

A lead community foundation, private foundation, or regional association of grantmakers sponsors, incubates, and spins off a single, autonomous community foundation to cover a nearby and/or underserved rural area.

Incubation typically occurs when an existing foundation sees or responds to the need for building community-focused philanthropy in adjacent rural regions, but feels it would stretch its own capacity too far to include the additional regions in its service area.

Humboldt Area Foundation

Facts and figures

LOCATION: 373 Indianola Road
P.O. Box 99
Bayside, CA 95524
Telephone: 707-442-2993
Fax: 707-442-3811
www.hafoundation.org

ESTABLISHED: 1972

MISSION: To serve as an independent staging ground for residents, individually and in concert, to build social, economic and environmental prosperity for California's North Coast.

SERVICE AREA: Humboldt Area Foundation (HAF) serves serves Humboldt, Del Norte, and western Trinity Counties in the far North Coast region of California.

ASSETS (2004): \$53 million

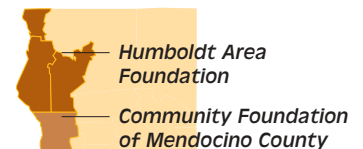
STAFF SIZE: 14

BOARD SIZE: 11

NUMBER OF FUNDS (2003): 468

DOLLARS GRANTED (2003): \$3,758,128

AVERAGE GRANT SIZE: \$2,987



Community Foundation of Mendocino County

Facts and figures

LOCATION: 135 W. Gobbi Street
Suite 204
Ukiah, CA 95482
Telephone: 707-468-9882
Fax: 707-468-5529
www.communityfound.org

ESTABLISHED: 1993

MISSION: To match donors' philanthropic interests with community needs and opportunities...to be a significant force in improving the quality of life in Mendocino County today and for generations to come.

SERVICE AREA: Mendocino County (pop. 88,500; 3,509 sq. miles) is in northern California, 150 miles north of San Francisco.

ASSETS (2004): \$5.5 million

STAFF SIZE: 1 FT/1PT

BOARD SIZE: 12

NUMBER OF FUNDS (2004): 50

DOLLARS GRANTED (2003): \$2,051,177

AVERAGE GRANT SIZE: \$3,100

Overview

In the 1990s, the Humboldt Area Foundation (HAF) was the most active community foundation serving northernmost California, including Humboldt, Del Norte, and western Trinity counties. HAF did not consider neighboring Mendocino County, located just to the south of Humboldt County, to be in its service area, although Mendocino County is certainly in northern coastal California—a vast and varied region, to be sure.

So when Mendocino County donors and grantseekers began calling upon HAF to serve their county, HAF faced a quandary. It certainly did not wish to dismiss any community's interest in strengthening local philanthropy. But the heart of Mendocino County is at least a three-hour drive over the Coastal mountain range from Humboldt's headquarters. HAF worried that attempting to reach deeply into Mendocino County might dilute its existing efforts and organizational capacity to serve the Humboldt area. Nevertheless, with board approval, HAF staff set out to discover what might be the best answer to "the Mendocino question."

Once HAF staff actually began spending time in Mendocino County, they were surprised to learn that an unstaffed community foundation with a standing board *already* existed there! In 1993, partly in response to a new grantmaking initiative of The California Endowment (TCE), a group of nonprofit organizations and community leaders had established the Community Foundation of Mendocino County (CFMC), anticipating that all of TCE's new grants would be channeled through local community foundations—which was not exactly what happened. But another motivation for forming the foundation was the local realization that no local philanthropic vehicle existed to receive and administer estate gifts for the good of the county—and that some potential gifts were being lost as a result. The good news was that CFMC had been created with the support of an enthusiastic and highly committed board; the challenging news was that they now needed assistance and resources to accomplish their mission.

Together, then, the two organizations hatched a plan for HAF to incubate CFMC up to the point when CFMC could serve its

own county more actively and fully. Key to that incubation strategy, in the beginning, were HAF-led training sessions for CFMC's board. As an unstaffed organization with a brand-new board, CFMC



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had a steep learning curve. HAF's experience—both in philanthropy and in non-profit development—made it the perfect mentor for its young neighbor. Moreover, CFMC's board members proved to be outstanding pupils—achieving 100 percent attendance throughout a year's regimen of monthly training sessions!

Even before HAF staff took on their official incubator duties, a combination of tireless volunteers, seed money from private foundations, and a few skilled consultants played pivotal roles in developing CFMC's local presence and identity. HAF staff filled in the gaps, serving as on-call advisors and technical assistance trainers for CFMC's board and volunteers. Along with collegiality and mentoring, HAF was uniquely positioned to incubate CFMC's more nitty-gritty services—financial accounting, investing, and legal advice. HAF's administrative and operational systems—along with its well-established credibility—allowed CFMC to present itself as a legitimate, functioning community foundation. HAF provided accounting and fund investment services in return for an annual administration fee on any funds established. As soon as CFMC was fully ready, about five years later, all funds transitioned back to CFMC.

At the core, it was the *shared values* of non-competition and the support of local leadership that proved the essential element in HAF's incubation of CFMC. To this day, leadership at the staff and board levels of both foundations remain highly collaborative. They have remained resolute in their determination to avoid competing for funds "across the border" now or at any time in the future.

About the region

The Humboldt Area Foundation directly serves Humboldt County, Del Norte County and western Trinity County. Humboldt County borders the mighty Pacific on the northern coast of California, straddling Highway 101, approximately 110 miles south of the Oregon border and 200 miles north of San Francisco. The county is bounded on the north by coastal Del Norte County, which reaches up to the Oregon border, on the east by Trinity County, and on the south by Mendocino County.

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Together, Humboldt, Del Norte, and Trinity Counties have a population of 169,300. By far the largest share of that population is found in Humboldt (127,900). The North Coast is home to the largest indigenous American Indian population in California. Traversing the limited and winding roadways through mountains and forests and across rivers makes the region seem even larger—and certainly more challenging to serve—than its considerable combined county areas of 7,750 square miles suggests. Mendocino County lies 150 miles north of San Francisco. Its population is 88,350; its area is 3,510 square miles.

As is obvious from all these land and population numbers, this North Coast region of California is sparsely populated and decidedly rural. It features stately redwoods, beautiful coastal vistas, and rugged mountain ranges. Not surprisingly, tourism and

the service economy are gradually growing in the region, even as the long-standing natural resource-based economy (timber and fishing) is declining as a source of employment. Mendocino County, resting on the northern edge of wine country, leads the region in agriculture, and is experiencing spillover growth from the ever-extending Bay Area. The area's rugged terrain and lack of a through interstate make transportation of goods into and out of the North Coast more challenging than in other rural areas of the country, but the area's topography and cultural history have inspired communities that pride themselves on their distinct identities and attitudes.

The North Coast's relatively higher levels of unemployment and poverty contrast with economic growth experienced in many other sections of California. On the other hand, a strong state university (Humboldt State University) and innovating community college (College of the Redwoods), an extensive nonprofit community, and a growing core of entrepreneurial enterprises are obvious strengths of the region.



HAF's and CFMC's structure and key values

In implementing the **Incubator model**, HAF took seriously its mandate at that time to maximize *community* philanthropy for the betterment of the region. CFMC's existing board of directors shared this commitment to local philanthropy and, obviously, to their local community. In fact, both entities became energized by the prospect of breathing new life into Mendocino's existing community foundation. When HAF refreshed its mission after some new strategic examination in 2002, the incubation and spin-off of CFMC fit its organizational intent even better: "to serve as an independent *staging ground* for residents, individually and in concert, to build social, economic and environmental prosperity for California's North Coast."

Together, HAF and CFMC crafted a five-year contract during which HAF provided administrative and accounting support as well as technical assistance to CFMC in return for an annual fee on all funds managed. At the conclusion of the five-year period, the contract specified that all of CFMC's funds would revert to CFMC and

the two foundations would become peers. HAF provided advice on fund agreements, grants management, and legal questions pertaining to all areas of community

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foundation work. At the time they forged their agreement, HAF's staff included an attorney who provided advice on start-up, planned giving and fund development issues that challenged CFMC.

How does the Incubator model work?

When Humboldt Area Foundation showed a neighborly interest in their efforts, the Community Foundation of Mendocino County's board quickly recognized that HAF could be a great resource for CFMC. HAF had never considered expanding its operations into Mendocino County, but it was predisposed to look for ways that it could enhance the community and philanthropic impact of *both* foundations.

Operations, staffing, and governance

From the beginning, each entity operated as a separate community foundation with its own 501(c)(3) tax status. During HAF's incubation of CFMC, a contractual agreement outlined fund management and accounting services and fee arrangements that both boards could agree upon. Specifically, HAF agreed to manage CFMC funds for an annual fee of 1.5 percent. On a day-to-day basis, incubation activities tended to be both driven and carried out by HAF's staff, rather than by HAF's board. In fact, HAF served much like a hotline for CFMC in the early days—providing answers to investment questions, fund establishment procedures, and so forth. CFMC's extremely engaged and active board of directors further enhanced the two foundations' working relationship.

With the help of HAF, other advisors from private foundations and consultants, policy and community-building decisions were left to CFMC's board. Over time, as CFMC grew and hired its own staff, the funds managed by HAF reverted to CFMC's management.

One unique thing about the HAF-CFMC case is that CFMC started out as a 501(c)(3) organization. Other community foundations considering incubation might also have to provide the fledgling foundation fiscal sponsorship until their nonprofit status is achieved.

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Grantmaking and endowment building

As distinct community foundations, HAF and CFMC each has carried out its own grantmaking programs, both during and since the incubation period. Over its more than 30-year lifespan, HAF has always conducted some competitive and donor-advised grantmaking, but the heart of its work over the last decade has moved toward advancing the region's economy, environment and culture through special initiatives. HAF long has offered training opportunities for North Coast nonprofits, which are plentiful enough to qualify as an economic sector in the area, through its Rooney Resource Center. In the late 1990s, HAF helped establish the Institute of the North Coast, which led to **Prosperity!**—a strategic economic and community advancement agenda adopted and being acted on by leaders in Humboldt



County and the surrounding area. These existing HAF capacity-building efforts made its role as incubator for CFMC a natural and obvious endeavor.

CFMC has chosen a more traditional community foundation niche, focusing upon endowment building and grantmaking. Many of its grants are awarded through donor-advised and scholarship funds. CFMC's mission is "to match donors' philanthropic interests with community needs and opportunities."

Early on, Mendocino County placed a great deal of trust in CFMC by starting both an endowed fund and contributing pass-through dollars aimed at volunteer programs for youth. These funds allowed the foundation to begin making grants and position itself as a resource for nonprofits serving young people in the county. CFMC's "angel grants" program patterned itself after a similar program established by HAF. CFMC set up seven regional advisory committees across Mendocino County that review emergency

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needs requests from schools and social service agencies. While the grants typically are pretty small, \$200 or so, they have immediate impact, such as helping a single parent place a deposit on an apartment or an elderly person find transportation to a hospital in San Francisco. These grants make a significant difference in the lives of county residents, while building CFMC's presence and strengthening working relationships among CFMC, its advisory committees, and the social service community.

Keys to success

Both HAF and CFMC clearly understood that the incubation process would mutually benefit each organization as well as the region as a whole. When it came to the nuts-and-bolts of being a successful incubator, HAF had several important institutional advantages. It had a history of nonprofit capacity building—evidenced by its nonprofit resource center, the Rooney Resource Center. It maintained an attorney on its staff, able to handle emerging issues on call. And, as a more established foundation, HAF also boasted strong relationships with private local and national foundations that were interested in building philanthropy in northern California. HAF understood that its long-term interests would be best served by avoiding the organizational "stretch" that would result if it attempted to extend into Mendocino County,

by avoiding the competition that can distract “overlapping” community foundations, and by helping to create a strong, self-sufficient peer in its region.

Over the course of the five years, as both foundations grew, the details of the agreement became more complicated. At the start of the incubation period HAF was in the enviable position of having excess capacity in the areas of staffing and administrative support. Over time, *both foundations’ success* (more donors, more grantmaking) changed this situation. HAF was no longer able to devote as much time and staff support to CFMC *just as* CFMC was reaching pivotal stages of growth that required an even greater level of technical assistance.

As CFMC’s staff settled in, a key lesson relevant to all community foundations emerged: Just because *one* community foundation—in this case, HAF—operates in a particular way does not mean that *every* community foundation necessarily must operate the same way. As CFMC’s staff and board became more familiar with the larger field of community philanthropy, they were able to discern variation across the field and to see choices that could be left to the discretion of their own board. This awareness led CFMC to establish wider networks in the field and alleviated some of the pressure HAF had faced as the incubator.

With these pieces in place, Mendocino County’s Board of Supervisors supplied CFMC with a significant boost by contributing pass-through dollars and an endowed fund to be used for child and family welfare grants, one of many such endowments that were opened. This vote of confidence by local county leaders demonstrated local support for CFMC, which enabled it to gar-

ner still more resources both from private foundations and from local donors. In fact, from its earliest days, seed funding from private foundations had allowed CFMC to contract with one of California’s more seasoned philanthropic consultants and, eventually, to hire a paid executive director. As is often the case, moving from a voluntary to a staffed organization was certainly an important key to CFMC’s success. More recently, following a decline in private foundation operating support, CFMC recorded what is perhaps its greatest success when local donors and board members stepped up to help secure four years of operational funding.

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Lessons learned

Biggest challenges

- When and how do you spin off? Both foundations eventually will outgrow or develop beyond the terms of the original incubation agreement, and must settle on how to determine *when* the time is right to let the little chick fly.
- For the **incubator** foundation, the mentoring process can strain organizational resources once the initial “honeymoon” excitement fades.
- For the **incubating** foundation, having the incubator’s advice and back-office assistance can take some pressure off, but as with any start-up, fundraising for operations likely will still be the greatest challenge.



Biggest rewards

- The greatest reward has been the success of CFMC and the resources it provides, both to all of Mendocino County, and to HAF as a colleague foundation.
- Having a sibling community foundation in a neighboring county makes both foundations less isolated, and neither has the daunting task of serving the entire region.
- The entire North Coast region benefits from the foundations being connected culturally, regionally, and historically—and from two happy facts: There is *zero* competition...and there is now a record of collaboration!

Advice

- Develop a strong contractual agreement, and be sure to leave room and set a calendar and process for the agreement to be re-examined, changed and adapted regularly over time—or to sunset, once certain benchmarks are reached.
- Remember that incubation is an expensive proposition and that many expenses are hidden—particularly staff and time. The incubator's board should recognize, discuss, and accept these facts.
- Incubatees should realize that the community foundation field exhibits great

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variation in culture, style, and operations. While one foundation might serve as an official incubator, it makes good sense to establish relationships with other foundations that can serve as an informal network of advisors.

- Be sure that strong, passionate leadership exists for the incubatee or start-up. Without inspired local leadership, no amount of incubation will be successful.



To learn more about experience with the Incubation model, visit the Humboldt Area Foundation's website at www.hafoundation.org or contact HAF's RDP Lead Contact Executive Director Peter Pennekamp at peter@hafoundation.org or 707-442-2993. Visit the Community Foundation of Mendocino County at www.communityfound.org or contact RDP Lead Contact Executive Director Susanne Norgard at 707-468-9882 or info@communityfound.org.