



TOOLKIT

WORKING WITH FOUNDATIONS



**Community
Economic
Development
Toolkit**

Disclaimer

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COMMUNITY ACTION PARTNERSHIP

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Working with Foundations

Introduction

The growth of community economic development over the last two decades was assisted by grants and support from foundations around the country. In large cities, groups of foundations came together to support basic core operations of nonprofit community developers. In rural communities, national foundations and local family and corporate foundations helped outstanding individual organizations to undertake new work and expand older programs. Many practitioners and observers point to these and other foundation supports as essential to the growth of the field.

Foundations got involved in community economic development because they saw its ability to change economic circumstance in so many lower-income communities. For the most part, foundations were influenced by the growth and production of nonprofit organizations working in the field – they were instruments that became trusted by foundations across the country.

And why did so many nonprofits go to foundations for support? Then, as now, most foundations (except perhaps for the largest ones) are more flexible and quicker to act than public agencies. As described below, a nonprofit leader could talk to foundation staff and executives and persuade them of the promise of new programs. Applying to most foundations is simpler than with most public agencies. And, often, they did not only make grants once a year.

In the several decades of work with foundations, some lessons about working with foundations become obvious. They relate to how you approach foundations for support, what you might expect, and how the various types of foundation differ.

Overall Lessons

Foundations are each individual entities. They each set their own policies, and have their own personalities. Unlike most public sector entities, you can't think you know them all because you have worked with one. Some work quickly, for example, while others are more contemplative and slower to act. But there are some common lessons learned from working with different types of foundations. For example:

- **You Must Do Your Research.** Each foundation has its own priorities; very few foundations fund some of every type of organization or every type of program in their community. So, you will need to determine what the foundations in your community like to fund, how much funding they typically provide to each recipient, and what their process is. For example, some smaller funders rely a great deal on personal relationships and long-term knowledge of the organization; other, larger organizations rely more on staff recommendations. But in both cases, it would be helpful to know who the foundation's staff and board members are – and

whether you and your board members know them. There is no substitute for doing this research as a first step. But, where to look...

The most comprehensive repository for information on most types of foundations may be The Foundation Center, located at www.foundationcenter.org. Nationally, the Council on Foundations is the “trade association” of foundations, and provides access to information on foundations, and has affinity groups of community and family foundations (see www.cof.org). Guidestar (www.guidestar.org) is also a national nonprofit organization that has done a great deal of research into nonprofit organizations and donors. While you will need a Guidestar membership to access its database, that base contains valuable information, such as foundation tax returns that can reveal who benefits from the foundation grants. You can also search for grantmaker councils in your state, area or region. Many of these councils assemble information on the philanthropies in their communities and make it available online.

- **Personal Relations.** In the world of foundations, personal relationships matter. Foundations – particularly smaller ones or community-based funders – like to kick the tire, and get to know and believe in the people running the recipient organization and its programs. That means that it is important to forge some relationship with foundation representatives – staff and board --- if you are asking for support. Ask your board and other funders you may already have if any of them know people at the foundations you are pursuing. Those friends can then provide some entry to the foundation, or can endorse your proposal. Or, if possible, even before you apply to the foundation try to talk with the foundation staff. Explain your organization, project and proposed outcomes, and ask the foundation for advice on the project and inquire as to their interest in this type of activity. Invite them to visit your programs. And, by all means, thank them for their time – and thank them and continue to communicate with them if they turn into funders for you. Unlike public agencies, sending just an annual report is not enough. They want to feel more involved in your work.
- **Timing.** Most foundations act quicker than the public sector. That is because foundations don’t have the same strict rules of public bidding, disclosure, or the need to curry favor with voters as government does. Smaller foundations often can provide funding decisions within a few weeks. Larger foundations may take a few months though, since they have more layers in their approval process. This is especially true if you are attempting to form a new relationship with a new funder, or are proposing a new program with the foundation.

But, persistence pays off, even in cases where foundations take a long time to tell you about a funding request. In the cases where the foundation chooses not to fund your organization, you have every right to ask why support was not provided. Although foundations are not subject to freedom of information requests, many times they do talk to applicants and give them feedback. If the decision runs against you, but you find some receptivity to you and your organization, apply again. Sometimes it takes applying a couple of times to get a positive response.

- **Reaction to the Recession.** The national recession that began in late 2007-early 2008 affected philanthropy in a big way. Most foundations have long invested their assets in securities, real estate and other investments that lost lots of money in the recession. Just as the average citizen lost significant amounts of money from their 401(k) accounts, foundations lost assets – and thus reduced their giving. One study of foundations (by the respected Indiana University Center on Philanthropy) indicated that foundation giving declined 7 percent in 2008 and 6.2 percent in 2009, representing the deepest dips in giving in the 56-year history of these COP studies. And, the same group suggests that giving may dip again in coming years, and not rise again until 2016.

So, how are foundations reacting? Many are not taking proposals from new applicants, but are pledging to work only with organizations already receiving funds. Some are concentrating more of their funds on basic human needs, and not funding experimental and auxiliary activities. And others have focused on providing core support for their allies in the nonprofit world, helping the groups withstand the effects of the recession. So, it is necessary to, again, do your research on who is funding what.

- **Accountability.** While the timing and process for securing foundation funding is usually less onerous than a governmental agency process, increasingly the foundation world is getting more serious about accountability for outcomes. Just as a grantee of federal programs must now demonstrate its accountability, foundations also want to see outcomes from their funding. In the case of foundations though, their outcomes may be different from those of government agencies. It isn't just about completing the project, but many foundations may want to know how people were affected by the work. For example, if your program is a jobs-development effort, the foundations may ask about income growth or financial stability of your recipients. If you are creating a business assistance fund, the foundations may ask about the number of jobs created or how the businesses interacted with one another to improve the community in which they are located. It is the human element that attracts them. In the case of corporate foundations, one measure of accountability will be opportunities provided in the project for their brand to be visible in the community.
- **Program Related Investments.** Last, virtually all foundations make grants, but some also give in other ways. One way – and a way that more foundations are using – in which foundations help nonprofit organizations is through program related investments (or PRIs). PRIs are low-interest loans made to programs that mirror the foundation's mission. The Ford Foundation, for example, has become a leader in the PRI field by investing millions of dollars from its base of assets to loans for affordable housing and other real-estate related programs. PRIs can be very useful for real estate programs especially when they result in more money coming into the project at key times (foundations that offer PRIs often will make loans at higher sums than a grant they might make). But PRIs can also work in some other programs, like a charter school where income to pay off the loan is assured through the contract with the school district, a health center, or to capitalize a business that has some contact income assured (thus useful as

collateral for the loan). Two national foundations that explain PRIs and what they invest in are the Calvert Foundation (www.calvertfoundation.org) and the Ford Foundation (www.fordfoundation.org).

Types of Foundations

It is important to know that there are several different types of foundations. They do not all operate the same, get their funding from the same places, or grant to the same things. While overall, each type of foundation is organized to offer support for charitable purposes, each type has its unique characteristics.

- **Corporate Foundations.** Many large corporations establish foundations to demonstrate good citizenship by sharing their profits, investing in the community – and in return getting a tax break. These foundations are often formed as charitable institutions registered with the Internal Revenue Service. Some corporations maintain their charitable giving as a program within their company. Regardless of how corporations establish their giving, corporate philanthropy is big business. In one study of corporate philanthropy, it was estimated that about \$10-billion was donated by corporate foundations in 2009, before the effects of the national recession cut profits among many companies. (see the website of the Committee Encouraging Corporate Philanthropy, www.corporatephilanthropy.org)

But the recession has had impact on corporate foundations. In many cases, these foundations are funded annually from profits made by the sponsoring company. With profits down, the foundations have suffered with less money with which to work. Some corporations, instead of making as many grants, are encouraging employees to engage in community-oriented volunteer activities and are increasing their gifts-in-kind activities.

In thinking of asking a corporate foundation for support, understand three things. First, in most cases, these foundations “are good corporate citizens” in the communities in which they are located or have a large presence. For example, they most often support organizations located in vicinity of their corporate headquarters or major locations, such as factories, regional headquarters, or major concentrations of stores. Very few corporate foundations give unrestricted money nationwide.

Corporate foundations may (or may not, depending on how they are organized) be legally independent of the corporation sponsoring them. However, often the foundations give money to causes associated with the corporate sponsor’s mission. Thus, the Home Depot Foundation has historically given significant funds to home repair and energy conservation programs. Bank-related foundations often provide funds to financial literacy campaigns, organizations doing real estate-related work (such as affordable housing). This suggests that a nonprofit organization seeking funds should research what the foundation has supported in the past to learn the

pattern of giving – and don't ask the foundation to give to causes unrelated to the mission of the foundation or its corporate sponsor. Quite often, the foundation's giving pattern – the type of grants and names of large grantees – can be found on its webpage.

Corporations and corporate foundations have long been active in supporting community economic development work. Within the Community Action network, for example, 84 Lumber has worked the last few years with several CAAs in Pennsylvania (where it is headquartered) and surrounding states to help the organizations expand their weatherization activities. The company provides lower-cost building and insulation materials, logistical help and technical advice to CAAs.

Since 2004, the Bank of America Foundation has annually sponsored the Neighborhood Excellence Initiative that provides grant and other support for successful and initiative nonprofit organizations in the Bank's service areas. The largest fund within the Initiative, called Neighborhood Builders, provides \$200,000 grants to two innovative nonprofits in each of 45 of the markets served by the Bank. The Initiative also makes grants to neighborhood leaders and student leaders working in lower-income communities.

Most corporate foundations, because they mirror the profile of their parent, also look to make grants that will give the corporation positive publicity. So, the more visibility you can give to the corporate donors the better. (This may or may not be true for the other types of foundations; that is a matter of individual institutional preference.)

- **Private Foundations.** Private foundations are legally constituted charities under Internal Revenue Service rules that have assets donated to them by private parties (usually individuals or families), and which then have to use those assets for the public good.

The Urban Institute's National Center on Charitable Statistics estimates that 120,000 private foundations exist across the country. They range widely in size – from the Bill and Melinda Gates Foundation, which had about \$36.7-billion in assets at its last reporting date, down to small foundations with assets in the hundred thousand dollar level. In fact, while in 2010, there were 120,000 private foundations registered with the Internal Revenue Service with the total asset base of over \$582-billion, most foundations are quite small. Over 58,000 had assets below \$1-million, and only 2,500 had assets above \$25-million.

A few things to know about private foundations: One, IRS rules require that private foundations spend at least 5 percent of their assets each tax year. That is, if a foundation had an asset base of \$10-million in 2010, in 2011 it would have to show that it expended – in grants and in costs to administer the grants -- \$500,000. (There are some foundations that provide more funds in grants than the minimum; some budget 6 percent or more. And, a few foundations purposely "spend" themselves out of business. That is, they were either established for a fixed

period of time, after which – according to the donor’s wishes – they will expire, or the foundation board has decided to phase itself out.)

The Kresge Foundation, one of the nation’s largest private foundations, was endowed by the family that made a fortune operating retail stores. For many years, the Foundation concentrated its work on capital projects sponsored by nonprofit organizations -- building schools, museums, office and community centers. More recently, it has invested large sums in its home community of Southeastern Michigan, including Detroit. It has convened other funders to multiply its own investment, worked with local agencies and governments, and funded a variety of programs to improve the economic life of this community.

The McKnight Foundation is a major funder throughout the Minnesota area. Having been endowed by the industrial giant McKnight family, the Foundation supports a variety of community development, arts, human services and other programs throughout their home state. One of their current efforts is to assemble support from a broader philanthropic and business community to assure that the multi-racial character of the University Corridor – running from downtown St. Paul, through the University of Minnesota campus to downtown Minneapolis – is maintained once a new rapid transit line is installed. This includes a number of efforts to support small businesses along the corridor.

Second, the donor who established the foundation – in most cases private foundations were established by wealthy individuals or families – also set forth guidelines on the types of programs or organizations the foundation could support. A donor could, for example, indicate that the foundation’s fund go to causes helping children and education, or community development in a specific city, or to multiple causes. Foundation boards give high deference to the wishes of the donor. Therefore, it is vital to research any foundation you may wish to approach for funding and find out its size, targets, and types/sizes of awards made. Look at the foundation’s website, or research them at foundation-research sites like www.foundationcenter.org.

Note that some private foundations are also labeled “operating foundations.” These foundations, instead of granting funds to other organizations, manage their own programs. For example, the Howard Hughes Medical Institute, with assets of almost \$15-billion, is often listed as the nation’s second largest private foundation, but it does not make grants to outside organizations. It uses its assets to operate its medical facilities for the public good.

- **Community Foundations.** A third type of foundation that can be approached to support community economic development is the community foundation. Most communities around the country have such entities – there are between 650 and 700 community foundation in the US. These foundations assemble charitable donations from their community (often, of course,

from the more wealthy residents and business people), aggregate the funds and then make grants to charitable causes and organizations in the community. In many ways, then, community foundations are intermediaries – between individual donors and nonprofit programs. The benefit to the donor is that he/she doesn't have to develop an expertise on who to support, or which nonprofit is most worthy. That work is done by the community foundation. For the nonprofit, the benefit is that you deal with one organization instead of many individual donors – and the foundation staff operates typically in a professional manner.

The Greater Cincinnati Foundation convened several other private funders in its home community to support the strengthening of nonprofit community developers and to seed some of their new economic development projects. The Foundation used some of its limited unrestricted funds to kick off this effort, and then reported on the program's success to its base of funders, hoping to get several of them to allow use of their restricted donations to the Foundation to continue to support community economic development.

The Cleveland Foundation is one of the oldest and largest community foundations in the country. It has a history of deep and broad support of the community organizations in the Cleveland area. It has funded individual organizations that have delivered a variety of community and human services, and helped to form a multi-funder supported "intermediary organization" – Neighborhood Progress Inc. – that has worked for the last 20 years to assist community-based groups to boost their program capabilities, fund projects, and advocate on behalf of improving the quality of life in Cleveland's many neighborhoods.

A few things to know about community foundations. One is that virtually all of them are restricted to using their assets in the community in which they are located. They do not give unrestricted funds outside of their community. In some cases, however, donors indicate that they wish that some of their funding be used in a broader geographic area (nationwide or worldwide) to address a specific issue. For example, a donor may give money for hunger issues worldwide, or for disaster relief nationally. Thus, you can talk to a community foundation in your locality for potential support – but don't expect support from the, say, Cleveland Foundation, for a new recycling business you may be establishing in rural California.

Second, is that most Community Foundations do not have access to large sums of unrestricted funds. Most donors to community foundations indicate what types of causes they wish to have their money support, such as education, children and youth, community development, arts, etc. This "restricted" money usually makes up the bulk of community foundation assets. Thus, the foundations typically look for programs and organizations to help use the restricted funds they have on hand. A few, however, have significant amounts of unrestricted money and look for issues, or organizations to build programs around.

- **Federated Funds/United Ways.** Many of us have seen United Ways in action for many years. In some ways, they act like community foundations in that they aggregate funding from a large number of people to put to work efficiently for the community good. Except that United Ways raise their funding from a larger, broader mix of people in the community – often including “workplace giving” (money raised through pitches made in the workplace, and facilitated by payroll deductions).

Currently, there are about 1,250 United Ways across the country – a higher number than community foundations. And, as the national system has grown, the role of United Ways has changed. For many years, they supported a large number of organizations and programs in their individual communities. Renewed support could be expected, as long as the recipient organizations delivered on their programs and filed appropriate reports. Nonprofit organizations in most communities sought United Way approval, since it meant continued funding and a “seal of approval” to use to help raise other money.

Starting about 20 years ago, several larger United Way organizations began working with other funders in their communities to develop “capacity building” programs for nonprofit community economic development organizations. In cities such as Boston, Denver, Philadelphia and others, United Way organizations helped to raise money from their donors to work in a coordinated fashion with local foundations and corporations to support the basic core operating costs of nonprofit community developers. The idea was to deliver such core money – for things like salaries, systems improvements, and training – at significant scale to groups that could promise success.

The United Way of Los Angeles has long been coordinating sponsor of one of the nation’s largest Individual Development Account programs. The IDA program supported the work of over 25 local nonprofits who provided financial education and matched savings to lower-income people across the Los Angeles metro area. As a result of the United Way work with its partners, thousands of families were assisted to buy homes, start new small businesses and pay for educational programs.

More recently, United Ways are being encouraged to be more proactive and examine community needs and fill in gaps – as opposed to being an intermediary of funds from individuals to nonprofit program operators. United Ways are also encouraged to work on a fixed set of “building blocks for the common good.” Thus, many United Ways now are concentrating their funding and work in three areas:

- [Education](#) – Helping Children and Youth Achieve Their Potential
- [Income](#) – Promoting Financial Stability and Independence
- [Health](#) – Improving People’s Health

Presumably, community economic development fits under the Income category.

- **Family Foundations.** Family foundations are a subset of private foundations, discussed above. They are private foundations that are set up by wealthy families as a way of channeling the family's contributions to causes or communities they identify. In most cases, family foundations act as the other private foundations – except most family foundations are smaller and may, therefore, not have any (or much) professional staff. In this case, personal relationships with family members (or their agents or friends) can be very important as the vehicle in to the foundation.

Family foundations are really just a subset of the private foundation category, and most family foundations are smaller than the typical private foundation. They also usually have less staff, and often no staff. And they often can only make smaller grants. In the Washington, DC area, the Moriah Foundation has long supported community-level programs and organizations.. One of its emphases has been on programs that help to organize low-income people to help solve, or advocate, for their own self-Improvement. In fact, community organizing is an area that seems to be attractive to some family foundations.

- **Faith-Based Programs.** Another potential source of foundation-type funding could be faith-based organizations. While not technically foundations, a number of faith-based funders act in similar fashion to foundations. That is, they have professional staff recommending funding decisions, they track and monitor their funding recipients, and they tend to provide multi-year support.

Given the recent recession and the longer-term trend toward lower church membership, faith-based funding has declined in recent years. However, some individual churches and congregations continue to maintain social justice and similar funds. In some localities, cross-denominational groups also exist to support social causes. One example is Micah, in Minneapolis, which brings together over 100 congregations from many faith backgrounds to work on affordable housing issues with funding, advocacy and technical help.

Some national or regional faith-based funders remain active, even though not as many as a few short years ago. The Catholic Campaign for Human Development and the Jewish Fund for Justice both fund programs and organizations helping low-income people organize for self-improvement. The Evangelical Lutheran Church in America operates a Church in Society program that offer funding and technical assistance in hunger, organizing and community development areas. Check whether the denominations active in your communities maintain any funding or technical assistance programs.

The Catholic Campaign for Human Development is one of the oldest faith-based funders in the country. It has distributed funds every year to nonprofits doing community

organizing and delivering basic human needs. The funds for CHD are raised from church offerings, and the national CHD review process involves local church officials.