Brown ADVISORY
Thoughtful Investing.

COMMUNITY FOUNDATIONS

CHALLENGES AND SOLUTIONS

On the surface, endowments and foundations are all pursuing similar goals, such as preservation of capital and ensuring income to cover spending needs. But if you look deeper, you will see that there are many different types of foundations, and that each of them faces unique challenges.

This is especially true for community foundations. Compared to other nonprofits, community foundations enjoy distinct flexibility in pursuing programmatic goals, thanks to the variance power granted to them by law and the multiple types of component funds they can operate. But they also grapple with specific issues such as balancing the goals of their donors with their own programmatic priorities, and carefully managing their varied income streams from fundraising, fund administration and other services.

Brown Advisory has deep experience working with community foundations, and we help our clients work through these challenges with plans and strategies that fit their specific situation. Colleagues on our client teams have served as executives, trustees and committee volunteers at community foundations, and collectively contribute to the knowledge base within the firm.

Amy Seto, CPA
Endowments and Foundations Senior Advisor

Amy is a partner and Endowments & Foundations senior advisor at Brown Advisory and she serves as a resource to our client teams in leading a best-in-class service model for endowments and foundations clients. Prior to joining the firm, Amy was the executive vice president and chief operating officer at the Baltimore Community Foundation where she held various executive, operations and financial management roles during her 13 years of tenure.

EVOLVING WITH THE COMMUNITY'S NEEDS

CHALLENGE

Communities are always changing, and the issues that garnered attention—and nonprofit fundraising and grantmaking—5 or 10 years ago may not be the issues that matter most for the community today. From social unrest to environmental crisis to health epidemic, community foundations provide a forum for community convening, financial stewardship and deployment. This is why community foundations are granted variance power by the Internal Revenue Service—this flexibility lets them essentially re-designate funds contributed for one purpose, and use them for another if it is deemed in the community's best interest.

But when should foundations use this power? Community stakeholders may disagree on key priorities, and even in cases when there is a dire need, a community foundation risks alienating its donors if it does not use its variance power with extreme care.

SOLUTION

Brown Advisory helps clients approach decisions from a risk management perspective. Issues are seldom black or white; most fall in the grey area. For example, we work with a community foundation that established an agency endowment to benefit a local opera company. When the opera company closed its doors, this foundation decided not to make further grants to the company, as those grants were likely to be seized by creditors; instead, the board of the trustees chose to support a similar musical theatre serving a similar lower income audience. The decision was made after careful consideration of legal liability, social responsibility and donor intent.

INVESTING FOR DIFFERENT GRANTMAKING TIME HORIZONS

CHALLENGE

A community foundation can provide multiple avenues for community impact, through the various component funds it administers. In addition to several or many endowed funds that a foundation might manage on a discretionary basis, most community foundations also administer non-endowed donor-advised funds (DAFs) for many different donors, with each of these funds supporting different local nonprofits and causes.

All of this flexibility can create meaningful complexity for the foundation's investment committee. It is fairly common for dozens or even hundreds of component funds to be managed under one or two commingled investment pools, and because each fund has a different grantmaking horizon, the task of planning for the spending needs across all of these funds can be quite daunting even for experienced foundation boards.

SOLUTION

Brown Advisory has a great deal of experience managing investment pools that need to support a variety of short-term and long-term obligations. Key issues include the types of funds in the investment pool, the timing and trends of incoming gifts and outgoing grants, the frequency of administrative fee collection and the community foundation's overall financial position and risk tolerance; all of these will influence the asset allocation policies and investment strategies we recommend.

MANAGING COMPLEX AND SEASONAL INCOME STREAMS

CHALLENGE

Community foundations generally collect a large portion of their income from the fees they charge to their component funds for administration. These fees are rarely enough, however, to completely sustain community foundations, and most draw from multiple income streams such as fees for grantmaking services, income/withdrawals from endowment funds, fees for serving as fiscal agents for other entities, and supplementary fundraising.

Managing a complex web of operating and non-operating income comes with its own set of challenges. Timing of these fund flows is often choppy, and foundation boards may need to adequately plan for uneven cash flow with reserves, lines of credit and other tools.

SOLUTION

Brown Advisory offers broad knowledge to assist community foundations with developing and managing income streams. In addition to our portfolio management solutions, we can help clients review financing options for operating or capital needs; we have preferred lending relationships in place with several leading financial institutions and our registered municipal advisors can consult clients regarding their refinancing needs. Many of our colleagues have spearheaded fundraising campaigns, and bring that knowledge and experience to working with community foundation clients.

SERVING DISTINCT DONOR-ADVISED FUND OBJECTIVES

CHALLENGE

Community foundations offer donors a fairly unique benefit: They can help donors create a custom philanthropic program, primarily through setting up and administering scholarship funds and DAFs, and providing guidance when desired with regard to directing grants to worthy local nonprofits or schools.

The DAF market is more competitive today than it was decades ago, as modern donors can also choose to set up these funds directly with investment firms. Community foundations work hard to stay relevant to donors and connect them to critical community issues. Nonetheless, staff resources to support impact investing are often limited, compared to what the commercial DAFs offer.

SOLUTION

Brown Advisory has a long-term commitment to sustainability principles, and to the prosperity of our clients, colleagues, communities and society at large. Understanding that each community foundation—and each donor—will think about impact differently, we help our clients build partnerships with their donors by structuring investment pools or separately managed accounts that can serve the foundation's mission as well as the donor's priorities. For example, we have clients who may want a multi-asset impact pool versus a single strategy pool. Underlying investments may include diverse managers, loan guarantees, affordable housing investments, green bonds and private credits.

CONCLUSION

Every community is different, so every community foundation faces slightly different issues from others. Brown Advisory's "listen first" approach means that the solutions we propose for your community foundation are completely tailored to your needs, from the investments we recommend for your portfolio, to the structures we put in place to partner with your staff. We welcome the opportunity to speak with you about the challenges you face, and about how we might be able to help.

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