

Shifting the Narrative: From Incubator to Forever Home

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Abstract

Though widely known as a temporary measure on the way to stand-alone charitable status for new nonprofits or for one-off projects, fiscal sponsorship is increasingly serving as a permanent shared infrastructure operating solution for nonprofits, presenting a viable alternative to stand-alone nonprofit formation. While the pre-approved grant (Model “C”) or erroneously-named “passthrough” model of fiscal sponsorship is perhaps most widely known, equally widespread is the *comprehensive* (Model “A”) form, which, true to its name, offers access to full-charge back office management—essentially a cooperatized nonprofit management. Comprehensive sponsors are capable of supporting the entire lifecycle of an organization, including at a significant budget scale. We will explore this approach in practice through the voices of several projects at different stages of development.

Introduction

The function of fiscal sponsorship is expanding today beyond that of a mere temporary incubator for time-delimited projects and start-up nonprofits to a “forever” home for charitable work—a permanent alternative to stand-alone nonprofit formation and operation.

Fiscal sponsorship can serve this function through the most prevalent of all the models, Comprehensive or Model “A” fiscal sponsorship, which—true to its name—offers the support of a complete nonprofit backbone: all bookkeeping and accounting, employer-of-record, HR, legal, charitable compliance, insurances, and often much more—commonized nonprofit management. In this model, the project essentially becomes an in-house program of the nonprofit, while retaining a high degree of independence of identity, decision making, and the right to exit. So, it's a bit like a “nonprofit condominium” structure: each project has autonomy over its own unit and how it inhabits that space while sharing common infrastructure, like reception, lobbies, lifts, and hallways. Comprehensive sponsors can house hundreds of projects in this manner, ranging from speculative start-ups to projects with budgets in the tens of millions. Since the fiscal sponsorship

business model is based on an allocation of revenue (sometimes assessed on expenses) to cover shared infrastructure costs, sponsor resources can grow and scale or contract and wind down, supporting the full lifecycle of any charitable mission.

Awareness for fiscal sponsorship as a forever home solution, however, is limited, largely on account the dominant ontology of the nonprofit sector, namely that the only way to ensure control and fulfillment of an independent vision is independent (read, stand-alone) infrastructure, and everything that entails: dedicated legal entity, separate tax letter, systems, staff, and so on. Closely allied with this issue is the sheer lack of awareness of comprehensive fiscal sponsorship as an alternative, particularly among the legal and accounting industries, which is the first step for most folks who want to start a nonprofit. They still push the mainstream approach of “start your own nonprofit”, as does a fair portion of philanthropy. However, as most nonprofits in the US are smaller in scale, the challenges to building and maintaining back-end infrastructure pervades, often detracting from mission and impact.

Healthy Places By Design (HPbD) has been fiscally sponsored for just over a decade by Boston-based Third Sector New England (TSNE), which is arguably the country’s first comprehensive sponsor, established in 1959. HPbD advances community-led action and proven, place-based strategies to ensure health and well-being for all. They are a facilitator of collaborative action within communities, bringing together diverse stakeholders and components of the systems needed to ensure health equity. Started in 2008 under the University of North Carolina as a national program office for the Robert Wood Johnson Foundation (RWJF), the organization underwent a strategic assessment in 2014, adjusted its business model, and moved under TSNE as a comprehensively sponsored project.

Executive Director Risa Wilkerson related that following a thorough due diligence process, mission alignment and HR benefits for her team were among the values that attracted her to TSNE as a fiscal sponsor. She examined the other projects in TSNE’s portfolio as well to assess the community of resources and alignment of HPbD’s values and work with the rest of the project community. Deputy Director Teresita Maz stated, “The efficiency, affordability, and integration of the key services we need—finance, HR, legal, and others—are really the value.” Under the University, HPbD’s programs expanded to fifty communities, but as the original RWJF program approached its sunset, the organization needed to transition to a more nimble operating model. This motivated the move to TSNE. The transition from the University to TSNE and the subsequent period also saw an evolution of the business model from primarily grants to a current reliance on consulting income (80%), with about 20% grants and contributions on an annual budget of \$1.8 million.

Like many fiscally sponsored projects there is a volunteer Advisory Board that performs many of the functions of a conventional nonprofit board, but instead of having to worry about matters of compliance and other fiduciary responsibilities, the HPbD board can focus on the needs of the mission and programs, leaving the compliance and overall fiduciary matters to the board of TSNE. This kind of sharing or dividing of governance functions can create their own efficiency: the project board can focus on the work, expertise, and networking needs of the mission, which is what motivates most people to volunteer for governance roles.

As with any long-term relationship, there are challenges and bumps in the road. Per Risa, “During COVID, staff changes at TSNE and related disruptions took their toll, and in the beginning of the relationship, financial planning and analysis were not among the supports offered.” But more recently, TSNE has been adding resources in that area. Teresita added, “Not being able to select some of our key technology platforms has been a strain at times.” But in the end, the occasional stresses of sharing resources balance with the benefits. TSNE has been instrumental in up-staffing and personnel transitions and has helped secure IP that is critical for the HPbD programming.

At the outset of the relationship with TSNE, Risa wasn’t sure if things would last, but it has worked, and the costs and uncertainties of moving to stand-alone status or another sponsor far outweigh the value of the current structure. Risa summarized, “In the end, the key to a lasting relationship like this is clear mutual expectations and communication: regular meetings, check-ins, and a solid contract governing the work together.”

TSNE’s storied history entered a new chapter under the leadership of President & CEO Elaine Ng, who assumed the helm in 2018 and immediately set to work to steer the organization toward deeper equity practices. Today, TSNE is home to about 55 fiscally sponsored projects, of which roughly 75% have been sponsored for close to a decade or more, according to CFO Noah Stockman. They don’t have a mandate for projects to grow-and-get-out, like some more incubator or accelerator-oriented sponsors, and welcome folks to stay as long as they wish. There is intentionality behind TSNE’s approach. There is a fair amount of due diligence at the outset, where some expectations are understood concerning the anticipated length of the relationship, knowing that attitudes and the nature of the working dynamics can change. Projects are initially assigned a cost allocation of 14% of expenses, the ceiling of cost for TSNE’s supports. After a year, they reassess when more is understood about project needs; some projects get reassessed downward at that point, falling somewhere between 10% and 14%.

Surrounding the core fiscal sponsorship services of finance, HR, legal, insurance, and general administration are other optional supports, such as consulting for capacity building and organizational development or property management services. From a financial vantage, Noah

sees the benefits of sponsorship in the economies. “Most nonprofits are spending a minimum of around 20% on overhead, and we can provide most if not all of those operating needs for a fraction of the cost and with expertise that are usually hard for small nonprofits to find,” he maintained. At the same time, sharing means you don’t have a team that is entirely dedicated to only your needs, and you give up a bit of control over some aspects of your operations, but on balance, the efficiencies are worth it. His views on the critical factors in a long relationship echoed those of Risa and the HPbD team: strong communications and managed expectations, which are constant but punctuated by an annual and biannual cycle of more formal check-ins between project and TSNE staff teams. This is all, of course, assuming the project itself has strong leadership and a sound business model, ensuring its sustainability.

In our work with the broader fiscal sponsorship community, we see more and more projects like Healthy Places by Design that started and continue over the long term under Model “A,” a fiscal sponsorship. Additionally, we see *existing* stand-alone nonprofits in some cases—in particular, following the financial stresses of the pandemic—moving their operations under a comprehensive sponsor in the interest of accessing higher quality, more integrated, and lower-cost backbone support. A cost analysis by Social Impact Commons examined the overhead costs—the equivalent of what a Model “A” sponsor offers—of roughly 1,000 organizations operating below \$2 million in budget and found that they were paying between 17% and 27% of revenue on what a comprehensive sponsor could offer for between 10% and 15%, a roughly 10% difference and about a 50% reduction in overhead costs as a category. These “savings” realized through managing together vice alone free up substantial funds that can be reallocated to front-line programs.

The key is the *strength of the relationship* between the sponsor and the project, which is not just built on strong communications but perhaps more critically on shared values and an alignment of risk appetite. There is a popular misconception that project budget size at some point compels exit from fiscal sponsorship, but we have found that if the working partnership between both parties is healthy, the economic efficiencies of fiscal sponsorship accrue across a wide budgetary spectrum. What undermines the relationship is poor support delivery, poor communication, and strained interpersonal working chemistry (things that can befall any team), but in most cases, the deciding factor to “spin out” is owing to fundamental misalignment of values and the risks essential to delivering on the mission. In the case of Healthy Places By Design and TSNE, these lessons are certainly reflected. There are challenges and trials in any relationship, but if the fundamentals are there, a long and fruitful sponsor-project relationship is possible.