

More Tom's Tips on Core Operating Support

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Now that we've done our first round of grants featuring core operating support, I know a number of questions have surfaced. As time goes by, I'm certain still more questions will emerge, as we refine our procedures and "rules of thumb" on how best to do this kind of grantmaking. I thought it might be helpful to put together a few points in a Question and Answer format that can serve as a jumping off point for our meeting. Consider this a "work in progress," subject to modification.

What is core operating support?

It is a grant to an organization for ongoing work that is central to its mission. While the grant will have specific objectives, just as any other grant we might make, it is perfectly OK for those objectives to simply capture efforts that are already underway, or administrative infrastructure in support of that work. Core operating support can be used for a variety of purposes, depending on where the organization is in its life cycle. A relatively new organization may choose to use a core support grant to build its internal staffing and capacity while a more "mature" organization may need funding for ongoing programs or cash flow.

Why is TCWF emphasizing core operating support?

Much of our grantmaking to date has been in the form of foundation-designed initiatives. In order to balance those grantmaking programs with an approach that was more responsive to ideas developed by grantseekers themselves, we began encouraging requests for core operating support several years ago. Our experience with those grants has been so positive that our Board has elected to devote the majority of our grantmaking in the future to core operating support.

Why? Because we believe it is just as important to make grants to support, strengthen and sustain key nonprofit health organizations working with underserved populations as it is to foster innovation. We also believe that it's easier to have an honest conversation with a grantseeker when we don't require them to come up with a "new" idea or project in order to qualify for funding. Moreover, we believe that foundation staff do not know better than front-line agencies or advocates which courses of action are most likely to reduce ethnic and racial disparities in health status or to achieve any of a number of other important health goals.

There are many effective agencies and programs currently in place in California. The vast majority of them are undercapitalized. One of the prime reasons for providing core operating support is to help sustain those organizations, particularly in the current uncertain fiscal environment.

Does that mean TCWF is giving up on strategic philanthropy?

It all depends on your definition of “strategic.” We think that we are implementing a carefully crafted grantmaking strategy that is consonant with our mission and also provides us with maximum flexibility to respond to the real needs of organizations seeking funding. It features eight priority areas that have been identified as significant public health issues in California, connected by five cross-cutting themes (underserved populations; youth; public policy; leadership; and sustainability) which are central concerns of the nonprofit sector.

Does that mean TCWF is no longer interested in supporting innovation?

Let me pose a question in return: Where do you think the best ideas about community health practice come from? Do they come from universities? Think tanks and consulting groups? For-profit folks crossing over to offer advice to the non-profit sector? Foundation staff? Or from organizations engaged day-to-day in the struggle to provide services or to advocate for policy changes that have been given the resources to step back and engage in reflection on their work? I would argue that the last option is the one that has been explored the least in recent times, yet has the greatest potential to transform practice. It may seem counterintuitive or even paradoxical, but by not insisting on “new” ideas as a prerequisite for funding, yet carefully selecting our grantees for their demonstrated leadership (and giving them maximum flexibility in how to use our dollars), I think we are most likely to underwrite meaningful innovation.

So, is core operating support really about capacity building?

No, our Board expressed a clear preference for funding with “no strings” attached. That means, we shouldn’t be inviting an organization to apply for core operating support and then telling them, “but what I think you really need is capacity building.” If that’s what your analysis tells you, then encourage them to apply for a project grant specifically for that purpose. In the course of your conversation with a grantseeker, they may identify a variety of capacity building needs for which they would like to use core support dollars. It’s OK to include a grant objective (or two) for capacity building work in a core support grant. But it shouldn’t be presented as a condition for receiving core support. If you’re that concerned about their internal capacity, don’t recommend them for funding.

Who’s a good candidate for core operating support?

The first criterion is that it’s an organization whose mission fits with our focus on improving the health of underserved populations and whose work is consonant with one of our announced priorities. Beyond that, the task of due diligence for a core support grant is actually more complicated with a project grant. I would be looking for organizations that are “keystone” agencies in their communities, i.e. that occupy a critical niche in the local nonprofit ecosystem. They should check out with a number of informants as providing essential work with quality and integrity ... after all, a core support grant is the ultimate validation of their efforts.

That’s not to say that they need to be low-risk. Some of the most vital organizations in underserved neighborhoods are underfunded and chronically “living on the edge.” But we need to be very clear on the level of risk we are assuming (both financial and otherwise)

before we give someone a three-year grant, paid out all up-front. Particularly as we're turning down hundreds of applicants for core support, each grant of this type that we make will be scrutinized by the field and will send a message to the world about our judgement and our savvy. All the more reason to employ thorough due diligence in the selection process!

How can we help grantseekers to ask for core operating support?

First of all, they don't need to ask for in their LOI for you to introduce the topic in conversation. After all, the vast majority of foundations don't permit such requests, so it will take a while for organizations to realize that it's not only OK to do so with us, but actually encouraged. For this initial period, it's going to require Program Directors to take a proactive role in explaining the concept of core operating support to our applicants (and potential applicants).

For example, they need to know that:

- It's OK to ask for funding to do what they are already doing. They don't have to expand, improve or enhance their current programming to apply for core support.
- It's OK to ask for funding to strengthen their internal infrastructure (e.g. key staff positions; training/professional development; upgrading internal systems; enhancing salaries, etc.). We don't do grants solely for capital improvements, but part of a core support grant could be used for that purpose.
- It's OK to ask for funding for the most basic of needs, e.g. to create an operating reserve to help the organization deal with cash flow challenges, to pay for an audit, or simply to pay the rent.

Perhaps we need to develop a "how to" piece that addresses concerns like these directly that could be shared with grantseekers prior to submitting an LOI (?)

What's an appropriate size grant for core operating support?

As we've talked with organizations about core support, we've indicated that these grants will typically be smaller than the initiative grants we've done in the past. The tradeoff is flexibility in how the money can be used plus being able to "build in" that amount into their budget over a two or three-year period. That's a deal most (smart) organizations are quite happy to make.

We want to support and strengthen, but not make an organization unduly dependent on our dollars, so we need to be mindful of the size of our grants for core operating support. For an established organization, we should not account for more than 10-15% of their budget with a single grant. For a developing organization that's in a growth mode, a core support grant might go up to 30% or so of their budget, to help them hire key staff, who in turn can leverage additional funding. But any more raises concerns about tipping and ultimately about sustainability. It's to their advantage and ours for them to diversify their funding as soon as possible. As a general rule of thumb, I'd say that we should never provide half an organization's budget with a core support grant. At that point, they tend

to be perceived as “branded” by us, and that’s not a good thing. Of course there are going to be exceptions along the way, but they should be few and far between ... and we will need to be very conscious of why we’re exceeding these guidelines, when we do.

How long can we provide core operating support?

Given the popularity of this kind of grantmaking, we could easily end up funding a relatively small “cohort” of organizations in perpetuity. But our Board wants us to keep funding new organizations... we’ve averaged about 50% of our grantees new to the foundation over the past couple of years. To continue to keep our doors open to new applicants, we need to limit the length of core support funding. So far, we’ve talked about two options: an initial three-year grant, after which the organization would need to wait a year before reapplying; or a two-year grant, followed by another two-year grant if the organization has done well. In the latter case, we would ask the agency to wait two years before reapplying.

Will there be exceptions? On occasion I’m sure there will be. But what’s most important is clarity up front in dealing with potential grantees. They need to know about the required “time out” and will need to be reminded of it, probably each year of a multi-year grant... just so there are no surprises when the time comes.