

**Proposal to the Homer City Council
Regarding a Library Endowment Fund**



Presented by the Homer Library Advisory Board

December XX, 2019

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Proposal for a Library Endowment Fund

Background

The people of Homer and the surrounding areas have been extraordinarily generous in their support for the Homer Public Library. The library continues to receive donations of materials, time and money in support of library operations.

Article II Section 4 of the City of Homer Library Advisory Board (LAB) Bylaws states that the LAB shall “Solicit donations of money and/or property for the benefit of the library.” The LAB is eager to increase support of the library through major gifts but finds that the current gift acceptance policy is inadequate to efficiently accept and manage large gifts.

A review of best practices of other public libraries, within Alaska and beyond, shows that it is essential to plan in advance of such gifts, since a large unexpected donation can create management headaches and lead to a rushed, inefficient structure for administering the donation.

To prepare for solicitation of major gifts, the Library Advisory Board recommends that the City of Homer adopt a common best practice and create a designated Library Endowment Fund to invest and grow donations to the library. Such a fund would benefit the City in several ways:

- It earns interest, which donations currently do not.
- It provides a stream of income which is not reliant on taxation.
- It inspires donor confidence that their donations will be handled transparently and effectively.
- It ensures donations are used for quality local library services as donors intend.

Current status of library endowment funds across Alaska

Public library systems in Seward, Fairbanks, Juneau, Petersburg and Sitka all have endowment funds, as do a number of public library systems in the Lower 48. These funds typically fall into two categories. In the first, the fund is managed by the city government. In

the second, it is managed by a designated nonprofit organization, typically a community foundation.

All the city-managed funds we have encountered so far were created after-the-fact, when the city suddenly received a gift they didn't know how to process. Managing an investment fund is an awkward fit for a city finance office and returns are often relatively low. Non-cash donations are also extremely complicated to liquidate or administer, which creates a significant added burden on city staff.

Having consulted with librarians and fund managers in a variety of places, we believe the best course of action is to partner with a community foundation. This approach offers numerous advantages:

- As a 501(c)3 organization, a community foundation is able to accept grants and donations that a municipality may not.
- Donations to a 501(c)3 organization are tax-deductible.
- City staff are spared the burden of managing the fund.
- Community foundations have greater freedom to manage their investments and typically achieve higher returns than funds managed directly by a city.
- The foundation is equipped to handle non-cash donations, such as stocks, real estate, trusts and other unusual goods, which would create significant administrative costs for the city.
- Donations can be accepted online.
- Donations and donors are immediately recognized and acknowledged. Donors become part of an ongoing relationship.
- The library would receive an annual, predictable distribution (typically 4%) or can choose to maximize fund growth by reinvesting in the principal.

Intended use of library endowment funds

A Library Endowment Fund will provide an additional, predictable revenue stream to help provide quality library services over time. Examples of potential uses include, but are not limited to:

- Acquisition or replacement of library materials
- Acquisition or replacement of library equipment
- Start up or maintenance of a library service
- Facility improvements

Funds would not be used for personnel costs such as salaries, benefits, travel and training.

Recommendation for the Homer City Council

We recommend that the Homer City Council endorse the creation of a Library Endowment Fund. The fund will concentrate on the long term by growing its principal and providing a steady stream of revenue to support library operations in the future.

Library Advisory Board

December XX, 2019

Advice on Library Endowment Funds

(from librarians in AK, OR and MI, and a fund manager in a different part of MI)

The best procedure for handling large and complicated gifts is to set up an endowment fund with a community foundation. This arrangement offers four key advantages:

- The administrative burden on city staff is minimal.
- Community foundations usually achieve higher returns than funds managed by city personnel.
- As a nonprofit charity, a community foundation is able to accept donations from outside grantors as well as individuals.
- Donations to a community foundation are tax-deductable, which is attractive to donors.

When it comes to setting up the fund, people offered advice on some key things to remember:

- Make it easy to donate. You *must* be able to accept payments online.
- Provide simple and clear guidance to donors, without a lot of legalese. Make certain you recognize donors and show your appreciation.
- Whenever you get donations of stocks, real estate or other physical property, liquidate it immediately and put the money into the fund. Donated stocks are typically worth very little and the administration is a hassle.
- There will probably be a minimum amount needed to start up the fund. A challenge grant is a great way to get started.
- Most donations are small, in the range of \$100. Juneau PL estimates they receive one large donation about every 3-5 years.
- If at all possible, try to prevent donors from placing restrictions on how money can be spent.

- There is a variety of management structures. Some libraries leave all administration to the foundation. Others have a board consisting of the library director and some other representatives.
- Some funds allow withdrawals from the principal, others don't. Pay close attention to the terms of the agreement between the city and the foundation.

Homer Community Foundation

Notes from Discussions with Mike Miller at HCF, Sept. 13, 2019

1. Tell me a bit about your foundation.

Homer Foundation was created in 1991. It's the oldest community foundation in Alaska. They currently have about \$2.5 million invested in a variety of funds. Ken Castner was at one time chairman of HF's board. The fiscal year runs July 1 to June 30.

The current manager, Mike Miller, has been in the position since June. He has also worked for the Food Bank of Alaska, for Campfire, and for a variety of municipal positions in Wisconsin.

NOTE: An endowment fund set up for a city agency would have to be designated as a "Field of Interest Fund" rather than an "Agency Endowment Fund," because the city is not a 501(c)3. We would have to carefully designate the field of interest as "library operations" and be specific about how the money can be spent.

2. What sort of funds do you manage? Do you have experience with endowments?

They manage several endowments, including one for the City of Homer. Funds are managed by Vanguard since about 2 years ago; they used to be managed in-house, but results were highly variable and they sometimes lost money. Last year they earned 6.53%. They have also managed different types of funds, such as a maintenance fund for Kachemak City and the grants program for the City of Homer. All funds are pooled into a single investment and then interest is doled out proportionally.

Update 11/25/19: HF is also in the process of creating an option for non-endowed funds.

3. What is your process for accepting donations? Can you handle online or automatic debit transactions?

Online transactions are easy. Direct debit is harder but possible—it requires coordination with the HF office.

4. **What types of donations can you accept? If someone offers a non-cash donation, how do you handle it?**

The board will consider non-cash donations, but there has to be some due diligence before they decide to accept it. It is then liquidated immediately.

5. **What is the minimum investment required to set up an endowment fund?**

A starter fund can begin with \$2,500, but it must reach \$10,000 within two years. If the fund fails to reach that target, the money is forfeited to HF.

6. **Is there a minimum size for contributions?**

No.

7. **What is your investment strategy? How do you balance risk vs. returns? What percentage of your investments are in stocks vs. bonds?**

30% bonds, 70% stocks.

8. **What are your fees?**

HF doesn't charge any administration fees, though it might in future. Vanguard fees are divided proportionally among all the funds. This is taken out of the spendable portion, not the principal (ie it's taken off the top). Typically around 1%.

9. **What is the structure of the endowment agreement?**

HF will only consider an “agency fund” (i.e. an endowment fund). The library would have to have a “Field of Interest Fund,” which is essentially the same as an “Agency Endowment Fund.” They don't do non-endowment funds except for maintenance

funds, which is a completely different structure. The HF board has variance powers, meaning that in theory they could do whatever they want with the money, but in practice they work closely with agencies to align with their interests.

a. **Can we make withdrawals from the principal, or only the interest?**

Interest only.

b. **What is your formula for calculating disbursements?**

Based on a rolling average of 8 consecutive quarters. Every year the HF board sets a maximum spendable amount (typically around 4%) called the ATS. If the fund earns more than that, the excess can be included in a disbursement or reinvested.

c. **Who can make withdrawals or disbursements?**

The HF board authorizes disbursements. The library director submits a form indicating how much of the annual interest should be disbursed; it can be any amount up to the ATS. These stated preferences remain in effect until changed, so a new form does not have to be submitted each year.

d. **How often can withdrawals be made?**

Once a year, usually in September.

e. **Is there a limit on withdrawal amounts?**

Any amount up to the ATS.

f. **How often do you create financial statements?**

Quarterly.

- g. **If we are dissatisfied with the performance of the fund, is it possible to terminate the agreement?**

No.

10. Do you carry insurance?

No. A small amount of HF's funds are held in FDIC-insured accounts with FNBA.

11. May we contact some references or current customers?

Yes. See the Homer Food Pantry, Bunnell Arts, City of Homer, Kachemak City.

12. May we see your Form 990 and audited financial statements? [Form 990 is an IRS document on which a tax-exempt entity must report numerous details about its organization and financial status.]

We have all this.

13. What is your relationship with the Alaska Community Foundation?

HF is independent of ACF, with its own board and money management, in order to preserve its flexibility. They cooperate quite a bit, and HF has a fund invested in ACF after Rasmuson Foundation gave them a matching grant to set it up.

14. Do you invest in socially-responsible funds?

40% of all funds are held in "social funds." The remaining 60% are in bonds and international funds, which do not offer socially-responsible giving as an option.

15. What happens if there is a negative return on the investment? Is there a requirement to make up the shortfall?

Entire fund is tied to market. Forward-funded for one year. There is no official policy of "holding harmless," so if principal declines, disbursements decline. The library would

not be required to make up any shortfall.

16. What is the Better Business Bureau (<https://www.bbb.org>) rating for this investment manager?

Vanguard: A

17. How does the Homer Foundation deal with donors who wish to place restrictions upon their donation or designate it for a specific purpose?

If you donate to the fund, you are endorsing the purpose of that fund, but the board of trustees of the HF always has absolute variance powers. If the donor insists on a particular use, the board will try to follow the donor's intent, as long as it falls within the uses specified in the contract signed at the time the fund was created. HF will communicate to the donor that they can pass along specific instructions, but it is ultimately up to the recipient of the earnings to decide how to spend the money. It would be very difficult to track the spending for every individual donor, so the foundation generally doesn't.

18. Charity Navigator Listing:

<https://www.charitynavigator.org/index.cfm?bay=search.profile&ein=920139183>

19. Accredited by National Standards for U.S. Community Foundations?

Yes.

Comments from Current HCF Clients

1. Why did you choose this foundation when you established your fund?

CLIENT 1: Everyone on the board at the time was supportive; we had a windfall of money left over from an earlier project. The board really wanted to create an endowment and there really was no alternative foundation available.

CLIENT 2: By and large, because it's the local player. We did consider ACF, but we have such heavy community connections here, it would have been hard to justify going with them. It was also a longstanding goal to partner with HCF, so it just seemed like a given.

2. Is your fund subject to any special restrictions as far as withdrawals, spending purposes, etc.?

CLIENT 1: Once the principal is locked in, it can't be touched, which annoys the board. You can only get a disbursement once a year. You need a pretty big pot to make a real difference. When disbursement is issued, you can do whatever you want with it.

CLIENT 2: No. The basic setup is, it takes \$10,000 to open the endowment, and then you can either choose to reinvest or take disbursements. Once that's disbursed, it goes to us as part of our nonprofit. Maybe the FHL could act as a fiscal agent, rather than the city? I try to discourage the creation of another nonprofit.

3. Have you been generally satisfied with this foundation?

CLIENT 1: Oh, yeah. It's a symbiotic relationship, since they do a whole bunch for us—they give us grants, we get to keep money in the community. Joy Stewart is

fabulous. When I redid my will, we considered a number of nonprofits, and legal advice was that HCF is a really solid, long-lasting foundation.

CLIENT 2: To be quite honest, I would say neutral. We've always had a struggle between raising money to use now vs. putting it away for a rainy day, especially when all nonprofits are not guaranteed to exist in perpetuity. We needed an operating reserve to prepare for emergencies, like budget cuts, so that's where more of our energy has gone. We haven't really been actively pursuing trusts and wills. When you get to the point of being really stable, when you know you'll be around for 50 years or so, then you can look at long-term investing. HCF has been through quite a big change recently. For a while there, their investment strategy went against the market. The board has changed that in the last couple of years, and we're starting to see some growth. The current strategy is more about growth than earnings. I think HCF has gained maturity, so I'm optimistic about them, and thinking more about actively pursuing the endowment. Once you give money to the HCF, it's not really yours anymore.

4. What has been the best experience about partnering with this foundation?

CLIENT 1: The fact that they're so receptive. They sometimes seek us out to tell us about grant opportunities. They're real supporters of the library, too, so that benefits you.

CLIENT 2: We also apply for grants with them, and that part of the HCF is great, they have a quick turnaround, they have a good process and really meet the need. The personnel are wonderful and they take the time to understand the nonprofit world around here. It's great to see the disbursement money in our bottom line.

5. What's the worst experience?

CLIENT 1: We don't really have any.

CLIENT 2: The way it was two or three years ago, our endowment was losing money and there was nothing we could do. The accounting at the time was irregular, their quarterly statements didn't always get issued on time. They were starving on staff in order to make more grants. I'm excited about the new admin assistant, the forms are clearer, the investment strategy is better.

6. Is there anything else we should know?

CLIENT 1: Be aware that donations made to the endowment fund can compete with donations made elsewhere, so consider the effect on other organizations—not that that should be a major consideration in your decision.

CLIENT 2: You have an interesting situation. Mike Miller seems like a great new director and the board seems strong. Politically, you will have a very hard time with investing in ACF, because we value investing in our local area.

Alaska Community Foundation

Notes from Discussions with Anne Garrett at ACF, Sept. 13, 2019

1. Tell me a bit about your foundation.

ACF has \$105 million invested from roughly 400 funds. The current investment manager is Baird, but that is reconsidered every year. All funds are pooled together and managed jointly. The fiscal year is July 1-June 30, but spendable portions are calculated on the calendar year.

2. What are the goals of your foundation?

To support philanthropy in Alaska. Their efforts are focused on growing philanthropy, not income. They invest for the long term, like Merrill Lynch.

3. What sort of funds do you manage? Do you have experience with endowments?

Does manage endowments as well as non-endowed funds.

4. What is your process for accepting donations? Can you handle online or automatic debit transactions?

ACF will work with the library create its own webpage to accept donations; this page can be linked off the library's site. ACF can process tax receipts and thank-you cards. The webpage will have a slight time lag in posting donations after they are accepted.

5. What types of donations can you accept? If someone offers a non-cash donation, how do you handle it?

For things like IRAs and stocks, they are liquidated immediately. For real estate, there has to be some due diligence first; not every property is worth what the donor thinks it is. If accepted, it will be liquidated.

6. What is the minimum investment required to set up an endowment fund?

For a non-endowed fund (i.e. one where the principal can be spent), the minimum is \$10,000 and the agency should plan on keeping the fund in existence for at least 3 years. For an endowed fund (where the principal cannot be spent) the minimum is \$25,000. A fund can begin as a non-endowed fund and later be converted to an endowment, but it can't go the other way.

7. Is there a minimum size for contributions?

Checks can be accepted in any amount. Website transactions have a \$25 minimum.

8. What is your investment strategy? How do you balance risk vs. returns? What percentage of your investments are in stocks vs. bonds?

Invests for the long-term and is extremely conservative. A mix of stocks and bonds.

9. What are your fees?

Non-endowed funds are charged 1.5% of the fund balance. Endowed funds are charged 1%. There is no setup fee, but ACF will require paperwork from the administering entity, including a resolution from the governing board and a copy of the bylaws.

10. What is the structure of the endowment agreement?

a. Can we make withdrawals from the principal, or only the interest?

Non-endowed funds can withdraw from the principal. Endowed funds can't.

b. What is your formula for calculating disbursements?

The fund's goal is to earn 7% annually. The amount that may be disbursed (the "spendable") is set annually by the ACF board; it is typically 4-5%. If the fund is

established before Sept. 30, the principal will be held for 5 quarters before any disbursements can be made. If the fund is established after Sept. 30, there will be an additional year of delay.

c. **Who can make withdrawals or disbursements?**

This is spelled out in the agreement. If I understand this correctly, the establishing entity must have a three-person disbursement committee consisting of one fund advisor (the library director) and two fund representatives (members of the LAB). This wasn't very clear, however.

d. **How often can withdrawals be made?**

ACF encourages withdrawals, since the money is meant to be used. Withdrawals can be made at any time by filling out a "grant request" form.

e. **Is there a limit on withdrawal amounts?**

Can withdraw any amount up to the spendable (for endowment funds) or the full value of the fund (for non-endowed funds). Withdrawals over \$50,000 require approval from the ACF board.

f. **How often do you create financial statements?**

Quarterly.

g. **If we are dissatisfied with the performance of the fund, is it possible to terminate the agreement?**

For a non-endowed fund, the full amount can be withdrawn at any time, minus a \$250 service fee. Endowed funds cannot be withdrawn.

11. Do you carry insurance?

Maybe.

12. May we contact some references or current customers?

Yes. See Joy Stewart, Homer Foundation, Alaska Botanical Gardens, Seward Area Hospice. All funds are searchable on the ACF website.

13. May we see your Form 990 and audited financial statements? [Form 990 is an IRS document on which a tax-exempt entity must report numerous details about its organization and financial status.]

We have this stuff.

14. What is your relationship with the Homer Foundation?

HF has a fund invested with ACF.

15. Do you manage any socially-responsible funds?

Not specifically looking for socially-responsible funds, but will check with CFO.
Questions have come up frequently.

16. What happens if there is a negative return on the investment? Is there a requirement to make up the shortfall?

XXXX

17. What is the Better Business Bureau (<https://www.bbb.org>) rating for this investment manager?

Baird: A+

18. How does the ACF deal with donors who wish to place restrictions upon their donation or designate it for a specific purpose?

XXXX

19. Charity Navigator Listing:

<https://www.charitynavigator.org/index.cfm?bay=search.profile&ein=920155067>

20. Accredited by National Standards for U.S. Community Foundations?

Yes.

Comments from Current ACF Clients

1. Why did you choose this foundation when you established your fund?

CLIENT 1: (First person): They had a large donation which they kept spending down, so they elected to start the fund to preserve it. We have a local group that does a lot of fundraising, but ACF was already set up to handle this kind of thing, and it was easy to create. We've had a big changeover since then, and we had to convince new leadership that we weren't just locking up the funds. We had someone who was a financial expert, was familiar with the ACF. We decided we didn't want to expend any of the investment, only the interest. She put together about 3 different options. We can roll money back into it. It was a really good idea.

(Second person): Can donate to either the ACF or the org itself. We chose ACF because our investments were earning very little. Member of board is a financial advisor. We have been earning more money than we can spend. ACF has had a very good record of earnings. I've been very impressed with what the endowment has earned, and it's given a lot of relief to the board, not having to fundraise all the time.

CLIENT 2: Very happy with it. Handled through a nonprofit partner. Over the last few years we had a surplus and suggested we try it. This year alone we've made a huge return, which we reinvested. We have a local foundation here, but we decided ACF was the better option. They had a good financial history.

CLIENT 3: Because they were linked with Rasmuson, which was promoting ACF heavily, we figured it must have been monitored pretty well. We wanted to make sure the money would be secure for the future. The principal becomes the ACF's, you can only touch the interest. The goal is to raise enough to eventually pay for a staff position.

2. Is your fund subject to any special restrictions as far as withdrawals, spending purposes, etc.?

CLIENT 1: (First person): The nonprofit partner pays for scholarships; our organization doesn't benefit directly. They have control of the earnings and can decide how to spend it. You must be *very* clear about how funds can be spent. We have to submit a proposal to our partner when we request support.

(Second person): Written into the contract that the principal is untouchable, unless we decided to withdraw all our funds from ACF. They issue a statement telling us how much we can withdraw and we submit a request form online. We have to tell them what the purpose of the request is, which must fall within the purposes specified in the original contract. The form is very simple. It's been really easy. Calculated quarterly. Can be used for whatever we tell them is our mission. Chose to use earnings for scholarships. Endowment has provided a lot of funding for this.

We have another account that isn't endowed. It earns interest, but it doesn't have the same restrictions. It doesn't earn as much. Has an extra half-point of administrative fees. That can be withdrawn in full at any time.

CLIENT 2: There's no restrictions on purposes. Each year we get a statement on how much you can spend. We're very happy. There are no other investments where we can get this kind of return. We don't have the time or expertise to manage the money, and they have professionals to do it. We withdrew funds from a couple of other accounts that weren't earning much.

CLIENT 3: We can take disbursements anytime after Jan. 1. Initially we had to vote on every expenditure. It can take a month to get the money, so it was simpler to just put it into the regular budget.

3. Have you been generally satisfied with this foundation?

CLIENT 1: (First person): There was no way they could sustain their programs without doing the endowment, and this worked well. It has been growing well. I think some people have left money in their wills.

(Second person): They have done very well by us. They gave us a presentation and packet to explain the different accounts. It's been pretty easy to get into the account to see what's happening—you can look at it online at any time. We would get all our information before every meeting.

CLIENT 2: We have had a very good experience with them. We've had a good return. They're very easy to work with.

CLIENT 3: Has been a little clunky. 3-4 month lag in delivering their financial statements. You have to go online to ask for disbursements. Once the fund is established, you have to wait 2-3 years before you can make disbursements. Generally okay, though they had a lot of staff turnover for a while. There didn't seem to be any dramatic disruption. They lost some paperwork at one point, but the online forms are better.

4. What has been the best experience about partnering with this foundation?

CLIENT 1: (First person): I never worked directly with them, but one of the things that appealed to the group was the fact that they had a lot of experience with other organizations.

(Second person): We've applied for a couple of small grants from ACF. The best thing is that I feel pretty secure with them—our funds are actually gaining ground. You have to have a certain minimum investment to start. I've been very impressed with what the account is doing.

CLIENT 2: It's very simple and easy to work with them. We don't have to do much. And the money is all handled here in Alaska, which is nice.

CLIENT 3: They did really well on earnings. Financially, they are really good at management. If you don't spend all your disbursement, it can be withdrawn

the next year. Does not get rolled into the principal automatically, although you could do it manually. It has eased the burden of fundraising. Our money was not working for us before, but it definitely is now. It has provided us with ready cash. Anybody can put in money from anywhere, through the website. The reports are clear. We don't have any control over HOW the money is invested, but that's okay. The money is pretty safe. Not paying the kind of fees we would to an investment advisor.

5. What's the worst experience?

CLIENT 1: (First person): No direct experience.

(Second person): They've had a big surge of personnel changes and they just redid their website. That hasn't affected us too much, but I'm not sure who to call now with questions. In the past they've always been very responsive, but we haven't needed to talk to them often. Some things have to be approved by their board if it's over a certain amount. If you need funds quickly, that could be a bit frustrating. We just make withdrawals annually.

CLIENT 2: None.

CLIENT 3: All their forms and such are on the website, you can see the order trail. It's just slow. Reports are only quarterly. Make sure there's someone doing oversight, and we trust Rasmuson.

6. Is there anything else we should know?

CLIENT 1: (Second person): I don't think you're going to get better interest anywhere. It's been very, very good for us. We wouldn't have had earnings this high with any banking institution. You also have to be aware of the risk of the market going up and down. If you're in it for the long haul, it's a great deal.

CLIENT 2: I think it's a smart choice. Every year we keep getting more money back, and the principal keeps growing because we keep reinvesting.

CLIENT 3: You have a contract with them. Make sure whoever can withdraw funds is really reputable. Every Dec. you get a letter telling you what the spendable will be for the next year. We can change people fairly easily on our end—make sure you always have two contacts listed. We also have a Donor Advised Fund, which is really cumbersome, since you need the Donor's permission to do anything. The fees for a non-endowed fund are a little higher than for an endowment. Diversifying our revenue is really important.

Juneau Community Foundation

Notes from Discussions with Amy Skilbred at JCF, Nov. 13, 2019

1. Tell me a bit about your foundation.

Mostly in Southeast Alaska. A few funds throughout the state. More than happy to talk with people about what they are looking for and what best serves their interests.

Established in 2000. Was part of ACF for a couple of years, and then split off when they realized they had the expertise to manage funds themselves. Juneau office opened in 2007. Three full-time staff. Director Amy Skilbred has been there since 2011. At one point they received a \$48 million donation and instantly went from a small foundation to a middle-sized one. Current funds total about \$60 million in a little over 60 different funds. Set up to do field of interest funds, agency stewardship funds, donor advised funds, etc.

2. What are the goals of your foundation?

We help people give away their money and have fun doing it. Our goal is to increase philanthropy, and to address needs in the community. Mostly focused on Juneau, but not exclusively.

3. What sort of funds do you manage? Do you have experience with endowments?

Funds are divided into two categories: short-term and long-term. Short-term funds are those that expect to spend out their entire investment within five years, and are typically set up for a specific project, like a new building. These funds are managed by Merrill Lynch and are invested in cash and cash-equivalents. Long-term funds have a horizon of more than five years and are usually designed to provide ongoing income. These funds are managed by Vanguard and are invested in securities and bonds. They look for a 7% return.

All our long-term funds (about \$50 million worth) are treated as endowments.

4. **What is your process for accepting donations? Can you handle online or automatic debit transactions?**

Depends what you're giving. We set up a webpage is set up for each fund, which can be connected to the library website. Can handle automatic debit transactions monthly. Can take checks, credit cards, securities directly into a Merrill Lynch account. Can also accept direct donations from an IRA.

5. **What types of donations can you accept? If someone offers a non-cash donation, how do you handle it?**

Stocks, minimum IRA distributions, wills, designated beneficiaries, life-insurance policies. Can handle real estate, but it's a pain. (They haven't received any yet, but there is some coming in wills.) Whatever the cost of preparing that property for liquidation, it comes out of the donation. Liquidate noncash donations as soon as possible. JCF meets with Vanguard 1-2 times a year to review investment goals and performance.

6. **What is the minimum investment required to set up an endowment fund?**

Minimum for nonprofit agency fund is \$25,000, and JCF encourages clients to build to \$100,000 within five years. Several funds have started with just \$10,000, but built to \$25,000 within one year. JCF discourages this on the grounds that a small endowment doesn't produce enough income to make much difference.

7. **Is there a minimum size for contributions?**

No.

8. **What is your investment strategy? How do you balance risk vs. returns? What percentage of your investments are in stocks vs. bonds?**

Long-term funds are invested 38% in US equities, 38% in non-US equities and 24% in

fixed-income (bonds). See investment policy statement for details.

9. **What are your fees?**

It depends on the amount in the fund. **(Note that the numbers below do not match the numbers given in the JCF fee schedule.)**

	Amount of Principal			
	\$0-1 million	\$1-2 million	\$2-3 million	\$4 million+
Nonprofit agency fund	0.75%	0.6%		
Field of interest fund	1%	0.85%	0.75%	0.65%

10. **What is the structure of the endowment agreement?**

a. **Can we make withdrawals from the principal, or only the interest?**

It depends how you set it up. Nonprofit agency fund allows principal withdrawals, as does a field of interest fund. With field of interest funds, the library can specify that you want to run it like an endowment but preserve the ability to withdraw from principal.

Juneau Community Foundation has variance powers to overrule a donor's instructions and move money directly into the principal. (Every foundation can.) They don't do it, though. They prefer to negotiate with donors.

b. **What is your formula for calculating disbursements?**

Every year in Dec., look at how much is in principal + earnings, then average that over past 20 quarters, multiply by 5%, and that's the distribution for the coming year.

c. **Who can make withdrawals or disbursements?**

When the initial contract is signed the library would list advisors who would be

authorized to accept disbursements. This is part of the agreement. No articles of incorporation required. JCF tries to meet annually with all our investment advisors and ensure that the contact list is current.

d. **How often can withdrawals be made?**

No limit. Most people only do it once a year. The max amount is spelled out at start of year, but withdrawal can be done anytime. If distribution is not spent, it's reinvested in the principal.

e. **Is there a limit on withdrawal amounts?**

Yes—set in December. Can exceed the maximum distribution with approval from the JCF board, but this is only done in emergencies.

f. **How often do you create financial statements?**

Twice a year, in Jan/Feb. and July/Aug. If we get our new software working, you'll have a fund portal which you could check anytime.

g. **If we are dissatisfied with the performance of the fund, is it possible to terminate the agreement?**

That would have to be approved by the JCF board. There is nothing built into our agreement that allows termination. If you set something up with us, and later decided you wanted to move the fund to Homer Community Foundation, we would certainly allow that.

11. **Do you carry insurance?**

Yes. There is an insurance agent is on the board. General liability, workers comp, DNO. Property and liability. Where needed, can get additional insurance for specific projects.

12. May we contact some references or current customers?

Fine. To clarify: we are not investment managers, we manage investments on behalf of a community foundation. The investment managers are Merrill Lynch and Vanguard; the people who use the funds for operations (i.e. the library) are called “investment advisors.”

13. May we see your Form 990 and audited financial statements? [Form 990 is an IRS document on which a tax-exempt entity must report numerous details about its organization and financial status.]

We have this already.

14. What is your relationship with the Homer Foundation?

HCF has a new director and have changed their investment strategy, with what looks like positive results. JCF would like to support them. All agreements for new funds in JCF have to be approved by the JCF board, which meets every other month. To repeat: if the library wanted to establish a fund with JCF and later move it to HCF, the JCF board would be happy to assist.

15. Do you manage any socially-responsible funds?

We do not invest in any socially-responsible funds. Invest in Vanguard. Vanguard total international stock fund, Vanguard total market index fund.

16. What happens if there is a negative return on the investment? Is there a requirement to make up the shortfall?

No requirement for the library to make up shortfall. It just means that that quarter would factor in very low on the 20-quarter formula.

17. What is the Better Business Bureau (<https://www.bbb.org>) rating for this investment manager?

Merrill Lynch (now part of Bank of America): A+

Vanguard: A

18. How does the JCF deal with donors who wish to place restrictions upon their donation or designate it for a specific purpose?

If a donor says we can only use their donation for a specific purpose, it will be kept as a specific line item within the fund. If it's only \$500 or so, JCF encourages the library to use it. If the use is obsolete, JCF talks to the donor to negotiate; if the donor is dead or unreachable, the library can request to have these funds merged into the principal.

19. Charity Navigator Listing:

<https://www.charitynavigator.org/index.cfm?bay=search.profile&ein=522395867>

20. Accredited by National Standards for U.S. Community Foundations?

No.

Comments from Current JCF Clients

1. Why did you choose this foundation when you established your fund?

CLIENT 1: It was the default, since we're in Juneau. We never even considered managing it ourselves—you definitely don't want to do that.

CLIENT 2: We considered managing it ourselves, but they are a very strong partner. They are helpful with fundraising, donor tracking, nonprofit accounting, IRS exemption letters, very trusted source. The foundation has an amazing reputation. It's helpful to have a foundation on board when talking to other donors. They provide strategic thinking and have come to a lot of partner meetings with us. Amy is really helpful and brilliant. Having Amy's diplomacy on our side was great.

CLIENT 3: A couple of reasons—we're in Juneau, so it was a natural fit. The Director of JCF is a big supporter of our project. JCF gives us a great level of credibility in the community because they're well-regarded for their management. People at JCF went out of their way to help us.

CLIENT 4: We've had an endowment with JCF for a good while. We started small, but it's grown well.

2. Is your fund subject to any special restrictions as far as withdrawals, spending purposes, etc.?

CLIENT 1: No comments.

CLIENT 2: No comments. (Fund was designated for specific project, not for a general endowment.)

CLIENT 3: The finances had to be worked out about how our donations fit into their system. We eventually structured our website as a pass-through to funnel donations to JCF. JCF issues automatic tax letters to our donors. We don't have

an endowment, we have a fund for particular purposes, and we worked out a way to get large disbursements in chunks.

CLIENT 4: JCF is subject to some IRS restrictions, including that as a foundation JCF can only give money to an incorporated nonprofit (at least for this type of fund). The main restrictions on spending are in our own internal policy. I think we actually could dip into the principal if we needed to. Distributions from the account have to be approved by the JCF board of directors, but there's less than a 2-week turnaround on disbursements.

3. Have you been generally satisfied with this foundation?

CLIENT 1: They've always done very well by us. For some reason some donors feel more confident about giving to a third party rather than the organization directly.

CLIENT 2: We're beyond happy. I love the JCF, they're amazing. Neither of our projects would have been completed without them. They have terrific admin support. Amy is wonderful and the advisory board is delightful. They have a lot of expertise on their board. They aren't stressed out, which is useful when we are.

CLIENT 3: Oh, yes. Amy is super thoughtful and interested and wants to go the extra steps to make things work.

CLIENT 4: I would recommend the community foundation pretty highly. All their staff are pretty good. They have a pretty competent board of directors.

4. What has been the best experience about partnering with this foundation?

CLIENT 1: They know what we do, they're very active in the community. They're really looking out for us. When a donor comes in, the JCF knows what we offer, so they can communicate with the donors intelligently. They tailor stuff to us very well and keep the donors happy. They're very small, with only three staff,

and the board has 5-6 members. They're very informed about what's going on in the broader community.

CLIENT 2: Amy.

CLIENT 3: On the PR end, they lend credibility to our work. When we talk to donors, it's no longer "who are these people and what are they doing?" The JCF is well-known and respected. On the working end, it's their willingness to be responsive to us. They don't force us to fit into their model.

CLIENT 4: They're a professional group, quick turnaround on emails.

5. What's the worst experience?

CLIENT 1: We've been very happy with them.

CLIENT 2: No complaints. They are very thorough about staying in contact with their clients, which is a big plus.

CLIENT 3: All been positive. I should mention, though, that our relationship is fairly new. We had to think about what happens when we get money, because that will put us in a different tier for rates.

CLIENT 4: The only issue we've had is that in order for them to be self-sustaining, they had to raise their management fee a couple of years ago. The annual management fee was a bit high. It's a fact of life. When we got a sizeable bequest, we put part of it into the endowment, but we also have a separate fund that charges lower fees.

6. Is there anything else we should know?

CLIENT 1: They're great. It seems like a pain for you to have to do all this research, but a community foundation is definitely the way to go.

CLIENT 2: I love the JCF.

CLIENT 3: They're a pretty lean organization, but they handle a lot of money. Juneau is a small town—everyone knows them and trusts them.

CLIENT 4: JCF is professionally managed, so if you don't have a lot of investment expertise on your board, the JCF gives you some value there.

Kenai Peninsula Foundation (Part of ACF)

Notes from Discussions with Hadassah Knight at KPF, Nov. 14, 2019

1. Tell me a bit about your foundation.

KPF is part of ACF. Because we are partners with the Homer Community Foundation, we prefer not to compete with them. ACF holds our endowment funds. It would be a conflict of interest for us to take business away from Homer Community Foundation. Some other alternatives: Seattle Foundation (Alison Parker) might be another option. I will contact Dan Van Vleet at Wells Fargo and Josselyn O'Conner with Edward Jones, and tell them to get in touch.

Seattle Foundation

Notes from Discussion with Alison Parker at SF, Nov. 20, 2019

1. Tell me a bit about your foundation.

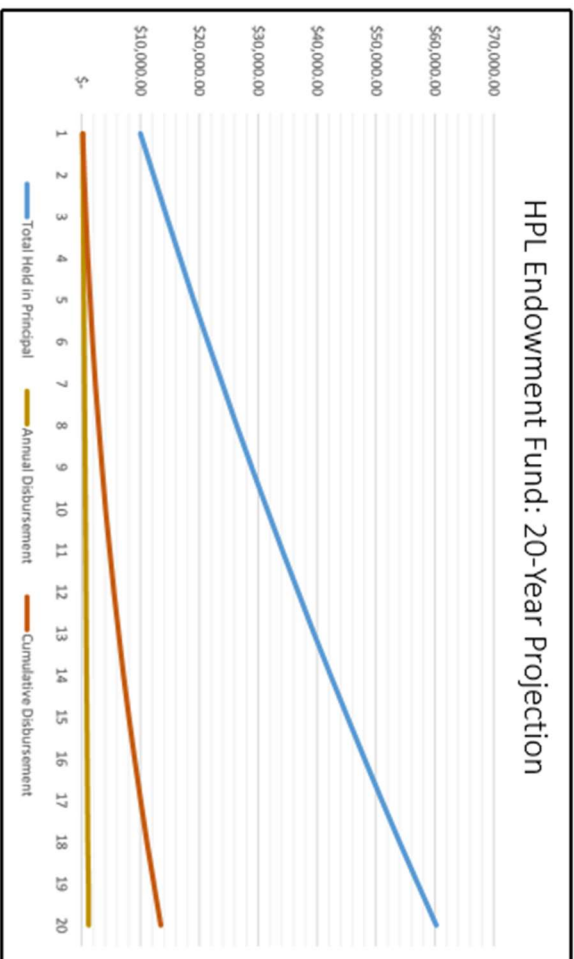
Alaska is really outside our scope. We have a few locally-funded scholarships that serve high-school students in Alaska, mainly because some local people here have ties to Alaska and want to give back to their hometowns. We have endowment funds for a few local nonprofits but nothing outside the Seattle area.

Think carefully about what your goals are. Do you want this to be a true endowment, where the principal is locked up, or do you want it to be more of a reserve fund?

Starting contributions: \$ 10,000.00
 Annual contributions: \$ 2,000.00
 Market return: 5.00%
 - Inflation proofing: 2.00%
 - Administration fees: 1.00%
 = Disbursement rate: 2.00%

Low Estimate (\$2k Annual Contributions, 5% Market Rate)

Years After Initial Contribution	Total Held in Principal	Annual Disbursement	Cumulative Disbursement
1	\$ 10,000.00	\$ 200.00	\$ 200.00
2	\$ 12,200.00	\$ 244.00	\$ 444.00
3	\$ 14,444.00	\$ 288.88	\$ 732.88
4	\$ 16,732.88	\$ 334.66	\$ 1,067.54
5	\$ 19,067.54	\$ 381.35	\$ 1,448.89
6	\$ 21,448.89	\$ 428.98	\$ 1,877.87
7	\$ 23,877.87	\$ 477.56	\$ 2,355.42
8	\$ 26,355.42	\$ 527.11	\$ 2,882.53
9	\$ 28,882.53	\$ 577.65	\$ 3,460.18
10	\$ 31,460.18	\$ 629.20	\$ 4,089.39
11	\$ 34,089.39	\$ 681.79	\$ 4,771.17
12	\$ 36,771.17	\$ 735.42	\$ 5,506.60
13	\$ 39,506.60	\$ 790.13	\$ 6,296.73
14	\$ 42,296.73	\$ 845.93	\$ 7,142.66
15	\$ 45,142.66	\$ 902.85	\$ 8,045.52
16	\$ 48,045.52	\$ 960.91	\$ 9,006.43
17	\$ 51,006.43	\$ 1,020.13	\$ 10,026.56
18	\$ 54,026.56	\$ 1,080.53	\$ 11,107.09
19	\$ 57,107.09	\$ 1,142.14	\$ 12,249.23
20	\$ 60,249.23	\$ 1,204.98	\$ 13,454.21

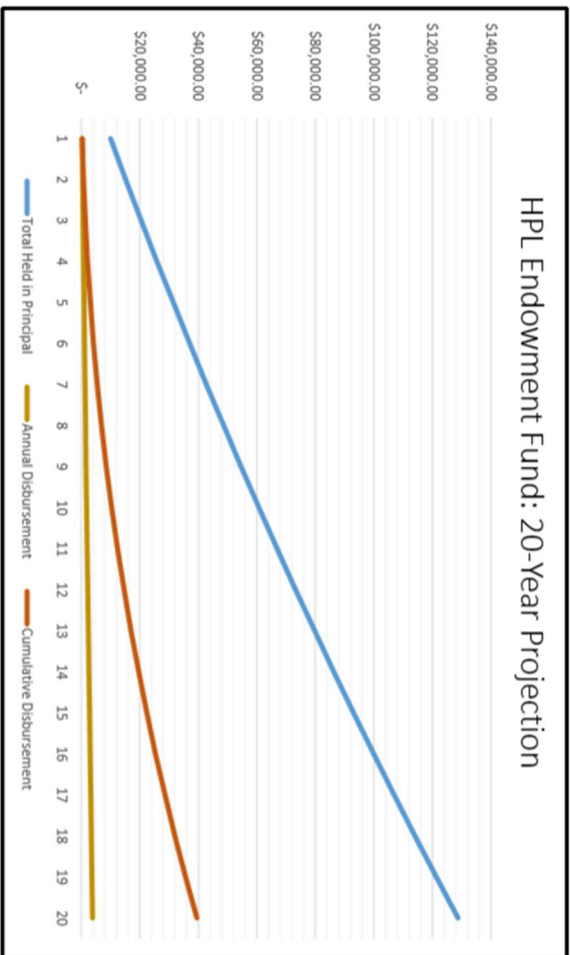


Compare with Wyoming Community Foundation's Endowment Calculator (<https://wycf.org/endowment-calculator>)
 and Investor.gov (<https://www.investor.gov/additional-resources/free-financial-planning-tools/compound-interest-calculator>)

Starting contribution: \$ 10,000.00
 Annual contributions: \$ 5,000.00
 Market return: 6.00%
 - Inflation proofing: 2.00%
 - Administration fees: 1.00%
 = Disbursement rate: 3.00%

Medium Estimate (\$5k Annual Contributions, 6% Market Rate)

Years After Initial Contribution	Total Held in Principal	Annual Disbursement	Cumulative Disbursement
1	\$ 10,000.00	\$ 300.00	\$ 300.00
2	\$ 15,200.00	\$ 456.00	\$ 756.00
3	\$ 20,504.00	\$ 615.12	\$ 1,371.12
4	\$ 25,914.08	\$ 777.42	\$ 2,148.54
5	\$ 31,432.36	\$ 942.97	\$ 3,091.51
6	\$ 37,061.01	\$ 1,111.83	\$ 4,203.34
7	\$ 42,802.23	\$ 1,284.07	\$ 5,487.41
8	\$ 48,658.27	\$ 1,459.75	\$ 6,947.16
9	\$ 54,631.44	\$ 1,638.94	\$ 8,586.10
10	\$ 60,724.07	\$ 1,821.72	\$ 10,407.82
11	\$ 66,938.55	\$ 2,008.16	\$ 12,415.98
12	\$ 73,277.32	\$ 2,198.32	\$ 14,614.30
13	\$ 79,742.87	\$ 2,392.29	\$ 17,006.59
14	\$ 86,337.72	\$ 2,590.13	\$ 19,596.72
15	\$ 93,064.48	\$ 2,791.93	\$ 22,388.65
16	\$ 99,925.77	\$ 2,997.77	\$ 25,386.42
17	\$ 106,924.28	\$ 3,207.73	\$ 28,594.15
18	\$ 114,062.77	\$ 3,421.88	\$ 32,016.04
19	\$ 121,344.02	\$ 3,640.32	\$ 35,656.36
20	\$ 128,770.90	\$ 3,863.13	\$ 39,519.49

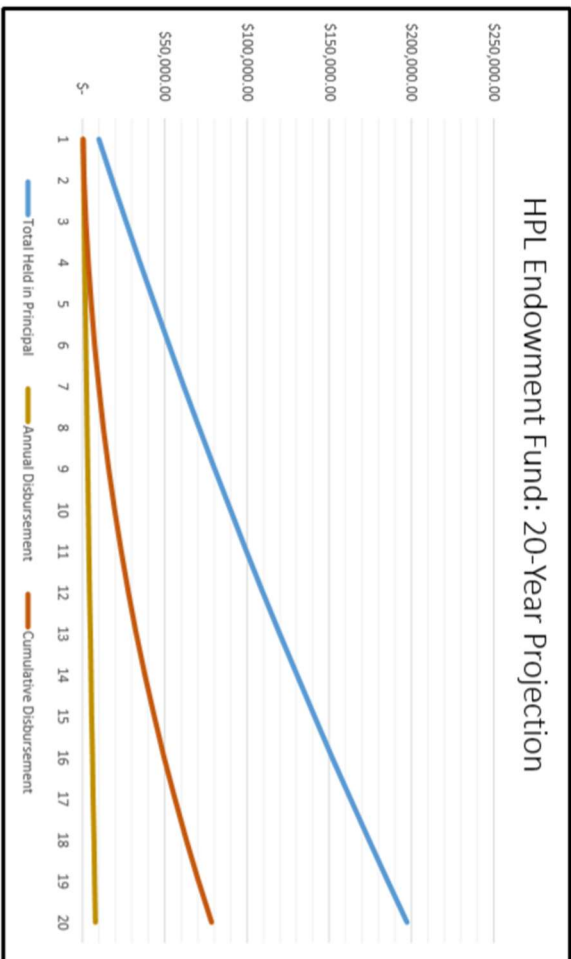


Compare with Wyoming Community Foundation's Endowment Calculator (<https://wycf.org/endowment-calculator>)
 and Investor.gov (<https://www.investor.gov/additional-resources/free-financial-planning-tools/compound-interest-calculator>)

Starting contributions: \$ 10,000.00
 Annual contributions: \$ 8,000.00
 Market return: 7.00%
 - Inflation proofing: 2.00%
 - Administration fees: 1.00%
 = Disbursement rate: 4.00%

High Estimate (\$8k Annual Contributions, 7% Market Rate)

Years After Initial Contribution	Total Held in Principal	Annual Disbursement	Cumulative Disbursement
1	\$ 10,000.00	\$ 400.00	\$ 400.00
2	\$ 18,200.00	\$ 728.00	\$ 1,128.00
3	\$ 26,564.00	\$ 1,062.56	\$ 2,190.56
4	\$ 35,095.28	\$ 1,403.81	\$ 3,594.37
5	\$ 43,797.19	\$ 1,751.89	\$ 5,346.26
6	\$ 52,673.13	\$ 2,106.93	\$ 7,453.18
7	\$ 61,726.59	\$ 2,469.06	\$ 9,922.25
8	\$ 70,961.12	\$ 2,838.44	\$ 12,760.69
9	\$ 80,380.35	\$ 3,215.21	\$ 15,975.91
10	\$ 89,987.95	\$ 3,599.52	\$ 19,575.42
11	\$ 99,787.71	\$ 3,991.51	\$ 23,566.93
12	\$ 109,783.47	\$ 4,391.34	\$ 27,958.27
13	\$ 119,979.14	\$ 4,799.17	\$ 32,757.44
14	\$ 130,378.72	\$ 5,215.15	\$ 37,972.59
15	\$ 140,986.29	\$ 5,639.45	\$ 43,612.04
16	\$ 151,806.02	\$ 6,072.24	\$ 49,684.28
17	\$ 162,842.14	\$ 6,513.69	\$ 56,197.96
18	\$ 174,098.98	\$ 6,963.96	\$ 63,161.92
19	\$ 185,580.96	\$ 7,423.24	\$ 70,585.16
20	\$ 197,292.58	\$ 7,891.70	\$ 78,476.86



Compare with Wyoming Community Foundation's Endowment Calculator (<https://wycf.org/endowment-calculator>)
 and Investor.gov (<https://www.investor.gov/additional-resources/free-financial-planning-tools/compound-interest-calculator>)

**CITY OF HOMER
HOMER, ALASKA**

Venuti/Aderhold

ORDINANCE 19-XX

AN ORDINANCE OF THE CITY COUNCIL OF HOMER, ALASKA,
CREATING A LIBRARY ENDOWMENT FUND.

WHEREAS, The Homer City Council is empowered to manage and allocate funds for the operation of City departments, including the public library; and

WHEREAS, The City Council recognizes the need to provide long-term support for the library's collections and services; and

WHEREAS, The City Council wishes to provide a mechanism whereby members of the general public and other grantors may provide financial assistance to support those same collections and services; and

WHEREAS, The Library Advisory Board recommends creating a Library Endowment Fund to "solicit donations of money and/or property for the benefit of the Library," in accordance with Article II, Section 4 of the Board's bylaws; and

WHEREAS, Many public library systems across the nation, including those in Fairbanks, Juneau, Petersburg, Seward and Sitka, have demonstrated that an endowment fund is a simple and effective means of accommodating such financial assistance.

NOW, THEREFORE, THE CITY OF HOMER ORDAINS:

Section 1. Homer City Code 2.48: PUBLIC LIBRARY, is hereby amended to create a Library Endowment Fund.

Section 2. A Library Endowment Board shall be created, consisting of:

- a. The Library Director
- b. One member of the Library Advisory Board, selected by that board. Said member shall remain on the Library Endowment Board for the duration of his or her term on the Library Advisory Board, unless the Library Advisory Board votes to remove and replace that individual.
- c. One member of the general public, residing within the library's service area. Said member shall be appointed by the Mayor and confirmed by City Council for a term of 3 years.

Section 3. The Library Endowment Fund shall be a “Field of Interest Fund,” held within a community foundation and administered by them in accordance with their existing policies.

Section 4. The earnings derived from the Library Endowment Fund shall be paid to the City on a regular schedule, and the Library Endowment Board shall be authorized to appropriate these earnings for the following purposes:

- a. Purchase of materials for inclusion in the library’s collection
- b. Purchase or upgrading of library equipment
- c. Improvements or repairs to library facilities and services.

Section 5. All monies in the existing Library Gifts fund, account number 803-0000-2711, shall be transferred to the newly-created Library Endowment Fund. These monies are appropriated as follows and the City Manager is authorized to execute the appropriate documents:

<u>Account No.</u>	<u>Description</u>	<u>Amount</u>
Revenue XXX-XXX	Library Endowment Fund	\$ X,XXX.XX
Expenditure 803-0000-2711	Library Gifts	\$X,XXX.XX

Section 6. This Ordinance is of a permanent and general character and shall be included in the City Code.

ENACTED BY THE CITY COUNCIL OF HOMER, ALASKA this ____ day of _____, 2019.

CITY OF HOMER

KEN CASTNER, MAYOR

ATTEST:

MELISSA JACOBSEN, MMC, CITY CLERK

YES:

NO:

ABSTAIN:

ABSENT:

First Reading:

Public Hearing:

Second Reading:

Effective Date:

Reviewed and Approved as to form and content:

Katie Koester, City Manager

Michael Gatti, City Attorney

Date: _____

Date: _____

