

Endowment Funds for Public Schools

Michael Pinto, Ph.D.

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Everyone wants an endowment fund: The volunteer who is tired of the annual struggle to raise money would like nothing better than to have a pot of assets spinning off income. The professional could relax a little, knowing the annual campaign was about adding to a nest egg rather than having to build it from the ground up every year. And the community could take pride in an asset base which continued to grow year in and year out (absent market corrections, of course), reflective of a successful and supportive group of diverse people who care about public education.

Endowment funds have a certain sizzle and panache', an excitement that goes beyond the normal fundraising campaign, a psychology all their own. An endowment fund is quite unlike the annual campaign with its events, goals, budgets, exhaustion and elation, rapid turnover of volunteers, and continuous need for reinvention and creativity. The endowment fund must be steady; conservative in its risk-management of assets, careful of change, attractive in a way that is different from the event oriented annual campaign.

In other words, establishing an endowment fund is much more than just creating another event, establishing another committee, and setting another goal. We establish educational foundations to raise money for our children's schools. Someone has an idea for a fundraiser, we recruit other parents and neighbors, organize and run an event, and hopefully make a profit. Then another idea is developed, more money raised, and an educational foundation is born.

Endowment funds, unlike the *ad hoc* nature of an informal association evolving into an educational foundation, require a formal structure and proven track record in order to attract the large gift or planned bequest. Endowment funds, therefore, distinguish themselves from annual event driven campaigns in many ways, some of which are as follows: They

- 1) provide a structure for the preservation and accumulation of capital
- 2) provide for the long-range planning and funding of special projects
- 3) are attractive to large contributors outside a capital campaign
- 4) provide a structure for Planned Giving gifts such as CRTs, gift annuities, lead trusts and the myriad other tax planning charitable strategies.
- 5) focus on large gift solicitations and orderly, long-range planning of fund development.
- 6) provide a basis of financial support for multi-year school projects.

Reflected in the list above is the underlying goal of conservatorship over fundraising. This is a characteristic of endowment funds that reflects not only organizational goals but also the kind of volunteer and staff professional attracted to the endeavor.

To put it simply, annual event-driven educational foundations are different from endowment funds. The former tends to be focused on events (the action and energy of the annual fundraising frenzy), the latter on long-range solicitations, fund management, and conservative accumulation of assets (the green eyeshade types). To have both organizations working side by side in support of the public schools affords a comprehensive program that can cater to a broad spectrum of contributors.

When do you start an endowment fund and how is it accomplished? Our experience with The Laguna Beach Education Endowment and Capital fund might prove illustrative. When we established the Laguna Beach Education Endowment fund in 1986, the mother organization, Schoolpower, had been in operation for six years and had established a solid reputation. We did not have to convince our first endowment contributor of its worthiness or reliability; she only had to be asked for our founding contribution.

Over coffee, we asked her to contribute an unrestricted \$100,000 to our fledgling endowment fund. She blinked (a sure sign she would do it but with a slight modification), so it was suggested the pledge be paid over five years. She agreed and our endowment fund was off to a great start.

In making that pledge, however, she did ask that the endowment fund be established as a separate 501(c) 3 corporation with its own set of bylaws, articles of incorporation and separate board. She was new to the organization but not endowment funds. In making that request, she highlighted an important element in fundraising for endowment funds. Supporters want to know that their contributions are clearly segregated from the annual campaign coffers.

A five-member founding board was then recruited from amongst the Schoolpower trustees and we obtained the *pro bono* services of a local law firm to draw up the appropriate corporate documents. The new corporation was called the Laguna Beach Education Endowment Fund, a wholly owned subsidiary of the Laguna Beach Education Foundation.

The new board decided that the endowment fund would only accept gifts of \$10,000 or more in order to distinguish it from, and not to compete with, the annual campaign. Additionally, because the gifts to be solicited were so large, it was agreed that they could be pledged and then paid for over a number of years; again, different from the annual campaign that collected all monies pledged within the same campaign year.

To show the community that Schoolpower believed in the endowment fund concept, it was agreed that 10% of the net proceeds from each year's regular campaign would be contributed to the endowment fund. Additionally, as the endowment fund was slow in getting started, there was no overhead burden charged to the fledgling foundation. These two decisions were particularly important to its early success, as needs of the school district were to overshadow our efforts to build the fund during the first six years of its existence.

The school district had sold off excess assets, receiving over \$7 million in net proceeds. This money, by law, could only be used for capital projects. As the high school was in much need of repair and expansion (it was built in the 1930's), and as the projected cost was well over \$10 million, the Board of Education decided to conduct a \$3 million capital campaign, largely with Schoolpower volunteers. So as not to conflict with this new campaign, the endowment fundraising was put on temporary hold.

Once the capital campaign was successfully completed, we realized that folding the fundraising committee into the endowment fund board would be an excellent way to reinvigorate the endowment fund and hold onto a very successful and active group of volunteers experienced in large gift solicitations. The new board reviewed and updated the corporation's bylaws, elected new officers, recruited additional members, and renamed the Endowment Fund the Laguna Beach Endowment and Capital Fund.

It was decided that with the exception of one dinner dance/auction a year, the endowment/capital fund would conduct no other fundraising events. This was important for future cooperation between the two organizations. Schoolpower, a largely event-driven organization, did not want to have to compete with the Endowment/Capital Fund. Income for the Endowment/Capital fund would be generated only through individual large gift solicitations, the dinner/dance/auction event, planned

giving, the annual 10% Schoolpower contribution, and good asset management. Overhead would be kept to a minimum by using Schoolpower staff on a pay-as-you-go basis.

Since its reinvigoration several years ago, the Endowment/Capital fund has received several corporate stock contributions (through our entrepreneurial fund) and a parcel of land. Our balance sheet shows almost one million dollars in net assets. We have instituted an annual board retreat, inviting leading members of the community as well as school administrators and teachers to envision their dreams for the future of education in Laguna Beach. This event also gives the Board an opportunity to stay in touch with the community and to harvest new fundraising ideas and contacts.

There have been two interesting developments with the endowment fund that we never anticipated. Several years ago, as a result of the Orange County bankruptcy as well as very poor fiscal management at the Laguna Beach school district office, our schools were faced with a one million dollar (8% of the budget) deficit. Drastic measures had to be taken to correct this situation and during the crisis, the endowment fund sought to establish an unsecured line of credit it could borrow against. The proven track record and financial strength of the endowment fund allowed us this opportunity, and was a graphic example of how valuable and unexpectedly important an endowment fund could be.

The second outcome was a more problematic one. With success comes both opportunities and danger. Two Laguna Beach non-profit organizations, one a church, the other a museum, were taken over by outsiders through a strategy of quietly infiltrating the board of these asset rich non-profits. Both events were very traumatic to the community, and as a result of this experience, the Laguna Beach Education Endowment and Capital fund has been investigating ways to protect itself from such a takeover. As of this date, our only answer has been to stay aware, involved, and community based. But as the endowment pot grows, greedy eyes will be watching. Our challenge is far from over.

Finally, there are philosophical questions to be addressed when establishing an endowment fund: Is it better to save for the future in an endowment fund or should immediate needs be addressed through the annual campaign? What takes precedence, the capital fund's bricks and mortar or current needs funded through annual fundraising events? To an extent, the answers come from the contributors as they drive much of how we raise as well as allocate funds. However, our responsibility as professionals and concerned volunteers is not only to sense the needs of the community and contributors, but to lead them in an understanding of the great potential and multiplicity of ways our communities have to support public education. We carry the flame and it is burning brightly.

Michael Pinto, Ph.D.
P.O. Box 1809
Laguna Beach, CA. 92652
949-494-7283 949-497-7222 (fax)
Mpinto@aol.com