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Leveraging Endowment Giving to Build Long-Term School Sustainability

Independent schools throughout the Pacific Northwest face an increasingly competitive and complex landscape. New public and private school alternatives, lower birthrates, market-driven tuition price sensitivities, and growing operational costs combine to present significant short- and long-term challenges. At a time when schools are looking to address these challenges through the addition of supplemental programs, online courses, and other sources of non-tuition revenue, endowment funds can provide a reliable and flexible revenue stream. They are also an important marker of a school's long-term financial sustainability.

In collaboration with Northwest Association of Independent Schools (NWAIS), fundraising consulting firm Collins Group, a division of Campbell & Company (Collins), conducted a survey of independent schools affiliated with NWAIS in July 2014 to explore how schools of all "ages and stages" can most effectively prepare to build or grow endowment funds. Based on the 32 responses gathered from heads of school or those in development roles and extensive experience with independent schools, we developed the following set of best practices every school can implement to plan for, build, and grow an endowment.



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SURVEY HEADLINES

The following is a summary of findings and trends identified through the survey:

- **Growing existing endowments is a top strategic priority for schools:** Nearly half of all schools (43 percent) said it was a top priority to grow their current endowments in the next five years. However, for those schools without endowments, starting one within the next five years was not a high priority.
- **Major and planned gifts programs pave the way for endowments:** Nearly two-thirds of schools said they have a major gifts program. Those schools without an endowment tended to report they also did not have a major gifts or planned giving program. The longer a school has been established and the older the age of students served, the more likely the school is to have these programs, as well as staff dedicated to alumni relations.
- **Outright gifts to endowment come from a variety of constituencies:** Schools who primarily serve upper grades report their donor-designated endowment gifts come from a mix of current parents, alumni, parents of alumni, and grandparents. By contrast, schools who primarily serve lower grades see these gifts coming primarily from alumni parents, perhaps because younger parents are not yet maximizing their earning potential or are new to the concept of philanthropy.
- **Schools use a combination of strategies to build their endowments:** Many schools rely on a combination of board-designated endowment reserves and donor-restricted endowment fundraising and they also grow fund principals by reallocating investment gains and soliciting new contributions.
- **Endowments support financial aid:** Over three-quarters of endowments, whether donor-designated or board-designated, support financial aid and tuition assistance.
- **Heads of school are perceived as more informed about endowment principles and practices than board members and development staff:** Several respondents commented on the need for more education for board and staff around the principles of endowment, including the purpose and benefits and how to go about building one.
- **Philanthropy is deeply ingrained in independent schools:** Regardless of grades served and age of the school, 94 percent of respondents have staff dedicated to development. All schools who responded to the survey have an annual fund that invites gifts from the school community and most also have an annual special fundraising event.
- **Donor recognition by giving level is a common practice:** Nearly three-quarters of schools list their donors by giving level instead of alphabetical order. This approach is foundational in shifting the focus from “participation” to “personally significant gifts” within the school community.

PROFILE OF PARTICIPATING SCHOOLS BY THE NUMBERS

Schools with an Endowment	Schools without an Endowment
<ul style="list-style-type: none">• Founding dates spanned the entire century• 63% have 400+ students• 88% have staff dedicated to fundraising• 75% have staff dedicated to alumni relations• 25% have staff dedicated to planned giving• 50% have operating budgets of \$10M+• 75% have under 10 percent of operating budget coming from philanthropic support• Focus on major gifts in addition to the annual fund and special events• 50% have a well-established or limited planned giving program• Growing their current endowment is a top strategic priority in the next five years	<ul style="list-style-type: none">• Founded between 1975 – 2000• 18% have 400+ students• 91% have staff dedicated to fundraising• 9% have staff dedicated to alumni relations• 0% have staff dedicated to planned giving• 55% have operating budget of \$1M - \$4.9M• 46% have under 10 percent of operating budget coming from philanthropic support• Focus on foundation grants in addition to the annual fund and special events• 27% have a well-established or limited planned giving program• Starting an endowment is not a top strategic priority in the next five years

RECOMMENDATIONS

Based on responses from survey participants, as well as Collins' experience partnering with independent schools to prepare for and launch special campaigns that build endowments, we have developed 10 recommendations and next steps for independent schools to consider:

- 1) Start with a strategic development plan** that goes beyond a calendar of annual activities. The plan should correlate to the school's strategic priorities and include both financial and non-financial goals and the constituent-specific strategies, messaging, benchmarks, and staffing you'll need to reach them. This work will help staff and trustees monitor and evaluate the overall sustainability of your development program, and expand thinking beyond whether the budgeted annual fundraising goal was met.
- 2) Include major gifts as part of your development strategy.** While it's true that no school started without personal visits with prospects that included bold dreams and requests, it can be daunting to launch a relationship-based formal major gifts program. A focus on the essentials first to build a culture of philanthropy can make it more manageable and set you on the path to inviting endowment gifts:
 - **Create a top prospect list**—whether 15 names or 150—starting with your trustees. Regardless of capacity, trustees will only understand the importance of a donor-centered approach to your school's major donors if they are each treated like a major donor. Requests to board members and others for personally meaningful, stretch gifts versus "100 percent" participation gifts will set the stage for significant endowment investments in the future.

- **Tailor strategies** for developing relationships for each prospect, for each step of the donor journey—cultivating, asking, and stewarding. The strategies should “find the match” between a donor’s interests and values and those of the school. Effective stewardship should begin with a meaningful thank you, communicate the specific impact of a gift, and build donor loyalty.
- **Compose a board** that reflects your school’s fundraising priorities. If growth in philanthropic revenue is a goal, the board should include socioeconomic diversity—including those stakeholders with capacity to make major gifts as well as access to other prospects.
- **Invite trustees and other development volunteers to be partners** with the head of school and development staff in meetings with major donor prospects. It conveys the importance of the opportunity. More importantly, only a peer can say “join me.”
- **Invest time and money in training** to build the skills and confidence of staff and volunteers to be effective champions for major investments in your school.
- **Capture and track donor information and activity** in a database. Every phone call, meeting, or email that moves a relationship with a major donor forward should be documented to ensure coordination and progress.

3) Create a case for giving that clearly distinguishes what your annual fundraising activities and endowment income make possible. It will be easier to make the case for endowment when the school community, including prospective and new parents, is better educated about the difference philanthropy makes. A simple approach to this message is:

- **The annual fund is a checking account:** Funds are raised and spent in the same year for immediate needs. Instead of pointing to school supplies and light bulbs, focus on the ability to recruit and retain outstanding faculty, expand programs, and ensure broader access for mission-appropriate students. The strongest motivation for donors—often current parents and grandparents—typically will be a direct benefit to today’s students.
- **The endowment is a savings account:** Endowment dollars raised today will protect the mission in challenging times and leverage opportunities in good times. They also ensure that great teachers, programming, and students will be a constant as best practices in education evolve and change. The strongest motivation for donors—often alumni, alumni parents and grandparents who have been giving for some time—typically will be gratitude and/or the desire to carry forward a tradition of generosity for future students and their families.

4) Use a variety of strategies to fuel endowment growth. There’s no need to pick only one strategy to start or build an endowment. For board-designated endowments, you can seed it, for example, with existing reserve dollars, through a line-item in the annual budget, or from a surplus in annual giving.

Donor-designated endowment funds can be from outright or deferred gifts. In both cases, encourage unrestricted gifts, but offer choice among broad categories like teacher development or program excellence, especially for larger gifts. For younger schools or elementary schools with young graduates, don’t let the variety of planned giving options postpone an invitation to make deferred gifts. Even one line on your website that encourages planned gifts can uncover the bequest of a grateful alumna/e or grandparent.

When a portion of annual earnings are reinvested into a fund's principal, even a small endowment will grow over time. While most endowments are managed professionally, an investment committee offers an important place to engage top prospects who do not have the time or interest to serve on the school's board.

5) Allocate resources to educate staff and board leadership about endowment as a revenue stream.

Endowments can be complicated and will take time and repetition to understand; there are different types of funds, for different purposes, accounted in different ways on the school's balance sheet. Sometimes the best form of training is hands-on. Identify opportunities for board members to be a part of asking or thanking a donor for a gift to the endowment. When considering annual professional development budgets for development staff, look for conferences that include endowment and planned giving topics as an option.

6) When it comes to alumni giving, take the long view. It starts with student involvement in philanthropy, from their own community service projects to thank-you calls for the Annual Fund to tagging items at the school auction. Once students graduate, parents are often the best connection; pay special attention to their continued engagement even though they aren't in the drop-off line every day. For elementary schools—where many parents make their life-long friends—find annual opportunities to bring the whole family back to campus. For upper schools, ask parents to help the school keep in touch with graduates as they move through college and beyond. The time between a post by a recent graduate on your alumni Facebook page to their first gift may be at least a decade, so consider that the investment of time and effort in alumni relations may be a long-term strategy.

7) Recognize donors by giving level. The most effective way to educate and inspire members of your school community—whose capacity may not match their experience with or understanding of philanthropy—is to recognize donors by giving level. While many schools fear that this form of recognition will foster an exclusive culture of philanthropy, in fact the opposite is true; it helps to make money conversations less taboo, inspires those who seek peer recognition, and models generosity for donors who may not come from a philanthropic culture or tradition. When it comes to permanent recognition, named funds are the primary way to recognize donors to an endowment. By including their names on a fund, donors and their loved ones are more likely to give additional gifts over their lives to honor and recognize special milestones, such as birthdays or anniversaries.

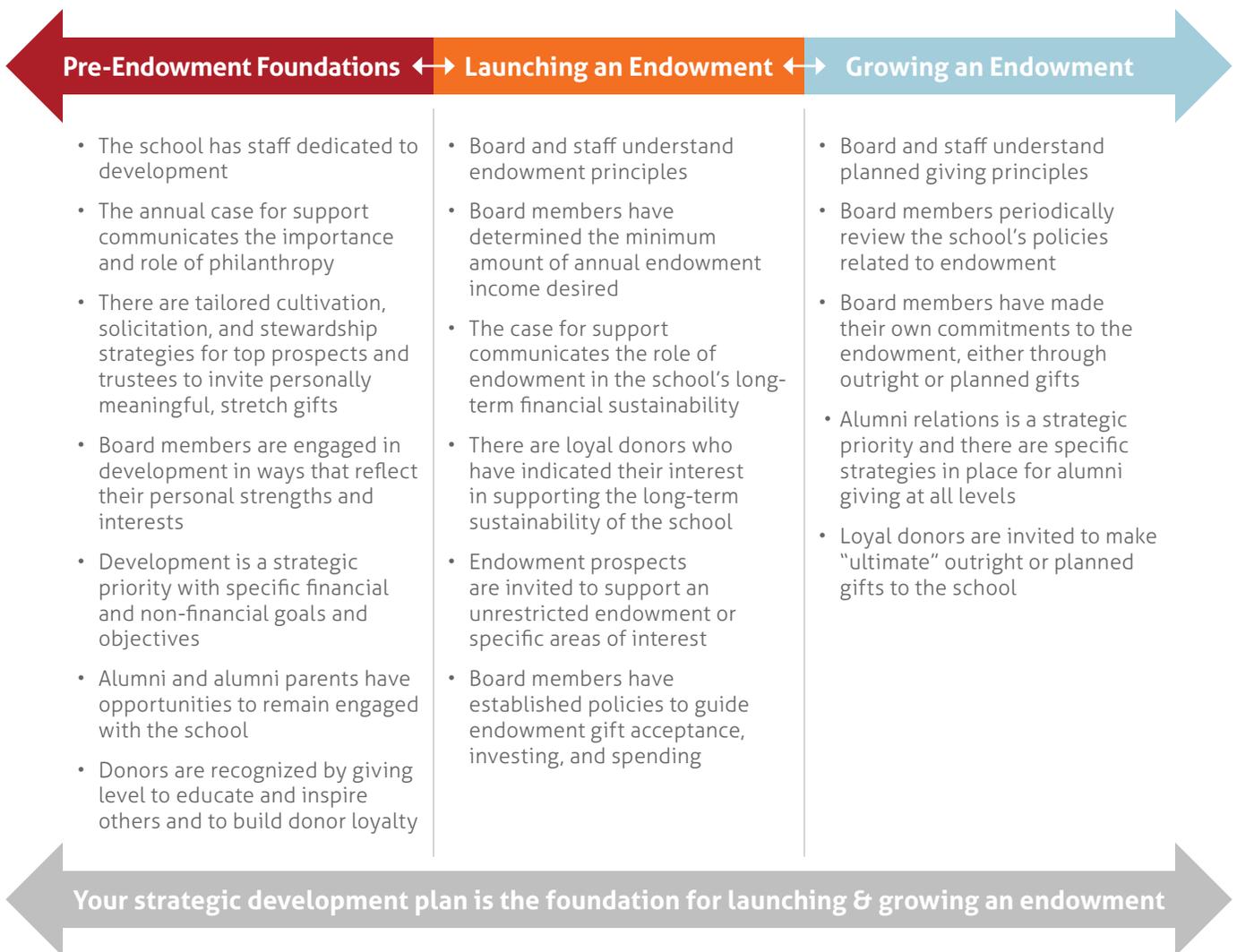
8) Adopt the board policies you will need to support endowment fundraising, and review them regularly. The essential policies include:

- **Gift Acceptance Policy:** What kinds of gifts will you accept, from whom, and for what purposes? How will unrestricted bequests be used?
- **Investment Policy:** How will the endowment funds be invested, and by whom? Who will have oversight?
- **Holding Policy:** How much corpus will you have before the school begins spending endowment income? What percentage of a pledge should be paid before spending income?
- **Spending Policy:** How much of the earnings will you spend each year? How much of the earnings will be reinvested?

9) Be mindful that not every donor is a prospect for an endowment gift. In your finite donor community, those loyal donors with significant assets and a sophisticated approach to philanthropy will likely be those for whom you turn for endowment investments. Encourage current parents and grandparents who will be with you for a while and are interested in endowment to continue their annual support in addition to investing in the school’s future. For parents or grandparents for whom graduation of their youngest or only child is on the horizon, consider asking them to make an “ultimate gift” that will endow the major support they’ve provided the school on an annual basis, to create a named fund, or to contribute to a pooled endowment fund.

10) Draw on your peer NWAIS networks to share experiences and resources on your path to building or growing your endowment. If you have yet to start an endowment, reach out to other schools who already have one and ask about their experiences—both successes and challenges. Every head of school or trustee was an “endowment novice” at one time!

ENDOWMENT READINESS SPECTRUM





QUESTIONS?

If you are interested in learning more about this study, please contact Barb Maduell, CFRE, Senior Consultant, at barbm@collinsgroup.com or Julie Bianchi, Consultant, at julieb@collinsgroup.com.

Helping Schools throughout the Northwest

Collins Group has over three decades of experience working with independent and private schools throughout the Pacific Northwest to leverage the power of philanthropy in their communities. We partner with staff, trustees, and other volunteers at schools of all “ages and stages” to build sustainable, ongoing fundraising programs and achieve their visions through special campaigns.

Visit collinsgroup.com to learn more and sign up for our mailing list.

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