

Governing Its Regional Structure: New Hampshire Charitable Foundation Operating Guidelines and Principles

Presented by:



Patricia Vasbinder
Consultant & Former Vice President & COO, New Hampshire Charitable
Foundation
Phone: 603-223-6944
Email: pvasbinder@earthlink.net

The Context:

New Hampshire

- 1.2 million Yankees
- You can get there in an hour.
- Wealthy and conservative
- No state income or sales taxes
- Economy:
 - Manufacturing
 - Wood products
 - Tourism

Live Free or Die

New Hampshire Charitable Foundation (NHCF)

- 40 years old
- Assets - \$238 million
- Contributions - \$31 million
- Grants - \$13 million
- \$3.5 million operating budget
- 40 staff members in 3 locations

NHCF Regional Structure

- 6 Regional Divisions — eventually 9
- One 501-C-3
- Ten person statewide board
- Regional assets = \$107 million

*Governance system designed to extract all the advantages of being locally rooted,
without losing the opportunity to work across regions, between regions and statewide.*

Why a regional division structure?

First and Foremost:

- It's all about being local: Community ends at your doorstep.
- Initial catalyst — NHCF Board Chair
- First regional division founded in 1983
- After 3 divisions established, a pause in 1994
- Wisdom of regional structure confirmed

Autonomy

Each Regional Division has:

Directors and Incorporators

Grant making

Development

Operating budget and staff

Annual meetings, public relations and newsletters

Logos and stationery

Some have offices

All have distinct personalities

The Structural Glue

- Regional Directors are NHCF Incorporators
- All funds held and managed by NHCF
- NHCF audit, legal, finance, technology and investment services
- All staff employed by NHCF

And, More Structural Glue

- Fiscal Policy Task Force
- Statewide Funding Partnership
- NHCF Board Nominating Committee
- Marketing and Communications Task Force
- Quarterly meeting of Regional Chairs & President of NHCF
- Annual Retreat of all Directors

Being part of the NHCF kept our beginner's mistakes at a minimum and our costs low.

Cultural Glue

- Required buy-in to Social Compact
- No competition for donors
- Commitment to full consultation on public policy initiatives
- Each division covers its own costs
- Each supports portion of operating costs for statewide organization
- High regard for staff and leadership

Everybody loves Lew (Feldstein, NHCF President)

Rules of the Road

- Social Compact: specifies *how* the work of the Foundation will be conducted
- Fiscal Policy Guidelines: specify who pays for what, and when and determines:
 - Annual operating budget
 - Foundation Fee
 - Allocation of income and expenses among divisions
 - Capacity of NHCF to form new division
- Fiscal Policy Business Plan Process: makes provision for planned deficits when growth opportunities exceed division's current operating capacity
- Statewide Funding Partnership: 10% of unrestricted operating funds of each division and NHCF pooled for joint grant making for statewide ventures

What's Been Tough

- Relationship intensive
- Expensive
- Difficult to balance autonomy and affiliation needs
- Yet to achieve benefits of synergy, such as a statewide community of philanthropists, or inter-region coalitions of like-minded donors

What's Been Great

- It works. Money raised local, stays local.

- Established regional divisions have raised endowments ranging from \$12 million to \$34 million.
- High support role of NHCF reduces barriers to successful launch of new divisions: Being part of NHCF kept our beginner s mistakes at a minimum and our costs low.
- Hundreds of people throughout NH are actively engaged in philanthropy.

Freshest Advice . . .

- Don t launch federation unless there truly is gold in them there hills.
- Don t pretend that this structure can succeed without significant incremental direct *and* indirect staff.
- Turnover in volunteer leadership means constant attention required to teach and reinforce values and operating rules of the road.
- Make roles and responsibilities explicit from beginning (including who pays for what).

Attachments:

1. Statewide Funding Partnership of the New Hampshire Charitable Foundation
2. The Social Compact of the New Hampshire Charitable Foundation
3. Fiscal Policy Task Force Guidelines
4. Fiscal Policy Business Plan Process
5. Fiscal Policy Business Plan Checklist

STATEWIDE FUNDING PARTNERSHIP OF THE NEW HAMPSHIRE CHARITABLE FOUNDATION

The Statewide Funding Partnership was established in 1996 as a means for all parts of the Charitable Foundation to cooperate in a joint grant making program to benefit *statewide* ventures. The purposes of the Partnership are to:

- Fund statewide or multi-regional institutions and programs that address issues affecting the quality of life in New Hampshire.
- Engage NHCF and the regional foundation in work on emerging issues of importance to the state as a whole;
- Expand our capacity to undertake statewide initiatives through coordinated action, focusing resources and leadership of the Foundation and the regional divisions to support projects with importance to New Hampshire.

The project is funded by contributions of 10% of unrestricted funds from each of the divisions (regional and NHCF) of the Charitable Foundation. We ask for a three year commitment from each of the divisions, in order to provide sufficient continuity of funding. The Statewide Funding Partnership is led by a task force with representatives from each of the divisions.

The Funding Partnership is currently involved with the Entrepreneurial Investing (EI) program. This experiment in high engagement grant making creates a multi-year partnership between NHCF and four high-potential non profit organizations to bring these organizations to a position of statewide leadership.

THE SOCIAL COMPACT OF THE NEW HAMPSHIRE CHARITABLE FOUNDATION

The New Hampshire Charitable Foundation is a statewide community foundation with regional divisions. The governing regional and statewide boards share values that give meaning and coherence to the institution's work. These shared values constitute the organizational DNA. The statements below are adopted by the statewide board and by each regional board as fundamental to building this vital philanthropic resource for New Hampshire.

- The statewide foundation and regional divisions are committed to serving broad charitable purposes and to building new philanthropic capital to serve the region and state.
- The Foundation's position as a strong voice for the philanthropic sector goes well beyond grantmaking. It includes involvement in public policy, engaging leadership to enhance the impact of funding and strengthening the not-for-profit sector.
- The full potential for service to New Hampshire is met through support for regional and statewide initiatives, as well as programs rooted in local communities.
- In all activities, statewide foundation and the regional divisions are committed to broad participation reflecting the great diversity of donors' interests and the genius of philanthropy to encompass different and unusual ideas.
- The Foundation encompasses a wide political spectrum and prohibits partisan involvement at any level. The appearance as well as the reality of non-partisanship is essential.
- Each regional division serves broad geographic areas with a population sufficient to support community-wide programs and development.
- Each division encompasses prosperous as well as less prosperous communities. The goal is to ultimately include all of New Hampshire within one or more regional divisions. The number of regional divisions will be designed so as to assure regions of scale and diversity and to contain costs system-wide.
- Regional boundaries are soft, enabling donors and applicant to define their own interests in aligning with one or more regional divisions. Donor requests to change their regional affiliations are respected.
- Interdependence: The parts of the Foundation are interdependent and mutually supportive. The statewide foundation has a stake in each regional division; regional divisions benefit from the strength and achievements of each other and the statewide foundation.

- The statewide and regional boards are committed to full consultation and dispute resolution before taking action that could materially affect another division or the Foundation as a whole.
- There will not be price competition among the parts for donors, assets or program opportunities.
- The value of having each part of the Foundation grow and succeed is explicitly recognized. Opportunities will be distributed throughout the system to serve this goal.
- The financial obligations of interdependence:
 - Commitment to operate as a lean organization so as to devote the maximum resources to charitable purposes
 - Respect for the financial and operating impact of each proposed activity on overall costs
 - Agreement to participate on a fair share basis in supporting costs of the full system
 - Agreement that regional divisions will fully cover their direct operation costs over a phased-in schedule following a start-up subsidized by the statewide foundation
- The Foundation has a special obligation as guardian of charitable resources to:
 - Adhere to rigorous policies on conflicts of interest
 - Make all elements of this structurally complex system user friendly to applicants and to donors
 - Respect those seeking grant and scholarship support, through clarity of guidelines and information, quick and complete responses to inquiries, honesty and civility in dealing with all publics, and the avoidance of unwelcome intrusion or advice.

Final Plan adopted:

GPCF: 12/15/94
LRCF: 12/08/94
MCF: 04/16/97
MRCF: 09/27/00
NNHF: 11/14/94
UVCF: 12/15/94
NHCF: 12/21/94

Changes Adopted:

12/14/00
6/14/01
Anticipated 12/01/01
09/27/00
11/30/00
12/14/00
11/15/00

FISCAL POLICY TASK FORCE GUIDELINES

The New Hampshire Charitable Foundation has 6 regional divisions: Greater Piscataqua, Northern New Hampshire, Lakes Region, Upper Valley, Monadnock, and Manchester Regional Community Foundation.

Role of Fiscal Policy Task Force

The mission of the Fiscal Policy Task Force (FPTF) is to recommend policies to the Directors of the New Hampshire Charitable Foundation and its regional divisions to ensure that there are sufficient operating resources for the Foundation to function effectively as a statewide philanthropic leader. These policies address such issues as:

- The foundation fee charged by the Foundation
- The allocation of resources and expenses among the divisions of the Foundation
- The ability of the statewide organization to undertake the formation of new regional divisions
- The construction of an annual operating budget

The FPTF consists of a representative from each regional division and the Board Chair and Treasurer from NHCF. FPTF meets four times a year, with these agenda priorities:

- Winter Meeting Review year-end financials
 Current year budget reforecast based on year-end actuals
- Spring Meeting Focus on strategic issues
 (issues range from cash management to competition from banks and brokerage houses to staff allocation)
- Summer Meeting Update of 3 year rolling expense and income projections
- Fall Meeting Next year s operating budget

Our system of allocating income and expenses strives to accomplish the following:

- Is equitable — supports new divisions while recognizing the contributions of current divisions.
- Provides an incentive for directors accountability for operating budgets
- Strengthens NHCF as a statewide system by engendering trust among NHCF regions
- Passes the simplicity test - can be readily understood

Income Allocation

- NHCF and regional divisions will each receive the foundation fee for assets they hold (the exception being UVCF, in which case NHCF retains the foundation fee for those assets transferred to UVCF at its formation).
- NHCF and regional divisions will each receive that portion of income from Short Term Investments which is based on each region's asset size as a percent of the whole.
- The primary source of income is the foundation fee taken on permanent assets. This fee ranges from 80 BP to 120 BP, with the average being approximately 100 BP. The foundation fee is assessed quarterly and is calculated based on the average market value of the endowment fund over the last 20 quarters. Funds held by NHCF which have been established by donors residing in the area where a new regional is formed will remain as an asset of NHCF. If a donor requests that his/her funds be transferred to the new regional, this request will be considered by the Fiscal Policy Task Force.
- NHCF and regional divisions also solicit Director and Incorporator gifts each year to offset operating costs.

Expense Allocation

- Each organizational entity (NHCF and the regional divisions) has an operating budget. The operating budgets must be approved by each of the respective organizations annually after review and approval by FPTF.
- Each region is responsible for the direct costs of operating that region. In addition, system-wide costs (the cost of running the statewide foundation, which are identified by the FPTF) are apportioned based on the percent of total NHCF assets held by each region. For example, if LRCF assets comprise 7% of total assets, LRCF would pay 7% of system-wide costs in addition to LRCF direct expenses.
- Salary expense is the largest expense of the Foundation. It is allocated each year based on the percent of time each staff member spends on the work of each region and on running the organization as a whole.

Operating Reserves

- The goal is for NHCF and each region to construct a balanced operating budget annually. However, in the early years of a regional division there may be times when operating expenses exceed income. In addition, any unit may have a planned deficit for investment spending for a given year with the approval of the Fiscal Policy Task Force. Regions that construct a deficit budget will be asked to implement the Fiscal Policy Business Plan Process (see separate document attached).

- Any surplus of income over expenses remains with the region that generated the surplus in the form of an operating reserve.
- Any operating deficit remains with the region that generated the deficit in the form of a charge to that region's operating reserve.
- Directors have the option of carrying the deficit (with Fiscal Policy Approval), or of eliminating the deficit by increasing gifts to operating expenses.
- It is recommended that each region build an operating reserve equal to at least 10% of its annual operating budget. Funds accumulated in the reserve in excess of this amount can be transferred to the operating endowment of that region.


Funding of New Regions

- NHCF will underwrite the cost of the preliminary organization of a new regional division from the time this organizing effort is authorized by the NHCF Board until the division is formally established as a unit of the New Hampshire Charitable Foundation by the Directors of NHCF.
- Once the new division has been formally adopted by NHCF, the division becomes responsible for its direct operating expenses, but not system-wide expenses, for a period of up to two years.
- Each division will be responsible for both its direct operating expenses and its share of system-wide expenses two years after its formal establishment by the NHCF Board of Directors.
- A new regional division should have the potential of achieving assets of \$10 million in 10 years.

OPERATING COSTS OF REGIONAL DIVISIONS

NHCF votes to formally establish division:

PHASE I	PHASE II	PHASE III
NHCF covers <u>all</u> costs.	-Divisions covers direct costs. -NHCF covers regional portion of system-wide costs.	Division covers: - direct costs and - regional portion of system-wide costs.
PRELIMINARY ORGANIZING	UP TO TWO YEARS	BEGINNING 3RD FISCAL YEAR



FISCAL POLICY BUSINESS PLAN PROCESS

The issue of how best to support regional division growth was discussed at the Directors Retreat in October. Feedback from the Retreat showed that Board members would like to see some flexibility as to how Fiscal Policy Task Force guidelines are applied to each Region. The Foundation would like to proceed in a way that encourages growth to continue at a level of controlled risk.

A working group of staff and Fiscal Policy Task Force members have developed some preliminary guidelines that a Region should follow when considering using a deficit to fund growth.

The goal is for NHCF and each region to construct an annual operating budget with an acceptable level of risk in light of growth opportunities. Any region may have a planned deficit for investment spending for a given year with the approval of the Fiscal Policy Task Force and the Regional Board. In addition, in the early years of a regional division there may be times when operating expenses exceed income.

If a regional division wants to incur expenses that cannot be funded by its operating reserves (this assumes reserves in excess of 10% of the current operating budget), a business plan needs to be prepared. Exception: new regions should strive for an operating reserve balance of at least 10% of their current operating budget within a 5-year period. *The primary purpose of the business plan is to assure the Directors of the regional division that the proposed spending is in the best long-term interest of the division.* The secondary purpose of the business plan is to gain the approval of the Fiscal Policy Task Force. The Business Plan should tell a compelling story. Finance staff and the lead regional staff person will work with the Board to develop the Plan.

Increases in regional staffing should initially be approved by the appropriate department head and senior management. The financial impact will then become part of the region's budget, which will be subsequently approved by the Fiscal Policy Task Force.

The Regional Board Chair and Fiscal Policy Task Force Representative will then present the Plan to the Fiscal Policy Task Force at the next quarterly Fiscal Policy Task Force meeting (the plan should be sent in advance of the Task Force meeting). If the Plan is approved by the Fiscal Policy Task Force, the financial impact of the Plan will be integrated into next quarter's budget reforecast.

FISCAL POLICY BUSINESS PLAN CHECKLIST

The Plan needs to address the following issues:

1. Has the Regional Board accepted the plan?
2. How will this strategy help the Region grow?
3. For what time period will NHCF be asked to fund the plan (i.e. allow the Region to incur a deficit)? This typically should not exceed 3 years. Reminder: the surplus or deficit generated by each region remains with that region.
4. Will the Region have a cumulative positive balance in their reserve account and an operating budget surplus at the end of three to five years?
5. How will the plan be funded? Is the Regional Board willing to either cut expenses or increase fundraising (or both) to support the plan?
6. How much of the funding will be committed before the plan is undertaken?
7. What will be the additional expense (source and estimated amount)?
8. What and where are checkpoints to measure progress of plan (there should be checkpoints every 6-12 months)?
9. What options does the Region have to adjust the plan if funding needs are not being met (i.e. What is the alternative plan if progress is not occurring)?
10. Financial projections should be provided for each year of the plan including:
 - Investments
 - Contributions
 - Grants
 - Operating surplus (deficit)
 - Balance in operating reserves

Fiscal Policy Task Force will review the Plan with the following questions in mind:

1. Is the plan realistic?
2. How secure is the source of funding?
3. If funded from increasing assets, does the increase follow historical trends or what is the basis for assuming additional assets can be raised (i.e. if we hire additional development staff, we will raise more contributions, but is the projection of new gifts to be raised reasonable based on our track record)?
4. If funded from operating gifts, what percentage has already been received or committed (i.e. does the plan have Board member/donor support)?
5. If additional staff are requested, is it possible to outsource work rather than hire permanent employees? With the exception of development staff, it is recommended that supplemental staffing levels be achieved through the use of consultants, rather than through an addition to permanent staff. If, however, the regional division recommends increasing permanent staff, the staff member would be an employee of the Charitable Foundation.
6. Will the deficit reserve balance or operating budget be cured within three to five years?
7. Is there a backup plan if funding is not achieved?