



A History of Community Foundations

What is a Community Foundation?

Community foundations are tax-exempt public charities serving thousands of people who share a common concern—improving the quality of life in their area. Individuals, families, businesses and organizations create permanent charitable funds that help their region meet the challenges of changing times. The foundation invests and administers these funds. All community foundations are overseen by a volunteer board of leading citizens and run by professionals with expertise in knowing their community's needs.

The Philanthropic Tradition in the United States

Philanthropy has strong roots in religious beliefs, in the history of mutual assistance, in democratic principles of civic participation, in pluralistic approaches to problem solving and in American traditions of individual autonomy and limited government.

The hardships of early settlers to North America, where government was weak and distant, forced people to join together to govern themselves, to help each other and to undertake community activities, such as building schools and churches and fighting fires. Out of these experiences grew a tradition of citizen initiatives and individual efforts to promote the public welfare. Later, immigrants supported communities by giving through churches and forming groups to help the poor as well as organizing associations to assist each other in their new homeland. Native Americans and African Americans also had deeply rooted giving practices.

Religious leaders encouraged their members to give to the poor and to the charitable works of their churches. Giving to needy people in their communities, to the poor in other lands, to the victims of natural disasters and to their churches was a strongly felt obligation for many people. Religious beliefs are still an important motivation for being involved in philanthropy.

Early Philanthropists and Foundations

Benjamin Franklin, the inventor and statesman of the colonial era, was an early philanthropist. He gave to improve his community and to provide opportunities for people to help themselves. He founded local civic organizations such as the volunteer fire company and institutions such as the Pennsylvania hospital, the University of Pennsylvania and the Philadelphia public library.

It was not until the early twentieth century that individuals generally began to use their philanthropy to seek ways to combat problems, conduct research and promote science. One of the early proponents of modern philanthropy was Andrew Carnegie, a wealthy business entrepreneur. He viewed the person of wealth as a product of natural selection

by the forces of competition. By winning wealth, a person became an agent of civilization, and philanthropy became a tool for improving civilization while at the same time substituting for radical reforms. His philanthropy included starting public libraries and other agencies that would provide "ladders upon which the aspiring can rise."

In **1914**, in an effort to improve the way the Cleveland Trust Company did business, the company's president, Frederick H. Goff, established in Ohio the world's first community foundation, The Cleveland Foundation. The problem Goff faced was one of efficiency. His company, like many others, managed several small endowed charitable trusts, some of which were established for specific purposes -- such as education or health -- and others of which were intended simply to benefit the residents of greater Cleveland.

Goff's company was having difficulty identifying the most worthy recipients for the income from these trusts. Mr. Goff had the idea to consolidate the trusts into a single organization that would exist in perpetuity and be governed by a board of local citizens. His proposed solution created a separate organization (an initial committee would later become an independent corporation) that divided the work of managing charitable trusts. The bank would continue to do what it did best (investments) while the foundation would do what it did best (grant making). The foundation would assess the needs of the local community and make grants to community organizations to meet the needs in that region. This new philanthropic model would not only relieve local trust banks of the burden of grant making, but would make certain that the changing needs of the community would be served into the future, even if the original purpose of a trust was no longer needed. Thus was born the first community foundation, a solution to a problem of efficiency.

These new "foundations," both private and community, were not designed to help people directly but were to be the instruments, or "scientific charity," of reform, of problem solving, and would address the root causes of poverty, hunger and disease. This idea of systematic, scientific philanthropy is a product of the era of optimism and faith in the ability of science and reason to solve all human problems; it is the rationale for modern American foundations.

The model Goff created developed out of the Progressive Movement in the United States, whose ideas included the secularization of philanthropy and the need for professional, businesslike management practices in government and in charitable endeavors. It is not a coincidence that community foundations arose at the same time as the first large private foundations were being formed.

A National Trend

The Department of Treasury soon gave formal recognition to this new type of organization, granting community foundations the unique advantage of being able to treat multiple trusts and corporations as part of a single institution rather than as separate organizations. (Each sub-entity is known as a "component fund.")

During the early years of the twentieth century, several civic and business leaders—Andrew Carnegie, John Rockefeller and Margaret Olivia Sage—organized their philanthropic giving in the new form, like the business corporations that were then so successful. The new corporate organizational structure permitted more flexibility than charitable trusts, the traditional mode of giving featured in English law. Boards of Directors, rather than trustees, were responsible for overseeing their operations.

Amazingly, a community foundation with 500 different component funds still files only one tax return. The idea spread rapidly throughout the country. In Cleveland many banks joined Goff in supporting the Cleveland Foundation, just as bankers around the country came together to establish community foundations in their own cities.

The Growing Years

In the years that followed, other local community foundations were established, and hundreds of thousands of individuals across the United States – from all economic backgrounds – joined with their local community foundations to create permanent charitable funds to meet the needs of their communities.

Community foundations in the United States boomed in the **1920s** as the concept spread, especially in the Midwest and Northeast. By the end of the 1920s Los Angeles, New York, Boston, Chicago, Milwaukee, Minneapolis, Rhode Island, Buffalo and dozens more American cities all had their own community foundations.

In the **1930s** community foundations faced a difficult period of decline during the Great Depression, when resources were scarce and the banking system was in difficulty and disrepute.

In **1931** the first Donor Advised Fund was established by a community foundation in Winston-Salem, North Carolina.

Corporate foundations came after the concept of giving by businesses was resolved under United States law in 1935. Corporate foundations grew at a rapid rate during the **1940s**, an era of high profits and high tax levels.

During the late **1940s and 1950s** most community foundations were formed under the charitable corporate form, characterized by self-perpetuating boards that had the authority to make their own investment decisions, rather than the bank trust form.

Private foundations came under increasing attack in the **1950s** for the perception that they abused their tax exempt status. The result was a sweeping change in tax legislation in the late 1960's to combat the perceived abuses.

One strong factor contributing to the rapid growth of community foundations was the **Tax Reform Act of 1969**. These changes resulted in private foundations becoming

more strictly regulated and made community foundations a more attractive option for many donors, primarily because:

- Lifetime gifts of certain kinds of appreciated property, such as real estate and interests in closely-held businesses, to a community foundation can be deducted at full fair-market value.
- The annual deduction limit for individual gifts is higher for a community foundation gift than for those to a private foundation.

The reforms instituted by the Tax Reform Act of 1969 included a redefinition of the types of foundations according to their tax exempt status, more government oversight of foundations, and restrictions placed on private foundation operations. As part of these reforms community foundations received a favored tax status as public charities. The advantages of public charities over private foundations in the United States include: greater tax deductibility of gifts, exemption from taxes, and looser government regulation. Community foundations also are free from excise tax and other requirements that apply to private foundations, enhancing their appeal to many donors.

The effects of the Tax Reform Act of **1969** point to the importance of enabling legislation in encouraging community foundation creation. The current acceleration in the number of community foundations formed in the United States began in the 1970s after the regulations of the 1969 Tax Reform act were published.

The upward trend in community foundations was enhanced further by the recession of the early **1980s** that put national social programs at risk.

The economic boom years of the **1990s** further enhanced the growth of community foundations. As the pool of disposable income increased, community foundations benefited from the desire of individuals to give back to their communities while taking advantage of the tax benefits of charitable giving. During the Regan presidency the U.S. government began turning away from large-scale, national social programs, a trend that continued into the 1990s and shows no signs of being reversed. Individuals and private foundations began looking to community foundations as a way to make up for the loss of national funding for local social programs.

Community foundations make up one of the fastest growing sectors of philanthropy in the United States today. Community Foundations build and strengthen communities by making it possible for a wide range of donors to participate in creating permanent (and often named) funds to meet present and future needs. Community foundations have become catalysts for improvement within urban centers and in rural settings through philanthropy that is visionary, diverse and inclusive.

Community foundations are a sustainable aspect of philanthropy - providing leadership and problem solving in the present and preparing for the future with a permanent endowment.

There are over 750 community foundations in the United States. The community foundation model has spread throughout the world. There are at least 470 community foundations in 41 countries outside the United States, with at least another 140 in development around the world.

Community foundations in the United States hold more than \$35 billion in assets and are located throughout the country. The Cleveland Foundation alone holds more than \$1 billion, while the largest community foundation, the New York Community Trust, stands at just over \$2 billion. Hundreds of community foundations presently manage less than \$10 million each.