Optimizing Philanthropic Support For Clinical Excellence

Key Elements of an Effective 'Best Practice'
Fund Development Program in a Not-for-Profit
Independent Community Hospital©

THE GREENWOOD COMPANY

Transformational Productivity in Fund Raising ™

"Except in exceedingly rare circumstances, no not-for-profit independent community hospital or health system can fund all of its capital and programmatic needs through operating income and debt alone if it expects to maintain medical excellence. As a result, independent community hospitals and health systems nationwide are depending increasingly on philanthropic support to help fund a portion of their capital and programmatic needs. It is widely agreed that, in the future, the only communities that will enjoy access to high-quality health care will be those that provide significant philanthropic support to their local not-for-profit hospitals.

Time is of the essence for every not-for-profit independent hospital and health system to assess the effectiveness of its fundraising operations, and immediately implement the 'best practice' methodologies necessary to maximize philanthropic support."

Robert H. Greenwood, CEO
The Greenwood Company

Table of Contents

Table of Contents Continued

Introduction

Hospitals and health systems are facing unprecedented financial challenges which are making it more and more difficult to sustain the clinical excellence that their communities expect and deserve. For decades, government and private insurers have underfunded the true cost of providing quality healthcare services. It is anticipated that this underfunding will continue – and become even more severe – as the dramatically increasing number of Americans entering retirement age require extensive medical care due to age-related conditions.

This chronic underfunding, along with the predicted effect of healthcare reform initiatives, is causing many health systems and their affiliated hospitals to consider drastic cutbacks in services and staffing because they simply cannot generate sufficient operating revenue or borrow enough funds to maintain current levels of service. In addition, the pace and cost of clinical innovation continues to outpace available operating revenues, borrowing capacity, and reimbursement.

In this challenging and complex environment, the need to maximize philanthropic support to help fund clinical excellence cannot be denied. However, many hospital foundations are not prepared to raise the funds necessary to help maintain excellence and upgrade and expand services. In fact, the need for foundations to develop rigorous, disciplined, professional, and effective 'best practice' fundraising programs is acute.

Optimizing Philanthropic Support for Clinical Excellence: Key Elements of an Effective 'Best Practice' Fund Development Program in a Not-for-Profit Independent Community Hospital© describes in detail the 'best practice' benchmarks against which The Greenwood Company evaluates the effectiveness of nine key components of healthcare fund development programs. This document is based on more than three decades of experience in providing fund development counsel to several hundred hospitals and health systems throughout the United States.

It is evident that the continued provision of high quality healthcare services will only be possible if high performing hospital foundations raise philanthropic dollars by achieving excellence in the following components of their activities:

- Developing a vibrant culture of philanthropy throughout the institutions they support;
- Setting compelling fundraising priorities;

- Maintaining an inspiring case for philanthropic support;
- Ensuring effective and engaged foundation governance;
- Operating a full-range of 'best practice' fundraising programs;
- Efficiently staffing all development programs;
- Setting appropriate fundraising goals;
- Ensuring an efficient cost of fund raising; and
- Appropriately financing the foundation's operating budget.

Success in these key areas will ensure that hospital foundations can generate significant and necessary support for their hospitals, thereby transforming the quality of health care in their communities. As important, hospital Chief Executive Officers and foundation Chief Development Officers who commit to developing a 'best practice' fundraising enterprise will find that one result of a higher performing foundation is that community leaders, physicians, and employees become more actively and enthusiastically engaged as champions and advocates for advancing the hospital's mission and vision.

The Importance of Philanthropic Support to the Future of the Nation's Not-for-Profit Independent Community Hospitals

In any urban, rural, or suburban area in America, high quality healthcare services are arguably among a community's most important resources – as important as clean water, fire and police protection, and high quality schools.

But as anyone who listens to the daily news is well aware, the healthcare system in the United States today is experiencing the most severe financial crisis in its history. Yet, as difficult as this environment already is, the future is expected to be even more challenging.

Three factors contribute to this crisis.

First, over the past two decades, Medicare, Medicaid, and private healthcare insurers have limited the inflation-adjusted amounts they pay hospitals and physicians for medical services. This trend has resulted in a serious underfunding of the actual costs of providing quality care, particularly in various parts of the country where Medicare and Medicaid reimbursement rates have historically been lower than in other regions of the country (e.g., the West Coast, Upper Midwest).

Moreover, it is anticipated that hospitals nationwide will continue to see reimbursements for services falling even further below the true cost of providing care as the healthcare reform bills passed by the U.S. Congress and signed into law in March 2010, are implemented over the next several years.

Second, the prevalence of debilitating and often incurable diseases such as Alzheimer's, Parkinson's, cancer, heart disease, and diabetes dramatically increase after the age of 65. As a result, the cost of providing medical care for someone 65 or older is nearly five times the cost of treating a younger person. In early 2011, the first of the nation's 76 million Baby Boomers turned 65 and became eligible for Medicare, dramatically increasing the number of Americans entering retirement years who will require medical care due to age-related health problems. This 'Silver Tsunami' is expected to place an extraordinary demand on the federal budget and on not-for-profit healthcare providers.

Third, the number of families with little or no health insurance is growing steadily. There is a large increase in the number of unemployed due to the current recession. In addition, many employers have reduced or eliminated medical coverage for employees due to the skyrocketing cost of health insurance as an employment benefit. While it is anticipated that health care for many (not all) of these families will soon be covered by the implementation

of healthcare reform, payment to healthcare providers for services will be funded at levels significantly less than the actual cost of care.

These and other factors are exerting unprecedented financial pressures on not-for-profit community-based hospitals and health systems.

Across the country, many community hospitals have had no alternative but to close their doors, and numerous not-for-profit hospitals throughout the U.S. are expected to go bankrupt in the next decade. Other hospitals have been acquired by for-profit, investor-owned hospital chains, often leaving their communities without access to not-for-profit, locally-governed health care.

Virtually ***all*** community hospitals, regardless of their ownership, have reduced their employee staffs and adopted aggressive cost-saving measures to cope with declining medical reimbursements.

One of the most serious consequences of these dynamics is ***the increasing shortage of capital funds to replace or modernize aging facilities and invest in the latest medical diagnostic and treatment technologies***. Except in the most unusual situations, there is simply no way that a not-for-profit hospital can fund all of its high-priority future capital needs through operating income and debt alone.

As a result, not-for-profit independent hospitals and health systems nationwide are depending increasingly on philanthropic support to help fund a portion of their capital and programmatic needs. It is widely agreed that, in the future, the only communities that will enjoy access to the best health care will be those that provide significant philanthropic support for their local community hospitals.

Key Elements in a 'Best Practice' Fund Development Program in a Not-for-Profit Independent Community Hospital

What follows is a description of how a mature and effective ('best practice') fund development program should be governed, staffed, organized, and operated in an independent community hospital, in order to maximize its net income from philanthropy.

The following information is provided to illustrate the 'best practice' benchmarks against which The Greenwood Company evaluates the appropriateness and effectiveness of healthcare fund development programs, and is based on more than three decades of experience in providing fund development counsel to several hundred community hospitals and health systems throughout the United States.

Developing a Culture of Philanthropy

In order to set the stage for a 'best practices' fundraising program and truly transform a healthcare organization, a foundation must first create an institutional 'culture of philanthropy.' There are six primary components of a culture of philanthropy:

1. The institutional CEO understands and provides broad support for the fund development program by articulating the vision of the institution, articulating the need for philanthropy, helping the foundation obtain compelling funding objectives, helping to articulate the case to major gift prospects and making a generous personal annual gift to the foundation.
2. Members of the senior management team understand and provide support for the fund development program that is specific to their individual areas of influence. Senior managers also make appropriate annual gifts each year, provide information for case statements, and support the implementation of concierge service programs for generous supporters.
3. The institution's governing board members understand and support the fund development program by making annual gifts to the foundation each year, attending the foundation's events, understanding and articulating the importance of philanthropy in funding excellence, and leading gift approaches when they are clearly the most appropriate person for a particular donor prospect.
4. Members of the institution's foundation board serve as the organization's principal volunteer advocates for philanthropic support by making annual gifts to the

foundation each year and multi-year pledges to periodic campaigns, cultivating and soliciting gifts from select patients and other community donors, and attending the foundation's board and committee meetings and special events.

5. Members of the medical staff understand and support the fund development program by making annual gifts to the foundation each year, introducing the foundation to grateful patients (in accordance with HIPAA), and helping to provide information to create case statements for needs that are to be funded in their medical specialties.
6. Employees understand and support the fund development program by making modest annual gifts themselves, helping identify grateful patients (in accordance with HIPAA), and promoting the hospital and its need for philanthropy in the community.

In summary, all six primary components of a healthcare culture of philanthropy can be developed through a concerted effort led and championed by the foundation's Chief Development Officer and institutional CEO. When all constituent groups realize that a successful philanthropy program will dramatically advance each of their respective professional goals and objectives, the foundation will gain very receptive allies for its fund development program.

The Priority Setting Process for Fund-raising Objectives

In addition to establishing a culture of philanthropy, it is imperative that the hospital have a compelling strategic plan for the future. With this plan in place, a 'best practice' community hospital foundation can set funding priorities that at all times correctly reflect the hospital's capital funding priorities. This determination of priorities is tempered by the reality that donors are far more likely to be interested in certain types of compelling needs (e.g., surgical robots, cardiac catheterization labs, CT/PET scanners, new EDs, heart centers, cancer centers, and pediatrics) than in other more mundane needs (e.g., facility renovations to meet seismic codes, routine equipment upgrades, medical office buildings, parking structures, etc.).

Accordingly, the 'best practice' hospital foundation is integrally involved in its hospital's strategic planning and capital budget planning process at a very early stage. This provides senior foundation staff and foundation board members the opportunity to choose the most compelling capital and programmatic needs for foundation funding. Such needs are ordinarily identified as much as two years – or even three or four years – in advance of their actual funding by the foundation and rarely less than 18 months in advance of funding. Such lead time is essential for

the foundation to plan and execute appropriate fundraising programs on behalf of these needs. Hospital managers and physicians assist the foundation in developing persuasive arguments for these capital and programmatic funding needs.

The Case for Philanthropic Support

At all times, an effective hospital foundation maintains a well-written, clear, and compelling general case statement about its hospital's history, its impact on the community's medical needs, its centers of excellence or special services, its distinguishing features compared with other local or regional 'competitors', and its need for philanthropy. **A comprehensive case statement** relates to the hospital's strategic plan and vision, and is comprised of the following elements:

1. A compelling description of the primary purposes of the hospital, including in-depth information about its major services and programs.
2. A compelling description of the hospital's ***accomplishments*** as it carries out its mission in the community. This section of the case should include a description of the medical problems addressed by the hospital and provide both quantitative and qualitative examples of the organization's accomplishments. It is critical that this section provide compelling proof of the organization's value to the community by demonstrating an impressive set of accomplishments.
3. A statement of the hospital's annual budget and how this budget is funded.
4. A statement of how much philanthropic support the foundation must therefore raise each year to help the hospital carry out its mission, and a breakdown of the required funding by program, capital needs, and/or other funding components.
5. A description of each funding need for which the foundation must raise philanthropic support over the next 12 to 36 months and how much must be raised for each need. Thus, this component of the case not only describes each funding need in compelling terms but also places a dollar figure on each of these needs.

The case also describes the various forms of donor recognition available for gifts of different denominations.

The 'best practice' case statement usually exists in at least two – and sometimes three – formats:

- ***Word processed format***, so that elements of the case may be excerpted at any time for one of many purposes, including foundation proposals, government grant proposals, corporate proposals, annual giving support request letters, and major gift approach talking papers.

- ***Brochure format***, which is usually created annually or every other year. The brochure is used as a 'leave behind' for major gift asks and as a general educational tool which is almost always left behind with donor prospects (or mailed to them) or audiences after they have witnessed presentations about the organization, its accomplishments, and its needs.
- ***Video format***, which serves as the focal point of educational briefings provided to prospective donors, prospective board members, and others who are of particular importance to the organization.

In addition, the foundation ***has specific case statements for individual needs for which it is currently raising funds***. These documents are essential to the ability of the organization to present a compelling rationale for charitable support.

Governance

Governing Structure

An effective 'best practice' fund development effort for a freestanding community hospital is organized around a subsidiary 501(c)(3) not-for-profit corporation that is also a 509(a) supporting foundation under the Internal Revenue Code. The foundation is governed by a volunteer board of trustees, and the hospital corporation ordinarily serves as the foundation's 'sole corporate member', having ultimate control over – and ultimate ownership of – the foundation's assets and programs. As a practical matter, however, the foundation board governs the foundation's fundraising program.

An exception to this general rule of hospital foundation control is found in community hospitals that are owned by a healthcare district. District hospitals are usually supported by a separate 501(c)(3) not-for-profit corporation that is organized independently from the healthcare district board but works closely with the district hospital's board and senior management team in defining fundraising priorities.

In order to foster a 'culture of philanthropy' throughout the hospital, and to set an example for all hospital and foundation board members, employees, affiliated and employed physicians, and prospective community donors, ***all*** members of the hospital's governing and foundation boards are expected to provide generous personal philanthropic support for the foundation each year. When a major fundraising campaign is conducted by the foundation, governing and foundation board members are expected to provide 'stretch', multi-year pledges to the campaign.

Governing and foundation board members are also expected to be vigorous volunteer advocates of the fundraising needs of the hospital and

to demonstrate to the community that those who are closest to the hospital – and thus in the best position to understand the hospital's funding needs – are strongly supportive of the foundation's fund development efforts.

To convey to the community that its charitable donations are being used appropriately to benefit the hospital, the hospital foundation ***should avoid making grants to other community nonprofit organizations***, except in certain cases where such grants may be used to support local health-related causes whose missions are a logical extension of the hospital's mission (e.g., disease-prevention activities such as smoking cessation, childhood obesity prevention, hospice care, etc.).

Foundation Board Composition

The 'best practice' hospital foundation board is comprised of ***at least 20*** (often as many as 30) lay volunteers who have substantial stature and credibility in the philanthropic establishment of the community served by the hospital. A foundation board also has as members three or four prominent and respected physicians from the hospital's medical staff, and one or two officers of the hospital auxiliary are often appointed as *ex officio* voting members of the board.

Board Staffing

The 'best practice' hospital foundation board is supported by a salaried foundation president who serves as a member of the hospital's senior management team and as the hospital's principal fundraising spokesperson.

Board Committee Structure

The 'best practice' hospital foundation maintains certain key standing committees that reflect the foundation's mission of resource development: executive, nominating/trusteeship, development, and finance/investment. Because the most important functions of a hospital foundation are to procure new gifts in support of the hospital and to steward past gifts, the foundation's development committee may consist of multiple specialized sub-committees focused on major gifts, planned giving, special events, stewardship, allocations, and other *ad hoc* fundraising activities.

The existence of the development committee and its various sub-committees provides the proper accountability for the productivity of each of the foundation's fundraising programs. Moreover, it encourages foundation board members to become more immersed in the gift solicitation process. This committee also prevents the foundation from becoming predominantly 'staff-driven' or event-focused.

The 'best practice' hospital foundation board meets ***at least five (5) times per year*** (including one annual planning meeting or retreat), to encourage continuity and participation. Board

committees meet at least once between board meetings and provide reports on their activities at full board meetings.

Board Terms

Board members of a 'best practice' hospital foundation typically serve for up to three (3) three-year consecutive terms, followed by a mandatory year off the board before becoming eligible for reelection. The mandatory year off the board is important for the board to provide a diplomatic approach to creating vacancies that can be filled by new board members.

Board Giving and Fundraising Responsibilities

During periods in which the foundation is not engaged in a major campaign, each governing and foundation board member is expected to make an annual personal gift to the foundation which reflects his/her individual giving capacity. (Some foundations set minimum annual gifts by board members [e.g., $2,500 or $10,000]; however, setting minimum gift standards often prevents the foundation from recruiting volunteers who are highly effective in fund raising but do not necessarily have the financial means to make gifts at these levels.)

During a capital campaign, each board member is expected to make a 'stretch' three- to five-year capital pledge commensurate with his/her financial circumstances. Further, each board member participates in at least two or three face-to-face gift solicitations for significant gifts each year and attends the foundation's 'signature' special event.

Fund Development Programs and Support Functions

An effective hospital foundation typically operates seven primary fundraising programs, and it continually seeks to maximize gift revenue from each program. These programs include:

- **Major Gifts Program**
- **Private Grants Program**
- **Planned Giving Program**
- **Fundraising Campaigns**
- **Annual Giving Program**
- **Special Fundraising Events**
- **Volunteer Auxiliary Fund Raising**

An effective hospital foundation also operates various support functions to provide the necessary resources to support the fundraising programs. These include:

- **Prospect Identification, Research, and Management**
- **Gift Recording, Acknowledgment and Recognition, and Database Management**
- **Donor Stewardship and Communications**
- **Donor Concierge Services**
- **Finance and Accounting**

What follows is a brief explanation of each of these programs and functions in a mature and effective hospital foundation:

Major Gifts Program

Regardless of whether a hospital foundation is conducting a major capital campaign, the major gifts program is the foundation's fundraising centerpiece and should – with only rare exception – ***receive the greatest emphasis in terms of senior staff and board time, attention, and effort***.

Of all of the foundation's fundraising programs, the major gifts program nearly always raises the most funds in new gifts and pledges each year, except in cases when a large deferred gift matures (e.g., a bequest, life estate, or life income trust). The major gifts program is responsible for keeping the cost ratio of expenses-to-funds-raised in line with 'best practice' benchmarks, and it typically enjoys the lowest cost ratio of any fund development program – usually no more than 10% (i.e., it spends no more than 10¢ to raise $1.00) and sometimes less than 5%.

When a hospital foundation is not conducting a major capital campaign, an effectively run major gifts program maintains a portfolio of 100 to 500 major gift prospects at any given moment, which have been identified through past contributions to the foundation's annual giving program, participation in foundation special events, and/or intensive prospect research of affluent individuals and major foundations and businesses located in the hospital's primary service area.

A vigorous and effective major gifts program is essentially a 'numbers game' in which a large number of qualified major donor prospects are approached through a very effectively choreographed process for specific gift requests. Such a program can normally count on results at least as favorable as the following:

- approximately 25% of those approached will give the dollar amount requested;
- approximately 25% will give less than the amount requested but will still make a meaningful gift;
- approximately 25% will make a token gift; and
- approximately 25% will elect not to make any gift.

While the success rate of a 'best practice' major gifts program may seem less than expected, it indicates that the program is 'pushing the envelope' in contacting a much larger number of donor prospects than a major gifts program that achieves a much higher success rate yet yields far fewer major gifts because it solicits far fewer donor prospects.

An effective major gifts program in a hospital foundation is staffed by one or more major gifts officers in addition to

the foundation president. Each major gifts officer is expected to choreograph ***no fewer than 30 approaches*** to individuals, corporations, and foundations each year seeking gifts of $50,000 or more (some approaches are for $1 million or more).

Each major gift approach is carefully choreographed for maximum effect, and each usually involves at least one trained member of the foundation board, in some cases a key physician and a senior hospital or foundation manager. A written proposal is often left behind with the prospect after the verbal presentation and gift request.

The most effective major gift requests seek support for compelling, high profile capital, programmatic, or endowment needs that will provide important healthcare services to the community, such as new equipment, facilities, or programs for an intensive care unit, neonatal service, emergency department, cardiac or cancer center, or rehabilitation unit.

When a hospital foundation conducts a major capital campaign, the number of major gift approaches may increase to 100 or more per year in the external community phase of the campaign.

The most effective major gifts program is conducted with dedicated major gifts staff officed at or very close to the hospital to ensure regular physical interaction with patient families, physicians, and caregivers. Major gifts staff are expected to spend a considerable amount of time visiting volunteers and prospective/past donors at their homes or offices.

Private Grants Program

A 'best practice' hospital foundation maintains an active program of identifying – and then submitting grant applications to – select local, regional, and even national foundations, disease-specific grant-making associations, businesses, and corporate foundations whose grants programs support the types of programs and services that the hospital operates. (***Note:*** Family foundations that are extensions of family giving activities are considered as individuals rather than as private foundations for purposes of this discussion.)

The extent to which a hospital foundation can be effective in generating private grant support is determined in large part by whether the hospital conducts innovative or cutting-edge clinical research, community education programs, or health policy studies, and whether its programs in these areas are unique and unconventional.

Generally, the more 'academic' and innovative the programs needing funding, the more likely they are to receive foundation grant support; this explains why leading hospitals associated with academic medical centers receive millions of dollars per

year in foundation grant support for their health programs, while most non-academic hospitals receive a much lower level of grant support from foundations and other institutional funding sources.

Regardless of whether a hospital is more or less 'academically' inclined in its programs and services, a 'best practice' hospital foundation is remiss if it does not carefully research all private and corporate foundations based in its primary service area, to determine whether any of the hospital's programs would potentially qualify for grant support.

The most effective grant procurement programs are conducted using dedicated, experienced grant writers who are familiar with the full spectrum of national, regional, and local private grant-making organizations (foundations, health-oriented grant-making associations, and corporations). Creative grant writers can often connect a hospital program to a foundation's area of interest in a successful manner that is not initially apparent to a less-gifted fund raiser.

Planned Giving Program

The planned giving program focuses on obtaining gifts that are made through estate planning instruments and feature various favorable tax-saving consequences for the donor. In contrast to the major gifts program which focuses on current (lifetime) gifts of assets that are generally easily liquidated (e.g., cash, stock, real property), the planned giving program focuses on procuring testamentary bequests (through one's will or trust), deferred irrevocable gifts (e.g., a life estate involving one's residence, a charitable gift annuity, or a charitable remainder trust), and other various complex transfers of personal assets (e.g., a charitable lead trust or a supporting organization).

The planned giving program is always the most complex of the hospital foundation's various fundraising programs to create and administer, but it can significantly increase the level of philanthropic support received by the foundation during a given year. Moreover, the planned giving program ordinarily produces some of the largest gifts a hospital foundation is likely to receive over an extended period of time.

An effective planned giving program requires competent staffing and stewardship by salaried or consulting professionals who are conversant with current federal and state tax laws as well as the latest estate planning instruments and approaches.

Planned gifts are frequently earmarked for the foundation's permanent endowment, and are usually the primary way for the foundation to create a substantial endowment, inasmuch as most cash 'lifetime' gifts are earmarked for specific current expendable purposes.

A 'best practice' planned giving program generally conducts the following activities designed to attract and cultivate prospective donors of planned gifts:

First, an effective planned giving program in a hospital foundation is usually managed by a full-time or part-time **Director of Planned Giving** and, in a large and mature development program, is often assisted by one or more additional planned giving officers. The Director and all planned giving associates possess an excellent working knowledge of estate planning concepts and techniques and, in particular, have extensive experience in understanding the technical aspects of all the leading outright and deferred gift instruments, and are adept at applying these instruments in all interactions with prospective donors.

The Director of Planned Giving also works closely with all foundation major gifts officers and foundation board members to ensure that they are conversant with the basics of these gift instruments and can appropriately incorporate select planned gift instruments into major gift approaches when such instruments have the potential to leverage additional gift support.

Second, the planned giving program organizes a special **donor recognition group** (or 'society') that is designed to pay special attention to those who indicate their intention to provide for some type of deferred gift for the hospital foundation. Priority constituencies to approach for membership in a planned giving society/group include: former and current governing and foundation board members; senior managers; older physicians; volunteer auxilians; older employees; and current and past donors known to be 60 or more years old.

Third, the planned giving program conducts an ongoing direct mail program to enroll new members of its donor recognition group, employing at least one and preferably two high quality, personalized mailings per year to all of the foundation's past and current donors who are known to be 60 or more years old.

Fourth, the planned giving program is assisted by a dedicated **professional advisory group** consisting of 10 to 15 volunteer 'agents of wealth' who represent insurance, trusts and estates, commercial and residential real estate, retirement investment, and other professional advisory sectors that are relevant to issues involving senior citizens and their financial needs.

Fifth, the planned giving program includes in the foundation's promotional materials compelling 'real life' stories or case studies of foundation donors who have made provisions for deferred gifts to the foundation. The materials avoid

excessively technical planned giving concepts and jargon, as such usage can intimidate potential planned giving donors.

Sixth, the planned giving program aggressively markets **charitable gift annuities** in the current economic environment, assuming that the hospital foundation is licensed by the state Commissioner of Insurance to issue gift annuities in states that require a license. For those 70 years old or older, gift annuities remain an excellent vehicle to substantially increase one's investment income compared with what can be earned through conventional stock, bond, and money market investments. Moreover, as federal and state marginal income tax rates increase, the portion of gift annuity income that is not subject to federal and state income taxes will also increase.

Seventh, the foundation's planned giving program has a unique opportunity to position itself as a charitable 'market leader' in its respective region by offering the combined **Life Estate** - **Gift Annuity (LEGA)** vehicle to those 75 or older in the local community. Some planned giving programs are generating millions of dollars per year in new gifts through the LEGA vehicle by using foundation or hospital assets to fund gift annuity payments to donors in exchange for receiving charitable life estate gifts of donors' residences, ranches, or farms.

Eighth, some foundation or hospital finance departments provide financial 'credit' to fundraising campaigns for capital building and equipment projects based on the actuarially discounted net present value of irrevocable deferred gifts made by donors aged 65 years or older to the campaign. Providing such credit can often encourage a substantial irrevocable gift commitment from a donor who is not comfortable making a large outright gift of assets during their lifetime. In cases where credit is given for a current funding need, the entire value of the planned gift is made available to the internal entity (i.e., the foundation or the hospital) that originally provided the gift credit.

Finally, for reasons of institutional liability, a hospital foundation ***avoids serving as the official trustee of any charitable trust*** (e.g., a charitable remainder trust) – even a trust that specifically designates the foundation as a charitable beneficiary. Instead, the foundation should encourage planned gift prospects to have their charitable trusts managed by trust companies and other financial services companies that specialize in trust management.

Fundraising Campaigns

A 'best practice' hospital foundation periodically conducts a major fund-raising campaign over a defined time period. Such an effort is designed to address a substantial and compelling funding need (e.g., a new building)

or set of needs (e.g., new facilities, equipment, physician/faculty recruitment, endowment, program start-up and ongoing support, etc.) by generating a substantially higher level of gift income than is available through year-to-year fundraising activities.

A successful fundraising campaign is carefully planned and is always preceded by an intensive campaign planning and feasibility study that evaluates the level of volunteer and donor support for the needs to be supported by the campaign, identifies the primary obstacles to success, and produces a campaign plan of action if a campaign is deemed feasible.

If the study recommends that a campaign should be undertaken, a 'working' financial goal is set for purposes of soliciting lead gifts in a 'quiet phase' over 12 to 24 months, involving members of the hospital's governing and foundation boards, senior management, medical staff, employees, and a small number of lead gift prospects. Once these commitments are formalized, a formal goal is set and the 'community phase' of the campaign is announced and conducted over an additional 12 to 24 months. This community, or external, phase approaches those capable of making campaign commitments of $10,000 or more (but with a particular focus on those capable of giving $100,000 or more).

A campaign focuses primarily on large gifts that are paid within a three- to five-year pledge period. Such gifts ultimately comprise 70% to 90% of the campaign goal. If the campaign seeks a significant amount for endowment, deferred gifts that are irrevocable are often counted toward the campaign at full or discounted value, depending on the donor's age and on the campaign's gift counting policies. (***Note***: Bequest expectancies that are not accompanied by a binding pledge agreement are generally not counted toward the campaign goal.)

The key obligations of any credible campaign planning exercise are to develop a campaign plan that addresses both the hospital's most pressing financial needs, and donor giving potential, and to recommend a campaign financial goal that is challenging yet ultimately achievable.

The ***first*** of these two campaign planning responsibilities is to identify the type of campaign that will be the most successful in supporting the hospital's highest priority funding needs and in elevating the foundation's overall fund development program to a higher level of productivity after the campaign is successfully concluded.

Hospital campaigns typically fall into two distinct categories:

1. **A Special Focus Campaign**, which highlights one or two very specific funding priorities (usually a major

facility such as a cancer or heart center or the endowment) and thus focuses donor attention intensively on the importance of supporting these particular needs as distinct from other organizational needs; and

2. **A Comprehensive Campaign**, which raises funds for a variety of organizational needs, counting all annual gifts, capital gifts, and endowment gifts into the campaign total for a defined period of time.

The **Special Focus Campaign** approach is frequently employed when a hospital must mobilize its donor and volunteer constituency to deal with a very pressing and expensive capital funding priority. For example, many hospitals have recently undertaken major special focus campaigns to raise funds to help underwrite replacement hospitals or to build expensive new cancer centers, heart centers, or emergency departments.

An advantage of the Special Focus Campaign is that it redirects potential donors to a specific funding priority, virtually assuring that the funding priority will receive significant support. However, focusing on a single purpose does not necessarily appeal to all potential donors, some of whose interests may lie elsewhere.

The most common alternative to a Special Focus Campaign is the **Comprehensive Campaign**, which contains multiple featured objectives and generally treats all gifts for all purposes from all private sources with equal importance. In a comprehensive campaign, all annual gifts, all capital gifts, all endowment gifts, and all deferred (planned) gifts are counted toward a stated dollar goal over a pre-determined defined period of time to fund multiple objectives.

A comprehensive campaign is an effective vehicle to showcase a hospital's diverse strengths and to provide a variety of opportunities for philanthropic support. The comprehensive campaign provides a useful platform to draw community attention to a hospital's wide array of services and programs. Hospital foundations often employ the comprehensive campaign approach to significantly 'raise the bar' in their overall fundraising productivity, so that their post-campaign annual philanthropic revenues will increase substantially over the levels before the campaign.

Moreover, a comprehensive campaign approach enables the hospital foundation to set a campaign fundraising goal that is larger and more psychologically impressive than the goal of a more limited special focus campaign. In fact, there is significant evidence that suggests that many lead gift donor prospects 'scale' their campaign pledges in relation to the magnitude of a campaign's financial goal.

Accordingly, a larger comprehensive campaign goal often prompts lead gift donors to increase the size of their campaign pledges compared with what they might have committed to a campaign with a smaller goal. The comprehensive campaign approach is not intended to create an artificially inflated goal or to 'out-do' other competing organizations in terms of the size of the potential campaign goal. Instead, it is an approach that helps a hospital elevate its importance and status in the community, conveys a message that it is serious about philanthropic support, and treats annual gifts, capital gifts, and endowment gifts as equally important.

The most serious downside to a comprehensive campaign is that certain individual funding objectives often do not receive adequate financial support because too many funding priorities are featured, and because the primary focus is on total dollars raised rather than on whether individual funding objectives and goals are met.

Depending on the size of the prospective donor constituency to be approached, a comprehensive campaign is usually conducted over a minimum of three years to a maximum of five or more years when the constituency is very large (similar to a major university). Comprehensive campaigns may often take several years longer to complete than special focus campaigns because a larger number of people are solicited and more money is raised.

While it may be tempting for hospital foundations to prefer the comprehensive campaign approach because it addresses multiple hospital funding priorities simultaneously and appeals to a broader donor constituency, a comprehensive campaign is far more complex and difficult to conduct successfully than is a special focus campaign. Moreover, a comprehensive campaign requires: skilled and productive foundation staff in major gifts, planned giving, annual giving, special events, and development support areas; superior development support systems in prospect research, database management, communications, and stewardship, etc.; and a much larger number of highly dedicated volunteers who are willing to participate for a much longer period of time than in a typical special focus campaign.

Generally, a hospital foundation that does not have the appropriate staff, high performing fundraising programs, fundraising support systems, and volunteers in place should avoid a comprehensive campaign approach.

The ***second*** key element in campaign planning involves the determination of a challenging yet attainable campaign financial goal. The importance of ultimately attaining an announced

campaign goal cannot be overstated; failure to reach a campaign goal must not be considered an option because it will harm an organization's image and fundraising programs for years to come. Major donors do not appreciate giving to what appears to be a 'failure.'

Hospital foundation 'best practices' follow these key steps in setting a challenging yet attainable campaign goal:

- ***first***, an ambitious preliminary campaign goal – often considerably higher than the amount that a campaign might normally be expected to yield – is 'tested' in a campaign planning and feasibility study to determine the campaign's appropriate size and focus;
- ***second***, based on the conclusions of the study, a 'working goal' for the campaign which might represent a 'stretch' for the hospital's donor constituency is established for purposes of soliciting campaign gifts from the internal hospital family of board members, employees, physicians, and the Auxiliary, and from a few key external lead gifts; and
- ***third***, based on the actual dollar results at the end of the internal phase of the campaign, after all internal donor prospects have been approached for campaign pledges (as well as a few key external lead gifts), a formal campaign goal is established prior to launching the campaign's external community phase.

To ensure the success of a major campaign – whether special focus or comprehensive – a hospital foundation should always retain the services of a highly qualified campaign management firm with extensive experience in healthcare fund raising to assist the foundation in studying feasibility, and in planning and managing the campaign. Effective counsel is essential to ensure that the campaign utilizes effective campaign methodologies (especially choreographed gift approaches), that it adheres to the campaign plan, and that it 'pushes the envelope' to maximize gift revenues.

Annual Giving Program

A 'best practice' hospital annual giving program typically generates a steady stream of gift income from small- to medium-sized donations ($10,000 or less, with most from the direct mail program), with proportionately less effort (but a greater cost-per-dollar raised) per donor than is necessary in the major gifts or planned giving programs.

An annual giving program is important for two primary reasons:

- ***first***, to generate a significant amount of unrestricted or loosely restricted gift income to support hospital or health-related programs and projects, as well as foundation

operations, on a predictable year-to-year basis; and

- ***second***, to develop a constituency of future major gift and planned gift donors by 'acquiring' new donors and nurturing their involvement in the life of the hospital or health-related organization over time.

A comprehensive and multi-faceted donor acquisition and annual giving program contains several key components: an annual board campaign, an annual employee campaign, an annual physician campaign, and an annual community campaign, as follows:

~ Board Giving ~

An effective annual giving campaign begins with strong support from governing and foundation board members who make gifts in response to personalized approaches by teams that include the foundation president and at least one board member. Except in unusual cases, foundation staff other than the foundation president should not participate in gift approaches to board members. Soliciting board members' annual commitment once at the start of each member's term as a pledge made over the duration of the board term of three years is the most efficient method to secure board support.

~ Employee Giving ~

An effective annual employee giving campaign is very important not only for the dollars that are contributed but also to inspire other donors to give generously and to convey to community donors – individuals, foundations, and businesses – that the hospital's major internal stakeholders (i.e., the employees) are themselves committed financially to the hospital's mission.

'Best practice' employee giving campaigns adhere to a philosophy of voluntary giving, peer-to-peer solicitation, and thorough employee education about the organization's priority needs and the employee campaign. Managers should have no role in soliciting rank-and-file employees.

A successful employee annual giving campaign seeks ongoing, payroll-deducted commitments and provides special public recognition for those who contribute a particular minimum percentage of their total income through payroll deduction (e.g., the equivalent of one hour of pay per 80-hour pay period, amounting to 1.25% of one's gross earnings).

The most effective employee campaign begins with hospital senior managers (solicited by the foundation president) participating at the 100% level with a significant commitment, often a minimum of one-hour-per-pay-period pledges (but preferably two-hours-per-pay-period), followed by hospital managers soliciting pledges from management colleagues and rank-and-

file non-management employees soliciting pledges from their peers. Peer gift solicitations are conducted after all employees have been educated about the importance of employee support to the hospital's financial well-being as well as to the hospital's public image as a worthy recipient of philanthropic support from community donors.

The employee campaign is led by a group of volunteers recruited from across the organization. The leaders of the campaign (Co-Chairs) are recruited by the foundation staff and assist with recruiting the broader committee. Employee campaign volunteers are trained by the foundation staff to effectively ask their peers for voluntary gifts.

Employees are encouraged to make an ongoing payroll-deducted pledge rather than asked to 'do what you can.' Employee pledges may be amended or canceled at any time. 'Best practice' employee giving programs promote employee giving via the hospital intranet and facilitate pledges and gifts online.

All employee pledges are confidential; pledge cards are held by the foundation in strictest confidence, and hospital management has no access to pledge cards. Payroll deductions are then entered into the donor database and hospital payroll system by assigned staff who do not discuss gift information with others.

The employee campaign is conducted annually to renew employee donors who may have made one-time gifts the previous year and to solicit new on-going pledges from those employees not already participating.

~ Physician Giving ~

An annual physician campaign seeks and publicly recognizes annual gifts of $1,000 or more from each doctor – an amount that includes their financial participation in special events. Gifts should be sought in the form of three- to five-year signed pledges, whenever possible, to avoid the need to re-solicit physicians each year.

The physician campaign utilizes a committee of physicians, foundation board leaders, and staff – the Physician Gifts Committee – which requests pledge support from the hospital's active medical staff. The committee is co-chaired by at least two physicians who are very influential with their peers. Other committee members are also influential and respected physicians who have particular entré to, and stature with, at least one important group of doctors on staff.

The physician Co-Chairs are recruited by select members of the hospital foundation board. Once recruited, the Co-Chairs strategize with foundation staff to determine which doctors would make the most effective members of the Physician Gifts Committee. The Physician Campaign Co-Chairs then

recruit the committee members, who will solicit employed physicians, affiliated physicians who practice in the community, and retired physicians.

Members of the Physician Gifts Committee are asked to: attend a presentation about the hospital's funding plans and needs; read the case for philanthropic support; and evaluate the active medical staff list to determine which doctors should be approached for significant contributions. Each committee member chooses three to five physician prospects to approach for gift support. Committee members attend a Physician Gifts Campaign kickoff meeting at which they will receive training on how to approach their colleagues for gift support. Members strategize with each other and with foundation staff about how much to ask each physician to consider pledging. Members then make the necessary visits and follow-up visits in order to obtain signed pledges. The foundation staff and board members also help to approach physicians for gift support.

~ Community Giving ~

An effective annual giving program attaches the highest level of importance to its grateful patient program and to retaining and 'upgrading' past donors, rather than emphasizing the acquisition of first-time donors who do not have an affiliation with the hospital. The annual giving program seeks to acquire new donors by seeking first time donations, renewing these gifts a year later at the highest possible rate of renewal (75% is an appropriate 'best practice' goal), and encouraging increased gifts from those who have become regular annual donors.

The annual giving program includes compelling direct mail and online requests, phone requests, and in-person gift invitations directed at select prospects at least once each year. Requests that seek a specific gift amount are generally more effective than requests that propose a variety of gift amounts (e.g., "please give $10, $25, or whatever you can afford") or that do not suggest a specific gift amount.

- **Donor Renewal and Gift Upgrade Program**

Because the annual giving program relies heavily on more costly direct mail, it always produces a much higher fundraising cost ratio than do the major gifts or planned giving programs. Acquiring a donor's first gift dollar typically entails a fundraising cost ratio of approximately 125% to 150% (i.e., spend $1.25 to $1.50 to yield $1.00 in gift revenue), while renewing a donor's gift the following year and in subsequently years typically costs no more than 10% (spend 10¢ to yield $1.00 in gift revenue).

Thus, an annual giving program that is particularly effective in renewing gifts from past donors and utilizes online giving yields an overall fundraising cost ratio that is considerably less than a program that achieves a lower gift renewal rate and relies heavily on expensive donor acquisition measures to meet its gift revenue goals.

A well-organized and executed gift renewal and gift upgrade program uses a series of up to four personalized letters and phone calls from foundation staff or board members to seek recurring gifts at the same or higher levels, depending on the frequency of one's past giving.

- **Grateful Patient Donor Acquisition Program**

The cornerstone of a 'best practice' donor acquisition program is a grateful patient program that encourages hospital patients to consider gifts to recognize caregivers who have made a positive impression on them. This program involves two to three attractive mailed gift invitations over the 24-month period following discharge (the first letter is sent within three months of discharge) and seeks first-time gifts from patients.

This type of program gives grateful patients and their loved ones the opportunity to support the hospital with the option of paying tribute to caregivers who made a difference during the patient's visit or stay. Each honored caregiver receives a card from the foundation informing him or her of the gift made by grateful patients, as well as a custom-crafted lapel pin that is presented to the caregiver at a foundation board meeting.

The grateful patient program also provides a viable pool of major gift prospects for future gift approaches.

- **Community Donor Acquisition Program**

A 'best practice' community donor acquisition program quantitatively tests the effectiveness of different formats and messages in its direct mail pieces, email 'blasts', and phone calls. To conduct the proper testing to determine the most effective approach to community donor acquisition, gift renewals, and gift upgrading, a hospital foundation should retain the services of an experienced direct mail consulting firm to help the annual giving staff.

A primary service area-wide donor acquisition program purchases lists of prospective donors from list vendors, other direct mail vendors, its own internal direct mail production capabilities, or a combination of these methods, for production and distribution of direct mail solicitation packages.

- **Stewardship and Recognition of Annual Donors**

Within 10 months after making their previous gift, and before being solicited

for another gift, all donors who gave $1,000 or more the previous year receive a personalized stewardship report that describes how their previous year's gift was used to benefit patient care.

On-campus receptions and medical presentations are held twice a year for all donors of $500 or more. Hospitals with a primary service area that covers a large geographic area often conduct regional donor receptions and presentations.

Special Fundraising Events

The primary purposes of a special fundraising event are to elevate the profile of a hospital or other health-related organization, its foundation, and its need for philanthropic support with important donors, to honor existing donors, and to engage new prospective donors in ways that other cultivation activities are not able to accomplish.

Fund raising is a special event's ***secondary*** purpose because of the high cost and the immense amount of staff and volunteer time entailed in staging an effective event, when compared with the much higher revenue potential and lower cost (in staff and volunteer time and money) of major gifts and planned giving programs. A special event is generally considered successful financially if it consistently nets ***at least 50%*** of the amount of gross event revenue after calculating both direct costs ***and*** the prorated cost of salaries and benefits of ***all*** fundraising staff that help conduct the event.

Moreover, a fundraising event should not simply be viewed as an end unto itself, but rather should always be followed up with cultivation efforts to involve event participants in the hospital's programs, services, and related activities.

Every not-for-profit community hospital or health-related organization foundation should seek to conduct one – but rarely more than two – special fundraising event each year. The foundation should resist assuming responsibility for more than one event in order to avoid distraction from the foundation's signature event and to minimize the amount of staff time that would be diverted from their non-event responsibilities.

It is not unusual for various civic and other affinity groups in the hospital's local community to organize and conduct special fundraising events to benefit the hospital. Such events are appropriate provided that: they do not rely on foundation staff to conduct the event; they use the hospital's name only with formal approval and in a professional manner; they seek to net at least 50% from event revenues; they do not request the foundation's donor list or hospital's vendor list for purposes of generating event

participants; and they coordinate such events with foundation staff to avoid schedule conflicts or other problems.

There are several effective ways to staff special events. Some hospital foundations have dedicated staff to organize and conduct events while others contract for these services.

Volunteer Auxiliary Fund Raising

A leading community hospital is usually supported by one or more volunteer 'auxiliaries', traditionally, but not exclusively, organized by women in a particular geographic area, whose primary purpose is to raise funds for the hospital's general operations or for a specific medical program or service.

Some volunteer auxiliaries are unincorporated informal confederations of volunteers pursuing a common purpose; some auxiliaries are organized as subsidiary organizations of the hospital or its fundraising foundation; and some auxiliaries operate as independent nonprofit 501(c)(3) organizations with their own articles of incorporation, bylaws, and federal and state tax identification numbers.

A hospital auxiliary typically generates funds for the hospital by running a thrift or specialty retail shop or by conducting a signature fundraising event in its local communities. Often the funds a volunteer auxiliary raises for the hospital can be substantial.

Moreover, some members of hospital auxiliaries become individual contributors to the foundation, some of whom make major gifts or bequests.

Over and above the funds they raise for the hospital each year, volunteer auxiliary members can be highly effective 'ambassadors' for the hospital in the external community. It can significantly increase the name recognition, image, and 'social cache' of the hospital in the community, which not only enhances other non-auxiliary fundraising efforts for the hospital (e.g., direct mail, major gift campaigns) but also prompts families to use the hospital when medical needs arise among family members.

Given the importance of a hospital auxiliary to the foundation's overall fundraising program, one or two representatives of the auxiliary are generally appointed as *ex officio* voting members of the foundation board. Where a hospital enjoys the support of a volunteer auxiliary, often the auxilians who are appointed to the foundation board are the officials who are the current chair and immediate past chair of the group that oversees or coordinates the auxiliary.

Most hospital foundations allocate a portion of a paid staff member's responsibilities to serve as the foundation liaison with the auxiliary, to provide various types of administrative, clerical, and event support for the auxiliary organization.

Prospect Identification, Research, and Management

A 'best practice' hospital foundation places considerable emphasis on systematically identifying and developing extensive financial and biographical information on potential major donors, and uses this information to hold foundation staff accountable by monitoring their progress in cultivating, soliciting, and stewarding gifts from these prospective supporters. Names of prospective major donors are assembled from a variety of sources: patient lists, local news publications, physician and board member referrals, major donor lists from other major nonprofit organizations in the region, local club rosters, lists of previous annual donors, lists of memorial or testimonial gifts, and other sources.

A 'best practice' hospital foundation retains specialized vendors to conduct periodic or ongoing electronic 'wealth screenings' of its patient and donor databases, to identify those with the financial potential to make major gifts. This information is used by foundation staff and board members for purposes of making personal calls on new prospects when they are in the hospital or outpatient clinics. These prospects are also prime candidates for gift approaches through direct mail (e.g., personalized invitations to join $1,000 per year giving societies), for special-focus fundraising campaigns, or for invitation lists for donor cultivation events.

Working in conformity with HIPAA guidelines, the more innovative 'best practice' hospital foundations conduct daily electronic screenings of the hospital's patient census (outpatient as well as inpatient if available) to identify the names of those patient families who possess significant philanthropic potential. Such information enables foundation staff to visit select patients in the hospital or outpatient clinics to identify their special needs and concerns and to learn more about the potential interest of their families in supporting the hospital at some future date.

At any given time, the 'best practice' hospital foundation prepares in-depth background profiles on those prospects it determines have the capacity to give the hospital or health-related organization $50,000 or more. It is not unusual for a foundation to maintain several hundred such prospective donor profiles on an ongoing basis, compiled either by in-house staff skilled in advanced prospect research techniques, or outsourced to skilled freelance prospect research specialists.

As background information on prospective major donors is prepared, these prospects are then 'assigned' to members of the foundation staff who have responsibility for major gifts. Making such assignments is

particularly important where multiple staff members are involved in major gifts, to ensure the proper coordination of 'who is doing what with whom' at any given moment.

All prospect assignments are recorded in the foundation's interactive electronic database, and narrative and other information on all mailings, personal contacts, meetings, and other encounters with prospects are entered daily by foundation staff on the database's prospect management system. Such a practice ensures that essential information on the foundation's relationship with its donor prospects is always up-to-date and accessible to all foundation staff as needed.

The proper management and timely inputting of this critical information are fundamental to the success of any effective major gifts program in which multiple foundation staff and many board members and others are involved in prospect identification, cultivation, and solicitation.

Gift Recording, Acknowledgement and Recognition, and Database Management

At all times, the 'best practice' hospital foundation maintains a comprehensive and up-to-date set of Gift Policies and Procedures, which describes how the foundation manages the processes of gift solicitation, gift acceptance, gift valuation, gift processing, gift acknowledgement, and gift recognition. A comprehensive set of Gift Policies and Procedures typically covers such subjects as:

- procedures for donor prospect clearance and coordination;
- acceptance or declination of gifts;
- types of acceptable or unacceptable gift transaction fees;
- procedures for gift recordation, acknowledgment, and stewardship for gifts of various sizes;
- policies on gift valuation;
- determination of the date of a gift;
- types of acceptable (or unacceptable) outright gifts (e.g., pledges, cash, gifts via credit card, publicly traded securities; closely held securities, restricted securities, mutual fund shares, real property, tangible personal property);
- types of acceptable (or unacceptable) deferred gifts (e.g., bequests, charitable gift annuities, charitable remainder trusts, charitable lead trusts, life insurance);
- categories of gift funds (unrestricted, temporarily restricted, and permanently restricted);
- policies on general gift counting and campaign gift counting;
- policies on establishing and stewarding endowment funds (e.g., types of endowment; endowment restrictions; establishing new endowment funds; minimum amounts to establish a separate

endowment fund; endowment donor reporting); and

- summary of approved donor recognition opportunities.

A 'best practice' hospital foundation maintains a single electronic donor constituency database that contains comprehensive information on all donors, donor prospects, and other individuals of interest to fund development. Such a database is constructed on a sophisticated software platform developed by one of the leading companies specializing in fundraising databases. The database is maintained by the foundation and information is made available as needed (but on a highly restricted access basis) to other administrative departments in the hospital. As the database grows in sophistication, the 'best practice' foundation utilizes the growing capabilities of such systems in its day-to-day fund raising.

One of the major functions of the foundation's database is to maintain detailed gift records on all gifts made to the foundation. An important function of those responsible for maintaining an accurate and current donor database is to review and retain all written and other information that accompanies gifts, and then to promptly and accurately acknowledge all gifts, regardless of size. All gifts are formally accepted, recorded on the database, and acknowledged within two business days with a minimum of an official gift receipt which is necessary for the donor to claim an income tax charitable deduction.

In the case of all memorial and testimonial gifts, the individual being honored, or the family of the individual being memorialized, is sent a letter or note mentioning the name of the donor who has made the memorial or testimonial gift, with no mention of the gift amount. In the case of all non-tribute type gifts of some predetermined gift amount – usually $100 or more – an individualized letter of thanks is sent in addition to, or in lieu of, a perfunctory gift receipt.

Gifts of **$1,000 or more** are usually acknowledged with a **personalized letter** from the foundation president or foundation board chair, as well as a letter from the administrative or medical director of the program which the gift supports, if the gift is earmarked for a particular program.

Gifts of **$5,000 or more** are usually also acknowledged with a **personalized letter** from the hospital chief executive as well as the foundation president or board chair.

Major gifts of **$25,000** usually justify **four letters of thanks**: from the foundation president, the hospital chief executive, the foundation board chair, and the program director. In addition, a phone call to the donor from these individuals which precedes their thank-you letters is also advised.

A 'best practice' hospital foundation is attentive to the importance of highly visible donor recognition by maintaining an attractive and up-to-date 'donor wall,' located in a place of prominence and heavy patient traffic (usually in the hospital's or clinic's main lobby) and updated twice each year. The donor wall displays these donor lists:

- An alphabetical list of ***all current annual donors*** to the hospital foundation of a certain minimum gift level (usually $1,000);
- a separate list of the names of all donors who have made ***cumulative gifts (including realized planned gifts) to the hospital foundation totaling $10,000 or more***, divided into groups based on their cumulative gifts;
- a separate alphabetical list of the names of ***all donors who have arranged for a planned gift*** (e.g., bequest) to the foundation.

Moreover, the foundation manages a hospital-wide program of donor recognition plaques that recognize gifts of specific amounts to 'name' various areas of the hospital or clinics. The plaques are attractive, clearly visible, and unified in design throughout institutional facilities.

The underlying philosophy of gift acknowledgment and recognition is that it is impossible to thank donors too much for their gifts.

Donor Stewardship and Communications

A 'best practice' hospital foundation attaches a high level of importance to regular, high-quality, substantive communications with its general donor constituency and particularly with its most significant past donors.

At a minimum, the foundation produces an attractive newsletter or magazine providing updates on: health-related programs and services of distinction; hospital honors and achievements; personal profiles of notable caregivers and donors or volunteers; articles on medical or health-related topics of interest to donors; a calendar of hospital/clinical and foundation events; pictorial features on recent foundation or hospital events; announcements of significant gifts; and other pertinent information.

At least one issue of the publication per year (preferably the fall issue) includes a list of all donors, by gift level, to the foundation of $100 or more (donors of less than $100 are listed on the foundation website along with all donors listed in the annual report). In certain cases, the hospital's annual report provides an appropriate substitute for the fall issue of the foundation publication if it includes the annual donor list.

A hospital foundation also hosts periodic campus-based donor

stewardship events which are intended to sustain and enhance the relationships between donors and the hospital and its various centers of excellence or special programs.

Finally, the foundation maintains a visually stimulating, informative, and easy-to-access website that contains information describing:

- the foundation's mission and objectives;
- how to make a gift on-line or by mail;
- brief description of current foundation fundraising priorities;
- lists of the names, professional affiliations, and home towns of foundation board members (including photographs);
- list of foundation staff and their titles and contact information (including photographs);
- lists of all donor recognition opportunities, societies, and membership benefits;
- list of the names of all foundation donors of $25 or more, organized by gift level;
- calendar of upcoming foundation events;
- profiles of certain grateful patients and their families;
- links to streaming videos that pertain to the hospital; and
- news of significant developments at the hospital, etc.

Because large gifts are so important to the success of a hospital foundation, special attention is paid to regular communications with such contributors. Accordingly, major gifts officers are expected to regularly prepare or orchestrate personalized communications to their key donors. Such communiqués may take the form of:

- copies of press releases or news articles that discuss programs or services supported by their past gifts;
- hand-written notes from doctors, other caregivers, or patients expressing gratitude for facilities, programs, or medical equipment supported by past donations; and
- invitations for donor visits to the hospital to be reminded of the impact of their past support.

In the case of donors who have previously established discrete endowment funds, foundation major gifts officers or planned giving staff are expected to work closely with the foundation's or hospital's finance department to prepare annual reports on each endowment fund approximately two months after the hospital's fiscal year has ended. Each endowment stewardship report should contain two components:

- ***first***, a summary of the financial performance of the donor's individual endowment fund (original corpus, market value at the beginning of the fiscal year, market

value at the end of the fiscal year, annual payout rate, and actual dollar amount from income and/or appreciation used to fund current programs or services supported by the endowment; dividends or appreciation used to support hospital programs, etc.); and

- ***second***, a narrative statement describing the specific use and impact of the endowment on a particular hospital program or service.

The stewardship report containing the two types of information is mailed or hand-delivered to all donors (or their heirs or other family members) each year, ***as most endowment donors are especially interested in the ongoing impact of their endowment funds and often elect to add to their endowment funds through additional lifetime or deferred gifts***.

Donor Concierge Services

In recent years, numerous leading community and teaching hospitals that cater to a population consisting of a significant number of affluent patients have established comprehensive concierge services programs that span outpatient as well as inpatient services. Concierge services offered vary from one hospital to another, but a fairly typical array of such services includes:

- around-the-clock telephone access to foundation staff who help facilitate access to hospital services, expedite the admission and registration process, make appointments, and meet the donor at the hospital to provide assistance as needed;
- courtesy parking;
- specialty physicians who provide around-the-clock telephone access or medical advice by phone for donors who are travelling away from home;
- upgraded and more lavishly appointed inpatient rooms;
- special meals catered by local restaurants;
- special assistance in resolving billing issues;
- executive health exams;
- travel clinics;

In many cases, the hospital foundation is integrally involved in managing selected aspects of – or is fully responsible for – these concierge services programs.

In all hospitals with donor concierge service programs, the impact of these concierge service programs on philanthropic support has been profoundly favorable.

Finance and Accounting

The extent to which a 'best practice' hospital foundation handles finance and accounting functions itself is based on its level of independence from, or dependence on, the hospital that it supports.

A hospital foundation that operates independently from its parent hospital corporation typically has:

- a foundation **board finance/ investment committee** that oversees the management of all unrestricted, temporarily restricted, and permanently restricted gifts – current and past – including the selection, oversight, and performance evaluation of investment counselors and fund managers; and
- **an audit committee** that oversees the selection of an external auditor (usually the same firm retained to conduct the hospital audit).

A member of the foundation staff typically serves as Finance and Accounting Manager, to assure that all restricted contributions are properly designated for specific funds, to prepare regular internal financial reports for foundation staff and board members, to prepare financial reports for donors of large gifts and endowments, and to work closely with external auditors.

The primary ***advantage*** of this independent foundation 'model' is that it gives volunteer board members a sense of profound involvement in the management and eventual allocation of funds that they have helped raise. The principal ***disadvantage*** of this model is that it encourages board members to focus excessive time and attention on functions not related to fund raising and to allocate insufficient energy to procuring new gifts.

In contrast to hospital foundations that operate relatively independently from the hospitals they support, those hospital foundations whose finance, investment, accounting, and auditing functions are merged or blended with those of the hospital itself generally place minimal emphasis on finance and accounting functions and instead focus their efforts on fund raising. In such cases, the foundation board receives regular reports from the hospital chief financial officer concerning investment performance of funds received via gifts and bequests, fund balances in restricted gift accounts, and the hospital's overall financial performance.

The primary ***advantage*** of this model is that the foundation focuses virtually all of its attention on procuring gifts for the hospital. However, the ***disadvantage*** of this model is that many excellent candidates for foundation board membership are not interested in a role that is confined largely to 'giving and getting.' Thus, a foundation that is effectively an extension of the hospital and is really no more than a 'paper' foundation often is challenged to recruit potentially strong board members who seek a deeper involvement in the process of overseeing funds once they are donated.

Fund Development Staff

Foundation Management

The chief executive of a 'best practice' hospital foundation holds the title of 'President' or 'President and CEO' – not 'Executive Director', a title that conveys a lower-level and less important function in both the hospital and the foundation hierarchy. The foundation president serves as a key member of the hospital's senior management team, spends as close to 100% of his/her time and attention as possible directing activities that raise funds, and personally carries a large portfolio of major gift prospects for cultivation, solicitation, and stewardship. A nearly total focus on fund raising by the foundation's top executive is absolutely essential, given a hospital's urgent need for substantial philanthropic support.

Reporting jointly to the foundation board and to the hospital CEO, the hospital foundation president works directly with the chair and other officers and trustees of the foundation board to guide board members in their fundraising responsibilities.

The president of a best practice hospital foundation is responsible for:

- guiding the hospital's overall fund-raising strategy and organization;
- helping the hospital's senior management to identify the most appropriate capital and operating funding priorities for philanthropic support;
- supervising and mentoring the heads of the annual giving, major gifts, planned giving, special events, and support services programs;
- monitoring the relative effectiveness and productivity of each foundation program and staff member;
- serving as a senior-level spokesperson for the hospital, along with the hospital CEO and other members of the hospital's senior management team;
- staffing key foundation board committees; and
- managing a portfolio of 50 or more of the most important large gift prospects (including select foundation and governing board members).

In order to be effective, the foundation president has previously compiled an outstanding record of fund development program management at a major hospital foundation with a diversified fundraising staff, and is a skilled administrator who functions effectively in complex organizational structures.

The president is also experienced in cultivating and soliciting large gifts. Because such gifts are critical to the success of any healthcare fund development program, the president must be highly skilled in choreographing the identification, cultivation, and solicitation of such gifts, and must set both a symbolic and substantive example for governing and foundation board members and

foundation staff to follow in their own major gift approach efforts.

Because compensation levels associated with the nation's leading healthcare fund development managers have risen considerably in recent years to reflect the importance of philanthropic support, the foundation president earns a salary that is equivalent to, and often higher than, other senior members of the hospital's senior management team except for the hospital CEO, Chief Operating Officer, and Chief Financial Officer.

Other Fund Development Staff

In keeping with healthcare fundraising best practices, a 'best practice' hospital foundation organizes its fund development staff and programs to achieve the following objectives:

- strengthen staff and program support and accountability for those fundraising and fundraising support functions that will enable the foundation to maximize its potential gift revenues; and
- reduce staff and program support for those fundraising-related functions that require less attention, either because they do not generate an appropriate return on investment or because they are less essential to the future fund development effort.

A typical hospital foundation is staffed by talented and dedicated fundraising professionals who specialize in the following functions:

- Major gifts
- Private grants
- Planned giving
- Annual giving
- Special events (cultivation events, fundraising events, and third-party events)
- Prospect identification, research, and management
- Auxiliary coordination
- Gift recording and acknowledgement

* Gift recognition

* Database management

- Donor stewardship and communications
- Donor concierge services
- Finance and accounting

The configuration of a hospital foundation's staff should generally reflect both the foundation's gift revenue potential and the appropriate 'best practice' fundraising cost ratio for the program's revenue potential range. In other words, a hospital foundation that has the potential to generate approximately $10 million per year in total gift revenue and achieve a 25% fundraising cost ratio (i.e., spend $2.5 million to raise $10 million) should have a larger and more diversified foundation staff than a hospital foundation whose maximum annual gift revenue potential is $1.5 million and whose appropriate fundraising cost ratio is 40% (i.e., spend $600,000 to raise $1.5 million).

What follows is a suggested staff roster for four different 'best practice' hospital foundations that are maximizing their respective gift revenue potentials and are achieving an appropriate fundraising cost ratio:

Hospital Foundation #1 – Generates $1.5 million in annual gift revenue at a cost of $600,000 (suggested salary levels are shown after the position title):

- Foundation President - $140,000
- Director of Annual Giving and Stewardship/Communications - $75,000
- Database / Gift Processing / Prospect Manager - $70,000
- Foundation Assistant / Event Coordinator - $60,000

Hospital Foundation #2 – Generates $5 million in annual gift revenue at a cost of $1.5 million:

- Foundation President - $200,000
- Director of Major Gifts - $110,000
- Director of Planned Giving - $120,000
- Foundation Assistant - $50,000
- Director of Annual Giving and Support Services - $80,000
- Events Manager - $60,000
- Prospect Manager - $70,000
- Database and Gift Processing Manager - $50,000
- Stewardship and Communications Manager - $50,000

Hospital Foundation #3 – Generates $10 million in annual gift revenue at a cost of $2.5 million:

- Foundation President - $250,000
- Assistant to the Foundation President - $70,000
- Director of Major Gifts - $130,000
- Associate Director of Major Gifts - $100,000
- Director of Planned Giving - $150,000
- Major Gifts and Planned Giving Assistant - $60,000
- Director of Annual Giving - $100,000
- Events Manager - $70,000
- Director of Development Services - $90,000
- Development Services Assistant - $50,000
- Prospect Manager - $80,000
- Database and Gift Processing Manager - $70,000
- Stewardship and Communications Manager - $70,000

Hospital Foundation #4 – Generates $20 million in annual gift revenue at a cost of $4 million:

- Foundation President - $325,000
- Assistant to the Foundation President - $80,000
- Director of Major Gifts - $170,000
- Associate Director of Major Gifts - $120,000
- Associate Director of Major Gifts - $120,000
- Major Gifts Assistant - $75,000

- Director of Planned Giving - $190,000
- Associate Director of Planned Giving - $140,000
- Planned Giving Assistant - $80,000
- Director of Annual Giving - $110,000
- Associate Director of Annual Giving - $80,000
- Events Manager - $80,000
- Director of Development Services - $110,000
- Development Services Assistant - $70,000
- Prospect Manager - $90,000
- Database and Gift Processing Manager - $80,000
- Database and Gift Processing Assistant - $50,000
- Stewardship and Communications Manager - $70,000
- Finance and Accounting Manager - $80,000

Determining Fundraising Potential

Preparing annual fundraising and capital campaign projections for mature, high-performance fundraising programs at select hospitals can be reliably based on quantitative data because these nationally renowned organizations possess extensive records of past giving trends resulting from years of vigorous annual giving, major gifts, planned giving, and major campaigns.

In contrast, the method of projecting fundraising potential for a hospital foundation that is performing at a level considerably lower than its potential remains more of an art than a science, and thus is based on qualitative factors as much as on quantitative considerations.

Nonetheless, both underperforming and high-performing foundations are subject to various qualitative variables (e.g., state of the local and national economies, attractiveness of capital giving opportunities, and the gift decisions of a small number of seven-, eight-, and nine-figure donor prospects) that are virtually impossible to convert to quantitative analysis.

Thus, for underperforming programs, a projected ***range*** **for annual gift revenues** is more appropriate than a specific dollar figure, as a gift range reflects both constant and variable factors that reflect a hospital's unique circumstances and that influence its fundraising potential:

- its historic record of fundraising results measured against what it might have raised had it operated a 'best practice' fund development program – particularly in major gifts and planned giving;
- the extent of wealth in its primary service area;
- the relative interest in the hospital which is shared by the region's philanthropic establishment;
- the relative sophistication and reputation of the hospital's specialized services;

- whether the hospital maintains cutting-edge research and/or teaching programs;
- the extent of philanthropic competition the hospital faces with other major nonprofit organizations in its regional market, including other community hospitals and academic medical centers;
- the 'caché' of the hospital and thus the 'social status' conferred on those who associate with, and give to, the institution;
- the extent to which the hospital's physicians are involved as strong advocates for the foundation's goals and objectives;
- the community profile of foundation board members (wealth, connections to wealth, business leaders, etc.) and the degree to which these volunteers are actively involved in fund raising; and
- other intangible factors that can influence fund raising, such as the impact of organizational changes that may have occurred in the hospital's recent past, such as changes in its identity, composition, structure, and donor affinities in recent years.

The Cost of Fund Raising as a Percentage of Funds Raised

A mature and effective hospital foundation that is not engaged in a major capital campaign typically maintains a cost of fund raising that is somewhere between **15%** (meaning that it costs about 15¢ to raise $1.00) and **30%** (costs about 30¢ to raise $1.00). Whether the hospital foundation is at the lower or higher end of this range depends upon the local community's giving capacity and the efficiency and effectiveness of the program. Some hospital foundations that operate in very small or poor communities cannot raise more than about $1 million per year. Since it is virtually impossible to run any free-standing hospital fund development program for less than about $400,000 per year, due to fixed costs of staff and programs, there are circumstances for which an ongoing higher cost of fund raising is acceptable.

Note: *The foundation's cost-per-dollar-raised should **always** be calculated in the context of a three-year rolling average, in order to compensate for year-to-year fluctuations in gift revenue which invariably result from unusually large pledges and bequests which FASB accounting regulations require be counted in their entirety in the fiscal year in which the pledge is signed or the bequest made*.

Most large hospital foundations have sufficient fundraising capacity to be at or below a cost of **30%** (example: spend $2 million to raise $6.67 million), and hospital foundations with relatively wealthy constituencies should strive for a fundraising cost ratio of **20%**. Only a few hospital foundations do better than a 20% cost

of fund raising, and almost all of these institutions are raising $20 million or more per year.

When a 'best practice' hospital foundation conducts a major community-wide fundraising campaign, it ordinarily generates substantially more in new gifts and pledges annually during the pledge payment period of the campaign (usually three to four years) than during years in which no campaign is conducted. It is not uncommon for a hospital foundation that raises $5 million to $10 million per year in a non-campaign mode to generate $10 million to $20 million in new gifts and pledges during each year of the three- to four-year period in which a campaign is conducted. In such instances, the foundation's fundraising cost ratio drops significantly during the campaign period: for example, from **30%** during a non-campaign period to perhaps **15%** during the campaign period.

While it may be tempting for a hospital foundation to attain a 'best practice' fundraising cost ratio ***by reducing fundraising expenses rather than by increasing fundraising revenues***, it is essential to keep in mind that an effective fundraising program that spends 25¢ to generate $1.00 in gift income is producing net income of 75¢ (a return on investment of 3:1). By comparison, a hospital that generates net income from operations of 5% has an ROI of only 1.05:1. Put another way, an effective fundraising program ***is 60 times more effective in generating revenue on a pro-rata basis than are most hospital operations***.

Accordingly, a hospital foundation that can consistently generate an ROI of 3:1 or better should consistently look for productive ways to invest in new staff and programs that will increase its gift revenue until its ROI risks dropping below 3:1.

In other words, when a hospital 'service line' such as the foundation can consistently produce net income of $3.00 for every $1.00 spent – versus other hospital services than generate only 5¢ in net income for every $1.00 spent – why would the hospital not be motivated to make additional investments in fund raising?

Financing the Hospital Foundation Budget

There is no universal 'best practice' approach to funding the staff and programs of a hospital foundation. Many foundations are funded entirely by the hospitals they support, while other foundations are supported entirely by the foundation's income from unrestricted gifts and endowment earnings. Still other hospital foundations are supported by a combination of funds from the hospital and from unrestricted gifts and income from the foundation's endowment and short-term investments. And some foundations impose a 'gift tax' on all

restricted gifts to supplement funds from unrestricted gifts and income from investments.

The ***advantage*** of funding the foundation budget ***entirely*** from hospital funds is that the foundation can focus all of its efforts on raising funds for specific projects of highest priority for the hospital, which is far more compelling to donors than seeking some gifts to support the foundation's operations. When the hospital funds the entire foundation budget, the foundation can state unequivocally that 100% of every gift is used for its intended purpose – not to support foundation operations. ***This provides a very significant advantage and a strong argument for the hospital funding the entire foundation budget***.

The ***disadvantage*** of this approach is that the foundation is subject to the financial status of the hospital in a given year; in the event of hospital operating losses or other serious financial issues, the foundation may be forced to cut staff and programs as part of the hospital's overall expense reduction effort, which can dramatically erode foundation financial performance and can harm progress in key fundraising programs and staff/donor relationships.

The ***advantage*** of the foundation funding its own operations is that it removes the foundation from the financial 'ups-and-downs' of the hospital, thereby enabling the foundation to plan for the long term and develop staff and fundraising programs that are financially immunized from the status of the hospital's financial position.

The ***disadvantage*** of this approach is that most donors object to having their gifts used to support fundraising activities, and most donors seriously object to having their restricted gifts subject to a 'gift tax' of any amount.

The Greenwood Company

The Greenwood Company is a selective, mid-sized, fundraising firm that specializes in the design and management of comprehensive development programs, including campaign planning and feasibility studies, campaign management, and fund development planning studies in support of the capital, endowment, and operating needs of nonprofit organizations.

Most of the firm's work has been conducted on behalf of hospitals, health systems, medical research organizations, and health policy centers. However, an increasing number of clients are in the educational, cultural, social welfare, and international service sectors as a result of referrals from satisfied health-related clients who understand that Greenwood Company fundraising methodologies developed for the health sector can be especially effective when applied to other nonprofit industries.

The Greenwood Company was founded in 1979 and has served nonprofit organizations in 28 states, including every geographic region of the country. The company's primary services include:

- Fund development planning studies;
- Campaign planning and feasibility studies;
- Capital and endowment campaign management;
- Comprehensive long-range development plans;
- Gift solicitation training programs;
- Interim development program management;
- Major gift and planned giving programs;
- Strategizing for major gifts, training gift approach teams, and negotiating complex outright and deferred ('planned') gifts of all types and sizes;
- Employee fund raising;
- Physician giving programs;
- Board development;
- Constituent education programs;
- Financing hospital foundation budgets;
- Board retreats; and
- Executive recruitment.

The Greenwood Company has conducted campaign planning and feasibility studies and fund development planning studies and has managed successful capital and endowment campaigns for hospitals, medical centers, health systems, and medical research institutions that are among the most respected health-related organizations in the United States.

THE GREENWOOD COMPANY

Transformational Productivity in Fund Raising ™

201 California Street, Suite 630
San Francisco, CA 94111
(415) 837-5858 (415) 837-5850 fax

www.thegreenwoodcompany.com