

# Supporting Social Innovation in our Region Through Fiscal Sponsorship

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## Synopsis

*As individuals and organizations seek to address our most pressing social problems through innovative programs, projects and ideas, they inevitably require sound administrative and financial infrastructures to bring these initiatives to fruition. While many programs and initiatives go on to establish themselves as 501(c)(3) nonprofit organizations, it is important to ask what other options exist for the most promising social innovations. Fiscal sponsorship offers a practical and cost-effective approach to helping innovators bring their projects and ideas into reality. In some cases, sponsorship might be a temporary stage to get a project or program off the ground while in other instances, long-term sponsorship is ultimately the best course of action. This article examines the benefits associated with fiscal sponsorship and explores how fiscal sponsorship can serve as a mechanism for supporting social innovation in the Philadelphia region.*

## Understanding Fiscal Sponsorship –

# Benefits and Models

Practitioners in the public sector and funding communities often note the proliferation of new nonprofit organizations. Certainly, formally establishing a 501(c)(3) organization is often an appropriate step to addressing a service need or gap within our social system. But this is not the only option available to start-up projects, nor is it always the best or most appropriate course. Indeed, for those initiatives that truly seek to disrupt the current system and innovate the way services are delivered, the intense and often burdensome administrative demands associated with establishing a nonprofit can be prohibitive to achieving the mission and goals of the program or project. In other cases, the innovation in question might require urgency and flexibility on the front end that would be hampered by the often lengthy designation process. In still other cases, project or program leaders may need additional support, coaching and training before they are ready to make it on their own. In consideration of these possibilities, fiscal sponsorship can be an appropriate and ideal alternative to the wholesale creation of a new 501(c)(3) entity.

Fiscal sponsorship has been practiced in various forms for more than 50 years and typically entails an organization that lacks tax-exempt status obtaining sponsorship from an existing 501(c)(3) nonprofit, thereby gaining access to additional funding sources under the sponsor's exempt

status, including government and foundation grants as well as tax-deductible donations from corporations and individuals (Colvin, 1993; The Foundation Center, n.d.). Importantly, while it might take a project seeking 501(c)(3) status up to six months to obtain tax exemption and thus be able to collect foundation grants and other charitable donations, the organization is immediately able to do so upon becoming a sponsored entity. Further, these organizations or projects can save the considerable costs normally associated with establishing a 501(c)(3) and gain the credibility of affiliating with an established organization.

For an entity seeking a fiscal sponsor, there are a number of available approaches. In his seminal work on the subject, *Fiscal Sponsorship: 6 Ways to Do It Right*, nationally recognized fiscal sponsorship expert Gregory Colvin identifies six main models that confer varying degrees of autonomy and support to recipients. (A summary of these models can be found by in Colvin's 2006 [Presentation on Fiscal Sponsorships](#) to the Western Conference on Tax Exempt Organizations.) A subset of Colvin's six models that has grown in usage and popularity over time is comprehensive fiscal sponsorship (CFS). While it's fashioned after Colvin's "direct project" model (Model A), which has traditionally been the most common arrangement and involves a sponsor taking a project in-house, CFS employs a much more holistic approach to sponsorship. Under CFS, the sponsor

provides a comprehensive set of services that extend beyond the fiscal sponsor role to include financial management, human resources support, information systems support and capacity building (Third Sector New England, 2009). In essence, CFS sponsors provide essential back-office support to projects that in turn frees up those projects' leaders to concentrate their energies on their programming, fundraising and other essential activities necessary to fulfill their project missions.

It is in this sense, and particularly through the CFS model, that fiscal sponsorship plays a key role in supporting growth and innovation within the social sector. As noted by Jill Blaire and Tina Cheplick of BTW Consulting in their report "More than Money: Fiscal Sponsorship's Unrealized Potential," "many emerging social change organizations are eager to step into their mission work with energy and fresh perspective, but...lack the 'legs' of an infrastructure to lift and carry them forward and steady." They go on to explain that "while some start-ups falter and fail, others compromise; they short-change program delivery in order to focus on building visibility and infrastructure." Blair and Cheplick argue that it is this very dilemma that demonstrates "the value and need for a nonprofit organizational platform that provides administrative and managerial supports to accelerate the pace and success of bringing new ideas and services to the public problem solving market"—in essence, fiscal sponsorship (BTW Informing Change, 2007).

In the realm of social innovation, in which space for failure is often needed to facilitate the right mix of experimentation and risk-taking, fiscal sponsorship provides the additional benefit of offering an easy exit strategy for projects that do not succeed in their initial goals. As noted by Jonathan Spack in "How Fiscal Sponsorship Nurtures Nonprofits," "if any sponsored group decides it is not going to be viable in the long term, the fiscal partnership allows for a natural, relatively painless phasing out, especially compared with winding down an incorporation with its potential liability issues and the paperwork for government agencies" (Third Sector New England, 2005).

## **Fiscal Sponsorship in Philadelphia**

The Philadelphia region is home to a diverse range of organizations offering fiscal sponsorship services, utilizing a variety of structures and approaches. Two long-time providers interviewed for this article are the Urban Affairs Coalition (UAC) and Resources For Human Development (RHD), both of which have been providing their services for more than 30 years. However, these are far from the only options available to new projects, with many niche and community-based providers available as well. One such example also interviewed for this piece is CultureWorks, which specifically serves the arts and culture sector.

Conversations with these organizations uncovered very

similar rationales for the use of fiscal sponsorship, as detailed above by Blaire and Cheplick. According to Tivoni Devor, business development manager for UAC, "People want to do something good... but the executive director is all the sudden doing human relations work and we relieve them of that." For Patricia Beidron, director of RHD's New Beginnings Nonprofit Incubator, it is about helping projects to "figure out 'the how' for great ideas and passion."

CultureWorks, a relatively new provider of fiscal sponsorship in the region, initially provided arts and culture projects with shared space and advisory services but quickly realized that what was really needed was fiscal sponsorship, particularly in the CFS model. Executive director Thaddeus Squire explained that CultureWorks has thus adapted fiscal sponsorship models more commonly utilized among the social sector to arts and culture projects. In this sense, he views CultureWorks as a social innovation in and of itself.

More broadly, Squire sees the start-up culture in Philadelphia as ripe for further growth in fiscal sponsorship. The Philadelphia spirit of trying new things means that there is no shortage of great projects and innovations, and Philadelphia also benefits from a relatively lower cost barrier to starting a new venture as compared with other major cities.

And yet, cost often remains a prohibitive factor for even

the best innovations in the region. To that end, fiscal sponsorship offers an opportunity to significantly increase access and lower costs for new projects. Highlighting this is the experience of the West Philadelphia Tool Library (WPTL), a UAC-sponsored initiative that loans tools to community members so they can perform simple home maintenance, tend their yards and gardens, build furniture, start projects and learn new skills in a safe and affordable manner (West Philly Tool Library, n.d.). WPTL cofounder Michael Froehlich notes that their arrangement with UAC has helped them access greatly reduced insurance rates, which, given the high liability associated with their work, has been a significant benefit.

Not all projects that start in fiscal sponsorship remain that way, and there are in fact many well-known organizations in our region that have benefitted from utilizing CFS services and since moved on to become independent nonprofit entities. The *Philadelphia Public School Notebook (PPSN)*, a publication serving supporters of Philadelphia public schools, is one such example (The Philadelphia Public School Notebook, n.d.). PPSN was under RHD's CFS for 19 years and has just recently created its own 501(c)(3). Paul Socolar, founder and executive director, said that in the beginning, "with all the things you have to worry about when starting a project... having an organization that handles the back-end was a no-brainer." Socolar notes that RHD was very beneficial because it allowed PPSN to slowly grow over time and

that the gradual expansion of physical space was especially beneficial. There came a time when *PPSN* hit a critical plateau in expansion when it made more sense for them to become independent rather than remain under the RHD umbrella.

Despite the many successes realized through fiscal sponsorship, each of the organizations interviewed acknowledged a lack of awareness, and at times, comfort, among the nonprofit sector for the services they and other fiscal sponsors are providing. RHD's Patricia Beidron observed that there is simply not enough understanding about fiscal sponsorship as an option. Many organizations "don't realize that you don't have to become a full-fledged 501(c)(3)." UAC's Tivoni Devor also notes that "the largest need is awareness. We can have an organization up and running in six weeks." For the niche market Squire is serving through CultureWorks, there is often the concern that by utilizing a sponsor artists will also lose the option to be the public faces of their projects.

Nevertheless, fiscal sponsorship remains in high demand throughout the region. Both UAC and RHD see no shortage of applicants for their services. Devor is contacted by approximately three organizations each week and formally establishes sponsorships for one or two new projects each quarter. RHD's Nonprofit Incubator can serve up to 40 projects at any given time and maintains a long waiting list for its services. As Beidron notes, "either other organizations [providing fiscal

sponsorship] are not making themselves known, or the demand is greater than the supply." Likewise, Squire sees a distinct and widespread need among the arts and culture community for the CFS services CultureWorks is now providing.

In each of these cases, it is clear that there is a distinct need for greater education, awareness and understanding about the benefits to be gained through the fiscal sponsorship option. Certainly, in a time of ever-more constrained funding, fiscal sponsorship, particularly in the CFS mold, can be an ideal option for individuals or groups with great ideas for experimenting, innovating and bringing promising new programs to life while gaining the support and guidance that is so often needed in the early stages. As Philadelphia strives to compete in the 21st-century economy, fiscal sponsorship can and should serve as a key tool for fostering a collaborative start-up culture.

## **About the Fiscal Sponsors**

Urban Affairs Coalition is the largest fiscal sponsor in the greater Philadelphia region and a founding member of the National Network of Fiscal Sponsors. Many smaller projects and scholarship funds are permanently housed out of UAC. Other programs, like Back On My Feet, originated under the UAC umbrella and have since moved on to establish themselves as 501(c)(3) entities. UAC currently sponsors over 65 organizations, representing a

portfolio of over \$25 million dollars.

Resources for Human Development has been providing fiscal sponsorship services throughout its more than 40-year history. Since 1982, RHD's New Beginnings Nonprofit Incubator has served as the entry point for the organization's fiscal sponsorship services, providing participating organizations with a comprehensive set of resources to help them develop skills and build their capacities and effectiveness. Incubator Director Patricia Beidron estimates that well over 100 projects and organizations have benefited from their services since they began, with graduates including now well-known Philadelphia organizations such as The Please Touch Museum, Art Reach, Women's Opportunity Resource Center, Career Wardrobe, Philadelphia Cares and Cradles to Crayons.

CultureWorks Greater Philadelphia provides affordable, shared management resources to arts and heritage organizations and creative professionals. CultureWorks recently launched its CultureTrust program, which utilizes the comprehensive fiscal sponsorship model to serve as a sponsored project's insurer, employer, contractor, accountant and project manager, while the project's leaders or individual artists can remain the public faces of their work.

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West Philly Tool Library. About us. Retrieved from <http://westphillytools.org/about/>