The Double Trust Imperative

Earning the Trust of Donors and the Community:
A History of Community Foundations in the United States

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Foreward

As Chairman of the Board of The Community Foundation for Greater Atlanta (CFGA), I have been amazed by the breadth and multi-dimensionality of this great institution. CFGA has been one of the central anchor institutions of the greater Atlanta area for over 50 years.

As my involvement in CFGA has grown, so has my curiosity. Where did all of this start? What is our history? And what about the history of all community foundations - all 750+ of them? Do they share similar milestones of achievement? How did each begin? How did each grow? What about donor-advised funds?

How did it come to pass that these institutions collectively have become one of key drivers of philanthropy in the world today? And where are we headed?

So I dived into these questions. I read a lot - there are treasures out there! I talked to my colleagues - many of whom had stories to tell and people to remember. I hope many will find the work useful.

Colleagues: I have tried to acknowledge you in my citations and references. If by chance I have not done so properly, please do let me know, and I will happily amend.

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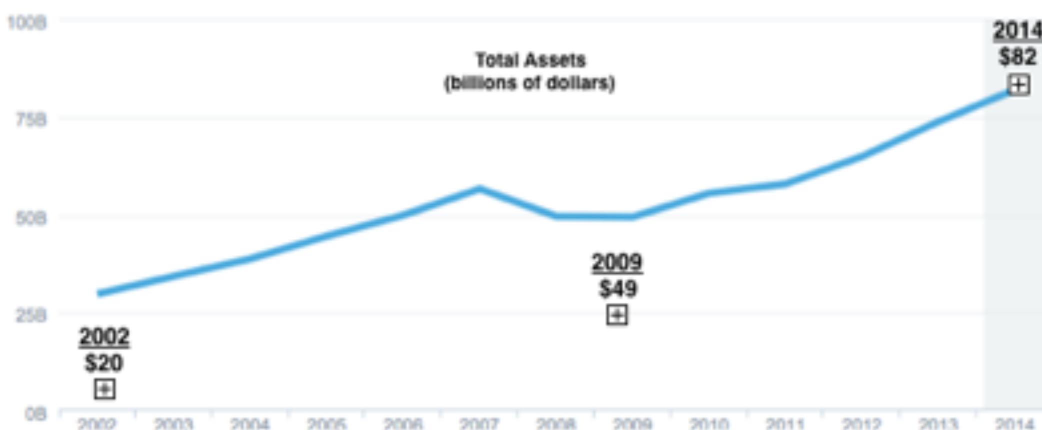
Executive Summary

Community foundations are public charities - distinct from private foundations, and - for that matter - distinct from other public charities such as national charities and single-interest charities. Their special role in American philanthropy is ratified in the Tax Reform Act of 1969, in IRS regulations, in a major Supreme Court decision in 1987, in the Pension Reform Act of 2006, and in the Tax Reform Act of 2012.

As a public charity, community foundations must meet a standard in law, namely: they must continually show that a certain amount of their total support is received from a broad cross-section of the public and not from one source.

In 2014, the last year when data in available, 789 nonprofit organizations were classified by the IRS as community foundations. Their assets combined equaled $82 billion, up from just $20 billion in 2002. This is extraordinary growth - over 12.3% compounded growth in assets since 2002:



Along with this significant growth in assets came a commensurate growth in *impact*. Grant making by community foundations increased from $6 billion in 2002 to $9 billion.

What is the history of these anchor institutions? What have they done to grow so significantly in assets *and* impact - since 2002?

The answer lies in their ability to earn the trust of donors and the community - the double trust imperative.

All share a long, proud history - one that enjoys a "double trust" from donors and communities alike. All take this double trust imperative - respecting the wishes of donors while earning the trust of the community - as a sacred duty.

The founder of the first community foundation, Frederick Goff, envisioned a "permanently enduring organization", then called a "community trust", that could serve a community, by embracing both the wishes of donors and the hopes of the community in perpetuity. This simple idea is what today allows hundreds of funds and dozens of initiatives to be housed in one magnificent organization. This organization is what we today know as a "community foundation".

The history of community foundations goes back over 100 years, to 1914. The Cleveland Foundation was the first community foundation in the U.S., established in 1914. Indianapolis followed in 1916, Chicago in 1919, and New York in 1920. By 1931, 74 communities had established community foundations.

The first community foundation was created by a single trustee bank, Cleveland Trust[1]. Innovations in governance quickly followed: others adopted a multiple-trustee form of governance, which attracted more donors and allowed for a more community-wide vision.

A major innovation followed in 1931. The New York Community Trust created the first "donor-advised fund" (DAF). Its characteristics were essentially what a DAF is today: a fund created by a donor, where the donor "advises"[2] the foundation on how the assets in that fund are to be distributed for philanthropic purposes (and only philanthropic purposes).

Thus, the DAF became a critical instrument of one half of the double trust imperative: it became a new way to engage living donor, and earn their trust. More and more donors have generously created funds, based on this trust.

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[1] Frederick Goff was the President of Cleveland Trust

[2] "Advises" is a critical term, because the donor's gift, once made, becomes the property of the community foundation (or other "supporting organization"). Because it is the foundation's property, the donor must trust that their advice on distributions will be heeded. The donor does not, and cannot, "direct".

The Great Depression and World War II brought the expansion of community foundations to an end. In fact, the movement contracted: some community foundations ceased operation, and others struggled mightily.

By 1949, after the period of consolidation, there were 66 community foundations in the US, down from 74 in 1931. Of these 66, only 35 managed $200,000 or more in assets. In these 35 communities, the community foundation had become an anchor institution of the community it served. It took the post-war boom to broaden and deepen the reach of community foundations across America.

From 1949-1965, community foundations came into full bloom. No community of any size could be without this anchor institution that organized philanthropy. Community foundations expanded to more communities, and they became more important in coordinating the philanthropy in the communities they were already serving.

During this period of national optimism, community leaders led this period of expansion (the banking leaders of the early days remained involved, but they joined a larger coalition of leaders).

Along with this community activism came a new form of governance: the corporate form. Unlike the community trusts of the past, these new community foundation were not birthed out of or controlled by trustee banks, but rather out of the community itself. Instead of one or several bank partners, all banks in the community were generally invited to partner. And, unlike the Trust form of governance, the community foundation, not the trustee banks, controlled the investments.

The period of 1965-1980 was a period of consolidation. Assets and impact grew, but more slowly. This period, however, foreshadowed a period of explosive growth.

A period of significant growth between 1980 and 2010 was catalyzed, in part, by the Tax Reform Act of 1969, whose regulations were finalized in 1977.

Nonetheless, the legislation heralded a new era for community foundations. The law made it official that community foundations were “public charities”, not “private foundations”. Pubic charities had a number of beneficial aspects, and community foundations organized to capitalize on these advantages, on behalf of their communities.

Growth during this period was assisted by the 1987 Supreme Court ruling - National Foundation, Inc. v. United States. It was a landmark case for the movement. The case reversed prior IRS rulings and essentially put the court’s stamp of approval on donor-advised funds (DAFs).

But a second growth driver over this period came from an unlikely source: national for-profit financial services firms. Fidelity, watching the growth of philanthropy and donor-advised funds, decided to offer these funds to its clients. Fidelity set up a nonprofit subsidiary for the express purpose of offering "commercial gift funds" to its clients. Fidelity brought the same advanced technology and powerful marketing from their for-profit business into their non-for-profit subsidiary. The result was that many of its clients opted to create and fund DAFs.[3]

Community foundations were at first alarmed by this development, the emergence of national commercial gift funds. Could community foundations compete with these powerful for-profit financial institutions? Now that national for-profits were bringing marketing and sales and technology to the creation of donor-advised funds, what would happen to the donor-advised funds of community foundations?

The late nineties and early twentieth century were a period of soul-searching by the community foundation community. Conversations nationally allowed leaders to get really clear that community foundations offered something enduring: they are the only institutions who make "double-trust" their business. While commercial gift funds focus like a laser on earning the trust of their donors, community foundations focus on earning the trust of their donors at the same time that they earn the trust of the communities they serve. *Only community foundations are capable of the double trust imperative.*

The present-day facts bear this out: While the national funds were growing, community foundations were growing too. Note that community foundations held over $20 billion in assets in 2002, over $49 billion in 2009, and over $82 billion in 2014. Moreover, each of the years since 2010 has been a record-breaking one for community foundations.

Looking at this complex landscape with present-day eyes, a few points are clear:

1. Community foundations are now fully ratified in law and regulation (including their major fund type, the donor-advised fund).
2. Community foundations are experiencing strong growth in assets and impact.
3. They, unlike other institutions, are defined both by the trust they enjoy from donors, but - equally - by the trust they enjoy from the community.
4. Commercial gift funds are also experiencing strong growth in assets and impact.
5. Both community foundations and commercial gift funds are sharing in the increasing popularity of donor-advised funds (DAF).

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[3] These new commercial gift funds took full advantage of the new regulations and rulings that (such as the 1987 Supreme Court ruling and IRS regulations issued in 1977). The first was Fidelity, and they were soon followed by Schwab and Vanguard. Fidelity Charitable Gift Fund was chartered in 1991, a nonprofit arm of the Fidelity Investments. The charter become active when the IRS classified it as a section 501(c)(3) public charity.

6. DAFs are also now fully ratified in law and regulation, which no doubt is driving accelerated understanding and popularity of this instrument for strategic philanthropy.
7. DAFs are now the fastest growing area of philanthropy. In 2014, donor-advised funds in total grew from $45 billion to $70 billion.

We can safely predict that donor-advised funds, community foundations, and commercial gift funds will be vital instruments of philanthropy in the coming years. The community foundation, as an anchor institution in the communities they serve, will undoubtedly continue to earn the trust of donors and communities alike - consistent with the double trust imperative.

Introduction

Community foundations share an amazing history. It is a living history - every bit as dynamic as the communities and donors they serve. The history is full of people, places, innovations, and - most important - *impact*.

People, of course, drive the narrative, as they always do. “Community leadership” is a common theme. Connections, servant leadership, coalition-building, trusting relationships all are sub-themes of these highly creative community leaders. Early leaders of the movement created the vision and brought it to life; donors, each with their own powerful story, brought their own vision, and desire to make a difference; and today’s community foundation leaders each have a unique story to tell. They bring people together, in the right way, at the right time. They rarely seek the spotlight. They build coalitions with others out front. They act as master builders, with many tools creatively used to get a given job done - to achieve a given impact.

Places drive the narrative too. The emerging, bustling cites and towns, like Chicago, or Indianapolis, or New York, were full of promise and growth; but they also were places where growth created dysfunction and human misery. Governments were overwhelmed - they simply could not keep up. Each place was unique, with unique opportunities and challenges. Community foundations gave donors and community leaders a home of shared interest and purpose.

Innovations are important too. The “community trust” was an early innovation - broadening the work of trust companies. The “donor-advised fund” (DAF) was another - a powerful innovation that has served the movement well to this day. Today’s community foundation is constantly reinventing itself - building on a long history of innovation.

Impact is of course what matters most. Go to any community foundation, and you will find stories about impact - making a difference - in ways that are big and small. When the New York Community Trust mobilized just hours after 9/11, it was acting in a long tradition of making great things happen - with *impact*.

Understanding the dynamic nature of our collective history can give each reader a clearer picture of the exciting future we all share. It is a history that every board member, staff member, friend of the movement, and beneficiary of the movement deserves to know. It is a history that looks outward to the communities that community foundations serve, and also to the donors who endow the foundations and make such large impact possible.

What is a Community Foundation?

The Council on Foundations describes a community foundation in this way:

"The Community Foundation is a community partner that creates a better future for all by pursuing the community's greatest opportunities and addressing the most critical challenges, inclusively uniting people, institutions, and resources from throughout the community, and producing significant, widely shared, and lasting results."[4]

More technically, a community foundation is a tax-exempt public charity whose principal charitable purpose is focused on a defined geographic area. Thanks to the generosity of many donors who care deeply about "giving back" to these geographic areas (usually the homes of the donors), any given community foundation will have a number of funds. In addition to donor-advised funds, defined below, there can be, as examples, field of interest funds, designated funds, scholarship funds, and - of course - unrestricted funds.

Rather than require that each of these funds to be treated like separate private foundations, Congress (in 1969 and in 2006) allowed community foundations and others to aggregate these multiple funds, along with other trusts. Despite the word "foundation" in its name, a community foundation is classified as a public charity, rather than a private foundation, for federal tax purposes.

> Community leadership is at the core of what a community foundation does.

Community leadership is at the core of what a community foundations does. It is likely to be a core anchor institution of the community it serves - not simply one of many. Instead of supporting one impact area, such as the arts, or health and human services, a community foundation is likely to be focused on advancing many impact areas, and - as such - in advancing the overall well-being of the community it serves. Moreover, instead of providing direct services to the community, most community foundations provide support to other nonprofits that provide those services.

Grant-making is, of course, a critical tool employed by community foundation leaders and donors. Most of these leaders will articulate an even bigger vision: of building trusting relationships with other community leaders so that change networks can be dynamically created, and so that change strategies can be fashioned in unique ways appropriate to a given community. Community foundation leaders build coalitions, drawing upon their extensive community knowledge and the myriad of trusting relationships they have, to tackle vital community needs. They use an assortment of tools, only one of which is grants. They build useful knowledge; they shape community discourse; they foster strategic connections; they broker regional solu-

[4] 2013 Update, Framework for Community Leadership by a Community Foundation, Council on Foundations

tions; the build the case for public support; they expand resources devoted to change; they leverage systems change; and they promote performance. They are *change-makers*.

Community foundation fund assets are comprised of assets donated over time by donors keenly interested in advancing the well-being of their community (a community can be a town, a city, a region, or a state). Community foundations invest their assets, and donors have a reasonable expectation that the assets in their respective funds will grow (appropriate benchmarks can be used to determine how much they should grow).

There are almost 800 community foundations in the US today, and more than 1700 globally[5].

Donor-Advised Funds (DAF)

As this definition points out, community foundations are comprised of many different charitable “funds”. Generally, most (but not all) of these funds are technically classified by the IRS as “donor-advised funds” (DAFs). DAFs had grown in popularity since their inception in 1931, but were first recognized in law in 2006, in Title XII of the Pension Reform Act. Today, DAFs are the fastest growing segment of philanthropy. They hold assets in excess of $70 billion dollars.

DAFs are funds which are legally owned by the foundation, but the donor is fully expected to “advise” the foundation as to how the monies in the fund are to be spent.

No Geographic Restrictions in Grant-making

Community foundations have a long history of placing no geographical restrictions on grant-making. This policy traces back to 1931 - when a manual was published by the Committee on Community Trusts. The manual was almost certainly written by Ralph Hayes, the executive director of the New York Community Trust). The manual recommended that community foundations either place no or few geographic restrictions on their grant-making.

Today, this policy has allowed community foundations to flourish. For example, the Silicon Valley Community Foundation has donors from around the world; the philanthropic interests of its donors are global. It is natural and appropriate that the community foundation and its donors define their community as being worldwide.

> Community foundations place no geographical restrictions on grant-making, and yet over 80% of grants are made within the community they serve.

[5] For more information about global community foundations, the Community Foundation Atlas Project, prepared for the centennial of The Clevelend Foundation, is a great resource. Find it at http://communityfoundationatlas.org/facts/#infographics

Context

The Nonprofit Sector

Community foundations are public charities, a subset of the "charitable sector", which in turn is a subset of the "nonprofit sector". The nonprofit sector includes all organizations with federal tax-exempt status. In addition to charitable organizations, the nonprofit sector includes many other categories of tax-exempt organizations. These include, for example, social welfare organizations, labor unions, trade associations, fraternal societies, and political organizations.

The term "charitable sector" generally refers to one type of tax-exempt organization, described in section 501(c)(3) of the Internal Revenue code. Organizations eligible for 501(c)(3) status include, among others, charities, religious organizations, hospitals, and educational institutions.

Every 501(c)(3) organization is classified either as a "public charity" or as a "private foundation." 501(c)(3) organizations are presumed to be private foundations unless they qualify for public charity status based on various support and control tests.

Private foundations often are narrowly controlled, receive significant portions of their funds from a small number of donors or a single source, and make grants to other organizations rather than directly carry out their own charitable activities.

Unlike most public charities, which tend to provide charitable services directly to intended beneficiaries, community foundations are public charities that support other public charities[6] - mostly in a given community. This is a tricky but important distinction that makes community foundations unique in the philanthropic world.

Philanthropy in the 20th Century

Philanthropy in the 20th century is a multiplicity of belief systems, policies, practices, programs, and institutions. Although these have evolved over thousands of years, the 20th century brought innovation and new philosophy to philanthropic traditions. A few of these changes are covered briefly here.

Philanthropy is about giving, and giving is about generosity. A key fact about Americans: by and large, they are generous. Their generosity is proportionately greater than an other country where data is available.

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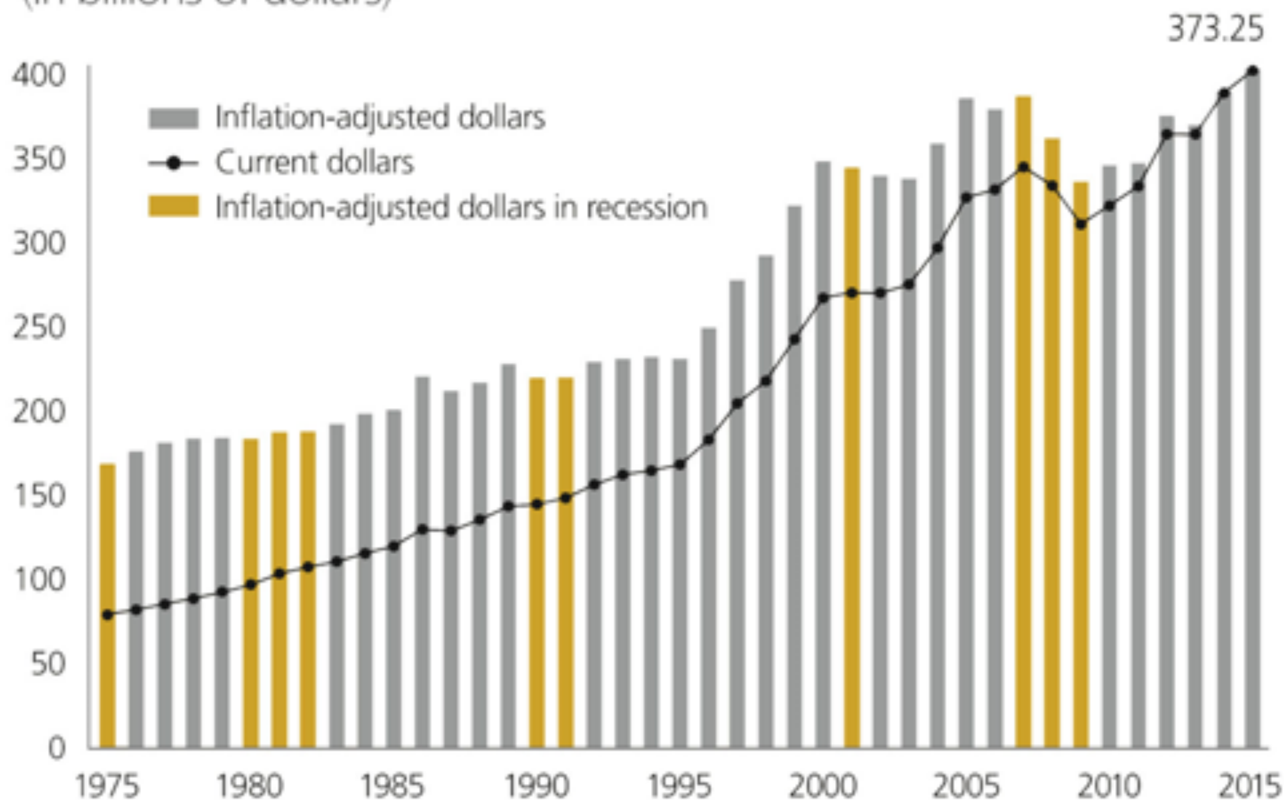
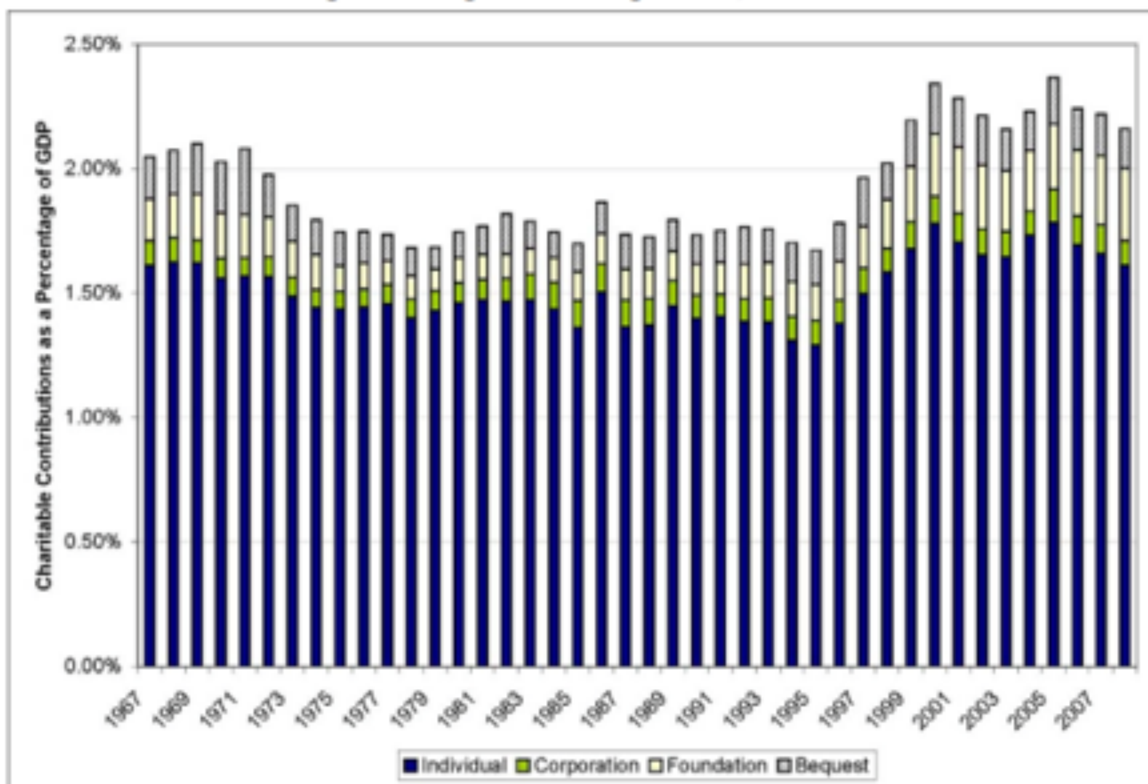
[6] According to the National Philanthropic Trust, in 2014 there were an estimated one million registered public charities in the United States. Of these, 1016 charities sponsored donor-advised funds (less than 1/10th of one percent). Of these 1016, 48 were "National Charities", 608 were Community Foundations (Note in this report, we cite IRS data that there are 789 community foundations in total) and 360 were Single-Issue Charities. Within these 1000+ public charities, there were more than 238,000 separate donor-advised fund accounts.

In 2015, Americans gave $373 billion to philanthropy. Even considering the great recession, the trend is sharply upward:



Although it fluctuates a bit year to year, Americans give about 2% of the GDP to philanthropy, as shown:

Figure 7. Giving as a Percentage of GDP, 1967-2008



Source: CRS calculations based on data from The Center on Philanthropy at Indiana University, *Giving USA 2009*, pp. 210-211.

Beneath this somewhat steady rate of proportional generosity is a history of expansion of the nonprofit and mutual benefit sectors. Nonprofit and mutual benefit organizations grew as the nation's population and wealth increased. These organizations grew exponentially after World War I, and then enjoyed another growth spurt after World War II.

Peter Dobkin Hall[7] reports that in 1939 there were 80,000 nonprofits in the United States, of which 12,500 were charitable nonprofits. In 2000, there were 1.2 million nonprofits - more than a *tenfold* increase - of which more than 600,000 were charitable nonprofits. Today, National Philanthropic Trust estimates that the 600,000 charitable nonprofits in 2000 now exceeds one million.

Philanthropy benefits from tax policy. Peter Dobkin Hall states "Tax policies were unquestionably the most powerful forces shaping the philanthropic and nonprofit enterprise in the postwar decades".

Philosophers of Philanthropy

America entered the 20th century flush with the successes - and challenges - of the industrial revolution. Some, like Morgan, Mellon, Rockefeller, Carnegie, Sage, and Vanderbilt, became very wealthy during this period. With the emergence of great wealth came a philosophical question: what are the responsibilities of the very wealthy to their communities? The question was raised regularly, and some of the very wealthy spoke and wrote about the role of philanthropy in society.

Andrew Carnegie was one of the most important. In 1889, Carnegie authored a famous essay, "The Gospel of Wealth". It is perhaps the closest philosophical antecedent to the emergence of community foundations. Carnegie stated his belief that wealth should be redistributed. "The proper use" of a rich man's fortune was for "public ends" to give back "work good to the community from which it chiefly came....".

> Andrew Carnegie foreshadowed the emergence of community foundations when he argued that the wealthy should take a personal hand in how their wealth could be best used to benefit their community.

Long before donor-advised funds came into being, he spoke about the importance of donors taking a personal hand in how wealth should be redistributed *while they were living*. In the essay, he challenged philanthropists to

[7] To find out more, a good resource is Peter Dobkin Hall, from Harvard and Yale. Hall wrote prolifically about the history of philanthropy. One of his best is the "Documentary History of Philanthropy and Voluntarism in the United States, 1600-1900". It is a free online resource.

take advantage of the skills that they had acquired in the accumulation of wealth, and to use those skills in its redistribution. He said "there is but one right mode of using enormous fortunes -- namely, that the possessors from time to time during their own lives should so administer these as to promote the permanent good of the communities from which they were gathered". Carnegie argued that the wealthy should die without assets. He felt strongly, and followed this practice himself, that the wealthy should give their money away *while they were living* - using the same care and strategic thinking that had allowed them to earn it in the first place.

Carnegie was not alone in this belief. John D. Rockefeller Jr. was a noted philanthropist who believed that wealth should be "an instrumentality of constructive social living". He was the President of the Rockefeller Foundation. Rockefeller also felt strongly about the obligation to give back to the communities from which wealth had been earned.

At that time, this was revolutionary thinking. It was thinking that set the stage for the visionaries of community foundations.

Trust Banking and Estates

To understand the great societal forces that converged to make community foundations possible, some further context is needed. In this section, we discuss how the wealthy organized their giving in the early 20th century.

For thousands of years, one of the most important questions for any person of means was "How should I give when I die?" To answer this question, a host of institutions emerged, like trust banks[8], insurance companies, and law firms specializing in estate planning. Dozens of innovations came out of this intense focus on wills, bequests, estates, trusts and the other subjects that attempted to address this fundamental question: "How should I give when I die?"

This question, always a critical one, became even more critical with the emergence of the income tax. In 1913, the 16th Amendment to the Constitution made the income tax a permanent fixture in the U.S. tax system. Importantly, the modern estate tax was enacted in 1916.

> 1913: 16th Amendment makes income tax permanent
>
> 1916: Modern estate tax becomes law

The question "How should I give when I die?" took on a new urgency as it was reframed regularly to: "How can I avoid income and estate taxes when I die (in order to leave the most

[8] A somewhat cynical view of the emergence of Trust Companies can be found in the PhD dissertation of Marc Handy, written in 2012. In his dissertation, Handy documents that most of the early Community Foundations were set up by one, and at most three, Trust Companies in the community. Far from being solely in the interests of the community, Trust Companies that moved quickly to establish community foundations became the fastest-growing institutions in their communities. They flourished while others remained relatively static.

possible resources in my estate)?

To address this modified question, and save taxes. the great wealth of America at the time was frequently put "in trust". Bankers and lawyers were writing and administering wills, helping their clients do what is now commonly referred to as "estate planning". The operative word of the time was "bequest" - which embodied the wishes of the donor, once deceased.

Day after day, bankers, lawyers and other service providers met with wealthy clients such as these. The wealthy needed to make sure they had what they needed to live on, to provide for themselves and their families in an uncertain world. But after they were comfortable that their families were set, many expressed a desire to "give back" to the communities which had been so good to them - following the logic of Carnegie. They could give their wealth away while they were alive, as Carnegie advocated, or they could give it away when they died.

High net worth individuals took great care to handle dying. They set forth in wills and estate plans how their wealth was to be distributed when they died. The wealth of these high net worth individuals was then, and is today, referred to as "estates", within which there were "bequests". Wills were declarations about how the estate was to be distributed. Wills were generally developed by specialized attorneys ("estate planners"). As the number of wills grew, and the profession of estate planning advanced, the banking industry took notice. "Trust Companies"[9] and "Trust Departments" were a form of banking designed to meet the needs of high net worth individuals. Many were established in the early 20th century.

So the irony was this: the institutions addressing giving *after death* became highly sophisticated, and yet institutions addressing giving *while living* were almost non-existent. Frederick Goff and other leaders found themselves with a real need for an institution that not only could organize giving after death but which could also organize giving while living.

This was the context for the emergence of community foundations.

[9] Modern day Trust Companies bear no resemblance to the Trust Companies of the early 20th century, because a century of regulation wiped out any distinction between a Trust Bank and a Commercial Bank.

The Early Vision of Frederick Goff

Over 100 years ago, Frederick Goff, acting as the President of the fast-growing Cleveland Trust, set up the Cleveland Foundation. It was the first community foundation in the U.S., established in 1914. Indianapolis followed in 1916, Chicago in 1919, and New York in 1920. By 1931 - 74 communities had established community foundations.

What made such a rapid expansion possible? The answer lies in the powerful vision of Frederick Goff. It was Goff that saw the need for an institution that addressed two great societal forces: the urge of donors to give, and the unmet needs of fast-growing communities.

Day after day, as a banker, Goff worked to serve his high net worth clients with ways to maximize their impact as philanthropists.

Day after day, as a civic leader, Goff also saw unmet needs in his community, Cleveland. These needs were met neither by the marketplace nor by government. Examples were everywhere: churches, colleges, hospitals, and homeless shelter were just the beginning of a long list of more-than-worthy causes with unmet needs.

Out of this work, as a banker and as a civic leader, Goff formed a compelling vision: *His vision was to create a "permanent enduring institution", a "community chest", which could match the needs of donors to the needs of the community. The community trust (now called a community foundation) was perfectly suited to serve in this way.*

His vision was a way for community needs to be met, as well as a way to facilitate donor giving.

In a sense, Goff fused philanthropy after death to living philanthropy. Where others saw estate planning and living philanthropy as two separate issues, Goff saw them as seamlessly connected, through a "permanently enduring organization" - a community trust.

While some wealthy people, along with their estate planners, toiled to describe in excruciating detail how fortunes were to be used in the future to advance community well-being, Goff asked a much simpler question: can a donor give his or her wealth to a permanently enduring organization that the donor trusts?

He conceived of this "permanently enduring organization" - this "community trust" - as a way to enable both a "living trust" and decision-making about the use of funds when the donor was no longer able to make those decisions.

Goff expressed his vision beautifully in Colliers magazine:

> *"How fine it would be if a man about to make a will could go to a permanently enduring organization – what Chief Justice Marshall called an 'artificial immortal being' – and say: 'Here is a large sum of money. I want to leave it to be used for the good of the community, but I have no way of knowing what will be the greatest need of the community 50 years from now, or even 10 years from now. Therefore, I place it in your hands, because you will be here, you and your successors, through the years, to determine what should be done with this sum to make it most useful for people of each succeeding generation.'"*

"a permanent enduring institution"

The early visionaries called them "community trusts". Now called "community foundations", they were a product of people, places, and policy innovations.

Goff foresaw an institution that could be capable of great stewardship. It could respect the wishes of donors, deceased *and* alive. For the deceased, the institution would need to be capable of carefully respecting donor wishes as detailed in wills and other expressions of intent. And for the living, he also saw - in that same institution - a capacity to listen to donors, to earn their trust, and abide by their wishes for their hard-earned money.

Goff envisioned a living and breathing organization, in touch with present-day needs of the community. This would be not simply an institution that was administering the wishes of people who had long since died. It would be an organization with the capacity to hold a "trust', or an endowment, for the "community". Indeed, in the early days these organizations were called "community trusts".

The Mayor of Cleveland strongly backed Goff with this assertion about the value of a "community trust":

> *"...The Community Trust is an endeavor to substitute contemporary wisdom for foresight; and that is particularly important when we reflect that we are living in a world which has changed more rapidly and in more of its fundamental conceptions within the past dozen years that it has ever done before in as many centuries."*

Newton D. Baker, Mayor of Cleveland, and former Secretary of War

Early Leaders Spread the Vision

Great leaders, driven by Goff's vision and bringing their own vision, drove the narrative from the beginning. For example:

- Frank Loomis brought Goff's vision to Chicago, and nurtured the vision nationally during service spanning fifty years. He was called the "dean of community trust executives".
- Ralph Hayes, originally Goff's assistant in Cleveland, took the vision to New York and served forty-four years as Executive Director of the New York Community Trust.
- Wilmer Sheilds Rich became the first full-time executive director of the national organization of community foundations. She was a woman leader in an all-male time.

Cleveland Trust

Chartered in 1894, just 20 years earlier, Cleveland Trust was known as an innovator in the banking field. Frederick Goff became President of Cleveland Trust in 1908. Cleveland Trust was a fast growing bank, thanks to the innovations of Frederick Goff.

For example, it was an early innovator of the "living trust," which could legally take effect during the donor's lifetime. This enabled high net worth individuals to set up charitable trusts while they were still alive and able to exert some control over their disbursements.

Cleveland Trust moved further into the national spotlight when Goff was made President of the Trust Company Section of the American Bankers Association in 1913. It was during this period of his career that the idea of community foundations was spawned.

Goff's original idea for the Cleveland Foundation was that it would be endowed and built on deferred giving – bequests, insurance trusts, and charitable remainder trusts. His decision to limit its focus was in part due to the fact that Cleveland already had in place institutions to cultivate annual giving. Not wanting to weaken these institutions, Goff instead focused on giving after a person had died, that is, on deferred giving.

This restriction, to giving after a person had died, is noteworthy for many reasons, but one in particular is worth noting here. As a banking innovator, as indicated above, Cleveland Trust is credited with creating the first "living trust". These trusts may well have served the purpose, in Goff's view, that DAFs serve today. For this reason, perhaps, Goff gave to the Cleveland Foundation only assets of a person that had died - not living donors.

Executing the Vision: The Cleveland Foundation

Goff moved fast. He created the Cleveland Foundation in 1914. It was backed by only one trust company - Cleveland Trust. The charter used to set up the Cleveland Foundation has come to be known as a "Single Trust" charter - the creation of one Trust Company, not many.

Goff saw the advantages of a community foundations in trust form. They could be established easily. A trust company needed only a Resolution and Declaration of Trust by a bank's board of directors.

The Early Days: 1914-1931

The idea spread quickly. Community foundations were established in 19 of the 21 largest U.S. cities by 1920. By 1925, there were over 50. By 1931, there were 74.

Bankers Spread the Word

How did the idea spread so fast? The answer lies in Frederick Goff, who was named President of the Trust Company Section of the American Bankers Association in 1913. With a national "reach", Goff and his colleagues moved the Trust Company Section into an aggressive posture nationally.The Section established a "Committee on Community Trusts". Its job was to promote the community foundation concept and provide a forum for lessons learned from existing community foundations.

Innovations in Governance

One such learning was a governance innovation. Community foundations originally were organized as charitable trusts, governed by trustee banks. As indicated earlier, Cleveland was organized by one trustee bank, Cleveland Trust. Many future community foundations would be created and backed by multiple trust companies. This was a key innovation; so each new community foundation could be perceived as a community asset - not the asset of just one bank. The Indianapolis Foundation was the first in 1916 in creating a "multiple trust" charter. Three trust companies came together to charter it. The New York Community Trust was chartered in 1920 by eleven trustee banks. By 1931, of the 74 community foundations that had been formed, all had been created by trust companies Half were created by only one bank while the other half were created by multiple banks (see Handy).

And later still, community foundations would be organized as nonprofit corporations. - without the explicit backing of any particular trust companies, but rather in partnership with most

trust companies in any given community. The community foundation had by then realized its potential as a true community asset, not simply the subsidiary of one or a few trust companies.

People Driving the Narrative

The Committee on Community Trusts was organized and chaired by Frank J. Parsons. Parsons was vice president of the United States Mortgage and Trust Company (It was Parsons who invited 20 banks to serve as the Trustees' Committee of The New York Community Trust).

A number of other people played central roles as founders of community foundations throughout the country, and as members of the Committee. For example, Ralph Hayes, who originally worked for Judge Goff, was the first Director of New York Community Trust. He served 44 years.

In 1920, as he was urging others in New York to establish what today is the New York Community Trust, Frank Parsons said:

> "the charitable problems of each generation can better be solved by the best minds of these generations rather than through the medium of the dead hand of the past."

By 1929, the Committee had had over nine extraordinary years of promoting the idea of community foundations. It also had hosted national conferences, promoted best practices, and built a national network of community foundation board members and executives.

The stage was set for true national impact. But first, the great depression came - and washed away many of these hopes and dreams.

Depression and War: 1932-1948

The Great Depression halted the growth of community foundations. Banks fought for survival, and no longer assigned a high priority to their community foundation. The Committee on Community Trusts shut down. Existing community foundations fought to survive: Some that were well established gave grants to address the effects of the severe economic downturn. Other community foundations, with diminished support and few resources, did not survive. Some became charitable trusts within their sponsoring banks.

According to Rich (1961), Louisville, New Orleans, Cincinnati, Houston, Washington D.C., and Spokane where among those that did not survive. He reports that 74 community foundations existed in 1931.

By 1949, there were only 66. Of these 66, only 35 controlled $200,000 or more in assets.

Post-War: 1949-1965

The community foundation movement was largely dormant until 1949 - for the twenty years of the depression and World War II. The post-war period heralded a period of rapid expansion.

Historians trace this rapid expansion period to three factors: 1) the optimism and economic expansion of the period after World War II; 2) a new national organization, now called the Council on Foundations, that spearheaded expansion horizontally (to more communities) and vertically (by sharing best practices among the large community foundations[10]); 3) a new "community activism". While bankers led the expansion up to 1929, community leaders led this subsequent period of expansion.

If the period from 1914-1929 might be characterized as a period of banker-led rapid expansion, the period after 1949 might be characterized as a period of community- activist-led rapid expansion.

During this period of optimism, the growth of cities and town across America was explosive. With a devastating war and depression behind it, America entered a boom period; and community activists, planners and social scientists were asking everywhere: what kind of a community do we want to be?

Putting aside the far-ranging nature of these debates, one thing was clear - communities needed two institutions to organize philanthropic giving. The first was a "community chest" - now the United Way. The United Way was an institution dedicated to enabling annual giving - where cash in for a given year was matched by grants out in roughly the same amount.

The second was the community's "community trust" - now commonly referred to as a community foundation. Forward-thinking community leaders ensured that plans in their community included having a community foundation. The community foundation became the accepted methodology for building a "community trust" - a community endowment that was actually an aggregation of donor funds and other funds.

So - community planners set out to build, or to rebuild, their community foundation. The community foundation became a recognized element of a thriving community's urban plans.

Community foundations re-emerged during this time as the "community trust" component of these exploding communities - the anchor institutions that could aggregate donor philanthropy into community wealth that could be deployed to solve community problems.

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[10] Interestingly, the large community foundations maintained their share of total community foundation assets, underscoring that their assets and impact were growing fast too. Growth was not traceable not simply to more community foundations but to high growth of existing community foundations.

Needed was a national organization to advance these ideas. The first generation of community foundation leaders, in recognizing this need, identified a new national organization to promote the idea of rebuilding or creating community foundations in every community of any size. In 1949, the defunct Committee of Community Trusts of the American Bankers Association was replaced by the "National Committee on Foundations and Trusts for Social Welfare". Frank Loomis, mentioned earlier, played a pivotal role in the creation of this new organization, after retiring as the Executive Director of the Chicago Community Trust.

The National Committee was a new national, member-based support organization whose goals were to continue promoting the community foundation concept, provide technical assistance to emerging community foundations, address policy matters at the federal level, and share lessons learned. This organization changed its name in 1964 to the Council on Foundations.

In addition to promoting community foundations, a new best practice for governance emerged The new post-war community foundations adopted a new organizational design. It was a non-profit corporation, rather than a trust agreement. The corporate form of government allowed community foundations to be formed by the community rather than by one or more trustee banks.

During this period of national optimism, both the community foundation movement and the "Community Chest" movement flourished. The Community Chest movement was borne of the impulse to support social welfare with philanthropy - by encouraging giving in any given year that matched the needs in any given year.

By contrast, community foundations reached for long-range solutions rather than current year solutions.

What was the difference? Perhaps Edward L. Ryerson, long-time board member of the Chicago Community Trust, spoke for many community foundation advocates when he said:

> "Community planning for health and welfare, in recent years, has been largely the work of community chests and councils, and it has been largely restricted to current financing of current needs. Community planning for social welfare will never be well-rounded or comprehensive until it includes planning for capital gifts and bequests."

During this period, many community foundations, with strong support from the Ford Foundation, entered into a period of community activism. Cleveland, Kansas City, and Boston were certainly a part of this movement. In Boston, for example, the Boston Foundation initiated a $500,000 "war on poverty".

Hammack reports that the top six community foundations held onto their share of total community foundation assets - 45-50% - during this period. So the large existing community foundations grew rapidly, as more and more new community foundations were created.

By 1965, most major American cities had a community foundation, with an aggregated community endowment (an aggregation of multiple donor funds); and they also had an organization that was the embodiment of the "Community Chest Movement" - which organized philanthropy on an annual giving basis. Today, the Community Chest is the "United Way".

Consolidation: 1966-1980

This was a period of asset stagnation. After 15 years of growth, community foundations entered a period of consolidation. David Hammack, writing in Chapter One of The Agile Servant, suggests that perhaps there was some donor backlash from the prior period's community activism. Stock market stagnation was another contributor, he says.

A milestone in this period of stagnation was the 1969 Tax Reform Act. Although adopted into law in 1969, the IRS did not issue final regulations under this new law until 1977. That year was an exciting year for community foundations across the country. Alicia Philipp, Executive Director of The Community Foundation for Greater Atlanta, recalls those heady times:

> "I remember 1977 so clearly because I had just assumed my position as Executive Director. The Tax Reform Act was law, but the final regulations were issued for that law in 1977. The new regs rewarded community foundations with a new status clearly differentiated from "private foundations". They were designated "public charities", s special designation reserved for organizations like ours. With that special designation came high expectations that were exciting for the community and exciting for our donors. The regs set out rules for gifts from living donors, including 'facts and circumstances' - both negative and positive '- to be followed."

The regulations, and a booming economy, ushered in a new period of explosive growth.

Growth in Assets and Impact: 1981-1990

This was a period of explosive growth for community foundations. This form of organization, the "public charity" had been ratified in the Tax Reform Act of 1969, the 1977 final IRS Regulations. During this decade came a further ratification, this time from the Supreme Court: 1987 Supreme Court ruling in National Foundation, Inc. v. United States.

The Tax Reform Act of 1969 Spurs Growth

The eighties were a period of high growth and high impact for Community Foundation, thanks to The Tax Reform Act of 1969. This seminal piece of legislation provided community foundations with important new tax advantages. While regulations were finalized in 1977, the Act was a signal to communities across the country that there were important, lasting benefits to the Community Foundation form of organization.

Supreme Court Upholds Section 501(c)3 Status

In 1987, in National Foundation, Inc. v. United States, the Supreme Court ruled that National Foundation qualified for exemption under section 501(c)(3). National Foundation had appealed to achieve this recognition, arguing that it had met all of the tests set forth by the IRS for 501(c)(3) status. This was an important step in the full public acceptance of donor-advised funds and "supporting organizations", including community foundations[11] as vehicles of philanthropy and social impact. Because it was a national organization, it also foreshadowed an era to come when major national organizations would use donor-advised funds as a vehicle for philanthropy in their nonprofit subsidiaries.

Foundations Underwrite Statewide Expansions

During this time, a number of statewide initiatives were launched. Their objective: chartering a community foundation in every major community in their state. One of the earliest such initiatives was in Michigan. In Indiana the Lilly Endowment funded a program that has spurred development of community foundations in each of the state's 92 counties. In Kansas, a third effort was funded by the Kansas Health Foundation. In Illinois, the effort was underwritten by the Grand Victoria Foundation.

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[11] The ruling states "The Internal Revenue Service has ruled that a nonprofit organization that provides financial assistance to tax-exempt charitable organizations is itself exempt under §501(c)(3). Rev. Rul. 67-149, 1967-1 C.B. 133. In making gifts to other nonprofit tax- exempt organizations, NFI's function is similar to that of the United Way, the Red Cross, and the Legal Services Corporation, which support and administer a wide variety of charitable, educational, religious, or other exempt projects which benefit distinct segments of the population in various geographical locations. See, Rev. Rul. 72-559, 1972-2 C.B. 247. NFI's operations are similarly unrestricted geographically.
". See http://www.pgdc.com/pgdc/story/national-foundation-inc-v-united-states-america

Third Growth Period: 1991-2010

The 1990s and the 2000s can be considered the third period of growth for community foundations and donor-advised funds (DAFs) - but this period was full of challenges for community foundations. The challenges came from the emergence of commercial gift funds - but growth in assets and impact followed nonetheless. A second boost is traceable to the 2006 Pension Reform Act, which codified for the first time in history the concept of "donor-advised funds".

The Emergence of Commercial Gift Funds

Donor-Advised Funds received a big boost when national for-profits set up charitable counterparts that would manage donor-advised funds for them. The first was Fidelity, and they were soon followed by Schwab and Vanguard.

Fidelity Charitable Gift Fund was chartered in 1991, a nonprofit arm of Fidelity Investments. The charter become active when the IRS classified it as a 501(c)(3). Fidelity, watching the growth of philanthropy and donor-advised funds, set up a nonprofit subsidiary for the express purpose of offering "commercial gift funds" to their clients. Fidelity brought the same advanced technology and powerful marketing from its for-profit business into its not-for-profit subsidiary. The result was that many of its clients opted into becoming holders of donor-advised funds.[12]

Community foundations were at first alarmed by this development, the emergence of national commercial gift funds. Could community foundations compete with these powerful for-profit financial institutions? Now that national for-profits were bringing marketing and sales and technology to the creation of donor-advised funds, what would happen to the donor-advised funds of community foundations?

The late nineties and early twentieth century were a period of great soul-searching by the community foundation community. Conversations nationally allowed leaders to emphasize that community foundations offered something enduring: they are the only institutions who make "double-trust" their business. While commercial gift funds focus like a laser on earning the trust of their donors, community foundations focus on earning the trust of their donors at the same time they earn the trust of the communities they serve. *Only community foundations are capable of the double trust imperative.*

But, interestingly, most community foundations grew alongside the commercial gift funds. There was much that community foundations could learn about marketing and technology, and they proved to be fast learners.

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[12] These new commercial gift funds took full advantage of the new regulations and rulings that (such as the 1987 Supreme Court ruling and IRS regulations issued in 1977).

While the commercial gift funds were growing, community foundations were growing too. Note that community foundations held over $20 billion in assets in 2002, over $49 billion in 2009, and over $82 billion in 2014.

Commercial gift funds and community foundation have co-existed ever since. “If donors know what charities they want to fund, a gift fund like Fidelity, which excels at processing payments, is a good choice. If donors are looking for local expertise and a connection to their communities, community foundations are the better option.”

The emergence of the commercial gift funds allowed (some would say forced) community foundations across the country to position themselves clearly as public charities with two coequal imperatives - to build trust with donors (which national gift funds must do) and to build trust with their respective communities (which national gift funds cannot do). The “Double Trust Imperative” - the title of this paper - is the imperative that energizes much of the strategic planning and much of the day-to-day activities of community foundations today.

The Pension Protection Act of 2006

The Pension Protection Act of 2006 (the PPA) is one of the most important legislative measures affecting community foundations in recent history. For the first time, it defined donor-advised funds, and clarified any remaining ambiguities about the their propriety and the tax rules to which they were subject.

The period that followed would likely have been a fifth period of sharp growth for community foundations, led by donor-advised funds. However, as is well-known, the Great Recession followed, and the growth stumbled because of it.

Department of Treasury Study of 2011

The PPA called upon the Department of Treasury to study DAFs and to publish their findings. This was done in Department of the Treasury, Report to Congress on Supporting Organizations and Donor Advised Funds December 2011, http://www.treasury.gov/resource-center/tax-policy/documents/supporting-organizations-and-donoradvised- funds-12-5-11.pdf.

The Treasury report concluded:

- DAFs and Supporting Organizations (including community foundations) play an important role in the charitable sector.
- DAFs have a higher payout rate than private foundations.
- Donors to DAF sponsoring organizations should enjoy the same deductibility rates as donors to other public charities.
- The PPA provides a good legal structure that addresses potential abuses
- DAFs and their supporting organization accommodate innovations well, without creating any undue burdens on charities or new opportunities for abuse.

The Treasury Report may be the most significant ratifying study, but many other studies over this time period essentially ratified the important role that the DAF, and community foundations, have played in encouraging and enabling philanthropy in the 21st century..

Present Day

Community foundations and donor-advised funds have rebounded remarkably well from the great recession. Economists mark the end of the recession in 2010, and it can be safely said that the last five years have been record breaking - in terms of assets *and* impact.

While all of this success speaks volumes about the giving spirit of donors. which is extraordinary, it also speaks to the full acceptance in law of community foundations and donor-advised funds. Both giving vehicles are now fully ratified in law, beginning with the Tax Reform Act of 1969, the resulting 1977 IRS regulations, the 1987 Supreme Count ruling, the 2006 Pension Reform Act, the resulting 2012 final IRS regulations, and the 2014 Tax Reform Act.

In 2014, the last year for which data is available, community foundations had assets exceeding $82 billion, up from $49 billion in 2009, and up from $20 billion in 2002 (source: The Foundation Center). This is extraordinary growth - over 12.3% compounded growth in assets since 2002.

Aggregate Fiscal Data of Community Foundations in the U.S., 2014

Aggregate Fiscal Data of Community Foundations in the U.S., from 2002 to 2014

Source: Foundation Center

Donor-advised funds are held by very few institutions - less than1/10th of 1% of all public charities. Within this group of about 1000 institutions, perhaps as few as 100 hold assets in more than 500 accounts. Of this group, according to the National Philanthropic Trust, there are national charities, single-purpose charities, and community foundations.

If the growth of these institutions are compared, looking only at DAFs, it can be seen that national charity DAFs are the largest - with $33 billion in assets in 2014. Following them are community foundations, with $28 billion in assets. Following them are single-purpose institutions, with $10 billion is assets.

Figure 10: Total Value of Charitable Assets in Donor-Advised Funds by Charitable Sponsor Type

Source: National Philanthropic Trust 2015 Donor-Advised Fund Report
https://www.nptrust.org/daf-report/sponsor-type-comparison.html

It can be seen above that community foundation DAFs were larger than national charity DAFs in 2010. However, with the growth by national charities of $20 billion, and the growth by community foundations of $14 billion, national charities now hold *more* DAF assets than community foundations.

Looking Forward

Looking at this complex landscape with present-day eyes, a few points are clear:

1. Community foundations are now fully recognized and ratified in law and regulation (including their major fund type, the donor-advised fund). This no doubt is driving accelerated understanding and popularity of this instrument for strategic philanthropy.

2. Community foundations are experiencing strong growth in assets and impact. Each of the years since 2010 has been a record-breaking one for community foundations. They now hold over $82 billion in assets.

3. They, unlike other institutions, are defined both by the trust they enjoy from donors, but - equally - by the trust they enjoy from the community.

4. DAF are now the fastest growing area of philanthropy. In 2014 donor-advised funds in total grew from $45 billion to $70 billion.

5. Both community foundations and commercial gift funds are sharing in the increasing popularity of donor-advised funds (DAF).

6. Commercial gift funds are also experiencing strong growth in assets and impact. Since 2008, national DAFs grew by $20 billion, while community foundation DAFs grew by $14 billion.

7. Commercial gift fund DAFs have more assets than community foundations - $33 billion versus $28 billion in 2014. This was not the case in 2009.

We can safely predict that donor-advised funds, community foundations, and commercial gift funds will be vital instruments of philanthropy in the coming years. The community foundations, as anchor institutions in the communities they serve, will undoubtedly continue to earn the trust of donors and communities alike.

New community issues will arise. New community leaders will emerge. New donors will also emerge. New strategic creative coalitions to address these community issues will be identified. Through all of this, in the years ahead, it is predictable that community foundations will be at the center of creative approaches to community issues, mostly behind the scenes as a servant leader, but always leading the leaders. Their currency will be much more than money. It will be the trusting relationships that they are able to build with community leaders and donors alike - the double trust imperative. This double trust will make progress possible - as it has in the past, as it does in the present, and as it undoubtedly will do in the future.

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Appendix

Sample Stories About Impact

New York: The September 11th Fund

- Before day's end, on that horrible September 11, 2001 (the day the towers fell), the New York Community Trust co-founded "The September 11th Fund". Amazingly, the first grants were made 11 days later. When it closed in 2004, The Fund's legacy was incredible: 45,000 emergency checks to victims and their families; 343,000 hot meals to rescue workers at ground zero; mental health, employment, and other services for 200,000 individuals; nearly 1,000 loans or grants to small businesses and nonprofits to help them rebuild. In total, The Fund awarded 559 grants totaling almost $528 million.

Thanks to Lorie A. Slutsky, President, New York Community Trust

Atlanta: Grants to Green

- "In 2008, we launched Grants to Green, and the program is going strong to this day. We made it happen in collaboration with Southface and Kendeda. The program offers environmental knowledge and funding to strengthen nonprofits on environmental excellence."

Thanks to Alicia Philipp, President, Community Foundation of Greater Atlanta

Boston: GreenLight Fund

- "Education, youth development, health care have a profound impact on Boston's families and children. They are at the heart of the philanthropy of Boston Foundation donors John and Susan Simon. They are also the issues that inspired John to co-found the GreenLight Fund in 2003, along with Margaret Hall. It's an ingenious organization that locates high-impact nonprofits in other cities and replicates them in Boston. There are many today. One example is Friends of Children - Boston, which replicates a concept launched in Portland, Oregon. It matches children with adults who will stick with them for their entire educational experience."

Thanks to Paul Grogran, President, Boston Foundation

Chicago: SMART Growth Initiative

- “SMART Growth is a multi-year grant initiative to help small, diverse arts and culture organizations become more sustainable, so that they continue to enrich neighborhoods for the long term. There are so many favorites, and West Point School of Music is just one of them. The school contracts with Chicago Public Schools to provide music instruction to students on the south and west sides.”

Thanks to Terry Mazany, President, Chicago Community Trust