As part of an overall financial strategy, National Arts Stabilization recommends that nonprofit arts organizations maintain an endowment equal to between 200% and 500% of annual operating expenses and look toward endowment investment earnings to generate between 10% and 25% of annual operating revenue. According to TCG’s Theatre Facts 2001, only 51% of profiled theatres report any endowment at all. Only two theatres in the survey — 2% of those with an endowment of any size — currently meet the minimum standard of 200%. Of the remaining theatres, 11 reported an endowment ranging from 101% to 200% the size of budget, 14 reported an endowment ranging from 51% to 100% of their budget and 63 reported an endowment ranging from 1% to 50% of budget.

However, anecdotal evidence indicates that many nonprofit theatres are in the midst of major campaigns that include endowment as all or part of the goal — and the ones that aren’t in campaigns are thinking about an endowment as part of their long-term financial strategy. Many nonprofit theatres have completed major campaigns in the last 10 to 20 years to provide for their facility needs, and now, naturally, are looking toward an endowment as the final piece of their financial puzzle. Fortunately, several foundation funders are specifically interested in helping nonprofit performing arts groups establish or increase the size of their permanent endowment; to that end, many of the funders are including a match or challenge component in their grant programs to encourage individual, corporate and foundation funders to consider endowment gifts.

In the current economy, however, many organizations are wondering whether they should be spending their energy on building endowments, given that they have to struggle to meet annual fundraising goals. Frequent questions include: Is this the right time to be in or launch a major campaign? How do I bolster the confidence of board members who are anxious about giving and asking for money in the current environment? Does my organization have all of the necessary policies and procedures in place to accept endowment gifts? Are we confident that we have the resources to manage major investments? What happens if the permanently restricted endowment loses money?
Do we have a planned giving program that will support our efforts to build endowment? Whether you are engaged in or considering an endowment campaign, asking these questions is an important component of your mid- to long-term planning.

Although the literature on performing arts endowments is somewhat sparse, this is just the beginning of what I am sure will become a multitude of articles over the next five to ten years, as more theatres work to secure their financial futures. I encourage those of you who would like more information about raising endowment dollars to look to your colleagues in the world of opera, music and visual art, many of whom are a decade or more ahead of the theatre world in building endowments and have many lessons to teach us. In addition, I challenge those of you who have raised or are in the midst of raising endowment dollars to share what you have learned with your colleagues around the country through conferences and articles — the field will be stronger for it.

— Unless otherwise noted, all features in this Centerpiece are written or compiled by Dawn Rains, director of development at Seattle Repertory Theatre, and curator for the development series for the Centerpiece. She can be reached at dawnr@seattlerep.org.

**ENDOWMENT:**

**MID-CAMPAIGN LESSONS FROM A DEVELOPMENT DIRECTOR**

Seattle Repertory Theatre is smack in the middle of its first endowment campaign in a very challenging economy. We have set our goal at $15 million — and have raised $10.1 million thus far. These are a few of the things that we have learned — some of them, the hard way. Even though many of these points seem obvious, I think it is important to be reminded of them. Put them on your wall. Repeat them as mantras. You’ll be glad you did.

1. **The Case Is Critical**

   Although this observation seems obvious, it is worth articulating: it is especially important to define the case for an endowment clearly. Seattle Rep had to learn to walk a fine line between demonstrating need and coming from a position of strength, artistically and financially. We had to define specifically the difference between who we currently are and who we dream of being, given the resources. Early donors, most of them board members, encouraged us to resist selling an endowment as a way to “fill the gap” between expenses and our ability to generate earned and contributed revenue. Donors want to give to fulfill the vision, to sustain and enhance your artistic and education programs, not to meet current and projected financial needs. It is a small but important distinction.

2. **Leadership Is Essential**

   The role of the artistic director and managing director cannot be underestimated. Even if you have extraordinary volunteer leaders, a great development staff and outside consultant, one or both of those leaders need to participate in almost every solicitation meeting. It is important that they are always well versed and up-to-date about campaign information. It is also important that they support the campaign financially — it will transform their ability to ask others to join in, especially if they find fundraising a challenge, and it sends a significant message to the community.

3. **An Endowment Is the Work of the Full Board**

   Help your board resist the tendency to delegate the success of the campaign to a single campaign committee. Resist keeping the “quiet phase” too quiet — talk about it with your board and finance, executive and development committees at every opportunity — not just at the campaign committee. At Seattle Rep, the public phase of the campaign is being led by two highly capable, well-respected board members — and there was a time when the board as a whole just assumed they had it well in hand. However, in order to complete it, the campaign leaders need the help of the full board, especially as we go out to more and more of our donors, subscribers and the larger community.

4. **Matching or Challenge Funds Are Very Helpful**

   We approached one of our leadership donors and asked him to consider making a challenge gift to encourage new levels of financial leadership on our board. The challenge gift provided $1 million and we achieved two things: 1) 100% board participation in the campaign; and 2) total board gifts of $5 million, or one-third of the goal. Based on the overall profile of our board, this was a stretch — but we made it. Many on our board gave much more generously than they initially planned, and the 100% participation galvanized the board in a significant way. Of course, there are many variations on how to best use a matching or challenge gift, but we have found these types of gifts quite useful in our campaign.
5. Unrestricted Is Good

Fortunately, we have had very few donors ask that their gift be restricted for specific purposes, even though we spent a lot of time defining campaign subgoals for particular areas of the organization (new work, education programs, etc.) This will mean that as our organizational priorities and needs change — who knows what they will be 50 or 100 years from now — Seattle Rep will be able to direct endowment earnings to the artistic or educational area in which they are most needed. And while we have had some interest from a few donors in having “named” funds (which Seattle Rep makes available at the $50,000 level), most donors have not specifically requested that their funds be named.

6. Planned Giving Will Play an Important Role

Whether you decide to include planned gifts in your campaign goal, they will eventually become a critical part of building your endowment. Several years ago, Seattle Rep adopted a policy that all realized planned gifts of $5,000 or more will be placed in the permanent endowment (unless otherwise instructed by the donor), and gifts of less than $5,000 will be used to meet current operating needs. In the last year alone, bequests and gifts of retirement funds contributed more than $125,000 to Seattle Rep’s endowment. All of these gifts were from low- to mid-level donors (and in one case, a single-ticket buyer), and all but one were from people that no one on the development staff had ever met before. Implement even the most minimal planned giving program, and your organization will begin to reap the benefits, whether or not you are in the midst of an endowment campaign.

EXCERPTS FROM “SEVEN ENDOWMENT ESSENTIALS”:
A PRIMER FOR LAUNCHING OR RE-ENERGIZING AN ENDOWMENT PROGRAM

BY JOSEPH O. BULL

This article is not an exhaustive treatise on endowments. Rather, it is intended to be a well-rounded introduction to the subject for planned giving officers, other development professionals, board members and volunteers. A primer should whet the reader’s appetite for more information and be a point of departure, rather than a destination.

Essential 1: Know Why You Need (or Have) an Endowment

In order to undertake an endowment initiative successfully, an organization must have financial stability, a solid annual fundraising program, at least the beginnings of a major and a planned giving program, a focused mission, efficient implementation of that mission and a clear vision both of where it is headed in the future and of how an endowment will help this vision become a reality.

Why have an endowment? Excellent programs require substantial, consistent and permanent funding. An endowment provides a stable base for that funding. Endowments should not be used to pay the electric bill; rather, they should support, enhance and expand the base programs and services of a charitable organization.

Essential 2: Know What Your Endowment Is Designed to Accomplish

What is an endowment? Surprisingly, there are many inaccurate perceptions about what an endowment is and is not. Most basically, an endowment is a sum of money set aside for the benefit of a charitable organization, which is invested for long-term growth and produces an annual income stream for the organization.

The vast majority of endowments are permanent. That is, the principal is held inviolate and only the income generated by the endowment’s principal is spent each year. Quasi-endowments act generally like permanent endowments. Their distinguishing feature is the ability to invade the endowment’s principal and spend a portion of it. Liquidating endowments developed out of a growing trend in which the donor establishes a fund that looks like a permanent endowment but has a limited life. For example, the fund may be established for a period of only 25, 50 or 75 years.

Essential 3: Develop Consistent, Coherent Written Policies

Much has been published in the existent planned giving literature about the need for written guidelines and policies for gift acceptance. In a similar vein, several fundamental decisions about endowment operation and management must be made, and those decisions must be communicated to both internal and external audiences. Having those policies in writing is a benefit to both staff and donors. Staff can rely on the policies when pressure...
is being brought to bear on them to cut a corner, and donors can have their questions answered before they ask them.

- **Restricted vs. unrestricted endowments:** Most organizations would prefer to have nothing but unrestricted endowments. This would provide the organization maximum flexibility in meeting the challenges and funding requirements of the day. While some donors prefer an unrestricted endowment, the vast majority of donors (by some estimates as high as 99%) prefer to have some say in how the organization uses the income from their endowment. Once an organization determines that it will accept endowment gifts subject to donor restrictions, it must determine how far these restrictions can go. Organizations can head off (overly restrictive) requests by publishing a list of the type of endowments it will accept, or would prefer accepting. This list should parallel the mission and operation of the organization.

- **Minimum funding:** A corollary to the types of endowed funds list is the minimum amount required to create a particular type of fund. The minimum amount is computed by the program or function supported by the endowed fund and the organization’s endowment spending policy (see below.) Minimum endowment levels should be established for unrestricted endowments or endowments supporting programs that are not on the types of endowed funds list. Some organizations have endowment minimums as low as $5,000, while others are in the $25,000 range, and still others are $50,000 and above.

- **Pending endowments:** Most donors fulfill their major charitable pledges over a period of years. Two policy issues emerge from this fact. The first is the number of years allowed for pledge fulfillment. A typical pledge period is five years, with three-year and seven-year payment schedules also usual. The second policy issue concerns the disposition of income earned on the fund during the pledge payment period. Most organizations do not consider the fund to be endowed until the minimum funding level is achieved. Therefore, income earned prior to that time is not used for the purpose designated by the donor.

- **Spending income vs. spending policy:** One of the fundamental goals for an endowment is to produce a predictable income over time. In order to do that, a policy must be established to determine the amount to be spent each year. Most sophisticated endowments use a rolling average to determine distributable annual income. For example, the endowment’s market value is calculated monthly. Distributable income is determined by multiplying the spending percentage (5%) by the average market value of the endowment over a certain period (36 months). Organizations using such a model have found that it produces a steady and predictable income distribution.

The written policy document should be reviewed by the organization’s legal counsel to assure that the policies comply with local law.

### Essential 4: Develop Investment Policies

Once the endowment has been established and gifts begin to arrive for it, the funds must be invested and managed properly. The assets of the endowment must grow at least at a rate equal to the rate of inflation to ensure the long-term viability of the endowment. Ideally, the assets would grow at a rate slightly greater than the rate of inflation, in order for the endowment to grow in real terms.

- **Investment objectives:** Before any investment decision can be made, the investor must know what her or his objectives are. Some organizations take an extremely conservative approach and emphasize conserving the principal. Other organizations take a much more aggressive stance. This type of investment objective often leads to riskier investments. Even though these riskier investments produce a much higher return, when they work, they are a disaster when they don’t work.

A great many organizations take an approach in the middle of these two extremes. Such an organization would have two main objectives guiding its investment decisions: preserving and maintaining the real purchasing power of the endowment’s principal over time and producing a reasonable return when compared to the contemporary marketplace.

- **Internal vs. external management:** The size of both an organization’s endowment and its finance office determine whether internal staff carries out the investment of endowment assets, or whether outside investors are retained. Using external portfolio managers is much like diversifying a portfolio; it spreads the investment risk. Additionally, external managers can be held accountable for any malfeasance, and they can be replaced if their performance does not meet expectations.

Many community foundations provide endowment-management services for smaller organizations. This allows these organizations to take advantage of certain economies of scale that reduce management expenses and provide a wider range of investment options.
Essential 5: Develop Procedures for Individual Gifts

Once a benefactor decides to establish an endowment fund, the recipient organization must place several documents in the benefactor’s hands relatively rapidly. The first document is information on how to transfer assets to the organization.

The second document is an agreement covering both the terms of the gift and the operation of the endowment fund once it reaches the minimum funding level. The gift agreement (or fund description) is an effective tool in the gift negotiation process. A gift agreement draft helps focus a potential donor on the specific outcomes of her or his philanthropy. This often creates both excitement about the gift and a sense of urgency for completing the gift.

The boilerplate version of this document should be approved by the organization’s legal counsel prior to its use.

Essential 6: Promote Your Endowment and Opportunities to Give to It

Like an organization’s planned giving program, the endowment must be marketed in a variety of ways. This is doubly important if the organization’s endowment is in its early years. Supporters of the organization must know that the endowment exists, and that it is a vital component of the organization’s future planning and vision.

Creating an awareness of the endowment can be accomplished through the organization’s traditional channels of communication, such as its newsletter or magazine, brochures, direct mail, advertisements, news reports and website. Communications efforts via these channels are merely the beginning.

Perhaps the most important communications effort will come from the organization’s staff. At the forefront of the initiative will be the development staff. Each development officer should be well versed on why the endowment is necessary and how it operates and should be able to cite stories of positive outcomes from the endowment.

The message of your promotional efforts should focus primarily on the benefits a potential donor would derive from establishing an endowment fund. Chief among them is the perpetual nature of the endowment. Many people are looking for ways to leave a lasting impact on the world after they depart from it. Other benefits include the establishment of a fund in memory of, or in honor of, a family member, mentor or other loved one. This tribute will be perpetual.

Essential 7: Stewardship, Stewardship, Stewardship

Can you thank someone too many times for supporting your organization? As this question relates to endowment donors, the answer is definitely “No.” Endowment donors are arguably an organization’s most ardent supporters. They believe enough in the organization and its future to provide support to it forever.

One effective stewardship mechanism is an annual report. This report details the investment performance of the endowment and shows the impact that the endowment’s annual income distributions have had on the organization. The stewardship activity with the most impact is a communication between the beneficiary of an endowment and the endowment donor—for example, a letter to the endowment donor from the student who received a scholarship from the endowment. This letter can express thanks, share the student’s dreams and future plans, and explain the impact the scholarship has had on her or his life.

— Condensed and reprinted from the booklet “Endowments and How to Grow Them” from PLANNED GIVING TODAY, copyright © 2001. All rights reserved. Used by permission. For more information on this booklet and other planned giving resources, visit www.pgtoday.com/
Have you considered extending the campaign or changing the goal due to the current economic climate?

“There has been some discussion about when to start this campaign vis-à-vis the economy. Our volunteers have recommended, however, that we proceed without delay. Some have indicated that the current downturn could actually help make the case for endowment, given that one of its purposes is to help an institution weather unpredictable times like these.”

“There has been a discussion of extending the campaign by one year for reasons other than the economic climate. While this has not been a factor in our timeline, it has been a source of concern for some of our trustee leaders and staff. The original plans and goals were established in a more donor-friendly economy.”

“I might say that, were we in the midst of an endowment campaign where we accepted only outright gifts pledged over a five-year period, and if this were a stand-alone campaign (not coupled with a new building campaign, for example), we would be pulling our hair out! For the first time in seven years, we are facing a fiscal year shortfall in annual contributions. I cannot imagine conducting another campaign along with our annual campaign this year. I do feel that stand-alone endowment campaigns should have extended deadlines — and if annual goals are not being met — of course, (annual fund) is the first place where energies must be spent.”

“We have extended our endowment campaign by one year due to the economy and the level of anxiety about asking it has caused among our volunteers. I feel that it has been more difficult to create a sense of urgency around endowment than in our previous capital building efforts, partially because of the current economic climate.”

Have you encountered resistance from members of your board to participating in the campaign, either financially or as fundraising volunteers?

“Our board of trustees is a highly committed and dedicated group of men and women who are determined to run a successful campaign. We have, however, had several discussions about the implications of the current economic environment to the campaign. This is natural and has been an element in creating new strategies. Any concern on the part of our trustees has been more a discussion of strategy than resistance.”

“We have a board retreat scheduled to review the results of the feasibility study. Our trustees have fully endorsed the campaign in principle, but we suspect some will have a bit of ‘sticker shock’ when we begin talking about what we hope they will contribute individually and what role we hope and expect them to play in the campaign.”

“I am sensing a diminished energy from some of our volunteers — they, too, are being affected by the world situation and the stock market. Thus, some volunteers are less eager to ask others for gifts.”

“Some are concerned about whether we will be able to set a goal that is high enough to meet the institution’s needs, or whether we will be successful in meeting these goals, but the volunteers are very supportive of the idea of endowment building. As stated, we have not begun solicitations for the effort; resistance or lower expectations about what we think we can raise may bear out at that point.”

What part was planned giving initially expected to play in the campaign? Has that changed due to the economy?

“While we do expect some gifts to be planned gifts, we prefer not to include those in the endowment campaign in a significant way, because we are really looking for cash gifts now, rather than at a much later date.”

“We have launched a planned giving effort in tandem with our endowment campaign, but it is critical that we meet the campaign goal in outright gifts over a period of no more than
five years, in order to meet the financial needs of the organization. Ideally, we will end up exceeding the campaign goal by 20% in identified planned gifts.”

“[Our] campaign includes charitable remainder trusts, unitrusts and other estate planning. In some instances, planned giving gifts are easier to make, as the assumption is that the economy will get better at the time of payment of these gifts.”

Do you have any advice that you think might be helpful to your colleagues around the country who are currently doing endowment campaigns or are considering one?

“Obviously, no one in development is excited about the current economic climate and its impact on giving. But the hard and fast principles of philanthropy still count here — namely, that donors give to organizations they are passionate about and trust. The economy may change the levels at which donors can give, but healthy relationships with donors should continue to result in gifts for nonprofit theatres across the country.”

12 COMPONENTS TO PLANNING A SUCCESSFUL CAMPAIGN

By The Arts Consulting Group

All major endowment and capital fundraising efforts share a number of common characteristics that are critical to their success. A campaign planning study, sometimes called a feasibility study, determines the extent to which these characteristics exist for an organization in advance of undertaking a full capital campaign or endowment. Information gathered during the planning stage allows an organization to make appropriate adjustments before beginning work in earnest on any endowment or general capital campaign. It also allows for a strategic campaign plan to be drawn that will likely ensure its success. The planning study may likewise alert an organization that more preparatory work is needed before launching a campaign. Finally, it can help “pre-sell” a campaign to prospective donors, thus laying the groundwork in advance of the actual request for contributions. With those issues in mind, we believe that 12 of the most common characteristics that need to be evaluated in planning for a successful campaign are:

1. A Positive Institutional Image
Prospective leaders and donors must personally identify with the project and institution involved — viewing its needs as their own. There should be confidence in the board and key staff leadership, a high level of identity with, a personal sense of ownership of, and enthusiasm for the organization’s mission, vision and needs.

2. A Genuine and Immediate Need
The organization must demonstrate a genuine need for the proposed project to the donor community. This involves a thoroughly credible case for the amount of money sought, as well as a thorough justification for the need itself. In selling any product, the customer (prospective donor) wants to know what he or she is buying (giving for), what need(s) the product will satisfy, what it will cost and if it is a good value in satisfying the needs in a cost-effective way.

3. A Top Priority for Donors
The personal priority that the donors will place upon the proposed campaign, relative to other nonprofit, non-work and non-family related interests, must be very high. The donors must have a staunch commitment that puts the campaign at, or near, the top of their priority listing.

4. Confidence that Others Will Be Supportive
Donors must believe that others will share their interest and enthusiasm for the proposed campaign, and that they will not be alone in their support. Successful campaigns generally rely on the top 125-150 significant donors to ensure the campaign’s success. A top gift should make up 10-25% of the goal with the top 10-15 gifts providing at least 50% of the total goal. The remaining 100 or so contributions make up the remainder of the campaign in most cases.

“These volatile economic times can provide an opportunity to demonstrate with concrete examples how an endowment can go a long way toward helping to ‘close the financial gap.’ Using case points that are specific and relevant to the current context in which we all find ourselves can be an extremely effective way of communicating the urgency of an endowment effort and earning support for that effort.”

“If you conduct an annual fund campaign, either combine this with a capital/endowment solicitation or lock in the annual fund first. If you start with the capital/endowment, this will have a negative impact on your annual giving.”

“An endowment is a more challenging major gift pitch with many donors, as it is not as tangible as a building or current funding for a program. You are asking them to fund the vision, to trust your organization in the long-term. A compelling case is especially important — make it tangible, tell potential donors about the impact their gift will have on the institution in perpetuity.”
5. **Confidence in Campaign Success**
   Donors must believe that the organization’s goals are realistic and attainable. Otherwise, they will not work as hard nor give as much to the campaign.

6. **Commitment to Work and Provide Leadership**
   There must be a willingness from board members and potential donors of significant influence and affluence to serve as leaders and to solicit pledges in the proposed campaign. This is a crucial stage, as many campaigns can go on for several years, thus diminishing the probability of finding long-term campaign leadership. A shorter and more focused campaign, with top leadership making a solid commitment for this period, will enable the organization to reach its goals more effectively and in a more timely fashion.

7. **Willingness to Make Sacrificial, Multiyear Pledges**
   Many must be willing to make extended pledges to the proposed campaign, in accordance with their true capacity to give. In #6 above, we mentioned the idea of a “shorter” campaign.” The payment period of pledges can still be the typical 3-5 year period, but it is always best to secure the vast majority of pledges within the first year or so of the campaign, to ensure that your leadership team remains focused and effective.

8. **High Grade Campaign Leadership**
   Top-flight individuals, of significant influence and affluence, must make themselves available for campaign leadership. “Leadership by example” is the standard. It is imperative that leaders set high giving standards, so as to evoke a broad and generous response from the community at large. Primary responsibility for originating action, creating the necessary confidence and conducting all facets of the campaign are the joint responsibility of the
general chairperson of the campaign and the campaign counsel. With the advice of the campaign counsel, the chairperson enlists other leaders, assists in negotiating pledges from key prospects and guides the course of the campaign. Vigorous, knowledgeable and influential leaders who enjoy the widespread respect of the community should surround the general chairperson.

9. Potential Sources for Large Investments in the Organization’s Future Vision
All those with significant capacity to give should be interviewed as part of the campaign planning study and, while not directly solicited by the individual leading a confidential campaign planning study, be asked the likely level of their support. It must be made clear at this stage that the large investments are above and beyond the individual’s current level of annual giving.

10. An Unqualified Commitment by Those Closest to the Organization
Strong support, relative to capacity, must be forthcoming from the organization’s board of directors, related committees and staff. All must be willing to make campaign pledges reflecting their true capacity to give and be enthusiastically willing to ask others to do likewise.

11. Proper Campaign Timing
The campaign must be timed so as to elicit the broadest and most enthusiastically generous response from the community. The campaign should not interfere with the regular operations of the organization, thus it should be timed appropriately and have the necessary human and technical resources to ensure its success.

12. Confidence in the Economy
The prognosis for the local economy by potential donors should be strong, so that there is a willingness to make long-term pledge commitments.

Every campaign is unique, so each its components should be weighted and balanced according to the needs of the organization. Will all 12 pieces of the pie ever be in alignment or completely perfect? No. Each campaign requires a specially designed strategic plan, which should be the result of a well-executed campaign planning study and a thorough analysis of the 12 components listed above. The planning study will help the organization understand how to capitalize on its strengths, recognize its weaknesses, evaluate the unique opportunities ahead and minimize the threats to the organization and the campaign.

— The Arts Consulting Group is a national firm with offices in Los Angeles, New York and Dallas. It has consultants located across the country. The firm provides interim management, project consulting, executive search and human empowerment services for performing, visual and educational arts organizations of all sizes. For more information, please call them toll free at (888) 234-4236 or visit www.artsconsulting.com.

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