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*Join Us in Our
Continuing Discussions*

How can funders nurture long-term relationships with grantees without fostering dependency? And how can grantees prepare for the almost inevitable departure of key funders? This issue considers ways to ensure that funders and grantees are working together to establish proper mechanisms for long-term sustainability.

We're interested in hearing from you on this topic. Send an e-mail to info@wolfkeens.com or fax a response to 617.679.9700. We'll post your comments in the Publications section of our web site, located at www.wolfkeens.com.

Working Paper

Donor Diversification

The Challenge of Single-Source Funding

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Some nonprofit organizations have been created by funders. Others are heavily subsidized by a single funding source. In both cases, those providing the money are the lifeblood that keeps a valued effort going. This *Working Paper* addresses the challenges that arise for funders and nonprofits alike when the decision is made to significantly reduce or terminate support.

More often than not, the time will come when a long-time funder is no longer willing or able to fund an organization at such a high level. Even the most generous donors' priorities may change over time, or their resources become more constrained. Foundation board members may feel that funding needs to be capped, as there are too many other worthwhile organizations and needs to be met.

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Particularly as foundations have seen their budgets fall over the last few years, it is harder for them to commit significant sums annually to the same organization. The same is true for individual donors. The irony is that many of the recipients of concentrated, long-term support have built very effective programs. Financial stability enables these groups to focus on their substantive work and often to expand the scope and impact of their programs—indeed, often beyond the capacity or interest of the original funders.

What these organizations don't necessarily do well is build relationships, communications, staff, and systems that would enable them to seek funding successfully from other sources. When the angel finally says, "Enough!" organizations are not ready.

Diversifying the funding base entails a complex and long-term effort to adjust board, staff, and

organizational practices to fit a completely different funding model. It means adopting what we like to call a "culture of fund raising" that recognizes that almost every organizational activity has a strategic implication for resource development.

Our conclusion from working with many clients who have faced this dilemma on both the giving and getting side is that both the grantors and grantees need to think about long-term financial independence *from the very beginning*. Funders that incorporate capacity building as part of their original investment will have a greater chance of seeing their organizations flourish "outside the nest."

We turn to three individuals who have experienced such situations from both the funder and grantee perspective . . .

Lee Salter

President, McConnell Foundation

The McConnell Foundation's experience with Turtle Bay Exploration Park, a Redding-based interdisciplinary museum and arboretum, demonstrates how difficult it is for a lead funder to anticipate the future. Turtle Bay involved the creation of an \$80 million campus and a new organization, highlighting the redevelopment of choice waterfront on the Sacramento River that also included an artistic bridge, designed by Santiago Calatrava. Our foundation knew the exploration park, arboretum-gardens, and bridge projects would transform the region.

Because Turtle Bay Exploration Park involved the merger of several organizations, we were confident that there was considerable volunteer and community support. We also counted on ongoing public support from the City of Redding. We paid for a business plan that helped us determine the likely limits of our contribution.

But no one can predict the future. The bridge, con-

necting two parts of the campus, was delayed for three years and the arboretum is still not completed. This affected operating income and the size of projected deficits. Changes in staff leadership didn't help. So instead of diminishing our funding, we had to increase it. Perhaps we could have monitored the situation more carefully. In the end, a working group was assembled from Turtle Bay, our foundation, and the City who worked with consultants from Wolf, Keens to put together a revised plan.

Flexibility has had its advantages. A successful appeal for substantial grant funds has allowed us to shift \$8 million that we had anticipated putting into capital construction into an endowment that will soon reach \$15 million. In this and many other ways, our efforts to work together are ensuring that the foundation's long-term commitment will be reduced and Turtle Bay will thrive.

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Marian A. Godfrey

Director, Civic Life Initiatives, The Pew Charitable Trusts

One way that a funder can minimize the risk of creating an unsustainable program or organization is to design and fund initiatives that have a built-in beginning, middle, and end. Such programs must have clearly identified objectives, with activities that can deliver results within a defined and reasonably limited time frame. But even when such programs successfully achieve their goals, it can be wrenching for highly effective project directors and staff to say goodbye to a successful program and move on to the next challenge. The best one can expect is to recognize the opportunity and build in an appropriate “soft landing.”

For programs designed to fill an ongoing need and that therefore don't fit the time-limited model, planning for sustainability and diversification of

funding should be built into the requirements of the very first grant — and the lead funder(s) should closely monitor project development to make sure that the need for such planning is understood by project staff and that it is undertaken in a timely way. Business planning and the development of fund-raising strategies can indeed seem like an unwelcome intrusion to staff who are completely committed to getting a program up and running and to achieving its goals. But any grantmaker may find that changed circumstances require the premature diminution or ending of expected financial commitments. Rather than let projects and project staff be stranded, the founding donors can push for early diversification of funding and help with fund raising from others.

B.J. Adler

Executive Director, Alliance for Young Artists & Writers

The Alliance for Young Artists & Writers was created in 1994 to take over the administration of The Scholastic Art & Writing Awards that began in 1923 as a corporate affairs initiative of Scholastic Inc. The impetus to create the nonprofit was the need to attract additional donors to a worthy program that had grown beyond the founding donor's ability to serve as the exclusive funder on an annual basis. In the early years, the Alliance was like a zoological society that had only a two-ton guerilla in a cage — Scholastic, Inc. Little progress was made on expanding the donor base until the Alliance and Scholastic, Inc. engaged in a critical partnership to build the expanded community of support collaboratively.

Equally important was the need to change the external image of Scholastic as our sole donor, being

sure to recognize our new sponsors and donors for their unique contributions. A professional development department was a crucial step, as was the decision to embrace development as a relationship-building activity rather than simply a fund-raising tool. Strengthening the board has been key to opening doors to foundation officials and high net worth individuals. Our new development efforts have determined the growth potential of each of our revenue sources (corporate, foundation, individual, and government) and designed targeted approaches and donor programs that are promoting long-term relationships and contributed income. While we're not exactly the Bronx Zoo yet, the gorilla now has robust companions, while still feeling like he is the main attraction!



USEFUL INFORMATION

In March of this year, Wolf, Keens & Company conducted a follow-up to a 2003 survey of 26 Local Arts Agencies (LAAs) for Americans for the Arts (AFTA). The survey was designed to refine the picture of the stresses—and successes—LAAs are dealing with during these challenging times and how they've shifted in the past year. AFTA has recently published a Monograph on this fascinating research. “Local Arts Agencies: Creating Opportunity in Challenging Times” is available at the Publications section of www.wolfkeens.com.

Learn more about the work we do at www.wolfkeens.com, where you can print additional copies of this and other issues of the highly regarded *Working Paper*.