NEW AND INTEGRATED APPROACHES TO DEVELOPING FINANCIAL RESOURCES IN THE FUTURE

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Many federations no longer see various means of resource development, such as endowment, capital, and government funds, as discrete areas earmarked for a specific purpose but rather as contributing to the sum total of one integrated development plan that funds local, national, and international needs. Although the annual campaign is an important community-building instrument and remains a primary source of revenue, the needs of the worldwide Jewish community require an integrated approach to resource development.

The concept of integrated approaches to developing financial resources is not a new one. For some time, most federations have recognized that, notwithstanding the importance of the annual campaign as a community-building enterprise and a primary source of revenue, the needs and obligations of the worldwide Jewish community and their respective communities exceed the proceeds of the annual UJA/federation campaign. That being the case, most federations are actively involved in other areas of resource development. Endowment, capital, and government funds quickly come to mind. Later in this article I identify additional resource areas—few of which are new. What is new, however, is that a number of federations no longer see these different pockets of dollars as discrete areas earmarked for a specific purpose, but rather as the sum total of one integrated development plan that funds all needs. That is new, it is different, and it has real implications for the present and future flow of dollars to the Jewish Agency. Also new is the fact that time at the 1992 Jewish Agency Assembly has been given to integrated resource development, a topic crucial to the future of the enterprise and seldom explored collectively by all Jewish Agency partners at one time in one place.

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FEDERATION ENDOWMENT FUNDS

Let us begin with a status report on federation endowment funds. Many federations, but not all, have been at the forefront of institutions involved in planned giving. Those who have been successful have assembled technically able professionals and volunteers who work with donors, using every sophisticated vehicle known to estate planners. The lexicon of today's endowment team includes lead trusts, remainder trusts, philanthropic funds, supporting foundations, field of interest funds, campaign endowment funds, restricted bequests, unrestricted bequests, letters of intent, estate planning seminars and other creative devices. The sum total of this focused energy has been a phenomenal growth in combined federation/foundation assets from \$500 million a decade ago to a current total approaching \$2.5 billion.

To be sure, much of this money is restricted. Fifty-five percent is in philanthropic and supporting foundations where the donor retains the right to recommend distribution of assets. However, our experience to date suggests that, by working closely with the donor, we can receive the major share of those distributions.

In this decade, if we achieve only half the rate of growth of the 1980s, by the year

2000 or sooner, total federation endowment funds should reach $5 billion. Growth in this area is directly connected to tax laws and the economy and, although it is difficult to predict exactly how much can be obtained, we do know that over the next 20 years some two-thirds of the wealth of America—nearly $7 trillion—will transfer from one generation to the next. We also know that Jews over the age of 65 represent 16.5% of the U.S. Jewish population, a percentage higher than that in the general population. Many in this generation are successful and affluent. Their Jewish identity remains strong, reinforced by traumatic events during their lifetime and the birth of the State of Israel.

The opportunity is there. We must act now to channel their positive feelings for Jews in need, Jewish continuity, and community into positive planned giving. Yet, they must be asked, and this will require vitalizing annual campaign volunteers in the effort to build the endowment. We must also spend more to secure additional funds for endowment. The truth is, in comparison to successful university endowment programs, federations are woefully understaffed. We also need to set specific goals. If $5 billion by the year 2000 is the right number, every individual federation should challenge itself to achieve a proportionate share of that goal.

In addition, because endowments have become a large portion of our resource base, every federation needs to re-examine its structural relationships. There are at least three endowment models.

1. A fully integrated system in which the endowment program is no different than any other department. The assets appear on the federation balance sheet, and the federation uses unrestricted income across the board for general allocations or for specific purposes as may be determined.
2. Endowment funds as part of a separate corporation with directors appointed by the federation. These semi-independent endowment foundations are under the general control of the federation, but have some freedom in operation and often do more than turn over income to the parent federation for its distribution to its agencies.
3. An independent foundation board of directors engaged in developing resources, investing the assets, and planning its own distribution of those assets.

Although each community is different, and there were compelling reasons why different forms of structure have been utilized, I believe that control and full integration of all assets are the best ways to facilitate comprehensive planning. Were we to examine the points in time over the last few years when the emergency need for funds for the Jewish Agency, such as for Operation Exodus, Operation Solomon, or Operation Moses, required the immediate transfer of funds before the funds could be raised, those communities with a model #1 or #2 structure were more likely to be able to manage the request immediately.

For those federations that have chosen to conduct endowment development via a separate corporate entity loosely connected to federation, it is not too late to change the structure. The stakes are great and the dollars are large, and though there are few species where children eat their parents, there are some that do. Think about the next 20 years—the opportunities and the challenges—and consider firming up control of community assets before it is too late.

A related area of resource development is investment income from endowments. Good management of the investment portfolio is crucial. A 1% difference in income from 2.5 billion invested dollars comes to $25 million. Many federations have become very sophisticated and successful in managing their portfolios. Most large federations have hired one or more money managers whose performance is professionally evaluated. Smaller federations have pooled their investments so that they too can benefit from top performing managers. The days of volunteer committees picking specific stocks rather than specific managers are largely over, as are the days of investing in income-only equities, which resulted in uneven income available for distribution. A better method of maximizing results is the *total return concept*. The basic premise of this approach is that, by disregarding interest and dividends, the total return on endowment investments—including appreciation—can be increased sufficiently to permit *both* a large annual contribution to operations *and* a greater long-term growth of the endowments.

The outcome of integrated endowment development and portfolio management should be flexibility in financial contingency planning. Endowment income is used not only for the purpose of increasing annual allocations for domestic and overseas purposes but also as the source of special funding for disasters and emergencies or, as has been the case, for a number of Project Renewal communities.

These funds also are used as part of overall cash flow, thereby allowing advances on allocations or loans to domestic agencies. The existence of endowment funds was one of the factors that enabled federations to underwrite the CJF $900 million loan program for immigrants to Israel, thereby enabling the Jewish Agency to continue to participate in the basket of services made available to the new immigrants. The future holds additional opportunities.

I have *not* been a proponent of using Operation Exodus funds for economic development except for loans and job training because the Jewish Agency has a deficit, and it seems to me our impact is small and the use of donated or "free" dollars makes it easy to spend. Notwithstanding those concerns, economic development is very important, and with a multibillion dollar portfolio, we should be promoting ETIs (Economically Targeted Investments). ETIs are investments that not only serve a social purpose but also anticipate a return on investment. The emphasis on return on investment can have a Darwinian effect on the projects that we could support. As we move from experience to experience we can expect a heightened sense of accountability that will result in a sharper focus on future projects. Also, federation ETIs can and would leverage added private investment.

CORPORATE AND NON-JEWISH FOUNDATION FUNDS

In addition to endowments, other sources of revenue are corporate grants and non-Jewish foundation grants. This area of opportunity has attracted some increased attention during recent years, but nowhere near as much as it needs. For too long, most federations did not actively pursue gifts of this sort because of a whole set of faulty premises: (1) non-Jews are not interested in what we do; (2) we do not like asking non-Jews to support our work; (3) the United Way will not let us approach non-Jewish foundations; and (4) foundations and corporations will never be interested in programs in Israel.

In the harsh light of increased need, these premises do not hold up most of the time. Federations that do not take the time to develop strategies to obtain grants from these sources are ignoring an important source of revenue. To be successful in this area, you have to cultivate your prospects and be flexible. If a corporation or foundation does not fund overseas programs, then develop proposals for domestic service and vice versa.

Although most United Ways do have prohibitions on soliciting funds from corporations, most of these prohibitions relate to the timing of solicitation. Many corporations encourage grant proposals from organizations that receive United Way funding, and most see Jewish federations and their agencies as models of high-quality service and efficiency. In addition, obtaining good will in the Jewish community is an important plus for most corporations. The exodus of hundreds of thousands of Soviet Jews presents a great opportunity for corporate and foundation solicitation. The theme of citizenship and freedom resonates with opportunity. It is to our shame that we have not aggressively packaged comprehensive programs of resettlement service in Israel to major corporations in a coordinated national way. UJA is taking steps to do that. We need to match the creative packaging of what we are presently doing with energetic presentation by able and informed representatives. The network of associations that exist in the corporate community provides us unlimited opportunities, and we really cannot afford to ignore this potential. In time I think 5% of a future Jewish Agency budget should come from foundation and corporation grants secured by UJA and local federations.

JEWISH FAMILY FOUNDATIONS

Grants from Jewish family foundations represent another development opportunity. The challenge lies in how many of these mega-foundations can we align closely with, either as support foundations of our own federation or in cooperative enterprises that run parallel to the federation allocation process. Hundreds of millions of dollars are being put away in *private* Jewish foundations, and before long, their distributions will begin to rival in size the total allocation of a number of federations. We know where we have had good success and also where the disappointments have been. The key is to build upon our successes and to provide to the new breed of professional managers of these Jewish funds a vehicle they can trust. For programs in Israel, the Jewish Agency and the Joint Distribution Committee, via UJA, should be the vehicles. Cleveland, Baltimore, and New York are three federations that have attempted to provide value-free services to Jewish family foundations through the formation of advisory councils and support services. These are programs more federations need to emulate. In addition, a national strategy of outreach needs to be developed.

GOVERNMENT FUNDING

Government grants to Federations continue to grow each year, notwithstanding the fact that the past 10 years have been a time of government cutbacks. For many years, the United Israel Appeal has successfully secured significant federal dollars for the Jewish Agency, with the 1991 total reaching $80 million.

Because we are an integrated system, even government dollars that are secured for local purposes do in fact result in more dollars available for overseas needs. The establishment of federation offices in every state capital where the state has a significant Jewish population speaks to the acknowledged potential, as does the existence of the CJF Washington office. Their success confirms the hypothesis that, for rather small investments of dollars, we can receive huge dividends without compromising the Jewish component of our service. In states where federations have worked cooperatively with the various levels of government we enjoy the finest reputation. As a result of our political effort in support of Israel, we enjoy a unique set of contacts, influence, and networking that we have only just begun to use for domestic grant-making purposes.

CAPITAL CAMPAIGNS

Capital campaigns have always been a source of revenue to federations and their agencies. For years we have joked about all the plaques on all the doors of our various institutions. At the same time, we complained about how capital campaigns sometimes affected the annual campaign negatively and that many hundreds of millions of dollars of Jewish capital were being given to non-Jewish institutions of higher learning, hospitals and the like. From this set of circumstances, some federations have developed hybrid giving programs for large donors seeking special recognition. These are *not* donor designation from the annual campaign, but rather important supplementary gifts—gifts in addition to the regular campaign—that enhance our overall resource development efforts. These programs are known by different names—*Generations* in Detroit, *Harvest* in Milwaukee, and *Continuum* in Chicago—but they all share a common focus and each year grow a little larger. Our Jewish Agency counterpart to this program is the Israel Education Fund, which has brought in significant additional dollars but in my opinion has only scratched the surface of its potential.

Part of the reason why this source of funding has not reached its potential is our inability to use the local federation network to its fullest capacity in seeking out prospects for special solicitation and obtaining one-time gifts for special programs in Israel. Speaking as a federation executive, I am just as pleased to secure a gift of $2 million for a Jewish Community Center (JCC) in a Project Renewal town as I would be to secure the same $2 million for a local JCC. Yet, at home I have plenty of products to sell, whereas our overseas portfolio is limited. If we can satisfactorily change that set of facts, we can increase funding to the Jewish Agency by many millions of dollars.

FOR-PROFIT SPIN-OFFS

A new resource development program pick for the 1990s is for-profit spinoffs. Universities and hospitals have generated revenue by running private businesses for some time now, and many, such as Harvard, have made a good deal of profit. Some federations are in the newspaper business; others have dabbled in consulting, real estate leasing, and video production. Yet, we have not maximized the entrepreneurial knowhow that flows through the veins of our volunteers or taken full advantage of the talents of the professional infrastructure that exists in our federations. In the same way that I suggested the use of targeted economic investments in Israel, there is no reason why federation investment dollars cannot also be designated to owning stock in privately held companies established by the federation. Federations can create for-profit corporations and own 100% of the stock. The business would operate on a competitive basis with other for-profit businesses, including paying taxes on their profits. Only the after-tax profit would be turned over to the nonprofit entity owner.

For-profit enterprises have the additional benefit of enabling the sponsoring federation to provide jobs for its constituents and clients. Our local agencies have the expertise to operate employee assistance programs, corporate day care services, and other services that can be sold to corporations. With careful planning and attention to detail, for-profit business spinoffs can become a major source of income, as well as a major source of employment for Jewish disabled, Jewish young adults, and elderly on into the 21st century.

CREATIVE FINANCING

Borrowing vehicles, such as tax-exempt municipal bonds or revenue anticipation notes, can represent significant savings to an organization and can therefore come under the rubric of additional revenue. Tax-exempt bonds have been used by several federations for the construction of capital projects that serve the community purpose. At a minimum, the use of such bonds can usually result in a 200 basis point savings in financing, which is significant. Yet, because federations are integrated systems, we can leverage the savings even further. For example, we can issue $3 million in tax-exempt bonds to build a small group living home for the aged and at the same time solicit a *Continuum*/endowment-type gift for $3 million in exchange for naming the building after the donor. We can then invest cash flow from the gift and receive a return significantly higher than the interest rate we are paying on the bond, thereby setting up a new flow of revenue that can be used for programming at the group living home.

Another example of creative financing is revenue anticipation notes—a truly unique cash-flow management program. Municipalities retire anticipation notes with revenue from taxes; federations can retire them with revenue from pledges paid during the year. The net effect for my federation is a savings of about $250,000 annually when interest rates are at average levels, and these funds are then used to increase next year's allocations. When interest rates are low, the savings are much less, but the opportunity is still available every year.

AN INTEGRATED APPROACH TO RESOURCE DEVELOPMENT

Integrated financial resource development encompasses all funds from all sources, and that even includes dollars saved. This article has identified endowment funds, investment income, foundation and corporate grants, family foundations, government grants, capital giving opportunities, for-profit spinoffs, and borrowing vehicles as categories of resources. What I hope emerges from this panoply of programs is the concept of a coherent integrated organization—the contemporary federation—an organization whose main purpose is to build community and distribute funds. And to the extent that more funds are made available for distribution locally and overseas, the community-building objective is satisfied.

The contemporary federation is still in the process of inventing itself. What works or does not work in one community is tested in another. The range of federation behavior is broad, and there are wide variances in performance.

Per capita giving is large in some communities and small in others. Yet, we also needs to push the calculus of resource integration further by acknowledging that per capita costs of operation also vary; some are small and others much larger. The difference in dollars spent translates directly to funds available for distribution—on the local, national, and international levels. The proposed CJF Governance Model, with its emphasis on collective federation action, will not only give clarity to issues of CJF governance but will also provide an opportunity to examine new relationships, and based on the need for greater funds, improved planning, and enhanced service delivery capacity, additional changes will be made. To the extent that we will be able to demonstrate additional economies and become more focused, our system of philanthropy will become even more attractive to those from whom we seek support.

UJA and Keren Hayesod leadership have done a splendid job in bringing passion to the annual campaign and Operation Exodus enterprise and helping obtain large gifts. With all this assistance, we are trying to inform our donors that there is nothing "regular" about the annual campaign and that the case for continuing Operation Exodus is as compelling a story of Jewish rebirth and the key to revitalization of the State of Israel and the Jewish people worldwide as it was when the first refusenik stepped off the plane at Lod so many years ago.

A prodigious amount of funds was raised in the first round of Operation Exodus, and the additional $900 million in guaranteed loans was further proof of Jewish federation commitment to this great exodus, but we have not successfully reached *Am Cha*, the great majority of Jews. The loss is not just in dollars, but in a lost opportunity for Jews to participate in writing a glorious chapter in Jewish history.

In Chicago, although we raised and pledged millions of dollars more than the proportionate share we were asked to send through UJA to the Jewish Agency—and send it we did in advance of collection—we achieved that success with the participation of only 34% of the contributors who make a gift to the federation campaign each and every year. Similar ratios, some a little better or a little worse, apply to all the communities. As leaders of this collective enterprise, each of us must personally connect to each year's campaign.

I regret that the 1992 Jewish Agency, in its schedule of meetings, does not include a required scheduled opportunity for a fund-raising caucus. With all the reports and statements of achievement and goals, we should also be announcing that each of us is committed to the success of the annual campaign and the continued 3-year Exodus program. In my view, fund raising at the Assembly is part of an integrated strategy for developing resources, which would also send the right message to those back home that "the fund spenders" are also personally committed to fund raising through our own gifts and participation.

We have to find ways to do better, and maybe part of that doing better is behaving better. Jewish leadership throughout the world should close ranks on those things that are most important to this enterprise and find civil ways to settle disputes. All organizations have tensions, and members of the same family do not always agree, but we undermine our collective credibility when we make such charges as "the Agency is corrupt—millions of dollars are being wasted" and "federations are stealing money intended for Israel." When such statements are reported by the media, our credibility is damaged and crucial funds are lost.

Collective partnership is the focus for our future. "One People, One Destiny" is more than a slogan. Although we are dispersed and have different views, we can, should, and must come together to make the changes that need to be made. We must be willing to address and to share our strengths and problems, our frustrations, our dreams and goals, our achievements and our destiny. Together, as one integrated system of community building and nation building, we can ensure our future as we approach the 21st century.