Please note: This is a transcription so there may be slight grammatical errors.

Hello and welcome to Mission and Markets, a podcast by CAPTRUST, where we explore trends and best practices for endowments and foundations related to mission engagement, fiduciary governance, and investment management hosted by CAPTRUST. It's Heather Shanahan, director of the Endowments and Foundations practice.

Each episode shares research, resources, and recommendations from industry insiders so your nonprofit can focus on what's most important, the mission.

Heather Shanahan: Welcome to our latest episode of Mission and Markets. I'm your host, Heather Shanahan, and today we are going to talk about all things community foundation related, because we certainly get a lot of questions and there are a lot of fantastic organizations across the country that range from small to very large that are doing great work in our communities.

Today I'm joined by three experts in this arena, Bill Altavilla, Jim McCallum, and Matt Doyle. I'm gonna ask the three of them just to briefly introduce themselves. I'll start with Bill.

Bill Altavilla: It's great to be here. My name's Bill Altavilla. I'm in Folsom, California. I'm a principal financial advisor with CAPTRUST. My background is pretty specifically to planned giving.

Heather Shanahan: Thank you. Also from California, we've got Jim McCallum with us today. Jim, tell us a little about yourself.

Jim McCallum: First of all, I'm, the former CFO with the Sacramento Region Community Foundation. And I've been in this arena for over 20 years. My background: I'm a CPA, in tax estate planning, also financial planning, but I've also done some other things. I've been in the insurance arena, both in the life health side and also the special risk side.

Heather Shanahan: Wonderful. Welcome. Finally, also joining us from CAPTRUST, Matt Doyle. Tell us a little bit about you.

Matt Doyle: Absolutely. Tampa, Florida. Seventeen, 18 years ago I joined CAPTRUST;

at the same time I started working more and more on the institutional side. And it's kind of a unique marriage between institutional investing, but very centered on individual donors and their personal situations and planned giving and tax-efficient gifting. So I have a foot in both worlds, which makes me a little bit unique to that approach.

Heather Shanahan: Thank you, all three of you, for being here with me today. Let's go ahead and get started. Jim, you began in the community foundation world with a smaller foundation that, if I understand correctly, was started by a single family and grew it to about 30 million from a start of around five. What can you tell us about fundraising and resource mobilization?

Jim McCallum: Well, there's a lot of small community foundations out there, and sustainability is the biggest issue for not only a community foundation but any public charity. And what we would try to do is spent a lot of time, on the donor side, we would look to donors who really didn't understand what a community foundation was.

We would talk about the opportunities through different vehicles—could be the donor-advised funds, we could do legacy-type programs, scholarship programs. And it was like the best-kept secret in the community. And so a lot of our outreach was to local donors in these areas where they could actually plan their estate through the donor revised fund or a scholarship fund. And then we also spend time with the local nonprofits because we would work with them to allow them a vehicle to invest their funds through the endowments that we had.

Heather Shanahan: Matt, Bill, I know you have been part of growing foundations from something small to something larger. What would you add to that in terms of resource developments and how they connect?

Matt Doyle: I would echo Jim's comments. Community foundations are like witness protection for effective planned giving. The hardest part is getting out there and telling the story and making people understand it's not your traditional, as in your case, you know, Ronald McDonald House, where you have a very simple story to tell.

In the community foundation space, a lot of times you're having to either go through wealth advisors, directed donors, direct to estate planning attorneys, and CPAs. There's a lot of different doors that you can walk in and approach. And part of becoming and getting that critical mass is being able to effectively tell the story.

So telling that value proposition, getting the right people involved that can get the message out in the community that have the respect of the community, is critical in terms of being able to grow a $5 million or a $10 million foundation into a $50 million foundation. I had a boss one time that said that you never get to being a $20 million foundation from 10 with market returns. Now you get there by fundraising and communicating and getting people to buy into the story. Any type of successful effort in growing a community foundation is heavily dependent upon that value proposition and getting the right partners involved that can help you tell that story.

Heather Shanahan: I totally agree it's very hard to get the word out, but the other piece that I've learned over the years is the fact that some of the agency funds that were started at different foundations, initially those agencies thought that the community foundation was a competitor.

Bill Altavilla: And it took a lot of marketing and education to get through to those organizations that we truly can partner with them, or the community foundation can partner with them from the standpoint of being sustainability. As Jim mentioned earlier from the standpoint if the community foundation could do the back office, manage the funds and so forth.

And all they have to do is worry about what they're doing on a day-to-day basis. And so through doing different plan giving, presentations to them, so they understand how they could potentially add to their funds at the foundation. It was really critical to move forward with them, to make them understand that the community foundation is really there to help them and is not in competition with them, in any way, shape, or form.

Heather Shanahan: That makes sense.

Jim McCallum: Heather, can I add just one thing? I want to emphasize something that, that Matt was talking about: resources. In my opinion, I think the, one of the greatest resources the community foundation has for fundraising is the board.

Heather Shanahan: And I think boards are underutilized. I think a lot of organizations are afraid to ask the board members to fundraise, and it is the board's obligation to fundraise because they are technically the owners of the foundation. The area here, and again, they don't need to ask. It's introducing the foundation to their peers. And so I think the board plays a critical role as a resource.

As you're talking, I was thinking about a client that we have. It serves multiple counties, which isn't unusual for community foundations, especially in more rural areas. And I think there's the public perception, because there's somewhat depressed economy in these markets, that they've got plenty of money and don't need help.

How do you dispel that? How do you—and I agree, it goes back to board members that are typically visible in the community. How do you dispel that conversation?

Jim McCallum: That's a big education. Yeah. Everybody says, ‘Oh my gosh. It's just you've got all these millions of dollars and got plenty of money’, and they don't understand the concept of restricted funds. When we look at the unrestricted dollars most community foundations have, it's very small.

It's a very little number because most of the funds are restricted, don't advise funds. It may be scholarships, may be agency funds, but the actual funds available to the foundation for these discretionary grants usually is a very small amount.

Heather Shanahan: Right. That's a great point. So we've talked a little bit about smaller foundations. What about big ones, and how does that conversation differ? Jim, I know you, by the time you left that space, were part of a much larger community foundation with Sacramento Regional. How does that look different? How do those conversations differ?

Jim McCallum: I think the big issue between us and the smaller foundation is the sustainability and specifically in the ability to cover your operating budgets with your administrative fees.

That, that's huge. We were very fortunate; 75% of our funds are endowed. Now that's like just reverse of most things. So because of that, we were able to on average cover 97% of our operating budget through our administrative fees. The larger foundations can do this. They have the ability to cover this. That's the difference between the two is that they can cover administrative costs, operating costs where the smaller ones struggle.

Heather Shanahan: And, so again, that, that's an area, the bigger you are, the more zeros you have, the, the easier it is to, to cover the nut.

Matt Doyle: I will tell you that the difference between small and larger a lot of times is staffing. That staffing is so incredibly important to delivering on your value proposition, right?

I've started with community foundations that had $5 million and it was a single executive director, and they're trying to run around and raise money, build an investment platform, communicate with donors, research different 501(c)(3)s that the donors are asking them about the number of hats that they have to wear. It's just immense, right?

So every time as you gain traction, as your board introduces you to people, as you bring on staff, you have the opportunity at that point to hire somebody that can be your concierge philanthropist that sits down with a donor and says you have a special need or a desire to give as it relates to children's literacy.

Jim McCallum: That's a great point. Because we talk about the two different models, a staff model or a committee model. And when you're a small foundation, you build your board based on expertise to fill those gaps. And then as you grow, then you do have the in-house staff to, to, because yeah, that is critical because like you said, most small ones, you have a, an ED or a CEO. And maybe an office person, and they're running in circles. They're handling everything.

Bill Altavilla: Yeah, and I think you also add committees to that. So you create different committees to try to create the expertise from outside the organization, such as an advisory committee where you have attorneys, CPAs, and so forth, and you leverage them to help you generate gifts out of other CPAs, attorneys, financial advisors, and so forth.

And SAC Region actually has a philanthropic advisors forum where there is a network where on their website they have all the people that are members of this networking group, and it's by profession. And so not only are they helping the organization raise funds, they're also doing a little marketing on the SAC Region website.

So that gives them the ability to, one, network with other professionals and, also, have annual events or three times a year they have an event where it could be CEEs offered and those organizations network with people, have a little wine and cheese, and bring them in. And then on an annual basis, they have a program where they recognize the people that have referred funds to the organization, which is what's called a bridge builder.

Heather Shanahan: Let's back up a step for folks that may be listening that aren't as familiar with community foundations. How do these even get started in the first place? What do you see? What, how are the different ways that these organizations come to be?

Jim McCallum: I've got two stories, and these are two foundations I work for. The first one is El Dorado Community Foundation, and they're located in Placerville, California. And they got started because Sacramento Region Community Foundation kept taking their donors.

And so El Dorado said, ‘Wait a minute, we gotta start our own community foundation.’ So when I worked with El Dorado, it was like, oh, Sacramento's the bad word. That's the, that's the, evil, evil twin sister, or whatever you wanna call it. Sacramento got started through the Junior League of Sacramento.

Heather Shanahan: The Junior League was very active in the community and they kept asking for funds. Finally, they said, ‘Hey.” They got tired of Sacramento Junior League asking for this money. They said, ‘Why don't you start your own community foundation and then you can do it on your own so you don't have to come asking us for money all the time?” Those are two stories on how some of 'em get started. That's interesting,

Matt, Bill, whichever one of you wanna take this one. Community foundations are entrusted with managing charitable funds for public good, as we've just demonstrated. Transparency in financial management is critical, yet it's often a struggle with multiple advisors and multiple donor-advised funds, separately managed pools of capital.

How do you help organizations keep it all straight and how do they take all of that and extract a good story to tell?

Bill Altavilla: Wow, that's the $60,000 question, right? Absolutely.

Matt Doyle: Twenty years ago when I kind of first got started doing this, it was kind of one 70/30 pool at the community foundation. I fast-forward to today, and I would say that there's two things that a community foundation needs in order to give itself the most flexibility to grow.

And the first one is that you've gotta have the ability to offer multiple pools of capital on a very cost-effective basis. And I tend to think of like the referrals that come in from CPAs and estate planning attorneys and that, that type of thing, as being perfect for one of five different portfolios, right?

It could be a 30/70, a 40/60, et cetera, et cetera. It could be that, for some organizations you start an all-index pool to compete, with fees, with some of the other ones that are out there, that you might struggle to compete against. It could be launching an ESG pool if that's important to the community that you're in as well.

But the old, we have one 70/30 and that's it. You leave yourself too exposed to the big brokerage platforms that have multiple options.

Heather Shanahan: So you have to, in my opinion, at least check the box so that you can give the same investment options as some of the big-box stores. But your value add is that concierge philanthropy that we talked about before.

Matt Doyle: The second aspect of this is that, back to the communication issues. So many advisors do not understand community foundations. And many times we'll look upon community foundations as the enemy, as somebody that takes money away from me in order to do what they do. And so the flexibility of having a program where they can bring their own advisor, where that advisor can remain engaged in the process and continue to earn a fee, that is an important flexible aspect to be able to offer to that community.

Otherwise, you are knocking on doors that are just simply not going to open up for you.

I would say that the management of the assets has to be both flexible in terms of where you're attracting those assets from. It has to have lots of options for different types of asset allocations and risk tolerances. And then it's gotta be able to be condensed down into a report that you can usually get through an hour meeting with a community foundation investment committee with, without making their head explode, right?

So that's the role of any independent advisor and working with a community foundation. It's hard.

Heather Shanahan: But it's what it, but it's what makes it so worthwhile, right? That, that you have this client that you can grow with and help them grow and become a partner. So I think from an investment standpoint, that's the toughest area to really crack.

Matt Doyle: But if you do it the right way, it can be done.

Bill Altavilla: The one thing I'll add to that, and I —and Matt basically was touching on it, but he didn't say the word—is that the investment committee is a fiduciary, and they're a fiduciary on all these funds, and as such, the scorekeeper capability really helps them get their arms around that fiduciary responsibility of ongoing reporting and making sure that there's not issues with fees that are too high on particular, from particular, advisors.

Because in reality, those assets at the advisory firm are held in the name of the community foundation. So it's really key to recognize that the responsibility report on those is critical to the fiduciary responsibility of the committee, the investment committee at the community foundation. And I think that having the ability to put that together in one report, as Matt said, and go over in an investment committee meeting, is critical to, to making sure that you're taking that responsibility seriously.

Heather Shanahan: For sure. That's a great point. All right. Performance reporting. That's that, that can be really complicated and really messy. What do you see as best practice models there?

Bill Altavilla: Well, from our standpoint, the goal is to make sure that you have set up some kind of a benchmark for a particular portfolio. As Matt was saying, whether it's a particular donor might have an asset. Being held at an advisory firm that they're want to be pretty aggressive with. So what is the benchmark to compare to making sure that from a fiduciary standpoint you can report against it?

'cause just having a number isn't necessarily gonna be beneficial. If they had a great return, but they took too much risk, you have to identify that from a fiduciary standpoint and make sure that there's an investment policy of some sort on each one of the pools of capital that the investment committee is overseeing with different advisors.

So they have to, if the advisor is gonna be part of the investment strategy for a particular donor, you have to make sure that you're taking into account an investment policy that is approved through the investment committee and being reported on as such, because there is that responsibility to report.

Matt Doyle: As the community foundation space has matured, I think what you're finding is there's a group of consultants out there that have matured with it. It's an evolving process, of learning best practices as we go. I know that what I've found helpful, particularly when you have these outside advisors is, as Bill mentioned, you want to, you wanna set it up with a benchmark so you can track the asset allocation and variance.

You wanna be able to see how the performance is doing on a net of fees basis and those types of things. But particularly for the outside advisors, we've established for some community foundations an annual due diligence questionnaire. It's one page. It's not overly complicated, but you send it out at least once a year and you're asking them to reaffirm that there's been no litigation issues.

There's been no issues with the advisors, forms that they have to report any types of infractions on. That you ask them to recertify the asset allocation and the benchmark that they want used in order to measure them. And that way you create the proper paper trail, as a fiduciary that, that matches up with the performance, or the performance report, I should

Heather Shanahan: Is that widely used? That seems like a great idea.

Matt Doyle: Well, it's work and, again, it's an evolving industry. And if you work with one community foundation, you might not know it, right? But if you work, you start working with enough of them and you start having conversations with folks about the liability that they feel over these outside pools of capital, then you start creating solutions that match that.

Heather Shanahan: Yeah, that makes sense. Back to the kind of getting bigger theme here. So Bill, Jim, you both have significant planned giving experience. Put your donor hat on if you will for a minute. And what should donors, potential donors be asking if they are considering a gift to a community foundation? What should they be looking for?

Jim McCallum: Bill, why don't you go ahead and start that.

Bill Altavilla: Well, I think the key is, Matt brought it up earlier, what percentage of the gift is actually gonna be realized by the community? And I think that's important. What's the impact that my gift is gonna have in the community? And I think that's always the first thought of any donor is, how is that gonna be handled?

So it always gets down to community involvement, in my opinion, What's the impact to the community that I'm gonna have based on this? Whether it's a, an endowed fund or an expendable fund, where I might want the money to go out more quickly. What kind of benefit does the endowed fund have for my family and the values that I bring to the table for my family and my community?

So I think there's a lot of different things that donors look for. I think investment management is important, but I think the community impact is really key in my opinion. But what do you think, Jim?

Jim McCallum: I agree with that. I think that the flexibility of the type of gift that a foundation can receive is important. You know what I look for and we are able to do it. Sacramento is basically, we'll take anything except boats and cars. And what we would do is, well, we made it easy because in a Sacramento area, we don't have a lot of large industries.

A lot of the people there, they're dirt rich. So you have people who have real estate, different types of partnerships. And our ability to take those as gifts and then convert those to cash is very important. It's also the, offering the different vehicles, because, for an example, they may be interested in a charitable gift annuity that may be a form of some, something that they need an income flow.

It may be a, a, charitable remainder trust. It might be a lead trust, to, take care of a, of grandchildren. Again, it's having a number of arrows in your quiver to be able to, to handle the asset. Because most donors only think of, gosh, well, okay, I can only give cash and appreciate stock.

Heather Shanahan: Right.

Jim McCallum: If you don't have those, you kind of, what are you gonna do? So that, and also administrate these, you mentioned. It's important to understand because, Matt brought up the, the, the, commercial DAFs. And,a community foundation for the most part will never compete with the commercial debt.

For example, Fidelity subsidizes the fees to the Fidelity Charitable Trust. And they basically give away the admin because they're using a lot of the Fidelity funds and so they're making money on another side there. If you're a large one, like for example, the Marin Community Foundation, they have a lot of money and they're able to match.

And beat on certain types of donor-advised funds, the, the charitable trusts. But Matt, again, Matt and Bill both mentioned it, it's this, the value add is the involvement in the community. And, you do have donors who are fee conscious and nothing's going to prevent, nothing's going to cause 'em to move away from their charitable trust because they're, they want a charitable checkbook.

And move forward. But if you find a donor who wants involvement in the community and really cares about the community, the community foundation model provides a great alternative to those charitable, those commercial DAFs.

Matt Doyle: I wrote down before we started today that one of the questions we were kind of pondering as a group prior to this was: Why give to a community foundation? And I wrote down that you have to have a passion for your community and local expertise. I think that's the value proposition and community foundations, I think would benefit from the, i from really kind of digging deep on what their strategic plan needs to be and who their ideal donor is.

If somebody is looking to put $10,000 into an account and write 25 checks a year for a hundred bucks or 250 bucks to sponsor a table to give to their church, you can open that account. But that's again, back to the idea of do you want to be a $10 million foundation or do you wanna be a $100 million foundation? If you have somebody that's contributing $500,000, a million dollars, $250,000, and they're looking to be strategic in how they make their gifts and they have a passion for improving the local community and they need somebody to navigate those waters, the truth is, the financial advisor is not gonna be an expert in that area.

Heather Shanahan: Right.

Matt Doyle: That financial advisor can bring them to the table, can introduce them to the community foundation with a kind of bring-your-own-advisor flexibility. They can stay involved and understand, you know, what the gifting needs are of their client. And continue to give advice in that area, but they get a partner that sits at the table with them, that then helps them target those dollars to their highest and best use.

I think the other piece that I'd like to add a little bit is we haven't really talked about the programmatic side of community foundation. So there are officers out there that take the funds and they take them into the community for different programs, and I think that's a real strength of community foundations and that they're on the ground interacting with local organizations that need the funds, whether it be homeless or whatever the situation might be.

Bill Altavilla: And those programmatic officers are the ones that really are touching the ground and they're working with the development officers. Who then work with the advisors to understand what are the true needs out there in the community. I know SAC Region created four pillars that they were looking at for different types of dollars, food, impact, and so forth.

I don't know exactly which all four are, but they created, they did a strategic plan, as Matt was saying, and they created these four pillars to try to funnel funds through, based upon programmatic needs within the Sacramento region. And I think that's a piece of it too. Going back to what I talked about earlier, the impact.

What is the impact? And those programmatic officers really have the ability to work with development and advisors to understand what the programmatic impact is to the community, which is something that is unique to the community foundation and that they can have their fingers in multiple different areas, whereas one foundation for a particular organization might just have that one goal. Community foundation could really expand that out if they have the ability and the funds to do so.

Heather Shanahan: Yeah, that makes sense. How do they handle, what do you see in terms of the organizations that serve these large geographic footprints, and how do you equitably allocate resources across five counties, for instance? How does, how do they, how do you make those choices? Okay.

Bill Altavilla: It's an interesting question. With SAC Region, they actually have two community foundations under the community foundation. They have the YOLO Community Foundation. Right. Jim, you can chime in, more better than I do. And then we had the Lodi Community Foundation at one point; I think it was San Joaquin was underneath SAC Region or they started their own. Okay. Yeah. So there were kind of underlings and now they're trying to grow and separate into separate organizations. But until they get to that mass where they can do that, they're underneath the Sacramento Community Foundation as a sub-organization within those different communities.

Jim McCallum: Yeah, so we have a four-county region that we recognize and in that four-county region, there are two community foundations that are independent. And we bounce back and forth with them. But also, as Bill said, we did have, we have one affiliate now. We had two affiliate ones where, which was the Lodi Community Foundation, which is actually in San Joaquin County, which is not one of our counties of service. And that was kind of a favor to the people who started that foundation. And since then we've encouraged them and they've moved to the San Joaquin County.

It's a small group of very passionate people in Yolo County, but they just didn't have the horsepower to do the things they needed to do. So we became the, basically the back office, and we have the funds, and then we provide back office for them. It's a good relationship.

That's an area that's kind of tough, because I think there's a huge need for smaller community foundations to have a back-office larger foundation to help them. Probably the biggest one out there was, it was Greater Horizons out of the Kansas City Community Foundation that would work with a lot of smaller foundations to provide back office on, not only on the admin side, but also on the investment side.

I think what's happening is some of these smaller ones need to consider merging with the larger ones because you cannot operate efficiently without staff and without resources. And a lot of times if you're competing in a geographic with a larger foundation, one of the big questions that comes up is this investment side. What is the size of your portfolios compared to their portfolios?

And do they have access to managers that you just do not have access to? And so I, I think that's, it's a huge challenge for them as far as allocation. We allocate among all the different counties that we serve as best we can. There's only so much out there, so many resources, but we do focus on that.

Heather Shanahan: Right? Yeah. What a resource.

You all three have been extremely generous with your time, and I think this conversation and this topic has so much complexity. We could probably go for a couple more hours, but, but anything else that you think would be important for our audience to hear?

Bill Altavilla: I would just say that community foundations are amazing organizations that really are focused on their local community. But it does take a lot of work to make them happen. And it takes a lot of work to have them continue. And needs a good management, good support from, the organization, good support from the back office.

Heather Shanahan: Wonderful.

Matt Doyle: I think that a lot of people that come from the nonprofit world into the community foundation world underestimate as you have a nonprofit background, the complexity . . .

Heather Shanahan: Yeah. Whole different ball game.

Matt Doyle: . . . of community foundations. I think the best thing a community foundation can do is to find partners that speak your, that speak that language.

Just grabbing the local advisor, community bank, to manage the money becomes very concentrated at that point in terms of—you know what you're able to offer to that community, right? All the other advisors are gonna lose money to that advisor. So finding a partner that can be flexible with you, that can help you to grow, that speaks the language, that can go out there and tell the story with you.

Heather Shanahan: Yeah.

Matt Doyle: That to me is probably the biggest takeaway. Because a lot of the time you're kind of drinking from the fire hose as a person coming into the community foundation space, and having a team that you can rely on is incredibly helpful in getting you moved up the curve as, as quickly as you need to.

Heather Shanahan: Yeah. Excellent advice.

I appreciate the three of you being here with us today. Community foundations, all things, all complexity for sure. And thank you for simplifying a couple of things and shedding some light on this topic. So grateful for your time today.

Matt Doyle: Thanks, Heather.

Bill Altavilla: Thank you.

Heather Shanahan: Thank you for joining us today for Mission and Markets, and please subscribe wherever you listen to podcasts. Under the Investment Advisors Act of 1940, this podcast is defined as an advertisement and includes an uncompensated testimonial by a CAPTRUST client. Please be advised that clients experiences that described in the podcast did not necessarily represent the experience of other clients.

VO Artist: The discussions and opinions expressed in this podcast are those of the speaker and are subject to change without notice. This podcast is intended to be informational only. Nothing in this podcast constitutes a solicitation, investment, advice, or recommendation to invest in any securities. CAPTRUST Financial Advisors is an investment advisor registered under the Investment Advisors Act of 1940.

CAPTRUST does not render legal advice. Thank you for listening to Mission and Markets.