United Way of Central Louisiana
Board of Directors
Approved August 20, 1997

Designation Policy

Background

In its regular September meeting, the UWCL Board voted to suspend part of its regular policy on designations for one year. This vote came in response primarily to the designations from the Martin Foundation, totaling $140,000 for the year. The suspension period is almost over, and it would be advisable to enter the 1997 campaign with a clearly understood policy on this matter.

History

Before last fall's vote, the designation policy (see attachment A) was founded upon the concept of "first dollars in." This means that any designation was treated as the "first dollars in" to an agency's allocation amount. The agency only saw additional money if designations exceeded the amount allocated, in which case the agency received the larger amount (the total of the designations). The general purpose of the first-dollars-in policy is to protect the needs assessment and planning component that allows funding to follow needs.

In recent years, an increasing number of donors have expected to exercise control over their donations. In response, a number of United Ways have moved to a "last dollars in" policy. In this model, designations are kept in a separate revenue stream from allocations. Allocations are made only from the pool of undesignated gifts. The agency thus receives both the allocated amount from undesignated gifts, plus whatever amount is designated specifically to it by donors.

In its meeting of October 23, 1996, the UWCL Board of Directors approved the following motion:

> That the United Way of Central Louisiana suspend the last two paragraphs of the current Designation Policy for the 1996-97 campaign to allow the Executive Committee or other appropriate committee appointed by the president an opportunity to examine the designation policies of other United Ways and to make a recommendation to the full board for possible changes.

Policy Issues and Other United Ways

As in most matters, there is a wide diversity among local United Ways in the matter of designation policy. However, a few trends are noticeable:

<u>First Dollars In</u>

- The "first dollars in" policy is grounded in assumptions that tend to fit an earlier generation of donors more than they fit Baby Boomers or Generation X. These **assumptions** include:
  - ✓ Donors will trust someone other than themselves – perhaps an authority figure or a community leader – to decide how donations should be used. The donor reasons that "'They' know better than I how the funds should be spent, and I want them to make the detailed decisions for me." This approach has been compared to that of a mutual fund for investing: the small investor entrusts funds to experts, who pool his or her resources with those of others for the benefit of all.
  - ✓ Donors expect to have little input into how their gifts should be used.
  - ✓ Central planning based on needs assessment is preferable to individual funding choices with no overall strategic approach.

- The "first dollars in" policy has several **advantages**:
  - ✓ The primary advantage of the "first dollars in" policy is that it channels the maximum amount of donations into the allocation process. This places more funds at the disposal of the allocation volunteers, who can review community needs before making final funding decisions.
  - ✓ "First dollars in" allows for a more stable funding pattern for the agencies. Designations tend to vary from year to year.
  - ✓ "First dollars in" works in part to protect smaller, less-known agencies who may provide good services but may not market themselves effectively to the community.
  - ✓ Agencies have virtually no incentive to compete for designations, since nearly all designations are swallowed up into the allocation amount.

<u>Last Dollars In</u>

- The "last dollars in" policy is grounded in different **assumptions**, which have gained more currency in the last thirty years:
  - ✓ Donors do not trust other people – most emphatically not authority figures or community leaders – to make funding decisions for them.
  - ✓ Donors want more "say-so" over the way their contributions are used. This is known variously among United Ways as donor choice, donor option, donor participation, etc., and is a major pressure for change throughout the United Way system, especially in large cities. Some local United Ways have changed their entire structure to encourage donor choice, a few to the point of nearly abandoning a needs-based allocation process. These experiments have not been widely viewed as successful.
  - ✓ Donors who designate gifts assume that their designations will be passed on to the agency on top of other income streams. United Way staff around the country

report that when donors understand the "first dollars in" policy, they are not satisfied that their designations have been handled honestly.

- **Advantages** of the "last dollars in" policy are:
  - ✓ Donors feel that their designations have been handled with integrity and honesty.
  - ✓ Donors who wish to designate feel greater satisfaction with their United Way when they are allowed to do so.
  - ✓ Many United Ways find that keeping undesignated gifts separate from designations keeps matters clearer and easier to report to the community.
  - ✓ One factor that will take on much greater importance in the near future is the growing use of central "pledge processing centers" by large, national corporations. In these campaigns, the corporate processing center collects designations and distributes them directly to the agencies. Gary Ostroske, President & CPO of the United Way for the Greater New Orleans Area, warned recently that "local United Ways will be left holding the bag" if they have been including those designations in base allocations. He urged local United Ways to make the move now to "last dollars in" in order to avoid being caught by surprise.
  - ✓ Agencies have more incentive to participate in the United Way campaign, since they are more likely to receive designations if they are better known.

Practical Considerations

Extent: Designations are not typically a large component of the campaign in smaller metro areas, and central Louisiana follows this pattern. Attachment B shows the designations we received last year, excluding the Combined Federal Campaign of government employees. UWCL member agencies received a total of $18,306.60 in designations; this represents 1.47% of collections for the regular campaign (before Martin or Rapides foundation funds are considered). When one adds the Martin Foundation designations of $140,000 for 1997 as a portion of the $1.8 million total, the percentage of total designations to the total campaign is 8.75 percent.

Cost: Often overlooked is the fact that a designated gift costs as much to raise as an undesignated gift. There are three main "overhead" costs associated with all pledges, whether designated or not:

- ✓ Campaign costs: brochures, etc.
- ✓ Administrative costs: staff salaries, etc.
- ✓ Shrinkage: It is just as possible that a designated pledge will never be paid as an undesignated pledge.

In the past, however, the United Way of Central Louisiana has not taken a percentage of designations before passing them on to the agency. This means, in effect, that undesignated gifts are subsidizing the designated gifts, since the costs are taken from undesignated donations. The common practice in most United Ways is to charge a percentage of each designated gift. Actual percentages, and the way in which they are figured, vary a good deal. The average amount charged is similar to the overall costs associated with administration and campaign, or somewhere around 15 percent.

In other words, most United Ways would keep back somewhere around $15 from a $100 designation, passing along $85 to the agency.

Eligible Agencies: Though our previous policy stated that designations could only be made to member agencies and other United Ways, a tiny number of designations to non-member agencies are made each year. In the past, these irregular designations have been quietly honored. Recently, their number has increased slightly: last year there were 25 designations to non-members, totaling $2,432.24 (again, see Attachment B).

A few United Ways in large cities have moved to a system that allows donors to designate to any 501(c)3 nonprofit agency, in any locale. This is referred to as "wide-open" donor choice, and is not standard practice, especially in smaller United Ways. Most allow designations to member agencies only.

Recommendation

In light of the above considerations, the Board of Directors formally changed its policy for designations on August 20, 1997 to the following:

1. Designations will be treated as a separate revenue stream from allocations, or "last dollars in." Member agencies will thus receive an annual allocation, plus any gifts designated to them after campaign and administrative costs have been subtracted.

2. Undesignated gifts are much preferred to designations. However, UWCL wishes to comply with the wishes of each donor as much as possible. Therefore, pledge cards will not mention designations; special forms may be requested by the donor who wishes to designate. These forms will list only UWCL member agencies, with a space for designation to other United Ways. Our stated policy is that only designations to member agencies may be honored. Should a donor insist, however, and write in a designation to a non-member agency, UWCL will comply and honor that designation if possible. Only designations to human-service agencies will be honored; UWCL reserves the right to determine this status for any given agency.

3. Donors are asked to designate at least $25 to justify the cost of processing. However, smaller amounts will be processed as they are received.

4. UWCL will retain 16 percent of each designated pledge – up to a maximum of $100 per gift – to help cover the campaign, administrative, and shrinkage costs of raising and forwarding the designation.

5. Designations which are paid up front will be charged only a 10 percent overhead cost, up to a maximum of $100 per gift.