NANCY AXELROD on
post-Enron questions for nonprofits

DONOR ADVISED FUNDS
Tales from two cities

JOHN EDIE on
***Dobbins:* the next Istook?**

MAY/JUNE 2002

Foundation
NEWS & COMMENTARY

grassroots grantmaking
WHAT IS IT AND HOW IS IT DONE?

Alison Goldberg explains, page 36

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DONOR-ADVISED FUNDS: A TALE FROM Two Citi[es]

BY STUART APPELBAUM AND BRYAN CLONTZ

The exponential growth of donor-advised funds during the past decade has not come without debate. Many community foundations (CFs) have embraced them as a donor-friendly engine of growth. Many others maintain that donor-advised funds are the tail wagging the dog.

You could say that community foundation reaction to donor-advised funds spans the full spectrum from, "It was the best thing for philanthropy," to "It was the worst thing for philanthropy." Community foundations just do not agree on what is an "appropriate" role for donor-advised funds.

We note, however, that our respective foundations—Minneapolis Foundation and Community Foundation of Greater Atlanta—do not anchor opposite ends of a continuum. Indeed, on some aspects, our views are in close alignment. We simply offer our perspectives here to help explore the various practices in the field and to keep the conversation going. Perhaps most important, we believe there always will be a range of valid positions on each of the issues raised by the questions that follow.

QUESTIONS AND ANSWERS

What's your community foundation's past and present donor-advised fund (DAF) program? Do DAFs mesh with your foundation's core mission?

ATLANTA DAFs are at the very center of our mission statement: "We match donors with their areas of interest." We have been offering them since 1978, and because we have a rather young constituency, they have been the most popular fund option from the very start. Right now, about 60 percent of our assets are managed in 400 DAFs. Unrestricted/field-of-interest funds represent about 28 percent of our assets.

MINNEAPOLIS Historically, donor-advised funds were a footnote to our discretionary grantmaking, although we have administered them for 25 years. In the past five or six years, they've grown significantly in number, size and percentage of total grant dollars distributed. Today, about 35 percent of our assets are in 450 donor-advised funds, but they account for two-thirds of grant dollars awarded. Our mission statement, however, is still oriented to our discretionary grantmaking role. It reads, in part, "Our purpose is to join with others in measurable and sustainable ways for the benefit of all citizens, especially those who are disadvantaged."

What does your foundation consider a higher priority—being a "community endowment builder" or a "philanthropic facilitator"? Are your policies aligned with your priority—endowed vs. nonendowed, successor generations, minimum grant or fund size, geography, investment options?

ATLANTA We view ourselves almost entirely as facilitators. If we do this well, endowments are built by default, but our primary goal is to "put philanthropy in play" not "build permanent endowments for our CF." With that premise, 99 percent of our DAFs are non-endowed and may recommend grants of any size as often as weekly, without geographic restrictions. In most situations, we es

Community foundations are still debating the "appropriate" role of donor-advised funds. Here's a look at the subject through the experiences of the Minneapolis and Atlanta community foundations.

encourage unlimited successor advisors and allow donors to recommend numerous investment manager options.

MINNEAPOLIS We now primarily speak of our role as a "center for philanthropy" rather than an endowment builder, but our policies are still biased toward endowment building. Virtually all of our more recent donor-advised funds (that is, established since 1995) are non-endowed. We have a minimum grant size—$250—and grants may be made nationwide. Our guidelines urge that, after the first generation of advisors, the fund becomes an endowment. We encourage donors not to have more than one generation of successor advisors.

Regarding trust administration, we provide an incentive (a fee reduction) to charitable remainder trust donors who allocate at least 50 percent of the remainder for unrestricted purposes; trust remainders must be endowed. The only investment vehicle actively promoted is our commingled portfolio, called the Master Fund. We offer a few specialty investment options, including a socially responsible portfolio, a bond fund and an equity index fund, but these have comparatively few participants.

Does your foundation consider DAFs an *offensive* product (a fund option everyone is excited to present) or *defensive* product (a fund option you will present as a fall-back after pitching discretionary options)? Is there consensus among staff/board with this positioning?

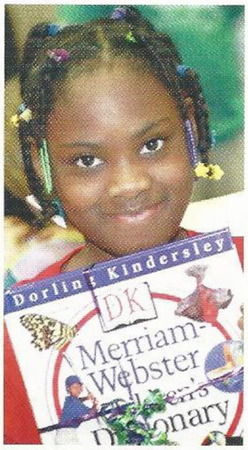
ATLANTA DAFs are our lead point-of-sale product, however, all of our materials discuss other fund options as well. During the last three years, it has become increasingly clear that DAFs engage donors and allow them to feel comfortable listening to our advice and ideas. Our staff and board see DAFs as the primary vehicle necessary to achieve our mission.

MINNEAPOLIS They are clearly the option of choice for most donors and also account for most of our gifts, but we continue to market and discuss other fund types and their uses, and our literature addresses all fund options. The option we lead with depends upon our understanding of the donor's objectives. We also seek to match donor grantmaking with our discretionary grantmaking.

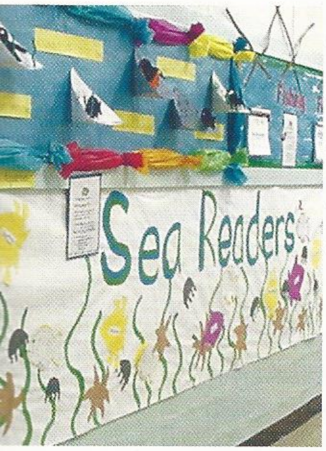
Does your foundation consider DAFs a "means to an end" or the "end" itself?

ATLANTA We, in many respects, see it as the end. We are always looking for ways to build our discretionary program, but a deep relationship with multiple generations of a medium-to-high-net-worth family is our primary goal. We consider our job cultivating future philanthropists, building family around philanthropic values and providing research/information to make charitable giving a positive, life-changing experience.

MINNEAPOLIS We are in a period of transition, I would say, with respect to this issue. In the past, donor-advised funds were mainly marketed for their instrumental value—relationship building, opening a door to a future unrestricted gift (perhaps by bequest), etc. Now they are seen as having intrinsic value in promoting philanthropy and engaging donors. Increasingly, donor advisors are seen as important potential allies in our discretionary grantmaking and special projects.



Courtesy The Minneapolis Foundation



Courtesy Community Foundation for Greater Atlanta

DONOR-ADVISED FUNDS are wildly popular among donors to the community foundations serving Minneapolis and Atlanta. Top: The Minneapolis Foundation, with help from donor-advised funds and others, "adopted" seven classrooms of third graders and is providing support to help the students through graduation and college. Below: The Community Foundation for Greater Atlanta's Teachers' Grant Program supported Herndon Elementary School's "Under the Sea" presentation for first graders.

Has your foundation been pleased with donor-advised fund behavior?

ATLANTA Like most other community foundations in the beginning, we saw that DAFs were a way to work with living donors who did not want to give to discretionary funds. After working with donor advisors for many years, we had hoped most of them would then leave the money to unrestricted funds. It didn't work out that way.

After we developed a comprehensive donor relations program, our donor advisors are now granting to their areas of interest, based on our advice, an amount almost equaling our entire discretionary grant program—and these donor-advised fund grants have increased almost 200 percent each year over the last three years. We have happy, engaged donors; more money is going to "unrestricted" causes we matched for the donor; families are becoming more involved in the process; and their professional advisors are ecstatic. So, yes, we are very happy with current behavior.

MINNEAPOLIS We developed a program to match donor advisors with our unrestricted priorities. We find and bring to their attention grantmaking opportunities that fall within their self-identified areas of interest. This program has been well-received by our donors, and we plan to expand it over time.

Like Atlanta, we have had limited experience with donor-advised funds terminating into unrestricted funds. (There have been just a few deaths among our donor advisors, and those had named successors.) In 1999, however, we received a $15 million bequest (the majority earmarked for unrestricted or broad field-of-interest grants) from a donor advisor with whom we had worked for almost 15 years; her donor-advised fund held about $500,000. We also see our donor advisors as a potentially potent marketing force—happy donors spread the word.

How does your CF teach donors to be wise, thoughtful and effective grantmakers?

ATLANTA We built a comprehensive donor relations program. Its elements include writing a family mission statement, holding family meetings, doing philanthropic research, identifying special grantmaking opportunities, next generation family training, learning how to do grant evaluation, and more. We tell donors, "Our team of ten specialists will do most everything a paid private foundation staff would do for you."

MINNEAPOLIS Our donor services staff meets with families about their giving. We do research, and our matching program connects resources with opportunities that fit their interests. We offer a legacy program (Community Builders), and as mentioned above, we provide a fee incentive for donors who allocate trust remainders to unrestricted or field of interest.

How has competition from commercial funds and other nonprofits affected DAFs? Assuming you have changed your policies based on external forces, could this be a race-to-the-bottom by each provider trying to be too donor-driven rather than community-focused?

ATLANTA While I think we were moving toward more donor service anyway, the commercial funds pushed us along. Prospects come to us, as they're "shopping," from other community foundations or community foundation-type entities ("The X Community Foundation makes us keep at least 50 percent of our DAF in endowment, what's your policy?" or "The Religious Community Foundation lets us give outside our area, but only to religious groups, what about you?"). Most of those questions come from professional advisors, who will remember the answer for all of their other clients, as well.

And it could easily be a race-to-the-bottom, if we are not thoughtful about it. Policy changes should not be made simply as a reaction to competitive forces, but rather to reinforce the community foundation's existing mission.

MINNEAPOLIS I wouldn't call it a race-to-the-bottom, but I agree that the commercial entities have stirred us out of thinking we had the exclusive franchise on donor-advised funds. Like Atlanta, we get more and more calls regarding how we differ from Fidelity or a religiously-based foundation or even a nearby community foundation (often, The St. Paul Foundation).

We believe our distinctive competency vis-a-vis commercial entities is our community base and knowledge, coupled with "high touch," professional service and efficient transactional capacity. We do not believe it is necessary, possible or even desirable to compete tit-for-tat with the commercial firms on a transactional basis in order to be competitive.

How do you reconcile the fact that donor-advised funds, by nature, are more transactional than transformational?

ATLANTA Without a strong donor relations program (which is built around the community knowledge embedded in the program staff and our database), it will become purely transactional, and then, what real value do you add over a commercial gift fund? Conversely, with a strong donor relations program, it becomes entirely transformational.

MINNEAPOLIS If the program is purely transactional, we are little more than a charitable bank with staff serving as tellers, handling deposits and withdrawals. But through our convening function, with seminars, education programs and grantmaking opportunity matching programs, we add another dimension to our relationship with donors that can be transformational.

What trends do you see in donor-advised fund philosophy and donor behavior?

ATLANTA Donor-advised fund competitors will continue to come from everywhere—from United Ways, commercial gift funds, universities and so on. DAFs have become the preferred charitable vehicle recommended by professional advisors because of their inherent flexibility. This new demand will put immense pressure on community foundations to become even more "donor-centric."

However, I still believe community foundations must commit to their distinct success measures and plot philosophy from that point forward. I believe donors will want and demand more control, more information, more flexibility, more access, more personalized service, more value, more professionalism and more trust than ever before.

MINNEAPOLIS Fidelity's Charitable Gift Fund grew to $3.2 billion in its first eight years of existence, but the combined assets of community foundations also grew exponentially during this period; so it's hard to make the case that our field's market share has been eroded.

In fact, prior to Fidelity, most people had never heard of donor-advised funds. Commercial entities—and they prefer to be called *national donor-advised funds*—will continue to sprout like dandelions in a Lake Woebegone spring. Paradoxically, this may help strengthen the market position of community foundations that focus on their history, local governance, knowledge of community, high quality donor services and staff expertise. We may be uniquely positioned to stand out from the clutter.

Stuart Appelbaum is vice president of development at the Minneapolis Foundation, where he has worked for 11 years. Bryan Clontz has been vice president of advancement at the Community Foundation for Greater Atlanta since 1997. This article is adapted from a presentation they made together at last year's ADNET Conference in Tucson, Arizona.

BY DEFAULT OR DESIGN? YOU DECIDE

We believe the ideal course of action is first to develop a clear understanding of philanthropic mission, and second, to develop donor-advised fund policies and procedures that advance that end.

Recently, we've seen many community foundations bow to peer influences and external competitive forces without realizing that they are, de facto, changing their mission. For the foreseeable future, donor-advised funds will be the primary driver of growth at community foundations. For better or worse, it's critical to know where your community foundation stands.

Toward that end, we developed the following two-minute, diagnostic self-assessment worksheet.

• Do DAFs *clearly* support/enhance your CF's mission statement?	Yes	No
• Is being a philanthropic facilitator a *higher* priority than permanent endowment building?	Yes	No
• Do your DAFs allow:		
At least two generations of successor advisors?	Yes	No
Grants anywhere in the United States?	Yes	No
At least two investment manager choices (not allocation choices)?	Yes	No
Grants of $100 or less?	Yes	No
Grants more often than monthly?	Yes	No
Grants of 100 percent of the fund (i.e., nonendowed)?	Yes	No
• Do your communications materials/presentations list DAFs first when describing the various fund types?	Yes	No
• Does your CEO believe in the value of DAFs?	Yes	No
• Does your board believe in the value of DAFs?	Yes	No
• Does your program staff believe in the value of DAFs?	Yes	No
• Do you offer any special services to DAF donors?	Yes	No
• Do you primarily use the DAF with the ultimate goal being that it will be used by at least two generations, rather than the first step toward a discretionary fund?	Yes	No
• If a prominent local family with little philanthropic experience asked whether they should start a $250K unrestricted fund or a DAF (sorry, no other information), would you recommend a DAF?	Yes	No
• Have you reduced DAF stipulations (e.g., the minimum amount that must go to unrestricted, all the items listed in #3 above) rather than increasing them?	Yes	No

Key:

Score one point for each "Yes" answer.

0–6: If success is having more than 70 percent discretionary funds, while potentially foregoing many of your potential donor-advised funds to competitors, you are right on track. Congratulations for being so clear on your discretionary mission!

7–11: This is the waffle zone. Maybe you want to ride the fence, and that is certainly acceptable, but where do you want to be in 10 or 20 years? Those policy decisions should start now.

12–16: If success is having more than 70 percent DAFs, while potentially foregoing some discretionary funds in favor of building donor relationships, you are right on track. Congratulations for being so clear on your donor mission!

Remember, this worksheet is an overly simplified tool that tries to quantify extremely subjective issues in just 16 questions. Our hope is that the self-assessment stimulates strategic thinking.

—S.A. and B.C.