benefits. Since they serve a specific geographic area – town, city, county, or multi-county area – community foundations are well placed to support proven and promising nonprofit enterprises dedicated to community improvement, to encourage local philanthropic giving, and to serve as stewards of community assets. Community foundations, particularly those that have strong connections to their communities, also offer a neutral place for focusing local groups with diverse interests on important – and sometimes contentious – community problems and issues.

Recognizing the diversity of benefits and opportunities offered by community foundations, communities and their leaders are increasingly interested in ensuring that they have access to community foundation services. In many instances, this sustained interest has led to the creation of new, freestanding community foundations in unserved areas. In other cases, the technical complexity and costs associated with creating and sustaining an independent community foundation has led to an alternative approach: establishing affiliates of an existing community foundation. Affiliate funds are endowments that are usually geographically-focused and that take advantage of the organizational infrastructure and services of an already established community foundation.

Within The James Irvine Foundation's Community Foundations Initiative (CFI), a number of participating community foundations have initiated or expanded their use of affiliate funds to promote community philanthropy and provide services to unserved or underserved areas or population groups. The experiences of these community foundations offer a real-time laboratory for understanding how to develop and operate affiliate funds in different geographic areas and with diverse populations.

II. What Are Affiliate Funds? An Expanded Definition

affiliate funds are a collection of assets (endowed and nonendowed) whose principal and income are designated by a community foundation to fulfill charitable needs in a specified community. In operation, affiliate funds piggyback on the organizational infrastructure of a community foundation – "back office" financial, legal and administrative systems, investment services and often, program and grantmaking services.

Typically, affiliate funds are defined by the geographic territory of their service areas–a neighborhood, city, region or other physical place. Among CFI community foundations, affiliate funds based on geography include two distinct models. In the first, identified affiliates lie within the designated primary service area of the sponsoring community foundation, as exemplified by the East Bay Community Foundation and The Community Foundation serving Riverside and San Bernardino Counties. The second model, employed by the Humboldt Area Foundation, involves an affiliate fund in a neighboring county that is outside of the foundation's primary service area.

While geography has traditionally been used to define community foundations and their affiliate funds, there is evidence that the definition of community is expanding to include populations with common characteristics. Some community foundations, as well as independent funds not linked to community foundations, are exploring the benefits and costs of operating special funds based on shared identity. These types of funds are usually organized around particular ethnic groups (African-American, Hispanic, Asian/Pacific Islander, Native Americans), and gender or sexual orientation (gay, lesbian, bisexual, transgender). Within CFI community foundations, the Ventura County Community Foundation established two identity-based funds for women and the Hispanic community – two groups underrepresented within its traditional work and structure.

In this paper, the definition of affiliate funds will include both geographically and population-based funds associated with an established community foundation.

III. Affiliate Funds Nationally

According to 1999 research by Cher Hersrud, 65 of the 500-600 community foundations in the United States host approximately 238 affiliate funds. However, this number of affiliate funds may be underestimated because her research focused exclusively on geographically-defined funds and did not include population-based affiliates. Although Hersrud's research indicates that affiliate funds are a relatively new philanthropic phenomenon, with the majority having started in the mid- to late-1990s, there is evidence that the number will continue to grow.

IV. Affiliate Funds at CFI Community Foundations

The four CFI community foundations that have affiliate funds currently host a total of 20 affiliates. All of these affiliates are geographically-based, with the exception of the two identity-based funds in Ventura. The community foundations have reported sustained growth in the assets of their respective affiliate funds, as the data in the table below indicates.

Growth in Affiliate Funds for Four CFI Community Foundations

	1995 affiliate assets	1997 affiliate assets	% growth 1995-97	1999 affiliate assets	% growth 1997-99	Total no. of affiliates 1999
East Bay Community Foundation	$1,329,385	$4,562,213	**243.18%**	$6,559,817	**43.79%**	15
Humboldt Area Foundation	276,320	277,370	**.38%**	744,924	**168.57%**	1
The Community Foundation serving Riverside and San Bernadino Counties	110,000	120,000	**9.09%**	426,227	**255.19%**	2
Ventura County Community Foundation	66,507	409,082	**515.10%**	624,935	**52.77%**	2

V. Alternative Organizational Structures for Affiliate Funds

As Jennifer Leonard wrote in *Covering Territory*, affiliate funds originate from a variety of sources. Sometimes established community foundations simply create "satellite" operations designed to serve a specified area with greater focus. In this case, the affiliate fund is closely tied to the sponsoring community foundation, mirroring and building upon its organizational structure, staffing, policies and ongoing operations. Often in this "satellite" approach, the sponsoring community foundation establishes local advisory bodies to guide in the affiliate's decision-making, though final decisions and oversight responsibilities rest with the sponsor's governing board.

Affiliate funds also may be created as unincorporated special funds (donor-designated or donor-advised) of an established community foundation with criteria specifying the geographic area or population group to benefit. This is perhaps one of the most expeditious approaches to affiliate fund development since community foundations often have considerable experience with designated and advised funds for charitable purposes. In this approach, affiliate funds simply direct the charitable intent of the funds according to the interests of their organizers. In this scenario, affiliate funds operate in much the same way as traditional donor-designated or donor-advised funds, and assume similar relationships to their host community foundations.

Affiliate funds may also assume a more structured approach, assuming the role of a supporting organization to their lead community foundation. The result is more independence from the host community foundation and more formal governance.

VI. Uses of Affiliate Funds

Recent literature, conference presentations and discussions within CFI have identified innovative ways affiliate funds have been used for community benefit. Affiliate funds can serve to build community identity and relationships, provide services to unserved or underserved communities, and mobilize community members and additional resources to address common concerns. The range of the potential uses of affiliates is described below.

Reaching underserved geographic areas and population groups. The affiliate fund model provides a way for community foundations to extend the reach of their philanthropic services, both donor development and charitable giving, into areas and populations that have historically been less involved in community-based philanthropy. The funds can provide information to the community foundation about unmet needs and philanthropic investment opportunities and can help them identify and cultivate new volunteers, prospective donors, committee and board members and community partners for their philanthropic work.

Increasing philanthropic giving in a particular region or among a specific population group. More and more community foundations are focused not only in building their own base of permanent charitable assets but in increasing overall levels of philanthropic giving and developing an interest in philanthropy in their communities. Research suggests that affiliate funds have considerable potential for raising the visibility and credibility of philanthropic giving in general, reaching out to residents that might not otherwise consider themselves likely philanthropists. Targeting women in Ventura County, for example, helped to bring philanthropic giving closer to women of modest or greater means for whom no clear vehicle existed to promote their charitable interests across a variety of women's causes.

Increasing community foundation visibility. Creating and nurturing affiliate funds, either identity- or geographically-based, provide an opportunity for the community foundation to deliver its message more effectively because the funds are able to segment the market by region or population. Affiliate funds also "localize" the community foundation more successfully than standard outreach and public relations, and create an identity and presence in the underserved areas and populations.

Developing a broader base of community leadership and ownership. As public charities and stewards of community charitable resources, community foundations have a strong interest in ensuring that the communities they serve feel a sense of investment in the success of the foundation and its charitable work. Affiliate funds, often overseen by groups of volunteers from the targeted region or population group, can represent a pool of potential leaders. As responsibility for and control of the affiliate funds are increasingly transferred to local leadership, communities become more empowered to make their own decisions.

Highlighting areas or populations of need. By "shining a light" on a specific area or population group, an affiliate fund can bring wider attention to a particular issue, need, community or identity group. For instance, the Destino 2000 fund at the Ventura County Community Foundation focuses an affiliate fund, and by extension community attention, on the needs and priorities of the county's Hispanic population.

Remediation of a community hazard. The East Bay Community Foundation has creatively encouraged communities to use funds from restitution agreements with corporations to create affiliate funds. Restitution funds generally result from litigation and prosecution for environmental and health hazards and represent a sum of money contributed by a corporation for community improvement. These funds can become permanent endowments, managed by the community foundation, with their earnings directed toward a wide range of community recovery and improvement projects.

VII. The Costs Behind Affiliate Funds

Although the benefits of establishing affiliate funds are many, community foundations cannot afford to overlook the associated costs. One of the primary expenditures is for staff, whose role is to ensure that funds develop and operate prudently and effectively Although most affiliate funds, including those sponsored by the community foundations in CFI, rely heavily on volunteer leadership for their development and operations, successful affiliate funds require some staffing infrastructure to adequately support and coordinate those volunteer efforts.

Within CFI, affiliate funds are supported by staff of the host community foundation in two ways. In one, a designated staff person is specifically assigned to the affiliate fund (the approach adopted by the East Bay Community Foundation). In the other, several staff members may assume responsibilities for providing support to the affiliate fund development in specific technical areas in addition to their broader set of responsibilities at the community foundation (the approach used by the Ventura County Community Foundation and the Humboldt Area Foundation).

The two approaches are based on the scale of the community foundation's investment in affiliate funds and on the host community foundation's long-term goal for its affiliates and the communities it serves. For instance, the East Bay model specifically assigns a high-level staff person because the community foundation is involved with as many as 15 geographic affiliate funds. The primary objective of the affiliate funds is building local leadership, capacity and philanthropic infrastructure. To achieve this goal, the community foundation functions as a trainer, coach, facilitator and mentor; the staff coordinator taps the expertise of community foundation colleagues on behalf of the affiliates, strategically augmenting the local resources of each affiliate fund.

On the other hand, in Ventura, Riverside and Humboldt, the scale is smaller and responsibility for supporting the affiliate funds is distributed across the staff at each respective community foundation. In Ventura, the community foundation strives for increased philanthropic participation by women and Latinos countywide, with constituents taking principal roles in the operation of these affiliates. These population-based funds are fully integrated into the operating structure and process of the community foundation without a specially designated staff person.

Regardless of the strategy, community foundations fairly consistently report that their work with affiliate funds, both identity- and geography-based, draw, sometimes very heavily, upon the staff resources of the community foundations.

Affiliate funds also rely on volunteers to assume critical governance, asset development and distribution roles in affiliate funds. Volunteers are integral to establishing local connections and enhancing the local "ownership" that is so critical to the funds' long-term success. However, as the affiliate funds develop and grow, their needs for support from program, development, finance and administrative staff appear to increase.

In addition to the direct staffing needed by affiliate funds to operate, most will require some level of technical assistance on such topics as asset and program development, grantmaking, governance, decision-making, finance, administration and overall strategic planning. This assistance is usually provided by the host community foundation and sometimes by consultants who are hired by the community foundation to assist the affiliate funds (another direct cost).

As Hersrud documented in her work, affiliate funds not only consume staff resources from the hosting community foundation, they also can require financial assistance to cover expenses such as office space and supplies, as well as philanthropic investments – matching funds and challenge grants – to encourage asset growth. Experience within CFI indicates that even with generous financial support from private foundations, affiliate funds represent a net cost to the hosting community foundation in terms of both direct and indirect expenses.

In established community foundations, fees from donors' assets and charitable transactions cover operational costs. Estimates vary with regard to the asset level required (the fiscal point at which fees cover core costs). Most experts indicate that $10 to $15 million is needed for financial self-sufficiency, covering basic community foundation services. Since affiliate funds within CFI community foundations are relatively new and generally small in terms of assets, it is not yet evident what level of assets of an affiliate fund may be required in order for the affiliate fund to cover its share of the host community foundation's organizational support costs.

As affiliate funds grow and begin hiring professional staffs – Hersrud has documented in her research that most affiliate funds operate without their own paid staff – it will be important to assess whether the funds can achieve a level of independence, decreasing the technical assistance and staffing required from a host community foundation.

Three of the CFI community foundations have used funding from The James Irvine Foundation to offset staffing and other costs, and/or to create a grantmaking budget for the affiliates in order to give them philanthropic experience and heightened community visibility. According to staff at these community foundations, the funding from Irvine not only provided critical operational support but also lent the new affiliate funds an additional level of credibility.

Although community foundation executives often express some degree of concern about the level of staff resources needed to ensure that their affiliate funds progress, operate effectively and legally, and contribute to the development of community philanthropy in their communities, they agree that the costs are long-term investments in the success of the affiliates, requiring substantial commitment from the host community foundation.

VIII. Do Affiliate Funds Make Sense For Your Community Foundation?

Community foundations considering an affiliate fund should address a number of issues to determine if the effort is an effective approach to expanding community philanthropy for a targeted population group or in a defined geographic area. The issues raised in this section reflect lessons learned from community foundations in CFI, as well as those from community foundations in other parts of the United States.

What is the level of current community foundation services in the targeted population or area? As a first step, community foundations should conduct an objective assessment of current philanthropic capacity and services within a geographic area or population group. This kind of critical assessment is necessary to ensure that the considerable level of resources needed to develop and grow affiliate funds has the potential to pay off over time and that the foundations' customers – donors, prospective donors, financial professionals and community-based nonprofits – are being adequately served.

An assessment should address market penetration of the community foundation; its reach into the donor and financial professional communities; the level, adequacy and quality of services; its knowledge and understanding of important issues and resources; its history of grantmaking; and its connections with leaders within the targeted area or population group. If many of these criteria are met, it could represent a strategic opportunity for the community foundation to advance its community philanthropy mission through an affiliate fund.

What is the realistic philanthropic potential of the targeted population or area? The next step in a strategic assessment should investigate the philanthropic potential of the targeted area or group. The study should reflect not only the manifest wealth of an area or group, but historical patterns of charitable giving, the variety of ways that assets reside in a community (not always in the traditional form of cash or financial resources, but also in land and other hard assets) and the experience of other charitable community-based endeavors.

The experience of several CFI community foundations suggests that a traditional wealth assessment does not probe deep enough to provide a community foundation with a comprehensive picture of the philanthropic potential of an area or group. In Humboldt County, for example, assets are often found in land holdings and not necessarily in the form of large bank accounts – not an unusual situation in rural areas where families have lived in the community for several generations.

In Ventura County, a superficial assessment of the philanthropic potential of the Hispanic community, based solely on per capita income, might have suggested that the wealth potential would not justify the creation of a targeted affiliate fund; however, the actual experience clearly indicates that the Hispanic community is deeply philanthropic and blessed with considerable community leadership – key factors when assessing philanthropic potential. As the success of the Ventura County Community Foundation's Destino 2000 fund indicates, more factors than simple per capita income need to be factored into a strategic assessment of philanthropic potential.

How well has the issue of competition with local nonprofit organizations been addressed in the planning process? In any community, whether defined geographically and/or by population group, a philanthropic relationship between funders (individual donors, grantmaking institutions) and nonprofit organizations may already exist. While the development of affiliate funds could expand the philanthropic "pie," a new player entering the fundraising market might be perceived by local nonprofits as competition. Thoughtful planning, community education and sensitive outreach to community leaders and opinion makers could spell the difference between long-term success and failure for the affiliate fund.

Are there any concerns in the community about the issue of "second class citizenship"? When The Community Foundation for Riverside County (TCF) conducted its assessment of philanthropic services and potential in neighboring San Bernardino County, it realized that San Bernardino was not well served philanthropically and that the county held significant potential as a source of assets for community-based philanthropy. Looking at its options, TCF decided against creating an affiliate fund specifically for San Bernardino County since historical rivalries between the two counties could make an affiliate fund appear to be a form of second-class philanthropic citizenship for San Bernardino. Instead, the community foundation redefined its primary service area, changed its name to include both counties and amended its board structure to give adequate representation to San Bernardino residents in the governance process. TCF also established an office and hired staff in San Bernardino County to establish a local presence for the community foundation. As this case demonstrates, it makes sense to thoroughly understand the history, culture and dynamics of the area or population group before launching an affiliate fund.

How compatible are the goals and values of the affiliate fund's leadership with those of the community foundation? Although ascertaining the compatibility of goals, values, philosophies and cultures of a community foundation and the prospective leadership of the affiliate fund is difficult, conventional wisdom in the field suggests that the greater the "fit" on these grounds, the greater the potential for a symbiotic relationship and long-term success.

What are the plans for future independence of the affiliate fund? Addressing the future independence of affiliate funds should be done early and often in the development stage before considerable time and resources are invested in creating and sustaining affiliate funds. Outlining the relationship with the host community foundation – for the short-term and long-term – "puts all the cards on the table" and may influence the willingness of local leaders to embrace and support the affiliate fund and the entire concept of community philanthropy.

Keeping this issue central is a sign of good faith on the part of both groups and a clear indication that a partnership exists between the community foundation and the affiliate funds. In some cases, these discussions have led to the creation of explicit criteria (asset levels, administrative infrastructure, time period) for establishing independence, while in other instances, the two parties have agreed to revisit the subject and design a collaborative solution.

The questions posed here only scratch the surface of what needs to be considered in planning affiliate funds. Ultimately, the decision to move forward and how to approach affiliate fund development must be comprehensive, collaborative and strategic, taking into account the best philanthropic interests of the targeted area or population group and the potential risks and benefits to the host community foundation.

IX. Measuring the Performance of Affiliate Funds

The success of affiliate funds is based on both financial and non-financial factors – measures that provide a framework for understanding both the short-term and long-term performance of the funds.

Standard financial measures of growth and performance include absolute asset levels; number of donor funds established; number of new donors; and grants and scholarships distributed – all of which can be used to create a profile of affiliate fund growth.

Non-financial performance measures for affiliate funds include their development of administrative and governance infrastructures; levels of community participation; community-based accomplishments including convenings and community problem-solving activities; and their ability to serve as a community-building resource as acknowledged by leaders in the targeted area or population group.

Although performance goals may vary among affiliate funds, they should be designed during the planning phase, mutually agreed upon by the community foundation and affiliate fund and revisited regularly.

X. Resources

- Hersrud, Cher, "Community Foundation Affiliate Fund Programs: Their Development, Administration and Their Impact on the Nonprofit Sector," 1999.

- Leonard, Jennifer, "Covering Territory: Community Foundation Area Funds and Affiliates," 1991.

- Personal Communications: The Community Foundation serving Riverside and San Bernardino Counties, East Bay Community Foundation, Humboldt Area Foundation and Ventura County Community Foundation.

THE JAMES IRVINE FOUNDATION

The James Irvine Foundation is a private grantmaking foundation dedicated to enhancing the social, economic, and physical quality of life throughout California, and to enriching the State's intellectual and cultural environment. The Foundation was established in 1937 by James Irvine, the California pioneer whose 110,000-acre ranch in Southern California was among the largest privately owned land holdings in the State. With assets of $1.6 billion, the Foundation makes grants of approximately $75 million annually for the people of California.

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