

Endowments & FOUNDATIONS



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Trends in Healthcare Philanthropy and the Use of Separate Foundations

New York State Revisited

Over the past few decades, there has been significant change in the U. S. nonprofit healthcare sector as many smaller community hospitals have closed or become part of larger healthcare systems. The Affordable Care Act (ACA), which was implemented to control rising medical costs and reduce the uninsured, has also impacted the healthcare industry.

One can observe the changing healthcare landscape in many local communities as some local hospitals have closed, changed their names, or joined other larger regional systems. Many believe that the healthcare sector will continue to evolve, and there will be more consolidation in the hospital sector as systems become larger and seek operating efficiencies. It has been a challenging environment for nonprofit hospitals and systems.

Standard & Poor's recently noted their concerns related to nonprofit hospital operating results on March 27, 2017: "...during our 12-month outlook, more incremental evidence in the form of audited results and year-to-date interim results is painting a picture of weaker operating performance. Although balance sheets remain generally strong and supportive of credit quality, we are increasingly concerned that many historically strong performers are showing signs of operating weakness."¹

One area that has not changed, since we first covered the nonprofit healthcare sector in our 2013 report, *Trends in Healthcare Philanthropy and the Use of Separate Foundations*, is the importance of philanthropy for hospitals and healthcare systems. Philanthropic dollars, while a small part of total hospital revenue, remain crucial for hospitals as they seek to establish and enhance new patient services and fund capital projects in these challenging times.

Susan Holt, president and founder of Vision Philanthropy Group, Inc., a healthcare fundraising consulting firm, said: "*The role of philanthropy continues to be of increasing importance to hospitals and the essential health care they provide to our communities. We have been in a highly dynamic and evolving landscape for the past decade as our country and the insurance markets continue to evaluate our approaches to delivering care. The ability to*

strategically plan growth becomes particularly onerous in such a dynamic environment. It is critical that development and foundation officers are equal partners at the executive management table in order to interpret philanthropy's most vital role in meeting the hospital's complex initiatives."

As overall program revenues continue to shrink and the industry faces regulatory changes, nonprofit healthcare organizations must seek to diversify their fundraising strategies and employ the best structures for reaching new donors and engaging existing ones. Many hospital systems utilize separate fundraising foundations to implement their fundraising strategies.

But as nonprofit hospitals continue to merge and change, what is the appropriate strategy for these separate foundations? Is it best to have one parent foundation for the entire system? Or is it best to have separate local foundations? Or is it better to implement a hybrid model?

This research report provides some insights into how hospitals in New York State are starting to address these questions related to their foundations. Our intent is to provide findings and conclusions that may be applicable to hospitals and hospital systems nationwide.

Our research puts a spotlight on hospital foundations in New York State. We started the analysis by reviewing the complete universe of hospitals in New York, which was provided by the American Hospital Association. We excluded public hospitals, VA hospitals, rehabilitation hospitals, psychiatric hospitals, large university hospitals, and hospitals with annual revenues less than \$25 million. From this overall list, we were able to study the hospital IRS Form 990s, review their websites, and in some cases, contact

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the hospitals to get updates on their foundation strategies. We researched 160 hospitals in New York, which includes a total asset ranking of all the hospital foundations and specific observations and research on each foundation.

As part of the research on these 160 New York hospitals, we found that 81% of these hospitals have access to a hospital foundation, with 62% using a local foundation and 19% using a parent foundation. We found that approximately 20% of the hospitals did not use a foundation for their fundraising. Almost 80% of these foundations have come into existence since 1981 and are a key fundraising tool for many hospitals.

Based on the most recent data provided, we estimate that there is over \$5.8 billion in total foundation assets, with the average foundation's total assets at \$52.8 million and the average local foundation's total assets at \$13.3 million. We looked at both parent foundations and local foundations. The largest parent foundation is New York Presbyterian Fund Inc. (New York Presbyterian, NYC), which has total assets of \$2.4 billion. The largest local hospital foundation is St. Francis Hospital Foundation (St. Francis Hospital, Roslyn) at \$153 million, which is part of Catholic

Health of Long Island; each hospital in that system has its own local foundation.

Along with the overview information on the New York hospital foundation sector, we provide some observations related to their fundraising strategies and investment management. We also highlight some hospital foundation best practices at the end of the study.

TRENDS IN HEALTHCARE PHILANTHROPY

Before determining which strategies and structures work best for a given organization, it helps to have a good understanding of the current giving trends for the industry.

In June 2017, Giving USA Foundation² released its *Annual Report for Philanthropy for the Year 2016*, which highlights current trends in giving. According to the Report, overall giving was up 2.7% to \$390 billion compared to the prior year.

For 2016, the Report mentions that health-related organizations received an estimated 8% of charitable dollars, or approximately \$31.2 billion. This represented a 4.8% increase from 2015. The Report notes that these totals benefited from multimillion dollar gifts that

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FIGURE I
Giving USA Data: 2016 versus 2000

Giving by Recipient Organization	2016 Data (\$390 billion)	2000 Data (\$204 billion)	Change
Religion	32%	36%	+4%
Education	15%	14%	+1%
Human services	12%	9%	+3%
Gifts to foundations	10%	16%	-6%
Health	8%	9%	-1%
Public-society benefit	8%	6%	+2%
Arts, culture, and humanities	5%	6%	-1%
International affairs	6%	1%	+5%
Environment / animals	3%	3%	—
Gifts to individuals	1%	0%	+1%
Total	100%	100%	

Source: *Giving USA* 2016, 2000.

FIGURE 2
Approximate total funds raised by healthcare institutions (\$ billions, median value for all institutions)



Source: AHP Report on Giving, U.S., FY 2004–FY 2015

supported research and treatments for certain diseases, as well as support of healthcare systems. On a longer term basis since 2000, overall health related giving has been consistent at about an 8% allocation, which is highlighted in Figure 1.

A closer look at hospital philanthropy

Also in December 2016, the Association for Healthcare Philanthropy (AHP) provided its *AHP 2016 Report on Giving Survey, USA*, which provides a more detailed look at hospitals and healthcare organizations in the U.S. The report showed that hospitals and healthcare systems raised more than \$9.6 billion in FY 2015, which

is a 0.2% increase over FY 2014. Donations to nonprofit hospitals and health care systems in the U.S. increased by \$19 million.³ Figure 2 provides a view of a decade in annual giving for healthcare, which shows the recent years trending back up.

“It’s significant that giving stayed above \$9 billion in 2015, continuing a positive trend we saw in 2014,” says Steven W. Churchill, MNA, president and chief executive officer of AHP. *“Healthcare systems in particular may have strong fundraising capabilities. Of the organizations we surveyed, systems are one of the more productive in raising funds, with a \$5.04 median production return on investment. Systems also had one of the lowest cost to raise a dollar, at \$0.20.”* This is likely the result of the capabilities provided by centralized infrastructure services such as development and communication services, observes Ms. Holt.

Former AHP President & CEO William C. McGinley noted in an early report that *“many of the larger healthcare systems have a long history of successful fundraising programs. The small and medium sized hospitals are starting to take steps to build out and diversify their fundraising strategies, which is crucial for their success.”*

With fundraising on the rise for healthcare organizations, it’s important to identify the source of this

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FIGURE 3
Funds Raised by Type of Fundraising Activity in Fiscal Year 2015

Type of Giving	% of Total Hospital Giving	Source of Giving
Corporate & Foundation	28.7%	Corporate / Foundations
Major gifts	23.4%	Individual
Annual gifts	15.4%	Individual
Special events	15.0%	Individual
Planned giving	9.1%	Individual
Government grants	5.4%	Government
Other	3.0%	
Total	100%	

Source: Association for Healthcare Philanthropy

funding in order to market to the appropriate demographic. As detailed in Figure 3, hospitals utilize a number of fundraising strategies with individual giving being a very important source of their fundraising.²

These statistics make it clear that healthcare organizations need to focus on building and cultivating relationships with individual donors, while maintaining a diversified fundraising approach. When one factors in bequests and family foundations, some believe that individual giving accounts for almost 88% of all annual donations. And, it's equally important to know which constituencies uniquely comprise the organization's strongest donor base.

Steven W. Churchill also commented: *"We recognized a group of AHP High Performers in the Report on Giving this year, the reporting organizations in the top 25 percentile for net production returns. The high performers were mostly systems, or 37.8% of the High Performers, even though systems in general only accounted for 17.1% of those surveyed."*

Hospital mergers impact foundation model

One of the trends that continues is the ongoing consolidation of hospitals in the U.S., and this can be observed in many of the communities in New York as systems become larger. In the metro New York City market, New York Presbyterian, Montefiore Health System, Northwell Health, NYU Langone Health System, and Mt. Sinai Healthcare continue to acquire other hospitals and have impacted the metro New York healthcare skyline. For example, in early May 2017, *Newsday*

announced that South Nassau Communities Hospital in Oceanside had agreed to enter into talks with The Mount Sinai Health System to explore a possible affiliation. In September 2016, Winthrop-University Hospital in Mineola completed its affiliation with NYU Langone Medical Center.⁴

As these mergers and affiliations continue, one of the decisions that system management will need to make is how to structure their philanthropic foundations. There are two main strategies for the hospitals: to have a parent hospital foundation or local hospital foundation. The parent model is where the hospital system uses one central foundation to represent all of the regional hospitals. A local model is where the local hospital maintains its own foundation. A third strategy is a hybrid strategy where a parent system has both a parent model and allows for some local foundations (for example: Northern Westchester Hospital has a separate local foundation, while its parent Northwell has a parent foundation).

Susan Holt commented: *"Mergers and affiliations are creating a special challenge for community hospital development programs or their foundations. The saying 'All politics are local' certainly bears out here. There may be a lot to be gained through economy of scale, access to specialization and vertical integration, but patients, and vis a vis, donors, seek a personal connection with their health care providers. As hospital mergers and systems grow, it is imperative that foundation officers communicate the power the system brings to care, while underscoring the distinct personal connections to*

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FIGURE 4

New York Hospital Foundation Models: Parent Model versus Local Model

# of Active Hospital Foundations	# of Hospitals in Study	Hospitals Using Local Foundations	Hospitals Using Parent Model	Hospitals Not Using a Foundation
110	160	100	30	32
		62%	19%	20%

*One Hospital system had three separate foundations.

Source: Ranking of foundations that provided their IRS Form 990, annual report, audited financials or were interviewed

FIGURE 5

Hospital Foundation Models: Parent versus Local Model

	Parent Foundation Model	Local Foundation Model
Name	Parent name	Local hospital name
Address	Parent address	Local hospital
Mission / Message	One foundation	Local hospital
Board	One central foundation board	Separate local foundation board
Staff	One foundation staff for system	Separate local foundation staff
Website	One foundation website for system	Separate foundation website
Examples	Northwell Health Foundation (New Hyde Park)	Faxton Saint Luke's Healthcare Foundation (Utica; Mohawk Valley Health System)
	Finger Lakes Health Foundation (Geneva)	Mercy Hospital Foundation (Buffalo; Catholic Health System)
	Friends of Bassett Healthcare Network (Cooperstown)	Olean General Hospital Foundation (Olean; Upper Alleghany Health System)

Source: IRS Form 990, annual reports, websites

the community and especially to the board, which is most likely evolving.”

In New York State, we researched approximately 160 hospitals and found 62% of the hospitals followed a local foundation model, while 19% used a parent model. We also found that 20% of the hospitals did not use a foundation and did their fundraising through a hospital development department (see Figure 4).

We included a summary of both the local foundation model and the parent foundation model in Figure 5. There are pros and cons for each of the models. The parent model is cost effective and efficient because there is one foundation structure and staff that can oversee the foundation operations from one location. It provides for a more consistent marketing strategy. It also can manage all of the investments in one pool. One hospital, Northwell Health, is using a parent model through its Northwell Health Foundation.

On the other hand, the parent model often removes the local hospital name from the foundation and may be less effective fundraising to the local hospital communities. Local donors may perceive that the funds are leaving the local community and being used by the hospital system,

not the local hospital. Branding for the local hospital foundation may present a profound challenge, notes Holt.

Jack Gleason, an attorney specializing in the healthcare arena at Epstein Becker & Green, P.C., commented: *“Subsidiary hospitals are always interested in maintaining their own independent foundations to maintain donor funding of hospital specific projects. It can be confusing to donors if both the parent and local hospital each have their own campaigns/ events. The local hospital foundations must also honor donor intent and not let donors think that funds that they donated may not remain in their own community, but are being used to support system needs elsewhere.”*

The local foundation model allows the local hospital to maintain its local fundraising efforts with the local team and local foundation brand. The donors can continue to give as they have always done in the past, even though the local hospital may have a new parent or affiliation. But the local model can be inefficient as there could be overlapping staffs, different messages, and inefficiencies (i.e., each foundation may have its own investment manager and investment committee). Faxton Saint Luke's Hospital (Utica) and Olean General Hospital (Olean) use separate local hospital foundations.

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RECAP OF THE USE OF FOUNDATION STRUCTURES AS A FUNDRAISING STRATEGY

Healthcare organizations in New York have established separate fundraising foundations to lead their development efforts; the first hospital foundation in New York was formed in 1915. Many other types of not-for-profits also use foundations, such as public colleges, public libraries, and membership organizations, just to name a few. There are a variety of reasons why a foundation structure can be beneficial to the healthcare organization:

Marketing: this allows the hospital to have a more focused marketing and branding strategy. Many hospital foundations have separate web sites to highlight their upcoming special events as well as to communicate about different ways to give.

Increasing trustee opportunities: a separate foundation creates additional board leadership and volunteer opportunities for trustees, who in turn can be substantial donors. Some foundations have been increasing their trustee membership.

Limiting liability: the funds that are in a separate foundation may be protected from any hospital-related litigation. In addition, any trustees of the foundation may be viewed as separate from the hospital with respect to their liability exposure. Jack Gleason commented that a separate hospital foundation can “protect foundation assets from hospital judgments and creditors.”

Maintaining focus/control: this is a way to keep the foundation fundraising, operations and administration in a separate area away from the core operations of the hospital. It enables the trustees to be focused on fundraising rather than the operations of the healthcare organization. In turn, it also allows the management and trustees of the hospital itself to focus on the complexities of running the day-to-day operations of the hospital and not the fundraising.

Investing endowment funds: some hospitals utilized this structure to manage their foundation funds separately, as a long-term endowment, versus commingling all the assets at the hospital.

Separating finances: this is a way to keep hospital finances separate from any fundraising efforts. For example, if the foundation is having a capital campaign, any significant inflows would impact the financials of the parent if they were not separate. Thus keeping the funds separate gives a better picture of the parent financials, and would not have implications for grants or government reimbursement rates.

Borrowing: it provides another separate pool of funds which can be used as collateral for loans

Providing separate, not public vehicles: separate 501(c)(3) organizations are often set up since donors prefer to give to a foundation versus an entity that is controlled by the local government.

Fulfilling a bequest: some hospitals have been set up where a separate foundation has been required. For example, one hospital foundation evolved from a bequest which stipulated that the monies needed to be in a separate endowment structure from the actual hospital.

Fundraising vehicle for foreign hospitals: Not-for-profit organizations based in other countries often use U.S. based foundations to help them fundraise to U.S. based-donors. The funds are then funneled back to the parent organization. For example, American Friends of ALYN Hospital is the separate New York City based fundraising arm for ALYN Hospital in Israel.

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**HOSPITAL FOUNDATIONS IN NEW YORK STATE:
REVIEW OF RESEARCH DATA**

Our earlier research report on hospital foundations covered only 57 hospital foundations. This expanded report covers all of the hospitals in New York, and we started with the listing provided by the American Hospital Association. From this report we went through each hospital and eliminated smaller hospitals (annual revenue of less than \$25 million), rehabilitation hospitals, government sponsored hospitals, VA hospitals and psychiatric hospitals; most of these categories do not utilize foundations.

We were able to whittle down the full list to a group of 160 hospitals in New York State. From this sample we

were able to gather information from the IRS Form 990s, hospital websites, and in some case, dialogue with the foundations. As we mentioned earlier, we found that over 81% of the hospitals utilized a fundraising foundation, which includes access to a local foundation or parent foundation.

We found that 130, or 81%, had access to a hospital foundation. It was interesting to note that four of the largest hospitals in the metro New York area did not have separate foundations, including NYU Medical Center, Memorial Sloan Kettering, and Montefiore Medical Center, which may indicate their already established tradition and history of giving.

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FIGURE 6

Start Dates for New York Hospital Foundations

	1915– 1939	1940– 1960	1961– 1970	1971– 1980	1981– 1990	1991– 2000	2001– 2010	2011– present	Total
# of Foundations	1	3	3	13	51	25	12	2	110
% of Total Foundations	1%	3%	3%	12%	46%	23%	10%	2%	100%

Source: IRS Form 990s, websites, annual reports, includes foundations with start dates that are available

FIGURE 7

Example of Newer and Older Hospital Foundations in New York

Older Foundations	Date Started	Recently formed Foundations*	Date Started
The Winifred Masterson Burke Foundation, Inc.	1915	Oswego Health Foundation	2011
Seton Health Foundation	1945	Richmond University Medical Center Foundation	2009
Albany Medical Center Foundation	1957	Margaretville Memorial Hospital Foundation	2008
Columbia Presbyterian Medical Center Fund, Inc.	1960	Peconic Bay Medical Center Foundation	2004
Mt. Sinai Medical Center, Inc.	1967	St. Charles Hospital Foundation	2002

*Listed newer foundations only if had an active foundation website

Source: IRS Form 990s, websites, annual reports, includes foundations with start dates that are available

History of New York hospital foundations

We explored the history of the hospital foundations to better understand when they were formed, which is found in Figure 6. It is interesting to note that almost 80% of the foundations have been formed since 1981, with most of the foundations being formed in the 1981-2000 period at 46% of all foundations; the average foundation starting date is 1987. These foundations were formed in more recent decades as hospitals have seen the importance of fundraising to diversify their revenue stream. Only three foundations have been formed in the current decade so far, as a result of the changing healthcare sector.

The oldest foundation in New York is The Winifred Masterson Burke Foundation, Inc. (The Winifred Masterson Burke Rehabilitation Hospital, White Plains), which was formed in 1915 (see Figure 7). One of the newest foundations is Oswego Health Foundation (Oswego Hospital, Oswego), which was formed in 2011.

Susan Raymond of Changing Our World completed an earlier study of healthcare foundations that looked at 159 hospitals with affiliated foundations. Susan's research showed that the use of hospital foundations began as more of a western U.S. phenomenon that has

since moved east. Many of the western foundations had been formed over 25 years ago, and some had larger asset bases. California and Texas were home to some of the larger ones. They also tended to be associated with larger, metropolitan hospitals.

A snapshot of the largest hospital foundations in New York

We also rank the top five parent model foundations and the top 10 local model hospital foundations, which are listed in Figure 8 and Figure 9, respectively. The largest parent foundations are New York Presbyterian Fund, Inc. (New York-Presbyterian Hospital, NYC) and The Mount Sinai Medical Center, Inc., (The Mount Sinai Health System Inc., NYC). Some of the largest hospital parent foundations seem to be used more as an investment structures than as fundraising marketing structures, and there is little mention of them on the websites. Here is a snapshot of these foundations:

New York Presbyterian Fund, Inc. was started in 2000 and had over \$2 billion in total assets and made approximately \$91.6 million in grants. Their IRS Form 990 states that their mission is *to receive, solicit and administer funds to be applied exclusively for charitable,*

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FIGURE 8

Ranking of Largest New York Hospital Foundations: Parent Model

Rank	Hospital System	Foundation	Date Started	Total Assets (IRS Form 990)
1	New York Presbyterian, NY, NY	New York Presbyterian Fund, Inc	2000	\$2.4 billion (12/31/15)
2	Mt. Sinai Health System, Inc., NY, NY	Mt. Sinai Medical Center, Inc.	1967	\$1.5 billion (12/31/14)
3	Northwell Health System, Great Neck	Northwell Health Foundation	1988	\$235 million (12/31/14)
4	Upstate University Health System, Syracuse	Upstate Foundation	1976	\$140 million (12/31/15)
5	Kaleida Health, Buffalo	Kaleida Health Foundation	1999	\$61 million (12/31/14)

Source: Ranking of foundations that provided their IRS Form 990, annual report, audited financials, or were contacted

FIGURE 9
Ranking of Largest New York Healthcare Foundations: Local Model

Rank	Hospital System	Foundation	Date Started	Total Assets (IRS Form 990)
1	St. Francis Hospital, Roslyn	St. Francis Hospital Foundation	1988	\$153 million (12/31/14)
2	The Winifred Masterson Burke Rehabilitation Hospital, White Plains	The Winifred Masterson Burke Foundation, Inc.	1915	\$97 million (12/31/14)
3	Roswell Park Cancer Institute, Buffalo	Roswell Park Alliance Foundation	1991	\$94 million (3/31/15)
4	NYP Columbia University, Medical Center, NYC	Columbia Presbyterian Medical Center Fund, Inc.	1960	\$83 million (6/30/15)
5	Hospital for Special Surgery, NYC	Hospital for Special Surgery Fund Inc.	1984	\$53 million (12/31/14)
6	Beth Israel Medical Center, NYC	Beth Israel Medical Center Foundation	2009	\$51 million (12/31/14)
7	Brookhaven Memorial Medical Center, Brookhaven	Brookhaven Memorial Hospital Foundation	1984	\$47 million (12/31/14)
8	Rochester General Hospital, Rochester	Rochester Regional Health Foundation	1988	\$38 million (12/31/14)
9	Vassar Brothers Medical Center, Poughkeepsie	Vassar Brothers Hospital Foundation	1990	\$36 million (12/31/14)
10	Olean General Hospital Olean	Olean General Hospital Foundation	1996	\$27 million (12/31/15)

Source: Ranking of foundations that provided their IRS Form 990, annual report, audited financials, or were contacted

FIGURE 10
Hospital Foundation Fundraising Statistics: New York State Hospitals

	Recent Foundation Annual Giving*	Annual 5-Year Foundation Giving*	Giving Rate as % Total Revenues	Number of Trustees	% Trustee Overlap	Overall % Mentioning Planned Giving	Overall % Mentioning Legacy Societies	Overall % Offering a Recurring Giving Option
Average	\$2,049,662	\$1,935,744	3.7%	19.4	25%	80%	38%	42%

*Excludes two large hospital systems using a parent model foundation

Source: IRS Form 990s, websites, annual reports

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educational and scientific purposes, primarily for the benefit of healthcare related charitable organizations.

The Mount Sinai Health System Inc. says in its IRS Form 990 that its mission is to *provide fundraising, support and maintain pooled investments for entities of the Mount Sinai Health System, Inc.*

We also ranked the largest local hospital foundations in New York in Figure 9. The largest foundation is St. Francis Hospital Foundation, which was founded in 1988, and had total assets of \$153 million. Other larger foundations include Winifred Masterson Burke Foundation and Roswell Park Alliance Foundation. It is interesting to note that the top five parent foundations represent almost 74% of the overall foundation assets in New York State.

New York hospital foundations: Fundraising observations

In order to get a better understanding of how healthcare organizations are using foundations to support their fundraising efforts, we have provided some observations as well as some key data presented in Figure 10.

Average recent foundation annual giving: Based on recent data, we found the average annual giving to be about \$2.1 million, with the average annual five-year giving rate at \$1.9 million, which was about 11% higher. We also found the average giving rate as a percentage of overall hospital revenue at 3.7%. This measure is much lower than for other types of nonprofits because programs' service revenues are such a big component of revenues.

The following three hospital foundations had the largest fundraising totals based on their most recent IRS Form 990s:

Roswell Park Alliance Foundation	\$19.4 million
Albany Medical Center Foundation	\$15.7 million
Upstate Foundation	\$10.6 million

Key Takeaways of Research:

- Over 81% of the New York hospitals utilize a separate hospital foundation
- Many hospital systems continue to assess their future foundation strategies as they acquire local hospitals
- Average hospital philanthropy is a small percentage of the budget at 3.7% (as % of overall hospital revenue)
- Wide range of board trustee size— with an average of 19 foundation trustees, an average 25% have trustee overlap with the parent hospital board

Average number of trustees: This is a key statistic for the hospital foundations since foundation trustees are often major donors to the hospitals, especially for the capital campaigns. The hospital foundations had on average 19 trustees, with Northwell Health Foundation (Northwell Health System, Great Neck), a parent type foundation, having the largest number of trustees at 118. The HSS Foundation (Hospital for Special Surgery, NYC) had 42 trustees, while Claxton-Hepburn Medical Center Foundation (Claxton-Hepburn Medical Center, Ogdensburg) had only four trustees.

We also reviewed the trustee overlap between the hospitals and hospital foundations.

The average overlap is 25%, with the hospital Chair and CEO often being on both boards, and we found a range of no overlapping boards to 100% overlap. Larger organizations tended to have more trustees. Brookhaven Memorial Hospital Foundation (Brookhaven Memorial Medical Center, Patchogue) has 100% trustee overlap with the hospital board. At the same time, small organizations are considering expanding their boards as a way to be proactive with their fundraising.

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Planned giving: Planned giving is a key area for hospital foundations to build up their endowment funds.

The bequest program is the most common program offered, while some foundations offer gift annuities (31%), charitable trusts, and donor advised funds.

The data shows that 80% of the hospitals mention an endowment giving program. For example, The HSS Foundation mentions its endowed chairs gift as a key way to support research into the future. Olean Hospital Foundation (Olean General Hospital, Olean) mentions on their site how you can direct your planned gifts to a Managed Endowment Fund. Kaleida Health Foundation (Buffalo General Medical Center, Buffalo) also mentioned its \$4.2 million endowment gift from the Ralph Wilson Foundation. Lourdes Hospital Foundation (Lourdes Hospital, Binghamton) showed \$12 million in permanent restricted endowment assets, which was almost 50% of the foundation value; this shows the success of their planned giving program. Glen Falls Hospital Foundation (Glen Falls Hospital, Glen Falls) mentions the benefits and process of using donor advised funds.

Legacy programs: We found that only 38% of the foundations mentioned legacy programs, which is a key way for the hospitals to cultivate donors and provide some ongoing donor benefits. This is an area for consideration for many hospital foundations. Northwell Health Foundation offers its legacy members The

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Top Ten Investment Ideas For Hospital Foundations

1. Have an updated investment policy statement (IPS) that is reviewed annually
2. The IPS should address short-term, intermediate, and long term-funds and should be documented
3. Take the time to understand the cash flows of the foundation; not all funds are long term
4. Explore whether you need to track separate pools of funds
5. Focus on a long-term asset allocation that stresses diversification
6. Have a customized benchmark to compare the performance returns
7. Review the costs and benefits of different advisor models; know your total fees!
8. Monitor the investment advisor on a quarterly basis, but take a long-term view
9. Build an experienced and engaged investment committee; use non-trustees with investment expertise if needed
10. Create a fundraising plan that offers planned giving opportunities to grateful patients and their families, such as a bequest and endowment fund, as well as blended gifts (outright and planned gifts)

FIGURE II

Hospital Foundation Endowment Statistics-New York State Hospitals

Total Foundation Assets (\$)	Average Foundation Assets (\$)	Average Foundation Assets (\$) Local Model	Average Growth of Foundation Assets (%)	Average Permanent Restricted Assets in Foundation (\$)	% of Foundations with Recent Capital Campaigns	% of Foundations Using Short-Term Investment Strategy	# of Foundations Investing in Alternative Investments
\$5.8 billion	\$52.8 million	\$13.3 million	5.6%	\$8.8 million	24%	19%	10%

Source: IRS Form 990s, websites, annual reports

Payson Wharton Legacy Society Brochure, and also lists the benefits of legacy membership on its website.

Technology: Fundraising technology is a key area and 94% of the foundations offer online donations. Technology is an important trend as more nonprofits are using emails, websites, Facebook pages, and Twitter to get the word out and to raise funds. We found that only 42% of the foundations offered recurring giving for their online donors, which can be another area for improvement. Cortland Memorial Foundation (Cortland Regional Medical Center, Cortland), The Foundation for Ellis Medicine (Ellis Medicine, Schenectady) and Northwell Health Foundation have developed comprehensive foundation websites.

INVESTMENT CONSIDERATIONS FOR HOSPITAL FOUNDATIONS

While hospital foundations provide an effective fundraising tool, they also act as an investment management vehicle, which can provide professional investment management and administration of planned giving and endowment funds. Foundations should seek to grow their assets because as the assets grow, the annual spending dollars increase for the benefit of the hospital.

Overall, we estimate in Figure 11 that there are over \$5.8 billion of total assets invested in hospital foundations in New York State. We were able to ascertain the total assets for each of the foundations in New York, and we estimated that the overall average foundation is \$52.8 million; the average local foundation is approximately \$13.1 million if you exclude the eight parent foundations. The foundation total assets ranged from approximately \$250,000 to \$2.2 billion.

Many of the foundations report having restricted endowment assets as part of their overall pool of funds, which means that their foundations are comprised of funds that donors have restricted and are perpetual in nature. For example, Crouse Health Foundation, Inc. (Crouse Hospital, Syracuse) had approximately \$11.3

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Steps to Consider in Forming/Merging a Hospital Foundation:

Step 1:

Review the costs/benefits of starting a separate stand-alone foundation. Do a competitive analysis to see which hospitals use them. The same steps are useful if planning to merge the foundations into a parent model or deciding to maintain a local foundation model.

Step 2:

Work with a team of legal, development, and investment advisory experts that can help you map out a game plan on how to formally start or merge a foundation.

Step 3:

Review any governance requirements, such as the need to follow New York Prudent Management of Institutional Funds Act (NYPMIFA) guidelines. If merging a foundation, review the New York Nonprofit Revitalization Act and work with the New York State Charities Bureau at the Attorney General's Charities Bureau.

Step 4:

Partner with an investment advisory firm that has experience working with healthcare endowments and foundations that can assist with the investment policy statement and provide a full service, valued-added approach.

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million in permanently restricted assets, which is about 44% of total assets and Lourdes Hospital Foundation (Lourdes Hospital, Binghamton) had \$12.5 million, which was 51% of total assets. As mentioned earlier, this shows that some foundations are having success in their planned giving marketing strategies, as they target bequests, charitable gift annuities, charitable trusts, and endowment funds.

As with any long-term pool of assets, making sure the appropriate objectives, spending and liquidity requirements, and risk tolerance are defined and considered is of great importance. Creation or revision of an investment policy statement codifies this work. Further steps related to asset allocation and the specific investment choices that comprise portfolio construction round out an effective and comprehensive investment program. Hospital foundations can also have assets that have multiple objectives, which include short-term, intermediate-term, and long-term objectives (endowments). These multiple pools should be detailed in the investment policy statement and should be reflected in the structure of the investment program.

We also found that 19% of the foundations seem to be utilizing only short-term, conservative investment strategies. This may be because the foundation is operated as a flow-through foundation, where all fundraising is utilized by the hospital in the near term. But it could also signify that the foundation has not taken the time to develop its investment policies. Some foundations may be invested too conservatively and may want to consider more robust investment plans if appropriate, which match their risk profile and time horizon.

Each state has a legal and regulatory framework for its resident nonprofits that have investment implications. An example is New York's Prudent Management of Institutional Funds Act (NYPMIFA), which has the specific requirement that all nonprofits adopt a written investment policy. These topics will be covered in greater detail in a future article.

CONCLUSION

Our initial 2013 report *Trends Healthcare Philanthropy and the Use of Separate Foundations* took a look at separate 501(3)(c) stand-alone healthcare foundations and reviewed how the parent hospitals utilize these structures as both a fundraising and long-term investment portfolio vehicle. New York hospital foundations continue to be a very important fundraising structure for most hospitals and total assets are almost \$6 billion. This updated report revisits hospital foundations and reviews all of the hospitals in New York State. The research shows that New York hospital foundations continue to be important vehicles for the hospitals and over 81% use a foundation to enhance their fundraising and endowment management strategies.

In this new study, we find that expanding healthcare systems are reassessing their foundation strategies, as they acquire hospitals that may have their own local foundations. Merging the foundations into the parent foundation can enhance the operating efficiencies of the foundations. But having a parent foundation can also challenge the local hospital fundraising as the local donors may be confused as to where their philanthropic dollars will be allocated. There are pros and cons for each model and each system needs to assess their specific situation. The fundraising and endowment management strategies also need to be fully reviewed.

Hospital foundation strategies are being assessed across the United States. For example, last year we spoke with Flagstaff Medical Center Foundation (Flagstaff, AZ), who reviewed our research on hospital foundations. Their foundation was closed a few years earlier, but as they expanded and acquired some hospitals, they reassessed their hospital foundation strategy. They restarted their foundation and planned to follow a parent foundation model for the acquired hospitals. Their hospital foundation has a separate location across the street from the hospital where they have a separate hospital board. The foundation was a way for the donations to

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be segregated from the hospital system. They also felt that a separate hospital foundation encourages more community involvement. They already had donor restricted endowment funds and have developed a diversified fundraising plan.

The healthcare arena will continue to be impacted by both economic and regulatory forces. Philanthropic dollars will be even more important in the future, and separate foundations may offer a key strategy for enhancing and managing a successful fundraising program.

Susan Holt of Vision Philanthropy commented: *“Healthcare delivery is dynamic and increasingly confusing for patients, families and consumers. The giving interests of grateful patients should be considered as decisions are made about the proper foundation mechanism. Successful philanthropy will be determined by the ability of the philanthropy staff to build both internal and external partnerships, and connect in meaningful and highly personal ways with constituents. Ultimately, no matter what foundation mechanism is chosen, the implementation of best practices will determine the future philanthropic outcomes.”*

Healthcare foundations plus well thought-out strategic plans will become even more important in the future.

The author would like to thank Susan Holt, the president and founder of Vision Philanthropy Group, a healthcare consulting firm, for her guidance and input in this research report.

FOOTNOTES

- 1: Standard & Poor’s RatingsDirect, Moving From “Real and Replace” To “What’s Next” for U.S. Health Care, March 27, 2017, page 3.
- 2: Giving USA 2016 Report, The Center on Philanthropy at Indiana University.
- 3: AHP 2016 Report on Giving Survey, USA, Association of Healthcare Philanthropy Data, 2016.
- 4: Newsday.com, “South Nassau Hospital May Partner with Mount Sinai System,” May 3, 2017.
- 5: Changing Our World, Susan Raymond Interview. May 19, 2017.



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APPENDIX A

Foundation Profile – The Foundation for Ellis Medicine

This profile is provided to illustrate an example of how a successful foundation has developed a number of best practices.

Ellis Medicine in Schenectady, New York is an example of how a healthcare organization has effectively utilized a separate foundation to maximize both its fundraising plans and endowment management strategies. The Foundation for Ellis Medicine (The Foundation), founded in 1983, strives to ensure quality healthcare in its community by raising, investing, and distributing funds that support the lifesaving work performed at Ellis.

Since 1984 the community has contributed \$80 million to The Foundation and during the past 10 years, The Foundation has provided Ellis with more than \$30 million in philanthropic support. It currently maintains investments of more than \$12 million including a \$5.5 million permanent endowment managed for long-term balanced growth.

The Foundation has a strong website page which includes a summary on ways to give and a calendar of upcoming events, along with comprehensive information on planned giving options. They include newsletters on their site, which focus on fundraising testimonials.

Twenty-five voting trustees serve on the board and the CEO, Executive Director, and past campaign Chair serve without vote. This year the Ellis Foundation combined with the VNS Foundation as the VNS of NENY is an affiliate of Ellis. Seven VNS Foundation trustees accepted the invitation to join the Ellis Foundation board.

Ellis has raised \$19.1 million over the past five years. During the difficult 2008 and 2009 years, they were able to maintain their peak fundraising dollars at \$3.4 million for each year, which shows their commitment towards fundraising. In 2005 they completed the "Heart of Healthcare in Our Community" Campaign raising \$26.1 million and surpassing the goal by \$1.1 million.

Organization Profile: Local Foundation Model

Healthcare organization: Ellis Medicine, Schenectady, NY

Foundation: The Foundation for Ellis Medicine (separate 501(3)(c) organization)

Founded: 1982

Staff: Six professionals, two support staff

Board: Twenty-five board members

Donor targets: Individuals, corporations, foundations

Ways to give: Major gifts, annual appeal, special events, memorials, capital campaign, planned giving

Legacy society: Yes- "1885 Society"

Total Funds raised in 2016: Total revenue \$4.8 million (\$655,000 investment earnings)

Foundation Fundraising Trend:

2016: \$4.2 MM

2015: \$2.4 MM

2014: \$3.5 MM

2013: \$3.3 MM

2012: \$2.8 MM

2011: \$4.5 MM

2010: \$5.8 MM

Website: "Make a Gift" and "The Foundation" tags; separate foundation page

Planned giving details: Stock, bequests, charitable gift annuity, pooled income fund, life insurance, real estate, endowments, retirement plans

Online giving: Yes

Social Media: Email, Facebook

Special Event: Winter Gala, Golf Tournament, Women's Night Out, and Cardiac Classic Run

Newsletter: Yes, highlighted benefits of charitable gift annuity

Capital Campaign: Mentions capital projects

Public Relations: Their successful capital campaign was highlighted in the Chronicle of Philanthropy along with their relationship with their fundraising advisor, Community Counselling Service Co. (CCS)

Total Portfolio Investments: \$12,036,000 plus separate investments for Charitable Gift Annuities and Pooled Life Income Fund

Permanent Endowment: \$5.5 million

Strategy: Long-term investment strategy

Policy Statement: Follows NYPMIFA requirements