Fiscal Sponsorship: the state of a growing service

Trust
for Conservation
Innovation

Fiscal Sponsorship: the state of a growing service

The Trust for Conservation Innovation

This study was commissioned by the Board of Directors of the Trust for Conservation Innovation (TCI). TCI is a nonprofit organization supporting environmental leaders to fulfill their visions by providing nonprofit status and fiscal sponsorship services for innovative conservation projects. By providing a shared and efficient administrative platform, TCI enables environmental leaders to launch innovative projects to address the most pressing issues of the day.

The Trust for Conservation Innovation was launched in 2002 to offer an alternative in the marketplace for low-cost, high-value fiscal sponsor services to nonprofit projects. Smaller nonprofit enterprises have traditionally had difficulty in attracting, affording, and managing the administrative services necessary to run a smooth operation. TCI has created a common, efficient platform to deliver financial, legal, and administrative services to environmental leaders and their projects. TCI currently supports a host of exciting and cutting-edge projects that use innovative approaches to conserve natural resources, reduce pollution, and restore the environment.

The purpose of this study was to identify current best practices in fiscal sponsor services. Originally intended as an internal report, TCI decided to publicly release the study when we realized no such analysis was available to the philanthropic and nonprofit communities. However, this paper is only a beginning. We hope it will be useful to the public.

For more information on the Trust for Conservation Innovation and our projects, please contact Carin D'Oliva at (415) 421-3774 or visit our website at www.trustforconservationinnovation.org.

Acknowledgements

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Introduction

Fiscal sponsorship is an emerging trend in the nonprofit organizational landscape. Fiscal sponsorship refers to the practice of nonprofit organizations offering their legal and tax-exempt status to groups engaged in activities related to the organizations' missions.[1] It typically involves a fee-based contractual arrangement between a project and an established nonprofit. In recent years, fiscal sponsorship has emerged as a more formal nonprofit service, with many organizations making the sponsorship and incubation of projects a core business.[2]

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Fiscal sponsorship programs provide significant value to the nonprofit sector. In many cases, it is not practical or cost-effective for a project to go through the process of establishing a separate nonprofit organization to pursue its objectives. Fiscal sponsorship provides an attractive alternative by enabling projects to share a common administrative platform in an efficient manner. In addition to legal status, sponsors often provide payroll, employee benefits, office space, publicity, fundraising assistance, and training services, sparing projects the necessity of developing these resources and allowing them to focus on programmatic activities.[3] Many fiscal sponsors also perform an important incubation function by assisting nascent projects in developing the necessary organizational capabilities to eventually spin off as independent nonprofits. There are a number of reasons why a project may seek sponsorship: an anticipated short lifespan, improved access to funding, increased credibility, low-cost financial and administrative services, or support for capacity building.

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Despite its increasing popularity, there is very little literature available on the subject of fiscal sponsorship. As a result, this report was commissioned by a newly established nonprofit organization, the Trust for Conservation Innovation, in order to provide a better understanding of the fiscal sponsorship landscape. The report is based on research of leading fiscal sponsorship programs as well as over twenty interviews with fiscal sponsors, projects under sponsorship (currently and previously), funders, academics, and other experts. All information was volunteered and has not been independently verified. Organizations were chosen to represent a broad range of operating models, missions, and services. However, the focus of this study was on organizations that make fiscal sponsorship a core business, particularly those in California.[4] Table 1 provides a list of the nonprofit organizations that were profiled for this study, a number of whom were interviewed as part of this effort. Given the small sample size, the data presented in this report should be viewed as indicative of trends, not absolutes. This report is only a beginning; it summarizes general findings from our research.

Table 1
Profiled nonprofit organizations with fiscal sponsorship programs

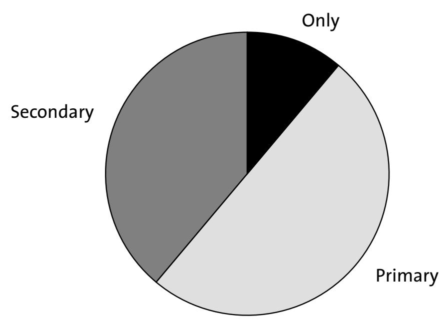
	Location	Focus of program
Bay Area Video Coalition	San Francisco	video
Boston Film/Video Foundation	Boston	film/video
Community Initiative Funds (SFF)	San Francisco	general
Community Partners	Los Angeles	general
Earth Island Institute	San Francisco	environmental conservation
Film Arts Foundation	San Francisco	film
Fund for the City of New York	New York	general
Intersection for the Arts	San Francisco	arts
Monterey Bay Sanctuary Foundation	Monterey, CA	marine conservation
New York Foundation for the Arts	New York	arts
Philanthropic Collaborative	New York	general
Public Health Institute	Berkeley, CA	health
San Francisco Study Center	San Francisco	general/social
Social & Environmental Entrepreneurs	Los Angeles	social/environmental
The Women's Building	San Francisco	women's issues
Third Sector New England	Boston	social
Tides Center	San Francisco	general/social
Trees Foundation	Redway, CA	forest conservation

Landscape overview

In reviewing the fiscal sponsorship landscape, it is apparent that sponsors vary significantly across a number of areas: level of sponsorship activity, mission, size (number of projects, revenue), fee level, and range of services. While it is difficult to identify two or three primary operating models for fiscal sponsors, in some areas patterns do exist. The following is a breakdown of the fiscal sponsorship programs profiled across a number of metrics.[5]

One fundamental way in which fiscal sponsors differ is in the extent of their sponsorship activities relative to other organizational activities. Some organizations provide fiscal sponsorship services as a primary organizational activity, with a few acting exclusively as fiscal sponsors. Other organizations' fiscal sponsorship services are secondary to a host of other activities (see Figure 1 for a breakdown of profiled sponsors). The level of sponsorship activity can have implications for the organization's operating model and services.

Figure 1
Level of fiscal sponsorship activity



Fiscal sponsors also vary according to mission focus (Figure 2 provides a breakdown of fiscal sponsors by issue area). About 60% of the organizations profiled have a narrowly defined mission (e.g., health, arts) and only sponsor projects with activities in that area. The remaining organizations sponsor projects across a broad range of issue areas. Feedback is mixed on the impact of a focused mission. Many feel there is significant value in fiscal sponsors having a narrow mission: it allows them to provide more targeted project support; they are more familiar with potential funding sources in the area; they are more likely to develop a network with other organizations with similar goals; and it enables them to create a support community for their projects. Some, however, feel that fiscal sponsors with narrow missions are more likely to run into conflict with their projects, competing with them for limited funding and blurring the lines between project activities and those of the parent organization.

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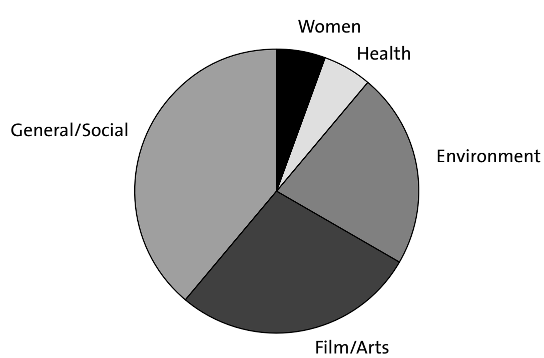
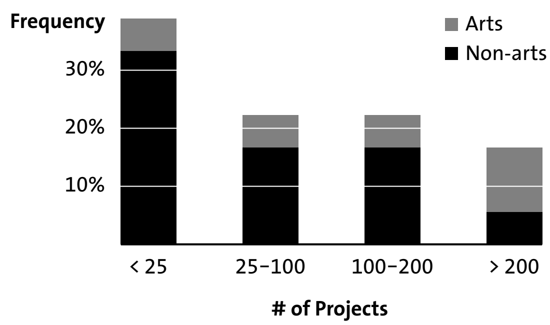
Figure 2
Mission focus



Size also varies significantly across organizations, both in terms of number of projects and revenue. About 40% of fiscal sponsors profiled have less than 25 projects under management (see Figure 3 for a breakdown of fiscal sponsors by number of projects). However, as project size varies significantly within and across organizations, the number of projects is not necessarily a gauge of overall program size. For example, art-focused fiscal sponsors tend to have a very high number of projects (usually made up of individual artists), but a much lower average project size—the organizations profiled for this report all average about $12,000 per project. In contrast, the average project size for nonarts-focused sponsors varies significantly, from a low of $12,000 to a high of over $300,000 (with a mean of $133,000).

Figure 3
Fiscal sponsors by number of projects



Although organizations vary in the size of their fiscal sponsorship programs, the majority manage more than $2 million in total revenue (this is less true for arts-focused organizations). Figure 4 provides a breakdown of fiscal sponsors by size of sponsorship program. Total revenue for fiscal sponsorship programs is correlated with the degree to which sponsorship is a primary activity of the organization. This is largely due to economies of scale: organizations whose fiscal sponsorship programs are not primary activities usually leverage their existing administrative platforms to provide sponsorship services. Organizations that provide fiscal sponsorship as a primary (or the only) activity need sufficient economies of scale to cover the costs of developing the necessary administrative platform.

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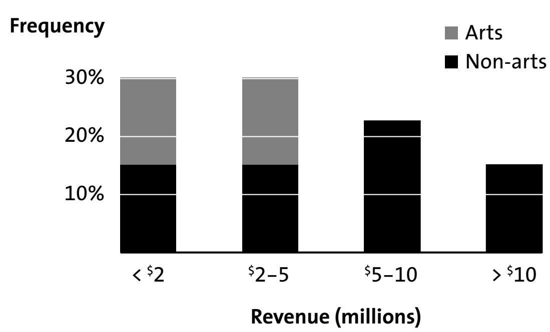
Figure 4
Fiscal sponsors by total revenue managed[6]



Fiscal sponsors indicate that project size varies significantly within their programs, in some cases ranging from projects with annual budgets under $10,000 to those with budgets over $2 million. Excluding arts-focused organizations, the majority of programs have an average revenue per project of $100,000 or more (see Figure 5 for a breakdown of average revenue per project).

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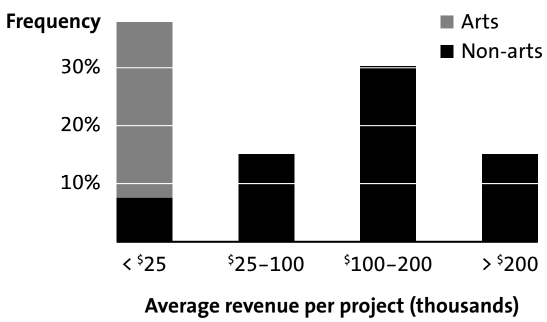
Figure 5
Fiscal sponsors by average revenue per project[7]



However, sponsors consistently note that there is no "typical" project size. Programs often use fee revenue from larger projects to subsidize services provided to smaller ones. Sponsors cite two primary reasons for taking on small projects that are not initially cost effective to serve. First, many sponsors believe that their mission as incubators, community-based organizations, or activists, compels them to take on start-up projects, grassroots organizations, and community initiatives. Second, many projects seek sponsorship to enable initial fundraising and have significant growth potential once it is secured. None of the sponsors interviewed report having an explicit minimum revenue requirement for projects, although some charge a minimum annual fee.

As expected, there is enormous variance in the level of fees charged by fiscal sponsors. Standard sponsorship fees range from 5% to 14% of total revenue, with fiscal sponsors employing a number of different fee structures. Figure 6 provides a breakdown of fiscal sponsors by fee level.

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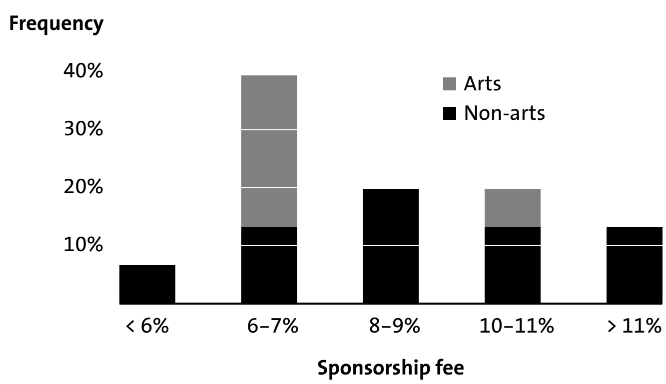
Figure 6
Fees charged by fiscal sponsors[8]



The vast majority of sponsors charge a standard percentage fee for services, although a few offer a range of fees according to the level of services provided. In some cases, insurance and other costs are included in the standard fee and in others they are assessed separately. Many sponsors charge a higher fee of 12% to 15% for administering public funds due to the increased administrative work associated with them. In addition, some sponsors indicate that they occasionally negotiate a lower fee to secure especially large projects.

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The range of services offered varies significantly, however fiscal sponsorship service models tend to fall into two broad categories. The first includes fiscal sponsors that focus primarily on providing financial management and administrative support, with minimal (or no) training, promotion, or other services. The second category includes sponsors that provide significant amounts of direct capacity building and technical assistance to projects through training workshops, fundraising assistance, project management support, or extensive promotion. These sponsors often consider project incubation a key component of their mission.

The level of sponsorship fee does not necessarily correlate with the model of services offered.[9] Anecdotal evidence suggests that the value to projects of offering additional services varies according to the projects' interests and needs. Some projects indicate only valuing fiscal sponsorship for the nonprofit status and financial management services.[10] Others perceive value in the name recognition, funder and project network, promotional activities, issue area expertise, and training and technical support. In general, projects (and sponsors) stress the value of high-quality financial and administrative services, transparent and flexible processes, access to a community of projects with similar goals, and increased credibility and awareness with funders and the community.

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Many fiscal sponsors list project incubation as one of their primary goals (i.e., building capacity within projects to eventually spin them off as independent nonprofits). However, interviews indicate that this happens much less frequently than anticipated. There are examples of organizations that do a significant amount of incubation, but many find that their projects become comfortable with the sponsorship arrangement and for a variety of reasons choose not to pursue their own 501(c)(3) status even when it becomes economically efficient to do so.

Lessons learned

In the course of the research and interviews, a number of common themes became apparent. These lessons learned relate to economies of scale, "professionalization" of services, project separation, and continued education.

Economies of scale

Research and interviews suggest that there are significant economies of scale associated with fiscal sponsorship. Many sponsors report substantial up-front costs necessary to develop the capacity to provide fiscal sponsorship services. These include legal costs as well as costs associated with establishing an administrative platform, if one is not already in place. Start up costs can be significantly reduced if the organization is building off of an existing administrative platform and/or only providing the most basic sponsorship services. Although no specific breakeven point was determined, anecdotal evidence suggests that a fiscal sponsorship programs managing less than $2 million will be difficult to sustain over time, if sponsorship is the primary activity of the organization.[11] A small fiscal sponsorship program also carries higher risk, being vulnerable to sudden drops in revenue (e.g., from a large project leaving unexpectedly) if it can not reallocate overhead costs to other areas. Some fiscal sponsors protect against this by using sponsorship fee surpluses to build up an operating reserve over time.

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Professionalization of services

The single most consistent message imparted by sponsors, projects, and funders was the need for fiscal sponsors to provide top-level financial management and oversight services. As one Executive Director explains:

> A fiscal sponsor will live or die by the quality of its handling of financial transactions. It is critical to gaining the total confidence of projects and funders: project leaders want to see that you are being accurate and honest; funders want to know that you are watching the financials like a hawk. You should bend over backwards to provide the best financial services possible, because projects, funders, media, and the law will hold you highly accountable.

The single most consistent message imparted by sponsors, projects, and funders was the need for fiscal sponsors to provide top-level financial management and oversight services.

In addition, many interviewees express a need to further "professionalize" the nonprofit management services provided by fiscal sponsors, especially as increasing numbers of organizations make it a core business activity. Some projects and funders feel that an opportunity exists to improve the quality of financial and administrative services. Common complaints include bookkeeping errors, slow turnaround time on financial services, and delayed and often poorly structured financial reports. [12]

Project separations

Fiscal sponsors report one of the most difficult undertakings as a sponsor is managing project separations. Project spin-offs are generally time consuming and can be a significant distraction for projects and sponsors. They tend to be expensive and complicated, with fiscal sponsors and projects devoting substantial resources towards managing the separation. Disagreements frequently arise over how to handle the separation of assets. As a result, fiscal sponsors stress the importance of developing a formalized process for addressing project spin-offs, including procedures of notification, a timetable for the separation of assets, and financial responsibility for the process.

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Continued education

A final topic raised by many in the interviews was the need for continued education of the nonprofit community regarding the role and value of fiscal sponsorship. Although awareness has increased significantly over the past decade, many feel an opportunity remains to further expand the understanding of fiscal sponsorship among the funder community, potential projects, and organizations that currently offer, or are considering offering, sponsorship services.

Conclusion

Fiscal sponsors play a critical role in contributing to the strength and diversity of the nonprofit sector. They offer an important organizational alternative for philanthropic projects and enhance the efficiency of the sector. As this report demonstrates, fiscal sponsorship programs vary significantly in their size, scope, and services. Various service models are used to achieve different goals, from offering a basic administrative platform to providing intensive capacity building assistance. As fiscal sponsorship plays an increasingly important role in the nonprofit sector, it will be important to continue studying the lessons learned and identifying opportunities for improvement. Fiscal sponsors will need to move towards a common understanding and approach so that funders and projects alike know what performance standards to expect and to achieve.

Fiscal sponsors play a critical role in contributing to the strength and diversity of the nonprofit sector.

Notes

[1] Strickland, Wendy, (2001). *Leaving the Nest: Why Fiscally-Sponsored Projects Seek Independence*. University of San Francisco, Masters Thesis.

[2] La Piana, David, (1998). *Beyond Collaboration: Strategic Restructuring of Nonprofit Organizations*, Revised Edition. The James Irvine Foundation.

[3] Colvin, Gregory, (1993). *Fiscal Sponsorship: 6 Ways to Do It Right*. San Francisco: Study Center Press.

[4] University fiscal sponsorship programs were excluded from this study; in addition, only a subset of the many arts fiscal sponsorship programs that exist were included.

[5] In many figures, art-focused sponsors are broken out separately as they tend to have substanially different operating models since they primarily sponsor individual artists.

[6] Data was available for 13 fiscal sponsorship organizations.

[7] Data was available for 13 fiscal sponsorship organizations.

[8] Data was available for 15 fiscal sponsorship organizations.

[9] For example, some sponsors supplement fee income through independent donor support, while others use excess revenue generated from sponsorship fees to subsidize other organizational activities.

[10] However, many fiscal sponsors interviewed believe that projects are often unaware of the full range of services they receive under sponsorship.

[11] Organizations that leverage an existing administrative platform to support sponsorship activities may be capable of operating on a significantly smaller scale, and in some cases may have no minimum break-even.

[12] Wendy Strickland's *Leaving the Nest: Why Fiscally-Sponsored Projects Seek Independence* provides an in-depth look at the motivations behind projects leaving fiscal sponsorship programs.